

The Boston Matrix

by Angel Rodriguez

The Boston Matrix is a tool used for assessing the cash generation and cash usage of products. Frequently utilized by management at all levels, it is relatively simple to complete.

Introduced in the 1970's by Bruce Henderson of the Boston Consulting Group, it has stood the test of time and remains a valuable component of any product audit. Completing the matrix will highlight the strengths and weaknesses of products in the current environment and indicate where they may be in the future.

The Boston Matrix will identify which products justify further investment and therefore provide and insight on which marketing activities will generate the best returns. The Boston Matrix is a familiar and graphic illustration of the current position of products and the direction in which they may be heading that can help support a business plan, marketing plan or corporate strategy.

The Boston Matrix

The Boston Matrix, devised by the Boston Consulting Group in the 1970's, is used to assess the cash usage and cash generation of products by measuring their share in the market and the growth rate of that market. By assessing the position of products against that of the competition, valuable information can be gained to make strategic decisions for future marketing activity.

The matrix has four quadrants: Problem Children, Stars, Cash Cows and Dogs as shown in *Figure 1*. They are based on the “Market growth rate” (that will require increased investment for any increase in market growth) and the “Relative market share” (that will increase earnings as market share increases). At any given moment in time a product resides in one of the four quadrants represented as a square - the size reflects the amount of cash generated. If we were to consider a successful product through the Product Life Cycle, the location of the square “progresses” through the matrix as shown by the arrow.

Measuring the relative Market Share and Market Growth Rate for a product enables completion of the matrix. Caution is advised against completing the matrix on impulse, as there is a tendency to portray a more positive outlook than may be the case. A brief summary of each quadrant is provided to describe which products they would contain.

PROBLEM CHILDREN.

This is where new products reside, and where the greatest risk and rewards may be. There is clear evidence of market growth and as yet there is little or no market share. These are cash hungry products and any investment should be well researched. They

need constant attention or else they risk becoming a Dog. These products have low market share in a fast growing market and therefore generate modest cash. Problem Children are often referred to as “Question Marks” to better reflect the true potential of products in this quadrant.

STARS

Stars are cash hungry products in a fast growing market that have a relatively high market share. They are also generating higher than average cash, at least breaking even or making some profit. As the market growth rate inevitably slows they will become Cash Cows. However, if they fail to keep their market share as the market growth rate slows they also risk becoming Dogs.

CASH COWS

Cash Cows generate the highest levels of cash. They will previously have been in other quadrants and now need less investment. The market growth rate may be zero, yet if they retain their relative market share they remain cash cows, or also risk becoming Dogs. This is where the cash is generated for investing in other products in the portfolio.

DOGS

Soon to be discontinued products reside here. With low cash generation and little or no market growth rate there is little justification for investment. Unless these products demonstrate clear potential for further cash generation, they should be removed from the portfolio before making a loss. Any resources they consume are reallocated to the remaining quadrants.

For a portfolio of products each would have its own square, location, colour and size plotted on the same Boston Matrix.

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This produces a graphic display of the strength, or weakness, of the portfolio. A product portfolio full of Cash Cows is an enviable position, but without any Problem Children or Stars, questions regarding the future would need to be asked.

As obvious as it sounds, completing the Boston Matrix requires accurate use of data. The simplicity and familiarity of the matrix often encourages completion prematurely. A clear understanding of the market growth rate and a product's relative market share may require some market research. The fatal error is to have the matrix completed without validating the data used.

This inaccurate information can only lead to poor decisions on how best to allocate cash towards marketing activities. Furthermore, as time changes, the market share and market growth also change. This matrix provides a snapshot of the "current" status, with a projected view of the typical life cycle of a product. Additional marketing tools and periodic reviews of the completed Boston Matrix are required.

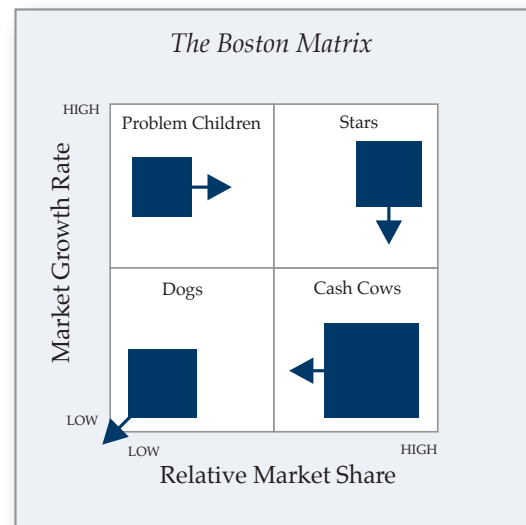


Figure 1. The Boston Matrix

“ENDEAVOUR-Notes” on the *Ansoff Matrix*, *The Product Life Cycle*, *The SWOT Analysis* and more can be found by visiting www.endeavourconsulting.ca where you can also book a “Consultation” today.