Boston box

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Managing Innovation

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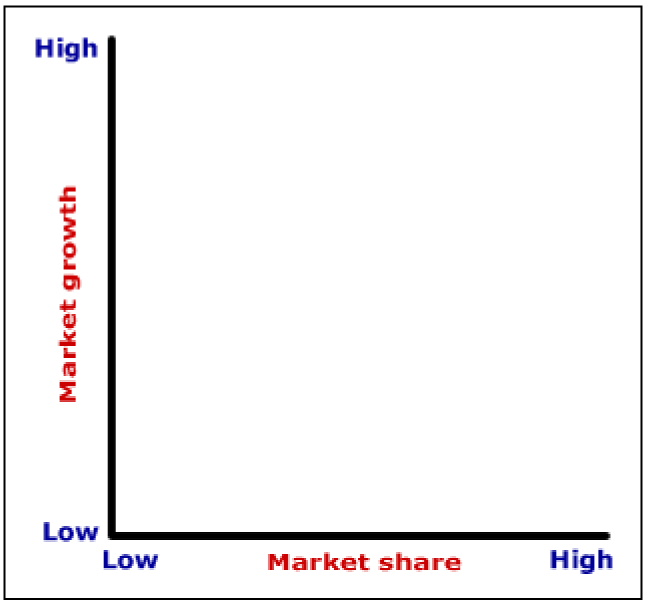
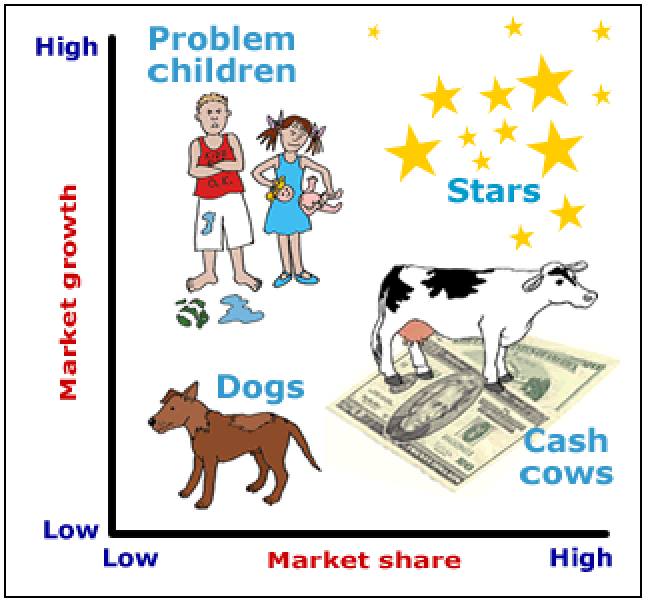
The Boston Matrix or Boston Box - so called because it was developed by the Boston Consulting Group (BCG) - is another tool that may help you to analyse potential routes forward and discuss strategic options. This matrix offers a simple technique for assessing your firm's position relative to others in terms of its product range. It is a 2x2 matrix, plotting market share against market growth. The BCG matrix should help you think about the portfolio of products and services that you offer and make decisions about which you should keep, which you should let go of, and which you should invest further in. The matrix is simple to construct.

Step 1: Construct a matrix where one axis is market share, running from low to high; and the other is market growth, also running from low to high.



Step 2: Now plot your products on the matrix. For example a product in a fast growing market in which you have a low share would appear in the top left hand area, whilst one in which you have a high market share but where the market is growing slowly would appear in the bottom right.

To help your analysis and stimulate subsequent discussion the BCG model offers four descriptions of the product/market combinations that might be found:

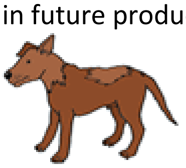


Stars

Stars represent those products or services in which your company has a high share of the market and the market is growing. They should be invested in further to maintain the growth

Cash cows

Cash cows represent those products in which your company has a high market share, but where the market is mature and slow growing, or even declining. These products should be 'milked' to provide cash for investments in future product areas.



Dogs

Dogs are products where your company has low market share and where the market itself is not growing. These should be dropped from your product portfolio to release funds for investment in more attractive opportunities.

Problem children

Problem children are those products in which you have a low market share but where the market is beginning to take off or has significant growth potential. They need to be watched closely and investment maintained to keep a presence since they could become tomorrow's stars - but equally the commitment should not be too high since they could also turn out to be tomorrow's dogs!

Strengths and weaknesses

The Boston Matrix is simple to construct and easy to use, yet provides an effective tool for mentally and visually defining the potential space in which a business might move - and analysing how attractive (or otherwise) such a move might be.

When using the Boston Matrix it is easy to assume that high market shares imply high profits, which is not always the case, for example, where a new product captures a large share of the market, but incurred huge development costs.

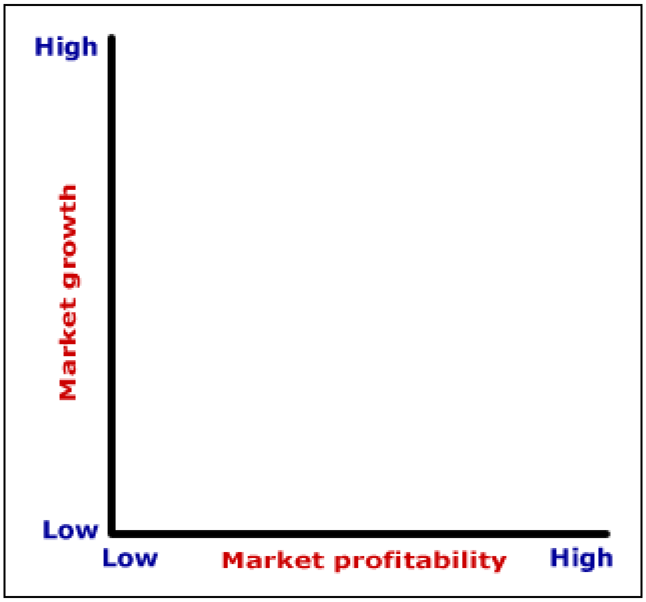
As with any tool, the matrix oversimplifies a complex set of variables - it should be used to inform decision, not make them.

Hints for using this tool

The techniques for selling products differ depending on the lifecycle stage of the product. So, from a marketing perspective, it is important for a company to have a sense of its whole product portfolio. The four boxes of the Boston Matrix relate closely to the product lifecycle - where at launch products are cash cows, during growth they are stars, at maturity they are problem children, and at their decline, cows.

Other versions of the matrix can be developed - for example, looking at potential markets in terms of their profitability and their growth rate to help identify which markets a firm should be seeking to enter. Thus the tool will develop a matrix that might look at:

- market growth on the vertical axis;
- market profitability on the horizontal



This would enable the firm to identify market segments that are growing rapidly and are profitable.

Or a similar exercise can be undertaken that focuses on:

- market profitability on the vertical axis;
- market share on the horizontal axis.

This would enable the firm to see how its products are positioned in relation to its market share and its profitability.

Used with imagination, this tool can also be used to analyse performance in different markets - for example in domestic and foreign markets - and hence to develop a specific export strategy that might feed into the firm's overall strategy in future years.