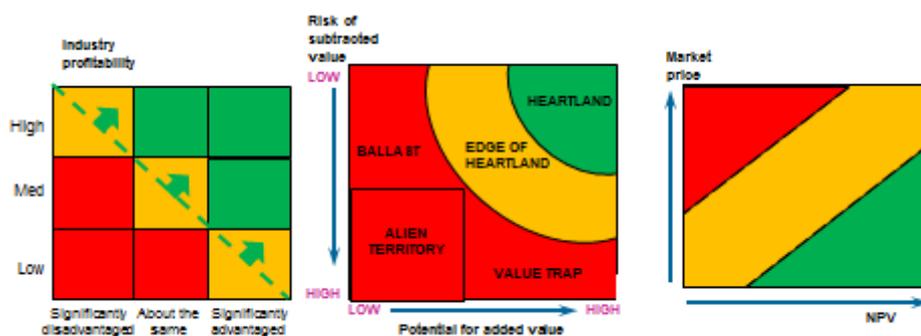


## Portfolio Decisions

The following article is available in full, from MacKinsey.com, entitled [Making trade-offs in corporate portfolio decisions](#), September 1, 2014. Andrew Campbell and Jo Whitehead.

The book deals with some common situations found when evaluating whether a particular business should be bought, sold or held. This paper provides a brief summary of other possible situations.

For simplicity, let's assume that any business can be characterised as being one of three options from the perspective of the three portfolio logics (business logic, added value logic and capital markets logic). These can be given a red, green or amber notation depending on whether the logic suggests you should not own the business (red), you should own the business (green) or there is no compelling logic one way or the other (amber). This is shown in the following exhibit:



There are 27 possible combinations of these three colours. What to do with each situation is described in the following tables. Note that in tricky cases, where the correct action is not clear, it would be wise to try and evaluate the net present value of any particular choice (subject to the limitations of valuation models and the assumptions that feed them).

The first table suggests general guidelines for dealing with attractive businesses.

Business logic	Added value logic	Capital markets logic	Strategy if you don't own it	Strategy if you own it already
Green	Green	Green	Buy	Hold
Green	Green	Amber	Buy but be careful not to overpay	Hold
Green	Green	Red	Don't buy; Monitor to see if price comes down	Hold unless price remains high over the long term – deploy tactics to raise market price
Green	Amber	Green	Buy if you can become a reasonable parent	Hold unless you are unable to develop parenting skills or if business negatively impacts value added to other businesses
Green	Amber	Amber	Don't buy	Hold if you can become a

				reasonable parent – else sell
			Don't buy	Sell
			Buy only if you can see a chance to sell at a profit in the short/medium term	Deploy tactics to raise market price and then sell. Sell sooner if negatively impacts value added to other businesses.
			Don't buy	Sell
			Don't buy	Sell

The second table considers what to do with businesses that are moderately attractive i.e., those that, when standalone, return around the cost of capital. The suggested strategies are very similar to those in the previous table.

Business logic	Added value logic	Capital markets logic	Strategy if you don't own it	Strategy if you own it already
			Buy	Hold
			Buy but be careful not to overpay	Hold
			Don't buy; Monitor to see if price comes down	Hold unless price remains high over the long term – deploy tactics to raise market price
			Buy if you can become a reasonable parent	Hold unless you are unable to develop parenting skills or if business negatively impacts value added to other businesses
			Don't buy	Hold if you can become a reasonable parent – else sell
			Don't buy	Sell
			Buy only if absolutely convinced that you can flip the sale in the short term	Deploy tactics to raise market price and then sell. Sell sooner if negatively impacts value added to other businesses.
			Don't buy	Sell
			Don't buy	Sell

The third table considers how to deal with unattractive businesses (that are returning below the cost of capital)

Business logic	Added value logic	Capital markets logic	Strategy if you don't own it	Strategy if you own it already
			Buy so long as long term returns are not below the cost of capital, even after you have added value	Hold. If long term projections show a negative present value, close
			Buy so long as long term returns are not below the cost of capital, even after you have added value - and be careful not to overpay	Hold. If long term projections show a negative present value, close
			Don't buy; Monitor to see if price	Sell if the upsides of retaining

			comes down	the business are low, you have fully factored in linkages into your calculations, and the downsides significant.
			Buy only if you can become a reasonable parent, or you can "flip" the business quickly	Hold unless you are unable to develop parenting skills or if business negatively impacts value added to other businesses
			Don't buy	Sell unless you are pretty certain you can add a lot of value by improving your ability to add value (and the business is not too bad)
			Don't buy	Sell
			Buy only if you can "flip" the business very quickly	Deploy tactics to raise market price and then sell. Sell sooner if negatively impacts value added to other businesses.
			Don't buy	Sell
			Don't buy	Sell