Business Club

Blue Ocean Strategy

Strategy Team, Business Club

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Introduction

Isn't it fascinating to think about a market space where competition is irrelevant, with many other competitors existing in the market? Blue Ocean Strategy is a concept which talks about this very idea; it is about creating a market space that is uncontested, with very little or no competition, by recreating the current market structure or pushing its boundaries that lead to creating new demand. It was proposed by W. Chan Kim and Renée Mauborgne, Professors of Strategy at INSEAD.

Red Ocean

The Red Oceans represent the existing industries, which refer to the known market spaces. Market spaces are highly competitive, and industry boundaries are defined. Companies try to outperform their rival companies and want to grab a more significant market share. So the policies or strategies that a company follows depends a lot on the action of the rival companies. As the market space becomes more competitive, prospects for profits and growth are reduced.

Blue Ocean

Blue Oceans refer to all industries not in existence today, and hence, the uncontested market space. The Blue Ocean is about creating and capturing new demand in an uncontested market space that will make the competition irrelevant. It can be done by low cost and differentiated products that do not exist in the current market space, which would lead to reconstructing the market boundaries and industry structure.

Red Ocean Strategy	VS	Blue Ocean Strategy
Compete in **existing** market space.		Create **uncontested** market space.
Beat the competition.		Make the competition **irrelevant**.
Exploit **existing** demand.		Create and capture **new** demand.
Make the value-cost trade-off.		**Break** the value-cost trade-off.
Align the whole system of a firm's activities with its **strategic choice of differentiation or low cost**.		Align the whole system of a firm's activities in **pursuit of differentiation and low cost**.

Creating a Blue Ocean

When we look at the past and analyse how many of today's industries existed previously, we will see that many industries like automobiles, music recording, aviation, petrochemicals, health care, and consulting were not present earlier, but are very common now. Now, one can imagine how many more industries will come up after twenty years that does not exist today. Industries do not stop; they continuously evolve by reconstructing the old ones or creating new ones. A classic example of this is the creation of the personal desktop copier industry by Canon, which defied the industry logic by focussing on small, easy to use copiers and printers rather than focussing on office managers. This is a key practice under the six paths framework which pushes companies to look across the chain of buyers in the industry. Till the end of the 19th century, making Blue Oceans was in the focus of very few, and it is seen that making Blue oceans increases the Profit and revenue to a very large extent.

There have been several prominent examples from the past. Apple unlocked a new market space with the launch of iTunes, by observing a trend towards digital music.

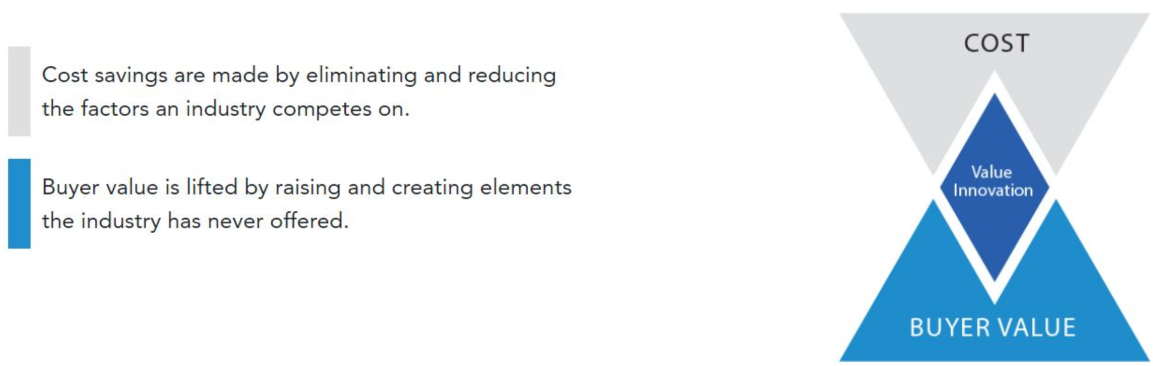
Apart from profit growth, there are various other reasons to go for a Blue Ocean as it accelerates technological advancement that has substantially improved productivity and allows suppliers to produce a large number of products and services to cover the market. The trade barriers are reduced so the information and products can move freely. So the chances of monopoly decrease but as a whole profit increases as well as continuous development takes place.

While moving forward towards Blue Oceans, the actions and decisions involved should not be the same that one should follow in the red ocean, i.e. the focus should not be on the competitors or their action but value-innovation. The main drivers of such a business strategy being differentiation and low-costs.

Value Innovation

Every company wants to create its blue ocean and what matters the most is the approach towards strategy building. Following the conventional approach can lead to being caught in a red ocean. The creators of the blue ocean do not focus on competition and building a defensible position in the industry. Instead, they follow a different strategic model called value Innovation.

Value Innovation focuses equally on both the terms “Value” and “Innovation”. Innovating the product with technological advancement or by research and development so that it can stand out from the current choices that the industry offers to the buyers. It does not mean to produce a totally different product but to innovate it to such extent so that the buyers get attracted and all other options seem to be irrelevant. This innovation also should not increase the cost so much that the buyer’s utility is decreased. Here comes the role of the competition based strategy “the value-cost trade-off” which refers to the relation of exchange between the value and cost. And to create a blue ocean this trade-off should be broken. This means to innovate the product so that the cost of the product does not vary much with the current cost and buyers are willing to pay that cost.



The blue ocean can be achieved by driving costs down while simultaneously driving value up for the buyers. And through this, value is delivered for both buyers and the company. Buyer value comes from the utility and the price that the company offers and the company value comes from the price and the cost structure. Creating a Blue Ocean Value innovation occurs only when companies align innovation with utility, price, and cost positions.

Example: Bloomberg L.P.

Bloomberg had created a blue ocean in the Financial Information Service Industry. It has become one of the largest and most profitable business information providers in the world.

Till the 1980s, other companies in this industry like Telerate and Reuters focused on buyer groups which were IT managers by providing news and price in real-time. People in the 1980s focused on the standardized system, which made their life easier. It was also seen that it was the traders and analysts, who made or lost millions of dollars every day.

By seeing this, Bloomberg designed a system with two flat-panel monitors so that users can see all the information that they need. They included easy to use analytical features and made keyboards labelled with familiar financial terms.

By focusing on users and breaking the value cost trade-off Bloomberg was able to create a Blue Ocean with profitable growth. Bloomberg added information and purchasing services to enhance traders' personal lives. Traders could use these services to buy personal items or make bookings and get information.

By this, Bloomberg had looked at the existing market from different directions and focused on the buyers' needs and the loopholes of the industry. It also focused on the problems that the users are facing and tried to solve it by incorporating new features, which helped it to break the Value Cost trade-off and to create a Blue Ocean.

Six Principles of Blue Ocean Strategy

Implementing the Blue Ocean Strategy requires a fundamental knowledge of its principles to ensure a sound application of its directives. Hence, the six paths framework created by Kim and Mauborgne allows company management to outline a path along the Blue Ocean Strategy in a structured manner. The basic principles can be split into two categories, namely, the formulation and execution of the Blue Ocean Strategy. These categories can be further summarized under the following six key points:

Formulation of the Blue Ocean Strategy

- Reconstructing Market Boundaries
- Focusing on the big pictures more than the numbers
- Reach beyond the existing demand
- Getting the strategic sequence right

Execution of the Blue Ocean Strategy

- Overcoming key organisational hurdles
- Building execution into strategy

Principles regarding strategy formulation:

1. Reconstructing market boundaries:
   Kim and Mauborgne suggest various paths to implement this principle. Looking across alternative industries and across strategic groups within the same industry are two paths that can be followed. The chain of buyers, possibilities of complementary products and service offerings, functional and emotional appeal of buyers, and trends along time must also be paid attention to.

2. Focussing on the big picture instead of the figures:
   An alternative approach has been developed to follow this principle, which involves the creation of a strategy canvas, directing the company towards a blue ocean. The four steps to visualize strategy using the canvas include visual awakening, visual exploration, a visual strategy fair and visual communication.

3. Reaching beyond the existing demands:
   This requires recognizing the three tiers of non-customers. Namely, the “refusing”, “soon to be” and “unexplored” groups, after which the key methods of attracting these audiences must be identified to expand the available market. The primary focus must be on the biggest catchment, which will vary from case to case.

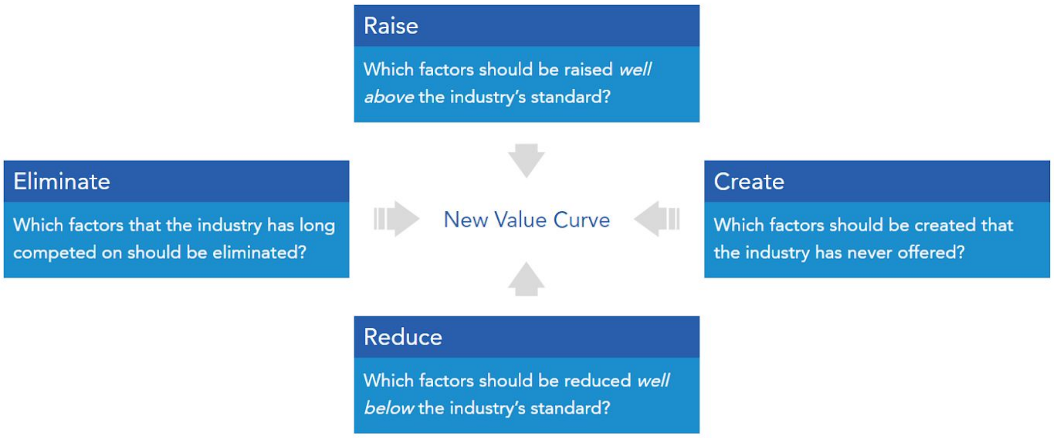
4. Getting the strategic sequence right:
   The sequence of Blue Ocean Strategy requires the management to answer questions regarding buyer utility, price, cost, and adoption hurdles. This puts to the test whether the strategy being adopted is a truly viable blue ocean idea.

Principles regarding strategy execution:

1. Overcoming key organizational hurdles:
   The four organizational hurdles to executing a strategy are cognitive hurdles, organizations tied with the status quo; political hurdles, which include opposing forces with investments; motivational hurdles, which may be due to unmotivated staff and resource hurdles, caused by a shortage of resources.

2. Execution into Strategy:
   This encourages the holistic development of the trust and commitment of all the employees towards the company. From top management to the staff, voluntary involvement must be pushed forward to create an efficient strategy. Fair process is a key variable in the execution of blue ocean strategic moves in particular.

Four Actions Framework



The four actions framework, also developed by Kim and Mauborgne, is used in order to establish the value curve and new strategic identity of the company. To counter the conflict between ensuring differentiation and low cost, this model can resolve the issues that arise in creating a new value curve, by posing four questions:

- 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?

The first two questions are used to find ways to reduce costs by looking for factors which can be reduced or eliminated altogether. On the other hand, the third and fourth questions are posed in order to find ways to generate more value and create new demand. Put together, this is used to break the differentiation / low-cost tradeoff, thereby creating a blue ocean.

1. Eliminating factors that are taken for granted

This pushes companies to question the validity of factors that have been taken for granted historically. Due to changes in customer preferences with time or due to lack of intrinsic value, it may be concluded that some factors are better eliminated. Heeding the answer to this question successfully allows companies to get rid of conventions that eventually bear more costs, rather than resulting in greater revenue.

2. Reducing factors below the industry standard

Factors can oftentimes be raised to such standards that are unnecessary for the market segment being targeted. Although companies may outperform competitors with respect to the given factor in order to differentiate their product, it may not provide any ulterior gain.

3. Raising factors above the industry standard

This analysis can be performed in order to increase the value of the product in comparison to traditional options. It is important to look for weaknesses in the current industry standard that can be leveraged to create a substantially better product or service.

4. Factors that have not been offered by the industry previously

This is used to directly discover new methods and factors that have not been offered to customers before, hence creating a new demand for them, which is the essence of the Blue Ocean Strategy.

Example: Philips

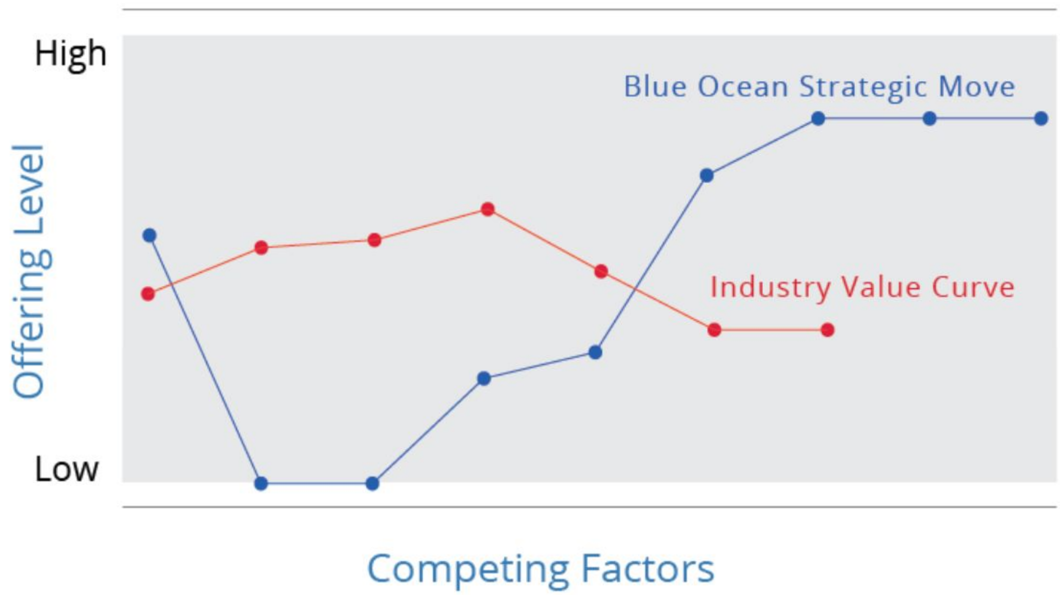
Philips Electronics, the Dutch electronics company is an exemplary case which demonstrates the potential application of the Blue Ocean Strategy. As directed by the Six paths framework, they restructured the market boundaries and looked towards the possibility of offering complementary goods and services.

The British teakettle industry was not performing well at the time. Applying the right strategy, they investigated the reasons behind the faltering industry. The major problem, it turned out, was the limescale found in the water that was used to make the tea in the kettles. This issue stemmed from the public water supply, but Philips developed a filtered kettle. Earlier, when the British brewed tea, the limescale accumulated in the kettles and led to an unsatisfying experience for the customers. The kettle created by Philips, on the other hand, had a mouth filter, effectively removing the limescale, and providing a much more convenient method to make tea.

Hence, Philips developed a product, by successfully thinking about the complementary products and services (the water, in this case), eventually resulting in a success.

Strategy Canvas

The Strategy Canvas is a diagnostic framework created by Kim and Mauborgne, mainly used to serve two purposes. Firstly, it analyses the current status quo of the market; by providing information about the investments of the competition, industry factors and the target consumers. This is depicted by the horizontal axis of the strategy canvas. The vertical axis denoted the offering level that buyers receive across all the factors indicated along the horizontal axis.



Hence, the plotted value curve provides a visual depiction of the company's performance across a diverse range of factors.

Other Analytical tools and frameworks for executing and implementing the blue ocean strategy include Six-paths framework, pioneer Migrator Settler Map, Buyer Utility Map etc.

References and Sources for Further Reading:

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