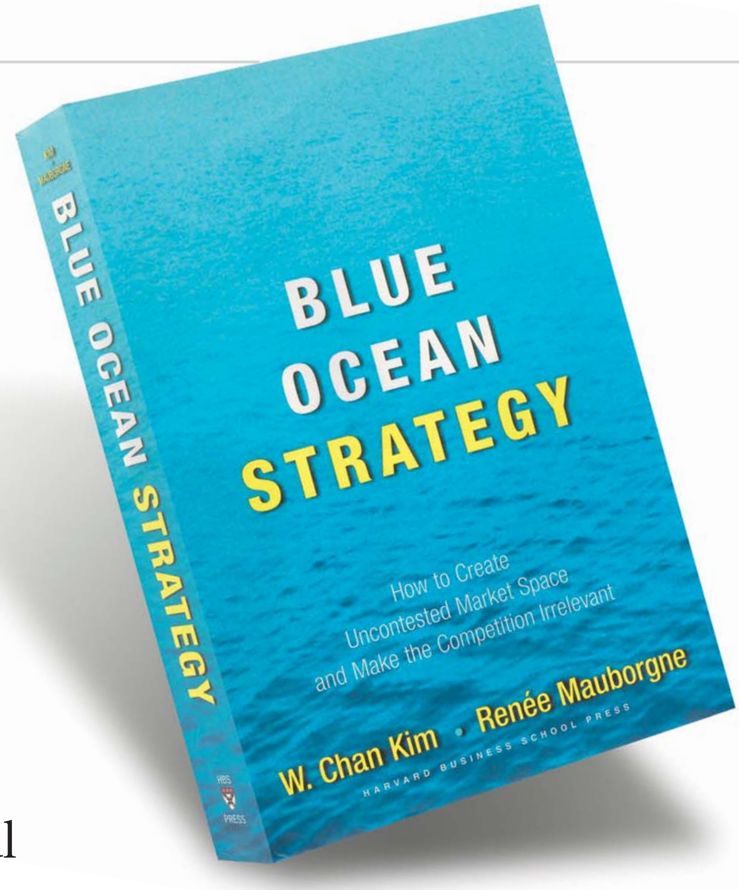
Blue Ocean Strategy

Reviewed by R. Lemuel Lasher



This is one small book that packs one big punch. At a mere 216 pages, including appendices, it's a delightful and satisfying read. Here's why.

W. Chan Kim and Renée Mauborgne have made a real contribution to advancing the thinking on business strategy, and they have done so with clear prose and an engaging style. They offer a set of practical frameworks and models that enables one to quickly grasp what appear to be intuitively obvious points, but are in reality profound insights and breakthrough contributions to business strategy literature.

By choosing as the title of their book a colorful metaphor not normally associated with strategy, the authors have given us a simple and memorable way of distinguishing their approach from more traditional ones.

The first chapter, "Creating Blue Oceans," introduces their thinking in a manner that is engaging and compelling. Their language of "creating" strategy, rather than the more traditional approaches to strategy development, sets the tone for the entire book. This is not just about strategy analysis and formulation; it is about using solid empirical data, rigorous analysis, and a strong dose of imagination.

According to the authors, a Blue Ocean is a market space that is created by identifying an unserved set of customers, then delivering to them a compelling new value proposition. This is done by reconfig-

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uring what is on offer to better balance customer needs with the economic costs of doing so. This is as opposed to a Red Ocean, where the market is well defined and heavily populated by the competition. All parties in these markets are engaged in an intense competitive struggle for the same customers, with different and incremental yet easily comparable, value propositions.

The Blue Ocean is the unserved, unstructured demand that is all around us, if we could only see it. The Blue Ocean strategy is all about avoiding head-to-head competition. Because established markets in the developed world are saturated, head-to-head competition cannot bring attractive returns.

At first read, it is so easy to understand and so intuitively obvious, that one is left wondering why *everyone* doesn't adopt this approach. By the end of the book, you are left wondering if *anyone* is able to adopt this approach on a systematic basis. For to do so requires a broad set of multi-disciplinary skills as well as fresh thinking about even the most mundane and pedestrian options. It requires both discipline and inspiration.

So what is it and what distinguishes it from traditional strategy frameworks?

Kim and Mauborgne's first point in distinguishing this from the traditional strategic frameworks is that in the traditional business literature, the company forms the basic unit of analysis, and the industry analysis is the means of positioning the company.

Their hypothesis is that since markets are constantly changing in their levels of favorability, and companies over time vary in their level of performance, it is the particular *strategic move of the company*, and not the company itself or the industry, which is the correct criterion for evaluating the difference between Red and Blue Ocean strategies.

This strikes first and foremost at the heart of Michael Porter's competitive framework, and very effectively.

To effect this analysis, the authors introduce the concept of "value innovation." The combination of value with innovation is not just marketing and taxonomic positioning. It actually means something, and has enormous consequences. According to Kim and Mauborgne, "Value without innovation tends to focus on *value* creation on an incremental scale" and, "Innovation without value tends to be technology driven, market pioneering, or futuristic, often overshooting what buyers are ready to accept and pay for."

They continue: "Value innovation occurs only when companies align innovation with utility, price and cost positions" and, "value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off."

Value innovation is intensely customer focused, but not exclusively so. It balances costs of delivering the value proposition with what the buyer values, and then resolves the trade-off dilemma. Instead of compromising the value wanted by the customer because of the high costs associated with delivering it, costs are eliminated or reduced if there is no or less value placed on the offering by the customer. This is a real win-win resolution that creates the compelling proposition. Customers get what they really want for less, and sellers get a higher rate of return on invested capital by reducing startup and/or operational delivery costs. The combination of these two is the catalyst of Blue Ocean market creation.

So how do we sort this all out?

To start with, the authors provide a framework that is called the "strategy canvas." This framework sets out the current state of play of the competition in terms of what they are offering in value, as seen by the

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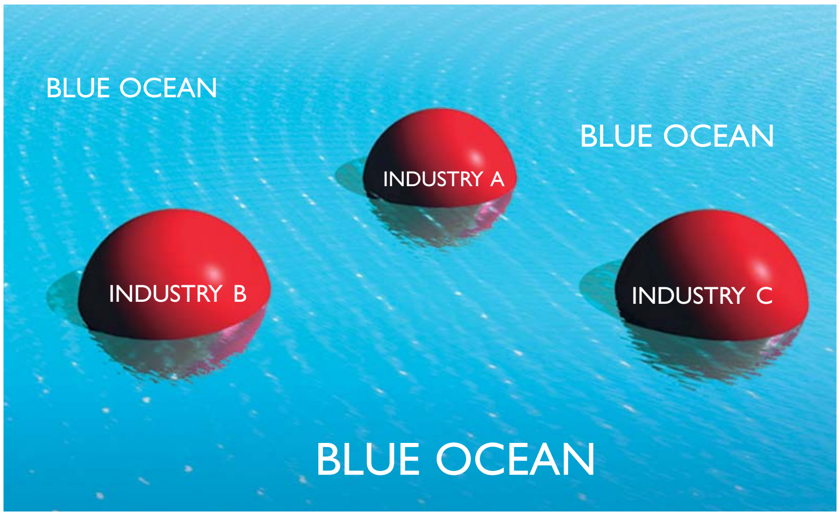
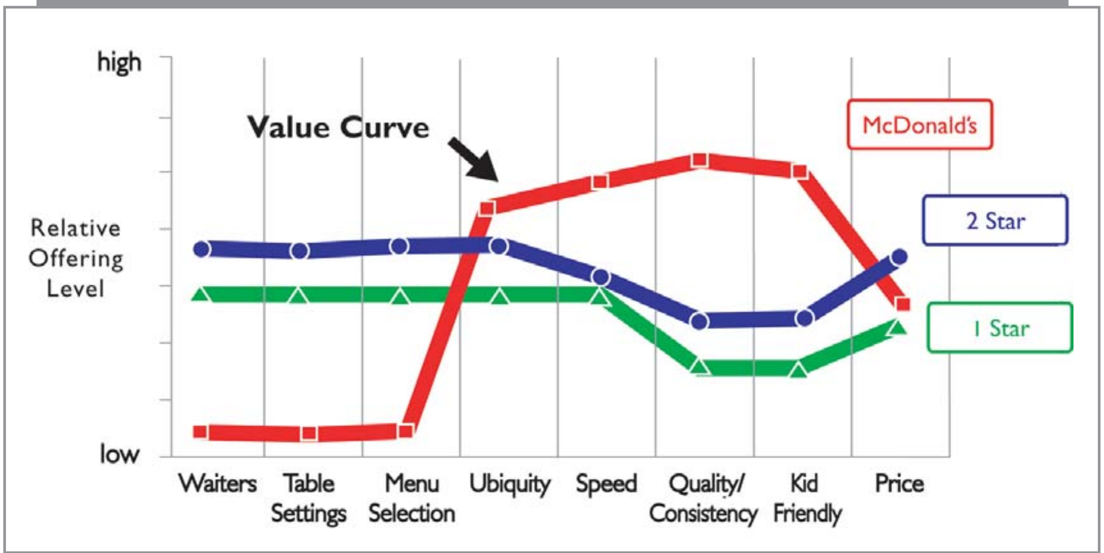


Key elements of product, service, and delivery



customer. The technique for doing so is called the "value map." This is done by identifying the intersection between the particular benefits on offer, and how these benefits are configured by the competition. The trick of the exercise is to then apply some imagination and creativity by asking "what if?" How can we configure a particular set of benefits that would in the aggregate create an attractive enough value proposition to create a new market, or capture a group of as yet un-served customers?

This is done by analyzing all that is on offer competitively by function/feature, identifying a subset of an overall value proposition where there is a mismatch between buyer value and seller economics, and then radically altering the proposition. The authors recommend four different means to do this: *eliminating* what is not valued, *reducing* what is valued less, *raising* what is valued more, and *creating* what no one else has.

The graph above represents an example of a "value curve" for McDonald's. The point of the curve is that McDonald's has a radically different value proposition from other restaurants. It is not really a restaurant at all, because it does not compete with other restaurants. It competes with meals at home, and creates an entirely new way of getting the kids fed. McDonald's is pure Blue Ocean strategy. The gap on the map creates the Blue Ocean space.

In traditional business literature, the company forms the basic unit of analysis. Their hypothesis is that the particular strategic move of the company, not the company itself, is the correct criterion for evaluating the difference between Red and Blue Ocean strategies.

The remainder of the book offers a rich set of frameworks and models that allow one to easily follow and execute the process of "creating" a Blue Ocean strategy. These frameworks and models are introduced by citing numerous helpful and practical examples of how other companies have found the Blue Ocean.

If there is one fault I can level against the book, it is that one gets the feeling that, by retroactively applying the framework and language of Blue Ocean strategy to examples of successful companies that have achieved market leadership, the authors are laying claim to higher ground than they are entitled to. There is a point in the book when the reader wonders if there has ever been a successful business initiative that was *not* a Blue Ocean strategy.

One soon gets over this feeling as the book progresses, and I found myself even reading the appendices. It was that good.