

Do they support the market position and/or the profitability of the strategic businesses? Or do they only absorb management capacity?

- In markets with high competitive intensity, positive synergies can be an important competitive advantage, and negative synergies can be a decisive competitive disadvantage. Therefore, an assessment of synergies should complement the business portfolio analysis.
- The financial figures of the businesses are also included in the assessment. For the business units, we look at contribution margins, whereas for the business fields, the financial performance is evaluated by EBITDA and free cash flow. The authors know a case of a capital goods producer, which transfers financial results to its portfolio using a color code for the circles of the businesses.

As is the case in the analysis of the global environment and the relevant industries (see Chaps. 10 and 11), portfolio analysis is not limited to the current situation. In Step C, the strategy planning group should therefore look at future changes in the market growth or the market attractiveness of the served markets. Based on this, the consequences of the identified changes in the relative market share or the competitive strength of the businesses should be discussed.

### 12.4.5 Example of Applying the Process

Inset 12.6 presents a portfolio analysis in a retail group based in the East of Switzerland.

#### Inset 12.6.

##### Portfolio Analysis in a Retail Group

Baer is a large department store in downtown St Gallen which has belonged to the family of the same name for three generations. Thanks to its full range of goods, it has been able to defend its dominant position in the region. The following figure presents the range of goods and the turnovers of the previous year. The store's competitors are retail chains on the one hand, and small specialized stores on the other. With an estimated total market volume of 800 million Swiss francs in the St. Gallen urban area, the Baer department store has a market share of 24 %. In contrast, its largest competitor only has a market share of 19 %. The average real market growth across all product groups is estimated to be approximately 1 %, while the growth rate of the Swiss economy is about 2 %.

With an eye on the increasing ecological awareness among consumers, the owners of the store accepted an offer of franchising rights three years ago from The Body Shop for the cantons of St. Gallen, Appenzell and Thurgau. The Body Shop stores sell products, which are based on natural ingredients and have been developed without animal testing. Body Shops have been opened in Rohrschach,

Wil and St. Gallen. The turnovers for the three shops confirm the positive assessment of the market. With a real market growth of 4 % for natural cosmetics, the Body Shops this year had turnover figures of 1.0 million Swiss francs in Rohrschach, 1.5 million Swiss francs in Wil and 2.5 million Swiss francs in St. Gallen.

Product groups	Turnover in millions of CHF
Textiles, clothing and shoes	70
Personal-care products	10
Food	20
Household goods	40
Sports goods	25
Home electronics	20
Fashion jewelry and accessories	2
Books and magazines	2
Flowers	1
Miscellaneous	2
Total turnover	192

Turnover of the product groups of the department store

Some years ago, the owner of the store at the time, Fritz Baer, decided to make his advertising department independent of the store, hoping to widen its horizons and foster a more entrepreneurial mode of thinking among employees. The agency which was set up, Kreativ, at first only accepted very little outside work in order to use temporary overcapacity. The number of external contracts has steadily increased and they now constitute 60 % of its turnover of 2.4 million Swiss francs. With overall spending on advertising stagnating in the region, there is now a bitter struggle for business. With a market share of 7 % for the region, Kreativ is more than three times smaller than its strongest competitor, a national agency based in Zurich.

The following figure shows how the activities within the Baer Group can be grouped into strategic business fields and strategic business units. As the figure shows, “fashion jewelry and accessories”, “books and magazines” and “flowers” have not been included as business units due to their minor importance.

Strategic business fields	Strategic business units
Department store	Textiles, clothing and shoes Personal-care products Food Household goods Sports goods Home electronics
Body Shops	-
Advertising agency Kreativ	-

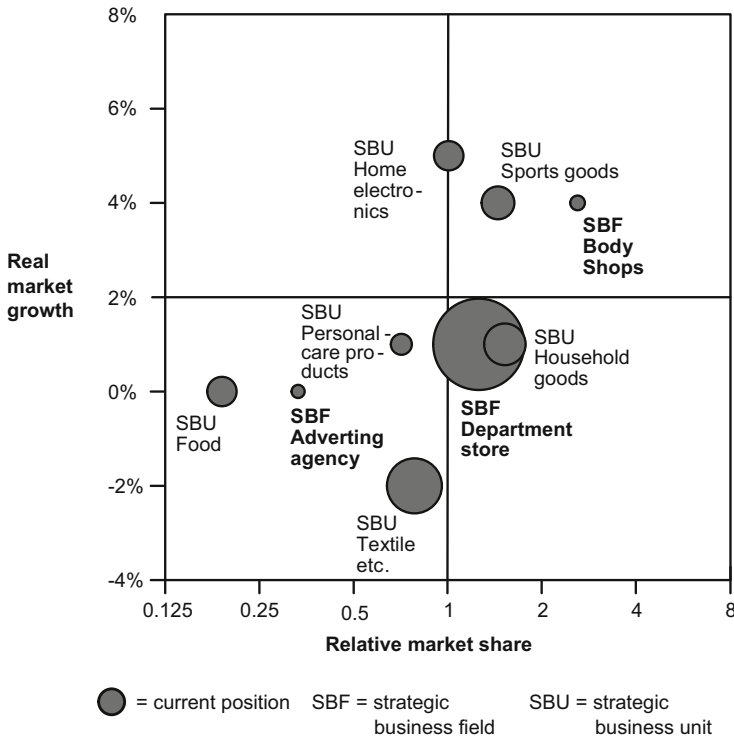
Strategic businesses of the group

Business fields and business units	Relevant area	Average real growth rate for the last three years	Unconsolidated turnover in mio. CHF	Turnover of the strongest competitor in mio. CHF	Relative market share
Department store	St. Gallen urban area	1%	192.0	150.0	1.28
▪ Textiles etc.		-2%	70.0	85.0	0.82
▪ Personal-care products		1%	10.0	13.0	0.77
▪ Food etc.		0%	20.0	100.0	0.20
▪ Household goods		1%	40.0	24.0	1.67
▪ Sports goods		4%	25.0	16.0	1.56
▪ Home electronics		5%	20.0	20.0	1.00
Body Shops	Eastern Switzerland	4%	5.0	1.7	2.94
Advertising agency	Eastern Switzerland	0%	4.0	13.3	0.30

Data for the current portfolio

In Step A, the Boston Consulting Group approach is selected as the portfolio method. It is also decided to incorporate the business fields and the business units into a single portfolio.

In Step B, the current portfolio is established based on a compilation of the relevant data on the businesses. The previous figure and the following figure show the underlying data and the portfolio.



Current portfolio of the group

The assessment of the current portfolio in Step C is based on the assumption that real growth will, at best, remain at the current level. Managers even expect a slowdown by one to two percentage points.

With its department store, the Baer Group has a strong position in the cash cow area. Thanks to the Body Shops, the sports goods and the home electronics, it has three businesses with future potential. Therefore, the portfolio as a whole is considered to be balanced.

There is a need for action in the department store’s range of products. In addition to the weak position of the “food” business unit, there are product groups representing one percent or less of turnover. It is also decided to have a closer look at the “advertising agency” business field. The financial future, as well as the advantages and disadvantages of an in-house agency, will be analyzed. Finally, the creation of positive synergies between the “department store” and “Body Shops” business fields will be investigated.

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