

The application of blue ocean strategy



**ASSIGN
BUSTER**

Our team in the Blue Ocean Strategy Simulation was Anuket. At the end of all rounds of the simulation, our company health was as follows.

Share Price Index was at 842

We owned a 14% market share with Red Box and 15% market share with Blue Box

The Revenue generated at the end of 2015 were \$888M, Blue box contributing with \$455M

Earnings before Interests and Taxes were \$26M for blue box and \$11M for red box

In my report I will analyse Blue Round 1 and try to throw light on some of the decisions taken and their implications on the company health.

Blue Round 1

After successfully completing the Red rounds, we entered the blue round with a stock price of 783. In this round our objective was:

Visual Awakening: To understand the Value Curves for all the competitors and then understand the industries overall Value Curve.

The Blue Ocean manual gave a Visual Exploration guide, which had detailed market requirements. It was required to read and analyse the outcome of the Visual Exploration conducted.

On the basis of the analysis done, To-Be ERRC grids and their associated Strategy Canvases had to be developed.

<https://assignbuster.com/the-application-of-blue-ocean-strategy/>

To create a set of competing factors that would create the Blue Ocean product offering

To divide the budget amongst three divisions – Existing Red Ocean product, newly created Blue Ocean product and Corporate Projects.

Make all other decisions to launch the Blue Ocean product in the market – price, production volume, marketing investment and the extent of geographical expansion

In this round we decided to form two strategy canvases – one for Path 3 and another for Path 5.

Path 3 looked at the chain of users and buyers and tried to address their needs. Our Blue Box had a console power of 3. Console power was a measure of the sophistication of the game and it was on a scale of 2 to 10. Path 3 segment did not want high sophistication in the game and thus we kept it at a low value. Moderate graphics was what was needed by this segment and hence our offering was at a value of 96. Although in terms of controller sophistication, the segment wanted high values and thus we kept it at 18 on a scale of 20.

Apart from the usual parameters, in order to create a blue ocean we created some unique offerings for the segment. The buyers wanted higher length and complexity of the games and we created this offering. Apart from this we also offered Rechargeable Batteries, the ability to leave messages for others in the house and the ability to control gaming habits. These

requirements came out of our analysis in the visual exploration and thus we incorporated them.

Path 5 looked across the “ Functional and Emotional Appeal for Buyers”. Our Blue Box in this category tried to cater to the needs of the segment of buyers who looked at functional and emotional aspect of the console more than anything else. The console power was kept at 8, as the buyers wanted higher control over the game sophistication. Moreover they also wanted a higher degree of graphic sophistication and hence it was made to a level of 224 out of 288. The segment did not want any multimedia add on and hence we eliminated it. Simplicity and ease of starting of the game was high priority while they gave very high importance to the design of the console. Both these factor were incorporated in our offerings.

Once our strategic canvas was ready, we decided to launch in one of the two paths. We chose path 3 as that was the largest market segment. In this path, price had to be moderately priced in order to achieve maximum market share. We priced our offering at \$344 and we decided to produce 2400 units. We also decided to allocate \$16150 towards marketing expenses and \$60891 towards geographical expansion.

Impact of the decisions taken

Our Blue Ocean offering was designed to attract only one of the noncustomer types revealed by the Visual Exploration: those identified in Path 3. We could have generated more sales by identifying common Value Factors which created value for other types of noncustomers and including those in our offering. However the noncustomer type discovered during the <https://assignbuster.com/the-application-of-blue-ocean-strategy/>

Visual Exploration of Path 3 found our product offering appealing enough to purchase. Our pricing was not correct and the buyers found the product price too high. The price was not low enough to attract the mass of non customers. Our Blue Ocean offering included the Value Factors “ Controller Sophistication and Rechargeable batteries”. These factors have appealed to a large proportion of our noncustomers. However, our product exceeded the expectations of the market. As a result, we lost some margin without creating additional sales. Our Blue Ocean offering also included the Value Factors “ Console Power (Sophistication of Gaming Experience), Graphics Sophistication and Ability to control gaming habits”. These factors had their mass appeal amongst large proportion of noncustomer but our product failed to meet market expectations for these factors. As a result, we could not generate higher sales volume. We also included the Value Factors “ Multimedia Add-ons and Ability to leave messages for others in the house” in our blue ocean offering. These factors appealed to some non customers, and provided low additional value to the vast majority of noncustomers. As a result, we lost some margin without creating any additional sales. While the Value Factor “ Length and Complexity of Games” did not provide any value to noncustomers and we lost margin without creating any additional sales. Overall we had created too many factors and exceeded the market expectations while designing the Blue Ocean offering, and we did not eliminate enough factors that did not appeal to the non customers. Thus we lost margin and our net profit was low.

In the next round we decided to modify our offering and appeal to a large proportion of the non customer base. However due to some problem in the

software, our path 3 did not appear in the next round, and we had to make a re-launch our product only in the path 5 as this was the only path available. Furthermore we could not create any more paths later in the rounds also and thus we ended the game at a stock price far below than what we had expected.

Applying Blue Ocean Strategy to Perfetti

Perfetti currently operates in the Red Ocean with all its offering in the confectionary market. The current confectionary industry is highly cluttered and many players compete against Perfetti. In order to make the competition irrelevant, we first need to study the competitors.

Perfetti has multiple products under different brand names. Each of these products faces competition from many different players. The inner most circle shows all the brands of Perfetti while the circle just after it shows the direct competitors to the Perfetti brands. While the outermost circle shows the area of indirect competition. For example in the Breath freshener category, Perfetti's Chloromint face direct completion from Mintofresh and Halls and indirect competition from Pan Masala and Pass Pass.

Once the competitors were identified I tried to look at an opportunity which had no competition. The medicinal market looked attractive. A number of parents want their kids to have some of the ayurvedic herbs based medicines, while the kids do not want to have it as the taste of these medicinal herbs is very bad. It is this market space that we want to create and give value offerings.

Bramhi is a medicinal herb that is very good for increasing memory power and concentration, much needed by students. This herb when mixed with honey shows drastic improvement in memory power. Perfetti has the capability to produce fruit filled candies. These candies have the centre filled with fruit juices like mango or guava. Instead of the fruit juice being filled, the new candies will have the juices of the bramhi leaves. The taste will be masked by using honey and other ingredients. This product will appeal to a large majority of the consumers. Sugar content is something which keeps non consumers away and hence this can be eliminated.

According to the ERRC model Perfetti's new offering can be framed as follows

Eliminate:

Use of Sugar in candies

Reduce

The chocolate and caramel content

Raise

The health factor

Create

New herb based toffees

The new Healthy Perfetti toffees will be packaged in a new environment friendly packaging which would be consistent with the idea of health living.

As a test run, the product could be launched in the months leading to a major exam like the boards etc in one or two major cities and then the market reaction studied in those cities. Once the company is convinced that the product has enough market potential, the product could have a nationwide launch.

This product would create a Blue Ocean for Perfetti and give it an early mover advantage that is critical for sustained higher profit margins.

Learning from Blue Ocean Strategy Simulation

The critical factor in becoming profitable is learning what your consumers value and what they don't value. Raise or create such factor that the consumers value, while eliminate and reduce the factors that consumers don't value. It is imperative that every organisation needs to create service innovations. Creating service innovations means:

Focus on results

Establishing a culture

Choosing profitable segments

Choosing attitude over aptitude when hiring people and provide training and coaching

Focus on what creates value for customers

Lastly Blue Ocean opens up a whole new playing field for organisation. It is like playing football without any competitors, and your customers are your team mates. The customers will help you take the ball nearer to the goal,

<https://assignbuster.com/the-application-of-blue-ocean-strategy/>

and you will have to hit the ball into the goal post, as there is no competitor, the ball will enter the goal post every single time. The ball here is profit margin and the goal is the higher target set by the organisation.