Overview of the blue ocean strategy

Business

Blue Ocean Strategy “ The biggest mistake anyone can make is to focus on the competitor.

You focus on the consumer and you will get it right. ” – K. B. Dadiseth Competing in the overcrowded market is no way to sustain high performance; the real opportunity is to create Blue Ocean of uncontested market space. Blue Ocean denote all industries not in existence today-the unknown market place, untainted by competition.

In Blue Ocean DEMAND is created rather than fought over. The Opportunity for growth is rapid, ample and more important profitable. The ways to create Blue Oceans are:) Companies can give rise to completely new industries Eg –Ebaycreated on-line industry ii) Creating from within a Red Ocean – when companies alter boundaries of an existing industry. Blue Ocean strategy, by contrast doing business, where there is no competitor.

It is of creating new, not segmenting the old one. Red Ocean Vs Blue Ocean Strategy [pic] Competitive Advantage: In all the strategic issues of a corporate culture, one thing that is inevitable is the “ Competitive Advantage” over their rivals. In competitive advantage, one is expected to out-perform rivals and capture a greater share of market place. The result of competitive advantage is that we ignore two important issue here, One is Find & Develop market where there is little or no competition. Creating Blue Oceans. Second one is to develop and protect Blue Oceans thus created.

Creating a Blue Ocean Strategy the necessities: • Is your company facing heightened competition from domestic and international rivals? • Does your sales representatives increasingly argue they need to offer deeper and deeper price discounts to make sales? • Do you find you need to advertise more to get noticed in the marketplace, yet the impact of each advertising dollar spent is falling? Is the company focused more on cost cutting, quality control, and brand management at the expense of growth, innovation, and brand creation? • Do you blame your slow growth on your market? • Do you see outsourcing to low cost companies or countries as a principal prerequisite to regain competitiveness? • Is it easier to get funding to match a strategic move made by your competition than it is to get internal funding to support a strategic move that allows you to break away from the competition? If you answered yes to any of the questions above, then blue ocean strategy is right for your organization. In the Blue Ocean Strategy methodology, the Four Actions Framework and ERRC grid assist managers in breaking the value-cost tradeoff by answering the following questions: • What factors can be eliminated that the industry has taken for granted? • What factors can be reduced well below the industry's standard? • What factors can be raised well above the industry's standard? • What factors can be created that the industry has never offered? Create a Blue Ocean Strategy in Four Steps : (Ref: BOS by Australian Casella Wines in U. S. Australian Wine Market) The steps they took to create a blue ocean strategy —steps that any company can take to get out of the red ocean of competition: 1) Eliminate factors that the industry takes for granted but adds no perceived value to customers. (Eg . Casella Wines recognized that most wineries touted aging and tannin qualities, two factors that intimidated customers.

Casella decided to focus their efforts on different qualities.) 2) Reduce factors well below the industry's standard to avoid the mistake of over delivering in order to beat the competition. Eg. To avoid customer confusion, Casella Wines limited their offerings to just one white wine and one red wine.) 3) Raise factors well above the industry's standard so your customer won't have to make compromises.

(Eg. Casella Wines raised the involvement of retailers with [yellow tail]'s success by giving retail employees Australian outback clothing that made [yellow tail} seem friendly instead of intimidating like other wines.) 4) Create new sources of value that the industry has never offered. (Eg. Casella wines created new customer experiences for wine drinking: easy drinking, ease of selection, and a sense of fun and adventure.) The six principles drive the successful formulation and execution of Blue Ocean Strategy.

These principles attenuate the six risks. | Principles | Risk Factors | | Formulation Principles | | | 1. Reconstruct market boundaries | Search risk | | 2. Focus on the big picture, not the numbers | Planning risk | | 3. Reach beyond existing demand | Scale risk | | 4.

Get the strategic sequence right | Business model risk | | Evaluation principles | | | 5. Overcome key organizational hurdles | Organizational risk | | 6. Build execution into strategy | Management risk | How blue is your The first four principles address Blue Ocean Strategy formulation: 1. Reconstruct market boundaries. This principle identifies the paths by which managers can systematically create uncontested market space across diverse industry domains, hence attenuating search risk.

It teaches companies how to make the competition irrelevant by looking across the six conventional boundaries of competition to open up commercially important blue oceans. The six paths focus on looking across a. Alternative industries b. Across strategic groups c. Across buyer groups d. Across complementary product and service offerings e.

Across the functional-emotional orientation of an industry, and f. Across time. 2. Focus on the big picture, not the numbers. Illustrates how to design a company's strategic planning process to go beyond incremental improvements to create value innovations. It presents an alternative to the existing strategic planning process, which is often criticized as a number-crunching exercise that keeps companies locked into making incremental improvements.

This principle tackles planning risk. Using a visualizing approach that drives managers to focus on the big picture rather than to be submerged in numbers and jargon, this principle proposes a four-step planning process whereby you can build a strategy that creates and captures blue ocean opportunities. 3. Reach beyond existing demand. To create the greatest market of new demand, managers must challenge the conventional practice of aiming for finer segmentation to better meet existing customer preferences. This practice often results in increasingly small target markets.

Instead, this principle shows how to aggregate demand, not by focusing on the differences that separate customers but by building on the powerful commonalities across noncustomers to maximize the size of the blue ocean being created and new demand being unlocked, hence minimizing scale risk.

4. Get the strategic sequence right. This principle describes a sequence which companies should follow to ensure that the business model they build will be able to produce and maintain profitable growth. When companies meet the sequence of utility, price, cost and adoption requirements, they address the business model risk and the blue ocean idea they created will be a commercially viable one. The remaining two principles address the execution risks of Blue Ocean Strategy.

5. Overcome key organizational hurdles. Tipping point leadership shows managers how to mobilize an organization to overcome the key organizational hurdles that block the implementation of a blue ocean strategy. This principle deals with organizational risk. It lays out how leaders and managers alike can surmount the cognitive, resource, motivational, and political hurdles in spite of limited time and resources in executing blue ocean strategy. 6.

Build execution into strategy. By integrating execution into strategy making, people are motivated to act on and execute a blue ocean strategy in a sustained way deep in an organization. This principle introduces, what Kim ; Mauborgne call, fair process. Because a blue ocean strategy perforce represents a departure from the status quo, fair process is required to facilitate both strategy making and execution by mobilizing people for the voluntary cooperation needed to execute blue ocean strategy. It deals with management risk associated with people’s attitudes and behaviors.

So, " In the middle of difficulty lies opportunity. ” – Albert Einstein [pic] What is Blue Ocean Strategy? • BOS is the result of a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years (1880-2000). • BOS is the simultaneous pursuit of differentiation and low cost. The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant. • While innovation has been seen as a random/experimental process where entrepreneurs and spin-offs are the primary drivers – as argued by Schumpeter and his followers – BOS offers systematic and reproducible methodologies and processes in pursuit of blue oceans by both new and existing firms.

• BOS frameworks and tools include: strategy canvas, value curve, four actions framework, six paths, buyer experience cycle, buyer utility map, and blue ocean idea index. These frameworks and tools are designed to be visual in order to not only effectively build the collective wisdom of the company but also allow for effective strategy execution through easy communication. • BOS covers both strategy formulation and strategy execution. • The three key conceptual building blocks of BOS are: value innovation, tipping point leadership, and fair process. • While competitive strategy is a structuralist theory of strategy where structure shapes strategy, BOS is a reconstructionist theory of strategy where strategy shapes structure.

As an integrated approach to strategy at the system level, BOS requires organizations to develop and align the three strategy propositions: value proposition, profit proposition and people proposition. [p[pic]Blue Ocean Strategic Moves Consider the British teakettle industry, which, despite its importance to British culture, had flat sales and shrinking profit margins until Philips Electronics, the Dutch consumer electronics company, came along with a teakettle that turned the red ocean blue. By thinking in terms of complementary products and services, Philips saw that the biggest issue the British had in brewing tea was not in the kettle itself but in the complementary product of water, which had to be boiled in the kettle. The issue was the lime scale found in tap water. The lime scale accumulated in kettles as the water was boiled, and later found its way into the freshly brewed tea. The phlegmatic British typically took a teaspoon and went fishing to capture the off-putting lime scale before drinking home-brewed tea.

To the kettle industry, the water issue was not its problem. It was the problem of another industry—the public water supply. By thinking in terms of solving the major pain points in customers' total solution, Philips saw the water problem as its opportunity. The result: Philips created a kettle having a mouth filter that effectively captured the lime scale as the water was poured. Lime scale would never again be found swimming in British homebrewed tea.

The industry was again kick-started on a strong growth trajectory as people began replacing their old kettles with the new filtered kettles. [p[pic]lue Ocean Strategic Moves Barnes ; Noble and Borders superstores in the U. S. redefined the scope of the services they offer. Instead of focusing solely on the moment a customer purchases a book – as the hundreds of bookstores were doing – they asked, what do customers do before, during, and after purchasing a book? They found that often before purchasing books, buyers want to sit and browse through several selections before making a choice, yet traditional bookstores did not offer a place to do so – in fact they discouraged the practice.

Then they observed that often after purchasing books or magazines, customers went to a coffee shop to spend some time alone reading. With these insights they transformed the product they sell from the book itself into the pleasure of reading and intellectual exploration, adding lounges, knowledgeable staff, and coffee bars to create an environment that celebrates reading and learning. In less than six years, B; N and Borders emerged as the two largest bookstore chains in the United States, with more than one thousand three hundred superstores between them. [p[pic]lue Ocean Strategic Moves QB House, the Japanese based company, created a blue ocean in the Japanese barbershop industry and is rapidly growing throughout Asia. At the heart of QB House's blue ocean strategy is a shift in the Asian barbershop industry from an emotional industry to a highly functional one. In Japan the time it takes to get a man's haircut hovers around one hour.

Why? A long process of activities is undertaken to make the haircutting experience a ritual. Numerous hot towels are applied, shoulders are rubbed and massaged, customers are served tea and coffee, and the barber follows a ritual in cutting hair, including special hair and skin treatments such as blow drying and shaving. The result is that the actual time spent cutting hair is a fraction of the total time. Moreover, these actions create a long queue for other potential customers. The price of this haircutting process is 3, 000 to 5, 000 yen ($27 to $45). QB House changed all that.

It recognized that many people, especially working professionals, do not wish to waste an hour on a haircut. So QB House stripped away the emotional service elements of hot towels, shoulder rubs, and tea and coffee. It also dramatically reduced special hair treatments and focused mainly on basic cuts. QB House then went one step further, eliminating the traditional time-consuming wash-and-dry practice by creating the “ air wash” system—an overhead hose that is pulled down to “ vacuum” every cut-off hair. This new system works much better and faster, without getting the customer’s head wet.

These changes reduced the haircutting time from one hour to ten minutes. Moreover, outside each shop is a traffic light system that indicates when a haircut slot is available. This removes waiting time uncertainty and eliminates the reservation desk. In this way, QB House was able to reduce the price of a haircut to 1, 000 yen ($9) versus the industry average of 3, 000 to 5, 000 yen ($27–$45) while raising the hourly revenue earned per barber nearly 50 percent, with lower staff costs and less required retail space per barber. QB House created this “ no-nonsense” haircutting service with improved hygiene. It introduced not only a sanitation facility set up for each chair but also a “ one-use” policy, where every customer is provided with a new set of towel and comb.

Blue Ocean Strategic MovesIn 1908, while America’s five hundred automakers built custom-made novelty automobiles, HenryFordintroduced the Model T. He called it the car ‘ for the great multitude, constructed of the best materials. ‘ Although it only came in one color (black) and one model, the Model T was reliable, durable, and easy to fix. And it was priced so that the majority of Americans could afford one. In 1908 the first Model T cost $850, half the price of existing automobiles.

In 1909 it dropped to $609, by 1924 it was down to $240. In comparison, the price of the horse driven carriage, the car's closest alternative at the time, was around $400. A 1909 sales brochure proclaimed, ' Watch the Ford Go By, High Priced Quality in a Low Priced Car. ' Ford's success was underpinned by a profitable business model. By keeping the cars highly standardized and offering limited options and interchangeable parts, Fords revolutionary assembly line replaced skilled craftsmen with ordinary unskilled laborers who worked one small task faster and more efficiently, cutting the labor hours by 60 percent.

With lower costs, Ford was able to charge a price that was accessible to the mass market. Sales of the Model T exploded. Ford's market share surged from 9 percent in 1908 to 60 percent in 1921, and by 1923, a majority of American households owned an automobile. Ford's Model T exploded the size of the automobile industry, creating a huge blue ocean. So great was the blue ocean Ford created that the Model T replaced the horse-drawn carriage as the primary means of transport in the United States. Blue Ocean Strategic MovesChallenging an industry's conventional wisdom about which buyer group to target can lead to the discovery of new blue ocean.

By looking across buyer groups, companies can gain new insights into how to redesign their value curves to focus on a previously overlooked set of buyer needs. Think of Novo Nordisk, the Danish insulin producer that created a blue ocean in the insulin industry. Insulin is used by diabetics to regulate the level of sugar in their blood. Historically, the insulin industry, like most of the pharmaceutical industry, focused its attention on the key influencers:

doctors. The importance of doctors in affecting the insulin purchasing decision of diabetics made doctors the target buyer group of the industry.

Accordingly, the industry geared its attention and efforts to produce purer insulin in response to doctors' quest for better medication. The issue was that innovations in purification technology had improved dramatically by the early 1980s. As long as the purity of insulin was the major parameter upon which companies competed, little progress could be made further in that direction. Novo Nordisk itself had already created the first " human mono-component" insulin that was a chemically exact copy of human insulin. Competitive convergence among the major players was rapidly occurring.

Novo Nordisk, however, saw that it could break away from the competition and create a blue ocean by shifting the industry's longstanding focus on doctors to the users—patients themselves. In focusing on patients, Novo Nordisk found that insulin, which was supplied to diabetes patients in vials, presented significant challenges in administering. Vials left the patient with the complex and unpleasant task of handling syringes, needles, and insulin, and of administering doses according to his or her needs. Needles and syringes also evoked unpleasant feelings of social stigmatism for patients. And patients did not want to fiddle with syringes and needles outside their homes, a frequent occurrence because many patients must inject insulin several times a day.

This led Novo Nordisk to the blue ocean opportunity of NovoPen, launched in 1985. NovoPen, the first user-friendly insulin delivery solution, was designed to remove the hassle and embarrassment of administering insulin. The

NovoPen resembled a fountain pen; it contained an insulin cartridge that allowed the patient to easily carry, in one self-contained unit, roughly a week's worth of insulin. The pen had an integrated click mechanism, making it possible for even blind patients to control the dosing and administer insulin. Patients could take the pen with them and inject insulin with ease and convenience without the embarrassing complexity of syringes and needles. To dominate the blue ocean it had unlocked, Novo Nordisk followed up by introducing, in 1989, NovoLet, a pre-filled disposable insulin injection pen with a dosing system that rovided users with even greater convenience and ease of use.

And in 1999 it brought out the Innovo, an integrated electronic memory and cartridge based delivery system. Innovo was designed to manage the delivery of insulin through built-in memory and to display the dose, the last dose, and the elapsed time—information that is critical for reducing risk and eliminating worries about missing a dose. Novo Nordisk's blue ocean strategy shifted the industry landscape and transformed the company from an insulin producer to a diabetes care company. NovoPen and the later delivery systems swept over the insulin market. Sales of insulin in pre-filled devices or pens now account for the dominant share in Europe and Japan, where patients are advised to take frequent injections of insulin every day.

Although Novo Nordisk itself has more than a 60 percent share in Europe and 80 percent in Japan, 70 percent of its total turnover comes from diabetes care, an offering that originated largely in the company's thinking in terms of users rather than influencers.