The corner stone of blue ocean strategy marketing essay

To sustain in the market and show high performance formula is not competition in overcrowded industries. The mantra is to create “ blue oceans” of untapped market space. There are two distinct kinds of space, red and blue oceans, in a business environment. Red ocean represents all the industries that exist and perform by the way of competing with the rivalries. Here the industry boundaries are already defined and followed, the competing rules of the game are known. Companies try to surpass their rivals to clutch a larger share of product or service demand. As the market space gets packed, scenario for economic profits and productivity growth are reduced. Products become commodities or niche, and the cutthroat competition turns the ocean red as blood.

Blue oceans denote a new concept, not the ones that exist today – it is the unknown market space, untainted by competition. Here, demand is created rather than grabbing the existing one. There is ample opportunity for growth, both in terms of profit and the speed at which the profit is obtained; competition is immaterial because the rules of the game are not yet framed. Blue Ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.

The logic behind blue ocean strategy contrasts with the traditional model that focuses on competing in an already existing market space. The management is not able to differentiate between red and blue ocean strategy because of the difficulty they face in breaking themselves from the competition.

Companies have got huge capacities to develop new industries and re-design the existing ones, a fact that is exhibited in the deep changes that are necessary in the way industries are classified. Blue ocean strategy has been the pioneer in the standardisation, continuity and replacement of the segmentation of the industries.

To win in the future, companies' mustn't challenge with each other. The only way to overcome the competition is to stop trying to be in the competition. The business atmosphere in which most business strategy and management has been based on is changing, evolving or disappearing. Some of this change is due to technology. Other reasons might be culture, globalization, speed of new information, or the role of demographics in the workplace.

There are 3 characteristics that contribute to a Good Strategy. 1) It is focused; it is not diffused across all potential aspects of the market. 2) The shape of the value curve diverges from any potential competitors. 3) It has a compelling tagline.

STRATEGIES INVOLVED

VALUE INNOVATION

The corner-stone of Blue Ocean Strategy is ' Value Innovation'. Instead of focussing on thrashing the competition, the spotlight should be on making it erroneous by creating a bound in the value for buyers and creating uncontested market space.

A blue ocean is created when a company achieves value innovation that creates value simultaneously for both the buyer and the company.

The innovation (in product, service, or delivery) must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. Value can be identified in the conventional market segmentation and offering

value and lower cost. Value innovation only occurs when organizations have aligned innovation with utility, price and costs. The market must be ready to accept the product, meaning that timing is a major check. The focus is on both differentiation and low cost to provide value to both customers and the organization.

Value innovation can be created in a way that the company's actions are favorable for both the company, through reduced cost structure and to its customers through value proposition. Cost savings are made by disseminating and bringing down the factors an industry competes on. In case of buyer's value, it is increased by rising and creating elements the existing industries has not offered in the past. Additive costs are reduced further, as scale of economies kick in due to the increase in volumes of sale.

THE STRATEGY CANVAS

The strategy canvas acts as an indicative and an action framework for structuring a blue ocean strategy. Strategy Canvas seizes the current state in the market by detailing the factors players compete on in product, service and delivery. This enables the company to gain insight into the areas where the competitors are currently investing, the factors on which the industry is presently contending on its deliverables, and the end products the customers receive from the existing offerings from the competitors' market.

The four actions framework offers a technique that smashes the trade-off between differentiating the products and reduction in cost, thus creating a new value curve. It attends to the four key queries of the issues that an industry takes for granted and issues that need to be eliminated; factors that needs to be reduced below industry standards; factors that needs to be raised above industry standards; and what to offer that the industry has not offered before.

The eliminate-reduce-raise-create grid encourages the companies to act on all four areas to form a new value curve. By motivating the companies to fill the grid with eliminating, reducing, raising, and creating actions the grid provides four immediate benefits: it urges them to concurrently adopt differentiation in the products and adopting reduction of costs; identifies companies who are only creating thereby raising costs; makes it easier for the management to understand and comply; and that drives the companies to scrutinize every factor the industry competes on.

This is against the Michael Porter’s Five Force Strategy which implies that an organization should dominate the market in all sectors to attain competitive advantage and gain excellence. Blue Ocean Strategy embeds the concept of slowing down profit attrition with an efficient cut throat strategy for an already existing market, and through the profit made out of it they can increase the financial resources available for new innovative investments and thus their chances of finding an unexploited market with plenty of potential consumers.

Figure 1: Four Actions Framework

REDUCE

Which factors should be reduced well below industry standards?

ELIMINATE

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

CREATE

Which factors should be created that the industry has never offered?

A NEW VALUE CURVE

RAISE

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

SEQUENCE OF BLUE OCEAN STRATEGY

The essential concept of blue ocean strategy is to “ get the strategic sequence right.” This sequence washes out and authenticates blue ocean ideas. This reduces the business model risk. In this model, prospective blue ocean ideas must pass through a chain of buyers’ utility, price, cost, and adoption. At each step there are only two options: a “ yes”, in which case the idea may move on to the next step, or “ no” where the company can either park the idea or rethink it until a yes.

Figure 2 : Sequence of Blue Ocean Strategy

BUYER UTILITY

Is there exceptional buyer utility in your business idea?

A Commercially Viable Blue Ocean Idea

ADOPTION

What are the adoption hurdles in actualizing your business idea? Are you addressing them up front?

COST

Can you attain your target to profit at your strategic price?

PRICE

Is your price easily accessible to the mass of buyers?

LG ELECTRONICS – A CASE STUDY

LG ELECTRONICS, wanted to implement Blue Ocean Management to make competition irrelevant. Their strategy was to redefine industry boundaries by focusing more on high end products and entering new segments of emerging markets like China, India and Middle East and Africa and thus create uncontested market space.

They shifted their focus from increase in volume to increase in value through high-end product innovation in all of its four product divisions: Mobile Communications, Digital Appliance, Digital Display and Digital Media. Each domain of the company planned to establish high end value added products.

In the mobile phone division, LG Chocolate and the Black Label series are LG’s Blue Ocean operational strategy in action, which are expected to generate around 30 per cent of sales and 50 per cent of profits by 2010. LG's ' Chocolate' became best selling product through intensifying research capabilities and high-end design which was in the midterm strategies for the company.

The Digital Display Company was the leading producer of digital TVs in LCD and Plasma modules. In the increasingly competitive digital TV market, LG Electronics had cutting-edge products through innovative products. Digital Display division was formed in joint venture with Philips to produce LCD TV and plasma TV in 2001. The digital display division had earned $ 2. 77 billion which constituted 28% of their global sales in the year 2005. Their business goal being becoming the dominant leader in digital TV and plasma TV, the division had undergone breakthrough innovations and products under the blue ocean strategy.

The Digital Appliance, another SBU of LG Electronics, was a leader and pioneer in home appliance products, like air conditioner, refrigerator, vacuum cleaner, washing machine, microwave oven, and other home appliances. They had developed the world's inbuilt TV, refrigerator, ARTCOOL air conditioners, steam washing machines and many more core technologies for home appliance parts and products. Building on successful home appliance operations, the company was also expanding their business scope to have a greater emphasis on new product sectors such as commercial air conditioners, built-in kitchen appliances and home networks.

The digital media segment, with their global sales of $5. 7 billion generated synergy with its audio and video (home theatre, DVD recorder), digital storage (super multi DVD rewriter) and personal computer (desktop and notebook PC) divisions65. Through continued technology innovation, the company had developed the world's first Satellite DMB notebook66 in 2005. In particular, the company was actively penetrating multimedia product markets with mobile technologies, such as PDAs and MP3 players, and with composite products, such as super-multi drives and super-multi DVD recorders. They were also focusing on its Car Infotainment business.