

# Blue Ocean Strategy: Capturing Uncontested Market and Making the Competition Irrelevant

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## Abstract

The Blue Ocean Strategy (BOS) is an innovative strategic planning tool used in business across the world to explore untapped markets. Even though businesses have changed a lot after the introduction of this strategy, it still stays relevant in the current business scenario. BOS is the creation of new playing fields and which necessitates opening up entirely new markets as opposed to the Red Ocean where the existing market conditions are such that companies must chase either differentiation or low-cost strategies. The Blue Ocean is unique from the traditional strategies because the objective of BOS is not to succeed in a competition but making the competition itself irrelevant, creating an uncontested market space. The crux of this strategy is 'Value Innovation'. A Blue Ocean is created when a company creates value concurrently for both the customer and the company. The Value Innovation is the alignment of utility, price and cost positions. Through various tools and methods, this strategy is applied to business to gradually turn non-customers into customers. This strategy, helps in understanding the commercial viability of new ideas and refining it. This paper studies the meaning of blue ocean strategy, provides an example and analyses the effects of using it.

**Keywords:** Blue Ocean Strategy; Red Ocean Strategy; Value Innovation; Four Actions Framework; Uncontested Market Space.

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## Introduction

The Blue Ocean Strategy (BOS) is based on a decade-long study of companies and industries over a hundred years and is applicable to business across the globe. Whereas businesses have changed since the time the strategy has come about, it still stays relevant in the today. BOS is the creation of new playing fields and that entails opening up entirely new markets as opposed to the Red Ocean Strategy (ROS) where the prevailing market conditions are such that companies should pursue either differentiation or low-cost strategies. The Blue Ocean is based on a strategy of differentiation and low cost. It is not an either/or that makes distinctive from the traditional strategies. Both should be achieved simultaneously to make a

market space of your own. It does not aim to outperform the competition however rather create the competition itself immaterial, making an uncontested market space. The cornerstone of the BOS is 'Value Innovation'. A BOS is made when a company attains value innovation that makes value simultaneously for both the buyer and also the company. The Value Innovation is essentially the alignment of innovation with utility, price and cost positions. Through numerous tools and methods, you can use this strategy to the business and gradually turn non-customers into customers. With this strategy, you can better perceive the commercial viability of your ideas and refine it. According to the traditional studies, Michel E Porter's idea was that successful businesses are either low-cost providers or niche-players. Instead, the BOS proposes to search out the value that crosses conventional market segmentation and offers value and lower cost. Educator Charles W. L. Hill projected this concept in 1988 and claimed that Porter's model was flawed as a result of differentiation can be a way for firms to attain low cost. He projected that a mix of differentiation and low cost could be necessary for firms to attain a sustainable competitive advantage.

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BOS is established by INSEAD Professors, W. Chan Kim, and Renee Mauborgne. This strategy, that relies on in-depth analysis of many established companies and industries, reveals that rather than battling with the competitors, companies will create a new market for themselves. In other words, as opposed to the Red Oceans which are saturated markets where differentiation or cost competition is prevailing, companies will produce BOS which is entirely new market with value innovation. This helps produce value for its entire stakeholder chain as well as the suppliers, the employees and the customers. The key theory of the BOS is that companies must unlock new demand and make the competition irrelevant rather than going down the beaten track and focusing on saturated markets. In this paper, we review through the existing business and product strategies, differentiate BOS from ROS, perceive BOS in a deeper sense and determine the effects of using BOS.

### Review of Literature

O'Regan and Ghobadian (2002) discussed in their article on "Effective strategic planning in small and medium sized firms", that the strategy has become the core focus in management literature and the business world for the last few years. However, till now, there is still no consensus and universal definition of strategy [6].

According to Hex (1990) in the book "Redefining the concept of strategy" a strategy is a blueprint or game plan that shapes the long-term direction, business objectives, and market position of the company [7].

Also, Thompson and Strickland (2001) in their book "Strategic Management Concepts and Cases" emphasised that strategy helps to facilitate the management to assign the available resources and to conduct enormous value activities to attract customers and compete it successfully in the market place [8].

Kim and Mauborgne (2002) in their book "Charting your company's future" identified that the conventional strategic planning tools are not effectively using the visual ways that clarify the crucial points for strategic planning for most of the managers [1].

Pun (2003) in his paper "A synergy model for strategic planning in manufacturing enterprises". identified that completely different strategic decisions and consequences are made when specific strategic planning methods and models were used separately [2].

The ideas of strategy in the business scenario have been the topic of intense discussion in recent years was stated by Hafsi and Thomas (2005) in their journal "The field of strategy: in search of a walking stick." [3]

### Research Objectives

1. To explore the meaning of Blue Ocean Strategy (BOS).
2. The relevance of BOS in today's highly competitive marketing environment.
3. Analyse the tools of BOS.

### Research Methodology

The BOS strategy is a very elaborate concept and an exceptionally well-documented business strategy. This includes secondary data.

### Difference of Blue Ocean from Red Ocean

**Red Oceans:** The red oceans represent the conventional industries and existing known market space, where industry boundaries are predefined and accepted, competitive rules of the game are known, surpass the rivals to grab a bigger share of existing demand at a thickly packed market area. As the market space gets congested, chances for profit and growth are reduced. Products become niche and due to the cutthroat competition, it turns the ocean bloody. Hence, the term Red Oceans.

**Blue Oceans:** The blue oceans stand for entirely new and unexplored markets with new value creations, new customer bases and no competition. Demand is created, growth is profitable and expeditious, zero competition, rules of the game are yet to set, the wide deep potential of market space that is not yet explored, 'blue ocean' means vast, deep, powerful, in terms of profitable growth, and infinite [5].

In Blue Oceans, demand is created instead of fought over. There is ample chance for growth that is both profitable and rapid. In Blue Oceans, competition is irrelevant as a result of the rules of the game are waiting to be set. Blue Ocean is an analogy to explain the wider, deeper potential of market space that is not yet explored.

**Table 1:** ROS versus BOS

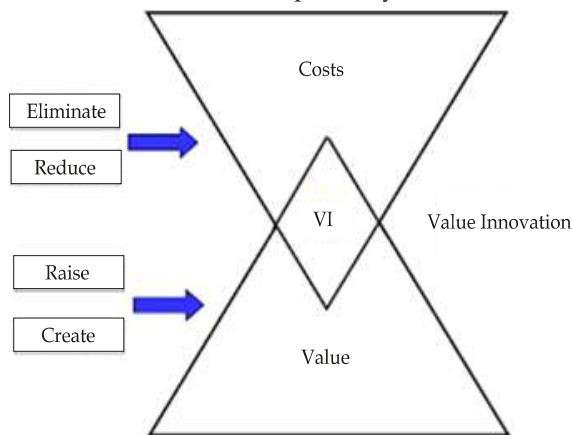
Red Ocean	Blue Ocean
1. Compete in existing market space. 2. Beat the competition. 3. Exploit existing demand. 4. Make the value-cost trade-off.	1. Create uncontested market space. 2. Make the competition irrelevant. 3. Create and capture new demand. 4. Break the value-cost trade-off.

**Advantages of Blue Ocean Strategy:**

- Sets Standards
- High-profit margin
- A Blue ocean strategy will produce brand equity that would last for many years

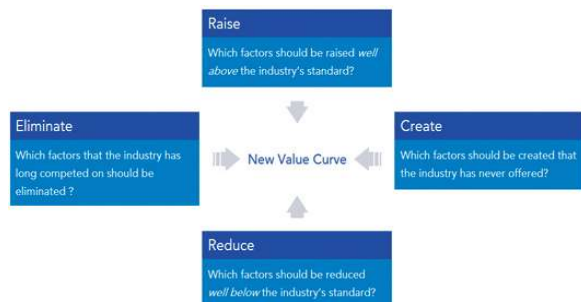
**Disadvantages of Blue Ocean Strategy:**

- Interposed strategy
- Gradually turns into Red Ocean
- If frameworks are not executed properly, it leads to market complacency



**Fig. 1:** The value of innovation, the foundation stone of the BOS

Contemplating the lessons of Blue Ocean strategies and value Innovation offer a context in which Innovation and value are two faces of a similar coin. This may help offer direction for innovation serving to companies to retain competitive advantage. *Four Action Framework* is used in-order to come back with a replacement value curve or strategic portfolio [5]. This framework talks regarding *Eliminate* factors, *Reduce* factors, *Create* factors and *Raise* factors as shown in Figure 2.



**Fig. 2:** Four actionframe work.

**Difference Between a Monopoly Market and a Blue Ocean Market**

A Monopoly market exists a single seller in a particular market, selling the differentiated product with no close substitutes. A monopolist has the exclusive Rights to sell the product/service by the government in terms of licenses, the access to important resources, high upfront initial costs or innovation led by patents. The advantage of a monopolistic market is that there is no competition from the market in terms of pricing. They can fix the product prices thus achieving higher profits.

A Blue Ocean Market is additionally the same as a monopoly market, however, the difference lies in the fact that many a times the Blue Ocean can fade into a Red Ocean Market because the entrants into the newly contested market fill up. A monopolist is predicted to have a bigger control over the investments, resources or licenses that the period of duration of a monopoly is incredibly long said, 10-50 years, or perhaps higher. A Blue Ocean market is likely to be in a restricted timeframe because of the insufficient innovation. The quantity of innovation that sets apart a new product from the remainder is very unusual.

**A case study of BOS: Nintendo Wii**

Nintendo, performing at the home entertainment industry and located in Japan is one of the most known and topical examples of the BOS. The company is known for using the BOS to make new products like the “Wii” on the home entertainment market in November 2006. With the “Wii console” Nintendo was able to produce a new market of active console players. It competed with Microsoft’s Xbox 360 and Sony’s Play Station 3. With its distinctive features, the console apparently appeals to a wider demographic than its competitors and they were leading in sales worldwide. The company is additionally known for its steady search for new innovative products and markets.

The case study reviews the link between the creation of organic growth of Nintendo together with the need of learning from non-customers. Whereas most of the industry competitors were focusing on the same old customers, Nintendo checked out the non-customers, like 1) older non-

gamers, 2) parents who wished their kids to play active games, 3) the aged, and 4) very young kids, for obtaining a lot of insight and understanding. As per the Figure 3. the observation of the non-customers, the company made functional components across the market boundaries, making a new console that was based on simplicity.

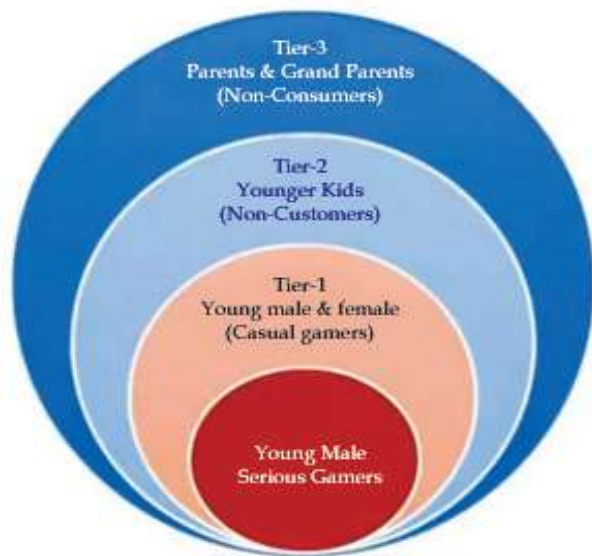


Fig. 3: Three tiers of non consumers.

The case illustrated that there are way more non-customers than customers, so it is important for companies to capture new demand and specialize in the still unfulfilled needs of the non-customers. Moreover, the case stressed that companies like Nintendo need to consistently generate a new level of demand by trying across common market rules and its competition, to make new customer value.

This feels like an honest example for the BOS, the use of the frameworks and tools by the company is explicit. Nevertheless, it is unknown to what extent the BOS is influencing the innovation method of Nintendo.

From the figure 4 it can be understood that a BOS uses a strategy canvas to draw the current strategy landscape as well as the future prospects for a company. In the form of a graph the strategy canvas shows the current picture of Nintendo Wii relative to its competitors and helps decide new directions.

**Product Changes**

- Eliminate: video storage, music storage, internet connectivity, DVD.
- Reduce: retail price, system sophistication, graphics, productions costs, development costs for video game producers, processing power.
- Raise: more internally developed games, number of family games.
- Create: motion controllers, games for the elderly.

**Conclusion**

The example of the BOS delineated above clearly indicates that Nintendo Wii failed to attempt to battle the competition however instead, created a wholly new marketplace for itself. In short, this can be the essence of the BOS that hinges on making value and taking it to future level by a game-changing approach to competition. Finally, once an organization actualizes the BOS, it always ends up in opening up new markets rather than stagnating within the existing markets.

The initial review on strategy literature has significantly known BOS because the analysis theme and its connected problems have been critically reviewed and mentioned to propose a series of analysis inquiries to type a basis for the

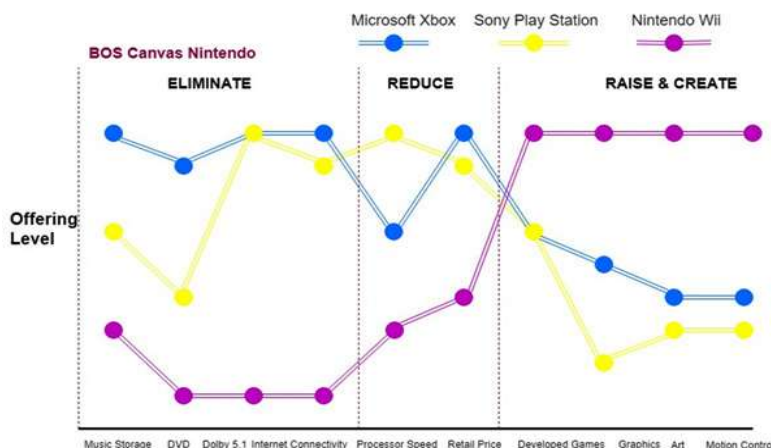


Fig. 4: The strategy canvas of nintendo wii.

additional analysis. Therefore, future introduces the analysis agenda are going to be to propose the analysis objectives and directions for future study.

### Scope for Future Work

The future analysis avenue is going to be to develop the abstract model for the BOS development method with the help of qualitative analytical and quantitative approaches to validate the competitor factors and verify its giving level within the strategy canvas by additional review of the relevant literature.

The limitations of this paper are often found within the methodology of the analysis. Because of the main focus on a literature review and a cross-case analysis, the in-depth applied math analysis was excluded. This would possibly limit in fact the applied math informative power of the analysis. Also, no set samples got, so a review and analysis of various samples would possibly turn out alternative results. Still, the total study had been performed beneath precise accuracy and correctness to exclude bias like totally different outcomes as much as doable.

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