Product Life Cycles and the Boston Matrix
Product Life Cycles and the Boston Matrix

- **Product Life Cycle** – shows the stages that products go through from development to withdrawal from the market
- **Product Portfolio** – the range of products a company has in development or available for consumers at any one time
- Managing product portfolio is important for cash flow
Product Life Cycles and the Boston Matrix

**Product Life Cycle (PLC):**
- Each product may have a different life cycle
- PLC determines revenue earned
- Contributes to strategic marketing planning
- May help the firm to identify when a product needs support, redesign, reinvigorating, withdrawal, etc.
- May help in new product development planning
- May help in forecasting and managing cash flow
Product Life Cycles and the Boston Matrix

• The Stages of the Product Life Cycle:
  – Development
  – Introduction/Launch
  – Growth
  – Maturity
  – Saturation
  – Decline
  – Withdrawal
Product Life Cycles and the Boston Matrix

- **The Development Stage:**
- Initial Ideas – possibly large number
- May come from any of the following –
  - Market research – identifies gaps in the market
  - Monitoring competitors
  - Planned research and development (R&D)
  - Luck or intuition – stumble across ideas?
  - Creative thinking – inventions, hunches?
  - Futures thinking – what will people be using/wanting/needing 5,10,20 years hence?
Product Life Cycles and the Boston Matrix

- **Product Development: Stages**
  - New ideas/possible inventions
  - Market analysis – is it wanted? Can it be produced at a profit? Who is it likely to be aimed at?
  - Product Development and refinement
  - Test Marketing – possibly local/regional
  - Analysis of test marketing results and amendment of product/production process
  - Preparations for launch – publicity, marketing campaign
Product Life Cycles and the Boston Matrix

• **Introduction/Launch:**
  - Advertising and promotion campaigns
  - Target campaign at specific audience?
  - Monitor initial sales
  - Maximise publicity
  - High cost/low sales
  - Length of time – type of product
Product Life Cycles and the Boston Matrix

- **Growth:**
  - Increased consumer awareness
  - Sales rise
  - Revenues increase
  - Costs - fixed costs/variable costs, profits may be made
  - Monitor market – competitors reaction?
Product Life Cycles and the Boston Matrix

- **Maturity:**
  - Sales reach peak
  - Cost of supporting the product declines
  - Ratio of revenue to cost high
  - Sales growth likely to be low
  - Market share may be high
  - Competition likely to be greater
  - Price elasticity of demand?
  - Monitor market – changes/amendments/new strategies?
Product Life Cycles and the Boston Matrix

**Saturation:**
- New entrants likely to mean market is ‘flooded’
- Necessity to develop new strategies becomes more pressing:
  - Searching out new markets:
    - Linking to changing fashions
    - Seeking new or exploiting market segments
    - Linking to joint ventures – media/music, etc.
  - Developing new uses
  - Focus on adapting the product
  - Re-packaging or format
  - Improving the standard or quality
  - Developing the product range
Product Life Cycles and the Boston Matrix

- **Decline and Withdrawal:**
  - Product outlives/outgrows its usefulness/value
  - Fashions change
  - Technology changes
  - Sales decline
  - Cost of supporting starts to rise too far
  - Decision to withdraw may be dependent on availability of new products and whether fashions/trends will come around again?
Product Life Cycles and the Boston Matrix

Sales

- Development
- Introduction
- Growth
- Maturity
- Saturation
- Decline

Time
Product Life Cycles and the Boston Matrix

Sales

Time

Effects of Extension Strategies
Product Life Cycles and the Boston Matrix

Sales/Profits

PLC and Profits

PLC

Profits

Break Even

Time

Losses
The Boston Matrix

- The Boston Matrix:
  - A means of analysing the product portfolio and informing decision making about possible marketing strategies
  - Developed by the Boston Consulting Group – a business strategy and marketing consultancy in 1968
  - Links growth rate, market share and cash flow
The Boston Matrix

• Classifies Products into four simple categories:
  • **Stars** – products in markets experiencing high growth rates with a high or increasing share of the market
  - Potential for high revenue growth
The Boston Matrix

- **Cash Cows:**
  - High market share
  - Low growth markets – maturity stage of PLC
  - Low cost support
  - High cash revenue – positive cash flows
The Boston Matrix

**Dogs:**
- Products in a low growth market
- Have low or declining market share (decline stage of PLC)
- Associated with negative cash flow
- May require large sums of money to support

Is your product starting to embarrass your company?
The Boston Matrix

- **Problem Child:**
  - Products having a low market share in a high growth market
  - Need money spent to develop them
  - May produce negative cash flow
  - Potential for the future?

Problem children – worth spending good money on?
The Boston Matrix

Market Growth

High

Problem Children

Stars

Dogs

Cash Cows

Market Share

Low ——— High
The Boston Matrix

• **Implications:**

• **Dogs:**
  - Are they worth persevering with?
  - How much are they costing?
  - Could they be revived in some way?
  - How much would it cost to continue to support such products?
  - How much would it cost to remove from the market?
The Boston Matrix

• **Implications:**

• **Problem Children:**
  - What are the chances of these products securing a hold in the market?
  - How much will it cost to promote them to a stronger position?
  - Is it worth it?
The Boston Matrix

- **Implications:**
- **Stars:**
  - Huge potential
  - May have been expensive to develop
  - Worth spending money to promote
  - Consider the extent of their product life cycle in decision making
The Boston Matrix

**Implications:**

**Cash Cows:**
- Cheap to promote
- Generate large amounts of cash – use for further R&D?
- Costs of developing and promoting have largely gone
- Need to monitor their performance – the long term?
- At the maturity stage of the PLC?
The Product Life Cycle and the Boston Matrix

Importance of maintaining a balance of products in the portfolio at different stages of the PLC – Boston Matrix helps with the analysis.

(1) 'A' is at maturity stage – cash cow. Generates funds for the development of 'D'.

(2) Cash from 'B' used to support 'C' through growth stage and to launch 'D'. 'A' now possibly a dog?

(3) Cash from 'C' used to support growth of 'D' and possibly to finance extension strategy for 'B'?
Bostonská matice – zdroj: http://www.dpu.se/boston_e.html
Jak je to ve skutečnosti

ERP market
Just this minute