CHAPTER 1

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Who created this idea?

**W. Chan Kim & Renee Mauborgne**

- Met in college over 20 years ago, one was the professor while the other was a student

- More than 15 years of research behind Blue Ocean Strategy
Cirque Du Soleil took less than 20 years to achieve a level of revenue typically obtained in 100 years.

- Took place in a declining industry
- Animal rights, alternative forms of entertainment

Created uncontested new market space

- Made competition irrelevant

But how??
Cirque Du Soleil Continued

Why did Cirque Du Soleil Succeed?

❖ Realized that to win in the future, companies have to stop competing with each other

❖ Appealed to a whole new customer group: adults and corporate clients.

❖ Created a blue ocean within the red ocean industry, by reinventing the circus.
What is the Blue Ocean Strategy?

Blue Ocean Strategy challenges companies to break out of the red oceans by creating uncontested market space that makes competition irrelevant.

Instead of dividing up existing - and often shrinking - demand and benchmarking competition, blue ocean strategy is about growing demand and breaking away from the competition.

Blue oceans are largely uncharted, with little practical guidance on how to create them. Creating blue oceans has often remained as wishful thinking that is seen as too risky for managers to pursue as strategy.
Creating Blue Oceans

Although the term “Blue Oceans” is relatively new, the existence of the concept is not.

How many of today’s industries were then unknown?

❖ Automobiles, Cell phones, Laptops, Express Package Delivery, etc.

Industries never stand still, they are constantly evolving.

❖ History teaches us that we have a hugely underestimated capacity to create new industries and re-create existing ones.

Traditional Corporate Strategy is Highly Influenced By Military Strategy

❖ Overriding focus of strategic thinking being placed on competition-based red ocean strategies.
Impact of Creating Blue Oceans

Kim and Mauborgne performed a study of 108 companies and their business launches to determine the impact of creating blue oceans on a company’s growth in both profits and revenues.

Results:

❖ 86% of business launches were for line extensions in already red oceans.
❖ 62% of revenues were created within red oceans, 38% in blue.
❖ 39% of profits were created within red oceans, 61% in blue.
Impact of Creating Blue Oceans

Substantially Higher Returns from Investments in Blue Oceans

- Business Launch: 86% (Red Oceans) vs. 14% (Blue Oceans)
- Revenue Impact: 62% (Red Oceans) vs. 38% (Blue Oceans)
- Profit Impact: 39% (Red Oceans) vs. 61% (Blue Oceans)

Red Oceans: Market-Competing Business Launches
Blue Oceans: Market-Creating Business Launches
Rising Imperative of Creating Blue Oceans

- The world is becoming more technologically advanced, with companies creating more supply than there is demand.
- With large supply and products becoming more similar, product demand becomes focused on price.
- In overcrowded industries, differentiating brands becomes more difficult.
- Because these industries are making the ocean more “bloody,” management needs to focus on creating the blue oceans.
From Company and Industry to Strategic Move

How can a company break out of the red ocean of bloody competition?
❖ How can it create a blue ocean?
❖ Is there a systematic approach to achieve this and thereby sustain high performance?
Originally, books such as *In Search of Excellence* and *Built to Last*, thought the best unit of analysis for company growth was the company itself or the industry.

Further research shows that Strategic Move is the best way to analyze growth.

What is Strategic move?

- Is the set of managerial actions and decisions involved in making a major market-creating business offering.

Example: Compaq being bought by HP, servers created a blue ocean.
Value Innovation: Cornerstone of Blue Ocean Strategy

The normal approach of red ocean industries was to use benchmarking to beat the competition and build a defensive position in the market.

Blue ocean companies began focusing on Value Innovation: focusing on making the competition irrelevant by creating a leap in value for buyers and your company, opening up new markets.

Puts equal emphasis on value and innovation. With value and no innovation, your products will have value but will not stand out. With innovation and no value, companies may create technology that is too advanced, often shooting beyond what buyers are willing to accept and pay for.
Value Innovation Continued

*This figure shows the low cost and higher value dynamics that is essential to a successful business.

*It is this approach that makes value innovation more strategic rather than operational or functional.

*Cost savings are made by limiting or eliminating the factors an industry competes on. (Ex. gas for electricity.)

*Buyer value increases when a company offers or creates elements the industry has never offered. (Ex. appliance store also offers services and installation)
An Example: Tesla

Tesla is a perfect example for a company creating blue oceans

❖ They focused on value innovation - removed all of their technology patents in order to help further the industry
❖ First fully electric car with zero emissions
❖ First electric car to use lithium-ion batteries
❖ First electric car to have a sports car look and get over 200 miles per charge
❖ Tesla also provides alternative energy sources for housing with the installation of solar panels.
❖ They also provide men and women’s apparel. Who wears a Kia shirt?
### Red Oceans vs. Blue Oceans

<table>
<thead>
<tr>
<th>Red Oceans</th>
<th>Blue Oceans</th>
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<tbody>
<tr>
<td>Industry boundaries are accepted. Competes in existing market space.</td>
<td>Untapped market space and demand creation, capture and create new demand.</td>
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<tr>
<td>Companies try to outperform rivals for greater market demand.</td>
<td>Break the value-cost trade-off.</td>
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<tr>
<td>As markets get crowded, profits and growth are reduced.</td>
<td>Opportunity for highly profitable growth</td>
</tr>
<tr>
<td>Will always matter and be a fact of business life, won’t sustain high performance.</td>
<td>Align the whole system of a firm’s activities in pursuit of differentiation AND low-cost</td>
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*For example, The Cirque du Soleil offered different services and even injected a more theatrical aspect to its program in order to stand outside the competing market.*
Formulating and Executing the Blue Ocean Strategy

* Companies and managers must take risks in order to stand outside the industry boundary, but it is difficult to do.

* Companies must venture beyond the industry comfort zone with its own unique products and services by taking the Blue Ocean Initiative.

* We must apply the 8 principles of the blue ocean strategy.
# Eight 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
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<tr>
<th>Execution Principles</th>
<th>Risk Factor Each Principle Attenuates</th>
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<tr>
<td>Overcome key organizational hurdles.</td>
<td>Organizational Risk</td>
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<tr>
<td>Build execution into strategy.</td>
<td>Management Risk</td>
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<tr>
<td>Align the value, profit, and people propositions.</td>
<td>Sustainability Risk</td>
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<tr>
<td>Renew blue oceans.</td>
<td>Renewal Risk</td>
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Eight Principles of Blue Ocean Strategy Continued
Class Takeaways For Chapter 1

Blue Ocean Strategy challenges companies to break out of the red ocean strategy by creating uncontested market space that makes the competition irrelevant.

The big difference between Red Oceans and Blue Oceans is their strategy.

Value innovation is the cornerstone of Blue Ocean Strategy.

Strategic moves should be aimed at delivering products and services that open and capture new market space. Ex: Cirque Du Soleil & Tesla