Blue ocean strategy analysis

Business

While traditional approaches to corporate strategy, such as those presented by Porter, Oster, and Duggan emphasize victory through direct competition in existing markets, blue ocean strategy stresses the avoidance of conflict as key to long term commercial prosperity. By creating new demand rather than battling for existing market space, a firm can position itself for rapid growth, profitability, and dominant brand equity. While certain organizational traits ease the implementation of blue ocean strategy, exceptional resources, industry characteristics, or new technologies are not required. Rather, “ blue ocean firms” differ primarily through their rejection of traditional performance metrics, methods of innovation, market boundaries, and value / cost tradeoffs. Examples of such firms exist in financial services, retail, and sports entertainment.

The first step in creating a blue ocean strategy is to redefine market boundaries, allowing a break from the competition. Rather than defining an industry by specific service or product offerings, firms should consider what characteristics of a given service or product are core to its value proposition. Differentiating between core value drivers across industries and strategic groups puts a strategist in a mindset free from traditional market definitions. Once core drivers have been identified, a firm can consider creating an offering that reduces or eliminates non-core features, and raises or creates factors that are of significant value to customers. Similarly, this approach emphasizes the pursuit of product differentiation and low cost production, which is essential to creating blue oceans.

Setting one’s firm apart from established competitors will also force a firm to become internally driven, removing comparative benchmarking, which leads to red oceans. Ultimately, this will lead to “ leaps in value” for both the firm and its customers. In order to continually execute blue ocean strategies, a firm must be flexible and comfortable operating in an ever-changing environment. Rigidity in training, marketing, pricing, and operations must be avoided. Additionally, managers will likely be continually confronted with resource imitations and political hurdles. Managing employee morale and buy-in may also be difficult.

In order to effectively implement a “ blue ocean culture”, executives should implement various initiatives, such as redistributing resources to “ hot spots” and promoting “ fish bowl management”. Human capital should also aim to hire and develop employees who are comfortable with innovation and challenging the status quo. Contrary to common perception, creating new markets doesn’t require exceptional technological innovation or industry economics. Charles Schwab redefined the brokerage market and the financial industry at large by combining low commissions with convenient phone and web based trading. Amazoncreated a new market and changed the economics of retail by combining the traits of wide inventory selection, low price, and convenient service.

Similarly, Dana White created the multi-billion dollar market for mixed martial arts by combining the rules, promotion, and regulation of professional boxing with the relatively non-existent market for martial arts tournaments. Stemming from its origin in military strategy, the majority of approaches to corporate strategy emphasize direct competition with rivals over existing market space. The constant flow of firms into such red oceans leads to industries characterized by average financial performance, slow growth, and often poor competitive positions for late entrants. Rather than following such firms, strategists should identify the core value drivers of offerings across industries, and work to develop cost advantaged methods of satisfying central customer desires through new markets.