Assessing the strategy of blue ocean commerce essay

The market set is divided into two categories which are called oceans: Blue Oceans and red oceans. Red oceans are the known market space as it exists today, with all the various industries. Competitive rules are defined and barriers are clear and accepted. Competition exists among players to gain a bigger share; the more players are on the market, the fewer prospects for profit and growth is existent. " Cutthroat competition turns the red ocean bloody."

Blue Oceans on the other hand represent the opposite – they are the unknown market space with industries that are not existent today. Demand is not created by competitive rivalry, because the rules of the game are yet to be set. There is substantial opportunity for profitable growth because of the deep potential of market space that is not yet explored.[2]

To be successful in economic performance most companies are laying the focus on competitive strategies, plenty of enthusiasm is spend on analyzing and outperforming rivals. Using the vocabulary of the authors – their focus is on red ocean strategies. In the future this will not be enough to survive; in addition to swim in a red ocean companies need to create Blue Oceans. [3]The following image illustrates the major differences between red and Blue Oceans.

Image 1: Comparison of Red Ocean with Blue Ocean strategy[4]

Value Innovation

The basis of the Blue Ocean Strategy is called Value Innovation. Competition is made irrelevant by creating value for both buyers and the company. Buyer value is created by the benefit and price that the company offers to the consumer; value to the company is created from the price and its cost structure – therefore only if those two variables are aligned the strategy works. The innovation of a product/ service must create value for the market and eliminate features that are not valued by the current market. New and uncontested market space is made accessible by simultaneously differentiate and reducing costs. This strategy is contrary to common management strategies which propose that companies can either create value to customers at higher costs or create reasonable value at lower costs.[5]According to the authors " Value Innovation is a strategy that embraces the entire system of a company's activities."[6]Image 2 illustrates Value Innovation.

Image 2: Value Innovation[7]

Analytical tools and framework

There are three basic tools that will help companies to build a Blue Ocean Strategy.

The strategy canvas

The strategy canvas is a tool that helps to build a Blue Ocean Strategy. It highlights the current situation in the known market space and shows the offering level that buyers receive across several key competing factors. By illustrating these factors in a simple matrix a graphic description in form of a value curve is visible. This value curve shows a company's relative performance within its industry's factors of competition.[8]By illustrating the current situation of an industry the strategic focus can be shifted away from current competition to alternatives and noncustomers, a redefinition of the industry can be constructed.[9]Image 3 illustrates a strategy canvas with an example of an Airline.

Image 3: Strategy Canvas[10]

The four actions framework

This tool uses four key questions to lead to a new value curve:

“ Which of the factors that the industry takes for granted should be eliminated?

Which factors should be reduced well below the industry’s standard?

Which factors should be raised well above the industry’s standard?

Which factors should be created that the industry has never offered?”[11]

The first two questions give an insight in how to reduce the cost structure in comparison to other players in the industry. Question 3 and 4 give insight into how to lift buyer value and create new demand.[12]

The eliminate-reduce-raise-create-grid

This tool is supplementary to the four actions framework. It gives companies the possibility to act on all four questions answered before to create new value. The four factors of what to eliminate, reduce, raise and create are put in a matrix and by that scrutinize every factor the industry competes on.[13]

Formulating Blue Oceans strategies

Reconstruct market boundaries

In order to break away from the competition the first principle is to reconstruct market boundaries. The challenge is to find possibilities of Blue Ocean opportunities. During performing research across various industry sectors the authors found a basic approach to remaking market boundaries, the six path framework.[14]This framework is applicable in all kinds of industries and all are based on looking at data from a new perspective. These are the six paths:

“ Path 1: Look across alternative industries

Path 2: Look across strategic groups within industries

Path 3: Look across the chain of buyers

Path 4: Look across complimentary product and service offerings

Path 5: Look across functional or emotional appeal to buyers

Path 6: Look across time”[15]

By analyzing each of the single paths companies will be able to get an insight into how to open up Blue Oceans by rebuilding market realities and leave behind conventional boundaries of competition.[16]

Focus on the big pictures, not the numbers

The approach to the strategic planning process is based on drawing a strategy canvas, as it is explained in the section of analytical tools and framework of this document. A structured process for developing a strategy canvas has been developed, which is called the Visualizing Strategy.[17]As the name implies, this process uses visual stimulation with the purpose to unlock people's creativity. The main focus here is laid on the big picture rather than on defined numbers and operational details.[18]

Reach beyond existing demand

To achieve a maximization of the size of the Blue Ocean you are creating the focus should be laid on two things: The analysis of non-customers and finding out strong similarities of what buyers' value.[19]This is a reversed approach to common strategies, where the focus is on customers and customer differences.

The three tiers of non customers

The challenge is to find out who the non-customers are and get a deep understanding of them. The authors describe three tiers of non-customers that eventually can be transformed into customers. The first tier of non-customers is closest to your market and would stay and increase their frequency of purchases if a leap in value would be offered to them. These non-customers also referred to as " soon-to-be".[20]The second tier of non-customers is further away from your market and aware of offerings in it but has consciously voted against them. These non-customers are also referred to as " refusing".[21]The third tier of non-customers is farthest from your market and has never considered its offerings as an option. These non customers are also referred to as " unexplored".[22]

By analyzing each of the three tiers an understanding of the non-customers can be developed to attract them into your market and expand your Blue Ocean.[23]

Get the strategic sequence right

The fourth principle of Blue Ocean Strategy focuses on the challenge to build a sustainable business model that will make profit on your Blue Ocean idea. The idea here is to use sequences and key criteria within a sequence to reduce business model risk.[24]Each sequence has a key question that has to be asked. If answered with “ no” the sequence has to be reshaped. If answered with “ yes” one can move on to the next sequence. The four sequences are:

“ Buyer utility: Is there exceptional buyer utility in your business idea?

Price: Is your price easy accessible to the mass of buyers?

Cost: Can you attain your cost target to profit at your strategic price?

Adoption: What are the adoption hurdles in actualizing your business idea? Are you addressing them up front?”[25]

With this sequencing as a starting point further analyzing of strategic pricing, target costing and finally the profit model is developed.[26]

Executing Blue Ocean Strategy

Overcome key organizational hurdles

The challenge to execute the strategy of Blue Oceans is significant, since there are changes made from the conventional way of doing things. The authors present four common hurdles in the execution: The cognitive-, political-, motivational- and resource hurdle. Dealing with those challenges in form of hurdles with tipping point leadership is the key to make Blue Ocean Strategy happen in action.[27]

Build execution into strategy

The sixth principle of the Blue Ocean Strategy is about building commitment and trust into the strategy from the start. The focus is laid on a fair process as a key variable that distinguishes successful Blue Ocean Strategy moves from those that failed.[28]

Case analysis

In this section, we intend to describe and analize two cases of innovative companies (Virgin Galactic and Petrobras) based on the Blue Ocean theory.

Virgin Galactic

Description of Virgin Galactic

Virgin Galactic is a company which belongs to the Virgin Group. This group was founded 1970 by Sir Richard Branson and is one of the leading brand venture capital organizations of the world. The group has created more than 300 branded companies in a variety of different industries, employs around 50, 000 people and generated revenue of approx. US$ 18 billion in the year 2009.[29]Based on them the success of this group derives from “ the power of the Virgin name, Richard Branson’s personal reputation; our unrivalled network of friends, contacts and partners; the Virgin management style; the way talent is empowered to flourish within the group.”[30]

The Virgin Galactic company has the aim of " making private space travel available to everyone by creating the world's first commercial spaceline."[31]Virgin Galactic will create, own and operate spaceships, the SpaceShipTwo. To achieve this goal the Virgin Group uses it experiences in aviation, adventure and luxury travel combining with the technology developed by Burt Rutan. The company was founded in the year 2004 and is located in New Mexico.

The SpaceShipOne became the first private spaceship with high altitude-flights in the year 2004. The successor of this technology, the SpaceShipTwo, has seats for two pilots and six passengers.

Every passenger has to pay US$200. 000 with a deposit ofUS$20, 000. At the moment 340 passengers have registered for this service.[32]So far 450 people have ever been to space, the goal of Virgin Galactic is to take 1, 000 people to space within the first year of commercial operation.[33]The first commercial flight shall start in the year 2012.[34]

The mothership of the SpaceShipTwo, the WhiteKnightTwo, will take the SpaceShipTwo to a height of about 16km and then release it. At that point the rockets of the SpaceShipTwo will boost and bring it to a height of about 100km.[35]There it will fly for about five minutes in which the passengers have a magnificent view at the earth and can enjoy weightlessness. Afterwards the space ship will decrease the altitude and land at its base in New Texas. The first flying tests of the WhiteKnightTwo were executed successfully and the SpaceShipTwo completed the first manned glide flight in October 2010.[36]

At current stage the company " Blue Origin" which is based close to Seattle is also working on a private space ship.[37]

Analysis of Virgin Galactic

The analysis will start by discussing the Value Innovation of Virgin Galactic.

So far tourism in space was available for seven specific persons who paid in average US$ 25 million for staying about 14 days at the ISS.[38]The clear buyer benefit of Virgin Galactic is to make this tourism available for nearly everybody who can afford paying the US$200, 000 which is less than 1% of the price so far. Moreover, these space trips also add value to Virgin Galactic as it will earn US$200, 000 for every passenger having already 340 on the waiting list. Virgin Galactic clearly succeeded in creating a Value Innovation.

In the following the strategy canvas for Virgin Galactic will be developed to see the value curve in comparison to its competitor the stay at the ISS.[39]

As principal factors the following was defined: price, safety, request for personal attributes and easy preparation for the trip.[40]As seen in image one the Virgin Galactic company enables a much more comfortable and convenient stay as the previous tourism on the ISS. This is also based on the lower requirements a person has to fulfill to be able to execute this tourism and the lower time-investment.

Image 4: Strategy Canvas of Virgin Galactic[41]

Considering the four action framework Virgin Galactic reduced the costs by eliminated the factors that a stay in space has to be combined with a long duration and cost-intensive stay at the ISS and with cost-intensive rocket starts. Furthermore, they created the factor that nearly everybody would be able (from physical requirements[42]) to go to space with a low time-investment and a comparably low amount of money. They increased the convenience of space-tourisms to a very high extent.

In conclusion, they managed to dramatically reduce the costs while increasing the perceived value of the passengers which are interested in some minutes of weightlessness and seeing the earth from the space.

Virgin Galactic also concentrated on the so called non-customers as the total number of customers was " seven" so far. They identified the implicit wish of most people to go to space once.

Organizational hurdles

The cognitive hurdle cannot be applied as Virgin Galactic did not start in a red ocean but directly entered the Blue Ocean with the start of the company. The hurdle resources will probably be not a big burden as the first flying tests went successful, customers on the waiting list already paid close to US$7 million as deposit and Sheikh Mansour invested US$280 million in this business.[43]Furthermore, the Virgin Group and the state of New Mexico are supporting this business. The motivation of the employees and managers is high which is also pushed by Richard Branson personal interest in the success of this company.[44]The political hurdle could be implemented by making new laws for required safety standards. But already in 2004 the US congress passed a law which allows passengers to fly into space with the understanding that these vehicles might not be as safe as regular airplanes.

Furthermore, the governor of New Mexico supports this company[45]and the Virgin group has a high political power.

In conclusion all the hurdles were passed successfully by Virgin Gallactic.

Build execution into strategy

From the beginning Richard Branson declared the vision of this company to make private space travel

year 2004.

Conclusion

In final conclusion, Virgin Galactic entered a Blue Ocean from the beginning. It decreased the costs and made space travel available to everyone by creating the world’s first commercial spaceline. Virgin Galactic works towards this clear vision with having the first commercial flights very likely eight years after its foundation in the previous tourism in space and increased the value of it by leveraging especially the convenience for the customers. Moreover, it went beyond known customer space by offering this service for less than 1% of the costs so far. It managed the organizational hurdles and created a strong vision from the start. Although other companies as e. g. Blue Origin try to create space tourisms this ocean is deep blue so far for Virgin Galactic.

Petrobras

Description of Petrobras

Petrobras was established on October 3, 1953 by the president of Brazil, Getúlio Vargas, to undertake oil sector activities in the country.

In the early 1970's, the members of the Organization of the Oil Exporting Countries (OPEC) rose the international prices substantially, triggering the so-called Oil Shock. As a result, the market was troubled and marked by uncertainty.

In order to overcome the difficulties, the Brazilian government adopted economic measures in order to overcome the supply of oil. Some examples of these measures were the encouragement for use of ethanol as automotive fuel and prioritizing offshore exploration and production. With the measures, the government intended to reduce the dependency on importing a very expensive product and to create an industry to create jobs and exports. These tasks where given to Petróleo Brasileiro (Petrobras) for being executed.[46]

Producing ethanol for powering the nation

1975 marks the beginning of the production of Ethanol by Petrobras in Brazil aiming to drive the large-scale substitution of oil – based vehicular fuels for biofuels. Substituting gasoline for ethanol (produced from sugarcane and manioc) led to 10 million fewer gasoline – fuel cars running in Brazil, reducing the country's dependence on imported oil.[47]

Today Brazil is recognized as the world leader in the production of ethanol for industrial purposes, based on the most advanced agricultural technology for sugarcane cultivation in the world and to the amount of arable land available in the country. In 2010, the Brazilian ethanol produced by Petrobras was designated as one of the most advanced biofuels due to the 61% reduction of green house gas emissions.[48]

Pioneering in deep waters

In 1984 the company discovered one of the biggest reserve in deep water ever registered in the world. The Albacora field was discovered; proving the existence of giant fields nestled at great depth in Brazil. This marked the beginning in deepwater exploration for the company.

By 1986 the company, which until then purchased technology, was faced with the challenge of producing oil at a depth of 400 meters. After surveying the market and finding out there was no technology available for this depth, the company decided to invest in developing new technologies. This was an extremely ambitious project, since, at the time, Petrobras had been exploring at depths of 150 meters and had plans for 1000 meters by 1990.

This project turned out to be a great success and the company is currently the global leader in this area. By 2005, Petrobras sets the record of drilling depth with a sloped that reached 6915 meters beyond the bottom of the sea.[49]

Petrobras achieves self – sufficiency

In 2006 Brazil became a self-sufficient country in oil and gas production. With an average of 1. 9 million barrels per day, Brazil went on to exporting more oil and oil products than it imported. It was like a dream came true, only possible because of the technological efforts and dedication of the employees. Since this point, Petrobras is the most profitable company in the Brazilian economy, being recognized as the eighth biggest oil exploring company in the world.[50]

In the upcoming years, Petrobras intends to invest in using and developing new renewable energy sources. The portfolio of new projects includes wind, solar and water energy sources and fuel hydrogen. The intention is to reduce even more the dependency on oil, delivering the necessary energy sources to Brazil in order to sustain the intended growth of the upcoming years.

Analysis of Petrobas

Petrobras success can be summed up in one word and that word is innovation. This company faced the challenge of turning one of the biggest countries in the Americas from a big consumer of imported oil to self sufficient in oil and gas production. This strategy was based on focusing on the big picture (producing its own oil and become an exporter of petroleum) rather than finding a temporary solution for importing oil in the 70's, when the biggest crisis of oil prices occurred.

Value Innovation

They broke away from the competition by reconstructing market boundaries. For each challenge they faced, they were able to create and develop the necessary technology that didn't exist in the market, becoming a leader in deepwater oil drilling. They reached beyond their existing demand by having more oil available than they need for their own consumption.

They also created value to the country by reducing the amount of CO2 in 61% emitted by cars and public transportation thanks to the introduction to ethanol and biodiesel. Brazil became a more efficient country thanks to the use of their natural resources for powering the nation.

By mixing ethanol with oil, Petrobras has managed to increase the value for customers by creating a reduction of oil prices[51]and by guaranteeing the oil supply they reduced the dependency on foreign companies.

Strategy canvas

We have decided to explain the differences between the two largest producers of Ethanol in the world, Brazil and U. S. A. As we have mentioned before, Petrobras is the only company responsible for the production and distribution of ethanol in Brazil.

Image 5: Stragegy Canvas Petrobas[52]

As we can see in the figure xx, Brazil is the second largest producer of Ethanol in the world (6, 500 million gallons in 2009[53]) behind the United States (10, 900 million gallons in 2009[54]). But, the total area used by Brazil for cultivating their sugar cane (3. 6 million hectares[55]by 2006) is far less than the land used by the United States (10 million hectares[56]in 2006). This means that the productivity per hectare is superior in Brazil than in the United States.

Another important thing to mention is that thanks to the mixture of Ethanol and oil in Brazil, green house gas reduction has been reduced considerably (89%[57]), increasing the value the company gives to their customers.

Organizational hurdles

The hurdles are based on the theory mentioned in the first section of this project.

During the oil crisis of the 70's, the company faced the challenge of completely changing the paradigm of production. In the cognitive hurdle, we can say that the employees understood completely the need of the company and were able to transform the company. In the second hurdle resources, we can say that the company successfully understood that they needed to invest a great amount of resources in R&D in order to increase the efficiency of the production of ethanol and also to raise the drilling depth for oil extraction.

Motivating employees on a thirty-year-old project has been an enormous challenge for the company. They have managed to succeed by achieving small goals each year, increasing the level of satisfaction and trust towards the leadership of the company. Finally, the political hurdle was managed correctly due to the implications of the transformation project, involving the government, the management and employees of the company.

Build execution into strategy

As we mentioned before, the strategy was clear from the beginning: Reduce the dependency of oil and turn the country into a self-sufficient country. The facts speak for themselves, the whole company aligned in order to achieve the goal and it is an example on how to implement the Blue Ocean strategy.

Conclusion

So, why can the strategy of Petrobras be considered a Blue Ocean strategy? First of all they focused on creating value for the country by reducing the amount of oil imported and gaining self-sufficiency. As a consequence, they were able to reduce considerably the prices of gasoline in Brazil and the dependency of external factors to develop the country. They achieved this goal by innovating in ways to reduce consumption of oil (alternative fuels like ethanol and biodiesel) and exploit the potential the country had in its coasts, regardless the technology available at the times.

In the last twenty years, Petrobras has become a key player in the success of Brazil to achieve development. The upcoming years for this company look really bright, thanks to the investment they are doing on other alternative means to produce electricity (water, solar and wind), improve the efficiency of alternative fuels and by creating the necessary technology for increasing the depth for deepwater drilling for oil.

Discussion

In the following the degree of novelty of the Blue Ocean strategy and the general criticism about this theory will be discussed.

Analyzing the degree of novelty in the Blue Ocean Strategy

The book " The Blue Ocean Strategy" was first published in 2005 and according to the two authors based on more than 15 years of research in various dimensions of this business topic and 150 successful strategic moves spanning.[58]

As we read above the Blue Ocean Strategy aims at creating new demand in an uncontested market space. This is done by reducing the factors of competition and offering new value to t