Red ocean to blue ocean on the creation

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In global market today, it can be supposed that there are two typical kinds of oceans: read oceans and blue oceans. Of two sorts of market, red oceans are defined as a known space for all existent industries nowadays. On the contrary, blue oceans are regarded as an unknown area for industries which do not exist (W chan Kim & Renee Mauborgne, 2005).

As a result, red oceans present all existing rules related to business competition and industrial regulations. This market defines and determines the boundaries for all games and rules. In this market, companies strive to compete with their competitors and rivals in order to gain better benefit and dominate more market share of current demand. Therefore, red oceans provide for space for enterprises to focus on their competition for decades. However, the space is limited while competitive battles are becoming increasingly fierce. There are more and more participants wanting to invest in the same products. This turns products into casual commodities. Although customer demand increases from time to time, the increasing speed cannot keep up with industry growth. As a result, red oceans turn out to be bloody place due to strong competition to gain profit and market share. Or in other words, the more severe competition is, the bloodier the market becomes (Borengaser and Jenkins, 2008)

Iphone is a typical example of red ocean case. In 2008, it was regarded that Iphone would defeat DS (a game). However, it turned out that Apple did not concentrate on this aspect of business. One of the reasons for this neglect was for blue oceans. DS did take advantage of blue ocean strategy. It focused on innovative values that were unseen by its rivals. Particularly, DS provided an interface that enabled players to enjoy " mega-hits" including

Brain Age. This helped DS dominate PSP (another gaming). In fact, Iphone still did have greater interface and modern screen touched. But these technologies did not create new value in blue oceans. At this time, due to lack of innovative values for gaming, Iphone was still stuck in red oceans which curbed the Apples' growth opportunity. At that time, while DS attacked forcefully gaming technologies, Iphone still focused on existing 3G without deeply researching DS's first approach. As a result, DS surpassed Iphone for its first approach in gaming technology while Iphone was struggling in red oceans of smartphones (SeanMalstrom, 2008).

On the contrary to red oceans, blue oceans provide a more open and comfortable space for competition. This sort of market presents new opportunities for enterprises to try in new industries and create new demand for profit. Blue oceans are considered virtually wider area that has not been explored deeply and vastly. Unlike red oceans, this market does not contain existing rules of competition. They are still waiting for a creation of the whole rule system. Based on this characteristic, companies in blue oceans have not yet in a close relationship. There are two cases of blue oceans creation. The first one involves creating blue oceans beyond the boundaries of current industry. But this case accounts for little possibility. The second one refers to creating blue oceans inside the space of active industry (W chan Kim & Renee Mauborgne, 2005)

These types of universe market generate two types of strategies respectively. They are red ocean strategy and blue ocean strategy. This strategy contains a set of rules for competition and there are a number of opportunities for business growth applying red ocean strategy. Red ocean

strategy supports the interchanging and replacement of products and services. However, this strategy often leads to a situation in which the excess of supply occurs, making the market become too crowded for competitors (2012 International Conference on Traffic and Transportation Engineering).

In contrast, blue ocean strategy creates new demand within red ocean market. This strategy aims at predicting excess supplying over demanding and crowded industry within red oceans. From such assumption, this strategy creates new innovation value for products and services or for new industry in order to benefit both customers and businessmen (2012 International Conference on Traffic and Transportation Engineering).

Laundry soaps and detergents were two main divisions in the wash market in India in the mid Seventies. The laundry soap was strongly fragmented. It was the price of oil that decided the quality and price of this product. The second category, the detergent, produced mainly bars and powder and this market was developing very strongly at this time. Also, Unilever’s branch in India was playing the dominant role in these markets. After that, there was a small businessman who started his own detergent business in 1969. He priced his washing powder just one third of the price provided by Unilever. Moreover, his detergent, called Nirma, had the quality 25% lower than that of existing detergent product. Furthermore, that Indian businessman also built a strong distribution system in the Western area where he located his business. At that time, due to demand on mass production, Unilever’s Indian base had to use “ blowing tower”, which cost it a lot of capital. In contrast, producing smaller scale of detergent powder enabled Nirma’s to save a remarkable

capital. Apart from low starting capital, he also benefited lower material cost due to substantial dependence on “ soda ash”, one of the main ingredients formulating washing powder. Nirma brand truly became popular because its price and quality satisfied low-income Indian residents. By the mid of 1980s the Indian entrepreneur reached a market share of 30%. Base on such success of washing powder, he continued to develop detergent bars. However, Unilever’s Indian based branch did not accept Nirma’s surpass. The subsidiary revealed a product called Wheel which had the same price and other costs as Nirma. Evidently, it removed blowing tower technology in the production of Wheel in order to be cost-effective. Because Wheel was the follower of Nirma, it had to do a lot of marketing strategies and conducted numerous communicative methods with potential customers. Consequently, Indian customers started to be aware of Wheel brand in particular and detergent powder in general. Before the competition between Wheel and Nirma took place, a huge number of Indian customers used laundry soaps instead of detergent products. In short, it was the battle between Unilever’s subsidiary and Nirma’s owner that led to the reveal of a new detergent product that did not use blowing tower technology and high awareness among Indian customers who initially used laundry soap. The historical case of Nirma-Wheel which presented an innovative value and dramatic change in customers’ usage was considered the most typical example of blue ocean strategy in India (Siddhartha Roy and Tata Group, 2010).

The impacts of a shift from Red Ocean to Blue Ocean on the creation and practice of a business strategy

It is not by chance that companies transfer from Red Ocean to Blue Ocean strategy. There are some driving reasons that stimulate the creation of blue oceans. The first element involves the invention of advanced technologies that have substantially developed productivity and enabled manufacturers to release new products and services that are totally unprecedented. However, due to a variety of innovative products in the same industry, supply power exceeds customer demand. This trend must be taken into great consideration especially in the globalization. In fact, products and services have become globally exchanges, which nearly eliminate traditional economic barriers among countries. As a result, the impact of monopoly is on the verge of disappearing. Such situation indicates that Red Ocean has become overcrowded and so bloody that managers need to be more concerned with Blue Ocean as escape for current strategy and management. Once again, the pressure of Red Ocean is one of the driving forces that make companies to focus on Blue Ocean strategy if they want to survive in the future (W. Chan Kim and Rene´e Mauborgne, 2005).

There have been a lot of examples on the creation of Blue Ocean in the Automobile and Computer Industries (W. Chan Kim & Renee Mouborgne, 2004).

The Ford Model T was released in 1908. It is the first car which was produced in mass. A lot of Americans could afford to buy the car at reasonable price.

General Motors created a blue ocean in 1924 by designing car with fashionable and fun style. It aimed at providing every car for every purse and purpose

Japanese auto manufacturers created a blue ocean in the 1970s with reliable cars which were famous for fuel efficient

Chrysler Minivan in 1984 created a Blue Ocean by unveiling a new class of automobile that was a minivan which could be used as a car but had the passenger seats of a van.

CTR created a Blue Ocean in 1914 when modifying the business machine by simplifying the tab machines. CTR later called it IBM.

Apple created a Blue Ocean in 1978 when it released the personal computer. Although it was not the first personal computer, it was very easy for users.

In 1992, The Compaq Servers created a Blue Ocean by unveiling its Pro Signia server. The server was only at one third of a micro computer's price and supported buyers with capability of saving file and printing

Dell created a new buying method and delivery system that was considered one of the most popular Blue Oceans in the mid-1990.

Table 1: W. Chan Kim & Renee Mouborgne, 2004, Havard Business Review, available from http://www. sunbridgelegacy. com/pdf/Blue%20Ocean %20Strategy. pdf [3. 15. 2013]

In the past, Blue Ocean Strategy was considered more risky than Red Ocean strategy. However, researchers have proved that this strategy is more likely

to reduce risks than the Red one. It does not mean that applying Blue Ocean strategy can eliminate all risks. There is no strategy that can have such ability whatever Blue or Ocean one. According to W. Chan Kim and Rene´e Mauborgne, there are exactly six risks related to this strategy including search, plan, scope, business paradigm, organization, and management risk. Of those risks, search, plan, scope, and business paradigm involve the process of constituting a strategy while organization and management risks occur around the process of implementing the strategy. Relevant to these risks, the author proposed six solutions to minimize the risks. For the search risk, it is advisable for companies to ‘ reconstruct market boundaries’. This means companies need to carefully examine the possibilities and harvest blue ocean chance in advance. In order to curb plan risk, ‘ focusing on the big picture’ is proposed to prevent enterprises from wasting money and time executing red ocean strategies. The third solution, ‘ reach beyond existing demand’ expands customer demand for companies by offering them new values. Getting the exact strategic sequence helps the companies to reduce business risk by supporting them to build a reasonable model ensuring the Blue Ocean strategy will generate good profit. The fifth solution provides companies tips to overcome other organizations in the process of implementing Blue Ocean strategy while the last solution helps people deal with management risks by motivating their best abilities. On the way to creating Blue Ocean strategy, these solutions, or six principles, support enterprises to maximize their opportunities and mitigate potential risks.

In W. Chan Kim and Rene´e Mauborgne’s research, they considered Blue Ocean strategy a ‘ dynamic progress’. One typical example for this

statement is the Body Shop in the 1980s. At that time, the shop was running its business very successfully. Instead of competing face-to-face with famous cosmetics brands, it focused on developing a beauty market with natural products. Evidently, this unique idea helped the Body Shop become a dominator in this type of market. The shop earned huge profits from beauty products made from natural ingredients. However, it does not last long that Body Shop had to compete with new participants in its field. Despite fierce competition, Body Shop is still keeping its idea of this product. The problem is that the shop has not recognized the reason for its strategic move. In details, the shop had generated a brilliant idea on its business. At that time, Body Shop was the only player in natural product. As a result, it can achieve a large market share and a lot of customers without struggling with any rival. By chance, Body Shop successfully created a Blue Ocean. However, when other shops realize the potential of this market, they jump into making natural beauty products and become Body Shop’s competitors. Consequently, the market that Body Shop has penetrated into becomes a Red Ocean. So, the lesson for any company is that once creating a Blue Ocean, the company must swim as far as possible in the ocean, leaving the imitators behind at a great distance. It is important to prolong the first mover advantage and protect the surrounding area. Moreover, once other imitators have succeeded in reaching the Blue Ocean, it obviously turns out to be a Red Ocean. Therefore, whenever realizing the signal of competition, a Blue Ocean company needs to create other blue ocean in order to be another first mover. In short, Blue Ocean strategy stimulates an on-going-process including creating, protecting, and reaching other Blue Ocean. This confirms the author’s assumption that it is a dynamic strategy.

According to research by IBM executive, Blue Oceans helps companies gain significant profit in the future. Blue Oceans are thought to have great impact on profit opportunities for a lot of enterprises and companies. The following charts indicate such potentials of profit for any organization applying Blue Ocean strategy.

Chart 1: Blue Oceans have great impact on an organization’s profit opportunity (Source: Kim and Maubourgne, 2005, available from http://www-935. ibm. com/services/sg/igs/pdf/vn-strategy-canv. pdf [3. 15. 2013])

Apart from impacting on an organization’s future profit, Blue Oceans also supports that organization to create different strategies and achieve sustaining business plans. In order to provide such support, Blue Oceans have certain principles and assumptions. For key principles, Blue Oceans do not follow constructed boundaries for competition in Red Oceans. Instead, they expand the boundaries for new competitive elements. Moreover, Blue Oceans even create new visions for organizations’ strategies in order to go beyond existing products and services, to constitute and increase new demand (IBM Corporation, 2005).

Particularly, based on Blue Oceans’ principles, companies can generate strategies that help them avoid face-to-face competition as they usually suffer in Red Oceans. For this aspect, Blue Ocean strategy will look for new customer throughout different industries, or target diverse groups in a specific industry. In automobiles industry, there are certain established rules that prevent enterprises to change. For example, the segmentation of automobile market is hardly changeable. There are some fixed segments

including luxury market and economy market. These segments are in close relationship with a system of price and production performance that nearly no automotive enterprise attempts to change. However, such situations create opportunity for a Blue Ocean Strategy. In fact, Blue Oceans go in an opposite direction with the Red Ocean. For traditional market, organizations can either choose to provide great innovation value at high prices or sell products at lower price for lower quality. Blue Oceans, in contrast, aims at implementing both cases. Moreover, Blue Ocean strategy intends to instruct a company to eliminate or reduce factors that industry in Red Oceans takes for granted. Also, Blue Ocean strategy assists an organization to raise innovation value or encourage factors to create new potential values. In short, Blue Ocean strategy supports a company to eliminate or reduce certain value offerings that have been taken for granted. For this aspect, consumer choice is partly prevented. On the other hand, Blue Ocean strategy helps a company to create or enhance other innovation value.

The following example aims at illustrating this impact of Blue Ocean strategy more clearly. The example focuses on Nano, an Indian medium car and Ace, an Indian small truck. Both these two types of automobile account for substantial scale in car market. Particularly, 200, 000 Nano cars were booked from April 9th to April 25th while about 100, 000 Ace trucks had been sold out during two years since 2005. Both these brands achieved certain competitive advantage by creating unique values for their products and providing reasonable prices.

Brand

Target new customers

Value innovation

Nano (small car)

Transfer its focus from customers using two-wheel vehicles to customers using four-wheel vehicles

This changing focus provides Nano an opportunity because India's four-wheel market is averagely 1. 2M

The vehicle provides space for four adults to sit comfortably

The car is equipped the highest fuel efficiency of 23. 6 kilometers per liter

The company's cost for constructing this model is about $2, 500

The new model concentrates on passenger safety, comfortable, and petrol cost effective

The company varies customers' choice by revealing three colors

The car's emission is curbed at the lowest level

Ace (small truck)

The vehicle was provided at the price of $4, 500. This price enables three-wheeler customers to use four-wheeler vehicles for safety and comfort

This is potential

The company combines the design for truck and for car in order to provide a comfortable space for the driver cabin

This model of Ace is lighter one ton than the old model. It aims at supporting drivers in crowded and narrow streets in urban areas

This vehicle is among few trucks which have twin cylinder engine

The vehicle has maximum speed at 65km/hour, less effective than other vehicles

Table 2: New target market and nature of value innovation of Nano and Ace (Source: Siddhartha Roy and Tata Group, 2010, Emerging Market and Blue Ocean Strategy, available from http://www. tmtctata. com/Emerging_Markets_and_Blue_Ocean_Strategy. pdf [3. 15. 2013])

Through these value innovations Nano and Ace obviously defeat followers and imitators in automobile market. These brands are supported by mass of media for their first approach. Such popularity of brand prevents other automobile makers to imitate. Furthermore, the creation of Ace's mini truck inspires the invention of two other vehicles, Winger and Magic. That puts the company into another page of creating value innovation.

Conclusion

In conclusion, this paper has dealt with definitions and characteristics of Red Oceans and Blue Oceans. Moreover, the impacts of the shift from Red Oceans to Blue Oceans have been clarified. In fact, Blue Ocean strategy cannot be avoided in modern business. When Red Ocean becomes too crowded, the need of creating a Blue Ocean strategy will increase. Blue

Ocean is a dynamic process that helps companies to create, and capture their own business. Moreover, Blue Ocean supports companies to generate new Blue Ocean when new competitors come into their Blue Ocean. This strategy on one hand minimizes and eliminates old value offerings while on the other hand creates and increases new value innovation. Once a company has succeeded in creating a Blue Ocean, it needs to keeps a distance as far as possible from competitors. However, if their field is invaded, they should find other Blue Ocean to invest in. Blue Ocean maintains a company’s competitive advantage, helps it gain substantial market share and customers, and accounts for a disproportion contribution to future profit.