



BLUE OCEAN STRATEGY

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Content of Presentation

- Introduction
- Existing Ideas in Marketing - “Red Ocean Strategy”
- Blue Ocean Strategy
- Ideas, Examples, and Academic Objections
- Conclusions

Introduction

- Existing Companies competing in well defined marketplaces
- Emphasis on taking market share from Competitors
- Detailed market research of existing customers/markets
- Downward pressure on margins

Traditional Marketing Strategy

- Many studies have been done to look at best Competitive Practice
- Many worthwhile tools developed eg Porter, BCG, Ansoff, PIMS
- Three generic strategies – Focus or Differentiation or Low Cost

Current Thinking

- Companies use well developed tools to refine their Marketing Strategy in a regular disciplined way
- Companies spend considerable amounts of money trying to understand their customers needs and wants (Formal and Informal Market Research)

Problems with Current Thinking

- If all Companies use the same techniques, danger of all Companies doing the same thing
- Customers will rarely do the “thinking” for the Company ie Customers do not try to solve a Company’s problems
- Problems of Globalisation, Shrinking Markets, Commoditisation
- Smaller Market Segments

Red Ocean Strategies

Companies tend to do the following:

- Define their Industry similarly
- Focus on the same buyer group
- Focus on the same point in time
- Try to stand out in a predefined group

Blue Ocean Strategy

- Relatively New Concept
- Originated in 2004 by 2 Professors at INSEAD, Paris
- Challenges but does not replace existing thinking
- Tools and techniques still being developed

Blue Ocean Strategy

- Create your own market – hence define it and dominate it.
- Most often cited example – e-Bay
- Does not have to be technology driven
- Often based on understanding non-customers

Profit & Growth Consequences of Creating Blue Oceans

Business Launch



Revenue Impact



Profit Impact



Launches within Red Oceans



Launches for creating Blue Oceans

Blue Ocean Strategy Workshop

Automobile	Computer	Movie Theatre
Ford Model T	CTR	Nickelodeon
General Motors	IBM	Palace Theatres
Made in Japan	Apple	Multiplex
Chrysler Minivan	Dell	Megaplex

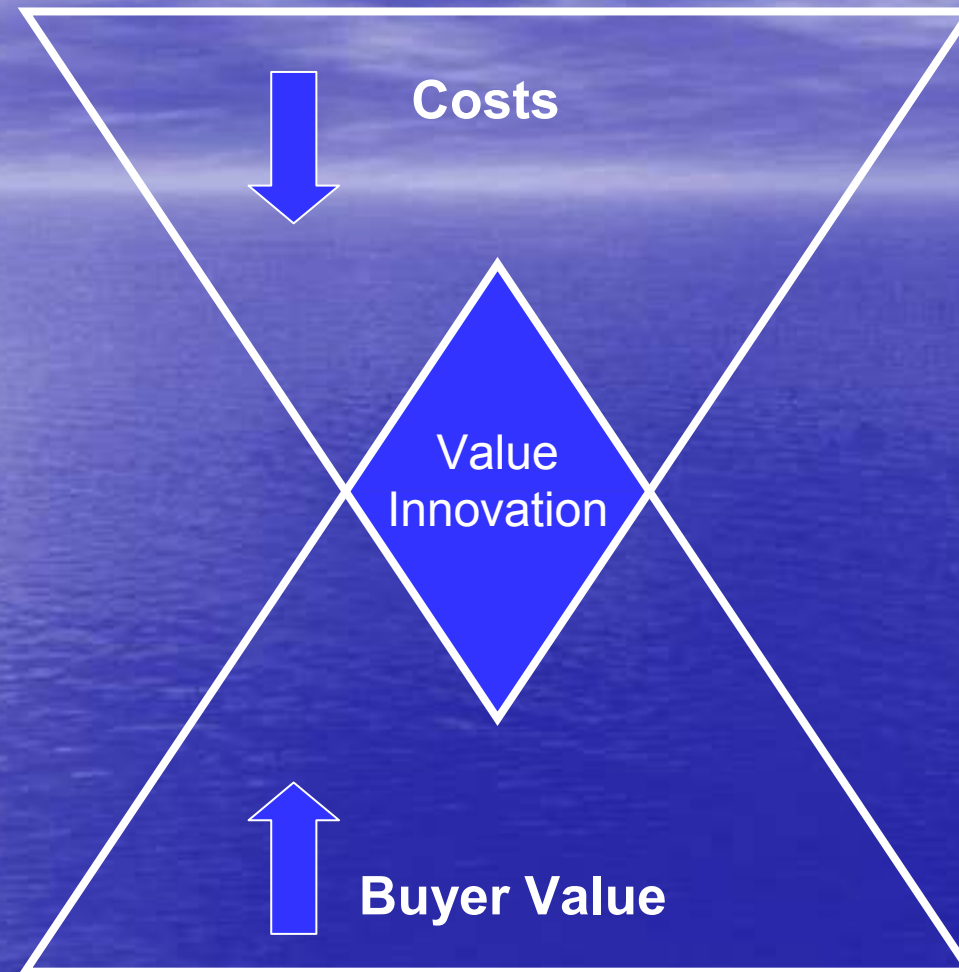
Blue Ocean Strategy Workshop

Select any 3 of these companies and discuss:

- Are they really Blue Ocean Strategies?
- If so, produce a Strategy Canvas
- If not – explain why not

Be prepared to present your conclusions.

The Cornerstone of Blue Ocean Strategy



The Simultaneous Pursuit of Differentiation and Low Cost

Red Ocean Vs Blue Ocean Strategy

Red Ocean Strategy

Competes in existing market space

Beat the Competition

Exploit existing demand

Make the value-cost trade-off

Align the whole system of a firm's activities with its strategic choice of differentiation or low cost



Blue Ocean Strategy

Created uncontested market space

Make the competition irrelevant

Create and capture new demand

Break the value-cost trade-off

Align the whole system of a firm's activities in pursuit of differentiation and low cost

Three elements of Blue Ocean Strategy

- Focus
- Divergence
- Compelling Tagline/Proposition

The Four Actions Framework

- 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 above the industry's standard ?
- Which factors should be created that the industry has never offered ?

Blue Ocean Strategy

How to build it

- Look across alternative industries
- Look across strategic groups within industries
- Look across the chain of buyers
- Look across complementary product and service offerings
- Look across functional or emotional appeal to buyers
- Look across time

Blue Ocean Shift

Head to Head

Blue Ocean Creation

Industry

Focuses on rivals within it's industry



Looks across alternative industries

Strategic Group

Focuses on competitive position with strategic group



Looks across strategic groups within Industry

Buyer Group

Focuses on better serving the group



Redefines the industry buyer group

Scope of product or service offering

Focuses on maximizing the value of product and service offerings within the bounds of its industry



Looks across to complementary product and service offerings

Functional – Emotional orientation

Focuses on improving price performance within the functional-emotional orientation



Rethinks the functional – emotional orientation of its industry

Time

Focuses on adapting to external trends as they occur



Participates in shaping external trends over time

Mexican Example - Cemex

- Problem of Retail Sales of Cement to low-income customers
- Patrimonio Hoy
- Based on tanda
- Cultural Innovation
- Creation of an entirely new market

Patrimonio Hoy Services

- Technical Assistance
- Support for Education – Buildings
- School for DIY Homebuilders
- Guaranteed Quality
- Free Secure Storage
- Prices Frozen for 70 weeks

Cost Savings for Cemex

- Stripped out one distribution tier
- Lower inventory costs
- Smoother production runs
- Guaranteed sales – lower capital costs
- Big drop in customer defaults

Patrimonio Hoy - Results

- 300% increase in sales of cement to low income families
- Repositioned Cement to embrace Social Status and Success with Accessibility
- Not lowest cost in market
- Operates in 15 States in Mexico
- Similar operations to be instituted in Overseas Markets

Blue Ocean Strategy Workshop

SWATCH

Was Swatch's creation a Blue Ocean Strategy?

The Six Paths Framework

1. Look across alternative industries
2. Look across strategic groups within industries
3. Look across the chain of buyers
4. Look across complementary product and service offerings
5. Look across functional or emotional appeal to buyers
6. Look across time

The Four Steps of Visualising Strategy

1. Visual Awakening			
<ul style="list-style-type: none">• Compare your business with your competitors' by drawing your "as is" strategy canvas.• See where your strategy needs to change.			

The Four Steps of Visualising Strategy

1. Visual Awakening	2. Visual Exploration		
<ul style="list-style-type: none">• Compare your business with your competitors' by drawing your "as is" strategy canvas.• See where your strategy needs to change.	<ul style="list-style-type: none">• Go into the field to explore the six paths to creating blue oceans.• Observe the distinctive advantages of alternative products and services.• See which factors you should eliminate, create or change.		

The Four Steps of Visualising Strategy

1. Visual Awakening	2. Visual Exploration	3. Visual Strategy Fair	
<ul style="list-style-type: none">• Compare your business with your competitors' by drawing your "as is" strategy canvas.• See where your strategy needs to change.	<ul style="list-style-type: none">• Go into the field to explore the six paths to creating blue oceans.• Observe the distinctive advantages of alternative products and services.• See which factors you should eliminate, create or change.	<ul style="list-style-type: none">• Draw your "to be" strategy canvas based on insights from field observations.• Get feedback on alternative strategy canvases from customers, competitors' customers and non-customers.• Use feedback to build the best "to be" future strategy.	

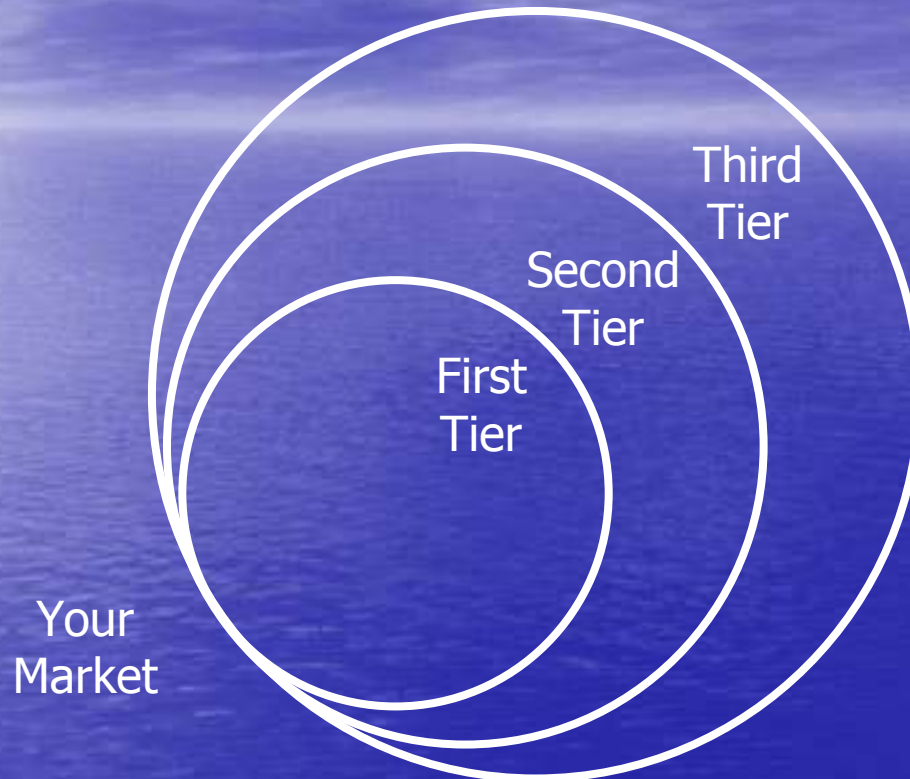
The Four Steps of Visualising Strategy

1. Visual Awakening	2. Visual Exploration	3. Visual Strategy Fair	4. Visual Communication
<ul style="list-style-type: none">• Compare your business with your competitors' by drawing your "as is" strategy canvas.• See where your strategy needs to change.	<ul style="list-style-type: none">• Go into the field to explore the six paths to creating blue oceans.• Observe the distinctive advantages of alternative products and services.• See which factors you should eliminate, create or change.	<ul style="list-style-type: none">• Draw your "to be" strategy canvas based on insights from field observations.• Get feedback on alternative strategy canvases from customers, competitors' customers and non-customers.• Use feedback to build the best "to be" future strategy.	<ul style="list-style-type: none">• Distribute your before-and-after strategic profiles on one page for easy comparison.• Support only those projects and operational moves that allow your company to close gaps to actualise the new strategy.

The Pioneer – Migration – Settler (PMS) Map

- Pioneers
 - offer exceptional value
 - blue oceans
 - major potential growth
- Migrators
 - offer improved value
 - not innovative
 - “purple” oceans
- Settlers
 - existing me too businesses
 - red ocean
 - limited growth, but profitable
 - cash generating

The 3 Tiers of Noncustomers



First Tier: "Soon-to-be" noncustomers who are on the edge of your market, waiting to jump ship.

Second Tier: "Refusing" noncustomers who consciously choose against your market.

Third Tier: "Unexplored" noncustomers who are in markets distant from yours.

Imitation Barriers to Blue Ocean Strategy

- Value innovation does not make sense to a company's conventional logic.
- Blue ocean strategy may conflict with other companies' brand image.
- Natural monopoly: The market cannot often support a second player.
- Patents or legal permits block imitation.
- High volume leads to rapid cost advantage for the value innovator, discouraging followers from entering the market.
- Network externalities discourage imitation.
- Imitation often requires significant political, operational and cultural changes.
- Companies that value-innovate earn brand buzz and a loyal customer following that tends to shun imitators.

The Strategy Canvas

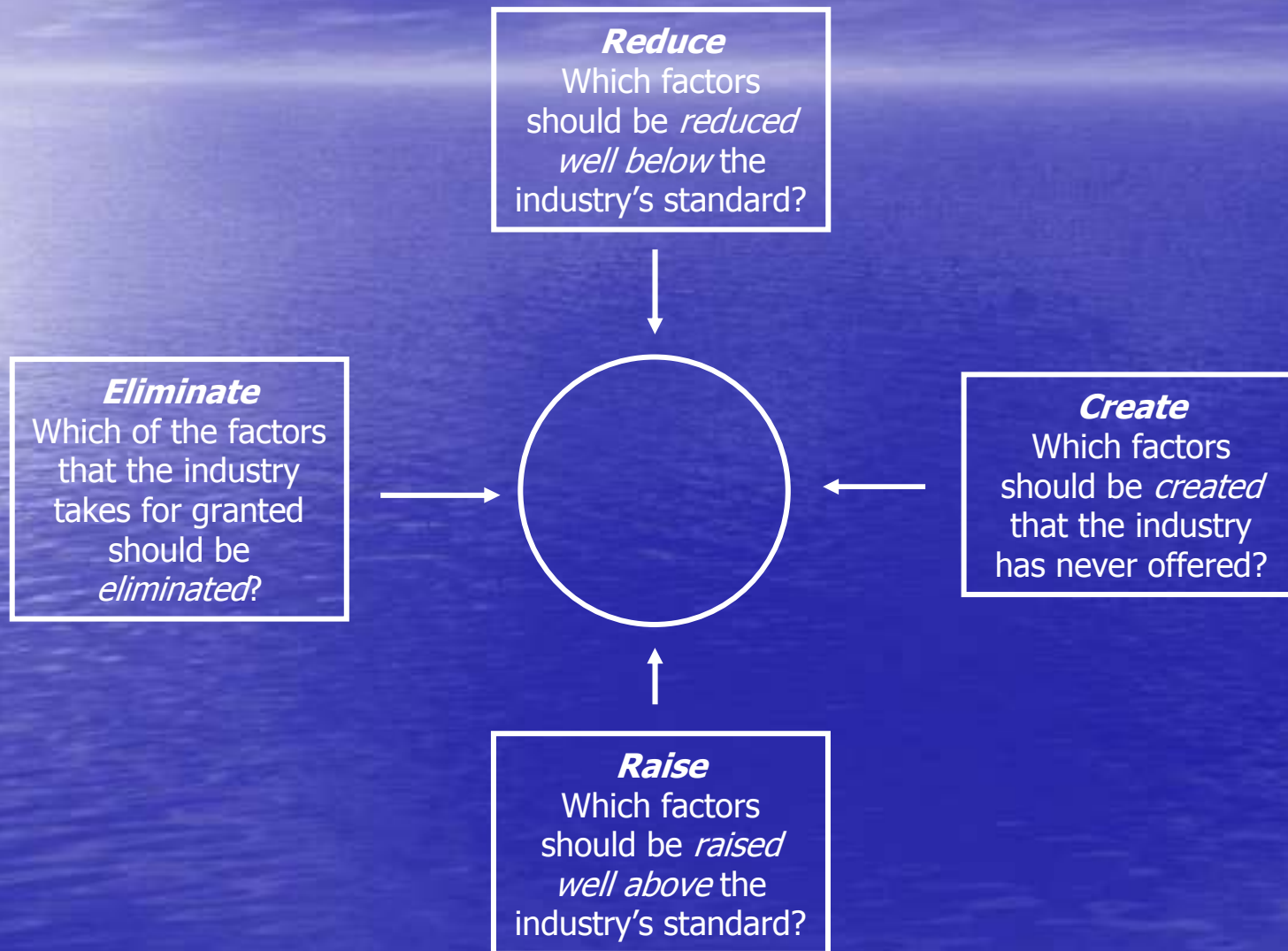
High

Low

Identify the principal factors in the industry

- Current state of play.
- Identify yours and competitors offerings.
- “Apparent” success factors in product, service, perception and delivery.

The Four Actions Framework



Academic Objections to Blue Ocean Strategy - Outcomes

- The book of “Blue Ocean Strategy” is itself positioned in a “Red Ocean”!
- Although strategic change must be directed from the top, genuine innovation often comes from below.
- The prescriptive frameworks may stifle creativity, diversity, openness and experimentation.
- If all senior executives in a competitive industry all attend the same BOS course – will they all come up with the same “Red Ocean”?!
- Relatively few documented success stories of companies that applied the BOS theories, despite original publication of “Value Innovation” in 1997.
- Brand and communication are taken for granted.

Academic Objections to Blue Ocean Strategy - Research

- No control group used in research.
- No quantification of how many companies trying a BOS failed.
- Examples selected all tell a “winning story”.
- “Tipping point leadership” example from New York (crime) was not unique.
- Authors select winning innovations, and then retrospectively interpret through “BOS lenses”.

The Six Principles of Blue Ocean Strategy

Formulation principles

Reconstruct market boundaries
Focus on the big picture, not the numbers
Reach beyond existing demand
Get the strategic sequence right

Risk factor each principle attenuates

↓ Search risk
↓ Planning risk
↓ Scale risk
↓ Business model risk

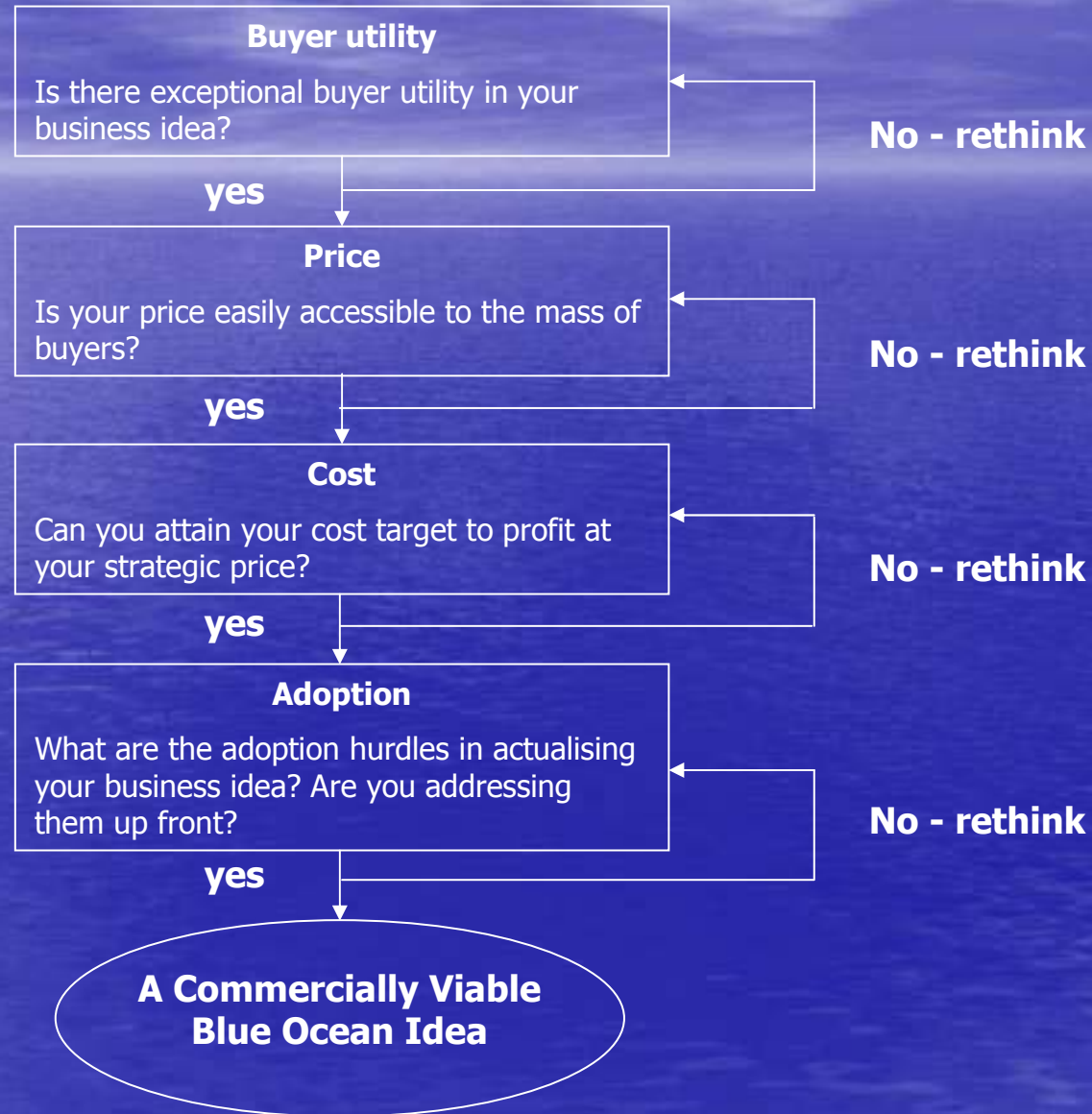
Execution principles

Overcome key organisational hurdles
Build execution into strategy

Risk factor each principle attenuates

↓ Organisational risk
↓ Management risk

The Sequence of Blue Ocean Strategy



Conclusions

- Blue Ocean Strategy is not a panacea for all Companies Problems
- Implementation must be directed from the top
- May not play on existing Core Competencies
- Definitely worth devotion of some Senior Management Time

Want to Know More ?

- “Blue Ocean Strategy” by W. Chan Kim and Renee Mauborgne (Harvard Business Press)
- Cemex Case Study – Kris Herbst – Changemakers.net
- a.a.young@warwick.ac.uk

Thank You

- ¿ Questions ?
- ¿ Answers ?

