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Blue Ocean Strategy
Strategy For Winning Without Fighting

Dr. Vikas Saraf
Additional Director,
Vidyasagar Institute of Management (VIM),
Bhopal (M.P), India

Ms. Lata Yadav
Assistant Professor
Vidyasagar Institute of Management (VIM),
Bhopal (M.P), India

Shantanu Khare
Assistant Professor
Vidyasagar Institute of Management (VIM),
Bhopal (M.P), India

Abstract:

The traditional strategies based competition (Red Ocean Strategy) assumes that industries structural conditions are given and that firms are compelled to compete among themselves. For their sustainability in the marketplace, practitioners of red ocean strategy focal point is on developing advantages over the competition, usually by analyzing what competitors do and striving to do in a better way. In this, cost and value are observed as trade-offs and a firm chooses a distinctive cost or differentiation position.

Blue Ocean Strategy (BOS) in contrast, is based on the view that there is no existence of market boundaries and industry configuration but can be reconstructed by the actions and beliefs of players. To them, superfluous demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn, requires a budge of attention from supply to demand, from a focus on competing to a focus on value innovations, i.e, the creation of innovative value to give way to new demand. This is achieved through the simultaneous pursuit of differentiation and low-cost.

Key words: #Value Innovation, ##Differentiation, ###Low Cost.

Introduction:

Blue ocean strategy according to investopedia is a slang term for the uncontested market space for an unknown industry, marketplace or innovation. It was coined by W.Chan Kim and Reni Mauborgne, professors of Strategy and Management at INSEAD. Prof. Charles W. L. Hill from Michigan State University in (1988) claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. But this approach of differentiation leading to low cost limits the search for the new markets, as firms often copy each other, follow similar practices and most of the time end up in similar markets of highly contested territory. Prof. Hill suggested that a combination of both differentiation and low cost may be necessary for firms to achieve a sustainable competitive advantage.

In a series of articles starting from "Fair Process: Managing in the Knowledge Economy". Harvard Business Review (1997), Procedural Justice, Strategic Decision Making and the Knowledge Economy." Strategic Management Journal, (1998) to finally "Blue Ocean Strategy." Harvard Business Review,(2004) Kim and Mauborgne studied about one hundred fifty positions made from 1880 to 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, construction, Publishing, 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.

Many others have proposed similar strategies. For example, Swedish educators Jonas Ridderstrale and Kjell Nordstrom(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 Ridderstrale and Nordstrom. Ridderstrale and Nordstrom 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, which will eventually turn red. This is the same idea expressed in the form of an analogy. Ridderstrale and Nordstrom 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 makes sense in a world where supply exceeds demand.

What's red ocean strategy?

Red oceans are industries where competitions exist and are heavily contested. In the red oceans, industry boundaries, standards are defined, economics of scale becomes clear, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of products or services. As number of players increase, prospects for profits and growth are reduced. Products become commodities or niche, and cut-throat competition turns the red ocean bloody. Hence, these types of industries are termed red oceans. Some examples of red oceans in Indian scenario are Indian salt industry dominated by Tata salt, India's online bookstore market initially started Indiaplaza, followed by Flipkart and now a number of online bookstore like Infibeam, Crowsswords, Bookadda, Landmark, Uread etc. Any new additions in either Indian salt market or the online bookmarket could be classified as entering Red Ocean.

What's blue ocean strategy?

Blue Ocean is search for clear new markets which are uncluttered and full of growth and profit potential. It is about creating and capturing uncontested market space, thereby making competition irrelevant. In more clear terms blue ocean strategy is about a whole system alignment of the value proposition (utility minus price) by creating an offer that dramatically raises buyer utility at the right price for the mass of the market; profit proposition (price minus cost) by creating a leap in value for the company itself by making a tidy profit; and people proposition by overcoming key organizational hurdles and building execution into strategy formulation.

In blue oceans, demand is created rather than fighting over existing piece of market. Akio Morita, Chairman of Sony once said, "Carefully watch how people live, get an

intuitive sense as to what they might want and then go with it. Don't do market research." In 1979 this careful observation of customers resulted in Walkman, which created a new market for music players for customers on the move. Akio Morita had said "This is the product that will satisfy those young people who want to listen to music all *day"*.

Examples like these create 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 by companies.

The basis of Blue Ocean Strategy is **'Value Innovation'**. A blue ocean pops up 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. Examples of this include reduction in size of mobile recharge cards, biscuit wrappers etc.

A true blue ocean strategy must have three key components in order to implement and communicate your strategic move: the strategy must be focused, diverge from the competition's strategic profile, and have a compelling tagline that speaks to the market.

Some examples of compelling taglines include:

Apple: Think different.
Dunkin Donuts: America runs on Dunkin.
General Electric: We bring good things to life.
Nike: Just do it.
Subway: Eat Fresh.
Wheaties: The breakfast of champions.

Principles of Blue Ocean Strategy:

Principles of Blue Ocean Strategy are the six main principles that guide companies through the formulation and execution of their Blue Ocean Strategy in a systematic risk minimizing and opportunity maximizing manner.

The first four principles address Blue Ocean Strategy formulation:

Reconstruct market boundaries:

Look for six paths focus on looking across alternative industries, across strategic groups, across buyer groups, across complementary product and service offerings, across the functional-emotional orientation of an industry, and even across time. Dell Inc. (founded 1984) started focusing on buyer groups and advertised its systems in national computer magazines for sale directly to consumers and custom assembled each ordered unit according to a selection of options. Dell surpassed Compaq to become the largest PC manufacturer in 1999. At present Dell Inc. is the third largest PC manufacturer after HP and Lenovo.

Focus on the big picture, not the numbers:

It tells how to design a company's strategic planning process to go beyond incremental improvements to create value innovations. It presents an alternative to the existing strategic planning process, which is often criticized as a number-crunching exercise that keeps companies locked into making incremental improvements. This principle tackles planning risk. Using a visualizing approach that drives managers to focus on the big picture rather than to be submerged in numbers and jargon, this principle proposes a four-step planning process whereby you can build a strategy that creates and captures blue ocean opportunities.

Reach beyond existing demand:

To create the greatest market of new demand, managers must challenge the conventional practice of aiming for finer segmentation to better meet existing customer preferences. This practice often results in increasingly small target markets. Instead, this principle shows how to aggregate demand, not by focusing on the differences that separate

customers but by building on the powerful commonalities across non-customers to maximize the size of the blue ocean being created and new demand being unlocked, hence minimizing scale risk.

Get the strategic sequence right:

This principle describes a sequence which companies should follow to ensure that the business model they build will be able to produce and maintain profitable growth. When companies meet the sequence of utility, price, cost and adoption requirements, they address the business model risk and the blue ocean idea they created will be a commercially viable one.

The remaining two principles address the execution risks of Blue Ocean Strategy.

Overcome key organizational hurdles:

Tipping point leadership shows managers how to mobilize an organization to overcome the key organizational hurdles that block the implementation of a blue ocean strategy. This principle deals with organizational risk. It lays out how leaders and managers alike can surmount the cognitive, resource, motivational, and political hurdles in spite of limited time and resources in executing blue ocean strategy.

Build execution into strategy:

By integrating execution into strategy making, people are motivated to act on and execute a blue ocean strategy in a sustained way deep in an organization. This principle introduces, what Kim & Mauborgne call, fair process. Because a blue ocean strategy perforce represents a departure from the status quo, fair process is required to facilitate both strategy making and execution by mobilizing people for the voluntary cooperation needed to execute blue ocean strategy. It deals with management risk associated with people's attitudes and behaviors.

How is it different from the red ocean strategy?

Red ocean strategy binds firm’s strategy planners in a structural cage with Porter’s 5 forces model firmly entrenching the imagination and value creation. And so to sustain 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. Market is considered to be more or less fixed in size and grabbing a bigger pie of market is seen as a zero-sum game in which one company's gain is achieved only when another company's bears loss. The focus is on dividing up the red ocean, where growth is increasingly limited. The Economist video, "Did you know?" (2010) on Youtube describe how in USA newspapers readership has declined by 18.7%, television viewership has declined by 10.1% and magazine circulation has declined by 14.8%, meanwhile usage of laptop increased by 9.2% and Smartphone by 18.1%. **ABC, NBC** news have been in business since 100 years and get 10 million visitors every month, while **Youtube, Facebook**, and **Myspace** gets 250 million visitors every month and none of these companies existed 10 years ago.

David Erickson (2009) in his "Barack Obama's Online Fundraising Machine" talks about how Barack Obama perfected online fund raising by combining it with social networking he raised $45 million out of total $55 million presidential campaign fund, while his opponent John McCain was not able to raise half of that some using traditional election fund raising methods.

These are examples of how by reconstructing boundaries, focusing on big picture, reaching beyond existing demands, overcoming hurdles accompanied by strategic sequence and execution based strategy, Blue Ocean is created.

Red Ocean Strategy vs Blue Ocean Strategy

Red Ocean Strategy	**Blue Ocean Strategy**
Compete in existing market place	Create uncontested market space
Beat the competition	Make Competition irrelevant
Exploit existing demand	Create & capture new demand
Make the value-cost trade-off	Break the value cost trade-off.
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost.	Align the whole system of a firm's activities in pursuit of differentiation and low cost.

Blue ocean strategy provides a framework for initiating four types of action for breaking the value-cost trade-off which identify:

What factors that the industry takes for granted but can be eliminated?

What factors that can be reduced?

Where the value offerings should be raised?

Which new factors to create that increase the value offerings?

Business Challenge

It may be that a firm is a small but growing service or product provider in the translation and localization space. The desire should be to grow their business by finding new, unique niche markets that had the potential of becoming more profitable than their traditional line of business in future. **Theodore Levitt** (1960) in his famous article titled "Marketing Myopia" demonstrated how companies unable to recognize blue oceans often end up losing all of their businesses. Railroad was one of the most profitable industries in 19th century USA. But the failure of railroad companies to recognize small but fast growing automobile market lead to their downfall.

The Blue Ocean idea index has four essential tenets:

Utility to the consumer,

Affordable price,

Affordable cost to the manufacturer and

Ease of adaption.

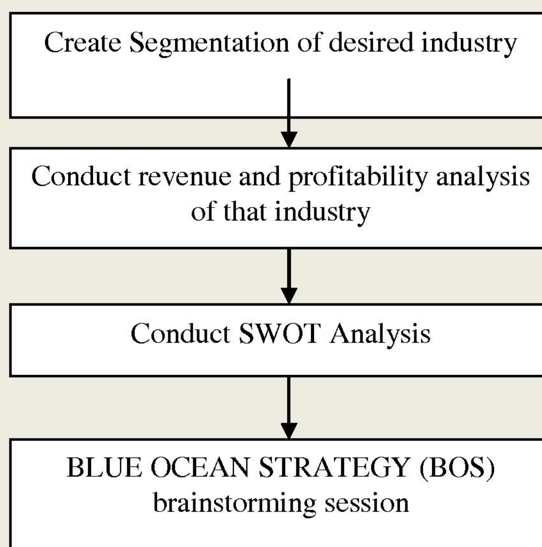
Some examples include coming of Walkman in 1970's ended huge bulky music system; i-pod launched at the dawn of 21st century started the age sleek digital music player which gave utility, affordability to consumer and manufacturer and most of all ease of adoption.

Criticism

Blue Ocean strategy though a great concept in the field of management, there are many who criticize it. Wayne Pollard (author and consultant at CMO Magazine), on manyworlds.com argues that marketing is one of the key factors determining success in blue ocean strategy, yet authors devoted only one paragraph in 240 page book on it. Authors of Blue Ocean strategy have mainly examined 3 main industries automobiles, computers and movie theatres again and again; they have not covered other industries in general. Lastly critics have compared BOS to famous Chinese war manual "Art of War", other than **"Eliminate-Reduce-Raise-Create"** Grid which forms the base of creating the Blue Ocean, similar concepts can be found in, "The Fortune At The Bottom Of Pyramid" (C K Prahlad, Stuart L Hart). Lastly The blue ocean/red ocean analogy is a powerful and memorable metaphor, which is responsible for its popularity. The book does not explain the most critical aspect that of differentiation between a product innovation which may have the same target users (i-phone used by a teenager and a stock trader), or a different product, a different way of execution of the same and different market all together like 1980s war between Nirma and HUL.

Solution and Services Provided

Some of the steps leading to leading to blue ocean strategy in different industries could be generalized as follows.



Tentative Results

Above steps would result in following:

Profitability analysis will show that the segment the industry is planning to focus on in the future will not as profitable as others,

SWOT analysis helped narrow down future segments to those that best met their strengths,

As a result of the **BOS brainstorming**, industry may identify many new ideas and narrow them down to two new service definitions that would take them out of competition with some of their competitors.

Examples of Blue Ocean Strategy:

Sunfeast Pasta: ITC entered ready to eat instant noodle market of India by launching Sunfeast Pasta. Nestle's Maggi noodles dominates instant noodle market in India.

Other brands like Nissin's Top Ramen, Ching's Secret competed with Maggi on national stage but were unable to capture the market. Sunfeast entered the competition by launching instant Pasta (one of the type of noodles). This blue ocean strategy helped Sunfeast in avoiding head on collision with Maggi.

Knorr: Knorr also entered ready to eat food heavily dominated by Maggi Noodles by first launching a series of **soups** followed by **soupy noodles**. Thereby creating Blue Ocean.

CavinKare: used this in 1984 for the first time when he launched Sachets in India. The first launch was **Chik Sachets** for as low as 50 paisa. And they got a big market by targeting the bottom of Pyramid.

Kingfisher Airlines**:** They have used the whole experience as their USP. They have created a blue ocean within a red one. Kingfisher redefined the airline travel categories. Kingfisher created its own ***"Kingfisher Class"*** which borrowed the best of economy and business classes. This is also what Virgin Airlines used. According to Virgin, it's not just getting from one airport to another, but the experience you have from when you leave your home to when you arrive. So it includes ground transportation, and options like taking a shower on arrival instead of going to a hotel.

Ginger Hotels**:** Taj Group of hotels known for their 5 star luxury hotels launched no frills business hotels called Ginger Hotels. Ginger Hotel allowed quality accommodation at affordable price.

M-PESA: In the war torn Africa, Vodafone launched **M-PESA or "mobile money".** It helped small business, solved problem of carrying large amount of cash, helped wage earners to send back money to their families. In short it tapped the vast blue ocean of financial world in war torn Africa. Initially started in Kenya, M-PESA is now expanded to Tanzania and Afghanistan.

In 2010, **Samsung** launched a new tablet PC named Galaxy Tab as the latest device meant to rival Apple Inc.'s popular iPad. Samsung is still innovating in a big way and it still relies on a basic assessment: product's competitiveness is everything, and it must be kept away from price wars.

In today's business world, many companies are in search of an innovative strategy to move on to a market where there is as yet no competition. In view of that, many academics and managers are trying to find a systematic framework for a strategic innovative business model. One of the examples of a systematic framework is Blue Ocean Strategy (BOS), which provides various tools for managers to find a gap in an existing market or to create a new market where there is no competition. For instance, Apple's iPod product chain to illustrate how BOS tools can be used to create an innovative strategy for two reasons. Firstly, there are few practical examples that illustrate the BOS, as it is a recent business model and so this chapter can be a useful illustration for those audiences who are interested in strategic innovations focusing on disruption. Secondly, the iPod is a great example of an innovative product where the manufacturer benefits from low competition, high market share, and high profit return.

Tata Nano: Tired and feeling bad about how an average Indian family travels on small two wheelers Ratan Tata unveiled **Tata Nano**. While it comes with a price tag of Rs 1 lac or $500 dollar, it is a technological marvel for international observers, following are the ways in which TATA MOTORS (parent company) would tap blue ocean of Indian automobile industry,

Firstly, it should target young families-couples with 2 young children who till now could not afford a car and thus have been driving precariously on their Bajaj Scooters. Nano would protect children from the harsh weather and also give them a status symbol in their community.

Secondly college students who shell out Rs.40000-70000 on two-wheelers would find Tata Nano a safer option.

Retired people want a car that is low in maintainance, should not guzzle fuel and should not be too heavy to drive. The Nano is perfect answer to all their woes.

Nirma: With their launch of cheap washing powder, they captured a market that HUL ignored and even sneered at it. Nirma grew large enough to actually steal market share from HUL's Surf.

Gmail: Gmail is a free webmail and POP e-mail service provided by Google. It is having competition from hotmail.com, yahoo.com, outlook express, apple mail and AIM Mail service provider.

Conclusion:

Hundreds of years ago when the world was getting discovered, the seafarer, had red oceans, as territories already discovered, heavily contested and full of violent battles, often red blood spilled on the oceans. Today Red ocean strategy is all about grabbing a larger market share is seen as a zero-sum game in which one company's gains while another company's loss. Therefore, in aggressive competitive market, the supply side of the equation becomes the dependent variable of any strategy. In this, cost and value are observed as trade-offs and a firm chooses a distinctive cost or differentiation position. Since 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 Oceans signify unchartered territories full of surprises and also heavy returns. Blue Ocean Strategy (BOS), are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. While blue oceans are occasionally created well beyond existing industry boundaries, most are created by expanding existing industry boundaries as market structure can be changed by breaking the value/cost trade-off, as defined in the rules of the game. Competition in the old game is therefore left irrelevant. New wealth is created by enlarging the demand side of the economy. Such a strategy therefore permits industries to largely play a non zero-sum game, with maximum pay-offs. To seize new profit and growth opportunities, they also need to create blue oceans.

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