MARKETING GENERICS

Become a dog whisperer – how to manage the dogs on your BCG Matrix

Marketing Application Note

Introduction

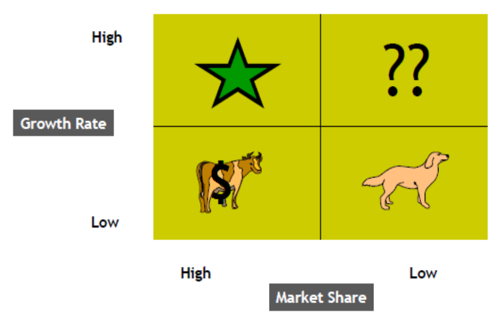
On the BCG Matrix, there is always the question of how to manage the dogs. On the Nat Geo Wild Channel's programme, Cesar Millan's was the 'The Dog Whisperer', who fascinated me as he tackled how to manage problem dogs in different home and different situations across the USA. Being personally stuck for many nights in hotel bedrooms in foreign lands, often this programme on managing problem dogs was the best thing on tele! Back in the world of business, managers also have to manage their dogs - dog products – but there are few resources or training available about how to actually do this. This Application Note tells you how.

Detail

Some canine history

The idea that some products can be considered or labelled as dogs first came to light when BCG founder Bruce Henderson articulated in 1970 what was then called the Growth Share Matrix. It helped companies allocate resources based on two factors: company competitiveness and market attractiveness, and became a powerful and universally used and taught tool to manage resources.

The Growth Share Matrix was thus first used primarily to decide where to invest, considering the underlying drivers of relative market share and growth rate. The four categories of the matrix are well-known to most, but here is a quick summary: Cash Cows are businesses, activities, products or brands which have low-growth but high MS (market share); high growth, high share products or activities are your 'Stars' and represent your future; high growth but low share 'Question Marks' needs to be closely monitored and should be further invested in or discarded; and 'Dogs', or what were originally called 'pets', have low or no growth plus low market share, so are essentially worthless.



More latterly BCG's Growth Share Matrix has become more commonly and simply known as the BCG Matrix or the 'product portfolio matrix' and is more often used as first port of call to manage product portfolios.

When is a dog a dog?

A product, activity, business or brand becomes a dog when it has low growth and low market share. This is of course always relative to the rest of the business, so more accurately it's relative growth and relative market share which determine the classification as a dog or not. When the BCG matrix was first developed, the dog was originally called a 'pet' rather than a dog, and this term is interesting because it reveals why dogs always and still appear on every company's portfolio – it's because each product has a product manager, and even if the product is old, tired, and not producing very much, there can still be emotional or legacy attachments - the products are there because owners like them, let them be, and don't want to kill them off. Of course often, they are sometimes there because the customers keep asking for the product, and sometimes because the owner (the BU or the Product Manager) doesn't want to kill them off because they still bring in revenues which contribute to top line and top line targets.

Dogs are the chronic underperformers in a mature market, and they therefore act as drag on the overall cash or margin performance of the business (on the basis that, for example, any percentage of the overall business done which is done at a lower percentage margin than the others will reduce the overall margin).

Can you teach an old dog new tricks, or does it have to die?

According to Wikipedia's bio of the Dog Whisperer, Cesar Millan tackles dogs with problems which would otherwise "leave the owners little choice but to medicate or euthanize their dogs if not corrected". So can the dogs in your portfolio be taught new tricks or will they inevitably have to die?

The BCG starting logic is that dogs are essentially worthless: they have neither market share nor market growth. BCG proposes 3 main options for dogs, that they be liquidated, divested, or repositioned, given that the current positioning is highly unlikely to be generating cash. But our experience shows there is a 4th potential option, which is to maintain the dog(s), but to ensure that's you only do that if it is still truly profitable at the nett contribution margin level. **Nett Contribution Margin** is the real profitability of an activity or a product after all the costs or investments are taken into account. It is effectively the operating profit for an activity divided by revenues from that activity. The resulting figure is a % figure, thus enabling you to compare the true profitability of one product, channel or activity compared to another

So let's look at what is needed to be done in these four options:

Option 1. Liquidation: The product is losing you money. The longer you prolong it, the more and longer you continue to lose money. So stop making the product, and do so as quickly as possible – every day your continue costs you lost profit. This means taking the dog to the vet for its final goodbye injection.

Option 2. Repositioning: This is certainly a possible option, but any re-positioning requires investment - possibly significant investment - so you have to be sure about the wisdom of making new investments and costs for an old, dying product. However, to successfully re-position a product will almost certainly require a strategic dimension and scope, and it could be very difficult for Product Managers to secure the resources necessary. At one stage the Lisa and even the Apple Mac were Apple's dogs. The example of the drink Lucozade – originally positioned as a drink for the sick and the old – being repositioned as a health drink is an example of successful repositioning of a dog, but these success stories are few and far between, and require significant strategic intent and resources. This is equivalent of trying to do a turn-around at end-of-life, so be careful of the investment and throwing good money after bad.

Option 3. Divestment: Can you sell the product to someone else? STMicro did this when it sold its unwanted and difficult-to-manage memory products to Micron, and many food/FMCG companies do this on frequently when they no longer want a particular product or brand. If you are choosing this option, make sure you reduce any remaining exist barriers as quickly as possible.

Option 4. Keep, but in a profitable way: As mentioned earlier, this option didn't appear in the original BCG reasoning, primarily because a key purpose of the managing the matrix is to maximise cash flows, and on the face of it a low growth, low MS product is in a hopeless position to be able to generate sustainable cash flows, so on the face of it, a dog product or activity is by most reasoning facing imminent demise of some sort.

But in practice there may be strategic, compelling reasons why you deliberately keep dogs on. For example, deliberately keeping some products which are dogs may be a defensive move, e.g., by enabling you to offer a larger portfolio than your competitors upon which you can build an attacking strategy, or you keep them because they're strategically important (such as to retain a key customer who has legacy business or depends upon you to maintain supply).

For me, these reasons are OK, as long as the price increases to compensate for the reduced volumes. In other words, it's OK if you can do the lower volumes at acceptable margins. This means that prices will always increase at the tail end of the life cycle for products which are maintained. Note that, in some cases, where a customer has been buying your product for a long time, you may actually be able to increase your prices significantly as the price of maintaining manufacture, and thus earn a higher than average margin in the dog stage. So I see situations where life of old dogs can be deliberately maintained, but only if there is strategic reason / and or, it's profitable at the nett contribution level.

And our experience shows that it is possible to keep an old dog on and keep it profitable. Don't forget that at this stage of the PLC, the product is fully amortised and you have derived significant learning curve experience (knowledge of how to optimise production yield, eliminate errors and returns, etc) and resultant cost benefits. The problem is that volumes are down so variable costs are likely to increase, so the question is really "can I sell at smaller volumes and still make an acceptable profit?" Our experience shows that it is possible if first, you really focus on the two potential cost adders (marketing costs and engineering or development costs and definitively stop all marketing investments and any R&D or even process improvement). Secondly, go back to the legacy customers who still want you to supply the product, and ask for a price increase sufficient to compensate for the reduced volumes and to justify you to maintain production of an otherwise obsolete product (or even request a premium price for the trouble). If you can do these two things, you have a chance to maintain a profitable nett contribution margin even with reduced volumes, thus enabling you to retain and sell dogs profitably.

Dog management

The first step is to identify which of your products are dogs. To do this, you first need to do an audit of all your products. This is all your products, which in some companies may be thousands or tens of thousands of products, then:

- Check the volumes over last 2-5 years. If they are static or in decline then it's almost certainly a dog. You can also check for products which are in what you know to be in mature markets
- Check the relative MS, calculated in the way detailed elsewhere in this Note
- Check the profit of each product - expressed as a margin. Ideally put the nett contribution margin for each, but if you don't know it, use the gross margin. If the gross margin is lower than the company average or the overall margin target, then it could be a dog. If the volumes are in decline and the margin is below the target, then it looks like a dog, smells like a dog, and it is surely a dog

How many dogs should you have?

It would seem self evident that ideally we should aim to have no or virtually no dogs. But we don't live in an ideal world and in reality almost all portfolios will in practice have some dogs. To put this another way, it is highly likely that whatever you do you will always have some dogs in your portfolio, and some commentators believe that it's impossible to rid your portfolio of all dogs. A more recent BCG study (2012) found that in the businesses surveyed that 9% of profits were coming from 'dogs'. Some senior C level practitioners believe that one is always going to have around 10% of one's products as dogs. As stated before, it's OK to have a dog as long there is either a strategic reasons for doing so, or you raise the selling price to the point where it becomes justifiable to maintain supply.

Conclusions and Recommendations

Managing the dogs in your portfolio is a critical skill. For most businesses, however well you manage your manage, there will always be a percentage of products which remain as dogs on the portfolio, but if there are, they should only be there if there is a truly strategic reason, and/or you have pricing which will deliver the nett contribution margin that can justify maintaining them as a listed product.

You may end up having have kill the dogs off, but the real challenge is, like Cesar Millan would see it, to proactively manage the dogs, not just cull them, and this Application Note has given several practical options for how to manage them. Hopefully you can now become a fully fledged and capable dog whisperer!

Sources / references

1. BCG Growth Share Matrix: http://www.bcg.com/expertise_impact/capabilities/strategy/corporate_strategy_portfolio_management/publicationdetails.aspx?id=tcm:12-162718&mid=tcm:12-162717

2. Relative market share is calculated in terms of revenues or market share. If using revenues, it's calculated by taking your own revenues and dividing them by the revenues of the largest player in your industry. If you use MS, the calculation is the same, taking your MS and dividing it by the MS of your largest competitor

3. http://en.wikipedia.org/wiki/Dog_Whisperer_with_Cesar_Millan

4. Nett Contribution Margin is the real profitability of an activity or a product after all the costs or investments are taken into account. It is effectively the operating profit for an activity divided by revenues from that activity. The resulting figure is a % figure, thus enabling you to compare the true profitability of one product, channel or activity compared to another

If you are interested in knowing more about Managing Dogs and Marketing generally, contact Marketing Generics at ianthomas@marketing-generics.com , or visit our website at http://www.marketing-generics.com