

Blue ocean strategy summary

[Science](#), [Geology](#)



Blue ocean strategy is a new concept but the idea has long existed. The renewed importance of this strategy is due to intense competition in the contemporary business environment with firms fiercely competing in highly saturated markets when value innovation can create new markets or opportunity to build new markets. The difference is that today, achieving value innovation involves greater risks and higher returns. Blue Ocean Strategy as a Management Concept The idea of the blue ocean strategy is to create market demand instead of fighting over an existing market.

By venturing into new markets, business firms face opportunities for expansion and growth as well as profitability. Applying the strategy means that business firms would do business in markets where no competitors exist. The blue ocean strategy has two important aspects. One is to locate and build markets where competition is nil or non-existent. The other is to exploit and defend this market. (Kim & Mauborgne, 2005) Differentiating a blue and red ocean provides better appreciation of the blue ocean strategy. Operating in a red ocean is the current trend. Business firms and industries are competing in existing markets.

There is a defined market and rules of competition exist. (Kim & Mauborgne, 2005) The strategy of business firms is to find ways of outperforming their competitors to gain a bigger share of the market, mostly by shifting demand towards the firms and away from other industry players. However, as market saturation sets in, the red ocean becomes overcrowded. As such, space for growth and opportunities for increasing profitability diminish. Product commoditization sets making the products of competitors largely

undifferentiated (Kim & Mauborgne, 2005). With fierce competition, the business environment becomes bloody.

Operating in a blue ocean is largely non-existent in today's business environment. The blue ocean is an undiscovered or ignored market. There are two ways of entering a blue ocean. One is to create it by developing an innovative or unique business concept, brand, product or service to establish a new market (Kim & Mauborgne, 2005). This effort could create an entirely new industry. The other is developing a blue ocean from inside a red ocean (Kim & Mauborgne, 2005). Doing this means stretching firm or industry boundaries such as by creating an alternative to traditional products or services and industries.

The newly created space is a blue ocean. The blue ocean strategy exacts certain organizational traits and attitudes or actions from managers. Business firms with an innovative culture have greater propensity towards the blue ocean strategy. Innovativeness is necessary to develop business ideas for a new market (Kim & Mauborgne, 2005). This could include investments in research and development (R&D) and building of innovative competencies of the workforce. However, innovativeness is not limited to R&D. This extends to the goals identified by the company, the drivers of human resource development, and leadership direction.

Managers and firm leaders engaging in tipping point leadership are more likely to succeed in utilizing the blue ocean strategy. This involves the implementation of organizational change without major disruptions. This also involves precise action to achieve results such as using resources at a time when these hold the greatest power. This form of leadership has four

processes. First is letting frontline employees confront the situation of external customers. Second is translating these situations into new values that imply resource re-allocation.

Third is highlighting the key organizational influencers through peer reporting. These key people would tip the business towards the desired change. Fourth is establishment of alliances with external parties and removal of any external barriers affecting the firm. (Kim & Mauborgne, 2005) Implementing the Blue Ocean Strategy The blue ocean strategy works by breaking the traditional trade-off between value and cost (Kim & Mauborgne, 2005). In a red ocean, value creation is offset by incurring greater cost while decreasing cost means limited value creation.

This means selecting either cost leadership or differentiation as a marketing strategy. In creating a blue ocean, business firms pursue value creation and cost minimization at the same time (Kim & Mauborgne, 2005) by integrating cost leadership and differentiation to achieve an encompassing strategy. An example is Cirque du Soleil. In the red ocean, the focus of circuses was differentiation. More unique shows and circus features was the measure of competitiveness. However, value creation through differentiation meant costs. Circuses found themselves with increasing cost structures and decreasing profit margin.

Cirque created a blue ocean by integrating high value and low cost. Cirque observed the market and found that customers place value on three things, the clowns, the acrobatic acts, and the circus tent. The company did away with all other cost factors and focused on enhancing the three sources of value for consumers. (Kim & Mauborgne, 2005) To integrate high value and

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low cost effectively, there should be alignment between the value, determined by functionality or utility and price offering, and low cost (Kim & Mauborgne, 2005). Achieving alignment involves a shift in perspective by the organization.

This means deviating from the view that the organization only reacts or responds to economic forces and assuming the perspective of organizational capability to reconstruct the boundaries of markets and industries (Kim & Mauborgne, 2005). In the case of Cirque, it challenged the boundaries of the traditional circus. It merged the concept of the circus with the theater to provide features of a circus valued by consumers in the comfort and convenience of a theater (Kim & Mauborgne, 2005). The effect is the creation of a significant high value for consumers and reduction in costs.

Another example is the iPod by Apple. It stretched the boundaries of portable music, computers, and the Internet by building a compact portable music gadget that stores music via memory chip similar to computers and enables music download via the Internet. In applying the blue ocean strategy, making the right strategic move at the right time (Kim & Mauborgne, 2005) is also as important as integrating value differentiation and low cost structure. This requires business firms to understand the drivers of a good strategic move so these can create blue oceans continuously.

Companies competent in implementing strategic moves at the right time could also exploit opportunities to create multiple blue oceans. The blue ocean strategy is susceptible to sustainable effects, particularly brand building and reinforcement over time. An example is the Model T of Ford that popularized automobile use. During the 1920's ownership of the Ford

reflected social status. During this time, industrialization was picking up and people had the capability to purchase cars. Ford created a blue ocean by building the market for automobiles.

Now, even with the introduction of new car models, Ford remains a known American automobile brand. The walkman marketed by Sony in 1979 is another example. This revolutionized how people listen to music by creating a compact radio. During this time, the music revolution was at its peak. This also created a blue ocean. Dell's assembly of computers according to customer features and home delivery created a blue ocean. During this time, there was a huge demand for computers because of the popularity of the Internet. However, customers are having problems with computer features and/or price.

Dell's timing was impeccable in providing these needs to create a blue ocean for itself. Benefits and Downsides of the Blue Ocean Strategy The blue ocean strategy is not an absolute solution to competition in a red ocean. Implementation of the blue ocean strategy does not automatically result in the creation of a blue ocean for the firm. This means that while the strategy offers various benefits, there are also downsides that require consideration. Many firms attempt to create a blue ocean. While some succeeded, a significant number failed. The benefits of implementing the blue ocean strategy cut across all areas of the organization.

One benefit is enhanced profitability (Kim & Mauborgne, 2005) by widening the difference between the value amenable to customers and the cost incurred by the firm. Another benefit is the achievement of brand strength (Kim & Mauborgne, 2005). By operating in a blue ocean, with competitors

neutralized, brand recognition among consumers is likely to be high. The last benefit is the establishment of a sustainable market (Kim & Mauborgne, 2005). Although, competitors can follow the strategy of firms creating a blue ocean, establishing defensive actions could lengthen the period before a successful entry of a competitor.

This leaves the firm with time to exploit first mover advantage and establish a large market. The downsides of the strategy encompass the various risk areas (Kim & Mauborgne, 2005) such as resistance from managers and/or frontline employees, resource availability, timing of the strategy, and market response. Creating a market is not as easy and the firms that succeeded in creating a blue ocean experienced failures. Apple experienced huge success with the iPod but failed in creating a market for the Newton OS. Conclusion The blue ocean strategy provides a promising actionable plan for firms swimming in cramped red oceans.

The strategy requires firms to keenly observe the market, be innovative, take risks, and work with precision. Not all firms dare to challenge boundaries. Use of the strategy is more common in technology-based industries. However, the pressures of the red ocean given the difficulties in the contemporary competitive environment could force other industries to consider the alternative of creating blue oceans. Reference Kim, W. C. , & Mauborgne, R. (2005). Blue ocean strategy: How to create uncontested market space and make the competition irrelevant. Boston, MA: Harvard Business School Publishing Corporation.