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STUDY GUIDE

is it a dog?
how to use the
BOSTON MATRIX

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TRANSCRIPT

Imagine you're managing a sports team

and a sports team has a diversification of players.

There are young, dynamic players who contribute a lot to the success of the team, but at the same time, they need continuous time, coaching and investment. These are your **stars**.

Then I've got another group of players, and they're experienced players, they're kind of veterans, but they still play well and they contribute to the team's success, but at the same time, they really need minimal effort. They don't need much or any time and investment or coaching, but nevertheless, at the same time, they bring you in a return. These are **cash cows**.

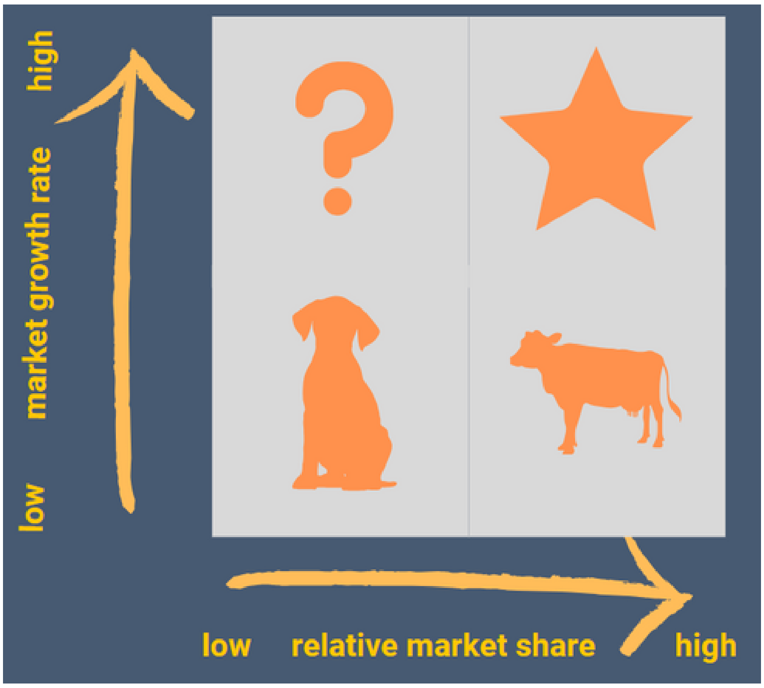
Then, I've got another group of players, and I'm a little bit uncertain about them. They have potential, but I'm not sure which way things are going to go. Maybe they're kind of they're rookie players, and I'm going to have to put time and investment, and they're going to have some kind of coaching. So, I can see if they have their potential or if they can fulfill their potential. I'm really uncertain about them at the moment. These are **question marks.**

Then I've got another group of players, and these players, they've come to the end of maybe of their careers. They've lost their competitive edge. They're not adding much to the success of the team or anything to the success of the team, and maybe they're a bit of a burden. These are **dogs**.

So, just like a sports team has a diversification of players, a company has a diversification of products and it has a product range and it has a product portfolio. A company has to manage this portfolio, and a framework that can be used to assess the product portfolio is something called the **Boston Matrix** or it's sometimes called the **BCG Matrix, Boston Consulting Group Matrix.**

It's the same thing. So, what I would like to do in this video is describe the Boston Matrix to you and then show you how you can use a description of the Boston Matrix and use the analysis of the Boston Matrix to answer questions in discussions in business classes or to answer exam questions or assessment questions.

So first of all, I'd like to show you some vocabulary that will occur in the description, and what I would like you to do is listen out for this vocabulary and identify it and see if you will be able to define these expressions or not or use them in a description. So let's just run through the vocabulary. Now, we've got two things called **market share** and **relative market share.** They're slightly different. We've got **market growth rate**, **product portfolio, cash cow, star, question mark, dog, competitive position, diversification, resource allocation** or using the verb **allocate resources**.



So, the Boston Matrix is a framework that helps us to analyse the product portfolio and to show us where products are in terms of their competitive position and it also shows us where we need to allocate resources - so human resources, marketing spend, and to show where investment is needed.

So first of all, we can see that there's a **vertical dimension** and the vertical dimension is **market growth rate**. The market growth rate is the rate in which the product is growing, and it's a measure of market attractiveness. Now the **other dimension** is **relative market share** and this is the extent to which the product has a high or a low market share compared with competitors. Now, here we've got the difference between market share and relative market share. The market share is the portion of the market that a company controls, and that's often expressed as a percentage, but the relative market share is the market share of the product or maybe the business compared to the largest competitor.

Now what I'm going to do with the Boston Matrix then is put four quadrants into the matrix, and this is where I will put my **stars, cash cows, question marks and dogs.**

We come back to the **stars** and the stars have a high relative market share and they operate in high growth markets. The product is probably a strong product. It's got a competitive edge. It's got competitive advantages. But as we saw with our star players with the sports team, we have to invest and support stars, probably with marketing spend. And in time, stars will very likely become, or very probably, become cash cows.

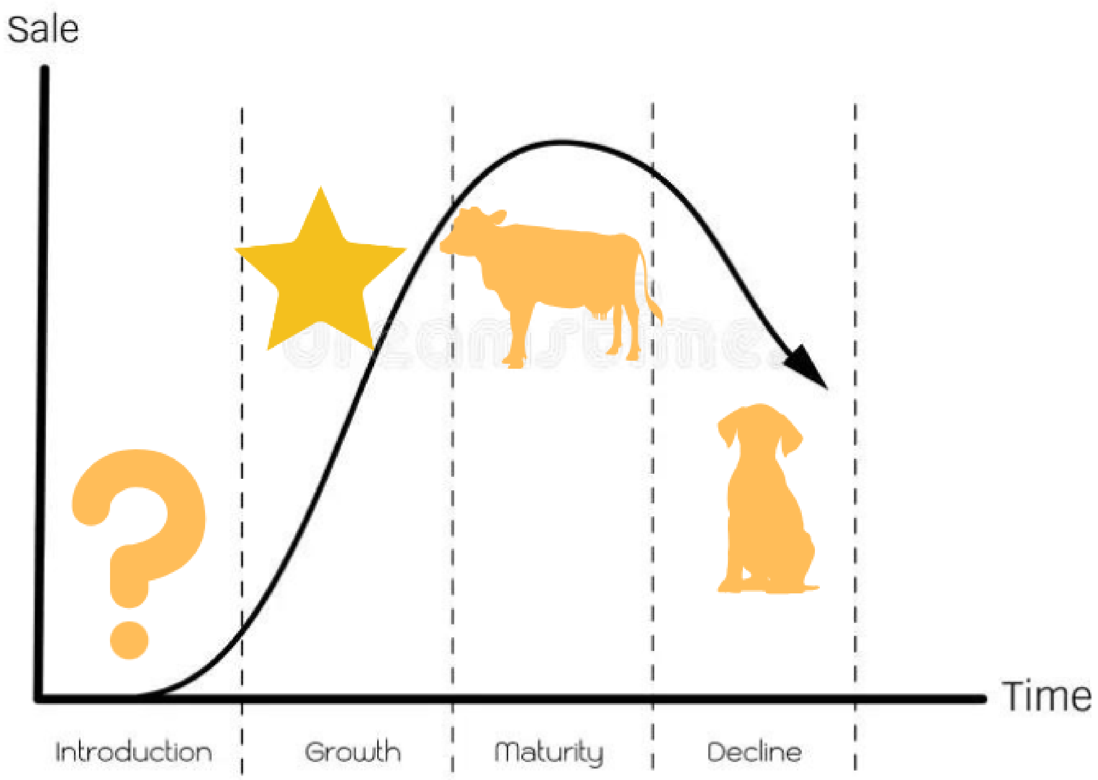
Now **cash cows** have a high market share but the problem is they're in low growth or what is often called mature markets. They've got competitive strength, but they're in the maturity phase. Now the maturity phase also happens in the product life cycle, which we'll come onto in a moment. A cash cow is probably never going to be a star performer. Maybe, once it was a star and now it's a cash cow, but at the same time, it's profitable. It will generate revenue. What you should do with cash cows, the key is to milk them. You should use the money from cash cows to reinvest in other products in other areas of the matrix. Just get as much cash as you can out of the products. For example, you want to defend the position that stars have or maybe you want to see what the potential of your question marks is. And, we want to see if we can change some question marks into stars.

So, then we come to **question marks**. Now question marks operate in high growth markets, but at the same time, they don't have a high market share or relative market share. So, what they have is potential and they have potential to be stars. Now, the other thing we should notice with question marks as well, is sometimes they're called **problem children**. So if you see problem children, problem children are the same things as question marks. So question marks, we're uncertain. We don't quite know what to do with them, but we're going to have to use some kind of investment and hopefully transform their potential into being stars. We have to identify question marks that have potential so these products can compete. They can build market share. We have to make some kind of investment. We have to look at things like, again, like segmentation, positioning and you need cash to invest in question marks so that we can turn them into stars.

And, then we come back again, finally, to our dogs. Now dogs have low market share relative to the competition and they operate in a market with low growth rate. Their products have come to the end of their life. They're in decline for various reasons. So, what can you do with a dog? Well, the best thing to do with a dog is get rid of it in some way. Shut the product down, phase the product out. Maybe if you're lucky, you can find a buyer for your brand or your product.

Now, as I mentioned briefly, there is a clear link with the Boston Group Matrix to the **Product Life Cycle**. Now, the product life cycle shows you the growth stages of a product or the sales of a product through the lifetime of the product. Now, if we look at the diagram, there are four clear areas. There's an **introduction** phase, a **growth** phase, a **maturity** phase and a **decline** phase. Now, listening to the description of the Boston Matrix, the link is pretty clear. Question marks are often in the introduction phase or in the launch phase of the product. I'm researching a product, I put out a product onto the marketplace, but there is some uncertainty about the question marks and if they have the potential to rise into stars. So I can link them to introduction. Stars are all about growth, growth, growth, and about making some kind of investment in those stars. So there's a clear link to the growth phase. Cash cows mentioned the word mature markets, and we've got the word here, maturity, and cash cows are clearly linked to maturity. And dogs, I said, they're products that are probably at the end of their life and they're in decline, and we've go the phase here of decline, and I can link that to dogs.

Product Life Cycle



Let's have a look at a typical kind of exam question

So I've got a product called Tech Is Us, or I've called it TIS, or TIS produces a wide range of electronic products, and these products include smartphones, tablets and home appliances. And, the company has been in the market for several years and it's looking to assess its product portfolio. Now, there are three major product categories.

I've got smartphones which have a high market share and the market is still growing. I've got tablets which are steadily losing market share and the growth rate has slowed down. And I've got home appliances. Now home appliances are all those little electronic items around the home, you know, like vacuum cleaners, washing machines, kettles and so on. Home appliances have a small market share but the market growth rate for the category in some product areas is high.

So. the first thing I would notice is are the words or the expression **product portfolio.** And. as soon as I think about product portfolio, then I would think about **assessing the product portfolio**. And if I think about assessing the product portfolio, then I would think about the **Boston Matrix**.

So, then I can begin bringing in the Boston Matrix. I can **describe the Boston Matrix in general terms.** And then I can show, looking at this company TIS, I can look at **where their products maybe fall into the Boston Matrix**.

Now, an example here might be the smartphones. The smartphones are clearly in a growth phase. They've got high relative market share and they've got a high growth rate. And I could call these stars. And then I can talk about stars and I can talk about why the smartphones are a star. And then I can talk about then the resource allocation I'm beginning to show that I can think critically about the Boston Matrix. I can think about stars. Stars need investment. They need resource allocation. And where do I put this allocation of resources? Is it in staff? Do I need more staff working on these, on these smartphones. Or, is it in terms of marketing spend? I need to have more promotion and I need to have more advertising for the smartphones.

The next thing I could maybe think about is **diversification**. Is there room here for new products and diversification? And one of the keys here is maybe with the home appliances, there seems to be potential for home appliances in some areas. And there seem to be some question marks. So if I look at diversification and I want to put new products onto the market and I'd want to look at the market with a good potential. Then, maybe, I can look at these home appliances. So, maybe at the moment, TIS is making just small appliances like kettles and coffee machines and things like that. But, it could look at other areas for new products and new innovative products in things like washing machines or vacuum cleaners and so on.

So let's come to the vocabulary

I trust now that you're in a position to be able to use this vocabulary and you would be able to describe this vocabulary. So let's come back to the list.

So, the **market share** is the portion of the market that a company controls that's often expressed as a percentage. But, **relative market share** is the market share of a product that's compared to the largest competitor.

The **market growth rate** is the rate at which a market is growing or maybe shrinking.

The **product portfolio** is the range of products a company offers.

The **cash cow** is a product with a high market share in a slow-growing market, but it generates revenue and cash flow.

A **star** is a product with a high market share in a fast-growing market and also requires investment.

A **question mark** can be called a problem child. It's the same thing. It's a product with low market share in a fast-growing market and also requires resources and investment.

A **dog** is low market share in a low-growth market and is generating small profit or no profit.

The **competitive position** is how well a product competes in the market and this is determined by the market share and the growth rate.

Diversification is the strategy of entering new markets or as we saw with TIS, with the home appliances - expanding product lines to reduce risk and to get growth.

And **resource allocation** or **allocating resources** is when you've assessed where your products are, where do you put your resources? So these are financial resources. Where do I put my marketing expenditure, for example? It could be staff, it could be my human resources or it could be research and technology.

So let's go to some multiple choice questions

I've put together just to double check your understanding of the Boston Group matrix.

So the first question is, **what is market growth rate?** A, the rate of growth in the overall sales of the market. The percentage of market share compared to competitors. The measure of market attractiveness. The measure of competitive strength. Well, the answer is A, the rate of growth in the overall sales in the market.

What is the relative market share? compared to competitors. The rate of growth in the overall sales of the market. The measure of market attractiveness or the measure of competitive strength. Again, the answer here is A. Again, it's the market share compared to competitors.

Which category has high relative market share and high growth market? Stars, question marks, cash cows, dogs. Again, the key here is with high and high. The answer again is A, stars.

What is a cash cow? A product with high relative market share in a high growth market. Low relative market share in a high growth market. High relative market share in a low growth market. Low relative market share in a low growth market. And the answer here is C. It's got high relative market share in a low growth market.

And the dog, again, **is it** high relative market share in a high growth market? Low relative market share in a high growth market? High relative market share in a low growth market? Or low relative market share in a low growth market? Well, the answer is clearly here, D. It's low and low. Low relative market share in a low growth market.

What's the purpose of the Boston Matrix? To predict the sales of the product? To assess where products and brands sit in relation to each other? To determine the competitive strength of a business? To measure industry attractiveness based on market growth rate? Well, the answer here is clearly B. It's to assess where products sit in relation to each other.

What's the difference between the Boston Matrix and the product life cycle? The Boston Matrix is concerned with specific products or brands, while the product life cycle is about the portfolio of businesses and brands the company may have. The Boston Matrix is mainly about cash flow, while the product lifecycle is mainly focused on sales. The Boston Matrix is a scientific tool of investment appraisal or portfolio management, while the product life cycle is not. The Boston Matrix is used to predict the sales of each product or brand, while the product lifecycle is used to measure industry attractiveness based on market growth rate. Well, the answer here is B. The Boston Matrix is about cash flow and the product lifecycle is on sales.

And what's the best strategy for a dog in the Boston Matrix? A, phase it out. B, invest more resources to turn it into a star. C, keep it in as a cash cow. And D, none of the above. Well, I hope and I trust by now, you realise the best strategy for a dog in decline is phase it out.

So I trust now that you understand the Boston Matrix, that you're in a position where you can describe the Boston Matrix and you can answer questions.