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ANALYSIS OF THE ORGANIZATION'S ACTIVITY ON THE EXAMPLE OF THE MCKINSEY MATRIX. THEORETICAL-EXPERIMENTAL APPROACH

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Abstract: Due to resource constraints, a company cannot cater to all potential markets worldwide in a manner that satisfies all clients and achieves business goals. Therefore, it becomes important for the company to carefully select the most appropriate markets. Given the plethora and diversity of available markets, analyzing market attractiveness and selecting the most promising ones becomes a complex process. The General Electric Matrix, also known as the McKinsey Matrix, employs two dimensions-market attractiveness and competitive strength of the firm-to analyze a company's strengths and weaknesses across various areas. The matrix aims to help the company identify the most appealing markets, guiding managers in resource allocation and enabling them to enhance the firm's weaker competitive positions in emerging markets or withdraw from less attractive markets. This tool proves highly effective for international market specialists, aiding in the selection of foreign markets for the company and determining the internationalization strategy to be employed in those markets. This paper concludes with a segment of a broader study showcasing how the General Electric Matrix/McKinsey is specifically utilized in the process of selecting markets. The author used a matrix as an example of a case study, as a result of which the position of a separate portfolio in the market was analyzed and the necessary strategy was proposed for each portfolio. An example analysis is conducted based on a hypothetical company producing four product lines. Data from 2024 are used to calculate business strength and market attractiveness, positioning each product within the McKinsey Matrix. Results indicate that the company's laptops are in the field of selective development, requiring continued investment to raise the scores and transform laptops into a leading business. Mobiles are leading products for the company; accordingly, the company must keep investing in the portfolio in order to maintain the position. As for TVs and headphones, they are in the field of selectivity.

Key words: *Route attractiveness, General Electric Matrix/McKinsey, market assessment, resource allocation, competitive strength.*

Introduction

For firms aiming to expand the market, it is necessary to precisely identify the markets they intend to enter and determine the most suitable entry strategies. Nearly all companies that operate internationally or plan to do so base their marketing strategies on identifying and selecting the best markets or market segments. They structure their

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offerings based on the specific conditions of these markets. Recognizing the limitations of their resources, companies understand that serving all potential markets worldwide to satisfy all clients and achieve business goals is unfeasible. Therefore, it becomes imperative for a company to carefully choose the most appropriate markets for its international endeavors. The objective of this study is to demonstrate how the McKinsey Matrix can be applied to assess market attractiveness and business strength, using a case example to illustrate its role in guiding resource allocation and strategic decision-making. Companies may opt for a focused approach, concentrating on a single product market and serving numerous geographical areas. Alternatively, they may choose to serve different product markets in a selected group of geographical areas. Given the vast number and diversity of potential markets, the analysis of market attractiveness and the selection of the most promising one become intricate processes. This careful evaluation is necessary to ensure that a company's expansion efforts are strategically aligned with the unique characteristics and demands of the chosen markets.

Results and Findings

In the late sixties and early seventies, as the Boston Consulting Group was formulating the BCG or Growth Share matrix, General Electric (GE), a prominent corporation in the United States, was also exploring concepts and techniques for strategic planning. Seeking a portfolio approach with broader dimensions than the BCG matrix, GE enlisted the services of McKinsey and Company, a leading consulting firm in the USA. In 1971, McKinsey and Co. developed the business screen for General Electric, aiming to assess the potential for future profit in each of the 43 strategic business units. This matrix is alternatively known as the industry attractiveness–business strength matrix and the nine-box matrix (Boyd W. Harper, Walker C. Orville, Larreche Jean-Claude, 1995, pp. 3-5).

The matrix requires the identification and assessment of both external and internal factors, followed by positioning each by unit in terms of overall industry attractiveness and business strength on a nine-cell grid. Three categories are used to classify both attractiveness and strength: to grow, to hold, or to harvest. This involves making moves in each controllable factor to result in a desirable competitive position. Strategies must be formulated aimed at securing long-term sustainable competitive advantage. The global strategy chosen has to be fitted to the actual internal capabilities of the firm (McKinsey, 14.01.2025). The GE-McKinsey model bears resemblance to the more widely known SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, as it accommodates both internal and external factors in the matrix construction. The competitive position or business strength component reflects internal capabilities that are within the company's control. In contrast, external factors, which are not directly controlled by the company, including opportunities and threats, constitute the industry attractiveness aspect.

This matrix-based approach provides a comprehensive view, allowing for the simultaneous consideration of both internal and external factors. It serves as a strategic tool for businesses to assess and prioritize their business units, facilitating decision-making related to resource allocation, strategic planning, and overall portfolio management (Grant R. M., 2000, pp. 36-37).

The matrix, featuring two dimensions-market attractiveness and competitive strength of the firm-aims to analyze the strengths and weaknesses of the company across various areas. The analysis of market attractiveness in the General Electric Matrix/McKinsey involves considering various factors that offer information about the characteristics and dynamics of the market (Business tools, McKinsey matrix, 12.01.2025). These factors fall into several categories (Cascade, 15.01.2025):

- Market Factors:

Customer Characteristics: Examining the benefits customers seek, their satisfaction with existing products, and their bargaining power with suppliers.

Market Volume Factors: Assessing overall market size, growth rate, and the life cycle stage of the market.

- Economic and Technological Factors:

Capital and Technology Requirements: Evaluating the financial and technological resources needed for the company to compete effectively in the market.

Structural Variables: Considering entry and exit barriers that shape long-term competitiveness and potential profitability.

- Competitive Factors:

Number and Strength of Competitors: Analyzing the existing competition in the market in terms of quantity and strength.

Potential for Changes: Assessing the likelihood of future competitive changes, including the emergence of replacement products.

- Macro Factors:

Social and Political Constraints: Reflecting on broader societal and political influences that may impact the company's ability to compete profitably.

Government Regulations and Interest Groups: Considering external factors such as regulatory policies and the influence of interest groups on market dynamics.

This comprehensive analysis allows managers to understand the various dimensions and complexities of a market. By systematically evaluating these factors, companies can make informed decisions about market selection, resource allocation, and strategic planning, aligning their efforts with the most promising opportunities and minimizing risks associated with market entry.

Indeed, assessing industry attractiveness is subjective, but certain factors can provide a framework to help determine the attractiveness of an industry. Here are some key factors to consider:

- Industry size,
- Industry growth,
- Market profitability,
- Pricing trend,
- Competition intensity,
- Overall risk and returns in the industry,
- Opportunity to differentiate products and services,
- Distribution structure.

When evaluating the company's competitive position, market position factors are particularly relevant for assessing markets where the company is already established. These factors provide insights into the current strength of the company's position and product offerings in comparison to existing competitors. This includes considerations such as market share, brand strength, and customer loyalty (ResearchGate, Răzvan Decuseara, 15.01.2025). On the other hand, economic and technological factors can reveal the actual or potential competitive advantages of the firm. This process involves assessing the efficiency of production processes, technological capabilities, and the potential for sustainable product differentiation.

For instance, a company with advanced technology or strong patent protection may have a competitive advantage. Business skills, another aspect, shed light on the company's strengths and weaknesses relative to competitors. This could involve having a broader distribution channel, superior marketing strategies, or financial constraints that may affect future growth. Interactions between markets are also key considerations. Positive interactions can arise from shared activities or resources across markets. For example, sharing a sales force to cover multiple markets can be a cost-effective strategy (Fleisher S. Craig, Bensonssan E. Babette, 2003, pp. 97-101). Conversely, negative interactions may occur if activities in one market adversely affect performance in another.

By examining these factors, companies can gain a comprehensive understanding of their competitive position, enabling them to make informed decisions about resource allocation, strategic planning, and market prioritization. This holistic assessment takes into account both the internal capabilities and external market dynamics that shape the company's competitiveness. Factors that affect Business Strength are:

- Strength of assets and competencies,
- Relative brand strength,
- Market share,
- Customer loyalty,
- Relative cost position,
- Distribution strength,
- Record of technological or other innovation,
- Access to finance and other investment resources.

In the original GE McKinsey matrix, business strength is positioned on the vertical axis, industry attractiveness on the horizontal axis, and the size of the circle corresponds to the size of the industry. Additionally, a shaded wedge within the circle represents the firm's current share of the industry. The matrix is organized into nine boxes, allowing for a detailed classification of business units (graph 1).

The GE McKinsey or Attractiveness-Strength matrix provides a framework for analyzing businesses or products based on dimensions of value to both the organization and the customer. The two key dimensions are Industry Attractiveness (value to the organization) and Relative Business Strength (value to the customer). This matrix is particularly significant for assigning priorities in terms of investment across different businesses within a firm. It serves as a guide for resource allocation, helping the organization make informed decisions about where to invest resources based on the attractiveness of the industry and the relative strength of its business in that industry.

Unlike the BCG matrix, which also deals with portfolio analysis but emphasizes cash flow balance and categorizes businesses into "cash cows," "stars," "question marks," and "dogs," the GE McKinsey matrix focuses more on the strategic aspects of resource allocation. It provides a nuanced view of businesses, considering both internal and external factors, to guide decision-makers in strategically managing their portfolio (Hollensen S., 2004, p. 38).

Graph 1

McKinsey matrix

BUSINESS STRENGTH	High	Medium	Low
High	**1. Invest and Grow** Seek dominance Maximize investment (Leader)	**4. Selective Growth** Identify growth area Invest in growth (Try harder)	**7. Selective Growth** Maintain position Seek cash position (Cash generation)
Medium	**2. Selective Growth** Identify weaknesses Build on strengths	**5. Selectivity** Specialize Invest selectively (Proceed with care)	**8. Harvest /Divert** Pure lines Minimize investment (Phased withdrawal)
Low	**3. Selectivity** Specialize niche Seek acquisition (Improve or quit)	**6. Harvest /Divert** Specialize niche Consider exit (Phased withdrawal)	**9. Harvest /Divert** Attack rivals Time to exit (Withdrawal)

INDUSTRY/MARKET ATTRACTIVENESS

1.Invest and Grow – Businesses falling into the category of strong business strengths and operating in attractive markets, as identified in the GE McKinsey or Attractiveness-Strength matrix, are considered prime targets for investment. These businesses possess the potential for high returns on investment and a competitive advantage. As such, they warrant strategic attention and should be supported financially and managerially to maintain and enhance their strong positions. The objectives for such businesses typically include seeking dominance, growing, and maximizing investment.

1. **Selective Growth** – Businesses categorized in very attractive industries but with average business strength, according to the GE McKinsey or Attractiveness-Strength matrix, present opportunities for improvement in their long-term competitive position. For such businesses, the strategic focus should include evaluating the potential for leadership via segmentation, identifying weaknesses, and building strengths.
2. **Selectivity** – For businesses situated in very attractive markets but exhibiting weak business strength, strategic investment becomes imperative to enhance their long-term viability and competitiveness. The focus should be on initiatives aimed at improving their internal capabilities. Key considerations and actions for businesses in this category are supposed to be to specialize, seek niches, consider acquisitions.
3. **Selective Growth** – For businesses positioned in the category of good business strength within an industry experiencing declining attractiveness, strategic decisions should aim to navigate the challenges of the changing market dynamics. The approach for businesses in this scenario includes identifying growth segments, investing strongly, and maintaining position elsewhere.
4. **Selectivity** – For businesses positioned with average business strengths in industries of average attractiveness, a strategic approach involves creative segmentation and selective investment to enhance their competitive positions. The key components of

this strategy comprise identifying growth segments, specializing, and investing electively.

5. **Harvest /Divert** – For businesses with weak business strengths in moderately attractive industries, the strategic consideration involves evaluating the feasibility of a controlled exit or divestment. The approach for businesses in this category includes specializing, seeking niches, and considering exit.

6. **Selective Growth** – For strong businesses operating in unattractive markets, the strategic focus should be on their role as net cash generators within the overall portfolio. Absolutely, the statement emphasizes the delicate balance that companies with strong businesses in unattractive or mature markets must strike. While it's important to strategically invest in maintaining a dominant position, there are risks associated with overinvestment, particularly in mature markets. Here's a breakdown of the key considerations: maintain overall position, seek cash flow, invest at maintenance level.

7. **Harvest /Divert** – For businesses with average business strengths in an unattractive market, the strategic consideration involves a controlled harvesting approach. The strategy should be carefully crafted to either extract value from the business in a controlled manner or potentially disrupt a competitor. Here's a breakdown of the key elements: minimize investment, position to divest.

8. **Harvest /Divert** – For businesses with neither strengths nor an attractive industry, the strategic imperative is clear: exit. The strategy involves making prudent investments solely to facilitate a smooth and strategic exit.

The practical use of the McKinsey matrix can be shown in the example represented below. In the market there are 4 products produced by “AI” Company (Table 1.).

Table 1

Sales by products, 2024

	Products	**Total Sales in 2024 (mln USD)**
1	Mobiles	5
2	Laptop	7
3	TV	2
4	Headphones	4

***Source*:** Developed by author.

In the example provided, an analysis was conducted using the General Electric/ McKinsey Matrix to assess the market potential. The analysis was performed for the year 2024, considering 6 indicators for each of the two dimensions: market attractiveness and business or competitive strength of the company. The methodology involved assigning a weighting coefficient to each indicator, reflecting its significance for the company. These coefficients were subjectively determined based on the importance of each activity. The sum of all indicators within each dimension equaled '1'. Expert judgment was used to determine weights, which represent each factor's relative strategic importance to the company's goals. For example, factors like custom duties were given lower weights (0.10) because they represent short-term constraints rather than sustainable advantages, while market growth and industry size were given higher weights (0.15–0.20) because they directly affect long-term profitability. The current position of each potential target market was then assessed for each indicator, assigning a score between 1 and 5. Performance levels are represented by scores ranging from 1 to 5, where 1 denotes extremely poor positioning and 5 denotes a strong, advantageous situation. For instance, a brand image score of four indicates high recognition in comparison to rivals, whereas a profitability score of two denotes market margins that are below average. The score awarded to each indicator was multiplied by its respective weight, and the products obtained were summed together to generate a total for each column (market) (Table 2).

Table 2

McKinsey table for the products

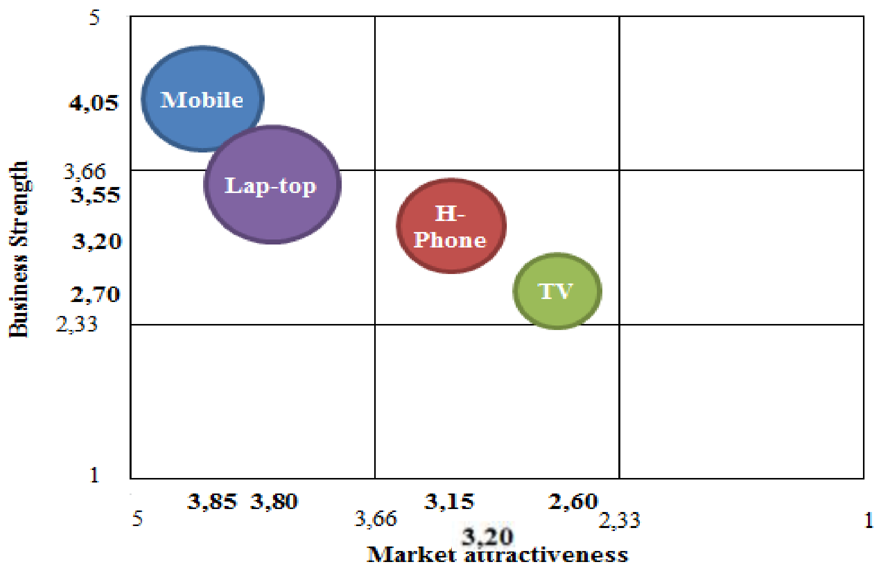
			Mobiles		**Laptop**		**TV**		**Headphones**	
Market attractiveness	**Indicators**	**Weight of factors**	**Grade**	**Weighting value**	**Grade**	**Weighting value**	**Grade**	**Weighting value**	**Grade**	**Weighting value**
	Competition	0,2	3	0,6	3	0,6	2	0,4	3	0,6
	Market growth	0,15	5	0,75	3	0,45	3	0,45	4	0,6
	Industry size	0,2	4	0,8	3	0,6	3	0,6	4	0,8
	Custom duties	0,1	3	0,3	3	0,3	3	0,3	3	0,3
	Pricing trends	0,15	4	0,6	3	0,45	3	0,45	3	0,45
	Profitability	0,2	4	0,8	4	0,8	2	0,4	2	0,4
	Score	**1**	-	**3,85**	-	**3,2**	-	**2,6**	-	**3,15**
			Mobiles		**Laptop**		**TV**		**Headphones**	
Business strength	**Indicators**	**Weight of factors**	**Grade**	**Weighting value**	**Grade**	**Weighting value**	**Grade**	**Weighting value**	**Grade**	**Weighting value**
	Quality	0,2	5	1	4	0,8	3	0,6	4	0,8
	Technologies	0,15	4	0,6	4	0,6	3	0,45	3	0,45
	Brand image	0,2	4	0,8	4	0,8	3	0,6	3	0,6
	Design	0,15	4	0,6	3	0,45	3	0,45	3	0,45
	Market share	0,15	4	0,6	3	0,45	2	0,3	3	0,45
	Investments	0,15	3	0,45	3	0,45	2	0,3	3	0,45
	Score	**1**	-	**4,05**	-	**3,55**	-	**2,7**	-	**3,2**

***Source*:** Developed by author.

This approach allowed for a comprehensive evaluation of market attractiveness and competitive strength, considering both subjective judgments and quantitative assessments. The resulting matrix provides a strategic overview of potential target markets, guiding the company's initiatives based on the combined analysis of various indicators (Graph 2).

Graph 2

McKinsey matrix of "AI" company



Source: Developed by author.

As revealed by the study, mobiles are leading products for the company (high business strength and high market attractiveness), accordingly the company must keep investing in the portfolio in order to maintain the position. This is the second profitable business for the company with 5 mln USD in sales (Table 1).

Laptops are in the field of selective development with high market attractiveness and medium business strengths. This product is the most profitable portfolio with 7 million USD in sales. Besides this, the business strength score is 3.55, which is close to 3.66, above which it will be considered a leading business. Therefore, the company can actively invest in the product in order to develop it and make a leading project. Based on the scores of Table 2, "Design," "Market share," and "Investments" of laptop were assessed as "3"; consequently, the company can develop the design, do better marketing in order to increase the market share, and invest more in R&D to raise the scores and transform Lap-tops into a leading business.

As for TVs and headphones, they are in the field of selectivity with medium market attractiveness and medium business strengths. The key components of this strategy comprise identifying growth segments, specializing, and investing electively considering the figures of table 2.

Conclusion

The study concludes that the McKinsey Matrix is versatile and applicable across various industries for assessing industry attractiveness and business strength, serving as a foundation for resource allocation decisions. The matrix's adaptability extends to companies with diverse product lines competing in different markets. It is especially recommended for organizations with multiple business units or business units comprising various product lines. General Electric's use of the GE McKinsey matrix across different organizational levels demonstrates its flexibility. The matrix can be applied at five levels within an organization: product, product line, market segment, strategic business unit (SBU), and business sector. This broad applicability allows for a comprehensive analysis and strategic planning process.

Key points highlighted in the study:

- Multi-Level Application: The GE McKinsey matrix is applicable at various organizational levels, enabling analysis of the entire corporate portfolio, as well as individual business units and product lines.
- Strategic Planning Tool: The matrix serves as a strategic planning tool, aiding in the identification of strengths and weaknesses within the business units or products. This analysis helps set future strategies based on the current portfolio and forecasts future positions by assessing factors contributing to business strengths.
- Forecasting Future Positions: Through mapping the present portfolio and forecasting future positions, the matrix assists organizations in anticipating market dynamics and making informed decisions about resource allocation.
- Focus on Strengths and Weaknesses: By emphasizing the strengths and weaknesses of business units or products, the matrix guides organizations in refining their strategic focus and making targeted improvements where necessary.

In conclusion, the GE McKinsey matrix is a powerful and adaptable tool that goes beyond a singular application. Its multi-level use enables organizations to gain insights into their overall portfolio, individual business units, and product lines, facilitating strategic decision-making and resource allocation across diverse business environments.

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