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The Rise of Blue Ocean Strategy and Leadership

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Abstract:
From last thirty years, competition has been the core of corporate strategy. In today's world, no-one can talk about strategy without including the language of competition. Since the level of competition has intensified, all companies strive to win competitive advantage by implementing various kinds of corporate and business level strategies. However, just by concentrating on the competitive strategies, many corporations have overlooked a very essential and significant aspect of strategy. This includes instead of having head to head competition with the competitors, companies try to make the competition negligible by creating a new uncontested market space where there are no competitors, which is known as "Blue Ocean". Blue ocean strategy seeks to revolve concept of strategic management by substituting "competitive advantage" with "value innovation" as the central objective where companies try to create customer demand and exploit untapped markets. This paper is an attempt to understand the concept of blue ocean strategy and investigate the application of this strategy in the different industries.

Keywords*: Blue Ocean, Red Ocean, Value Innovation, Leadership*

1. Introduction to Blue Ocean

Due to increasing level of competition, the corporations around the globe are concerned about their diminishing market share and falling profit margins as companies are not protected from competitive moves of other market participants. The research conducted by Kim and Mauborgne, authors of the book '*Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*', focuses on 'thinking outside the box' approach of developing a strategy and reveals that in present increasingly competitive environment, real winners are those corporations that make competition irrelevant by creating a new untapped market space, or in other term blue oceans, thereby creating demand for their products.(Kim & Mauborgne, 2005) According to the authors, blue oceans represent all the industries which are not in existence in present times – the unknown market space, where there are no rivals. In blue oceans, rules of the game are unknown and demand is created rather than battling over unlike in red oceans where the industry boundaries are well defined and the competitive rules of the game are known. In red oceans businesses try to surpass their competitors to grasp a greater market share. As the number of player increases, projected profits and growth diminishes. In such industries, products become commodities, and ruthless competition turns the red ocean bloody.

2. Blue Ocean Vs. Red Ocean

Market world consists of two types of oceans: red oceans and blue oceans. Red oceans denote known market place which consists of all the industries which are in existence today whereas Blue oceans represent unknown market place i.e. all the industries *not* in existence today. Even though some of the blue oceans are created outside the existing industry boundaries, many are created from within red oceans by expanding existing industry boundaries. Blue oceans are untainted by competition because the rules of the game are unknown and waiting to be establish. "The term "blue ocean" is an analogy to describe the wider potential of market space that is vast, deep, and not yet explored"(Kim & Mauborgne, 2005). However, red oceans will always remain significant and will always be a truth of business life.
Due to increasing supply over demand for certain products, battling for a market share in such contracting industries will not be enough to maintain superior performance. Companies are required to go beyond competing in established markets. To grab growth opportunities and achieve superior profitability, they are required to establish blue oceans. The difference between blue ocean strategy and red ocean strategy has been listed in following table 1.

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

Table 1: Difference between Red Ocean Strategy and Blue Ocean strategy
Source: 'Blue Ocean Strategy', W.C. Kim and R. Mauborgne (2005)

A survey of business launches conducted on 108 companies by Kim & Mauborgne (2005) revealed that 86% of the launches were line extensions, i.e., incremental improvements to existing industry offerings within red oceans; whereas 14% were aimed at creating new markets or blue oceans as shown in figure 1. Line extensions in red oceans did account for 62% of the total revenues as compared to 38% in blue oceans. Profit generated by red oceans was only 39% as compared to 61% which was generated by blue oceans. (Kim & Mauborgne, 2005) From the above statistics, it is evident that the performance benefits of creating blue oceans are higher.

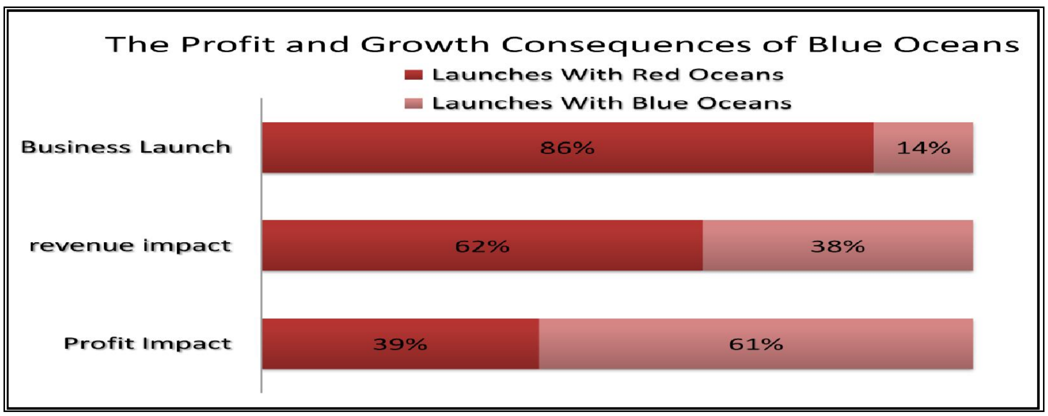

Figure 1: Analysis of revenue and profits in blue and red oceans(Kim and Mauborgne, 2005)

3. The Rising Need of Creating Blue Oceans

There are various motivators that exist behind a rising need to establish blue oceans. Due to globalization and advancements in technology, trade barriers between nations have been dismantled and there is free flow of information, products, services and labour between nations. As a result, niche markets and monopoly continue to disappear (Ohmae, 1990)
And there has been increasing commoditization of products and services which leads to price wars, and shrinking profit margins. Study conducted by Auburndale, MA in 2001 reveal that for most of the products and services, brands have become more similar. In industries where cutthroat competition exists, differentiating brands has become very difficult. All this indicate that as red oceans become increasingly overcrowded and bloody, businesses will need to focus more on creating blue oceans.

Figure 2: Rise of Blue-Ocean Strategy

4. Value Innovation- Building Block of Blue Ocean Strategy

In blue oceans, success does not come from battling with competitors, instead it comes from making the competition negligible by establishing ''blue oceans'' of unexploited market space. The initiators of blue oceans do not consider the competition as their benchmark. Rather, they focus on different strategic concept that is known as 'value innovation'. Value innovation is the cornerstone or foundation of blue-ocean strategy. It is known as value innovation because here companies focus on getting out of existing market boundaries by creating a leap in value for buyers and leaving the competition behind (Kim & Mauborgne,

2005).This 'out of box' thinking challenges the traditional strategic thinking which is supported by extensive research. The authors have analyzed more than 30 industries and they found that there are neither perpetually outstanding companies nor perpetually outstanding industries. Companies and industries rise and fall fluctuations are based on their strategic moves that they made. For example, the auto mobile industry which was created by Henry Ford in 1908 with the Ford Model T. Before Ford pioneered auto mobile industry, customers were having only two options: horse-drawn buggies or expensive custom-made automobiles. Ford created a blue ocean by introducing automobile to Americans thereby providing value to their customers. The Model T was the strategic move that ignited the automotive industry which raised Ford's market share to 61 percent. But in 1924, General Motors created the new market space of emotional, stylized cars with ''a car for every purpose and purse'' which raised GM's market share from 20 to 50 per cent while Ford's fell from 50 to 20 per cent. Then in 1970s Japanese car companies created the blue ocean of small, gas efficient automobiles to provide more value to customers as well as businesses. Blue oceans made by these companies were usually within their core businesses. In fact, most of the blue oceans are created from within red oceans of existing industries.
Value innovation focuses on simultaneous pursuit of differentiation and low cost thereby creating a better value for both buyer and the company and opening up new and uncontested market space. Value innovation can occur anywhere in the entire range of company activities such as product, service, delivery, costs, pricing, and the business model. Value innovation is something which is more than innovation. It is something that is all about activities and strategies which companies try to achieve value and add value for their customers (Chang, 2010). Most powerful value innovation is difficult to imitate and it prevent imitators to enter market. Figure 2 illustrate that blue ocean strategy should raise the value and lower down the costs, which will be beneficial for both buyers and sellers. Value is accomplished by attaining a targeted profit.

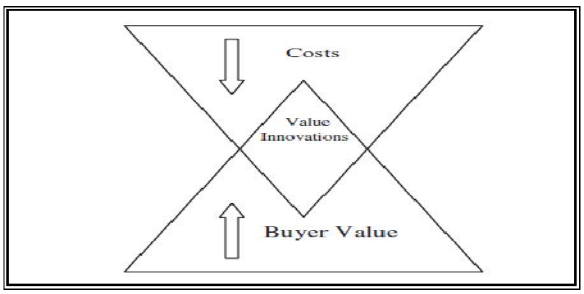

Figure3: Value innovation: the cornerstone of blue ocean strategy (Chang, 2010)

5. Blue Ocean Leadership Grid

In today's times, strategic leadership needs to be revamped and reconsidered as Blue Ocean Leadership. The companies need to focus on core areas which are value creating. For this, a clear perspective of the market realities needs to be taken into the account. After analyzing the environment and customizing the operations as per the market requirements, leadership needs to be spread across all the levels – top, middle and bottom to unleash the potential and add to the value pool of innovation.
The following summarizes the essentials of effective blue ocean leadership:

Figure 4: Essentials of Blue Ocean Leadership (Kim and Mauborgne, 2005)

As can be seen from the above figure, the leaders are required to be eliminate, reduce, raise and finally create to achieve Blue Ocean Leadership. It pushes the companies to act on all the four perspectives in order to create a new value curve. The key advantages of using the blue ocean leadership curve are:

- It opens the doors for the strategic leaders to look at the holistic picture and question the existing rules of the game. Thereby, the discovery of strength areas becomes easy, which can be capitalized upon.
- Companies can pursue both low-cost and differentiation concurrently and create a new value-cost trade-off.
- It puts to limelight those companies who focus only on raising and creating and forget to consider elimination and reduction. Sometimes, elimination and reduction are much more important for adding value. Competing with such firms and gaining advantage over them becomes easy.

- These are simple techniques, which can be easily understood at all levels and thus can be implemented comfortably without much resistance.

6. Imitation Barriers to Blue Ocean Strategy

Blue ocean once created can be difficult to sustain if the right measures are not taken at the right time. Sooner or later the imitators find a way to dive into the ocean and spill the water all around. Thus, imitation barriers to blue ocean strategy come to the fore, which can be known as under:

- Continuous value innovation acts as a savior.
- Focus on “out of the box”, not the competitor.
- Taking the help of intellectual property rights like patents, copyrights, trademarks can avoid replication.
- Creating a natural monopoly by maximizing the value delivery to the customers.
- Mass production can restrict the small players to enter and replicate the strategy.
- Customers would like to stick to the organization, which gives them the maximum delight.
- Duplication of efforts may require changes in the existing set-up, which may be resisted.
- Avoiding over-crowding and creating new spaces before anyone else thinks of it.

However, despite the above barriers, blue ocean may be replicated and converted to red ocean with the entry of the imitators. Thus, the strategic leaders would need to innovate constantly and offer value deliveries to maintain the top of the pyramid position.

7. Application of Blue Ocean Strategy

The invention of the world’s first car, first airplane, the first iPod or the first smart phone – each invention has created a whole new market untainted by competition. The successful blue oceans help businesses in generating outstanding profit margins and allow them harvest lingering financial gains. Following are examples of certain companies that have gained outstanding margins by creating new uncontested market space in existing industries.

- **Auction Industry**- The well known online shopping and auction website eBay.com has created a blue ocean in auction industry to establish a market place to bring together a fragmented market. This website is used by millions of users to carry out consumer-to-consumer transactions who buy and sell items without an intermediary. Since its inception in 1995 by Pierre Omidyar, eBay has experienced an excellent growth and enjoyed impressive profit margins. The success of eBay is not by chance. Its strategy was based on a distinctive idea that was unlike to what was available in the industry. Today eBay has become a platform for millions of customers and it has generated an annual net revenue of $16.05 billion in 2013 [eBay Annual report, 2013].
- **Circus industry**- Cirque du Soleil, founded in 1984, is also referred as one of the most successful blue ocean cases. The CEO of Cirque, Guy Laliberte has taken the circus industry to a new height. He has invented a new industry that blends elements from conventional circus with elements drawn from sophisticated theater, thus creating a new, uncontested market. He has combined opera and ballet with circus format while eliminating star performer and animals as a defense from threats by animal rights activists. Cirque has generated revenues that Ringling Bros. and Barnum & Bailey, the world’s leading circus, had generated in more than a century.
- **Airlines Industry**- Southwest Airlines has created a blue ocean in airlines industry by offering low cost services to its customers. They provide short haul, point to point service between midsize cities and secondary airports in large cities by avoiding large airports and does not fly great distances. They have tailor all its activities to deliver low cost – by eliminating meal, selling tickets directly to consumers, eliminating free in-flight meals, eliminated free blankets, pillows, snacks, etc. They also use only one type of plane which is Boeing737 in order to reduce maintenance costs. Their philosophy is “you get what you pay for” (Porter, 1996)
- **Fitness industry**- Curves fitness founded by Gary Heavin and his wife Diane in 1992 is also one of the successful blue ocean cases. They have redefined market boundaries between health clubs and home exercise programs for women. Their new concept of 30-minute fitness, strength training, weight- loss guidance designed for women was instantly successful. They develop plans for franchising the concept, with the first opening in 1999 and today it is the world's largest fitness franchise located in over 85 countries.
- **Videogame industry**- Instead of releasing a more technologically advanced video game console with more features as in previous generations in hypercompetitive video game industry which was dominated by Sony with its play station and Microsoft with its Xbox, Nintendo released a seventh-generation console by the name of ‘Wii’ with innovative controls made to attract people that usually do not play video games such as females and the elderly.
- **Automobile industry**- Tata Motors product ‘'Nano Car’ which is 'World's Cheapest Car' has adopted combination of differentiation and low cost and created a new market space in auto mobile industry. It is the outcome of combination of "Value Innovation" and "playing a different game".
- **Rental Car industry**- *Zipcar*, the world's largest car sharing and car club service, has created a blue ocean in rental car industry. It is an alternative to traditional *car rental* and car ownership. By paying a one-time membership fees and an annual fee, customers could rent cars by the hour, under different driving plans where car rental charges are inclusive of cost of gas and insurance, and parking fees, etc. It uses wireless technology to manage its fleet and allow customers to make their reservations online or using mobile application. Zipcar members had member access cards that they could swipe on the reader placed on the car windshield to open it. The whole rental process took just a few seconds. Today

Zipcar offer its services in five countries and it has generated an annual net revenue of $282 million in 2013 [Zipcar Annual report, 2013]

- **Plush toy industry**- The first corporation in plush toy industry to successfully create a Blue Ocean strategy wasBuild-A-Bear Workshop in 1997. Build-A-Bear Workshop developed a Blue Ocean bydeveloping the ‘‘knowledge intensive logic’’ to increase the customization of its products. Build-A-Bear created a unique value proposition letting customers to experience the happiness of creating their own bear, for which Build-A-Bear charges premium price depending on the number and type of accessories purchased. By providing this unique, innovative, knowledge intensive value proposition, company has grown rapidly.
  In 2005, Ganz Inc. attempt to create another Blue Ocean in the plush toy market by introducing Webkinz, cuddly plush animals. The price they were charging includes one year of access to Webkinz’s website, play online interactive games, and connect with other children through Kinzchat. Ganz created new customers value by exploiting network services logic via its website’s interactive games and social networking features. (Sheehan & Vaidyanathan, 2009)

8. Conclusion and Recommendations

With changing paradigms of the market realities, the key to being successful is “value innovation” through effective implementation of the Blue Ocean Strategy. The focus of the companies has shifted from focusing on existing demand towards demand creation through Blue Ocean Leadership. The leaders have to concentrate on various aspects like *elimination, reduction, raising* and *creation* to achieve blue ocean leadership. Despite thinking “out of the box”, over a period of time problems of imitation may crop up. In such a scenario, the companies need to create imitation barriers to sustain themselves over the long run. We propose certain solutions in order to make this strategy more sustainable:

- **Disruptive Innovation and Blue Ocean Strategy**
  Disruptive innovation refers to a type of innovation, which helps in value creation by breaking through the existing technology and replacing it with new expertise, know-how and technology. The basic purpose is to improve the product or the service offering in a way, which *no one expects*. Combining the two concepts of disruptive innovation and blue ocean strategy, it can help in offering valuable solutions in the marketplace, which will have an enduring characteristic.

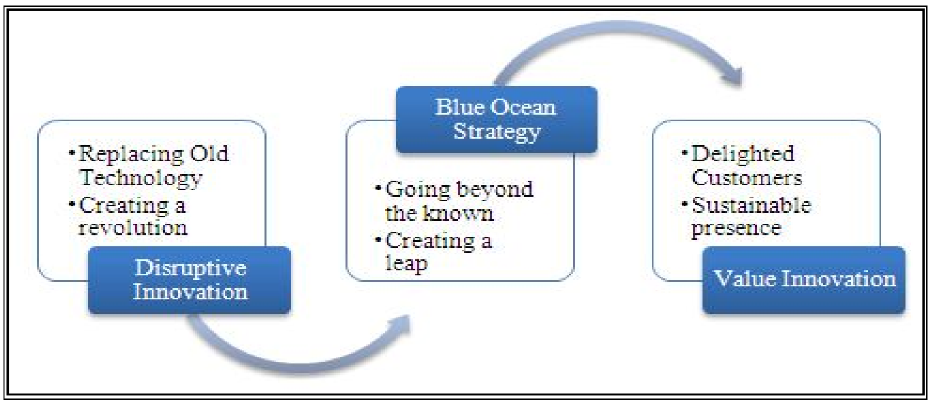

Figure 5: Disruptive Innovation and Blue Ocean Strategy can create “sustainable” value innovation

- **Corporate Social Responsibility (CSR) and Blue Ocean Strategy:**
  Companies may consider CSR as part of Blue ocean strategy. According to recent researches, most of the people preferred to buy from those corporations that provide products or services along with addressing social problems. With various researches and developments taking place in the field of CSR and with evidence coming to the fore that “it pays to be green”, companies need to develop blue ocean strategies, which help them become socially responsible. If the new market spaces being created are combined with social responsibility, beating the competition can become a repeatable process and thus creating sustenance. Hence corporations should focus on social issues and problems instead of finding some space in red ocean where there is blood bath due to tainted competition.

Figure 6: CSR and Blue Ocean Strategy

- **Value Innovation redefined:**
  The methods of creating value have undergone a big change. The emphasis is on having experience-based innovation in addition to product-based innovation. The ultimate aim is to meet the stakeholder expectations while being competitively ahead of others in the market place. This stems from the assumption that the need of the hour is to follow a proactive approach and offer ready to use solutions.

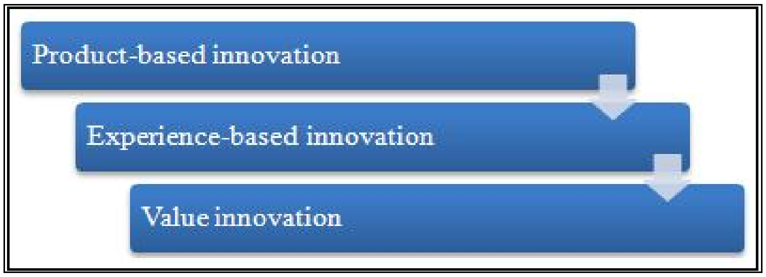

Figure 7: Redefining Value Innovation

The above mentioned alternatives would definitely help companies "sustain" their value innovation while implementing the blue ocean strategy.

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