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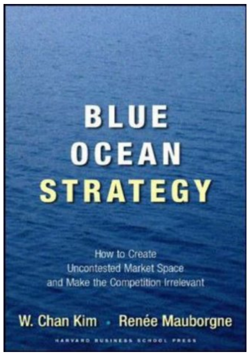

Blue Ocean Strategy

How to Create Uncontested Market Space and Make Competition Irrelevant

by W. Chan Kim and Renée Mauborgne
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256 pages

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Take-Aways

- Most corporate strategies grew from military models featuring direct confrontations.
- When businesses directly compete, the battlefield becomes over-crowded so all participants suffer from reduced market share, growth and profits.
- The blue ocean strategy builds new businesses where none existed, giving innovative entries clear sailing.
- These businesses, such as cell phones and biotechnology, barely existed 30 years ago.
- Blue ocean industries are more profitable than fields with head-to-head competitors.
- Offer your customers a blue ocean "value innovation," that is, tangible product advancements accompanied by demonstrable savings.
- Wear a life jacket: the six steps of blue ocean implementation each carry a risk.
- The six steps are: "Reconstruct market boundaries;" "Focus on the big picture;" "Reach beyond existing demand;" "Get the strategic sequence right;" "Overcome key organizational hurdles" and "Build execution into strategy."
- Use a "strategy canvas" to chart the competition and exploit their shortcomings.
- Developing a blue ocean strategy requires all hands on deck.

Rating (10 is best)

Overall	Applicability	Innovation	Style
10	**10**	**10**	**8**

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Relevance

What You Will Learn

In this summary, you will learn: 1) Why you want to avoid head-to-head competition; 2) Instead, how to open a fresh market with an innovative product; 3) What the six principles of "blue ocean strategy" require; 4) What their risks are; and 5) How to implement them.

Recommendation

This breakthrough book provides an organized framework for identifying and implementing out-of-the-box "blue ocean strategies" in all industries. The blue ocean strategy explains how to sail your business into new markets with less competition and greater profitability. Disarmingly written by W. Chan Kim and Renée Mauborgne, the book is energized with fresh research about the impact of innovative ideas on old industries. The compelling business examples alone are worth taking this cruise. Even the appendices make interesting reading and contain more detailed examples about products ranging from the Model T to movie theaters (the authors explain how innovators reinvented theaters and created their own blue ocean phenomena). While the book provides its share of rules and principles for intrepid strategists to follow, complete with its own jargon, managers easily can navigate right to the authors' key strategic advice. *getAbstract.com* considers this book essential for any strategist or entrepreneur who wants to move out of intensively competitive shark-infested waters and into the relative tranquility of the open blue ocean. Getting there isn't risk free, but great adventure awaits the intrepid executive who makes the voyage.

Summary

Avoiding Blood-filled Waters

"*Blue ocean strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant.*"

Traditional business strategies originate from military models. They swashbuckle, emphasizing engaging the enemy to conquer or capture a competitive stronghold. Even key business terms – "headquarters," "officers," "front lines" – are borrowed bits of military argot. As companies shape their strategies and plot their corporate objectives, warlike metaphors abound: your business must confront its opponents, render them harmless and gain the advantage. Translated into strategy, this language generates a model for competing in a fixed market and gaining the advantage over other entrants in the same field. This cutthroat competition damages corporate combatants and bloodies the waters, creating a "red ocean" marred by losses in market share, profits and growth. However, while bold competition may be essential in business, it is not the only corporate strategy.

Set your course, instead, for an open "blue ocean strategy," based on the idea of creating new markets where none previously existed. This may seem like a novel concept, but many modern industries – cars, recorded music, petrochemicals, even aviation – did not exist a century ago. The past 30 years have given birth to new, multibillion dollar industries, including mobile telecommunications and biotechnology. What far-sighted strategist can predict the blue ocean industries that will emerge in the next few decades?

"*The only way to beat the competition is to stop trying to beat the competition.*"

That is not a hypothetical query. Rather, it is today's breakthrough question. Blue ocean thinking has not only created new industries – it has created exceptionally profitable new industries. Among 108 companies, 86% of business expansion emanated from existing competitive business. This type of expansion produced 62% of total revenues but only 39% of total profits. Blue ocean businesses almost reverse the figures: their expansions accounted for 38% of total revenues and 61% of total profits. The corporate quest for profitable innovation drives the need to develop a blue ocean strategy. Innovations occur today at a blistering pace due to globalization, overcapacity and technology, which make it easier and faster to create look-alike products. Major brands face extra encroachment from new competitors, while buyers base more decisions solely on price.

"Our research confirms that there are no permanently excellent companies, just as there are no permanently excellent industries."

To escape this "red ocean" cycle of intense direct competition, some companies have created profitable new operations using a blue ocean strategy. These firms began by creating a "value innovation" to fuel their blue ocean thinking. Think of Starbucks, which made coffee a neighborhood treat, or Southwest Airlines, which made budget flying fun and profitable. Notice The Body Shop, whose natural, affordable cosmetics established a new blue ocean in a high-end industry swimming with pricey competitors. The coffee, the fun flights and the natural-scented hand creams were all value innovations. Any company, unlimited by size, history, budget, location or nationality, can exploit a value innovation. But to succeed, a value innovation must demonstrate actual savings and an appreciable benefit that a customer can use immediately. Be sure your value innovation is accessible enough for most customers to grasp its technological benefit and put it to use promptly.

"The reality is that industries never stand still."

From the perspective of strategy, blue ocean plans are most viable when they are part of a corporation's intrinsic process, involving improvements in operations, functionality and price. This sharply contrasts with the usual, straightforward product introduction, which does not improve company operations and has no impact on overall corporate strategy.

Lessons from the Circus

The Canadian entertainment company, Cirque du Soleil, is a vivid blue ocean success. Cirque du Soleil introduced an entirely new form of live entertainment based on a more limited model, the traditional circus. By redefining the purpose of every element of the old model, from the tent to the animals to the acrobatic acts, Cirque du Soleil essentially recreated its business and devised a new mode of entertainment. To do this it:

"History also shows that industries are constantly being created and expanded over time and that industry conditions and boundaries are not given; individual actors can shape them."

- Cultivated an entirely new audience of adults who preferred live theater to circus.
- Developed a new intellectual, dramatic entertainment format.
- Reduced its cost structure and increased its ticket prices beyond those charged by traditional circuses to compete with Broadway Theater prices.
- Created entirely new stage, visual and musical acts in a new venue.

As a result of this novel approach, Cirque du Soleil took less than 20 years to exceed the revenues achieved by Ringling Bros. and Barnum & Bailey Circus in 100-plus years of circus performances worldwide. Without any direct competition, Cirque du Soleil succeeded by entirely redefining its corporate function, audience and market. This approach directly contrasts with the concept of "environmental determinism," mandating that businesses in any given industry must accept their existing realities and compete within industry boundaries. That kind of thinking produces red ocean situations where companies compete on price and minor product differentiation. Compare that to Cirque du Soleil's accomplishment: building an entirely new form of entertainment that defied traditional classifications.

"To fundamentally shift the strategy canvas of an industry, you must begin by reorienting your strategic focus from competitors to alternatives, and from customers to non-customers."

Six Principles of the Blue Ocean Strategy

The risks inherent in a traditional, red ocean business strategy are well known. Managers now need to know the principles – and risks – that underlie the blue ocean strategy.

One: “Reconstruct Market Boundaries”

Re-evaluate the premises that form your industry's assumptions and shape your company's business model. Strategically examine your industry's key competitive drivers (such as customer preferences, product qualities, price and industry standards) to create a "strategy canvas" that displays each factor graphically. For a fresh perspective, probe which industry and market standards you could omit, minimize, elevate or rebuild.

"The strategic profile with high blue ocean potential has three complementary qualities: focus, divergence and a compelling tagline."

Casella Wines of Australia used this analytic process to make its Yellow Tail brand the fastest growing label in the history of US and Australian vintners, and the best-selling red wine in the US in August 2003. Based on its analysis, Casella streamlined its wine's taste, making it fruitier and sweeter. It reached out to beer and cocktail drinkers by promoting its wine as fun. Breaking all marketing habits, Casella completely jettisoned wine's traditional elitist appeal based on complex taste, aging and vineyard location. Instead, it built the brand with a targeted, differentiated intriguing blue ocean strategy. Today, the brand swims "in the clear blue waters of new market space."

"Value innovation requires companies to orient the whole system toward achieving a leap in value for both buyers and themselves."

Red ocean strategies are predicated on finite markets. To expand your market boundaries into the wide blue ocean, look at your key competitors. Determine their limitations. Don't be myopic. Curves, the women-only health club that offers a zippy half-hour exercise program, capitalized on price, location and ease of use to create a new market and compete against full-service health clubs. Today, a new Curves mini-gym opens every four hours somewhere around the world.

Novo Nordisk, the Danish insulin producer, supplied physicians until it reframed its market and began to provide individual diabetes care. To sell your product, evoke consumers' emotions and enumerate your end user benefits. Follow the examples of QB House, a Japanese barbershop chain that advertised cheap, sanitary haircuts, or Cemex, a Mexican cement producer, which promoted affordable room additions. Look at the horizon. Apple Computers recognized an emerging trend when it captured the music downloading market. To exploit a trend, be sure it pertains to your business, has momentum and cannot be reversed.

"Tipping point leadership builds on the rarely exploited corporate reality that in every organization, there are people, acts and activities that exercise a disproportionate influence on performance."

Two: “Focus on the Big Picture, Not the Numbers”

Keep your eye on the overall view and don't get lost in the statistics. Many strategists get bogged down in data, so they often miss where they – and their competition – are headed. To maintain your sense of direction, use a "strategy canvas," a graphic representation of your competitor's products, prices and industry position. The canvas reveals your "value curve," and clarifies possible opportunities. This exercise helps you consider the competitive environment through your customers' eyes, so you hone factors that matter to them. It can blunt the risk of investing time and effort in the wrong direction. When Samsung Electronics of Korea prepares new products, such as 40-inch LCD TVs and the world's top-selling mobile phone, it uses interdepartmental teams trained in using the strategy canvas approach. The teams improve existing technologies so the innovative company can deliver new benefits that its customers can readily and quickly appreciate.

"You must create a culture of trust and commitment that motivates people to execute the agreed strategy – not to the letter, but to the spirit."

Three: “Reach Beyond Existing Demand”

Businesses naturally focus on current customers, a process that invariably leads to greater market segmentation analysis. But real growth lies beyond existing demand. To get to the open water, focus on potential future customers. To attract new customers to its outdoor advertising business, the French firm JCDecaux theorized that municipalities would be more interested in outdoor ad space if they could get it for free and without any maintenance worries. To meet these criteria, the firm built durable ad-bearing street furniture and signed long-term contracts with cities. This attracted more advertisers. Today, the firm operates in 33 countries and profitably dominates this specialized advertising sector.

Four: "Get the Strategic Sequence Right"

Execute your strategy sequentially to achieve your "value innovation." Just having a fancy new technology does not mean that you have a blue ocean product. Technological innovation is not necessarily "value innovation." To be compelling, the technology must provide convenience, safety and entertainment. Chart the experience you want buyers to have at several stages. Assess your product's usefulness, ease, handiness, safety, entertainment value and "environmental friendliness" in light of how each factor affects the customer upon buying it, bringing it home, using it, adding to it, keeping it working and eventually, disposing of it. To develop your blue ocean strategy, follow four logical steps. Ask, in this order:

"A company should never outsource its eyes."

1. Why should anyone buy your product? Does it have "exceptional utility"?
2. Is it fairly priced to appeal to a large audience?
3. Can you create it at the right cost to earn a profit?
4. Are there any impediments to discourage the market from accepting your product?

Five: "Overcome Key Organizational Hurdles"

Successful execution demands that your company must resolve internal departmental differences. Like swimmers on the shore of a new sea, many corporate participants feel significant trepidation upon entering a blue ocean market. Managers may fret about why significant change is needed, what problems will arise from reallocating resources, whether new practices will function properly and how this transition will upset the existing social hierarchy. To implement change with minimal disruption, use "tipping point leadership." This form of leadership stems from observations by author Malcolm Gladwell in his book, The Tipping Point. He writes that certain actions have a disproportionate influence if they happen at exactly the right time. The key is using resources when they are most powerful.

"The lesson: Noncustomers tend to offer far more insight into how to unlock and grow a blue ocean than do relatively content existing customers."

Six: "Build Execution into Strategy"

Reduce your management risk by incorporating blue ocean implementation into your company's ongoing processes. Since building a blue ocean strategy involves uncertainty and risk, creating trust among all participants is essential. A successful blue ocean launch requires extra effort from a unified crew. Link the three Es – engagement, explanation and expectation – with the actual process of developing the strategy and acting upon it at all levels of your organization. Then, set sail.

About the Authors

W. Chan Kim is a professor of strategy and international management at INSEAD in Fontainebleau, France. Previously, he taught at the University of Michigan Business School. He has written for numerous business journals, the *Financial Times*, *The Wall Street Journal* and *The New York Times*, and is a founder of the Value Innovation Network. **Renée Mauborgne** is a Distinguished Fellow at INSEAD, where she is a professor of strategy and management. She is also a Fellow of the World Economic Forum and published numerous articles on strategy and managing multinational corporations.