BLUE OCEAN STRATEGY

V. V. Kharchenko, groupM-62

S. G. Zolotova – EL Adviser

Blue Ocean Strategy is a business strategy book that promotes a systematic approach "for making the competition irrelevant." It contains retrospective case studies and suggests theoretical approaches to creating "blue oceans" of uncontested market space ripe for growth.

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. Products become commodities or niche, and cutthroat competition turns the red ocean bloody. Hence, the term red oceans.

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. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.

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.

Kim and Mauborgne studied about one hundred fifty strategic moves 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. 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". 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.

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;

Netjets: fractional jet ownership;

Southwest Airlines: offering flexibility of bus travel at the speed of air travel using secondary airports;

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.

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. 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”. 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.

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. The authors present many examples of successful innovations, and explain from their Blue Ocean perspective - essentially interpreting success through their lenses.

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".

Brand and communication are taken for granted and do not represent a key for success. Kim and Maubourgne take the marketing of a value innovation as a given, assuming the marketing success will come as a matter of course. The book only presents a snaphot 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.