

PRODUCT PORTFOLIO ANALYSIS

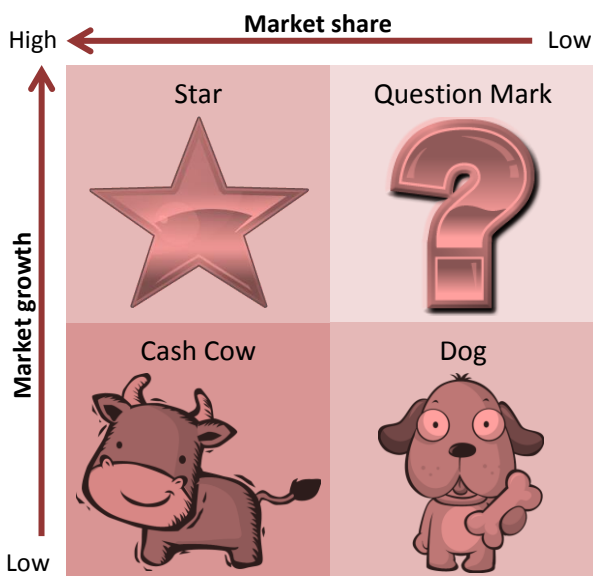
Analysis of a business product portfolio and the product life cycle

PRODUCT PORTFOLIO ANALYSIS

Every business needs to be constantly assessing and evaluating the performance of their marketing. This is done by monitoring how well each individual product within the **product portfolio** (product mix) is doing. This process should tell the business whether the money being set aside for the marketing budget is being used effectively or not. **Product portfolio analysis** is a technique used by firms which identifies the position of each product within its market.

THE BOSTON MATRIX

The **Boston Matrix** is a business model which analyses the goods or services of a business in terms of their share of the market, which takes into consideration the rate of growth the market is currently experiencing. Using this method, a business can quickly assess where each of their individual products lies in their own market.



A **star** (named after “rising star”) has both high market share and is in high market growth. A star product enjoys increasing sales revenue, but because it’s a growing market, competitors are attracted. The result is the company spends a great deal on promotional spending, and might involve the business in **high capital investment** to increase the capacity. In the short term, stars may cause cash flow problems since expenditure exceeds income. However, they usually generate profits that can support other products

Cash cows (with high market share in a low market growth market) often exist in established markets that have reached maturity. The low rate of growth discourages competition, so it is possible to spend less on advertising. A high proportion of cash cows is ideal for companies seeking high profits, but firms with cash cows will want to develop new products in order to enter high-growth markets

Question marks (or **problem children**) are competing in a competitive market, with a low market share and high market growth. Because the market is growing, there is possibility for future sales increases, even if the product does not increase its market share. Many new products are problem children at first. They tend to need large amounts of market research and promotion in order to succeed. If successful, they become stars or cash cows.

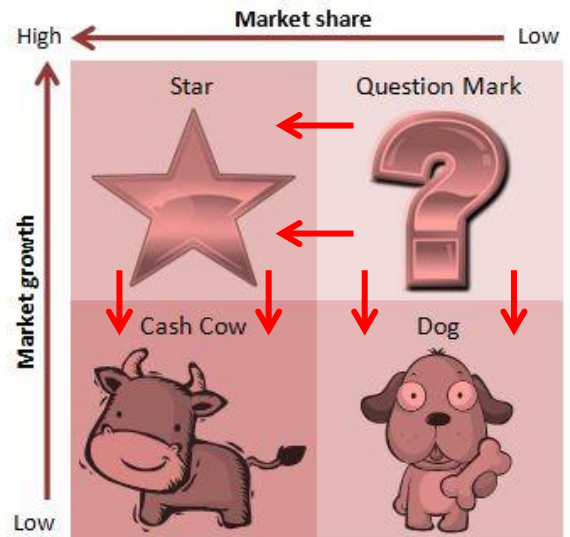
A **dog** has a low market share and is in a low-growth market. Businesses need to think carefully about retaining such products, as they offer little scope for profit-making. In a recession, these products will be dropped. However, these products should not be so simply written off.

Case Study: Cadbury’s dog product

Cadbury is a massive company with a very elaborate range of products. One of its most famous series is the Dairy Milk, Dairy Milk Fruit n Nut and Dairy Milk Whole Nut. The Whole Nut bars are often considered the least popular by so many consumers, and they are a dog product: they have only 1% of the market, and it is in a low-growth market. However, not all dogs can be problems, as even though this product only has one per cent of the entire market, the bar brings in £40 million each year in revenue

Any business, no matter how big or small, should have an ideal balance between the four types of product arranged in the Boston Matrix. The profits from cash cows can be used to help finance stars and any investment in the problem children. Knowing which categories your products fall into is useful:

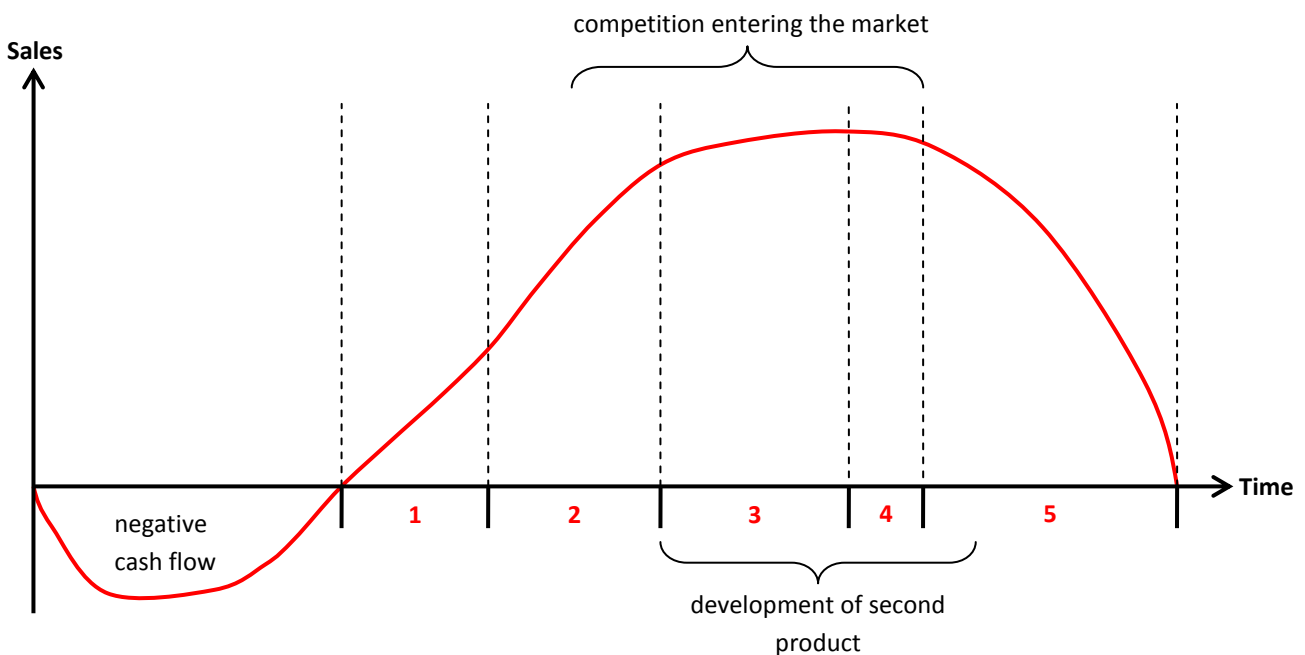
- 1 A question mark/problem child helps to ensure that the business is meeting the needs of the customer in the market, it is a star of the future
- 2 A star is potentially the real revenue-earner, it brings new customers to the business, who may well buy other products within the portfolio, including problem children and cash cows, as brand loyalty can be established – however, it may need a lot of cash investment to remain alive in the face of competition
- 3 A cash cow, named so because it can be “milked” to provide the finance needed to pay for the marketing of other products – these are often the products which launch a firm
- 4 A dog is inevitable, although should be avoided – as consumer tastes change, a business should be aware that its product will eventually become a dog



The Boston Matrix can provide a quick and easy way for a business to make general decisions regarding product development. However, it is based on two assumptions which are flawed:

- ✎ Market share is the best way to measure the success of a product: a great deal may depend on the type of market and the overall size of the market. A business in a small market which is generally uncompetitive with few businesses in the market, with a *small* market share would be seen as quite unsuccessful; however, a business in a large market with many competitive businesses also present with a *small* market share could be seen as successful
- ✎ A fast-growing market is the most important quadrant to be in: this might be true for entrepreneurial business that thrives on risk-taking and cutting-edge innovation, but there is plenty of scope for success for businesses involved in a slow-moving market as well

PRODUCT LIFE CYCLE







Simply, the **product life cycle** shows sales of a product over time. It outlines a product's level of sales right from its development, through its birth up until its disappearance from the business portfolio.

The negative cash flow, as shown on the diagram, represents the first real stage, **development**. The product is being researched and prepared for its introduction to the market. Because the business has not yet started retailing the product, there are no sales at this stage and therefore no revenue, thus the negative cash flow.

- 1** The **introduction** stage (also called **birth**) and this is when the product is released onto the market. Because it is a new product, not everyone is sure it is right for them, but equally there are many consumers willing to test the new product, so sales will *slowly* increase. The pricing strategy at this launching stage is very important, and will always depend on the type of product (for example, skimming might be used for a new technological product where high prices can be initially charged, whereas penetration pricing might be used for a new magazine to entice buyers who already have brand loyalty to another product)
- 2** The **growth** stage happens next, and sales rapidly increase. Consumers at this stage are responding to the advertising which has been put in place, and as a result, brand recognition has been established with those customers who are satisfied by the product. In the growth stage, profitability has begun to take effect. It is generally in this stage that the product breaks-even
- 3** The **maturity** stage occurs where sales begin to level off, and very slightly slow down. At this point, brand loyalty has been well-established. At maturity, *promotional offers* are still going strong, and in fact happen more than in growth, but *promotional advertising* is being relaxed, because brand awareness is at its peak already. Expenditure on the product can be reduced and possibly transferred into other products entering introduction or growth
- 4** The fourth marker on the diagram shows **saturation**. This is not necessarily a stage, but is a point within the life cycle of a product, where sales are *saturated* (at the highest they are ever going to be) and slowly begin to decrease
- 5** The **decline** stage begins as sales begin to decrease. Because there are many causes to a fluctuation in the level of sales during maturity, it is often difficult to spot the start of decline. Decline can come about for many reasons, but most often it is because the product is viewed as "old fashioned" or there are improved variations of the product now available on the market. A business has two choices to make in this stage: either abandon the product and let it go into decline with very little future expenditure, or implement *extension strategies* to try and elongate the length of the product life cycle

Companies would like all of their products to be in maturity, because it's the period at which the business is benefitting from the highest profits. In practice, this will not happen:

-  consumer tastes change, so they'll buy other products from the company or its competitors to satisfy their needs
-  the firm will be introducing new products, so those will only be entering the introduction stage
-  the firm is constantly developing new products which will be released as "better versions" of the older products
-  promotions of your own and other firms' products will have an effect on the products' life span

Problems with the product life cycle are numerous. The main issue comes with the fact that there is *no guarantee of accuracy*, as with a cash flow forecast, it is just a prediction of events. The cycle may not anticipate items such as a change in consumer tastes. Nowadays, consumer tastes are changing a lot more often, especially with the younger generations, and they seem to be changing more often than businesses can keep up with.

Businesses *hope* that their product life cycle will be as shown in the diagram, which is the general appearance of a product life cycle, but of course you cannot be certain that it will. Businesses *hope* that their products will have a long, happy maturity so that the highest profits can be obtained, but again this is not necessarily the case, or at least is not very often set in stone.

Introduction

The focus is about **pricing**. This is influenced by the target market and competition, but is mainly affected by the type of product

Promotion will be heavy at this point, in order to increase brand awareness and to gain those precious introductory sales

The business also has to ask questions about **place**: have they settled in the best location? Are they using the correct channel of distribution?

Growth

Pricing alters depending on the initial strategy used (i.e. penetration pricing would now go *up*, skimming would eventually come *down*)

New methods of **promotion** may enter the mix, and methods already being employed might change. Word-of-mouth advertising begins to kick in, which can take the business either way

Marketing Strategies

Maturity

Promotion is increased in terms of promotions, but the level of advertising is decreased

The business has to evaluate their **pricing** methods

Product comes into action at this stage: the business has to consider possibly changing the packaging in order to make the product seem newer and to refresh it in the consumers' minds

It is at this stage **extension strategies** are put in place (see below)

Decline







The business has to ask itself "is the decline terminal?" or can it be revived?

If the business decides it is terminal, **promotions** are used to get the products off the shelves – ready in place for the new products replacing them

Otherwise, extension strategies that have been put in place should take effect

Advertising has to be evaluated also, because decline doesn't always necessarily mean that the products won't make any profit – it is possible that advertising can increase sales again

Extension strategies are techniques used by a business to lengthen the product life cycle of one of its products. There are a number of them, but they may not always work. Examples of extension strategies are listed below:

-  A technological product may bring out new accessories to help keep it new (**product modification**)
-  A new specification/feature of the product or variation may be released (e.g. new colour, new flavour)
-  Lowering prices to keep consumers interested
-  Changing the product image (e.g. Lucozade used to be a flu remedy, but now is a popular energy drink)
-  Taking the product abroad, or making it go national if only currently regional
-  Trying to encourage consumers to make more use of the product (e.g. Kellogg's becoming "all-day" cereals)

Marketing is not a solely-functioning department; it does link in to other business functions. There are numerous financial implications associated with the product life cycle. First of all, there is a *negative cash flow* before the product introduction – can the business afford to keep that going with the support of other products? Will the product be able to break-even? The firm is still recovering from the negative cash flow during introduction and growth, and usually won't break-even until late growth, because of the significant product development/R&D costs associated with developing new products. It all depends upon the cost of R&D. Some businesses may never get to a positive cash flow because they produce failed products which don't survive long enough for it to happen. Thus, for smaller firms, research is very important in making sure it will be a successful product – a failed product can fail an entire business. Also, the business will benefit from economies of scale as it grows, with more available resources: these enable lower unit costs and can therefore allow a business to reduce its selling price for a product, attracting customers.