# UNIT 175 – USPC - Tools and techniques for strategic analysis: GEC Mode

The General Electric Matrix is extensively used to appraise competitive scenarios. GE Matrix is a viable tools that assist managers to develop organizational strategy that is based mainly on market attractiveness and business strengths. In consulting engagements with General Electric in the 1970s, McKinsey and Company developed a nine-cell portfolio matrix as a tool to screen GEs large portfolio of strategic business units (SBU).


Fundamentally, GE-McKinsey nine-box matrix is a strategy device that offers a systematic approach for the multi business corporation to prioritize its investments among its business units. It is a structure that assesses business portfolio, delivers further strategic implications and helps to prioritize the investment needed for each business unit (McKinsey & Company, 2008). This matrix was intended to overcome the underperformances that companies were encountering with the BCG matrix and to fill the requirement to compare numerous and diverse businesses.

## Development of the G.E Matrix

The G.E matrix is constructed in a 3x3 grid with Market Attractiveness plotted on the Y-axis and Business Strength on the X-axis, both being measured on a high, medium, or low score. Five steps must be considered in order to formulate the matrix;

- The range of products produced by the SBU must be listed
- Factors which make the particular market attractive must be identified
- Evaluating where the SBU stands in this market
- Processes through which calculations about business strength and market attractiveness can be made
- Determining which category an SBU lies in; high, medium, or low

# Market Attractiveness

The attractiveness of a market is established by how advantageous it is for a company to enter and compete within this market. It is based on numerous factors such as the size of the market and the rate at which it is growing, the possibility of profit, the number of competitors within the industry and their weaknesses. There are numerous factors which can help govern attractiveness such as Industry size, Industry growth, Market profitability, Pricing trend, Competition intensity, Overall risk and returns in the industry, Opportunity to differentiate products and services and Distribution structure.

# Business and Competitive Strength

This factor assists to select whether a company is capable enough to compete in the given markets. It can be determined by factors within the company itself such as its assets and holdings, the share it company holds in the market and the development of this share, the position in the market of its brand and the loyalty of customers to this brand, its creativity in coming up with new and improved products and in dealing with the fluctuating situations of the market, as well as considering environmental/government concerns such as energy consumption, waste disposal. Factors that Affect Business Strength include Strength of assets and competencies, Relative brand strength, Market share and Customer loyalty.

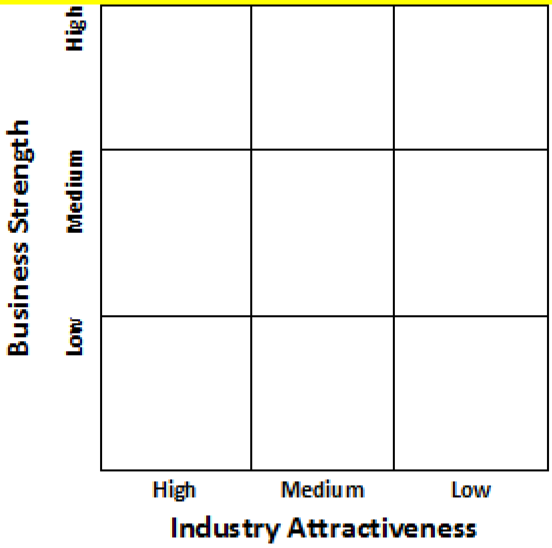
# Measuring Market Attractiveness and Business Strength

After identifying above factors, each factor is then given a certain magnitude and a calculation is made as follows; factor 1 rating x factor 1 magnitude + factor 2 rating x factor 2 magnitude + ….. +factor n rating x factor n magnitude.

# Plotting

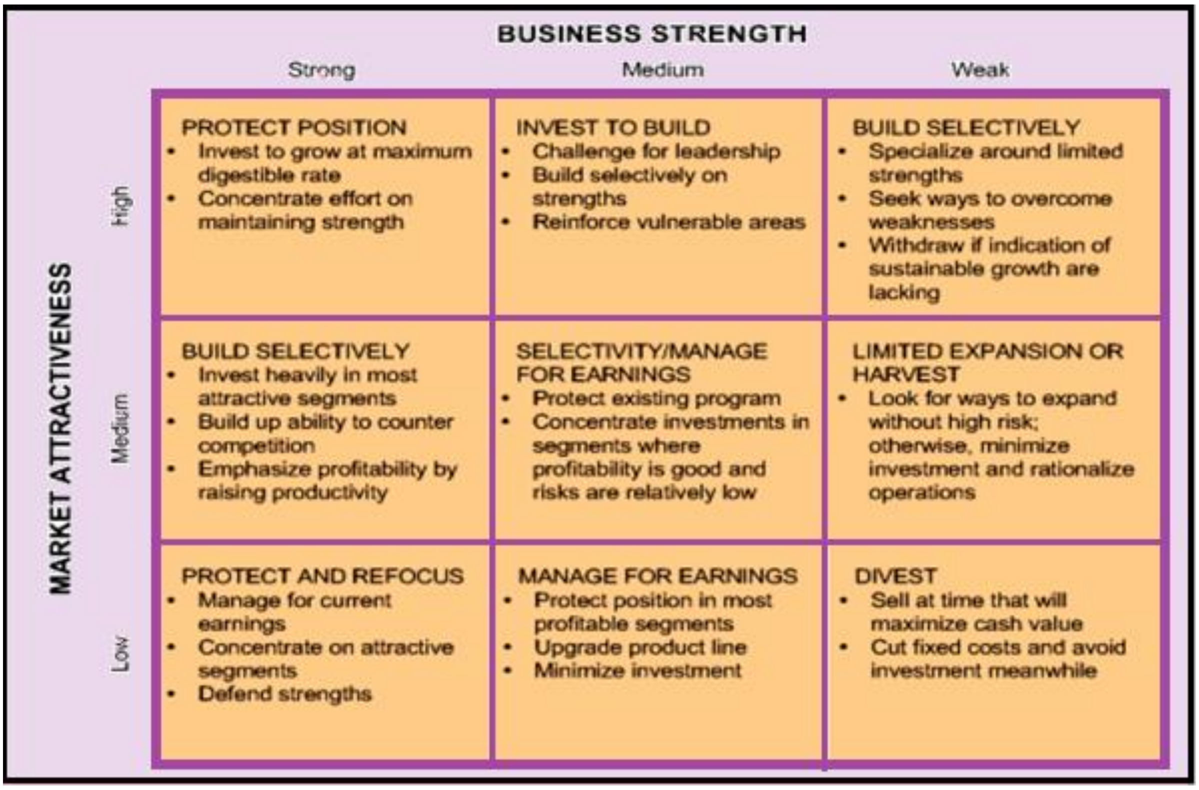
SBU's in the matrix can be signified as a circle; the radius shows the size of the market, the SBU's holdings in the market are equated through a pie chart within the circle and an arrow outside the circle shows the standing of the SBU expected in the future. In the image attached for example, an SBU holds 45% of the market's shares. The arrow is outwards thus showing that the SBU is expected to grow and gain strength and then its tip indicates the future position of the SBU.

**GE Matrix Model**




This portfolio model enables the business/product to be analysed in terms of dimensions of value to the organisation (Industry Attractiveness) and dimensions of value to the customer (Relative Business Strength). The GE McKinsey or Attractiveness Strength matrix is significant primarily to assign priorities for investment in the various businesses of the firm.

**Figure:** GE Matrix: Market attractiveness competitive position- portfolio classification and strategies (Source: Kotler, 2000)




GE McKinsey matrix has quite resemblance with portfolio assessment framework to BCG matrix. Both matrices are used to analyse company's product or business unit portfolio and facilitate the investment decisions. Major dissimilarity in both models are that GE McKinsey is a nine cell matrix whereas BCG is only a four cell matrix. The GE McKinsey framework was developed by experts because BCG portfolio tool was not sophisticated enough for the peoples from General Electric. In

BCG matrix, competitive power of a business unit is equal to relative market share, which undertakes that the larger the market share a business has the better it is positioned to compete in the market. The matrix can be designated as a multifactor portfolio model and it has a greater flexibility in comparison to the BCG, in terms of the elements that can be included. The matrix allows a company to assess the fit between the organisational competencies and the business/product offerings. It also presents the predicted positioning of businesses/products on the matrix facilitating the strategic planning process.

**Advantages:**

1. It used 9 cells where as BCG used 4 cells.
2. It considers many variables and does not lead to one-dimensional conclusions.
3. It is more sophisticated business portfolio framework than the BCG matrix.
4. There are many types of classifications such as high/medium/low and strong/average/low classification allows a better distinction among business portfolio.
5. This matrix utilizes multiple factors to evaluate industry attractiveness and business strength, which allow users to select criteria appropriate to their situation.<

**Disadvantages:**

1. GE Matrix Involves a consultant or experts to determine industry's attractiveness and business unit strength as accurately as possible.
2. It is costly to conduct.
3. A major postulation for the GE-McKinsey matrix is that it can operate when the economies of scale are realizable in production and distribution. Unless the same holds true, the concept of leveraging the competencies of the firm and the SBU falls flat.
4. The core capabilities of the firm or the corporation are not signified in this analysis. The core competencies may be leveraged across SBUs and can be a deciding factor while judging the competitive strength of the SBUs.
5. It can get quite complicated and cumbersome with the increase in businesses.
6. It cannot successfully portray the position of new business units in emerging business.

To summarize, The GE matrix is a model used to evaluate the capabilities of a strategic business unit (SBU) of a company.