

Blue Ocean Strategy

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Red Oceans vs. Blue Oceans

Red Oceans represent all the industries in existence today. This is the known market space. In red oceans, industry boundaries are defined and accepted, and competitive rules of the game are known. Here companies try to outperform their rivals to grab greater market share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody.

Blue Oceans denote all the industries not in existence today. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created within red oceans by expanding existing industry boundaries. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set.

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation <u>or</u> low cost	Align the whole system of a firm's activities in pursuit of differentiation <u>and</u> low cost

Examples of Blue Oceans

Cirque de Soleil
Yellow Tail Wine
Southwest Airlines
NetJets
Curves

Blue Ocean Impacts

(108 companies studied)	Red Ocean	Blue Ocean
Business launches	86%	14%
Revenue impact	62%	38%
Profit impact	39%	61%

Value Innovation: The Cornerstone of Blue Ocean Strategy

- Blue oceans don't use competition as their benchmark, they use a different strategic logic called value innovation
- Value innovation is created when a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time costs are further reduced as scale economies kick in.
- Value innovation places equal emphasis on value and innovation
- Value innovation is a whole-system strategic approach.

Strategy Canvas

- A strategy canvas is both a diagnostic tool and an action framework for building a compelling blue ocean strategy
- It serves two purposes:
 - It captures the current state of play in the known market space and the key competitive factors
 - It then allows you to do a relative comparison of the offering level of each of these factors by each of the players in a particular industry.
- The value curve is the graphic depiction of a company's relative performance across its industry's factors of competition
- See strategy canvas and value curve examples attached

The Four Actions Framework – Eliminate, Reduce, Raise, Create

Eliminate – which of the factors that the industry takes for granted should be *eliminated*?

Reduce – which factors should be *reduced* well below the industry's standard?

Raise – which factors should be *raised* well above the industry's standard?

Create – which factors should be *created* that the industry has never offered?

When you apply the four actions framework to the strategy canvas of your industry, you get a revealing new look at old perceived truths.

Characteristics of a Good Strategy

1. The value curve has **focus**. The company does not diffuse its efforts across all the key factors of competition.
2. The shape of the value curve **diverges** from the other players. This is a result of not benchmarking competitors, but instead looking across alternatives.
3. The **tagline** of the strategic profile is clear and compelling.

Reading Value Curves

A company caught in the red ocean – the value curve converges with its competitors. Tend to try to outdo its competition on quality and/or cost.

Over-delivery without payback – the value curve indicates that the company delivers a high level across all factors. Does the company's market share and profitability reflect these investments?

An incoherent strategy – the value curve has a repeating high-low incoherent pattern. Its strategy is likely based on independent sub-strategies.

Strategic contradictions – value curve has areas where a company is offering a high level on one competing factor while ignoring other related factors e.g., a sophisticated website, but it runs slowly. Can also include inconsistencies in the level of offering and price.

Internally driven company – the value curve using terminology for its competing factors that have little or no meaning to buyers i.e., operational jargon. Can indicate whether a company has an inside-out strategic perspective or an outside-in perspective.

Reconstructing Market Boundaries

Red ocean companies tend to do the following:

- Define their industry similarly and focus on being the best in it
- Look at their industry through the lens of generally accepted strategic groups and strive to stand out in the strategic group they play in.
- Focus on the same buyer group, be it the purchaser, the user, or the influencer.
- Define the scope of products and services similarly
- Accept the industry's functional or emotional orientation.
- Focus on the same point in time – and often on current competitive threats – in formulating strategy

To break out of red oceans, companies must break out of the of the accepted boundaries that define how they compete. Instead of looking within these boundaries, they must systematically look across them in order to create blue oceans. The following six paths can provide blue ocean insights:

Path 1 – Look across alternative industries – consider the trade-offs buyers have to make between selecting products and services (NetJets)

Path 2 – Look across strategic groups within industries – consider the trade-offs buyers must make between strategic groups within an industry (Curves).

Path 3 – Look across the chain of buyers (purchasers, users, and influencers) – consider which buyer group the industry usually focuses on and assess if there is a strategic advantage in shifting your focus to another group (Novo Nordisk).

Path 4 – Look across complementary product and service offerings. Untapped value is often hidden in complementary products and services (NABI).

Path 5 – Look across functional or emotional appeal to buyers – consider the traditional appeal of an industry and whether a switch in orientation offers a blue ocean opportunity (Cemex).

Path 6 – Look across time – consider the value a market currently delivers and the value it might deliver in the future. Three principles are critical to assessing trends across time: they must be decisive to your business, they must be irreversible, and they must have a clear trajectory (iTunes).

Visualizing Strategy

1. Visual Awakening	2. Visual Exploration	3. Visual Strategy Fair	4. Visual Communication
<ul style="list-style-type: none"> ▪ Compare your business with your competitors' by drawing your "as is" strategy canvas. ▪ See where your strategy needs to change 	<ul style="list-style-type: none"> ▪ Go into the field to explore the six paths to creating a blue ocean strategy ▪ Observe the distinctive advantages of alternative products and services ▪ See which factors you should eliminate, create, or change 	<ul style="list-style-type: none"> ▪ Draw your "to be" strategy canvas based on the insights from field observations ▪ Get feedback on alternative strategy canvasses from customers, competitors' customers, and non-customers ▪ Use the feedback to build the best "to be" future strategy. 	<ul style="list-style-type: none"> ▪ Distribute your before-and-after strategic profiles on one page for easy comparison ▪ Support only those projects and operational moves that allow your company to close the gaps and actualize the new strategy.

Miscellaneous Notes

- The strategic move, not the company or industry should be the focus of analysis
- Strategic logic = value innovation