

Blue Ocean Strategy: Chapter 9

Align Value, Profit, and People Proposition

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What have we talked about so far?

When asked, people describe blue ocean strategy as:

1. How companies reconstruct market boundaries and offer a leap in value to buyers
2. Unlocking business model innovation through strategic pricing, target costing, and the like so a company can seize new customers profitably
3. Releasing the creativity, knowledge sharing, and voluntary cooperation of people through the proper approach to employees and partners.

While these are correct, they are only partial answers...



A Key to Blue Ocean Strategy

ALIGNMENT

Close the loop between creating and capturing blue oceans so that it becomes a high-performing and sustainable strategy.

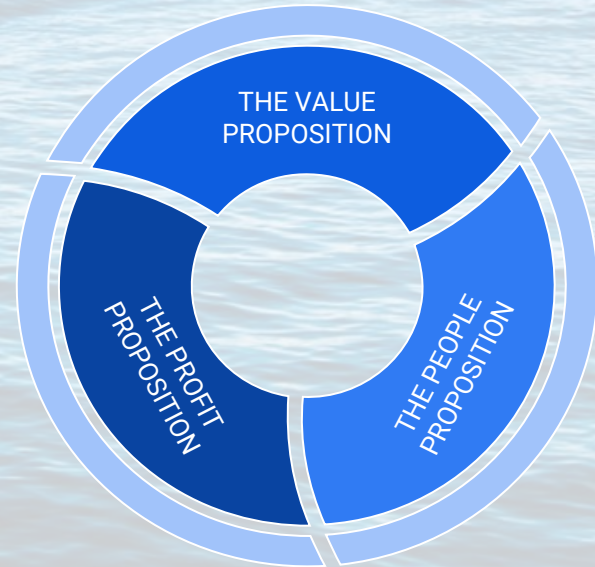
The Three Strategy Propositions

At the highest level, there are three propositions essential to the success of a strategy:

1. The Value Proposition
2. The Profit Proposition
3. The People Proposition

They must develop an offering that attracts buyers

- ❑ Create a business model that allows them to make money out of its offering
- ❑ Motivate the people working for or with the company to execute the strategy



Holistic Understanding of Strategy

The three strategy propositions provide an organizing framework to ensure an organization is taking a holistic approach to the formulation and execution of strategy.

- ❑ If a strategy that does not fully develop or align the three propositions, the organization typically experiences short-lived success or failure

This is often a trap:

- ❑ It is very easy and common for a company to focus on one or two, excluding the third.





Considering Multiple Propositions

May need to address more than one group of stakeholders:

- Employees
- Supply Chain Partners

*This may require multiple people propositions

Similar situation in business-to-business environments

- Business customer
- Business customer's customers



Alignment Responsibility

Strategic alignment is the responsibility of...

Top executives vs. Those in charge of marketing, manufacturing, HR, and other major functions

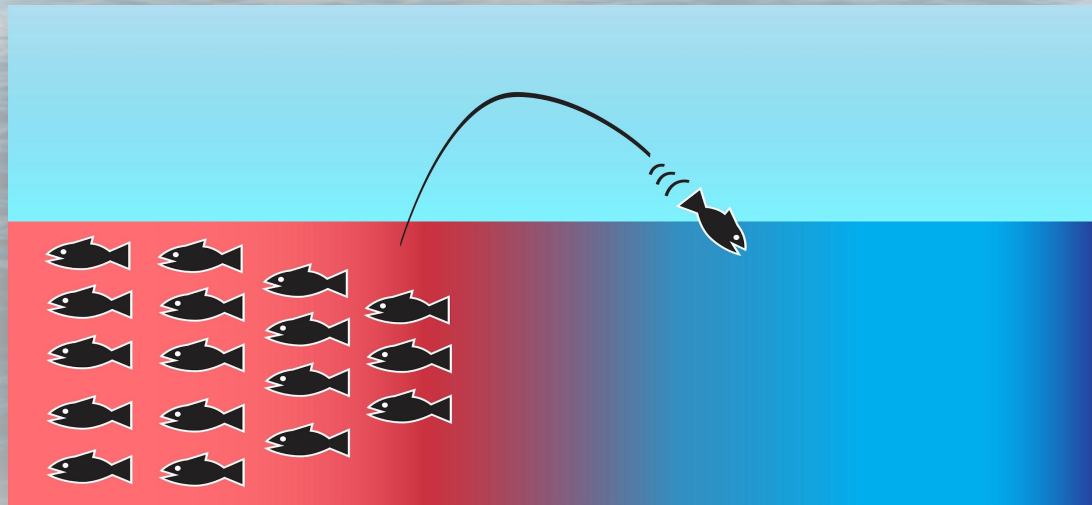
- ❑ Executives with a functional bias may not achieve alignment due to a hindered focus
 - ❑ Must see the whole picture in terms of all three propositions
- ❑ Individual departments may not consider factors not relevant to them
 - ❑ Manufacturing: *may neglect buyers' needs or see people as a cost variable*
 - ❑ Marketing: *may biasly focus on the value proposition and ignore the others*

When the 3 strategy propositions that cut across an organization are fully developed and aligned, a high-performing and sustainable strategy is achieved!

Divergence of Blue and Red Oceans

Where the two approaches, Blue or Red Oceans, diverge is...

How organizations achieve alignment around the strategy propositions!



Achieving Blue Ocean Strategic Alignment

Alignment

Value proposition

The utility buyers receive from offering minus the price they pay for it

Profit proposition

The revenues an organisation generates from an offering minus the cost to produce and deliver it

People proposition

The positive motivations and incentives put in place for the people needed to support and implement the strategy

Blue ocean strategy approach

The alignment of the three strategy propositions in pursuit of **both** differentiation **and** low cost

Red ocean strategy approach

The alignment of the three strategy propositions in pursuit of **either** differentiation **or** low cost



Support from Other Propositions

As we go through our examples, you will see when the 3 strategic propositions are aligned around differentiation and low cost.

- *Key factors from one proposition often support and reinforce the other two propositions creating a strong, positive cycle*

Organizations can leverage a compelling value proposition to strengthen its profit and people propositions

OR

Organizations can build on a powerful people proposition to create a strong value proposition which in turn strengthens the profit



Comic Relief: Alignment Analysis

A UK fund-raising charity founded in 1985.

- Emerged as one of the most distinctive charities in the UK that also enjoys lowest costs.
- In an overcrowded industry that suffered rising costs, declining demand, and a public confused by the sheer number of fundraising charities.

Most UK charities only get 45% of their funds from the public, but Comic has raised 100% of its donations from the public with no paid marketing or mail solicitations.

But how?...

Comic Relief: Value Proposition

In their case, customers are donors whom it needs to attract with a compelling value proposition!

- Traditional charities in the UK use sad or shocking images to stimulate negative feelings of guilt and pity to trigger those donations

Red Nose Day

- A British phenomenon every two years where people get together to do something funny for money at home, school and work! (*Avoiding donor fatigue*)
- Buy a cheap, signature red nose and participate or sponsor your friends to do it.



FUN, COMMUNITY, PERSONAL, RECOGNIZES EVEN THE TINIEST OF DONATIONS, DONATES 100%

- Value proposition is fun and exciting and also is differentiated by being different and fun and ALSO low cost by allowing anyone to donate!



Comic Relief: Profit Proposition

How does Comic Relief raise such extraordinary sums and still support its operations while donating 100% of its fundraising?

- Traditional charities use various methods of soliciting, host galas, write proposals, etc. which all require significant overhead costs in staff, administration, and potential facilities costs.

Comic Relief eliminated ALL of those! *Stripped away more than 75% of traditional operations.*

- Leverages existing high retail outlets such as supermarkets or fashion stores to sell its noses!
- With their fun value proposition, the donors volunteer to do the bulk of the fundraising by engaging in silly antics, keeping their staff costs very low and uses media for marketing
- Corporate partners cover its operating costs - once again differentiated AND low-cost



Comic Relief: People Proposition

Comic Relief's people proposition focuses on inspiring volunteer fundraisers, corporate sponsors and celebrities who buy-in to make the value and profit proposition sustainable

1. **Creates a legitimate platform** - *Red Nose Day*
2. **Makes participating easy** - *offer fun examples to get involved, get respect from friends/family/colleagues, feel a sense of pride being a part of a larger cause*
3. **Conserves time** - *participating does not take as much time as other charitable obligations (one day every two years)*

Creates a compelling, low-cost people proposition that inspires people compared with traditional charities that may feel like a drag. Even corporations and celebrities want to participate for the free publicity that Comic Relief triggers.

TESLA - Value Proposition

How do we create value for the customers?

Differentiation:

- Provide value by creating a vehicle that combines the attributes of a green vehicle AND a premium performance vehicle!
- Research and development into technology
- Provides many sources of clean energy

Low cost:

- Removed all patents
- Trying to reduce cost of vehicles (Model 3)
- Partnered with US Bank/Wells Fargo
 - Financing options
 - Easier to afford





TESLA - Profit Proposition

How do we create revenue and reduce costs?

Differentiation:

- Still unprofitable with predictions of profit but Elon Musk is highly skilled at raising capital
- May still be establishing as a company, but the brand equity is so strong people invest
- Creating technology that can't be substituted or entirely imitated at the moment

Low cost:

- Battery manufacturing
- Minimal Marketing efforts, brand equity does a lot of the selling
- Decreased labor required - reduced hours to build a car by 40% (2013)
 - Raw materials decreased by 28%
 - Unit production increased 80%

TESLA - People Proposition

How do we get people to support the strategy?

Differentiation:

- Green movement (environmentally-friendly vehicle creates a platform)
- People WANT to help the environment and go green and assist Tesla
- Many corporate partners investing in Tesla's technology
 - Motivated to support innovation and clean energy
 - Reduced CO2 emissions, motivated to continue change

Low cost:

- Supercharger network - easy to access energy
- Replace battery for "no fault"
- Cheaper to fill up using Supercharger than traditional gas
- Low-cost compared to traditional automotives



TESLA: Alignment Analysis

Overall...

- Their alignment is still forming as a fairly young company in a well-established industry. We will be able to analyze better over the next five years.
- If they can control their profit proposition, they are on track for executing their blue ocean strategy.


**BLUE OCEAN
STRATEGY**





When A Strategy is Not Properly Aligned

When not properly aligned, even a compelling blue ocean idea with an impressive market entry may not sustain its appeal and struggle to get back to its initial momentum or may fail altogether.

- This is why there is so much excitement for new market innovations that end up fizzling out.

To produce a high-performing blue ocean strategy, ask the following questions:

- Are your 3 strategy propositions aligned in pursuit of differentiation AND low cost?
- Have you identified all of the key stakeholders, including external ones that may influence your strategy execution?
- Have you developed compelling people propositions for each of these stakeholders to ensure they are motivated and behind the execution of your strategy?



Putting it All Together

First-mover advantage means nothing if you don't have strategic alignment.

- Must have a holistic view of the strategy
- External stakeholders such as potential corporate partners or supply chain partners are often forgotten and lead to a failing people proposition

Now think... has the company you are analyzing this semester fully developed and aligned their three strategy propositions for sustained success? ... The continuing success of their company's strategy depends on it.

Questions?

