UNIT-2

2.14 GE 9 CELL MODEL

The GE 9-Cell Model, also known as the GE/McKinsey Matrix, is a strategic planning tool used for analyzing and managing a portfolio of business units or products. Developed by McKinsey & Company for General Electric, the model evaluates business units based on two dimensions: industry attractiveness and business unit strength. The model helps organizations decide where to invest, develop, or divest based on the positioning of their business units within the matrix.

Key Components of the GE 9-Cell Model

1. **Industry Attractiveness**
2. **Business Unit Strength**
3. **Nine-Cell Grid**

1. Industry Attractiveness

Industry attractiveness is determined by factors that make an industry favorable for investment and growth. These factors can include:

- Market size
- Market growth rate
- Profitability
- Competitive intensity
- Technological innovation
- Regulatory environment

2. Business Unit Strength

Business unit strength assesses the internal capabilities and performance of a specific business unit within the industry. Factors influencing business unit strength include:

- Market share
- Brand reputation
- Product quality
- Distribution network
- Cost structure

- Management expertise

3. Nine-Cell Grid

The nine-cell grid is a 3x3 matrix that categorizes business units based on their industry attractiveness and business unit strength. Each axis is divided into three levels: high, medium, and low, resulting in nine possible categories for positioning business units.

Constructing the GE 9-Cell Matrix

1. **Assess Industry Attractiveness**
    - Identify the factors relevant to industry attractiveness.
    - Assign a weight to each factor based on its importance.
    - Rate each industry on the identified factors and calculate an overall attractiveness score.
2. **Assess Business Unit Strength**
    - Identify the factors relevant to business unit strength.
    - Assign a weight to each factor based on its importance.
    - Rate each business unit on the identified factors and calculate an overall strength score.
3. **Plot Business Units on the Grid**
    - Position each business unit on the nine-cell grid based on its attractiveness and strength scores.
    - The vertical axis represents industry attractiveness, and the horizontal axis represents business unit strength.

Interpretation of the GE 9-Cell Model

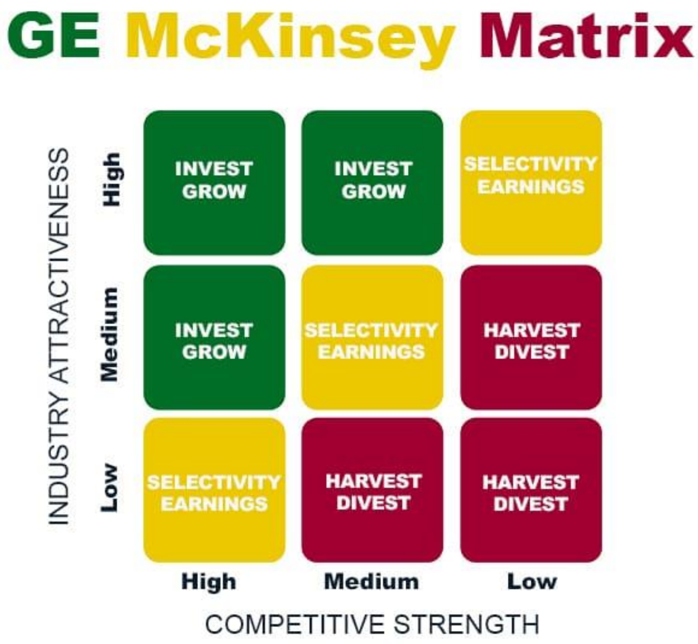
The nine cells can be broadly categorized into three zones:

1. **Grow/Invest (Top-left, top-middle, middle-left)**
    - Business units in high or medium attractiveness industries with strong or medium strength.
    - Strategy: Invest in growth, expand market share, and enhance competitive position.
2. **Hold/Selectively Invest (Middle cells)**

- Business units in medium attractiveness industries with varying strength.
- Strategy: Maintain current position, invest selectively based on potential returns, and improve efficiency.

3. **Harvest/Divest (Bottom-right, bottom-middle, middle-right)**

- Business units in low attractiveness industries or with weak strength.
- Strategy: Divest or reduce investment, focus on cost management, or exit the market.



Detailed explanation of the 9 cells

1. High Attractiveness, Strong Business Unit Strength (Top-Left Cell)

- **Description**: Business units positioned in this cell operate in highly attractive industries with strong internal capabilities and competitive advantages.
- **Strategic Implications**: These units are well-positioned for growth and market leadership. They should focus on aggressive investment to capitalize on market opportunities, expand market share, and maintain or strengthen their competitive position.
- **Strategies**: Invest heavily in growth initiatives, innovation, product development, and market expansion strategies.

2. High Attractiveness, Medium Business Unit Strength (Top-Middle Cell)

- **Description**: Business units in this cell operate in attractive industries but have moderate internal capabilities and competitive strengths.
- **Strategic Implications**: While these units benefit from favorable industry conditions, they may face stronger competition or have limitations in their internal capabilities. They should pursue growth opportunities cautiously and selectively invest in areas where they can leverage their strengths.
- **Strategies**: Focus on strengthening internal capabilities, improving efficiency, and selectively investing in growth areas with the potential for high returns.

3. High Attractiveness, Weak Business Unit Strength (Top-Right Cell)

- **Description**: Business units in this cell operate in attractive industries but have relatively weak internal capabilities and competitive positions.
- **Strategic Implications**: Despite favorable industry conditions, these units may struggle to compete effectively due to internal weaknesses. They face the risk of losing market share or falling behind competitors. Strategic options may include restructuring, partnerships, or divestment.
- **Strategies**: Consider strategic alliances, joint ventures, or divestment if internal weaknesses cannot be adequately addressed. Focus on improving internal capabilities and competitiveness.

4. Medium Attractiveness, Strong Business Unit Strength (Middle-Left Cell)

- **Description**: Business units in this cell operate in moderately attractive industries but possess strong internal capabilities and competitive advantages.
- **Strategic Implications**: While industry growth may be moderate, these units have the potential to outperform competitors and gain market share through their strong internal capabilities. They should focus on maximizing market share and profitability within their industry segment.
- **Strategies**: Maintain market leadership, invest in product differentiation, customer service, and operational efficiency to sustain competitive advantage.

5. Medium Attractiveness, Medium Business Unit Strength (Middle Cell)

- **Description**: Business units in this cell operate in industries with moderate attractiveness and possess moderate internal capabilities.
- **Strategic Implications**: These units face average industry conditions and have average internal capabilities. They should focus on maintaining market position and improving internal efficiency to remain competitive.

- **Strategies**: Implement cost-control measures, operational improvements, and targeted investments to enhance competitiveness and profitability.

6. Medium Attractiveness, Weak Business Unit Strength (Middle-Right Cell)

- **Description**: Business units in this cell operate in moderately attractive industries but have weak internal capabilities and competitive positions.
- **Strategic Implications**: These units face challenges in a moderately attractive industry due to internal weaknesses. They may struggle to compete effectively and should consider strategic options to improve their position or exit the market.
- **Strategies**: Explore opportunities for strategic partnerships, alliances, or restructuring to address internal weaknesses and improve competitiveness. Consider divestment if the business unit cannot be adequately strengthened.

7. Low Attractiveness, Strong Business Unit Strength (Bottom-Left Cell)

- **Description**: Business units in this cell operate in less attractive industries but possess strong internal capabilities and competitive advantages.
- **Strategic Implications**: Despite industry challenges, these units have the potential to outperform competitors and maintain profitability through their strong internal capabilities. They should focus on niche markets or specialized segments where they can leverage their strengths.
- **Strategies**: Target niche markets, focus on product differentiation, innovation, and customer service to sustain profitability despite industry challenges.

8. Low Attractiveness, Medium Business Unit Strength (Bottom-Middle Cell)

- **Description**: Business units in this cell operate in less attractive industries and possess moderate internal capabilities.
- **Strategic Implications**: These units face challenges in a less attractive industry and have average internal capabilities. They should focus on improving efficiency and exploring niche opportunities where they can compete effectively.
- **Strategies**: Implement cost-reduction measures, operational improvements, and targeted investments in niche segments to maintain profitability and competitiveness.

9. Low Attractiveness, Weak Business Unit Strength (Bottom-Right Cell)

- **Description**: Business units in this cell operate in less attractive industries and have weak internal capabilities and competitive positions.

- **Strategic Implications**: These units face significant challenges in a less attractive industry and may struggle to survive or remain profitable. Strategic options may include restructuring, turnaround efforts, or divestment.
- **Strategies**: Evaluate options for restructuring, turnaround efforts, or divestment. Focus on addressing internal weaknesses or consider exiting the market if sustainable improvement is not feasible.

Example Application of the GE 9-Cell Model

Company: ABC Corporation

Business Units:

1. **Consumer Electronics**
2. **Healthcare Products**
3. **Industrial Machinery**
4. **Renewable Energy**

Assessment of Industry Attractiveness:

- **Consumer Electronics**: High market growth, intense competition, moderate profitability.
- **Healthcare Products**: High market growth, strong profitability, favorable regulatory environment.
- **Industrial Machinery**: Moderate market growth, stable profitability, moderate competitive intensity.
- **Renewable Energy**: High market growth, high innovation, favorable regulatory environment.

Assessment of Business Unit Strength:

- **Consumer Electronics**: Strong brand, high market share, good distribution network.
- **Healthcare Products**: Moderate market share, strong R&D capabilities, good product quality.
- **Industrial Machinery**: Moderate market share, efficient cost structure, strong after-sales service.
- **Renewable Energy**: High market share, innovative technology, strong management expertise.

Plotting on the GE 9-Cell Grid:

1. **Consumer Electronics**: High attractiveness, strong strength (Grow/Invest)
2. **Healthcare Products**: High attractiveness, moderate strength (Grow/Invest)
3. **Industrial Machinery**: Medium attractiveness, moderate strength (Hold/Selectively Invest)
4. **Renewable Energy**: High attractiveness, high strength (Grow/Invest)

Strategic Recommendations

1. **Consumer Electronics**: Increase investment in product innovation and expand into new markets to leverage strong market position and high industry growth.
2. **Healthcare Products**: Focus on improving market share through strategic partnerships and enhancing R&D capabilities to capitalize on high industry growth.
3. **Industrial Machinery**: Maintain current position, invest selectively in new technologies and process improvements to boost efficiency and profitability.
4. **Renewable Energy**: Invest heavily in expanding capacity and developing new technologies to strengthen market leadership and benefit from favorable regulatory conditions.

Benefits of the GE 9-Cell Model

- **Comprehensive Analysis**: Considers both external and internal factors, providing a holistic view of each business unit.
- **Strategic Clarity**: Helps in identifying clear strategic actions for different business units.
- **Resource Allocation**: Guides efficient allocation of resources based on potential returns and strategic importance.
- **Risk Management**: Assists in balancing the portfolio by identifying high-risk and high-reward areas.

Conclusion

The GE 9-Cell Model is a powerful tool for managing a diversified portfolio of business units or products. By evaluating industry attractiveness and business unit strength, organizations can make informed strategic decisions about where to invest, hold, or divest. This structured approach helps in optimizing resource allocation, enhancing competitiveness, and achieving long-term strategic goals.