The Boston Box

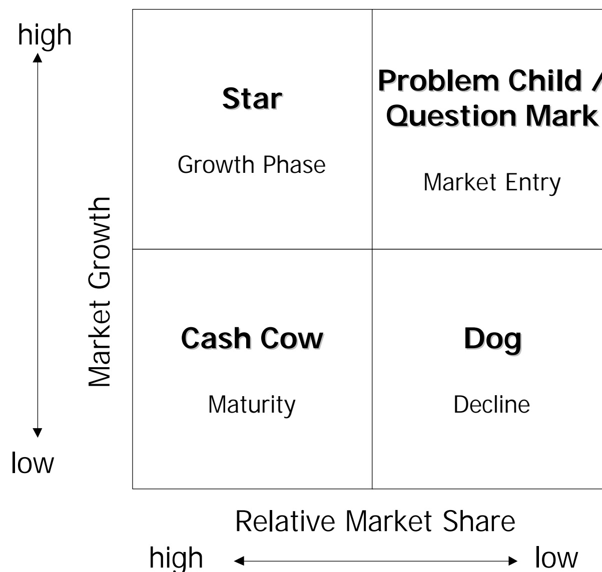
The Growth-Share-Matrix – commonly known as Boston Box – was developed by the Boston Consulting Group (BCG) in the seventies. It is a tool of portfolio management.

The Boston Box evaluates the products of an organization according to their market share and to their growth prospects. On that basis it can reveal insights about their financial needs or their ability to generate cash.

The Boston Box model depends on the following premises:

- The profits and cash generated from a product are a function of its market share. Profits and market share correlate directly.
- Revenue growth requires investments. In the context of the Boston Box, investments are mainly expenses for marketing, distribution and product development. The extent of these expenses depends on the general market growth for that product.
- High market shares require additional investments.
- No business or market can grow infinitely.

In the result, the profitability of a product depends on its market share, the growth rate of its market and on its position in product lifecycle.



Typical **Question Marks** are new products in markets with a high growth rate. They enter the market with a small market share in relation to the market leader. In order to improve their position, it takes investments, especially in marketing. Normally, such products do not generate profits.

Questions Marks that develop successfully achieve higher market shares and finally become **Stars**. Stars are often products in their growth phase. In order to maintain the high share in a growing market,

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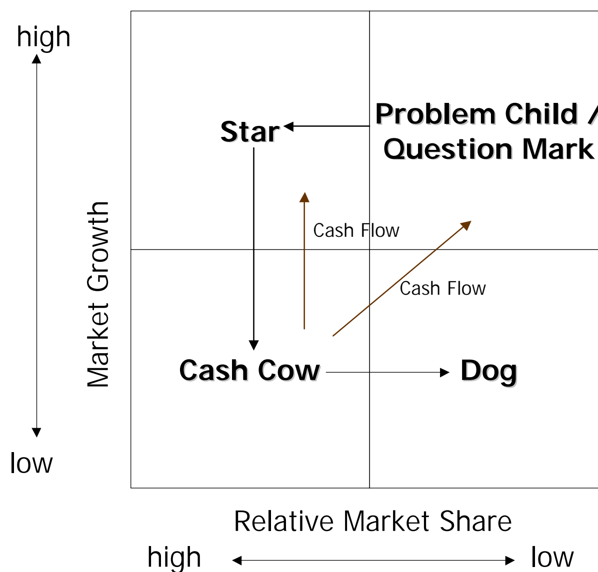
they require further investments. During phases of high growth, most products are not highly profitable.

As soon as market growth slows down and the market becomes saturated, products with a high share become **Cash Cows**. Due to the slow market growth rate, such products need very little investments. They generate a positive cash flow. In a well balanced portfolio, the cash flow from a Cash Cow should be used for investments into Question Marks and Stars.

Dogs are products that have a low market share in markets with a low growth rate. Products from all other categories can become Dogs. Despite their poor prospects, Dogs can be profitable. Many former Cash Cows are well positioned and enjoy a stable demand, although there are newer product releases with a much higher market volume.



It is necessary to keep in mind that this model is relatively simplistic. All it does is to choose one element from each of the two parts of strategic analysis – internal and external analysis. It puts them on two axes and distinguishes high and low. (see Mintzberg, Ahlstrand und Lampel in "Strategy Safari"). The model can reveal valuable insights on the actual composition of a companies product portfolio and on the activities necessary to improve it. However, it would be a mistake not to go any further. Many products or services of organizations are not really profitable in will probably never be. They are necessary to complement profitable core products, to differentiate from competitors ore simply are a value added that the customers expect. On the other hand, companies could have profitable products in their portfolio that are not related to all their other products and services. Does it really make sense to stick to a product – however profitable – even though it destroys the reputation as a highly specialised niche player? Or is it advisable to sell that Cash Cow and to use the price to invest in more related products?

Another weakness of the Boston Box is inherent in the historical context in which it was developed. The early seventies have been a period of relatively stable growth. At that time, strategic decisions have been focused on reactions to changes in demand, on growth, and on diversification as a means

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of minimizing risk. The Boston Box is an excellent model for such situations. Its basic premise that high market shares lead to high profits is especially applicable to volume-dependent industries.
Today the situation has changed in many industries. Only those businesses who are profitable in their sectors will be able to extent their market share. The Boston Box does not into consideration critical success factors like specialisation, flexibility, and customer orientation.

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