Boston Matrix

Specification requirement— Understanding of the Nature, Importance and Implications of the Boston Matrix.

Managing the Product Portfolio

As we have seen every product has a life cycle, that is a period of time for which it appeals to the consumer. Within this life cycle there are five stages.

- Introduction.
- Growth.
- Maturity.
- Saturation
- Decline.

It is very unlikely that companies market a single product, it is much more probable that firms market a range or a number of ranges of products. This means that managing the product portfolio can be a complex task.

There are three main tools that can be used in managing the product mix .These are;

- **Product Portfolio (Life Cycle) Analysis.**
- **The Boston Matrix.**
- **The Ansoff Matrix.**

In the Product Portfolio (Life Cycle) Analysis chapter we saw that one of the keys of effective product management was an understanding of at what stage in the life cycle the products produced were. The Boston Matrix takes a somewhat different approach to product management

The Boston Matrix.

The Boston Matrix was devised by the Boston Consultancy Group back in the 1960's, and it allows analysis of a firms products by dividing the products into four categories. The categories the products are place in depends upon their market share and the level of growth that is occurring in the market.

In the diagram to the right we see the structure of the Boston Matrix. This structure can be used as a guide to product mix management.

Product Types according to the Boston Matrix.

High Market Share - Slow Market Growth—Cash Cows.

Here we have a mature market which is growing slowly, new competitors are few and far between. Cash Cows are very profitable products, expenditure on such things as advertising is relatively low, customers know and understand the product, brand value has been established. It is also likely that development

High

Market Share

Low

costs have already been recouped, increasing profitability further. Firms should aim to have successful products in mature market places, **these products are known as cash cows.** Examples of such products would be Ford Transit Vans, Kellogg's Corn Flakes, Coca Cola. A More recent example would be the Wii, which has established itself as the games consol for non gamers.

High Market Share—Fast Market Growth—Stars

The market is immature, with new customers being attracted to the marketplace and new competitors being tempted by potential profits and market share, si competition is high—firms are fighting for a share of potentially huge profits.. **Stars are products that have a high market share in a fast growing market.** Star products have high levels of revenue, but also have high levels of costs. Advertising and marketing expenditure is high, brands have to be established and competition is high. Product development costs still have to be paid back, this reduces profitability.

Stars may turn into cash cows, but only if the market for the product stabilizes at a high market share. The classic example of a recent product that was a Star and has become a Cash Cow is the Apple iPad, along with iTunes. Other examples of Stars include the Toyota Prius, in the hybrid car category, and most 3G mobile phone services.

Low market Share—Fast Growing Market – Problem Children.

This is one of the worst situations for professional marketing people, they have a product or range of products in a fast growing market, but the products are not selling. They are being beaten by the competition. To stress the point, **Problem Children are products that have a low market share in a fast growing market**, i.e. they are failing, but it is likely to be worth doing something about it. After all it is not good business for firms to have products that fail to capture market share in markets that are growing in importance, especially when the new market may eventually replace an existing market.

For products which are Problem Children, a product re-launch may solve the problem or some basic redesign may increase sales. In the mid 80's jeans were out of fashion, but the market for teenage clothes was growing fast. Levis re-launched their jeans, led by advertising for 501s, which had never been a style of jean worn for fashion. Within a few months sales has increased by a factor of 10, the product was a star. The TV adverts used pop songs as soundtrack, starting a trend which is still popular in marketing 25 years later. Another example of a Problem Child is record shops such as HMV, who find that sales of CDs are falling, in a music market which is growing. The solution tried is to diversify, and extend the product range into areas such as computer and consol games, DVDs, and online downloads.

Problem Children are products that have a low market share in a fast growing market, i.e. they are failing to win market share .

Low market share—slow growing or shrinking market—Dogs.

Dogs have low market share in a mature market. It is not worth spending money on redeveloping, redesigning or advertising the products, as it is unlikely to be recouped in increased revenue. But even so Dogs may still be marginally profitable. The problem though may be they take up management time, or tie up assets and give very low returns.

Some businesses still sell hand push carpet sweepers, you do not see them advertised on TV, competing for market share against the Dyson, but they still produce profits for niche players. The development costs of this type of product were paid back long ago, marketing is virtually non-existent, but they are profitable enough to ensure that manufacture continues. Currently sales of alcohol though public houses is falling—we have a shrinking market. Firms with a portfolio of bars and pubs, sell off the less successful ones, often small pubs with no food facilities, and focus on large city centre bars and gastro-pubs where profits are higher.
It can be worth holding onto Dogs especially if they provide synergies—for example a company may boast it provides a complete range of products, which can help attract customers who may occasionally wish to buy the Dog, or a firm may subsidize loss making products to seem ethical, winning customers and reputation.

Most firms would like to have a product mix or portfolio, which has no problem children, many cash cows and plenty of stars that look like developing into cash cows. But in the real world there are very few firms that are that successful.

Even Microsoft the worlds largest software company is struggling in some sectors, most notably the internet where and with the new tablet computer, they are comprehensively out done by Google and Apple.

How to use the Boston Matrix
Firms must ensure that they use the Boston Matrix in the way intended;

firstly, to judge how to manage individual products and the product range given market conditions,

and secondly, to recognize the importance of using successful, profitable products, to fund development of the stars and cash cows of the future.

The matrix can help firms analyse whether they have the portfolio that they want and whether it matches the objectives of the organisation. From the analysis of the product portfolio using the Boston Matrix managers can then establish what they need to add or change in order to obtain the desired portfolio.

It is important to note that firms do not want products in each part of the matrix, - this does not create a balanced portfolio, but sometimes it is unavoidable – not every product can be a winner, and not every market keeps on growing for ever. Products that were cash cows—eg dial-up internet connections, become dogs. If a firm has Dogs that are unproductive or do not provide synergies for the whole organization, one solution is to sell off the Dogs to small specialist niche companies, and use the money raised to invest in developing new products.

An importance difference between **Product Portfolio (Life Cycle) Analysis,** and **The Boston Matrix, as** two methods of product mix management, is the implication to the firm of having products categorized as Dogs according to the Boston Matrix and products in decline stage of their Product Life Cycle. Using Product portfolio (Life Cycle) analysis the policy would be to let the product die, or withdraw it from sale, but the Boston Matrix indicates that these products can be profitable and useful to the company and therefore should be maintained as part of the product mix.

Notes