

***Blue Ocean Strategy***  
***How to Create Uncontested Market Space and make the Competition Irrelevant***

Boston: Harvard Business School Press. 2005

W. Chan Kim and Renée Mauborgne

Cirque du Soleil succeeded because it realized that to win in the future, companies must stop competing with each other. The only way to beat the competition is to stop *trying* to beat the competition. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. (p. 4).

In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. (p. 5).

In increasing numbers of industries, supply exceeds demand.

The business environment in which most strategy and management approaches of the twentieth century evolved is increasingly disappearing. As red oceans become increasingly bloody, management will need to be more concerned with blue oceans than the current cohort of managers is accustomed to. (p. 8).

Much of the success attributed to some of the model companies in *Built to Last* was the result of industry sector performance rather than the companies themselves. (pp. 9-10).

The approach to strategy in creating blue oceans was consistent across time regardless of industry. (p. 12).

By injecting the concept of multiple productions and by giving people a reason to come to the circus more frequently, Cirque du Soleil has dramatically increased demand... In short, Cirque du Soleil offers the best of both circus and theater, and it has eliminated or reduced everything else. By offering unprecedented utility, Cirque du Soleil has created a blue ocean and has invented a new form of live entertainment, one that is markedly different from both traditional circus and theater. (pp. 15-16).

Every great strategy has focus, and a company's strategic profile, or value curve, should clearly show it. When a company's strategy is formed reactively as it tries to keep up with the competition, it loses its uniqueness. (p. 39).

Challenging an industry's conventional wisdom about which buyer group to target can lead to the discovery of new blue ocean. (p. 61).

Untapped value is often hidden in complementary products and services. The key is to define the total solution buyers seek when they choose a product or service. A simple way to do so is to think about what happens before, during, and after your product is used. (p. 65).

The process of discovering and creating blue oceans is not about predicting or preempting industry trends. Nor is it a trial-and-error process of implementing wild new business ideas that happen to come across managers' minds or intuition. Rather, managers are engaged in a structured process of reordering market realities in a fundamentally new way. (pp. 79-80).

A company should never outsource its eyes. There is no substitute for seeing for itself. Great artists don't paint from other people's descriptions of even from photographs; they like to see the subject for themselves. The same is true for great strategists. (p. 88).

To maximize the size of their blue oceans, companies need to take a reverse course. Instead of concentrating on customers, they need to look at noncustomers. And instead of focusing on customer differences, they need to build on powerful commonalities in what buyers value. (p. 102).

The starting point is buyer utility. Does your offering unlock exceptional utility? Is there a compelling reason for the mass of people to buy it? Absent this, there is no blue ocean potential to begin with. (p. 118).

Instead of creating cars for weekends in the countryside – a luxury few could justify – Ford's Model T was made for everyday use. It was reliable. It was durable; it was designed to travel effortlessly over dirt roads and in rain, sleet, or shine. It was easy to fix and use. People could learn to drive it in one day. (p. 125).

The strategic price you set for your offering must not only attract buyers in large numbers, but also help you to retain them. Given the high potential for free riding, an offering's reputation must be earned on day one, because brand building increasingly relies heavily on word-of-mouth recommendations spreading rapidly through our networked society. (p. 127).

Before plowing forward and investing in the new idea, the company must first overcome such fears by educating the fearful. (p. 137).

Compared with red ocean strategy, blue ocean strategy represents a significant departure from the status quo. It hinges on a shift from convergence to divergence in value curves at lower costs. That raises the execution bar. (p. 147).

Conventional wisdom asserts that the greater the change, the greater the resources and time you will need to bring about results. Instead, you need to flip conventional wisdom on its head using what we call *tipping point leadership*. (p. 148).

As we all know, figures can be manipulated... Even when the numbers are not manipulated, they can mislead. Salespeople on commission, for example, are seldom sensitive to the costs of the sales they produce. (p. 152).

Tipping point leaders zoom in on the act of disproportionate influence: making people see and experience harsh reality firsthand... People remember and respond most effectively to what they see and experience: "Seeing is believing." (p. 152).

To tip the cognitive hurdle, not only must you get your managers out of the office to see operational horror, but also you must get them to listen to their most disgruntled customers firsthand. Don't rely on market surveys. To what extent does your top team actively observe the market firsthand and meet with your most disgruntled customers to hear your concerns... Simply put, there is no substitute for meeting and listening to dissatisfied customers directly. (pp. 154-155).

When you want to wake up your organization to the need for a strategic shift and a break from the status quo, do you make your case with numbers? Or do you get your managers, employees, and superiors (and yourself) face-to-face with your worst operational problems? Do you get your managers to meet the market and listen to disenchanted customers holler? Or do you outsource your eyes and send out market research questionnaires? (p. 155).

Are you allocating resources based on old assumptions, or do you seek out and concentrate resources on hot spots? What activities have the greatest performance impact but are resource starved? What activities are resource oversupplied but have scant performance impact? (p. 161).

Organizations must make fair process the modus operandi. By *fair process* we mean engaging all the affected people in the process, explaining to them the basis of decisions and the reasons people will be promoted or sidestepped in the future, and setting clear expectations of what that means to employees' performance. (p. 164).

Do you indiscriminately try to motivate the masses? Or do you focus on key influencers? (p. 165).

Ask yourself two sets of questions: Who are my devils? Who will fight me? Who will lose the most by the future blue ocean strategy? Who are my angels? Who will naturally align with me? Who will gain the most by the strategic shift? (p. 167).

A company is not only top management, nor is it only middle management. A company is everyone from the top to the front lines. And it is only when all the members of an organization are aligned around a strategy and support it, for better or for worse, that a company stands apart as a great and consistent executor. (p. 171).

Emotionally, individuals seek recognition of their value, not as "labor," "personnel," or "human resources" but as human beings who are treated with full respect and dignity and appreciated for their individual worth regardless of hierarchical level. Intellectually, individuals seek recognition that their ideas are sought after and given thoughtful reflection, and that others think enough of their intelligence to explain their thinking to them... Managers must see the nearly universal value of the intellectual and emotional recognition that fair process conveys. (p. 181).

Practical reality demands that companies succeed in both oceans and master the strategies for both. (p. 190).

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Here's the strategy – create new markets. Competing for old ones is a “yesterday” strategy. Create your own markets in brand new territory – this is the blue ocean strategy.

• Red Ocean vs. Blue Ocean Strategy

<b>Red Ocean Strategy</b>	<b>Blue Ocean Strategy</b>
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
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 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

The six Principles of Blue Ocean Strategy

1. Formulation principles
  - reconstruct market boundaries
  - focus on the big picture, not the numbers
  - reach beyond existing demand
  - get the strategic sequence right
  
2. Execution principles
  - overcome key organizational hurdles
  - build execution into strategy

- The four actions framework
  - Which of the factors that the industry takes for granted should be eliminated?
  - Which factors should be reduced well below the industry's standard?
  - Which factors should be raised well above the industry's standard?
  - Which factors should be created that the industry never offered?
  
- The six paths framework:
  - Path 1: Look cross alternative industries
  - Path 2: Look across strategic groups within industries
  - Path 3: Look across the chain of buyers
  - Path 4: Look across complementary product and service offerings
  - Path 5: Look across functional or emotional appeal to buyers
  - Path 6: Look across time

1. Three characteristics of a good strategy:
  1. Focus
  2. Divergence (e.g., -- think about airline meals, and contrast Southwest to all other airlines)
  3. Compelling tagline
  
2. Focus on the Big Picture: Not the Numbers
  1. Focus on the big picture
  2. Draw your strategy canvas
    - step 1: visual awakening
    - step 2: visual exploration
    - step 3: visual strategy fair
    - step 4: visual communication  
  - the pioneer-migrator-settler (PMS) Map
  
3. Three tiers of noncustomers
  1. First-tier noncustomers – *soon-to-be* noncustomers
  2. Second-tier noncustomers – *refusing* noncustomers
  3. Third-tier noncustomers – *unexplored* noncustomers
  - Go for the biggest catchment!
  
4. Get the strategic sequence right
  - Buyer utility
  - Price
  - Cost
  - Adoption  
- *Yes to all* = A commercially viable blue ocean idea
  
5. Overcoming Key Organizational hurdles – Tipping point leadership in action
  - the four organizational hurdles to strategy execution
    1. Cognitive hurdle
    2. Resource hurdle
    3. Motivational hurdle
      - place kingpins in a fishbowl
    4. Political hurdle
      - secure a Consigliere on your top management team  
    - who are your devils? your angels?

6. Build execution into strategy

- The Three *E* principles of fair process

- engagement
- explanation
- expectation clarity

- Fair process *leads to* intellectual and emotional recognition *leads to* trust and commitment *leads to* voluntary cooperation in strategy execution

vs.

- Violation of fair process *leads to* intellectual and emotional indignation *leads to* distrust and resentment *leads to* refusal to execute strategy

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Put resources in *hot spots* – activities with great performance impacts, but are resource starved.

Take resources from *cold spots* – activities that are resource oversupplied , but have scant performance impact