Blue ocean strategy w. chan kim and renee mauborgne

Blue Ocean Strategy, a book by W. Chan Kim and Renee Mauborgne, develops and explains how to beat the competition by reaching beyond it into new unexplored markets. The authors use the metaphor of the blue ocean as a direct contrast to red oceans. Red oceans are the battling grounds for typical market competition where firms fight for an already defined and stagnate market. Blue oceans, on the other hand, describe a strategy that breaks away from the blood red ocean into clear, uncharted oceans, or new markets (see Appendix A for the details of the differences). The authors studied the business launches of 108 companies, more than 150 strategic moves from 1880 to 2000, and more than 30 industries to uncover the key traits and practices of what they call " Blue Ocean Strategy."

Kicking off the book with four analytical tools that promise to help firms find and exploit untapped markets, the authors offer a step by step approach, comprised of six principles, on how to break away from the competition of red oceans and execute a blue ocean strategy. They show how and why a blue ocean strategy leads to a market where competition is – for a time – obsolete. Each principle is explained and supported by real world examples from such companies as Ford, Cirque du Soleil, Dell Computers, Casella Wines, and even the New York City Police Department. The chart, figure 1, illustrates both the concept of blue ocean strategies, and the organization of the book, Blue Ocean Strategies.

The first part of the book explains what Kim and Mauborgne call the cornerstone of Blue Ocean Strategies: value innovation. Value innovation is basically a leap in value that makes current competition irrelevant. Whereas value alone merely extends the value of an existing market, and innovation alone can often “ shoot beyond what buyers are ready to accept and pay for” (p. 13), value innovation anchors innovation with utility, price, and cost by breaking the typical value-cost trade-off.

The authors offer several analytical tools to help assess a company’s location on the ocean – be that red or blue – and to help them move toward the blue ocean. The first of such tools is the strategy canvas, which captures the current market competition, especially the factors that the industry competes and invests in. Further details of the strategy canvas and how it works can be found in Appendix B. The Four Actions Framework and the Eliminate-Reduce-Raise-Create Grid (appendix C), are used together to uncover ways to reduce cost while increasing value. While the Four Actions Framework detects and organizes the factors into one of four categories – eliminate, reduce, raise, and create, the Grid itself outlines the actions planned to eliminate, reduce, raise, and create. The fourth tool is merely three questions to ensure that the plan is truly a blue ocean strategy. These questions are, does the plan have a focus, does the new value curve (appendix A) from the Strategy canvas diverge from the market competition, and finally, is there a compelling tagline to describe the new plan?

The authors then take the reader through a six step approach to developing and executing blue ocean strategies. The first step is to Reconstruct the Market Boundaries, which involves analyzing the current market in such a way that the blue oceans become apparent. Offering six different paths of approach, this step attempts to deal with the ability to “ successfully identify, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities” (p. 47). The paths are directly in conflict with traditional business strategies (appendix D). Following at least one of these paths literally expands the boundaries of the defined markets and uncovers new solutions for a firm to create.

The second step is to reframe the strategy by using the strategy canvas to focus on the big picture. The authors claim that traditionally managers " spend the majority of strategic thinking time filling in boxes and running numbers instead of thinking outside the box and developing a clear picture of how to break from the competition" (p. 82). The strategy canvas, according to the book, unlocks creativity, reveals blue oceans, and, because of the visuals, creates an easy to understand and communicate strategy.

The third principle, or step, is to maximize the new market potential by reaching beyond current market demands and focusing on the potential of the three tiers of non-customers. The first tier non-customers is described as those customers who aren't committed to the product or service offered and are looking for substitutes or alternatives. The second tier customers are labeled, " refusing non-customers" (p. 107), who either find the product/service unacceptable or cannot afford it. Third tier non-customers are " unexplored" (p. 109) because their needs are assumed to belong to other markets. Focusing on the commonalities of non-customers to customers will supposedly help firms establish insight into possible blue oceans.

Step four is to build the business model, or Get the Strategic Sequence Right. Here the authors explore ways to ensure that the blue ocean actually pays off. There are four ways to test the new strategy to see if it is viable and each way must be done in order, starting with exceptional utility, price, cost, and ending with adoption. To test the exceptional utility of a product/service, the authors recommend using the Buyer Utility Map (p. 121) which breaks down customer experience into six steps from purchase to disposal, and then breaks down utility. Setting the price involves studying not only the prices of products/services within the industry, but also the industry alternatives and choosing either low or high depending on how easily a competitor can imitate the new product/service. Rather than allowing cost to dictate price, the book suggests using price to dictate a target cost because it will supposedly prevent competitors from imitating – and beating the firm in it's new blue coean. This equation also helps firms assess costly factors and operations, and may even lead to cost saving innovations changing the pricing model from selling to renting as Blockbuster did with videotapes (p. 135). The fourth step is reducing the fear and resistance change inevitably brings employees, partners and the general public. This step, labeled " adoption" deals with educating these groups so that they are on board and supportive.

Overcoming Key Organization Hurdles is the fifth principle or step to achieving a blue ocean strategy, but it is the first step to actually executing it. The authors deal with common organizational hurdles – resistance from employees, the lack of resources, the lack of motivation, and the internal and external political resistance – by exploiting the concept of " tipping point leadership". Tipping point leadership focuses on " identifying and then leveraging the factors of disproportionate influence in an organization"

(151). The authors describe several techniques to accomplish this (see appendix F for more details).

The final step to establishing a blue ocean strategy is to execute it within the firm using fair processes – or complete transparency – to ensure an environment of trust and commitment exists. The book claims that only this kind of environment facilitates the trust, cooperation, and motivation for any strategy, but especially a blue ocean strategy, to succeed. Without it even the best planned strategies purportedly can and will fail.

Critical Analysis

By focusing on the study of strategic moves rather than specific companies or industries, Blue Ocean Strategy claims to have unveiled the key to success for companies across industries. While the book does fulfill its promise to describe how and why blue ocean strategies work, it fails to create a complete and viable plan. Where and why it fails has not been widely recognized possibly because the concept of the work is so appealing and the truth of its descriptions and examples are so evident. And yet, the strategy skips or oversimplifies many practical steps and makes unsupported assumptions. A closer looks exposes how the several steps are really the same step reworded to look like a complete strategic plan when it may just be a useful tool toward a strategy and nothing more. When whittled down to its real essentials, the entire “ strategy” depends heavily on innovative minds, strong personalities, extreme market intuition and knowledge, and may even just describe a natural accruing business phenomenon.

First and foremost, the book does provide an excellent study of the patterns and trends of successful strategic moves. Using highly apparent examples such Ford's Model T, Blockbuster's choice to rent rather than sell, Apple's creation of the PC, and more, the authors clearly illustrate that success comes from the discoveries and exploitation of blue ocean, or untapped, markets. The analysis of what made these innovations successful is also intriguing. In this way, the idea of seeking out blue oceans is helpful.

However, following the steps and using the tools will most likely not open new markets if a firm lacks the innovation, the funds to support research and development, the marketing prowess to bring it to the public effectively, and the leader personality needed for strategic execution. These important and practical steps are virtually ignored in the book. Although creating a compelling tagline is helpful, even necessary, to successful marketing, it's hardly the only marketing step necessary to produce results. The book, however, does make it seem as though this is true. As one detractor quipped,

…when you begin to execute on a blue ocean opportunity, there is one thing you know for sure: Your competitors are coming. However, an effective marketing strategy helps you increase your market share and defend it from your competitors. Without a marketing strategy, sure, you will create a blue ocean, but while you're out there, all by yourself in that open water, you won't be the market leader; you'll be chum. (Pollard, , 2005).

Of course, the book does deal with such threats as competition to blue ocean strategies. The authors cover the threat of competitive imitators, who steal ideas, by discussing competitive pricing, quick execution to create a buzz and market loyalty, and patents. Plus, the very nature of the blue ocean often immobilizes potential competitors. The example given in the book is The Body Shop (Kim & Mauborgne, 2005 p. 186). But Pallard's main complaint is the book's failure to mention the need for real and thorough marketing, a valid and worthy objection. For example, none of the innovations described would have reached the new markets without effective marketing. The mere taglines alone for Cirque du Soleil would not have resulted in thousands of adults purchasing tickets. Instead, advertising and marketing campaigns created an awareness and the market to support the blue ocean created by Cirque du Soleil.

The other assumption is that every business will have a readily available blue ocean to tap into requiring mostly strategic thought. However, most of the largest successes are due to innovation. Even though innovation is not the only way to seek and find blue oceans, it is a strong factor in the success of blue ocean strategies. In the example of the model T the blue ocean could not have been found without the innovative assembly line. Apple could not have created the PC without the innovative technology behind it. The focus on strategy alone without the strength of innovation behind it may be just as fruitless as benchmarking prices against the competition, and yet this seems to be what the book is recommending. Sydney Finkelstein, the Steven Roth professor of management at Dartmouth College's Tuck School of Business, was quoted to say (Mattioli, 2005): " If you can find these new areas the profit potential is better than competing in a well-developed marketplace."

Which is to say, there is a possibility that a firm won't find the new areas, especially without unleashing the innovations and the minds behind them.

In their book, Execution (2002), Bossidy and Charan describe in detail the kind of personality it takes to implement change within a business structure. Using many examples of real world CEO's and their first hand experiences, the authors outline the traits, the relationships, and the processes of successful leaders. According to the study, leadership success is based on the strength of the leader's character, their knack for coaching, and asking the proper questions. Conversely, Blue Ocean Strategy oversimplifies the execution steps by focusing almost entirely on process and failing to explain the necessary communication and coaching styles necessary to make this step meaningful.

Furthermore, although not all innovations require huge funds to be invested into research & development, many do. One article (Columbus, 2005), deals with the idea that companies could buy their way to blue oceans by concentrating on R&D. Theoretically, this is possible, but it does overlook some important cautions of the Blue Ocean Strategy. The book warns against innovation for innovation's sake because the new product can miss the market by providing a service or product the public isn't ready to pay for. Also, the authors emphasize the importance of maintaining the delicate balance between price and cost. Therefore, dumping money into R&D, although it can eventually find a blue ocean, will not ensure success. In fact, it almost ensures failure. One of the key, and most important principles of the strategy is the need to identify the viability of an idea before investing funds in its development.

And yet, the blue ocean strategy places so much emphasis on innovation that it isn't surprising that some practices will result in an over emphasis on R&D funding. It begs the question about what came first: the innovation or the market need. The book seems to assume the best way to handle innovation is to discover a market need for it first. Although in reality, innovators don't always work on a market need basis. But what would the world of innovation look like if it were always and constantly driven by the search for blue oceans? Would innovation and the truly innovative become obsolete, swallowed whole by business gurus and marketing geniuses?

The main problem with the strategy – as it is defined in the book – is it is (or was) not necessarily used by any of the examples illustrated in the book. The authors assume that because a company did indeed find a blue ocean and resulting success, then using the strategy in the book will lead a company to similar success. But how can this conclusion be drawn when no where in the book did any one company use the step by step approach or the tools? Instead, the authors have merely applied general concepts and common trends of the blue ocean to work backwards into a theoretical, untested strategy.

To make matters worse, the steps themselves are convoluted and overworked, often just repeating the same concepts in different words. For example, the sub-step to principle four, building a business model is adoption, which is getting employees, partners, and the public on board (p. 137-39). Yet, principle five deals exactly with adoption, only it is described as overcoming hurdles (147-169) Principle two, using the strategy canvas as a visual awakening, visual exploration, a strategy fair, and a communication tool to win over the support of employees (94-96) is essentially the same thing as principle five, awakening the need as a way of overcoming what the authors label cognitive obstacles (151-155). Reconstructing the market boundaries, principle one, is the same as reaching beyond the existing demand, principle three. The very terms are essentially the same thing. Reconstructing the market is pretty much when firms address the potential needs of the three tiers of non-customers described in principle three. Likewise, the Four Actions Framework and Eliminate-Reduce-Raise-Create Grid are the same tool. The Framework, in theory, pushes the firm to ask the questions, while the Grid pushes firms to act on the items. It seems redundant to create a framework that asks the questions and to create a grid that answers them. Why isn't it just one tool? These redundancies are only a few examples of many. Furthermore, although these tools are considered " key to creations of blue oceans" (p. 35), it seems unlikely that any of the successful examples used them. In short, the whole book could be summed up in the very first chapter where value innovation is explained because value innovation is not the cornerstone of blue ocean strategy – it is blue ocean strategy.

Although blue oceans enable a firm to gain uncontested market space, it is only for a time that this is so. Sooner or later, competition does meet up with the market leader. In most of the examples given in the book, this does naturally happen and it leads one to ponder whether or not the Blue Ocean Strategy illustrated in different industries and in different centuries, is indeed a strategy or just a natural phenomenon of market growth. Like evolution in nature, one single species mutates into a more effective example of biology.

As one columnist commented " Mauborgne's Blue Ocean can quickly turn red. For example, Barnes & Noble developed superstores in the 1990s that are almost indistinguishable from Borders" (Stewart, 2007). Could it be that the authors of Blue Ocean Strategy took an economic given and turned it into something controllable when it truly is a question of the right mind being aligned to the right time and the right market?

Appendix A: Red versus Blue Oceans

Blue Ocean Strategy

Red Ocean Strategy

Strategies

- Strive to create uncontested market space for untapped consumers
- Continues to battle over an existing market share
- Breaks away from competition
- Strives to beat the competition
- Identifies and successfully targets the need for a new demand
- Exploits the existing demand
- Breaks the value-cost trade-off by increasing value and increasing differentiation and cutting or maintaining cost
- Adheres to value-cost trade-off by choosing between lowering costs, or differentiating products/services

Results

- Innovative new products/services
- Supply exceeds demand
- Difficulty differentiating brands

- Profit and revenue increases
- Decline in prices, revenue, and profit

Appendix B: Strategy Canvas Basics

The key components a viable strategy canvas include a focus, a divergence from the common value curve, and a compelling tagline to describe the new strategy. The strategy canvas is a graph that maps out the competing factors of an industry based on a high/low vertical access that coordinates with the factors across the horizontal access. The resulting coordinates create a curve, labeled the value curve. A viable graph illustrates a strong focus on a few key factors, rather than all of them. The placement of coordinates should not follow the value curve of the industry in general; instead, it should diverge from that curve, having its own unique curve. Finally, it should be easy to describe the graph with a short and compelling tagline, which shows that the strategy can deliver a clear meaningful message (Kim & Mauborgne, 2005 p. 37-41).

A New Value CurveAppendix C Four Actions Framework and Eliminate-Reduce-Raise-Create Grid

The Four Actions Framework categorizes the factors into one of four groups: eliminate, reduce, raise, and create. The first two categories help cut costs. Kim and Mauborgne maintain that industries take the importance of certain factors for granted even though these factors may no longer be relevant in the market. If that is the case, the authors suggest eliminating these factors from the new strategy. Over-design, over-delivery, and over-serving are similar in that the product or service offers value that is not perceived by the customer. This is a result of benchmark competing – constantly striving to out do the competition. These are the factors the author recommend reducing. The next two groups help create or increase customer value by raising factors that in their current low state force customers to compromise their needs, and by creating new sources value altogether. The Grid works with the Framework because it forces firms to have actionable items in each of the four groups ((Kim & Mauborgne, 2005 p. 29-37).

Appendix D: Paths to Blue Oceans and Examples

Traditional Business Market Analysis

Blue Ocean Market Analysis

Strive to be the best within a defined industry.

Focus on what makes customers seek alternative industries to solve the same problem.

Strive to set itself apart in the strategic group of industry.

Focus on what makes customers trade up or down within a group, such as luxury items to bargain items.

Focus on defined buyer group.

Study the chain of buyers and question who can and should be the target buyer outside the defined buyer group.

Define scope of products and services offered similar to the way competitors define it.

Aim to solve the major “ pain points” in customers’ total solution, before, during, and after purchase.

Accept the industry’s functional or emotional orientation of marketing.

Consider divulging from tradition by appealing to the opposite orientation.

Focus on the same point in time in strategy formulation.

Study how trends may change value over time, or create new value.

One path is to search across industry alternatives to find out why customers choose to use an alternative solution – defined as “ products or services that have different functions or forms but serve the same purpose” (p. 49). The authors use Home Depot as an example where the latent market of do-it-yourself home improvement was tapped into by providing the supplies combined with this market’s need for expert knowledge (p. 55). Another path, searching across groups within an industry, was explained through the example of Curves, a women’s only fitness center that focused on the different reasons women choose to join traditional health clubs as opposed to women who choose home exercise programs. The path uncovered the latent need for a quick, private, and simple workout done in a group with only women.

Appendix F: Tipping Point Leadership Techniques

Blue Ocean Strategy breaks down the key techniques to successfully executing tipping point leadership. The first hurdle described in the fifth principle is the cognitive hurdle, or the unwillingness of the people of a firm to recognize the need for change. Tipping point leader handles this obstacle by avoiding unmeaningful numbers, and instead “ making people see and experience harsh reality first hand” (p. 152). This creates an internally driven mindset. To handle issues of resource allocation, the authors identify hot spots, cold spots and horse trading. Hot spots indicate where resources are lacking, cold spots indicate where they are abundant, and horse trading reallocates them in a way that his fair acceptable to both parties. The use kingpins, fishbowl management and atomization deal with issues of motivation. Concentrating on kingpins is simply winning over the natural leaders within the infrastructure who are respected and persuasive and who will in the end convert others to the new strategy. Fishbowl managing is placing these key players under a magnifying glass for their peers to evaluate, exposing short comings and creating instant motivation for performance. Atomization breaks down goals into easier to reach steps. The attainability is self rewarding. To overcome political hurdles, the authors recommend “ leveraging angels, silencing devils and getting a consiglierge on the top management team. Angels, according to the book, are those who believe in the need for change or who will directly benefit from it. Devils are those who have the most to lose from the change. A consiglierge is an insider who knows who the devils and angels are and how to deal with them.