The Evolution of Blue Ocean Strategy: The Ideas That Shaped a Century and its Companies

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Abstract

Based on a study of 150 strategic moves spanning more than a hundred years and thirty industries (Kim *et al.,* 2005). Argue that future leading companies will succeed not by battling competitors, but rather by creating BLUE OCEAN of uncontested Market space ripe for growth. Such strategic moves called Value Innovations create powerful leaps in value for both the company and the customer, rendering rivals obsolete and creating capturing new markets & Demands. Blue ocean strategy provides a systematic approach to making competition irrelevant.

Examining the wide range of strategic moves across a host of industries blue ocean strategy highlights the six principles that every company can use tos successfully formulate and execute blue ocean strategies. The six principles show how to reconstruct boundaries. Reconstruct boundaries focus on Bigger Picture, Reach Beyond Existing Demands, Get Strategic Sequence right, overcome organizational hurdles and build execution into strategy in this game changing concept BOS present a proven, analytical framework and tools for successfully creating and capturing BLUE OCEAN MARKETS. Upending traditional thinking about strategy, BOS creates bold path to winning the future.

Instead of Battling over Market share, today's overcrowded industries, competing head on results in nothing but Bloody Red Oceans of rivals fighting over a shrinking profit pool, BOS provides a stable model of innovating growth in the future. Since last hundred years, Blue ocean Strategy has been the guiding force in every sector e.g. auto mobile engineering (The Ford motors and TATA motors), financial services (Bloomberg, US), electronics and communications engineering (Philips, LG electronics, Samsung), networking and signal processing (Ericsson), computer mnc (IBM), gadgets master mind (Apple), media and entertainment (CNN news and KBC Star Plus), sports (IPL Indian Premier League) and even the polytechnic, engineering and management colleges (Pierce college, US).

Keywords - Blue Oceans, Value Innovation, Four Action Framework, Strategy Canvas, Fair Process, Tipping Point Leadership

Introduction

Companies have long engaged in head-to-head competition in search of sustained, profitable growth. They have fought for competitive advantage, battled over market share, and struggled for differentiation. Yet in today's overcrowded industries, competing head-on results in nothing but bloody “red oceans” of rivals fighting over a shrinking profit pool. Based on a study of 150 strategic moves spanning more than a hundred years and thirty industries, tomorrow's leading companies will succeed not by battling competitors, but rather by creating “blue oceans” of uncontested market space ripe for growth. Such strategic moves-termed “value innovations” create powerful leaps in value for both the firm and its customer, rendering rivals obsolete and capturing new demand. Blue Ocean Strategy provides a systematic approach to making the competition irrelevant. Examining a wide range of strategic moves across a host of industries, Blue Ocean Strategy highlights the six principles that every company can use to successfully formulate and execute blue ocean strategies. The six principles show

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how to reconstruct market boundaries, focus on the big picture, reach beyond existing demand, get the strategic sequence right, overcome organizational hurdles, and build execution into strategy. This game changing strategy presents a proven analytical framework and the tools for successfully creating and capturing blue oceans. We used the terms red and blue oceans to denote 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, the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, 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. There is 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. Like the “blue” ocean, it is untouched, vast and deep in term of profitable growth.

Blue Ocean strategy provides a systematic approach to break out of the red ocean of bloody competition and make the competition irrelevant by reconstructing market boundaries to create a leap in value for both the company and its buyers. Instead of competing in existing industries, blue ocean strategy equips companies with frameworks and analytic tools to create their own blue ocean of uncontested human resource pool and market space. Thus, it is a challenge of how to create blue oceans, but also the equally important challenge of how to execute these ideas in action in any organization (Kim and Mauborgne, 2009).

Concept: A Comparsion of Red and Blue Ocean Strategy

Red Ocean Strategy

In simple terms, red ocean strategy is about how to out-pace rivals in existing market space, it is a market competing strategy. In contrast, blue ocean strategy is about how to get out of establishing market boundaries to leave the competition behind, it is a market creating strategy. Red Ocean Strategy assumes that an industry's structural conditions are given and that firms are forced to compete within a finite market space. Taking market structure as given, companies are driven to try to carve out a defensible position against the competition in the existing industry terrain. To sustain themselves 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. Here, grabbing a bigger share of the market is seen as a zero-sum game in which one company's gain is achieved at another company's loss. Hence competition the supply side of the equation, becomes the defining variables of strategy. Such strategic thinking leads firms to divide industries into attractive and unattractive ones and to decide accordingly whether or not to enter. After it is in an industry, a firm chooses a distinctive cost or differentiation position. Here, cost and value are seen as trade-offs. 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

Under blue ocean strategy, however, the strategic challenge looks very different. Recognizing that structure and market boundaries exist only in manager's minds, practitioners who hold this view do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn, requires a shift of attention from supply to demand, from a focus on competing to a focus on value innovation that is, the creation of innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low cost. Under blue ocean strategy, there is scarcely an attractive or unattractive industry per se because the

level of industry attractiveness can be altered through companies' conscientious efforts. As market structure is changed by breaking the value/cost tradeoff, so are the rule of the game. Competition in the old game is so rendered irrelevant. By expending 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 (Kim and Mauborgne, 2005).

Red Ocean Strategy	Blue Ocean Strategy
Complete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Expoloit existing demand.	Create and capture new demand.
Make the value-cost trade-off.	Break the value-cost trade-off.
Aligh 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.

Figure 1: Red Ocean vs. Blue Ocean Strategies

Fundamentals of Blue Ocean Strategy

Blue Ocean Strategy Addressing the Issue of High Risk

Above all, blue ocean strategy is about risk minimization and not about risk taking. Of course, there is no such thing as a riskless strategy. Any strategy, whether red or blue, will always involve risk. Nonetheless, when it comes to venturing beyond the red ocean to create and capture blue oceans there are six key risks companies face: search risk, planning risk, scope risk, business model risk, organizational risk, and management risk. The first four risks revolve around strategy formulation, and the latter two around strategy execution. Each of the six principles in Blue Ocean Strategy expressly addresses how to mitigate each of these risks. The first blue ocean principle reconstruct market boundaries addresses the search risk of how to successfully identify, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities. The second principle focus on the big picture, not the numbers tackles how to mitigate the planning risk of investing lots of effort and lots of time but delivering only tactical red ocean moves. The third principle reach beyond existing demand addresses the scope risk of aggregating the greatest demand for a new offering. The fourth principle get the strategic sequence right addresses how to build a robust business model to ensure that you make a healthy profit on your blue ocean idea, thereby mitigating business model risk. The fifth principle overcome key organizational hurdles tackles how to knock over organizational hurdles in executing a blue ocean strategy addressing organizational risk. The sixth principle build execution into strategy tackles how to motivate people to execute blue ocean strategy to the best of their abilities, overcoming management risk.

Hence, as much as blue ocean strategy is about maximizing opportunities it is also about minimizing risk. That is why blue ocean strategy speaks the language of executives. Executives cannot afford to be riverboat gamblers.

Is Blue Ocean Strategy New?

Although the term blue ocean is new, their existence is not. They are a feature of business life, past and present. Look back one hundred years and ask yourself, How many of today's industries were then unknown? The answer: Many industries as basic as automobiles, music recording, aviation, petrochemicals, health care, and management consulting were unheard of or had just begun to emerge at the time. Now turn the clock back only thirty years. Again, a plethora of multibillion-dollar industries

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jumps out mutual funds, cell phones, gas-fired electricity plants, biotechnology, discount retail, express delivery, minivans, snowboards, coffee bars, and home videos to name a few. Just three decades ago, none of these industries existed in a meaningful way.

Now put the clock forward twenty years or perhaps fifty years and ask yourself how many now unknown industries will likely exist then. If history is any predictor of the future, the answer is many of them. Again, blue oceans have and always will exist. The reality is that industries never stand still. They continuously evolve. Operations improve, markets expand, and players come and go. Yet, as history teaches us we have a hugely underestimated capacity to create new industries and recreate existing ones. This strategy not only articulates the existence and importance of blue oceans. Equally, if not more importantly, it provides analytical frameworks and tools that allow companies to create and capture blue oceans in an opportunity maximizing, risk minimizing way.

Blue Ocean Strategy is Imperative in Today's Business Environment

Prospects in most established market spaces (red oceans) are shrinking steadily. Technological advances have substantially improved industrial productivity, permitting suppliers to produce an unprecedented array of products and services. And as trade barriers between nations and regions fall and information on products and prices becomes instantly and globally available, niche markets and monopoly havens are continuing to disappear. At the same time, there is little evidence of any increase in demand, at least in the developed markets, where recent United Nations statistics even point to declining populations. The result is that in more and more industries, supply is overtaking demand. This situation has inevitably hastened the commoditization of products and services, stoked price wars, and shrunk profit margins. According to recent studies, major American brands in a variety of product and service categories have become more and more alike. And as brands become more similar, people increasingly base purchase choices on price. People no longer insist, as in the past, that their laundry detergent be Tide. Nor do they necessarily stick to Colgate when there is a special promotion for Crest, and vice versa. In overcrowded industries, differentiating brands becomes harder both in economic upturns and in downturns. As products and services increasingly become commodities in overcrowded industries and companies' profitable growth shrinks, companies are driven to compete principally on cost. One result of this has been the rising exodus of jobs to low cost countries like India and China as companies increasingly engage in outsourcing. While governments may seek to solve the issue of outsourcing through legislation, history teaches us that this is not a long-term solution. The long term solution to creating jobs is in companies creating compelling products and services that take them out of the vicious cycle of commodity competition. This means moving companies' products and services from the red ocean to the blue ocean. These issues alone make blue ocean strategy a rising imperative for CEOs.

Coexistence of the Red and Blue Oceans

Blue and red oceans have always coexisted and always will. Practical reality, therefore, demands that companies understand the strategic logic of both types of oceans. At present, however, competing in red oceans dominates the field of strategy in theory and in practice. Part of the reason traces back to the historical foundation of business strategy, war, where territory is defined and limited and opponents compete to protect and enlarge their share of limited and existing terrain. This focus on beating the competition in existing market space was exasperated by the meteoric rise of the Japanese in the 1970s and 1980s. Faced with mounting competition in the global marketplace as, for virtually the first time in corporate history, customers were deserting Western companies in droves, the center of strategic thinking gravitated further towards the competition. A slew of competition-based strategies emerged which argued that competition is at the core of the success and failure of firms, and that competition determines the appropriateness of a firm's activities that can contribute to its performance.

The result has been a fairly good understanding of how to compete skillfully in red waters, from analyzing the underlying economic structure of an existing industry, to choosing a strategic position of

low cost or differentiation or focus, to benchmarking the competition. Yet, although some discussions around blue oceans exist, little practical guidance exists to create and capture them. This largely explains why CEOs remain focused on red oceans it's the ocean they are familiar with and feel equipped to compete in. What blue ocean strategy seeks to do is to make the creation and capturing of blue oceans as systematic and actionable as competing in the red waters of known market space. For although blue ocean strategists have always existed, for the most part their strategies have been largely unconscious. Blue ocean strategy seeks to remedy this by not only decoding the pattern and principles behind the successful creation of blue oceans, but also providing the analytical frameworks and tools to act on this insight (Ansoff, 1984).

The Blue Ocean Strategy is a Dynamic Process, not Static One

Creating blue oceans is not a static achievement but a dynamic process. Once a company creates a blue ocean and its powerful performance consequences are known, sooner or later imitators appear on the horizon. However, a blue ocean strategy brings with it considerable barriers to imitation. Some of these are cognitive, and others are operational.

The first barrier is often cognitive. Competitors are often blocked from imitating because of brand image conflicts, or the blue ocean strategy just does not fit conventional strategic logic. For many years CNN, for example, was ridiculed by the industry as chicken noodle news by established players. The second barrier is organizational. Because imitation often requires companies to make substantial changes to their existing business practices, politics often kick in, delaying for years a company's commitment to imitate a blue ocean strategy. The third level includes the economic forces of blue oceans. The high volume generated by a value innovation leads to rapid cost advantages, placing potential imitators at an ongoing cost disadvantage.

By heightening these barriers to imitation, companies can defend the blue oceans they created for some time. However, it should be noted that creating a blue ocean is not a static strategy process, but a dynamic one (Chandler, 1962).

Preceding Work

The cornerstone of Blue Ocean Strategy is “Value Innovation” A Blue Ocean is created when a company achieves Value Innovation that creates value for both the customer and the company. The Innovation (in human resource pool, technology, product, service, delivery) must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current and future market. It is antagonistic to Michael Porter's idea that successful companies are either low cost providers or niche players. Instead, they propose finding value that crosses the conventional market segmentation and offering value at lower cost. Educator Charles W.L. Hill proposed this idea in 1988 and claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. He proposed that a combination of differentiation and low cost is necessary for firms to achieve a sustainable success. Swedish educators Jonas Ridderstrale and Kjell Nordstrom (1999), in Funky Business, claim that competitive strategy is the route to nowhere. The firms need to create their own Sensational Strategies. The same strategy was named Blue Ocean Strategy by Kim and Mauborgne who studied about 150 positions from 1880 to 2000 in more than 30 industries and closely examined the relevant business players in each. Studies included hotels, cinemas, retail stores, airlines, energy, construction, publishing, automotive and steel.

Porter's Five Forces Analysis

The five forces analysis pictures the profit potential of an industry. The weaker the forces are collectively the greater the potential. The goal of the analysis is to find a position in the industry where the business can best defend itself against these forces or can influence them in its favor. In order to find this position one needs to analyze each force (Porter, 2008).

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Industry Rivalry

The profit potential of an industry is high if the rivalry or competition is low. The industry rivalry is normally measured by how high the concentration of the market share is divided among the four largest firms. A low concentration ratio indicates that the industry is characterized by many rivals, no one of which have a significant market share. Such a market is more competitive. A high concentration ratio is, on the other hand, an industry with few rivals with large portions of the market share.

Threat of substitute products

The profitability of a market is high if the threat of Substitute products or services is low. The products/ services that one should keep a close Watch on are those that can improve the price-performance trade-off with the industry's product, or those that are produced by industries earning high profits. Substitutes often emerge through either price reductions or performance improvements.

Bargaining power of customers

The power of the customers can influence the prices of the product/service substantially. The higher the power of the customers the lower the profitability is of the industry.

Threat of new entrants

If the threat of new entrants is high, the barriers of entry being low, the profitability of an industry is lower.

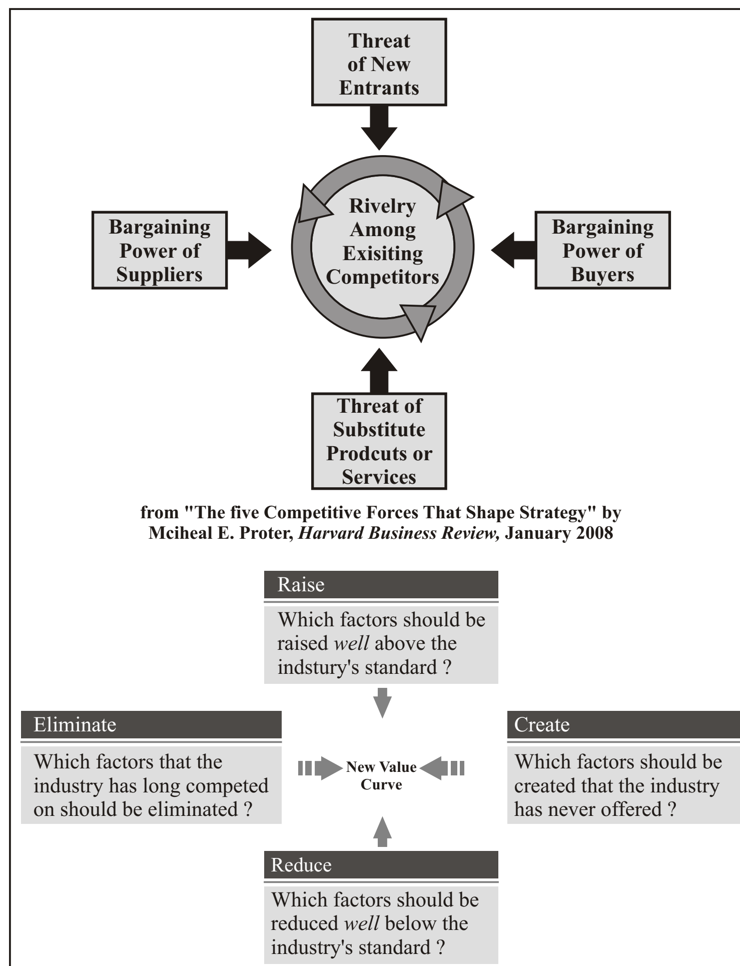

Figure 2: The Five Forces That Shape Industry Competiton

Value Innovation

The cornerstone of Blue Ocean Strategy Value Innovation is the simultaneously pursuit of differentiation and low cost. It focuses on making the competition irrelevant by creating a leap of value for buyers and for the company, thereby opening up new and uncontested market space.

Blue Ocean Strategy Frameworks, Tools and Methodologies

The Strategy Canvas

The Strategy Canvas 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, while the vertical axis captures the offering level that buyers receive across all these competing factors. The Strategy canvas serves two purposes**.** Capture the current state of play in the known market space which allows users to clearly see the factors that the industry competes and invests. Propel users to action by reorienting focus from competitors to alternatives and from customers to non-customers of the industry.

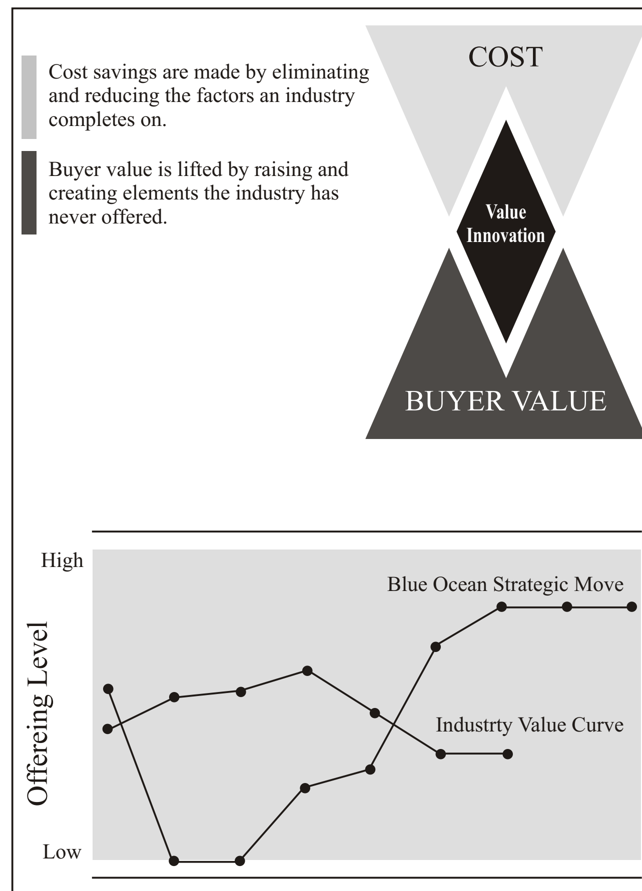

Figure 3: Competing Factors

The Value Curve is the basic component of strategy canvas. it is a graphic depiction of a company's relative performance across its factors of competition . A strong Value Curve has focus , divergence as well as a compelling tagline (Kim and Mauborgne, <http://www.blueoceanstrategy.com/>)

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ERRC Grid

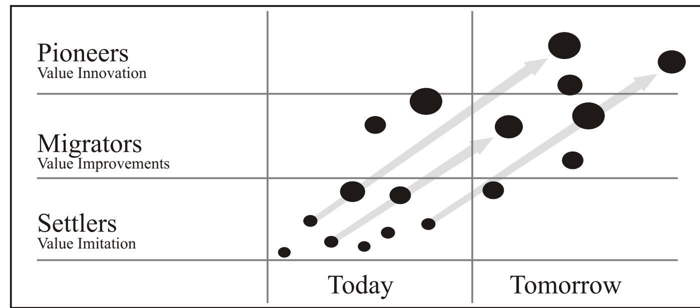


Figure 4: PMS Map

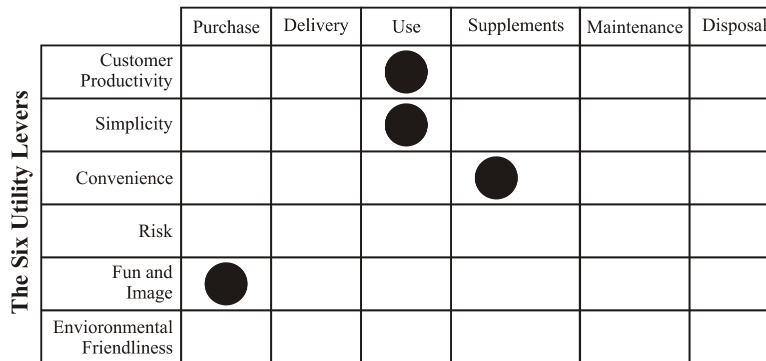


Figure 5: Buyer Utility Map

Three Tiers of non-customers

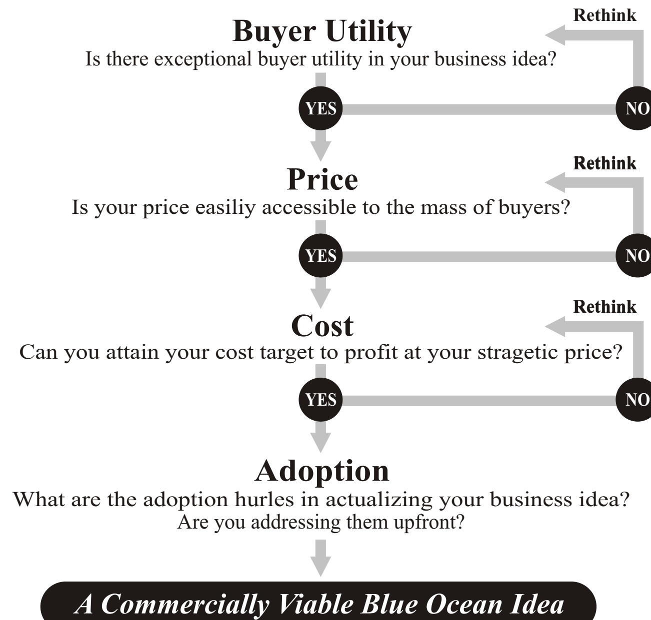
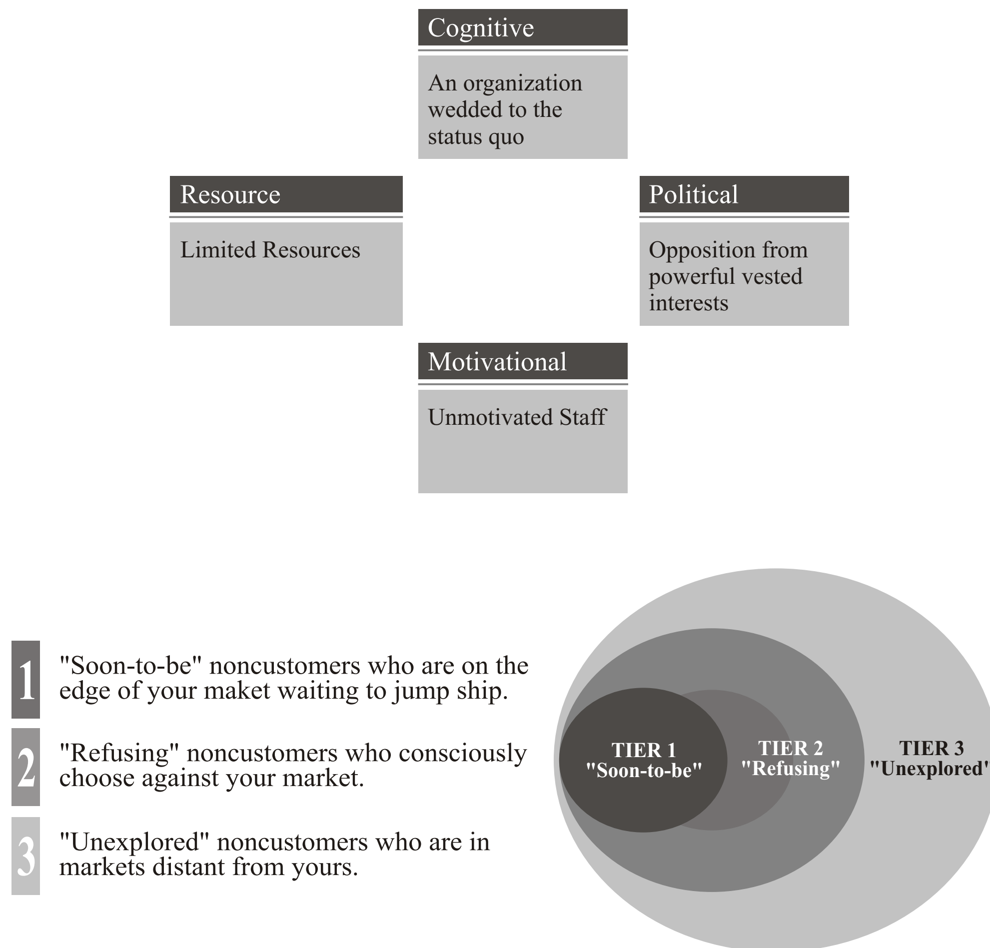


Figure 6: Sequence of execution of Blue Ocean Idea



Engagement	Explanation	Explanation Clarity
Engagement means involving individuals in the strategic decisions that affect them by soliciting their input and allowing them to refute the mertis of one another's ideas and assumptions. Engagement communicates management's respect for individuals and their point of view. The result is better strategic decisions by management and geniunie commitment from everyone involved in execution.	Explanation means that everyone involved and affected should understand why final strategic decisions are made. An explanation of rationale engenders confindence among employees that managers have considered their opinions and have made decisions impartially in the overall interest of the company, even if their own ideas have been rejected. It also serves as a powerful feedback loop to enhance learing.	Explanation clarity requires that after a strategy is set, managers clearly state the new rules of the game. Although the expectations may be demanding, employees know up front the standards by which their work will be judged and the consequences of failure. When people celary understand expectations, political jockeying and favoritism are minimized, and people can focus on executing the strategy rapidly.

Figure 7: Three E-Princlples of fair process

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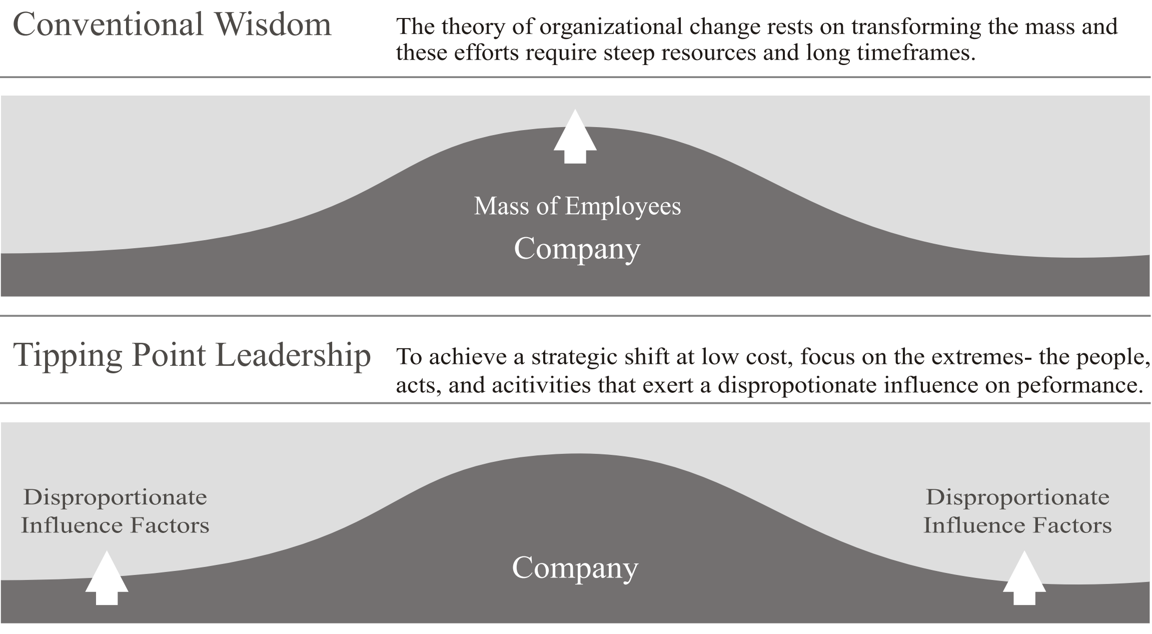

Figure 8: Conventional Wisdom & Tipping Point Leadership

Blue Ocean Strategic Moves by Companies

Barnes & Noble

Barnes & Noble and Borders superstores in the United States redefined the scope of the services bookstores offer. Instead of focusing solely on the moment a customer purchases a book as the hundreds of bookstores were doing they asked, what do customers do before, during, and after purchasing a book? B&N and Borders observed that before purchasing books, buyers often want to sit and leaf through several selections before making a choice. However, traditional bookstores did not offer a place to do so in fact they discouraged the practice. Also, after purchasing books or magazines, many customers went to a coffee shop to spend some time alone reading. With these insights they added lounges, knowledgeable staff, and coffee bars to create an environment that celebrates reading, expanding the product offering from the book itself into the pleasure of reading and intellectual exploration. In less than six years, B&N and Borders emerged as the two largest bookstore chains in the United States, with more than one thousand three hundred superstores between them.

Bloomberg

Bloomberg saw that it was traders and analysts, not IT managers, who make or lose millions of dollars for their employers each day. Profit opportunities come from disparities in information. When markets are active, traders and analysts must make rapid decisions. Every second counts. So Bloomberg designed a system specifically to offer traders a leap in value, one with easy-to-use terminals and keyboards labelled with familiar financial terms. The systems also have two flat-panel monitors so that traders can see all the information they need at once and built-in analytic capability with the press of a button. By focusing on users, Bloomberg was also able to see the paradox of traders' and analysts' personal lives. They have tremendous income but work such long hours that they have little time to spend it. Bloomberg decided to add information and purchasing services aimed at enhancing traders' personal lives services to purchase gifts, make travel arrangements, or search real estate listings. By shifting its focus upstream from purchasers to users, Bloomberg created a value curve that was radically different from anything the industry had seen before. The traders and analysts wielded their power within their firms to force IT managers to purchase Bloomberg terminals.

The Ford Model T

In 1908, while America's five hundred automakers built custom-made novelty automobiles, Henry Ford introduced the Model T. He called it the car 'for the great multitude, constructed of the best materials.' Although it only came in one color (black) and one model, the Model T was reliable, durable, and easy to fix. And it was priced so that the majority of Americans could afford one. In 1908 the first Model T cost $850, half the price of existing automobiles. In 1909 it dropped to $609, by 1924 it was down to $240. In comparison, the price of the horse driven carriage, the car's closest alternative at the time, was around $400. A 1909 sales brochure proclaimed, 'Watch the Ford Go By, High Priced Quality in a Low Priced Ford's success was underpinned by a profitable business model. By keeping the cars highly standardized and offering limited options and interchangeable parts, Ford's revolutionary assembly line replaced skilled craftsmen with ordinary unskilled laborers who worked one small task faster and more efficiently, cutting the labor hours by 60 percent. With lower costs, Ford was able to charge a price that was accessible to the mass market.

Sales of the Model T exploded. Ford's market share surged from 9% in 1908 to 60% in 1921, and by 1923, a majority of American households owned an automobile. So great was the blue ocean Ford created that the Model T replaced the horse-drawn carriage as the primary means of transport in the United States.

Cemex

Cemex, the world's third-largest cement producer, created a blue ocean by shifting the orientation of its industry from functional to emotional .In Mexico, retail cement sales to the average do-it-yourselfer represent more than 85% of the total cement market. However, the market was unattractive. Even though poorest families owned their own land and cement was sold as a relatively inexpensive functional input material, many areas in Mexico are chronically overcrowded. Few families built additions, and those that did took on average four to seven years to build a single additional room. Why? Disposable income is spent on social priorities such as village festivals, quinceañeras (girls' fifteen-year birthday parties), baptisms, and weddings. Contributing to these important milestone events is a chance to distinguish oneself in the community, Cemex's answer came in 1998 with its launch of the *Patrimonio Hoy* program, which shifted the orientation of cement from a functional product to the gift of dreams. When people bought cement they were on the path to building rooms for sharing laughter and happiness what better gift exists? The foundation of Patrimonio Hoy was the traditional Mexican system of *tandas,* a community savings scheme. In a *tanda*, a group of individuals contribute a small sum each week for ten weeks. In the first week, lots are drawn to see who “wins” the pot in each of the ten weeks. All participants win only once, but when they do, they receive enough to make a large purchase. In traditional *tandas* the “winning” family would spend the windfall on an important festive or religious event such as a baptism or marriage. whereas not contributing is a sign of arrogance and disrespect.

Criticisms

A critical question is whether Blue Ocean ideas are descriptive rather than prescriptive. One significant ground for criticisms is that no control group are used so that there is no way to know how many companies using a Blue Ocean Strategy failed, thus assuming that success will always come after the execution of the Blue Ocean Strategy. Thus many successful Value Innovations are explained from the Blue Ocean perspective and the deductive process was not followed, thus telling a wining story.

Conclusion

1. BOS is the result of a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years (1880-2000).
2. BOS is the simultaneous pursuit of differentiation and low cost.
3. The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant.

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4. While innovation has been seen as a random/experimental process where entrepreneurs and spin-offs are the primary drivers as argued by Schumpeter and his followers BOS offers systematic and reproducible methodologies and processes in pursuit of blue oceans by both new and existing firms.
5. BOS frameworks and tools include: strategy canvas, value curve, four actions framework, six paths, buyer experience cycle, buyer utility map, and blue ocean idea index.
6. These frameworks and tools are designed to be visual in order to not only effectively build the collective wisdom of the company but also allow for effective strategy execution through easy communication.
7. BOS covers both strategy formulation and strategy execution.
8. The three key conceptual building blocks of BOS are: value innovation, tipping point leadership, and fair process.
9. While competitive strategy is a structuralist theory of strategy where structure shapes strategy, BOS is a reconstructionist theory of strategy where strategy shapes structure.
10. As an integrated approach to strategy at the system level, BOS requires organizations to develop and align the three strategy propositions: value proposition, profit proposition and people proposition.

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