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Blue Ocean Strategy

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Blue Ocean Strategy is a business strategy book that promotes creating new market space or "blue ocean" rather than competing in an existing industry.^[1] It contains retrospective case studies of business success stories the authors claim were Blue Ocean Strategies. The book has sold more than a million copies in its first year of publication and is being published in 41 languages.^[2]

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Concept

The metaphor of red and blue oceans describes the market universe. *Red oceans* are all the industries in existence today—the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody. Hence, the term *red oceans*.^[3]

Blue oceans, in contrast, denote all the industries not in existence today—the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.^[3]

The corner-stone of Blue Ocean Strategy is 'Value Innovation'. 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. The authors criticize Michael Porter's idea that successful business are either low-cost providers or niche-players. Instead, they propose finding value that crosses conventional market segmentation and offering value *and* lower cost.

This idea was originally proposed by Prof. Charles W. L. Hill from Michigan State University in 1988. Prof. Hill claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. Prof. Hill proposed that a combination of differentiation and low cost may be necessary for firms to achieve a sustainable competitive advantage.

Many others have proposed similar strategies. For example, Swedish professors Jonas Ridderstråle and Kjell Nordström in their 1999 book *Funky Business* follow a similar line of reasoning. For example, "competing factors" in Blue Ocean Strategy are similar to the definition of "finite and infinite dimensions" in *Funky Business*. Just as Blue Ocean Strategy claims that a Red Ocean Strategy does not guarantee success, *Funky Business* explained that "Competitive Strategy is the route to nowhere". *Funky Business* argues that firms need to create "Sensational Strategies". Just like Blue Ocean Strategy, a Sensational Strategy is about "playing a different game" according to Ridderstråle and Nordström. Ridderstråle and Nordström also claim that the aim of companies is to create temporary monopolies. Kim and Mauborgne explain that the aim of companies is to create blue oceans, that will eventually turn red. This is the same idea expressed in the form of an analogy. Ridderstråle and Nordström also claimed in 1999 that "in the slow-growth 1990s overcapacity is the norm in most businesses". Kim and Mauborgne claim that blue ocean strategy make sense in a world that supply exceeds demand.

Preceding work

The contents of the book are based on research and a series of Harvard Business Review articles as well as academic articles on various dimensions of the topic.

Kim and Mauborgne studied about one hundred fifty positions made from 1880-2000 in more than thirty industries and closely examined the relevant business players in each . They analyzed the winning business players as well as the less successful competitors. Studied industries included hotels, cinemas, retail stores, airlines, energy, computers, broadcasting, construction, automotive and steel. They searched for convergence among the more and less successful players. Divergence across the two groups was also studied to discover the common factors leading to strong growth and the key differences separating those winners from the mere survivors and the losers. Kim and Mauborgne defined a consistent and common pattern across all the seemingly idiosyncratic success stories and first called it value innovation, and then Blue Ocean Strategy.

Research results were first published in 1997 in a Harvard Business Review article by Kim and Mauborgne titled "Value Innovation: The Strategic Logic of High Growth"^[4]. The ideas, tools and frameworks were tested and refined over the years in corporate practice in Europe, the United States and Asia and presented in the following eight additional articles, before being published in the form of a book in 2005.

- 1997. "Fair Process: Managing in the Knowledge Economy". Harvard Business Review 75, January-February, 102-112.
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- 2000. "Knowing a Winning Business Idea When You See One." Harvard Business Review 78, September-October, 129-141.
- 2002. "Charting Your Company's Future." Harvard Business Review 80, June, 76-85.
- 2003. "Tipping Point Leadership." Harvard Business Review 81, April, 60-69.
- 2004. "Blue Ocean Strategy." Harvard Business Review, October, 76-85.

The name "Blue Ocean Strategy" was introduced in the Harvard Business Review article published in October 2004.^[5] The book builds on and extends the work presented in these articles by providing a narrative arc that draws all these ideas together to offer a unified framework for creating and capturing blue oceans.

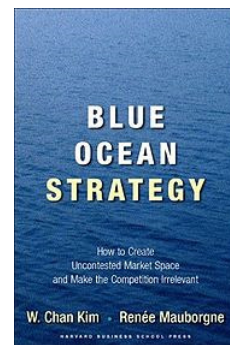
Examples

Examples documented in the book

Some examples of companies that may have created new market spaces in the opinion of Kim and Mauborgne include ;

- Cirque du Soleil: Blending of opera and ballet with circus format while eliminating star performer and animals;

Blue Ocean Strategy



First edition cover

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- Netjets: fractional jet ownership;
- Southwest Airlines: offering flexibility of bus travel at the speed of air travel using secondary airports;
- Curves: redefining market boundaries between health clubs and home exercise programs for women;
- Home Depot: offering the prices and range of lumberyard, while offering consumers classes to help them with DIY projects;
- Dyson: Cyclonic Vacuum Cleaners.

Recent Application Examples

Reports of businesses using Blue Ocean Strategy concepts include:

- China Mobile: China Mobile CEO Wang Jianzhou talked about China's hinterland as a classic "blue-ocean market," where the company is casting its net widely without worrying about getting tangled up with the nets of rivals.^[6]
- Pitney Bowes: Michael Critelli, the departing CEO of Pitney Bowes, explained how Pitney Bowes created the Advanced Concept & Technology Group (ACTG), a unit responsible for identifying and developing new products outside. Critelli cited ACTG's development of a machine, which enables people to design and print their own postage from their desktops, as an example of a blue ocean strategic move.^[7]
- Starwood: One group which has been exploring blue ocean thinking for the past three years is Starwood Hotels and Resorts. In an interview to INSEAD Knowledge, Robyn Pratt, Vice President, Six Sigma and Operational Innovation talks about how they are taking a step-by-step approach to implementing the concept.^[8]

Blue Ocean Strategy vs. competition based strategies

Kim and Mauborgne argue that traditional competition-based strategies (red ocean strategies) while necessary, are not sufficient to sustain high performance. Companies need to go beyond competing. To seize new profit and growth opportunities they also need to create blue oceans.^[9]

The authors argue that competition based strategies assume that an industry's structural conditions are given and that firms are forced to compete within them, an assumption based on what academics call the structuralist view, or environmental determinism.^[10] To sustain themselves in the marketplace, practitioners of red ocean strategy focus on building advantages over the competition, usually by assessing what competitors do and striving to do it better. Here, grabbing a bigger share of the market is seen as a zero-sum game in which one company's gain is achieved at another company's loss. Hence, competition, the supply side of the equation, becomes the defining variable of strategy. Here, cost and value are seen as trade-offs and a firm chooses a distinctive cost or differentiation position. Because the total profit level of the industry is also determined exogenously by structural factors, firms principally seek to capture and redistribute wealth instead of creating wealth. They focus on dividing up the red ocean, where growth is increasingly limited.

Blue ocean strategy, on the other hand, is based on the view that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players. This is what the authors call "reconstructionist view". Assuming that structure and market boundaries exist only in managers' minds, practitioners who hold this view do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn, requires a shift of attention from supply to demand, from a focus on competing to a focus on value innovation—that is, the creation of innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low-cost. As market structure is changed by breaking the value/cost tradeoff, so are the rules of the game. Competition in the old game is therefore rendered irrelevant. By expanding the demand side of the economy new wealth is created. Such a strategy therefore allows firms to largely play a non-zero-sum game, with high payoff possibilities.^[11]

Tools and frameworks

Blue Ocean Strategy has introduced a number of practical tools, methodologies and frameworks to formulate and execute Blue Ocean Strategies, attempting to make creation of blue oceans a systematic, repeatable process. Some of these are listed below;

Basic tools of Blue Ocean Strategy

- The strategy canvas
- The Four Actions framework
- Eliminate-Reduce-Raise-Create Grid
- The initial litmus test for BOS: focus, divergence, compelling tagline

Frameworks/methodologies applicable to strategy execution

- Tipping Point Leadership approach
- Four Organizational Hurdles framework
- Kingpins approach, Fishbowl management, atomization
- Hot spots, cold spots and consigliere approach
- 3 E principles of Fair Process

Additional tools/methodologies/frameworks for strategy formulation

- The six paths framework
- The sequence of Blue Ocean Strategy
- Buyer Utility map
- Buyer experience cycle
- The profit model of Blue Ocean Strategy
- Price corridor of the mass model
- Four Step Visualizing Strategy Process
- Pioneer-Migrator Settler Map
- Three tiers of noncustomers framework

Criticisms

While co-authors, Professor Kim and Affiliate Professor Mauborgne, propose approaches to finding uncontested market space, at the present there are few if any success stories of companies that applied their theories. This hole in their data persists despite the publication of Value Innovation concepts since 1997. A critical question is whether this book and its related ideas are *descriptive* rather than *prescriptive*.^[12] The authors present many examples of successful innovations, and then explain from their Blue Ocean perspective - essentially interpreting success through their lenses.^[13]

The research process followed by the authors has been criticized on several grounds. No control group was used. There is no way to know how many companies exploiting a blue ocean strategy concept failed. The theory therefore does not meet the falsifiability criteria in practice. A deductive process was not followed. The examples in the book are selected to "tell a winning story".

A whole chapter of the book explaining what the authors call "Tipping Point Leadership" is based on a conclusion that the drop in crime in New York city was caused by a change in policies, actions, and leadership. However, according to the book *Freakonomics*, crime rates dropped due to an increase in abortion rates several years earlier. Crime rates fell simultaneously in cities other than New York that had not applied what the authors call Tipping Point Leadership.^[14]

Brand and communication are taken for granted and do not represent a key for success. Kim and Mauborgne take the marketing of a value innovation as a given, assuming the marketing success will come as a matter of course.^[12]

The book only presents a snapshot overview of 3 industries: automobiles, computers and movie theaters.

It is argued that rather than a theory, Blue Ocean Strategy is an extremely successful attempt to brand a set of already existing concepts and frameworks with a highly "sticky" idea. The blue ocean/red ocean analogy is a powerful and memorable metaphor, which is responsible for its popularity. This metaphor can be powerful enough to stimulate people to action. However, the concepts behind the Blue Ocean Strategy (such as the competing factors, the consumer cycle, non-customers, etc.) are not new. Many of these tools are also used by Six Sigma practitioners and proposed by other management gurus.

"Eliminate-Reduce-Raise-Create" Grid which forms the base of creating the Blue Ocean, can be found in the form of principles of TRIZ which are much more powerful in creating inventive/innovative solutions.

The book does not explain the most critical aspect that of differentiation between a product innovation which may have the same target users, or a different product, a different way of execution of the same and different market all together. We see several product innovations but they target the same customers, some are successful in enhancing customer and revenue market share and become case studies and some dont take off at all. Both can be back fitted to be derived through blue ocean strategic framework.

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External links

- Blue Ocean Strategy Book's Website (<http://www.blueoceanstrategy.com/>)

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