

Blue Ocean Strategy – its Significance and Comparison with Red Ocean Strategy and Porter's Five Forces Model

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Abstract

W. Chan Kim and Renée Mauborgne, professors at INSEAD and co-directors of the INSEAD Blue Ocean Strategy Institute, in Fontainebleau, France wrote and published book titled "Blue Ocean Strategy" in 2005 and written by. The book has been translated into 43 languages and has sold over 3.5 million copies from the time of its publishing. Wall Street Journal, Business Week, and the Amazon.com named the book as a bestseller. The book was designated as one of the "Best Books of 2005" by Fast Company magazine. It also won "The Best Business Book of 2005" Prize at the Frankfurt Book Fair Based on a study of 150 strategic moves spanning more than a hundred years and thirty industries. In their book Kim & Mauborgne argued that companies can succeed not by battling competitors, but rather by creating "blue oceans" of uncontested market space. They proclaimed that these strategic moves create a jump in value for the company, its buyers, and its employees while unlocking new demand and making the competition irrelevant. The book provides with analytical frameworks and tools to substitute an organization's ability to systematically create and capture blue oceans. An extended edition of the book was published in February, 2015. The expanded edition appries all strategic moves in the book, bringing their stories up to the present, and adds new chapters on achieving strategic orientation and avoiding red ocean traps as well as expanding the discussion on sustainability and renewal. The paper discusses the Blue Ocean Strategy, its significance and compares with Red Ocean Strategy and Porter's Five Forces Model.

Keywords: Blue Ocean Strategy, Red Ocean Strategy, Value Innovation.

Introduction

The term "*Blue Ocean*" has been derived from the book "Blue Ocean Strategy" (Harvard Business Review Press, expanded edition, 2015), by W. Chan Kim and Renee Mauborgne. Blue Ocean Strategy describes how companies conventionally worked in "Red Ocean" conditions, where businesses savagely fought against each other for a share of the marketplace. But, as per Blue Ocean strategy, organizations should find a way to work in a marketplace that is free of competitors. Blue Ocean Strategy presents a methodical approach to making the competition irrelevant and outlines principles and tools that any organization can use to craft and capture their own blue oceans. In short, Blue Ocean Strategy is a business theory that proposes that companies are better off searching for methods to gain "uncontested market space" than engaging in traditional competition.

Building blocks of Blue Ocean Strategy:

- Value Innovation
- Tipping point innovation
- Fair process or 3E principles – Engagement, Explanation, clarity of Expectations

in blue oceans, demand is created rather than fought over. There is plenty of opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue Ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.

Eight Key points of Blue Ocean Strategy:

i. It's grounded in data

Blue ocean strategy is founded on a decade-long study of more than 150 strategic moves spanning more than 30 industries over 100 years.

ii. It pursues differentiation and low cost

Blue ocean strategy is based on the simultaneous pursuit of differentiation and low cost. It is an 'and-and,' not an 'either-or' strategy.

iii. It creates uncontested market space

Blue ocean strategy doesn't aim to out-perform the competition. It aims to make the competition irrelevant by recreating industry limits.

iv. It empowers us through tools and frameworks

Blue Ocean Strategy offers systematic tools and frameworks to break away from the competition and create a blue ocean of uncontested market space.

v. It provides a step-by-step process

It provides a step by step process i.e. from assessing the current state of play in an industry to exploring the six paths to new market space and to understand how to convert non-customers into customers. Blue ocean strategy provides a clear four-step process to construct the to-be blue ocean strategy.

vi. It maximizes opportunity while minimizing risk

The blue ocean idea index allows us to test the commercial feasibility of our ideas and shows us how to refine our ideas to maximize our upside while curtailing the downside risk.

vii. It builds execution into strategy

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

viii. It shows us how to create a win-win outcome

As an integrated approach to strategy, blue ocean strategy shows how to align the three strategy propositions – value, profit, and people – to ensure your organization is aligned around your new strategy and that it creates a win for buyers, the company, and for employees and stakeholder.

Blue Ocean vs. Red Ocean

- Kim and Mauborgne argue that while traditional competition-based strategies (red ocean strategies) are necessary, they are not sufficient to sustain high performance. Companies need to go beyond competing. To seize new profit and growth opportunities they also need to create blue oceans. The authors argue that competition based strategies assume that an industry's structural conditions are given and that firms are forced to compete within them, an assumption based on what academics call the structuralist view, or environmental determinism.
- To sustain themselves in the marketplace, practitioners of red ocean strategy focus on building advantages over the competition, usually by assessing what competitors do and striving to do it better. Here, grabbing a bigger share of the market is seen as a zero-sum game in which one company's gain is achieved at another company's loss. Hence, competition, the supply side of the equation, becomes the defining variable of strategy. Here, cost and value are seen as trade-offs and a firm chooses a distinctive cost or differentiation position. Because the total profit level of the industry is also determined by structural factors, firms principally seek to capture and redistribute wealth instead of creating wealth. They focus on dividing up the red ocean, where growth is increasingly limited. Blue ocean strategy, on the other hand, 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. This is what the authors call *the reconstructions view*. Assuming that structure and market boundaries exist only in managers' minds, practitioners who hold this view do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn,

requires a shift of attention from supply to demand, from a focus on competing to a focus on *value innovation* – that is, the creation of innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low-cost. As market structure is changed by breaking the value/cost tradeoff, so are the rules of the game. Competition in the old game is therefore rendered irrelevant. By expanding the demand side of the economy, new wealth is created. Such a strategy therefore allows firms to largely play a non-zero-sum game, with high payoff possibilities.

- Red Ocean 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 reduce. Products become commodities and cut throat competition turns the ocean bloody red. Blue Ocean companies, in contrast, access untapped market space and create demand, and so they have the opportunity for highly profitable growth. In Blue Oceans, competition is irrelevant. Yes, imitators arise, but experience shows there is a wide window of opportunity to stay ahead of imitators.
- What consistently separates winners from losers in creating Blue Oceans is their approach to strategy. Creators of blue oceans do not use the competition as their benchmark, but follow a different strategic logic that we call *value innovation*. Instead of focusing on beating the competition, make them irrelevant by simultaneously creating a leap in value for buyers and your company, thereby opening up new and uncontested market space. The comparison between Blue Ocean and Red Ocean Strategies is furnished in Table 1.

Table 1: Comparison Between Blue Ocean and Red Ocean Strategies

Blue Ocean Strategy	Red Ocean Strategy
Create uncontested market space	Compete in existing market space
Make the competition irrelevant	Beat the competition
Create and capture new demand	Exploit existing demand
Break the value-cost trade-off	Make the value-cost trade-off
Align the whole system of a firm's activities in pursuit of differentiation low cost	Align the whole system of a firm's activities with its strategic choice of and differentiation or low cost

Blue Ocean Strategy and Porter's Five Forces

The rapid pace of innovation and change in recent years has led scholars and executives to search for an approach to strategy that is more dynamic than Harvard Professor Michael Porter's classic "five forces." One of the most successful efforts to do so is the book "Blue Ocean Strategy," by W. Chan Kim and Renee Mauborgne.

While avoiding use of Mr. Porter's name, Mr. Kim and Ms. Mauborgne nevertheless attack him head on, arguing that

- The "five forces" analysis is a formula for remaining in "red oceans," where the sharks compete mercilessly for the action.
- The key to exceptional business success, they say, is to redefine the terms of competition and move into the "blue ocean," where you have the water to yourself.
- The goal of these strategies is not to beat the competition, but to make the competition irrelevant.
- Among the examples they cite is Cirque du Soleil, the Canadian company that redefined the dynamics of a declining circus industry in the 1980s. Under conventional strategy analysis, the circus industry was a loser. Star performers had "supplier power" over the company. Alternative forms of entertainment, from sporting events to

home entertainment systems, were relatively inexpensive and on the rise. Moreover, animal rights groups were putting increased pressure on circuses for their treatment of animals. Cirque du Soleil eliminated the animals and reduced the importance of individual stars. It created a new form of entertainment that combined dance, music and athletic skill to appeal to an upscale adult audience that had abandoned the traditional circus.

- Instead of “five forces”, Mr. Kim and Ms. Mauborgne talk about “four actions” that can help you create a blue ocean strategy. The actions are found by answering these questions:
 - a. **Which of the factors that the industry takes for granted should be eliminated?**
In the case of Cirque du Soleil that included animals, star performers, and the three separate rings.
 - b. **Which factors should be reduced well below the industry's standard?**
Cirque du Soleil reduced much of the thrill and danger associated with conventional circuses.
 - c. **Which factors should be raised well above the industry's standard?**
Cirque du Soleil increased the uniqueness of the venue by developing its own tents, rather than performing within the confines of existing venues.
 - d. **Which factors should be created that the industry has never offered?**
Cirque du Soleil introduced dramatic themes, artistic music and dance, and a more upscale, refined environment.
- Mr. Kim and Ms. Mauborgne argue that businesses should focus less on their competitors and more on alternatives; they also should focus less on their customers, and more on non-customers, or potential new customers.

Blue Ocean Strategy and Value Innovation

- The cornerstone of blue ocean strategy is “value innovation”, a concept originally outlined in Kim & Mauborgne's 1997 article “Value Innovation - The Strategic Logic of High Growth”. Value innovation is the simultaneous pursuit of differentiation and low cost, creating value for the buyer, the company, and its employees, thereby opening up new and uncontested market space. The aim of value innovation, as articulated in the article, is not to compete, but to make the competition irrelevant by changing the playing field of strategy. The strategic move must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. The Four Actions Framework is used to help create value innovation and break the value-cost trade-off.
- Value innovation challenges Michael Porter's idea that successful businesses are either low-cost providers or niche-players. Instead, blue ocean strategy proposes finding value that crosses conventional market segmentation and offering value *and* lower cost. Educator Charles W. L. Hill proposed a similar idea in 1988 and claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. He proposed that a combination of differentiation and low cost might be necessary for firms to achieve a sustainable competitive advantage.
- Many others have proposed similar strategies. For example, Swedish educators Jonas Ridderstråle and Kjell Nordström in their 1999 book *Funky Business* follow a similar line of reasoning. For example, “competing factors” in blue ocean strategy are similar to the definition of “finite and infinite dimensions” in *Funky Business*. Just as blue ocean strategy claims that a red ocean strategy does not guarantee success, *Funky Business* explained that “Competitive Strategy is the route to nowhere”. *Funky Business* argues that firms need to create “sensational strategies”. Just like blue ocean strategy, a sensational strategy is about “playing a different game” according to Ridderstråle and Nordström. Ridderstråle and Nordström also claim that the aim of companies is to create temporary monopolies.

- Kim and Mauborgne explained that the aim of companies is to create blue oceans that will eventually turn red. This is the same idea expressed in the form of an analogy. Ridderstråle and Nordström also claimed in 1999 that "in the slow-growth 1990s overcapacity is the norm in most businesses". Kim and Mauborgne claim that blue ocean strategy makes sense in a world where supply exceeds demand.

Examples of businesses using blue ocean strategy concepts:

- **China Mobile:** China Mobile CEO Wang Jianzhou talked about China's hinterland as a classic "blue-ocean market," where the company is casting its net widely without worrying about getting tangled up with the nets of rivals.
- **Pitney Bowes:** Michael Critelli, the departing CEO of Pitney Bowes, explained how Pitney Bowes created the Advanced Concept & Technology Group (ACTG), a unit responsible for identifying and developing new products outside. Critelli cited ACTG's development of a machine, which enables people to design and print their own postage from their desktops, as an example of a blue ocean strategic move.
- **Starwood:** One group which has been exploring blue ocean thinking for the past three years is Starwood Hotels and Resorts. In an interview to INSEAD Knowledge, Robyn Pratt, Vice President, Six Sigma and Operational Innovation talks about how they are taking a step-by-step approach to implementing the concept.
- **Wii:** Rather than releasing a more technologically advanced video game console with more features as in previous generations, Nintendo released a console with innovative controls made to attract populations that are typically excluded from the target demographic for video games, such as the elderly.

Blue Ocean Strategy: Indian Examples

- Naukri. com, which was founded by Sanjeev Bikhchandani. Considering the platform and time of birth of Naukri, Mr. Sanjeev had many other options to do or start-up with and enter into the competition world. But Naukri was a way different stuff. Naukri.com was found on 1997 – days which internet wasn't that popular in India. Naukri. com entered the uncontested market space with a different business strategy of that time and we all know the status now.
- **Subhiksha**, the rapidly grown retail chain in South India (may be India) founded by R Subramaniam. Subhiksha was founded during the days which it was difficult to find all the stuffs we require at a single place! With a different kind of thought and execution Subhiksha grew with 1600 outlets selling groceries, fruits, vegetables, medicines and mobile phones etc. Even though everything winded up in 2009, still Subhiksha is known for its startup and glory!
- **Varkeys Supermarket**, from the God's own Country Kerala. The Varkeys Supermarket is the first and leading supermarket chain in Kerala. The stores and its concepts have played a vital role in revolutionizing the tastes & shopping patterns of the people of Kerala. Providing all the needs of a household under one roof, it has made its mark as a "single stop shop" for its customers.
- **TATA Motors:** In their recent product, the "Nano Car", they have adopted combination of differentiation and low cost as stated in blue ocean strategy. It is the outcome of combining value innovation and playing a different game.

The Illustrated Example of Murugappa Group – How a Blue Ocean strategy helped the Murugappa group:

The Rs. 22,000-crore Murugappa Group made its choice a few years ago: To swim in peace and grow. Whether it is making fertilizers or cycles, it has formulated a business strategy that beats the competition not by outdoing them but by making them irrelevant.

Group's Executive Vice-Chairman A. Vellayan as the head of strategy for the group then, he decided to put some of these concepts into practice. He wanted to create a Blue Ocean for Murugappa group.

The fertilizer business is a tough one — subsidy-driven, no reward for innovation and no incentive to invest in technology. He decided to implement the concept in Coromandel International after discussions with the business heads concerned.

The company –

- Created a retail chain of 500 full-service centres that sell products and services to farmers;
- Diversified its product base to include production of 250,000 tonnes of compost from municipal waste; and
- Set up two soluble fertilizer units, a non-subsidy source of revenue.

In the process, the company has grown closer to the farmers. It has also expanded globally, with a phosphoric acid business and consultancy.

At the time the concept was kicked off within the Group, the fertilizer company's shares of Rs. 10 were trading at Rs. 40; today its Re 1 shares are traded at Rs. 240. Over the next three years it aimed to get less than half its revenue, about 40 per cent, from fertilizers, while the new areas will contribute over 60 per cent. A significant target, considering that in 2011-12 fertilizer sales accounted for 90 per cent of Coromandel International's revenue of over Rs. 9,800 crore. By 2015, the company wanted to step up its compost production to one million tonnes. The soluble fertilizer business is a 60,000-tonne market with 90 per cent being imported.

A similar thought process has gone into the cycle business which, traditionally, was a fragmented sector. The Group's BSA Go Stores have changed the cycle-buying experience with their modern ambience. The diversification into sports goods and the fitness segment also helped the group.

In financial services, Chola Asset Finance has targeted speed of service as a differentiator. It has nearly 1,000 full-service branches in Tier III and IV towns to be close to its customers.

Criticism of Blue Ocean Strategy

- While Kim and Mauborgne propose approaches to finding uncontested market space, at the present there are few success stories of companies that applied their theories in advance.
- A critical question is whether this book and its related ideas are *descriptive* rather than *prescriptive*. The authors present many examples of successful innovations, and then explain from their Blue Ocean perspective – essentially interpreting success through their lenses.
- The research process followed by the authors has been criticized on several grounds. Criticisms include claims that no control group was used, that there is no way to know how many companies using a blue ocean strategy failed and the theory is thus unfalsifiable, that a deductive process was not followed, and that the examples in the book were selected to "tell a winning story."
- Brand and communication are taken for granted and do not represent a key for success. Kim and Mauborgne take the marketing of a value innovation as a given, assuming the marketing success will come as a matter of course.
- The blue ocean/red ocean analogy is a powerful and memorable metaphor, which is responsible for its popularity. This metaphor can be powerful enough to stimulate people to action. However, the concepts behind the Blue Ocean Strategy (such as the competing factors, the consumer cycle, non-customers, etc.) are not new. Many of these tools are also used by Six Sigma practitioners and proposed by other management theorists.
- Many of the book's key concepts were previously covered in "*Competing For The Future*" by Gary Hamel and C.K. Prahalad, which was published in 1996. The authors encouraged managers to stake out new marketing space, which they termed *white space*, in order to "create and dominate emerging opportunities."

Conclusion

- The four key hurdles comprise the *cognitive, resource, motivational* and *political* hurdles that prevent people involved in strategy execution from understanding the need to break from status quo, finding the resources to implement the new strategic shift, keeping your people committed to implementing the new strategy, and from overcoming the powerful vested interests that may block the change.
- The Blue Ocean Strategy draws attention towards the correlation of success stories across industries and the formulation of strategies that provide a solid base to create unconventional success. Unlike the "Red Ocean Strategy", the conventional approach to business of beating competition derived from the military organization, the "blue ocean strategy" tries to align innovation with utility, price and cost positions.
- The Blue Ocean Strategy mocks at the phenomena of conventional choice between product/service differentiation and lower cost, but rather suggests that both differentiation and lower costs are achievable simultaneously.
- The Blue Ocean Strategy justifies with original and practical ideas that neither the company nor the industry is the best unit of analysis of profitable growth; rather it is the strategic move that creates "Blue Ocean" and sustained high performance.
- Value innovation is necessarily the alignment of innovation with utility, price and cost positions. This creates uncontested market space and makes competition irrelevant.
- The strategy deals with the issues of how to develop and align the three strategy propositions of value, profit and people, how to sustain and renew blue ocean strategy at both the business level and the corporate level, and how to avoid red ocean traps that keep organizations anchored in existing market space even as they attempt to create new market space.
- Blue Ocean Strategy challenges everything you thought you knew about strategic success and provides a systematic approach to making the competition irrelevant.

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