



Blue
Ocean
Strategy

8 KEY POINTS OF BLUE OCEAN STRATEGY

- W. Chan Kim and Renée Mauborgne

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The fundamentals that will jump start your strategy development process.

What is distinctive about blue ocean strategy as a theory? How is blue ocean strategy different from a classic differentiation strategy? Is it another form of low cost strategy? What's the research process behind it? In the decade since Blue Ocean Strategy was first published, we've fielded thousands of such questions. Some executives want to understand how it addresses the issue of execution. Some ask what the strategy is based on. Others question whether the strategy will be effective in their industry. We heard certain questions again and again and, in response, have identified eight core principles. Here we outline the essence of blue ocean strategy.

1 It's grounded in data

Blue ocean strategy is based on a decade long study of more than 150 strategic moves spanning more than 30 industries over 100 years. Industries ranged from hotels, cinema, retail, airlines, energy, computers, broadcasting, and construction to automobiles and steel. We analyzed not only winning business players who created blue oceans but also their less successful competitors. We searched for convergence among the group that created blue oceans and within less successful players caught in the red ocean. We also searched for divergence across these two groups. In so doing, we tried to discover the common factors leading to the creation of blue oceans and the key differences separating those winners from the mere survivors and the losers adrift in the red ocean. As our database and research have continued to expand and grow over the last ten years since the first edition of our book was published, we have continued to observe similar patterns whether blue oceans were created in for-profit industries, non-profit organizations, or the public sector.

2 It pursues differentiation and low cost

Blue ocean strategy is based on the simultaneous pursuit of differentiation and low cost. It is an “and-and,” not an “either-or” strategy. Conventional wisdom holds that companies can either create greater value for customers at a higher cost or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, blue ocean strategy seeks to break the value-cost tradeoff by eliminating and reducing factors an industry competes on and raising and creating factors the industry has never offered. This is what we call value innovation.

Value innovation is distinctively different from the competitive strategic approach that takes an industry structure as given and seeks to build a defensible position within the existing industry order. The strategic logic of value innovation guides companies to identify what buyers commonly value across the conventional boundaries of competition and reconstruct key factors across market boundaries, thereby achieving both differentiation and low cost and creating a leap in value for both buyers and the company.

3 It creates uncontested market space

Blue ocean strategy doesn't aim to out-perform the competition. It aims to make the competition irrelevant by reconstructing industry boundaries. Whereas conventional strategic approaches drive companies to define their industry similarly and focus on being the best within it, blue ocean strategy prompts them to break out of the accepted boundaries that define how they compete. Instead of looking within these boundaries, managers need to look systematically across them to create blue oceans – new and uncontested market space of new demand and high profitable growth.

4 It empowers you through tools and frameworks

Blue ocean strategy offers systematic tools and frameworks to break away from the competition and create a blue ocean of uncontested market space. The field of strategy, by contrast, has predominantly focused on how to compete in established markets, creating an arsenal of analytic tools and frameworks to skillfully achieve this.

Blue ocean strategy is built on the common strategic patterns behind the successful creation of blue oceans. These patterns have allowed us to develop underlying analytic frameworks, tools and methodologies to systematically link innovation to value and reconstruct industry boundaries. The visual and actionable frameworks and tools like the strategy canvas, four actions framework and six paths form the analytic foundations of the blue ocean creation process, bringing structure to what has historically been an unstructured problem in strategy. They provide a roadmap and critical visual guidance for systematically pursuing value innovation and creating uncontested market space. Companies can make proactive changes in industry or market fundamentals through the purposeful application of these blue ocean tools and frameworks.

5 It provides a step-by-step process

From assessing the current state of play in an industry, to exploring the six paths to new market space, to understanding how to convert noncustomers into customers, blue ocean strategy provides a clear four-step process to break away from the competition and create a blue ocean of strong profitable growth. The four-step process is designed around the concepts and analytic tools of blue ocean strategy and fair process. It is built based on our strategy practices in the field with many companies over the last two decades. It allows managers and their teams to develop rigorous and concrete strategies while capturing the big picture. In this way, 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.

6 It maximizes opportunity while minimizing risk

Blue ocean strategy is an opportunity-maximizing risk-minimizing strategy. Of course any strategy will always involve risks – be it red or blue. However, blue ocean strategy provides a robust mechanism to mitigate risks and increase the odds of success. A key framework here is the Blue Ocean Idea Index. The Blue Ocean Idea Index lets you test the commercial viability of your blue ocean ideas and shows you how to refine your ideas to maximize your upside while minimizing downside risks. It allows you to answer four key questions: First, is there a compelling reason for people to buy your offering? Second, is your offering priced to attract the mass of target buyers so they have a compelling ability to pay for it? Third, can you produce your offering at the strategic price and still earn a healthy profit from it? And finally what are the adoption hurdles in rolling out your idea and have you addressed these upfront? The first two questions address the revenue side of your business model. They ensure that you create a leap in net buyer value. The third question ensures the profit side of your business model. And the last question ensures that you have given good thought and addressed externalities that could trip up even the best new idea.

7 It builds execution into strategy

The process and tools of blue ocean strategy are inclusive, easy to understand and communicate, and visual – all of which makes the process non-intimidating and an effective path to building execution into strategy and the collective wisdom of a company.

Equally as important, blue ocean strategy is a strategy that expressly joins analytics with the human dimension of organizations. It recognizes and pays respect to the importance of aligning people's minds and hearts with a new strategy so that at the level of the individual, people embrace it of their own accord and willingly go beyond compulsory execution to voluntary cooperation in carrying it out. To achieve this, blue ocean strategy does not separate strategy formulation from execution. Although this disconnect may be a hallmark of most companies' practices, our research shows it is also a hallmark of slow and questionable implementation and mechanical follow-through at best. Instead, blue ocean strategy builds execution into strategy from the start through the practice of fair process in the making and rolling out of strategy.

Fair Process, namely, engagement, explanation and expectation clarity, prepares the ground for implementation by invoking the most fundamental basis of action: trust, commitment, and the voluntary cooperation of people deep in an organization. Commitment, trust, and voluntary cooperation are not merely attitudes or behaviors. They are intangible capital. They allow companies to stand apart in the speed, quality, and consistency of their execution and to implement strategic shifts fast at low cost.

It shows you how to create a win-win outcome

With its integrated approach, blue ocean strategy shows how to align the three strategy propositions – value, profit, and people – to ensure your organization is aligned around your new strategy and that it creates a win for buyers, the company, and for employees and stakeholders. For any strategy to be successful and sustainable an organization must develop an offering that attracts buyers; it must create a business model that enables the company to make a tidy profit; and it must motivate the people working for or with the company to execute the strategy.

While good strategy content hinges upon a compelling value proposition for buyers and a robust profit proposition for the organization, sustainable strategy execution is based largely on a motivating people proposition. The alignment of the three propositions proposed by blue ocean strategy ensures that an organization is taking a holistic approach to the formulation and execution of strategy. Together the three propositions provide an organizing framework for creating a winning strategy that will benefit buyers, the company, as well as internal and external stakeholders.

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