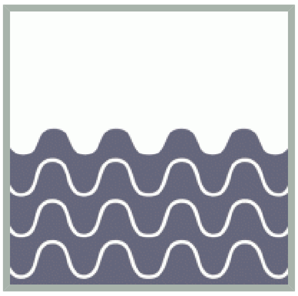
blue ocean strategies



characteristics

author:	Kim, W. Chan and Mauborgne, Renée A.
country:	France
period:	2005
type:	model
role:	consultant, change agent, manager and trainer
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perspective:	transformational
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comments:	2

related models

- disruptive innovation
- five forces
- organisational flexibility

description:

Blue Ocean Strategies (BOS) denote strategies that result in the creation of new markets. Red oceans represent markets where incumbents' Red Ocean Strategies (ROS) are fairly similar and rivals are battling over a shrinking profit pool. Blue oceans are new markets where BOS, in the form of value innovation, create powerful leaps in value for both the firm and its buyers, thereby rendering rivals obsolete and giving rise to new demand.

The BOS strategy formulation/implementation framework is based on the study of some 150 strategic moves by firms competing in over 30 industries between 1880 to 2000. Both successful transitions as well as complete failures were included in the study. The authors' key finding is that winners used 'value innovation' to drive their strategy rather than benchmarking the competition. Value innovation is the creation of a new industry value curve based on fundamental changes in product and service characteristics, which in turn is predicted to open up new and uncontested market space.

The development of a BOS is based on six principles, four related to the formulation of BOS and two related to BOS implementation. Each of the six principles aims to reduce the different possible risks arising from BOS. The four BOS formulation principles are:

1. reconstruct market boundaries (reduce search risk)
2. focus on the big picture, not the numbers (reduce planning risk)
3. reach beyond existing demand (reduce scale risk)
4. get the startegic sequence right (reduce business model risk).

The two BOS execution principles:

1. overcome key organisational hurdles (reduce organisational risk)
2. build execution into strategy (reduce management risk).

1. RECONSTRUCT MARKET BOUNDARIES
The first strategy formulation principle involves the reconstruction of market boundaries, and aims to reduce market search risk. This principle asks managers to identify new markets by looking across alternative industries, strategic groups within industries, the chain of buyers, complementary product or service offerings, functional or emotional appeal to buyers, or time.

2. FOCUS ON THE BIG PICTURE, NOT THE NUMBERS
The second formulation principle involves a focus on the big picture, not the numbers. It aims to reduce planning risk. This principle asks managers to engage in visual awakening, exploration, strategy fairs, and communication using a number of BOS tools.

3. REACH BEYOND EXISISTING DEMAND
The third formulation principle involves reaching beyond existing demand, and aims to reduce risk arising from markets that are otherwise simply too small. This principle asks managers to migrate beyond the existing traditional customer base to include the much larger population of non-customers.

4. GET THE STRATEGIC SEQUENCE RIGHT
The fourth and final formulation principle involves sequencing, or staging and pacing the strategic moves in such a way that the risks of adopting a disruptive business model are reduced. In this view, sequencing should be guided first by getting buyer utility right, then moving progressively to getting price and costs in then, and ultimately gaining wide user adoption.

The formulation principles employ five tools:

1. strategy canvas
2. four-actions framework
3. eliminate-reduce-raise-create grid
4. pioneer-migrator-settler map
5. buyer utility map

The model's central tools are the strategy canvas and four-actions framework.

5. OVERCOME KEY ORGANISATIONAL HURDLES
The first implementation princiiple involves overcoming key organisational hurdles and aims to reduce organisational risks. This principles suggests that managers can overcome organizational hurdles along the dimensions of cognitive, political, resource, and motivational hurdles.

6. BUILD EXECUTION INTO STRATEGY
The second of the two implementation principles involves designing execution levers into the strategy itself. This principle aims to help reduce management risk by incorporating a system of fair process into the development of the strategy, managerial and employee attitudes and behaviors, and consequently the execution of the strategy. The authors suggest that fair process entails employee engagement, explanation to all affected parties, and expectation clarity.

The BOS framework offers a comprehensive way to develop and execute a distruptive strategy. Given that existing industry wisdoms are overthrown, BOS are inherently more risky than ROS. The authors offer set of tools to systematically deal with risk and drive the organisation towards superior returns.

assets:

blue ocean idea index

ProvenModels • editor PM • version 1.3 • 99 KB

blue ocean strategy
ProvenModels • editor PM • version 1.3 • 113 KB

buyer utility map
ProvenModels • editor PM • version 1.3 • 114 KB

eliminate reduce raise create framework
ProvenModels • editor PM • version 1.3 • 78 KB

four actions framework
ProvenModels • editor PM • version 1.3 • 84 KB

strategy canvas
ProvenModels • editor PM • version 1.3 • 71 KB

pros:

- Comprensive model of strategy formulation that creates barriers to imitation and leads to higher returns than ROS strategies.
- Complements the five forces model (a model of ROS) by introducing a way to think creatively about a focal industry. Successful businesses can be more than either low-cost operators or niche-players. By rethinking the existing industry, firms can offer more value and lower cost. See Porter□s three generic strategies.
- The model is supported by practical, intuitive, and innovative tools aimed at risk reduction to pursue BOS.
- Emphasis on strategic planning as an important corporate task
- Shifts emphasis from supply-side analysis (i.e., traditional industry analysis), with competition-based strategic thinking, to demand-side analysis (i.e., all the possible markets for a product, current and potential) to value-innovation strategic thinking. In the former, market share is viewed as a zero-sum game, where one company gains share only at the expense of another; hence the challenge is to build advantages over competitors. In the latter, extra demand is exists, but largely untapped; hence the challenge is to create new markets (See Kim & Maubourgne, 2004, Appendix B).

cons:

- Model focuses more on formulation than implementation.
- The model does not guarantee that BOS moves provide more than temporary advantages. First movers often do not end-up dominating a new industry. And if the move has been successful, the more profitable market will attract new participants leading to increased competition. Barriers-to-entry remain relevant in forecasting future firm profits.
- Authors make underlying claims that companies who differentiate do not aim for low costs so are at risk of being "stuck in the middle".
- Focus on finding uncontested space - luck is an often overlooked factor (case: US market entry by Japanese motor companies in the 1960s).
- The political & historical side of reinvention is downplayed. Organisations develop (firm) specific knowledge and find it difficult to develop knowledge in a completely new arena. Christensen (Innovator□s Dilemma) wrote about how tightly managed industry leading firms overlooked new technologies and were dethroned by newcomers because of internal inertia. See disruptive innovation and organisational flexibility.

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