BLUE OCEAN STRATEGY


Blue Ocean Strategy is a business strategy book, first published on February 3, 2005 by the Harvard Business School Press. Its authors, W. Chan Kim and Renée Mauborgne, are both prominent professors at INSEAD in Fontainebleau, France. This international best-selling book sold more than a million copies in its first year of publication, and has won a number of accolades for its influential ideas ever since. The book, which originated from nine of the authors’ interrelated academic journal articles published between 1997 and 2004, has now been published in 39 languages – the highest selling foreign publishing rights in the long history of Harvard Business School Press. The authors’ articulate and engaging prose, coupled with their profound insights, appeals to readers in a delightful and satisfying way. These achievements alone have significantly rendered the book as a major source of reference for a wide variety of readers ranging from managers and leaders in the corporate and civil sector, to business students and business owners, all of whom are eager to learn about realizing untapped market space, demand creation, and the opportunity for highly profitable growth. These, in essence, are the three defining features of the book.

Kim and Mauborgne claim that industry and market boundaries are preconceived notions of today’s managers, as they have been barraged by these concepts in the conventional strategy literature. In consequence, managers are preoccupied with benchmarking the competition and choose between two distinct competitive strategies, either differentiation or cost leadership, in outdoing their rivals, poaching their competitors’ customers, and capturing market share, all of which are subject to the rules of a zero-sum game. These are termed the red oceans, where companies focus on out-pacing competitors within existing market boundaries often for incremental and insignificant gain. These realities about competitive strategies are discouraging and for some, downright brutal, yet many business firms refuse to break out of the industry boundaries and leave the competition behind. The field of strategy has been essentially silent in this regard, contemplating only to intensify the existing competitive strategies as means to propel companies ahead.

The authors of Blue Ocean Strategy see the flaw in Porter’s assumptions for competitive strategies (a company can only be successful by clearly deciding in favor of either differentiation or cost leadership, as he characterizes companies that try to follow several generic strategies at the same time as “stuck in the middle”, since he assumes that those companies fail to achieve any of them) and seek to explore an alternative, in which companies can apply a combination of both simultaneously. Extending on an idea originally proposed by Prof. Charles W. L. Hill from Michigan State University in 1988, who maintained that a combination of differentiation and cost leadership strategies is necessary for firms to achieve a sustainable competitive advantage, Kim and Mauborgne introduce the concept of value innovation, that is the creation of innovative value to unlock new demand through the simultaneous pursuit of differentiation and cost leadership. Buyer value is lifted by raising and creating elements the industry has never offered, while cost savings are made by reducing and eliminating the factors an industry competes on, all of which will lead to further reduction of costs as scale economies take effect to the high sales volumes that superior buyer value generates.
Value innovation, which occurs only when companies align innovation with buyer's utility/value proposition, price and cost positions, allows businesses to flee competition by creating completely new market spaces, thereby developing playing fields on which they make their own rules, making the competition irrelevant, thus breaking the value/cost tradeoff. It is under this premise that Kim and Mauborgne find their purpose in writing Blue Ocean Strategy, which aims to fill the void in business strategy literature by providing companies with the practical tools and frameworks that businesses need to successfully create blue oceans in an opportunity-maximizing, risk-minimizing way. It was on this thought-provoking theme that the book was written to describe a paradigm shift in strategic action.

The content of the book is divided into three parts, with the first part presenting the foundations of blue ocean strategy by emphasizing the creation of blue oceans and the analytical tools and frameworks to make it happen. This is where the concept of value innovation is placed as the cornerstone of this strategy, and the six principles of blue ocean strategy are introduced, the latter being categorized under formulation and execution principles. The next two parts of the book cover these two categories of principle respectively, in addition to the application of tools and frameworks in formulating and executing the strategy. Throughout these three parts, which consist of nine chapters altogether, the authors have injected interesting examples of more than 150 companies from more than 30 industries, which were researched for 15 years and data stretching back more than 100 years (from 1880 to 2000). Tables and figures are effectively used to specifically show the application of tools and frameworks by the different companies which were studied. In general, these illustrations also aid readers’ comprehension.

The authors begin their defense of Blue Ocean Strategy by defining the basic unit of analysis for their research on high performance. While business literature typically uses the company as the basic unit of analysis, Kim and Mauborgne found that examples of successful companies used in books like “In Search of Excellence” and “Built to Last” had fallen from their perches as industry leaders within several years of the books being published. They even deduced that much of the success attributed to these model firms was the result of industry sector performance rather than the companies themselves. Bearing witness to these situations, Kim and Mauborgne conclude that neither the company nor the industry is the appropriate unit of analysis in exploring the roots of high performance and blue oceans. Their further observation indicates that strategic moves, which consist of the set of managerial actions and decisions involved in making a major market-creating business offering with a significant leap in demand, is the right unit of analysis for explaining the creation of blue oceans and sustained high performance. The book then proceeds with the explanation of value innovation and a comparison between red ocean and blue ocean strategy before going into the analytical tools and frameworks.

There are no substitutes for analytics to guide managers in navigating successfully in the blue oceans, thus the authors present a set of tools and frameworks to ensure that the formulation and execution of blue ocean strategy are carried out systematically. First and foremost on their list is a tool used to break out of competition and make competition irrelevant called the strategy canvas. This tool is the central diagnostic and action framework for building a compelling blue ocean strategy. The horizontal axis captures the range of factors that the industry competes on and invests in, and the vertical axis captures the offering level that buyers receive across all these key competing factors. The strategy canvas serves two purposes. Firstly, it captures the current state of play in the known market space. This allows a business to understand where the competition is currently investing and the factors that the industry competes on. Secondly, it propels the business to action by reorienting its focus from competitors to alternatives and from customers to non-customers of the industry. The value curve is the basic component of the strategy canvas. It is a graphic depiction of a company's relative performance across its industry's factors of competition.
In order to reconstruct buyer value elements in crafting a new value curve, Kim and Mauborgne propose the use of the Four Actions Framework, which consists of four key questions to challenge an industry's strategic logic and business model. The first looks at the factors that the industry takes for granted, and which should be eliminated. The second focuses on factors that should be reduced well below the industry's standard. The third studies the factors that should be raised well above the industry's standard, while the last examines the factors that the industry has never offered that should be created. These key questions are complemented by a tool called ERRC grid.

The Eliminate-Reduce-Raise>Create (ERRC) Grid pushes companies not only to ask all four questions in the four actions framework but also to act on all four to create a new value curve, essential for unlocking a new blue ocean.

**ERRC Grid for the Short-Haul Airline Industry**

<table>
<thead>
<tr>
<th>Eliminate:</th>
<th>Raise:</th>
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<tbody>
<tr>
<td>▪ Over the counter booking system</td>
<td>▪ Focus on several key destinations</td>
</tr>
<tr>
<td>▪ Free Food/Beverage on the plane</td>
<td>▪ Increased frequency of flights</td>
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<tr>
<td>▪ Seating Class booking system</td>
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<tr>
<td>Reduce:</td>
<td>Create:</td>
</tr>
<tr>
<td>▪ “luxury” facilities provided by Airport Lounge</td>
<td>▪ Online Booking system</td>
</tr>
<tr>
<td>▪ Number of attendance service on the plane</td>
<td>▪ Point to point travel system</td>
</tr>
<tr>
<td>▪ Seat Quality</td>
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By driving companies to fill in the grid with the actions of eliminating and reducing as well as raising and creating, the grid gives companies immediate benefits, such as pushing them to simultaneously pursue differentiation and low cost to break the value-cost trade off, as well as immediately identifying companies that are focused only on raising and creating and thereby lifting the cost structure and often overengineering products and services. It is also easily
understood by managers at any level, creating a high level of engagement in its application. Lastly, because completing the grid is a challenging task, it drives companies to robustly scrutinize every factor the industry competes on, making them discover the range of implicit assumptions they make unconsciously in competing. In addition to these important tools, Kim and Mauborgne conclude the first part of the book with three characteristics of a good strategy, namely focus, divergence and a compelling tagline, all of which contribute to a good new value curve.

Part 2 of The Blue Ocean Strategy tackles the four formulation principles beginning with reconstructing market boundaries. This is done through detailed description of six reconstruction paths, which require a firm to look across alternative industries, across strategic groups, across buyer groups, across complementary products/services, across the functional-emotional orientation of an industry, and also across time. This is followed by the second formulation principle, namely focusing on the big picture. Here, Kim and Mauborgne propose the use of the four-step visualizing strategy and the PMS map.

The visualizing strategy deals with a lot of visual stimulation in unlocking people’s creativity that starts by identifying areas in the current strategy that need to change (visual awakening), then going through the six reconstruction paths and enlisting items in an ERRC grid to create blue oceans (visual exploration), followed by drawing a strategy canvas based on observations made earlier (visual strategy fair), and finally comparing before-and-after strategic profiles and choosing the appropriate strategic moves to be actualized (visual communication).

**Testing the Growth Potential of a Portfolio of Businesses through PMS Map**

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<th>Pioneers</th>
<th>Migrators</th>
<th>Settlers</th>
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Meanwhile, the pioneer-migrator-settler (PMS) map is applied as a useful tool for a corporate management team pursuing profitable growth by plotting the company's current and planned portfolios. For the purpose of the exercise, settlers are defined as me-too businesses, migrators are business offerings better than most in the marketplace, and a company's pioneers are the businesses that offer unprecedented value. This last category represents a company’s blue oceans because these pioneers are poised to become the most powerful sources of profitable growth as they are the only ones with a mass following of customers. This exercise is especially valuable for managers who want to see beyond today's performance. Revenue, profitability, market share, and customer satisfaction are all measures of a company's current position, but contrary to what conventional strategic thinking suggests, these measures cannot point the way to the future because they only reflect on how well a business has performed historically. Compounded by
changes in the environment that are too rapid, Kim and Mauborgne suggest that companies should be shifting the balance of their future portfolio toward pioneers as the path to profitable growth. The PMS map on the previous page depicts this trail, showing the scatter plot of a company's portfolio of businesses, where the gravity of its current portfolio of twelve businesses, expressed as twelve dots, shifts from a predominance of settlers to a stronger balance of migrators and pioneers.

The third formulation principle is to reach beyond existing demand. In this sense, the authors recommend that businesses concentrate their locus of attention on attracting non-customers into new demand rather than increasing the market share with existing customers, to seek key commonalities in what buyers value instead of threading their differences, and to exercise desegmentation in place of finer segmentation. In order to maximize the size of their blue oceans, companies need to take these reverse courses that will allow them to reach beyond existing demand while unlocking a new mass of customers that did not exist before.

Although the universe of non-customers typically offers big blue ocean opportunities, few companies have keen insight into who non-customers are and how to unlock them. To convert this huge latent demand into real demand in the form of thriving new customers, Kim and Mauborgne classify them into three tiers, each of which differs in its relative distance from a particular market. The first tier of non-customers is closest to the market, but they are not loyal to any brand or product/service unless offered something that they perceive as a leap in their buyer value, which will turn them into loyal customers. The second tier of non-customers is people who have seen offerings in the market but refuse to use them for some particular reasons. Finally, the third tier of non-customers is farthest from the market. They are non-customers who have never thought of the offerings as an option. By focusing on key commonalities and desegmentation across these non-customers and existing customers, companies can understand how to pull them into their new market.

As readers approach the end of Part 2, they encounter the fourth formulation principle, which is to get the strategic sequence right. At this point, Kim and Mauborgne urge readers to follow a structured implementation process which begins with creating exceptional buyer utility, followed by setting the strategic price accessible to mass customers, then meeting a cost target that ensures a healthy profit margin, and lastly addressing adoption hurdles that may be encountered. In order to enhance readers’ understanding of these elements, the authors provide additional information about the six stages of the buyer experience cycle (purchase, delivery, use, supplements, maintenance and disposal).

The authors also forward a set of tools and frameworks to assist managers with the implementation of the blue ocean strategy. These tools include the buyer utility map (outlining possible utility levers that a company can pull to deliver exceptional buyer utility against the various buyer experience cycle) which allows managers to identify the full range of utility spaces that a product/service can potentially fill. The inclusion of price corridor of the mass, as another framework, helps managers find the right price for an irresistible offer by understanding the price sensitivities among customers or noncustomers, and by evaluating business conditions that may influence buyer acceptance level toward a product/service price.

Part 2 concludes with the authors’ description of Blue Ocean Strategy’s profit model, which is exemplified by three forces: strategic pricing, target cost and pricing innovation. Strategic pricing will dictate the target cost, which can be met through streamlining/cost innovations or partnering/collaboration networks. Pricing innovation comes in when the target cost cannot be achieved or is hard to achieve, thus allowing managers to create a new price model that does not
compromise on the strategic price. In addition to this, Kim and Mauborgne also provide the Blue Ocean Index (BOI) as a simple but robust test to examine whether utility, price, cost and adoption are in accordance with the prescribed strategy. It is important to note that throughout the discussions in this second part of the book, useful examples accompanied by the applications and illustrations of strategy canvases, ERRC grids and various maps and indices to support the strategic moves of these model firms, are presented to extend more clarity to readers’ comprehension.

Part 3, which covers the last three chapters of the book, is dedicated to addressing the two execution principles of blue ocean strategy. The first principle, overcoming key organizational hurdles – cognitive hurdle (changing the employees’ mindset), limited resources, motivation (changing the status quo) and politics (power play) – requires companies to abandon perceived wisdom on effecting change. Conventional wisdom asserts that the greater the change, the greater the resources and time that the manager will need to bring about results. However, Kim and Mauborgne claim that a manager needs to flip conventional wisdom on its head using what they call “tipping point leadership”, a style of leadership that allows managers to overcome these four hurdles fast and at low cost while winning employees’ backing in executing a break from the status quo. An elaborate example of this leadership style is illustrated by the success of Bill Bratton as the New York city Police Commissioner of the mid-90s in fighting the impermeable crime rates that put New Yorkers under siege. Readers may question that this success could have been caused by other factors, as documented in a later book called “Freakonomics” – highlighting the significant role that increased abortion rates had in significantly contributing to the decline of crime rates during the said period – but the Police Commissioner’s policies, actions and leadership should never be discounted as major factors.

The final part of Part 3 attends to the last execution principle, namely building execution into strategy. Kim and Mauborgne admit that creating a culture of trust and commitment that motivates people to execute the agreed strategy is crucial in all types of strategies, but where blue ocean strategy is concerned, this challenge is heightened. They envision fair process, a set of elements (engagement, explanation and expectation clarity) that make people trust an adopted strategy so that they will comply with the requirements of such strategy without being coerced. The final point of contention in the book extends from the last execution principle, in which the authors explain the conditions of sustainability for blue oceans and the need for renewal of blue oceans. Here, imitation barriers (operational or cognitive) are disclosed through examples of model firms and their value innovations. The authors end this last part of the book by offering a brief discussion about when to value-innovate again, thus bringing readers back to the practical reality that companies need to succeed in both oceans, as well as master both strategies (red and blue).

Despite all the compelling concepts and practicality of its tools and frameworks proposed in the book, critical questions confront its credibility. Firstly, readers will be cloaked in uncertainty, especially as to whether its ideas are new or whether they are already in existence. This is apparent since a feeling of nostalgia overcomes the reader time and again as the authors appear to be digging up traditional strategies and reframing them. The authors certainly claim that blue ocean’s existence is not new, although the term is. In fact, blue ocean strategy may have followed along a similar line of reasoning to that used by earlier strategic thinkers who preached about thinking outside the box. No book is more reflective of this than the one written in 1999 by Swedish professors Jonas Ridderstrale and Kjell Nordstrom, called “Funky Business”. For instance, the earlier book claims that “in today’s business, overcapacity is the norm”, which resembles Blue Ocean Strategy’s “supply exceeds demand” scenario. In another example, Kim and Mauborgne’s claim that “a red ocean strategy does not guarantee success” echoes in the same
breath the explanation in Funky Business that “Competitive strategy is the route to nowhere”. Ridderstrale and Nordstrom also claim that “the aim of companies is to create temporary monopolies”, sharing Kim and Mauborgne’s sentiments about “companies aim in creating blue oceans that will eventually turn red”. Another influential book that has the same foundations as The Blue Ocean Strategy is Sun Tzu’s “The Art of War”, which encourages businesses “to aim for invincibility and victory without battle”, although the latter does describe “the need to defend and protect that which has been made unassailable”. Besides the similarity of concepts, many of the tools proclaimed in the book are also used by Six Sigma practitioners and even proposed by other management gurus, rendering them not totally new but rephrased and reframed. Some experienced individuals may also associate the book with the simple repackaging of long held notions about market niches. While many of the concepts in blue ocean strategy may have been around for awhile, careful synthesizing by Kim and Mauborgne has certainly turned them into an undeniably powerful message for the reader.

Secondly, one questions whether the ideas in the Blue Ocean Strategy are descriptive rather than prescriptive. As many examples of successful innovation presented in the book are explained from the authors’ blue ocean perspective, it could possibly mean that success had been interpreted through their lenses.

Thirdly, the research process followed by the authors raises questions on several grounds. Primarily, no control group was used, thereby disallowing further investigation on the number of cases in which companies which applied blue ocean strategy failed, nor has there ever been a successful business initiative that was not a blue ocean strategy. In addition, the authors did not follow deductive reasoning in their research. Instead, they applied inductive reasoning, which examines many pieces of specific information to impute a general principle, causing the readers to think that examples in the book are selected to “tell a winning story”.

Fourthly, Kim and Mauborgne did not spell out in detail the role of marketing in blue ocean strategy. They simply take the effective marketing of a value innovation as a given, assuming that marketing success will come as a matter of course. This assumption, as claimed by any marketer, is a dangerous one as value alone does not bring a consumer to buy, but marketing does. Nevertheless, it must be pointed out that blue ocean tools like the strategy canvas are flexible enough to be applied in any which way that can benefit the user, which includes mapping out the marketing elements that you use and what others are using. It is never meant to only clearly show the current state of play of the competition in terms of what they are offering in value, as perceived by the customers.

The fifth critical question stems from the fact that Kim and Mauborgne seem to compromise the main premise of their book (becoming sustainable, creating uncontested market, and making competitors irrelevant) by incorporating competitive intelligence in most of their analytical tools and frameworks time and again throughout the book. In their last chapter, the authors even concede that a successful blue ocean will invite competitors, and in time businesses will have to abandon it and start innovating for a new blue ocean. One wonders whether it is wise to stand by a strategy that urges putting a lot of effort into value innovation but does not encourage any kind of defensive procedure once competitors manage to imitate. Perhaps, the authors’ idea of a company’s value innovation would be considered so far fetched by its competitors that they would not be able to accomplish even the slightest hint of the breakthrough creation in a timely manner that would result in the company’s ability to achieve enduring extraordinary growth.

The sixth critique of the book centres on another assumption of blue ocean strategy, which is a stable business cycle over time. This means that every value innovation will not encounter threats
from competitors until a substantial period has lapsed. But business cycles are only going to be moving at a faster rate as time progresses, and coupled with technological advancement, competitors may enter sooner than expected causing losses for the first mover (without an effective competitive strategy), and probably highlighting the advantages of becoming a fast second.

The final problem with the book is that the concept cannot be applied to every single product or service. For example, globalization of manufacturing, licensing and franchising businesses are making it rather impossible for certain product attributes to be changed, or for the manner in which they are delivered to be changed. These will surely complicate the process of implementing blue ocean strategy, unless of course a total change of business is done, usually involving high costs.

These critical evaluations of the Blue Ocean Strategy, in addition to its many qualities, engulf the readers’ impression of the book making it an alluring read. In reinforcing readers’ understanding and grasp of the blue ocean strategy, three appendices are also presented after the last chapter of the book. The first shows a historical pattern of blue ocean creation in three major American industries: automobile, computer, and movie theatre, while the other two appendices discuss value innovation as a reconstructionist view of strategy as opposed to the structuralist view, and value innovation market dynamics. The end notes, arranged from chapter to chapter, provide important additional information that clarifies the points made in the body of the text. The bibliography consists of a comprehensive range of primary and secondary sources used by the authors to put forward a justifiably exceptional piece of writing that will become a major reference point for many readers in the many years to come. Finally, the index provides an essential tool for efficient retrieval of topics to readers, while at the same time it illuminates the authors’ message with succinctness.

Overall, the authors of the book have made a real contribution to advancing the thinking on business strategy, and the book is a must read for any business leader who is striving to make his/her organization remarkable, no matter in what industry, how small or big, or how old or new. Junior managers and students should exercise additional care in putting the ideas from the book into practice, depending on the context of their work tasks and their course syllabus respectively (considering the fact that conventional practice still seems to instill the requirement for competitive strategies and their undertakings). Hence, it is also suggested that readers consider referring to a few other books and resources that can help develop the competitive instincts marginalized by the Blue Ocean authors. Finally, many would agree that the secret to appreciating the book is to approach the contents with no pre-mindset.

References:


Pollard, Wayne E. *Blue Ocean Strategy's Fatal Flaw.* CMO Magazine, December 1, 2005