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/needings 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 over Time

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

Losses

Break Even

Time
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

<table>
<thead>
<tr>
<th>Market Growth</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Problem Children</td>
<td>Stars</td>
</tr>
<tr>
<td>Dogs</td>
<td>Cash Cows</td>
</tr>
</tbody>
</table>
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.
Bostonská matice – zdroj: http://www.dpu.se/boston_e.html
Jak je to ve skutečnosti

ERP market
Just this minute