

PORTFOLIO ANALYSIS OR CONSULTING GRID

1. INTRODUCTION

The Boston Consulting Group is credited with taking a concept of product life cycles, and graphing these notionally into four distinct grids which all have a relationship to each other.

The Boston Consulting Grid, which is attached, shows the four notional product life cycle positions of a product at a point in time, and this is a “snapshot” of an organisation.

It shows:

1. **Cash Cows** or products that have reached maturity in a no growth or slow growth market, but yet have high market share, and are major contributors through margin and volume to the welfare of the company in terms of cash flow, cash generation, and future profit as well as current profit.
2. **Stars** or products that are currently running fast in a fast growing market and taking high market share. This growth is relative to their competitors' success, and they are amongst the leaders in a growth market.

As such, they contribute cash flow, but they take extraordinary amounts of management time and they take a lot of cash if future market share is to be realised by further enhancing market penetration, and by reinvesting the product to achieve excellent results.

3. **Problems** or complicated products where the market is growing quickly, but for some reason, the company's products are not assuming a strong position in either cash flow or market share. As a result, they consume large amounts of cash, large amounts of management time, and sometimes it is desirable for the company to divest themselves of the brand or products, rather than continue to manage them in adversity.

On the other hand, they may present opportunities for solving problems, and they could move forward to become cash cows or stars, depending on what happens in the market.

4. **Dogs** or products that have, at one stage, been cash cows, possibly stars or even problems. At this point in time, they are not growing, in fact they have a downturn in sales and contribution to the company.

Sometimes dogs are products that have gone through the full product life cycle, and as a result they have ended up being an extended product, or a product that the customer still desires, but there is not enough volume of customers to make them profitable. Customers have turned to other products or traded onto other systems, and only a minority of customers remain to use the product.

These products take time, contribute little money, and they complicate such areas as stock holdings, production runs etc.

The beauty of the Boston Portfolio Matrix is that it shows the effect of market share and margin.

It also shows the importance of early breakeven – that is, reaching a position where your variable and fixed costs are covered completely by margin in a short period of time. At a time when product life cycles are decreasing and product life cycles of 3 to 6 to 9 months can be experienced in some technological products, it is important that companies concentrate on early breakevens.

Merely showing that a product can break even over time, without due respect for the changing product life cycles in a market, is like carrying out a theoretical exercise.

At the end of the time, you breakeven, but the market moves without you, and in fact, the breakeven does not occur in reality, and you are left with huge costs for invested R & D, product launches, etc.

The other advantage of Portfolio Analysis is that it shows that the most valuable product in the company is a mature product that stays in maturity as long as possible, and contributes maximum volume and margin.

In this sense, the role of marketing is to create mature products, and to concentrate on holding products in maturity so they achieve high returns. This dispels the theory that all marketing is about new products and new customers.

Another advantage of the Boston Grid is that it shows the relationship between products. It acknowledges that at any point in time, some products will be earning good money, while others will be growing, some will be in problem areas, and some will be dogs.

As such, not all managers and not all groups can be in a high profit product area. Some will be in R & D projects taking on a risk, and introducing a launch of new products, while others will be trying to turn old products around, or substitute old products for new, more adventuresome products, and others will be involved in solving problems.

Not everyone can manage the cash cow, and it is important to reward people with different reward systems and acknowledge that all of the processes of getting rid of yesterday's product, managing those that go "off the rails" and introducing new products, is part of the total marketing of the organisation.

The next important consideration is that the cash cow is recognised as the one source of cash for a business. Stars need funds, as do problem products, and dogs quite often take rather than contribute funds.

If new product development and R & D is not an ongoing basis for the company, then the company must gain new products that will become tomorrow's cash cows by:

1. Merging with other companies.
2. Buying products on the open market that have already gone through commercialisation, or are at early R & D stage.
3. Taking over licences or making other arrangements for new products.
4. Going to the bank once the cash cows run out of money, because there are no new product developments, and there are no new stars.

Managing the business is therefore like running a portfolio of shares in which there must be growth stocks, investment stocks and blue chip stocks. As a result of these two "asset sides" of a business, there must be liabilities in terms of some problems with some products at points in time, and some products that never make it, or in terms of market, "bomb out", or eventually die.

New product development is risky as Booz-Allen, and several others in marketing have described through various studies. It is unusual to have even a 50% success rate with new products, and in a service industry where products are constantly changing (eg curriculum for tertiary studies), or where there is new technology (eg video, CD Rom), it is possible that while the new products themselves are viable and strong, that the technology can take the "carpet from underneath them".

The Boston Consulting Group brings a good dimension to a company, and makes a company think about the whole process rather than one product, one division, or one market segment. It creates balance within the management.

2. R & D

In many organisations, it is important that R & D is clearly focused on where the gaps are in the market, not only from a product point of view, but also from a marketing portfolio viewpoint.

It is important that criteria such as margin and volume are examined thoroughly so that when products are chosen in the R & D program for their potential success based on criteria, the criteria also accentuates:

1. **Where the gaps in the market are, and where the markets are in those gaps.**
2. **What kinds of margins must be achieved** by the new product in order to sustain the portfolio of products, profitability and return on investment.
3. **What kinds of volumes must be sustained.**
4. **Whether the product will be complementary or competitive** within the production or delivery system.
5. **Where it will have economies in the distribution system**, and where it may use a totally different distribution system, thus accentuating costs and changes in launch and variable cost components.
6. **Where it will alter the positioning of the company**, and as a result, affect the business definition of the company. In this case, the product and resultant R & D can actually change the focus of the company if the company is not focused on what kinds of R & D they require.
7. **Other Areas?**

3. FURTHER DEVELOPMENT OF THE GRID

The grid can also be used to map, in a notional sense for management purposes, the following:

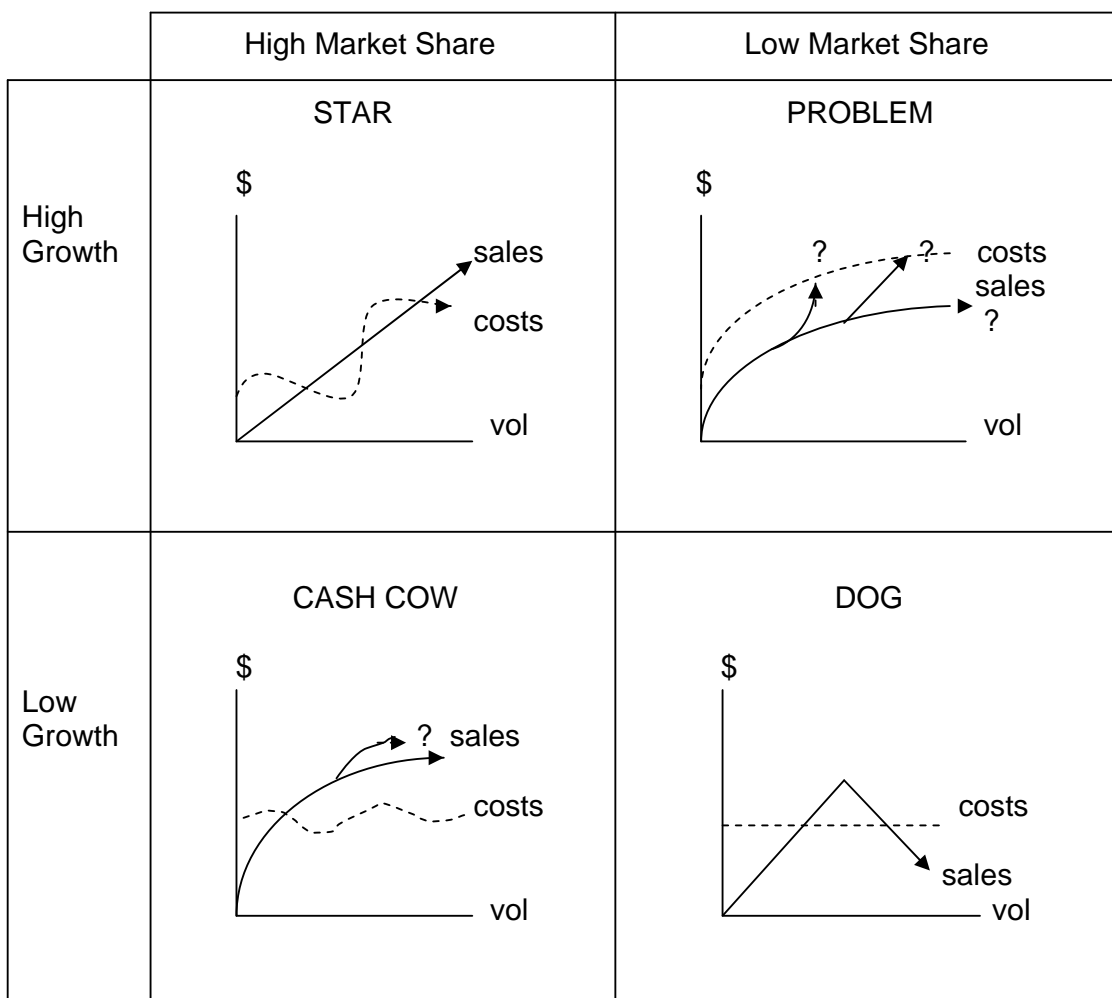
1. **Markets** - i.e. particular geographical markets such as states and overseas markets, as well as different market segments.
2. **Consumer groups**, in terms of user target markets.

3. **Divisions in a company.**
4. **Competitors' products** as a basis for estimating your cash flow and future cash flow position in relation to competitors' portfolio.

The grid can also be used to analyse a company's ability to trade in the future. As all trading results in sales revenue and margin, if you can analyse a company's trading position ahead of time, then you can fairly accurately predict the future accounting position, and anticipate shortfalls or profits.

Mapping products over time is similar to graphing a share portfolio. It lets you anticipate future markets and product development shortfalls.

PORTFOLIO ANALYSIS



1. Best Product is a mature product – Cash cow.
2. Best future growth products will come from Stars.
3. Should delete Dogs using pricing policy.
4. Should divest if Problems 'if possible'.

PORTFOLIO ANALYSIS SUMMARY

1. Uses Product Life Cycles to categorise product groups or products/markets for ease of analysis.
2. Categorises the status of products/product groups by their position in growth markets and their position in relation to competitive products - market share.
3. Is based on the concept of cash and management time as major inputs that determine how products perform after they have been launched and viable markets penetrated.
4. Discusses the trade-offs between management time and cash flows dedicated to some products/product groups over others, depending on their Product Life Cycle position.
5. Works on the basis that the best product in a company is a mature product which continues to generate cash flow.
6. Acknowledges the role of New Product Development as essential for future corporate growth. But balances this against management and cash flow support for existing products, whether they be struggling or mature.
7. Acknowledges that products can change position within markets. They can also move position in terms of their status in the product/product group portfolio.
8. Provides an asset and liability side to the corporation based on product positioning, Product Life Cycle, resource needs, and market share (industry strategies). As such, it is a predictor of future statements of position for lenders.

9. Opens our eyes to the need to understand industry groups, industry strategies, and a company's market position in relation to products, in addition to current static liabilities and assets.
10. Is a time management system. Do we over-invest management in product/product group areas which can ultimately bring down a company's financial position?

Ref: cdnotes\portfolio
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