Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant

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Authors' big thought: In this perennial bestseller, embraced by organizations and industries worldwide, globally preeminent management thinkers W. Chan Kim and Renée Mauborgne challenge everything you thought you knew about the requirements for strategic success. Recognized as one of the most iconic and impactful strategy books ever written, *Blue Ocean Strategy*, argues that cutthroat competition results in nothing but a bloody red ocean of rivals fighting over a shrinking profit pool. Based on a study of 150 strategic moves (spanning more than 100 years across 30 industries), the authors argue that lasting success comes not from battling competitors but from creating "blue oceans"—untapped new market spaces ripe for growth.

Blue Ocean Strategy presents a systematic approach to making the competition irrelevant and outlines principles and tools any organization can use to create and capture their own blue oceans.

Part One: Blue Ocean Strategy

Chapter 1: Creating Blue Oceans

- Cirque du Soleil created uncontested new market space that made the competition irrelevant. It appealed to a whole new group of customers: adults and corporate clients prepared to pay a price several times as great as traditional circuses for an unprecedented entertainment experience.
- 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.

- To understand what Cirque du Soleil has achieved, imagine a market universe composed of two sorts of oceans: red oceans and blue oceans. Red oceans represent all the industries in existence today. This is the known market space. Blue oceans denote all the industries not in existence today. This is the unknown market space.
- In the red oceans, companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody.
- Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set.
- This book provides practical frameworks and analytics for the systematic pursuit and capture of blue oceans.
- The strategic move, and not the company or the industry, is the right unit of analysis for explaining the creation of blue oceans and sustained high performance. A strategic move is the set of managerial actions and decisions involved in making a major market-creating business offering.
- What the authors found in their research was a consistent and common pattern across strategic moves for creating and capturing blue oceans. The approach to strategy in creating blue oceans was consistent across time regardless of industry.

Value Innovation: The Cornerstone of Blue Ocean Strategy

- What consistently separated winners from losers in creating blue oceans was their approach to strategy.
- *Value innovation* is the cornerstone of blue ocean strategy. The authors call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.
- Value innovation occurs only when companies align innovation with utility, price, and cost positions.
- Those that seek to create blue oceans pursue differentiation and low cost simultaneously.
- Cirque du Soleil offers the best of both circus and theatre and it has eliminated or reduced everything else. By offering unprecedented utility Cirque du Soleil has created a blue ocean.
- Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates.
- Value innovation is achieved only when the whole system of the company's utility, price, and cost activities is properly aligned. It is this whole-system approach that makes the creation of blue oceans a sustainable strategy.
- Value innovation is more than innovation. It is about strategy that embraces the entire system of a company's activities. Value innovation requires companies to orient the whole system toward achieving a leap in value for both buyers and themselves.
- Value innovation is based on the view that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players. We call this the *reconstructionist* view.

Chapter 2: Analytical Tools and Frameworks

- In this chapter, the authors lay out the basic analytical tools and frameworks that will be used throughout this book in the formulation and execution of blue ocean strategy.
- Effective blue ocean strategy should be about risk minimization and not risk taking.

The Strategy Canvas

- The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy. It serves two purposes. First, it captures the current state of play in the known market space. This allows you to understand where the competition is currently investing, the factors the industry currently competes on in products, service, and delivery, and what customers receive from the existing competitive offerings on the market.
- To fundamentally shift the strategy canvas of an industry, you must begin by reorienting your strategic focus from competitors to alternatives, and from customers to noncustomers of the industry.

The Four Actions Framework

- To break the trade-off between differentiation and low cost and to create a new value curve, there are four key questions to challenge an industry's strategic logic and business model:
  1. Which of the factors that the industry takes for granted should be eliminated?
  2. Which factors should be reduced well below the industry's standard?
  3. Which factors should be raised well above the industry's standard?
  4. Which factors should be created that the industry has never offered?

- The first question forces you to consider eliminating factors that companies in your industry have long competed on.
- The second question forces you to determine whether products or services have been overdesigned in the race to match and beat the competition. Here, companies overserve customers, increasing their cost structure for no gain.
- The third question pushes you to uncover and eliminate the compromises your industry forces customers to make.
- The fourth question helps you to discover entirely new sources of value for buyers and to create new demand and shift the strategic pricing of the industry.
- When you apply the four actions framework to the strategy canvas of your industry, you get a revealing new look at old perceived truths.
- e.g. Casella Wines created [yellow tail], a wine whose strategic profile broke from the competition and created a blue ocean. Instead of offering wine as wine, Casella created a social drink accessible to everyone: beer drinkers, cocktail drinkers, and other drinkers of non-wine beverages. In the space of two years, the fun, social drink [yellow tail] emerged as the fastest growing brand in the histories of both the Australian and the U.S. wine industries and the number one imported wine into the United States, surpassing the wines of France and Italy. The simplicity of offering only two wines at the start—a red and a white—streamlined Casella Wines' business model. So [yellow tail] broke with tradition and created a personality that embodied the characteristics of the Australian culture: bold, laid back, fun, and adventurous. Approachability was the key mantra.

The Eliminate-Reduce-Raise-Create Grid

- A third tool that is key to creation of blue oceans. It is a supplementary analytic to the four actions framework called the *eliminate-reduce-raise-create grid*. The grid pushes companies not only to ask all four questions in the four actions framework but also to act on all four to create a new value curve.
- By driving companies to fill in the grid with the actions of eliminating and reducing as well as raising and creating, the grid gives companies four immediate benefits:
  1. It pushes them to simultaneously pursue differentiation and low costs to break the value-cost trade-off.
  2. It immediately flags companies that are focused only on raising and creating and thereby lifting their cost structure and often over-engineering products and services—a common plight in many companies.
  3. It is easily understood by managers at any level, creating a high level of engagement in its application.
  4. Because completing the grid is a challenging task, it drives companies to robustly scrutinize every factor the industry competes on, making them discover the range of implicit assumptions they make unconsciously in competing.

Three Characteristics of a Good Strategy

- When expressed through a value curve, then, an effective blue ocean strategy like [yellow tail]'s has three complementary qualities: *focus, divergence, and a compelling tagline*. Without these qualities, a company's strategy will likely be muddled, undifferentiated, and hard to communicate with a high cost structure. The four actions of creating a new value curve should be well guided toward building a company's strategic profile with these characteristics. These three characteristics serve as an initial litmus test of the commercial viability of blue ocean ideas.
- e.g. Southwest Airlines created a blue ocean by breaking the trade-offs customers had to make between the speed of airplanes and the economy and flexibility of car transport. Southwest Airlines was able to offer unprecedented utility for air travelers and achieve a leap in value with a low-cost business model.

Divergence

- The value curves of blue ocean strategists always stand apart. By applying the four actions of eliminating, reducing, raising, and creating, they differentiate their profiles from the industry's average profile.

Compelling Tagline

- A good strategy has a clear-cut tagline.

Reading the Value Curves

- The strategy canvas enables companies to see the future in the present. To achieve this, companies must understand how to read value curves. Embedded in the value curves of an industry is a wealth of strategic knowledge on the current status and future of a business.

A Blue Ocean Strategy

- The first question the value curves answer is whether a business deserves to be a winner. When a company's value curve, or its competitors', meets the three criteria that define a good blue ocean strategy—focus, divergence, and a compelling tagline that speaks to the market—the company is on the right track. These three criteria serve as an initial litmus test of the commercial viability of blue ocean ideas.

- It is the intersection between these analytic techniques and the six principles of formulating and executing blue oceans that allow companies to break from the competition and unlock uncontested market space.
- On the other hand, when a company's value curve lacks focus, its cost structure will tend to be high and its business model complex in implementation and execution. When it lacks divergence, a company's strategy is a me-too, with no reason to stand apart in the marketplace. When it lacks a compelling tagline that speaks to buyers, it is likely to be internally driven or a classic example of innovation for innovation's sake with no great commercial potential and no natural take-off capability.

Part Two: Formulating Blue Ocean Strategy

Chapter 3: Reconstruct Market Boundaries

- ***The first principle of blue ocean strategy is to reconstruct market boundaries to break from the competition and create blue oceans.*** This principle addresses the search risk many companies struggle with. The challenge is to successfully identify, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities.
- The authors found clear patterns for creating blue oceans. Specifically, they found six basic approaches to remaking market boundaries. They call this the six paths framework. These paths have general applicability across industry sectors, and they lead companies into the corridor of commercially viable blue ocean ideas. None of these paths requires special vision or foresight about the future. All are based on looking at familiar data from a new perspective.
- These paths challenge the six fundamental assumptions underlying many companies' strategies.
- Specifically, companies tend to do the following:
    - Define their industry similarly and focus on being the best within it
    - Look at their industries through the lens of generally accepted strategic groups (such as luxury automobiles, economy cars, and family vehicles), and strive to stand out in the strategic group they play in
    - Focus on the same buyer group, be it the purchaser (as in the office equipment industry), the user (as in the clothing industry), or the influencer (as in the pharmaceutical industry)
    - Define the scope of the products and services offered by their industry similarly
    - Accept their industry's functional or emotional orientation
    - Focus on the same point in time—and often on current competitive threats—in formulating strategy
- The more that companies share this conventional wisdom about how they compete, the greater the competitive convergence among them.
- To break out of red oceans, companies must break out of the accepted boundaries that define how they compete.

Path 1: Look Across Alternative Industries

- Products or services that have different forms but offer the same functionality or core utility are often substitutes for each other. On the other hand, alternatives include products or services that have different functions and forms but the same purpose.
- In making every purchase decision, buyers implicitly weigh alternatives, often unconsciously.
- The thought process is intuitive for individual consumers and industrial buyers alike.
- See NetJets example and NTT DoCoMo

- What are the alternative industries to your industry? Why do customers trade across them? By focusing on the key factors that lead buyers to trade across alternative industries and eliminating or reducing everything else, you can create a blue ocean of new market space.

Path 2: Look Across Strategic Groups Within Industries

- Strategic groups refers to a group of companies within an industry that pursue a similar strategy.
- Strategic groups can generally be ranked in a rough hierarchical order built on two dimensions: price and performance. Each jump in price tends to bring a corresponding jump in some dimensions of performance. Most companies focus on improving their competitive position within a strategic group.
- The key to creating a blue ocean across existing strategic groups is to break out of this narrow tunnel vision by understanding which factors determine customers' decisions to trade up or down from one group to another.
- E.g. Consider Curves, the Texas-based women's fitness company. Curves is not competing directly with other health and exercise concepts; it created new blue ocean demand.
- In the luxury car market, Toyota's Lexus carved out a new blue ocean by offering the quality of the high-end Mercedes, BMW, and Jaguar at a price closer to the lower-end Cadillac and Lincoln.
- What are the strategic groups in your industry? Why do customers trade up for the higher group, and why do they trade down for the lower one?

Path 3: Look Across the Chain of Buyers

- In most industries, competitors converge around a common definition of who the target buyer is. In reality, though, there is a chain of "buyers" who are directly or indirectly involved in the buying decision. The purchasers who pay for the product or service may differ from the actual users, and in some cases, there are important *influencers* as well.
- Challenging an industry's conventional wisdom about which buyer group to target can lead to the discovery of a new blue ocean.
- e.g. Novo Nordisk, the Danish insulin producer, created a blue ocean in the insulin industry by shifting the industry's longstanding focus on doctors to the users—patients themselves. Novo Nordisk's blue ocean strategy shifted the industry landscape and transformed the company from an insulin producer to a diabetes care company.
- Many industries afford similar opportunities to create blue oceans. By questioning conventional definitions of who can and should be the target buyer, companies can often see fundamentally new ways to unlock value.
- What is the chain of buyers in your industry? Which buyer group does your industry typically focus on? If you shifted the buyer group of your industry, how could you unlock new value?

Path 4: Look Across Complementary Product and Service Offerings

- Few products and services are used in a vacuum. In most cases, other products and services affect their value. But in most industries, rivals converge within the bounds of their industry's product and service offerings.
- 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.
- e.g. NABI - created a value curve that is radically divergent from the industry's average curve. By building its buses in lightweight fiberglass, they significantly reduced costs related to corrosion prevention, maintenance, and fuel consumption. As a result, even though NABI charged a higher initial purchase price than the average price of the industry, it offered its buses at a much lower life-cycle

cost to municipalities. NABI changed the way municipalities saw their revenues and costs involved in transit bus service. NABI created exceptional value for the buyers—in this case for both municipalities and end users – at a low life-cycle cost. NABI, based in Hungary, created a blue ocean that made the competition irrelevant in the United States, creating a win-win for all: itself, municipalities, and citizens.

- What is the context in which your product or service is used? What happens before, during, and after? Can you identify the pain points? How can you eliminate these pain points through a complementary product or service offering?

Path 5: Look Across Functional or Emotional Appeal to Buyers

- Some industries compete principally on price and function largely on calculations of utility; their appeal is rational. Other industries compete largely on feelings; their appeal is emotional.
- When companies are willing to challenge the functional-emotional orientation of their industry, they often find new market space.
- Does your industry compete on functionality or emotional appeal? If you compete on emotional appeal, what elements can you strip out to make it functional? If you compete on functionality, what elements can be added to make it emotional?

Path 6: Look Across Time

- All industries are subject to external trends that affect their businesses over time.
- Most companies adapt incrementally and somewhat passively as events unfold. They pace their own actions to keep up with the development of the trends they're tracking.
- But key insights into blue ocean strategy rarely come from projecting the trend itself. Instead they arise from business insights into how the trend will change value to customers and impact the company's business model. By looking across time—from the value a market delivers today to the value it might deliver tomorrow— managers can actively shape their future and lay claim to a new blue ocean.
- Three principles are critical to assessing trends across time. To form the basis of a blue ocean strategy, these trends must be decisive to your business, they must be irreversible, and they must have a clear trajectory.
- E.g. Apple observed the flood of illegal music file sharing that began in the late 1990s. Today the iTunes Music Store offers more than 700,000 songs and has sold more than 70 million songs in its first year, with users downloading on average 2.5 million per week. Nielsen//NetRatings estimates that the iTunes Music Store now accounts for 70 percent of the legal music download market.
- What trends have a high probability of impacting your industry, are irreversible, and are evolving in a clear trajectory? How will these trends impact your industry? Given this, how can you open up unprecedented customer utility?

Conceiving New Market Space

- The process of discovering and creating blue oceans is not about predicting or preempting industry trends. Rather, managers are engaged in a structured process of reordering market realities in a fundamentally new way. Through reconstructing market elements across industry and market boundaries, they will be able to free themselves from head-to-head competition in the red ocean.

Chapter 4: Focus on the Big Picture, Not the Numbers

- The next question is, how do you align your strategic planning process to focus on the big picture and apply these ideas in drawing your company's strategy canvas to arrive at a blue ocean strategy?
- The authors' research reveals that most companies' strategic planning process keeps them wedded to red oceans.
- ***The second principle of blue ocean strategy: Focus on the big picture, not the numbers.*** This principle is key to mitigating the planning risk of investing lots of effort and lots of time but delivering only tactical red ocean moves. Here we develop an alternative approach to the existing strategic planning process that is based not on preparing a document but on drawing a strategy canvas.

Focusing on the Big Picture

- By building a company's strategic planning process around a strategy canvas, a company and its managers focus their main attention on the big picture rather than becoming immersed in numbers and jargon and getting caught up in operational details.
- Drawing a strategy canvas does three things. First, it shows the strategic profile of an industry by depicting very clearly the factors (and the possible future factors) that affect competition among industry players. Second, it shows the strategic profile of current and potential competitors, identifying which factors they invest in strategically. Finally, it shows the company's strategic profile—or value curve—depicting how it invests in the factors of competition and how it might invest in them in the future.
- The strategic profile with high blue ocean potential has three complementary qualities: focus, divergence, and a compelling tagline. If a company's strategic profile does not clearly reveal those qualities, its strategy will likely be muddled, undifferentiated, and hard to communicate. It is also likely to be costly to execute.

Drawing Your Strategy Canvas

- The process, which builds on the six paths of creating blue oceans and involves a lot of visual stimulation in order to unlock people's creativity, has four major steps:

Step 1: Visual Awakening

- Asking executives to draw the value curve of their company's strategy brings home the need for change. It serves as a forceful wake-up call for companies to challenge their existing strategies.
- The pictures can clearly reveal defects in the company's strategy.
- The pictures also highlight contradictions.
- Trying to draw the strategy canvases makes a stronger case for change than any argument based on numbers and words could do. This creates a strong desire in top management to seriously re-think the company's current strategy.

Step 2: Visual Exploration

- The next step is to send a team into the field, putting managers face-to-face with what they must make sense of: how people use or don't use their products or services.
- A company should never outsource its eyes. There is simply no substitute for seeing for yourself.
- The first port of call should be the customers. But you should not stop there. You should also go after noncustomers. And when the customer is not the same as the user, you need to extend your observations to the users. You should not only talk to these people but also watch them in action.

Identifying the array of complementary products and services that are consumed alongside your own may give you insight into bundling opportunities.

- Finally, you need to look at how customers might find alternative ways of fulfilling the need that your product or service satisfies. For example, driving is an alternative to flying, so you should also examine its distinct advantages and characteristics.
- Next, teams are then sent back to the drawing board. This time, though, they have to propose a new strategy. Each team has to draw six new value curves using the six-path framework explained in chapter 3. Each new value curve has to depict a strategy that would make the company stand out in its market. By demanding six pictures from each team, managers are pushed to create innovative proposals and break the boundaries of their conventional thinking.
- For each visual strategy, the teams also have to write a compelling tagline that captures the essence of the strategy and speaks directly to buyers.

Step 3: Visual Strategy Fair

- After two weeks of drawing and redrawing, the teams present their strategy canvases at a visual strategy fair.
- They are given no more than ten minutes to present each curve, on the theory that any idea that takes more than ten minutes to communicate is probably too complicated to be any good. The pictures are hung on the walls so that the audience can easily see them. After the twelve strategies are presented, each judge—an invited attendee—is given five sticky notes and told to put them next to his or her favorites. The judges can put all five on a single strategy if they find it compelling.
- Managers have to rely on the originality and clarity of their curves and pitches.
- After the notes are posted, the judges are asked to explain their pick adding another level of feedback to the strategy-making process. Judges are also asked to explain why they are not voting for the other value curves.
- Following the strategy fair, the teams are finally able to complete their mission. They are able to draw a value curve that was a truer likeness of the existing strategic profile than anything they had produced earlier. More important, the managers are now in a position to draw a future strategy that would be distinctive as well as speak to a true but hidden need in the marketplace.

Step 4: Visual Communication

- After the future strategy is set, the last step is to communicate it in a way that can be easily understood by any employee.

Visualizing Strategy at the Corporate Level

- Visualizing strategy can also greatly inform the dialogue among individual business units and the corporate center in transforming a company from a red ocean to a blue ocean player. When business units present their strategy canvases to one another, they deepen their understanding of the other businesses in the corporate portfolio. Moreover, the process also fosters the transfer of strategic best practices across units.

Using the Pioneer-Migrator-Settler (PMS) Map

- Visualizing strategy can also help managers responsible for corporate strategy predict and plan the company's future growth and profit.

- A company's *pioneers* are the businesses that offer unprecedented value. These are your blue ocean strategists, and they are the most powerful sources of profitable growth. Their value curve diverges from the competition on the strategy canvas.
- At the other extreme are *settlers*—businesses whose value curves conform to the basic shape of the industry's. These are me-too businesses. Settlers will not generally contribute much to a company's future growth. They are stuck within the red ocean.
- The potential of *migrators* lies somewhere in between. Such businesses extend the industry's curve by giving customers more for less, but they don't alter its basic shape. These businesses offer improved value, but not innovative value. These are businesses whose strategies fall on the margin between red oceans and blue oceans.
- In pushing their businesses toward pioneers, however, senior executives should be well aware that even though settlers have marginal growth potential, they are frequently today's cash generators. On the other hand, pioneers have maximum growth potential but often consume cash at the outset as they grow and expand. Senior managers' goal here should be to manage their portfolio of businesses to wisely balance between profitable growth and cash flow at a given point in time.

Overcoming the Limitations of Strategic Planning

- Building the process around a picture addresses many of managers' discontents with existing strategic planning and yields much better results.
- Drawing a strategy canvas and a PMS map is not, of course, the only part of the strategic planning process. At some stage, numbers and documents must be compiled and discussed. But the details will fall into place more easily if managers start with the big picture of how to break away from the competition. The methods of visualizing strategy proposed here will put strategy back into strategic planning, and they will greatly improve your chances of creating a blue ocean.

Chapter 5: Reach beyond Existing Demand

- ***The third principle of blue ocean strategy: Reach beyond existing demand***. This is a key component of achieving value innovation. By aggregating the greatest demand for a new offering, this approach attenuates the scale risk associated with creating a new market. To achieve this, companies should challenge two conventional strategy practices. One is the focus on existing customers. The other is the drive for finer segmentation to accommodate buyer differences.
- To maximize the size of their blue oceans, companies need to take a reverse course. Instead of concentrating on customers, they need to look to noncustomers. And instead of focusing on customer differences, they need to build on powerful commonalities in what buyers value. That allows companies to reach beyond existing demand to unlock a new mass of customers that did not exist before.
- E.g. Calaway Golf

The Three Tiers of Noncustomers

- Although the universe of noncustomers typically offers big blue ocean opportunities, few companies have keen insight into who noncustomers are and how to unlock them. To convert this huge latent demand into real demand in the form of thriving new customers, companies need to deepen their understanding of the universe of noncustomers.
- There are three tiers of noncustomers that can be transformed into customers. They differ in their relative distance from your market.

- The first tier of noncustomers is closest to your market. They sit on the edge of the market. They are buyers who minimally purchase an industry's offering out of necessity but are mentally noncustomers of the industry. If offered a leap in value, not only would they stay, but also their frequency of purchases would multiply, unlocking enormous latent demand.
- The second tier of noncustomers is people who refuse to use your industry's offerings. These are buyers who have seen your industry's offerings as an option to fulfill their needs but have voted against them.
- The third tier of noncustomers is farthest from your market. They are noncustomers who have never thought of your market's offerings as an option. By focusing on key commonalities across these noncustomers and existing customers, companies can understand how to pull them into their new market.

First-Tier Noncustomers

- These soon-to-be noncustomers are those who minimally use the current market offerings to get by as they search for something better. Upon finding any better alternative, they will eagerly jump ship. In this sense, they sit on the edge of the market. A market becomes stagnant and develops a growth problem as the number of soon-to-be noncustomers increases. Yet locked within these first-tier noncustomers is an ocean of untapped demand waiting to be released.
- What are the key reasons first-tier noncustomers want to jump ship and leave your industry? Look for the commonalities across their responses. Focus on these, and not on the differences between them. You will glean insight into how to desegment buyers and unleash an ocean of latent untapped demand.

Second-Tier Noncustomers

- These are refusing noncustomers, people who either do not use or cannot afford to use the current market offerings because they find the offerings unacceptable or beyond their means. Their needs are either dealt with by other means or ignored. Harboring within refusing noncustomers, however, is an ocean of untapped demand waiting to be released.
- What are the key reasons second-tier noncustomers refuse to use the products or services of your industry? Look for the commonalities across their responses. Focus on these, and not on their differences. You will glean insight into how to unleash an ocean of latent untapped demand.

Third-Tier Noncustomers

- The third tier of noncustomers is the farthest away from an industry's existing customers. Typically, these unexplored noncustomers have not been targeted or thought of as potential customers by any player in the industry. That's because their needs and the business opportunities associated with them have somehow always been assumed to belong to other markets.

Go for the Biggest Catchment

- There is no hard-and-fast rule to suggest which tier of noncustomers you should focus on and when. Because the scale of blue ocean opportunities that a specific tier of noncustomers can unlock varies across time and industries, you should focus on the tier that represents the biggest catchment at the time. But you should also explore whether there are overlapping commonalities across all three tiers of noncustomers. In that way, you can expand the scope of latent demand you can unleash. When that is the case, you should not focus on a specific tier but instead should look across tiers. The rule here is to go for the largest catchment.

- To maximize the scale of your blue ocean you should first reach beyond existing demand to noncustomers and desegmentation opportunities as you formulate future strategies. If no such opportunities can be found, you can then move on to further exploit differences among existing customers. But in making such a strategic move, you should be aware that you might end up landing in a smaller space.
- You should also be aware that when your competitors succeed in attracting the mass of noncustomers with a value innovation move, many of your existing customers may be attracted away because they too may be willing to put their differences aside to gain the offered leap in value. It is not enough to maximize the size of the blue ocean you are creating. You must profit from it to create a sustainable win-win outcome.

Chapter 6: Get the Strategic Sequence Right

- The next challenge is to build a robust business model to ensure that you make a healthy profit on your blue ocean idea. This brings us to ***the fourth principle of blue ocean strategy: Get the strategic sequence right.***
- 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. Here there are only two options. Park the idea or rethink it until you reach an affirmative answer.
- When you clear the exceptional utility bar, you advance to the second step: setting the right strategic price. Remember, a company does not want to rely solely on price to create demand.
- The key question here is this: Is your offering priced to attract the mass of target buyers so that they have a compelling ability to pay for your offering? If it is not, they cannot buy it. Nor will the offering create irresistible market buzz.
- These first two steps address the revenue side of a company's business model. They ensure that you create a leap in net buyer value, where net buyer value equals the utility buyers receive minus the price they pay for it.
- Securing the profit side brings us to the third element: cost. Can you produce your offering at the target cost and still earn a healthy profit margin? Can you profit at the strategic price—the price easily accessible to the mass of target buyers? You should not let costs drive prices. Nor should you scale down utility because high costs block your ability to profit at the strategic price. When the target cost cannot be met, you must either forgo the idea because the blue ocean won't be profitable, or you must innovate your business model to hit the target cost.
- The cost side of a company's business model ensures that it creates a leap in value for itself in the form of profit—that is, the price of the offering minus the cost of production. It is the combination of exceptional utility, strategic pricing, and target costing that allows companies to achieve value innovation—a leap in value for both buyers and companies.
- The last step is to address adoption hurdles. What are the adoption hurdles in rolling out your idea? Have you addressed these up front? The formulation of blue ocean strategy is complete only when you can address adoption hurdles in the beginning to ensure the successful actualization of your idea. Adoption hurdles include, for example, potential resistance to the idea by retailers or partners. Because blue ocean strategies represent a significant departure from red oceans, it is key to address adoption hurdles up front.

Testing for Exceptional Utility

- The need to assess the buyer utility of your offering may seem self-evident. Yet many companies fail to deliver exceptional value because they are obsessed by the novelty of their product or service, especially if new technology plays a part in it.

The Six Stages of the Buyer Experience Cycle

- A buyer's experience can usually be broken into a cycle of six stages, running more or less sequentially from purchase to disposal. Each stage encompasses a wide variety of specific experiences.

The Six Utility Levers

- Cutting across the stages of the buyer's experience are what we call utility levers: the ways in which companies can unlock exceptional utility for buyers.
- The most commonly used lever is that of customer productivity, in which an offering helps a customer do things faster or better.
- To test for exceptional utility, companies should check whether their offering has removed the greatest blocks to utility across the entire buyer experience cycle for customers and noncustomers. The greatest blocks to utility often represent the greatest and most pressing opportunities to unlock exceptional value.

From Exceptional Utility to Strategic Pricing

- To secure a strong revenue stream for your offering, you must set the right strategic price. This step ensures that buyers not only will want to buy your offering but also will have a compelling ability to pay for it.
- It is increasingly important, however, to know from the start what price will quickly capture the mass of target buyers.
- Companies are discovering that volume generates higher returns than it used to.
- To a buyer, the value of a product or service may be closely tied to the total number of people using it.
- People will not buy a product or service when it is used by few others. As a result of this phenomenon, called network externalities, many products and services are an all-or-nothing proposition: Either you sell millions at once, or you sell nothing at all.
- The strategic price you set for your offering must not only attract buyers in large numbers but also help you to retain them.
- The authors have a developed a tool called *the price corridor of the mass* to help managers find the right price for an irresistible offer, which, by the way, isn't necessarily the lowest price. The tool involves two distinct but interrelated steps.

Step 1: Identify the Price Corridor of the Mass

- In setting a price, all companies look first at the products and services that most closely resemble their idea in terms of form. Typically, they look at other products and services within their industries. That's still a necessary exercise, of course, but it is not sufficient to attract new customers.
- So the main challenge in determining a strategic price is to understand the price sensitivities of those people who will be comparing the new product or service with a host of very different-looking products and services offered outside the group of traditional competitors.
- A good way to look outside industry boundaries is to list products and services that fall into two categories: those that take different forms but perform the same function, and those that take

different forms and functions but share the same over-arching objective. Different form, same function.

- Different form and function, same objective. Some companies lure customers from even further away. Cirque du Soleil, for example, has diverted customers from a wide range of evening activities.
- Listing the groups of alternative products and services allows managers to see the full range of buyers they can poach from other industries as well as from non-industries.
- Having done this, managers should then graphically plot the price and volume of these alternatives. This approach provides a straightforward way to identify where the mass of target buyers is and what prices these buyers are prepared to pay for the products and services they currently use.
- The price bandwidth that captures the largest groups of target buyers is the price corridor of the mass.

Step2: Specify a Level Within the Price Corridor

- The second part of the tool helps managers determine how high a price they can afford to set within the corridor without inviting competition from imitation products or services. That assessment depends on two principal factors.
- First is the degree to which the product or service is protected legally through patents or copyrights.
- Second is the degree to which the company owns some exclusive asset or core capability, such as an expensive production plant, that can block imitation.
- The price corridor of the mass not only signals the strategic pricing zone central to pulling in an ocean of new demand but also signals how you might need to adjust your initial price estimates to achieve this. When your offering passes the test of strategic pricing, you're ready to move to the next step.

From Strategic Pricing to Target Costing

- Target costing, the next step in the strategic sequence, addresses the profit side of the business model.
- To maximize the profit potential of a blue ocean idea, a company should start with the strategic price and then deduct its desired profit margin from the price to arrive at the target cost. Here, price-minus costing and not cost-plus pricing, is essential if you are to arrive at a cost structure that is both profitable and hard for potential followers to match.
- When target costing is driven by strategic pricing, however, it is usually aggressive. Part of the challenge of meeting the target cost is addressed in building a strategic profile that has not only divergence but also focus, which makes a company strip out costs.
- Beyond streamlining operations and introducing cost innovations, a second lever companies can pull to meet their target cost is partnering. In bringing a new product or service to market, many companies mistakenly try to carry out all the production and distribution activities themselves. Sometimes that's because they see the product or service as aa platform for developing new capabilities. Other times it's simply a matter of not considering outside options.
- Partnering, however, provides a way for companies to secure needed capabilities fast and effectively while dropping their cost structure. It allows a company to leverage other companies' expertise and economies of scale.
- Partnering includes closing gaps in capabilities through making small acquisitions when doing so is faster and cheaper, providing access to needed expertise that has already been mastered.
- A business model built in the sequence of exceptional utility, strategic pricing, and target costing produces value innovation. Unlike the practice of conventional technology innovators, value innovation is based on a win-win game among buyers, companies, and society.

From Utility, Price, and Cost to Adoption

- Even an unbeatable business model may not be good enough to guarantee the commercial success of a blue ocean idea. Almost by definition, it threatens the status quo, and for that reason it may provoke fear and resistance among a company's three main stakeholders: its employees, its business partners, and the general public.
- Before plowing forward and investing in the new idea, the company must first overcome such fears by educating the fearful.

Employees

- Failure to adequately address the concerns of employees about the impact of a new business idea on their livelihoods might be expensive.
- Before companies go public with an idea, they should make a concerted effort to communicate to employees that they are aware of the threats posed by the execution of the idea.
- Companies should work with employees to find ways of defusing the threats so that everyone in the company wins, despite shifts in people's roles, responsibilities and rewards.

Business Partners

- Potentially even more damaging than employee disaffection is the resistance of partners who fear that their revenue streams or market positions are threatened by a new business idea.

The General Public

- Opposition to a new business idea can also spread to the general public, especially if the idea is very new and innovative, threatening established social or political norms.

Part Three: Executing Blue Ocean Strategy

Chapter 7: Overcome Key Organizational Hurdles

- Once a company has developed a blue ocean strategy with a profitable business model, it must execute it. The challenge of execution exists, of course, for any strategy.
- Companies, like individuals, often have a tough time translating thought into action whether in red or blue oceans.
- 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.
- There are four hurdles:
    1. The first is cognitive: waking employees up to the need for a strategic shift.
    2. The second hurdle is limited resources. The greater the shift in strategy, the greater it is assumed are the resources needed to execute it.
    3. Third is motivation.
    4. The final hurdle is politics.
- Although all companies experience different degrees of these hurdles, and many may face only some subset of the four, knowing how to triumph over them is key to attenuating the risk.
- ***The fifth principle of blue ocean strategy: Overcome key organizational hurdles to make blue ocean strategy happen in action.***

- To achieve this effectively, however, companies must abandon perceived wisdom on affecting change. 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 the authors call *tipping point leadership*.
- Tipping point leadership allows you to overcome these four hurdles fast and at low cost while winning employees' backing in executing a break from the status quo.

The Pivotal Lever: Disproportionate Influence Factors

- Tipping point leadership hinges on the insight that in any organization, fundamental changes can happen quickly when the beliefs and energies of a critical mass of people create an epidemic movement toward an idea. Key to unlocking an epidemic movement is concentration, not diffusion.
- In every organization, there are people, acts, and activities that exercise a disproportionate influence on performance.
- Mounting a massive challenge is about conserving resources and cutting time by focusing on identifying and then leveraging the factors of disproportionate influence in an organization.
- Next – here is how you can leverage disproportionate influence factors to tip all four hurdles to move from thought to action in the execution of blue ocean strategy.

Break Through the Cognitive Hurdle

- In many turnarounds and corporate transformations, the hardest battle is simply to make people aware of the need for a strategic shift and to agree on its causes.
- Messages communicated through numbers seldom stick with people. Tipping point leadership does not rely on numbers to break through the organization's cognitive hurdle.
- Tipping point leadership inspires a fast change in mindset that is internally driven of people's own accord. Instead of relying on numbers to tip the cognitive hurdle, they make people experience the need for change in two ways.
- To break the status quo, employees must come face-to-face with the worst operational problems. Direct experience exercises a disproportionate influence on tipping people's cognitive hurdle fast.
- Showing the worst reality to your superiors can also shift their mindset fast. A similar approach works to help sensitize superiors to a leader's needs fast. Yet few leaders exploit the power of this rapid wake-up call. Rather they do the opposite. They try to garner support based on numbers case that lacks urgency and emotional impetus. Or they try to put forth the most exemplary case of their operational excellence to garner support. Although these alternatives may work, neither leads to tipping superiors' cognitive hurdle as fast and stunningly as showing the worst.

  Meet with Disgruntled Customers

- 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.

Jump the Resource Hurdle

- After people in the organization accept the need for a strategic shift and more or less agree on the contours of the new strategy, most leaders are faced with the stark reality of limited resources. Acquiring more resources is often a long, politically charged process.

- Instead of focusing on getting more resources, tipping point leaders concentrate on multiplying the value of the resources they have.
- When it comes to scarce resources, there are three factors of disproportionate influence that executives can leverage to dramatically free resources, on the one hand, multiply the value of resources on the other. They are hot spots, cold spots, and horse trading.
- *Hot spots* are activities that have low resource input but high potential performance gains. In contrast, *cold spots* are activities that have high resource input but low performance impact. In every organization, hot spots and cold spots typically abound.
- *Horse trading* involves trading your unit's excess resources in one area for another unit's excess resources to fill remaining resource gaps.
- By learning to use their current resources right, companies often find they can tip the resource hurdle outright.

Jump the Motivational Hurdle

- To reach your organization's tipping point and execute blue ocean strategy, you must alert employees to the need for a strategic shift and identify how it can be achieved with limited resources. For a new strategy to become a movement, people must not only recognize what needs to be done, but they must also act on that insight in a sustained and meaningful way.

Atomize to Get the Organization to Change Itself

- The last disproportionate influence factor is atomization. Atomization relates to the framing of the strategic challenge – one of the most subtle and sensitive tasks of the tipping point leader. Unless people believe that the strategic challenge is attainable, the change is not likely to succeed. To make a challenge attainable break it down into bite-size atoms.

Knock Over the Political Hurdle

- Even the best and brightest are regularly eaten alive by politics, intrigue, and plotting. Organizational politics is an inescapable reality of corporate and public life. Even if an organization has reached the tipping point of execution, there exist powerful vested interests that will resist impending changes.
- To overcome these political forces, tipping point leaders focus on three disproportionate influence factors: leveraging angels, silencing devils, and getting a consigliere on their top management team.
- *Angels* are those who have the most to gain from the strategic shift.
- *Devils* are those who have the most to lose from it.
- A *consigliere* is a politically adept but highly respected insider who knows in advance all the land mines, including who will fight you and who will support you.

Secure a Consigliere on Your Top Management Team

- Most leaders concentrate on building a top management team having strong functional skills such as marketing, operations, and finance – and that is important. Tipping point leaders, however, engage one role few other executives think to include: a consigliere.
- Key to winning over your detractors or devils is knowing all their likely angles of attack and building up counterarguments backed by irrefutable facts and reason.

Challenging Conventional Wisdom

- The conventional theory of organizational change rests on transforming the mass.

- Tipping point leadership, by contrast, takes a reverse course. To change the mass it focuses on transforming the extremes: the people, acts, and activities that exercise a disproportionate influence on performance. By transforming the extremes, tipping point leaders are able to changes the core fast and at low cost to execute their new strategy.
- By consciously addressing the hurdles to strategy execution and focusing on factors of disproportionate influence, you can knock them over to actualize strategic shift. This is a critical leadership component for making blue ocean strategy happen. It aligns employees' actions with the new strategy.

Chapter 8: Build Execution into Strategy

- 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. Overcoming the organizational hurdles to strategy execution is an important step toward that end. It removes the roadblocks that can put a halt to even the best strategies.
- In the end, a company needs to invoke the most fundamental base of action: the attitudes and behavior of its people deep in the organization.
- You must create a culture of trust and commitment that motivates people to execute the agreed strategy – not to the letter, but to the spirit.
- People's minds and hearts must align with the new strategy so that 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.
- Where blue ocean strategy is concerned, this challenge is heightened.

- ***The sixth principle of blue ocean strategy: To build people's trust and commitment deep in the ranks and inspire their voluntary cooperation, companies need to build execution into strategy from the start.***
- This principle allows companies to minimize the management risk of distrust, non-cooperation, and even sabotage.
- Companies must reach to fair process in the making and executing of strategy. The presence or absence of fair process can make or break a company's best execution efforts.
- People care as much about the justice of the process through which an outcome is produced as they do about the outcome itself.
- When fair process is exercised in the strategy-making process people trust that a level playing field exists. This inspires them to cooperate voluntarily in executing the resulting strategic decisions.

The Three E Principles of Fair Process

- There are three mutually reinforcing elements that define fair process: engagement, explanation, and clarity of expectation.
- *Engagement* means involving individuals in the strategic decisions that affect them by asking for their input and allowing them to refute the merits of one another's ideas and assumptions. Engagement communicates management's respect for individuals and their ideas.
- Engagement results in better strategic decisions by management and greater commitment from all involved to execute those decisions.

- *Explanation* means that everyone involved and affected should understand why final strategic decisions are made as they are.
- An explanation allows employees to trust managers' intentions even if their own ideas have been rejected. It also serves as a powerful feedback loop that enhances learning.
- *Expectation clarity* requires that after a strategy is set, managers state clearly the new rules of the game. Although expectations may be demanding, employees should know up front what standards they will be judged by and the penalties for failure.
- To achieve fair process, it matters less what the new goals, expectations, and responsibilities are and more that they are clearly understood. When people clearly understand what is expected of them, political jockeying and favoritism are minimized, and people can focus on executing the strategy rapidly.
- Taken together, these three criteria collectively lead to judgments of fair process. This is important, because any subset of the three does not create judgments of fair process.
- Fair process matters because it all comes down to intellectual and emotional recognition.

Intellectual and Emotional Recognition Theory

- Using fair process in strategy making is strongly linked to both intellectual and emotional recognition. It proves through action that there is an eagerness to trust and cherish the individual as well as a deep-seated confidence in the individual's knowledge, talents and expertise.
- When individuals feel recognized for their intellectual worth, they are willing to share their knowledge: in fact, they feel inspired to impress and confirm the expectation of their intellectual value, suggesting active ideas and knowledge sharing.
- Similarly, when individuals are treated with emotional recognition, they feel emotionally tied to the strategy and inspired to give their all. Similarly, to the extent that people's emotional worth is not recognized, they will feel angry and will not invest their energy in their actions; rather they will drag their feet and apply counter-efforts, including sabotage.

Fair Process and Blue Ocean Strategy

- Commitment, trust, and voluntary cooperation are not merely attitudes or behaviors. They are intangible capital. When people have trust, they have heightened confidence in one another's intentions and actions. When they have commitment, they are even willing to override personal self-interest in the interests of the company.
- By organizing the strategy formulation process around the principles of fair process, you can build execution into strategy making from the start. With fair process, people tend to be committed to support the resulting strategy even when it is viewed as not favorable or at odds with their perception of what is strategically correct for their unit.
- People realize that compromises and sacrifices are necessary in building a strong company. They accept the need for short-term personal sacrifices in order to advance the long-term interests of the corporation. This acceptance is conditional, however on the presence of fair process.

Chapter 9: Conclusion: The Sustainability and Renewal of Blue Ocean Strategy

- Creating blue oceans is not a static achievement but a dynamic process. Once a company creates a blue ocean and its powerful performance consequences are known, sooner or later imitators appear on the horizon.

Barriers to Imitation

- A blue ocean strategy brings with it considerable barriers to imitation. Some of these are operational, and others are cognitive. More often than not, a blue ocean strategy will go without credible challenges for ten to fifteen years.
- The following imitation barriers are rooted in blue ocean strategy:
    - A value innovation move does not make sense based on conventional wisdom. Ridicule does not inspire rapid imitation.
    - Brand image conflict prevents companies from imitating blue ocean strategy.
    - Natural monopoly blocks imitation when the size of market cannot support another player.
    - Patents or legal permits block imitation.
    - The high volume generated by a value innovation leads to rapid cost advantages, placing potential imitators at an ongoing cost disadvantage.
    - Network externalities also block companies from easily and credibly imitating blue ocean strategy.
    - Because imitation often requires companies to make substantial changes to their existing business practices, politics often kick in, delaying for years a company's commitment to imitate blue ocean strategy.
    - When a company offers a leap in value, it rapidly earns brand buzz and a loyal following in the market. Even large advertising budgets by an aggressive imitator rarely have the strength to overtake the brand buzz earned by the value innovator.

- Blue ocean strategy is a systems approach that requires not only getting each strategic element right but also aligning them in an integral system to deliver value innovation. Imitating such a system is not an easy feat.

When to Value-Innovate Again

- Eventually almost every blue ocean strategy will be imitated. The basic shape of your value curve will begin to converge with that of the competition.
- To avoid the trap of competing, you need to monitor value curves on the strategy canvas. Monitoring value curves signals when to value -innovate and when not to. It alerts you to reach out for another blue ocean when your value curve begins to converge with those of the competition.
- Companies already understand how to compete in red oceans, but what they need to learn is how to make competition irrelevant. This book aims to balance the scales so that formulating and executing blue ocean strategy can become as systematic and actionable as competing in the red oceans of known market space.

Recommendation: For anyone tasked with setting strategy or increasing top line revenue, this book is a must read.

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About the reviewer: Frumi Rachel Barr, MBA, PhD

Dr. Frumi Rachel Barr is truly an entrepreneur having started and run 5 entrepreneurial adventures prior to following her passion for guiding the success of CEOs and their teams to Scale Up.

> **Money and a plan don't guarantee execution**
> Execution depends on communication, cascading priorities throughout the organization and an external guide that holds the team accountable and keeps the momentum going. Lots of companies know **what** to do – it's the **doing** that needs an external guide. That's what we provide. We use the best systems on the planet, as well as software to track team initiatives and progress.

Dr. Frumi's "Why" is to create a safe place for leaders and teams to discuss what matters most. She is known as The CEO's Secret Weapon. Her Who: Dr. Frumi guides creative, ambitious CEOs who want to grow their businesses so they have more freedom and a fabulous culture. Her how: Dr. Frumi works with companies of all sizes to Scale Up and to create greater alignment, effectiveness and accountability. She focuses on culture first to create an environment that allows for the right decisions to be made regarding People, Strategy, Execution and Cash Management. Using practical tools, outcomes include higher revenue and profitability, with greater collaboration and accountability.

Dr. Frumi is the author of a ***CEO's Secret Weapon: How to Accelerate Success***. The book was ranked top business book of 2012 by ExecRank and has a forward by her colleague Simon Sinek, international author of best-selling ***Start with Why***.