

# The Return of the Cash Cow

“The whole intellectual edifice...collapsed...because the data inputted into the risk management models generally covered only the past two decades, a period of euphoria.”

—Alan Greenspan, testifying before Congress on October 23, 2008

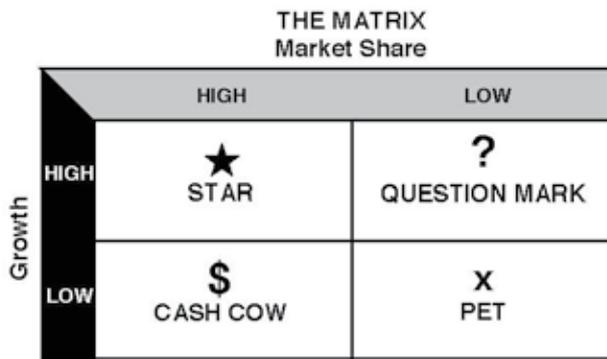
Which brings us to the cash cow.

It is nearly 40 years since The Boston Consulting Group first described its framework for thinking about how the various businesses in a corporate portfolio might be categorized and how those businesses related to each other and to the company as a whole.<sup>1</sup> Each quadrant in the matrix we developed was described in terms of competitive advantage and growth. Relative market share was used to describe competitive advantage. Unit volume increases were used to describe growth.

We also described the role and contribution of each quadrant. The names attached to each were evocative: the star, the question mark, the pet, and the cash cow. (*Pets* later came to be called *dogs*, which remains to this day a great way to describe a competitively disadvantaged business with no growth and no chance of changing that competitive position.) For a decade or more, this portfolio framework was very helpful in thinking about investments and corporate shape. Then it fell into disuse and became an academic footnote to the development of corporate strategy.

The lower-left quadrant of the matrix—the *cash cow*—was central to the framework. Cash cows are the strong competitive businesses that generate high levels of stable reported profits. Most important, they generate the cash flow of the company. That cash flow is more than the business can productively use—so much so, in fact, that the cash requires re-deployment outside the business. As a consequence, the cash cows pay for the dividends, for the debt repayments, and for future investments in growth elsewhere in the company.

1. “The Product Portfolio,” by Bruce D. Henderson, BCG’s founder (BCG Perspectives, 1970).



Today, as we reflect on Mr. Greenspan's statement—and hark back to what we wrote in 1970—it is an appropriate time to highlight once again the important role of the cash cow: the advantaged, lower-growth business that generates much more cash than it consumes. Perhaps dismissing cash cows as important only in the days when corporate earnings and dividends were subject to double taxation misses the point. Perhaps thinking of cash cows as businesses that do not belong in corporate portfolios was a feature of the “period of euphoria.”

It is a fact that as the world adapts to a new reality—marked by uncertainty and a lack of euphoria—public corporations are once again discovering that they need cash cows. So selling off these businesses to private equity investors—who pay high prices for them and leverage them to the limit—will no longer be the obvious answer. Indeed, it is likely that some of the cash cows that found their way into leveraged private holdings will return to public shareholdings.

It is also a fact that as companies search for a new equilibrium, they will find that ready credit and debt are a bit less available than before and that the costs and risks of that debt are higher. They may also find—as BCG articulated all those years ago—that generating the investment cash internally, from within the corporation rather than from borrowings, is more attractive and reliable. Competitively advantaged, lower-growth businesses with a large cash-generation capability may again be a crucial asset for a publicly traded corporation—on a par with the high-growth businesses that create future advantage and cash flow (the *stars* of the upper-left quadrant never fell from favor).

It may be that the cash cow has returned. Or perhaps it never left, but we were all so busy looking in other fields that we ignored the pasture where it grazed.

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