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Blue Ocean Strategy

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Abstract

This paper is to further the study on Blue ocean strategy. There is always a need for sustainable profitability and growth in Business. This paper tries to further understand one of the strategies developed by Kim and Mauborgne to increase profitability. This concept puts forth 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,the blue oceans stand for completely new and undiscovered markets and opportunities with new value creations, new customer bases and no competition. A company that plans to use the Blue Ocean Strategy must be aware, that the creation of Blue Oceans is a dynamic process and not a single task of implementing a strategy. A reason for this is the fact that sooner or later, competition will arise in new created uncontested markets. Companies should adopt innovative strategies to venture into new markets, to create new demand, and to create the best value proposition.

Keywords: Blue Ocean Strategy; Value innovation; Market space; Competition

Introduction

Blue ocean strategy, 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. 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. Let us discuss to understand the blue ocean strategy based on various companies following this strategy.

Objectives

1. To understand the concept of blue ocean strategy through review of literature.
2. To study the impact of blue ocean strategy in select companies.

Review of Literature

The traditional competition-based strategies (red ocean strategies) are necessary, but 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 [2].

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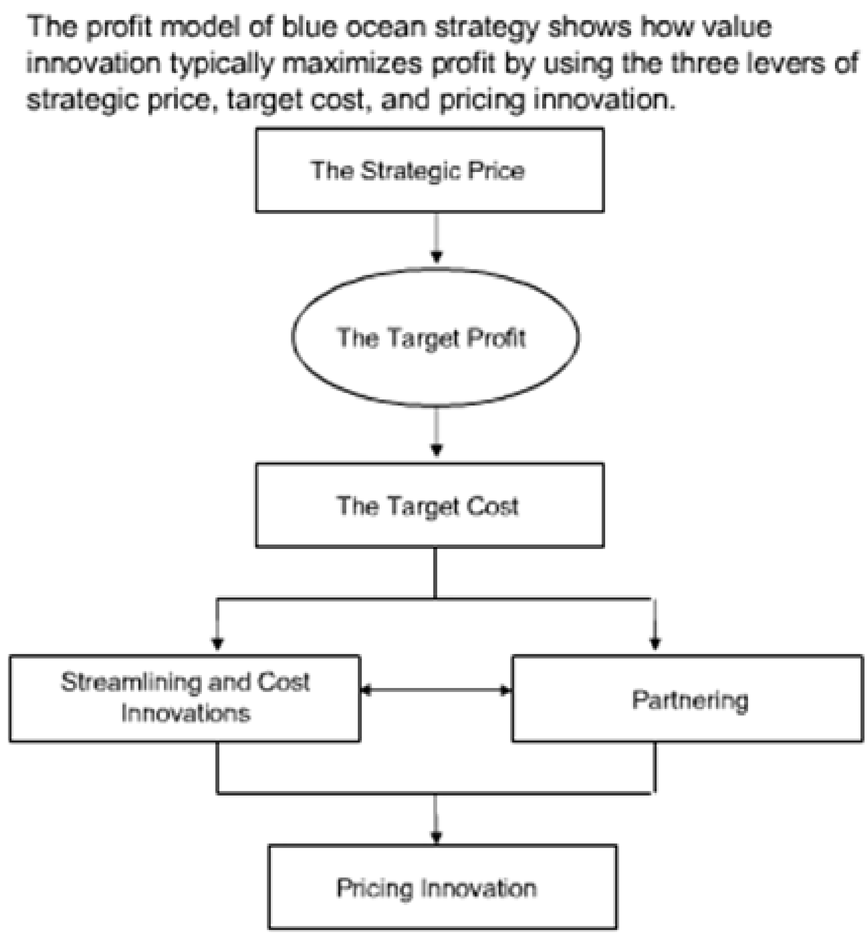
Here, cost and value are seen as trade-offs and a firm chooses a distinctive cost or differentiation position. Because the total profit level of the industry is also determined by structural factors, firms principally seek to capture and redistribute wealth instead of creating wealth. They focus on dividing up the red ocean, where growth is increasingly limited.

The blue oceans stand for completely new and undiscovered markets and opportunities with new value creations, new customer bases and no competition. Demand is created, growth is profitable and rapid, competition is irrelevant, rules of the game are not set, wide deep potential of market space that is not yet explored, "blue ocean" = vast, deep, powerful, in terms of profitable growth, and infinite (Kim & Mauborgne, 2005). According to the authors, market boundaries between the red and blue oceans exist only in the managers minds. Core problem is the way how to create a new uncontested market space and change the focus from competition to creation of innovative value to make accessible new demand. Another fact is that many managers are familiar with the red oceans and feel accustomed to competition [3].

Red Ocean strategy versus Blue ocean strategy [4]

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

Profit Model of Blue Ocean strategy



A company that plans to use the Blue Ocean Strategy must be aware, that the creation of Blue Oceans is a dynamic process and not a single task of implementing a strategy. A reason for this is the fact that sooner or later, competition will arise in new created uncontested markets. [5]

Creating Blue Oceans

Blue Ocean is an ongoing process, it is not static. When a company creates a blue ocean, its performance is known to all. Imitators either sooner or later start the competition by doing the same business in the same way. There will be a doubt that whether the blue ocean strategy can be replicated or not in that particular industry. There is a concept called as early imitators, and followers. As much the companies start getting success, more jump in, further expanding the blue ocean.

To avoid this trend of competition the value curves of the company's strategy have to be monitored. The company needs to study when to value –innovate and when not to ,when your companies value curve begins to converge with competition, you need to get alert. You also need to pursue another blue ocean where there is still a huge profit to be collected from your current offering. You should resist to value innovate again when your companies value curve has focus, divergence and compelling tagline, rather focus on lengthening, widening and deepening your operations.

Imitation Barriers to Blue Ocean Strategy

- Value innovation does not make sense to a company's conventional logic.
- Blue ocean strategy may conflict with other companies' brand image.
- Natural monopoly: The market often cannot support a second player.
- Patents or legal permits block imitation.
- High volume leads to rapid cost advantage for the value innovator, discouraging followers from entering the market.
- Network externalities discourage imitation.
- Imitation often requires significant political, operational, and cultural changes.
- Companies that value-innovate earn brand buzz and a loyal customer following that tends to shun imitators. and geographical expansion to achieve maximum economies of scale and market coverage. You should swim as far as possible in the blue ocean, making yourself a moving target, distancing yourself from your early imitators, and discouraging them in the process. The aim here is to dominate the blue ocean over your imitators for as long as possible [6].

How to go about creating Blue ocean

1. Make new market space
2. Convert non customers to customers
3. Break away from competition, create strong profitable growth
4. Opportunity maximizing and risk minimizing

Key questions to be answered are

- Why should people buy your offering
- Is it priced to attract the target customers , so they have ability to pay for it
- Can u produce product at the strategic price still getting profit
- Adoption hurdles, how to overcome [7]

In blue oceans, demand is created rather than fought over. There is ample 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

To Understand the Concept of Blue Ocean Strategy Through Review of Literature

The above literature gives an understanding that blue ocean strategy is creating new markets, searching out demand.This was happening evenbefore this concept was put in theory. From the spice route to ancient India where travelers earned gold in place of Indian spices. This strategy is used by the popular sport entertainment IPL. No business is static; therefore the dynamic state of various oceans (markets) is not deterrent to a company out their finding new value propositions, innovations, like our own Spice jet airlines, and earning a sustainable profitability.

The Impact of Blue Ocean Strategy in Select Companies

Naukri.com

It was founded by SanjeevBikhchandani. 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! [8]

Many new industries have taken root of late, Industries like petrochemicals, aviation, automobiles, healthcare, music recording, management consultancy, before fifty years were unheard of or were just emerging. Mutual funds; cell phone; biotechnology; express package delivery are the few multi billion company which have come up.

Using value innovation and not competition as the benchmark is what the creators of blue ocean strategy did. Because instead of beating the competition, they made competition irrelevant, by creating value for the buyers, thereby opening up new and uncontested market space.

Dell Computer

In the mid-1990s, Dell Computer Corporation created another blue ocean in the computer industry. Traditionally, computer manufactures competed on offering faster computers having more features and software. Dell, however, challenged this industry logic by changing the purchasing and delivery experiences of buyers. With its direct sales to customers, Dell was able to sell its PCs for 40 percent less than IBM dealers while still making money. Direct sales further appealed to customers because Dell offered unprecedented delivery time. For example, the time it took from order to customer delivery at Dell was four days, compared with its competitors' average of more than ten weeks. Moreover, through Dell's online and telephone ordering system, customers were given the option to customize their machines to their liking.

Small, Fuel-Efficient Japanese Cars

The auto industry, however, did not stand still. In the 1970s, the Japanese created a new blue ocean, challenging the U.S. automobile industry with small, efficient cars. Instead of followingthe implicit industry logic "the bigger, the better" and focusing on luxuries, the Japanese altered the conventional logic, pursuing ruthless quality, small size, and the new utility of highly gas efficient cars.When the oil crisis occurred in the 1970s, U.S. consumers flocked to fuel-efficient, robust Japanese cars made by Honda, Toyota, and Nissan (then called Datsun). Almost overnight the Japanese became heroes in consumers' minds. Their compact, fuel-efficient cars created a new blue ocean of opportunity, and again demand soared.

Some examples of Indian Companies that succeeded in creating Blue Ocean by extending the Known Boundaries of Red Ocean Market Space.

Tata Motors

Ratan Tata shocked Indian automobile sector by introducing TATA Nano, the most inexpensive car in the world costing only1, 00,000 Indian rupees. Company was able to create a car model, which used less steel in the car body and engine and ensured good fuel efficiency, ample seating space for four adults in the car. TATA Motors subsequently filed for 34 patents associated with the design of Nano.TATA Motors instead of focusing on top 15% to 20% of Indian population (in terms of their income capabilities) focused on that section of population that travelled by two wheelers and had low spending capability and whose dream was to own a four-wheeler vehicle. Now, it is another story that post launch of Nano and its initial few months of being there in the market, Nano is finding it hard to push up its sales further. For the same, the company is now coming out with innovative marketing strategies and financing schemes in India.

Some examples of Indian Companies and their Products that represent creation of Blue Ocean in Unknown Market Space

Shaadi.com

Shaadi.com was started by Anupam Mittal, as he understood that the success of matrimony was dependent on the ability for the broker to match the requirements of both the parties. It was also dependent on social clout. Also the marriage brokers ability to travel and communicate far and wide. Mr. Mittal therefor used internet as a medium to do such match making removing geographical barriers.Today shaadi.com is the largest matrimonial website in the world with 20 million registeredusers.. Shaadi.com is a unique company and has succeeded in creating Blue Ocean in the unknown market space never tried before.

FabIndia

Another unique retail venture in India is based on Ethnic Indian wear, FabIndia has succeeded in creating Blue Ocean in unknown Market place .John

Bissel, a consultant in Ford Foundation has started FabIndia in the year 1960 to showcase Indian Handloom textiles to the world. Now it has 87 stores in 39 cities in India and cities like Rome, Dubai, Guangzhou, and a turnover of Rs.3 Billion.FabIndia is closely associated with artisans and villagers to develop designs and color palettes and to optimize production techniques and raw material inputs. FabIndia sources from 22,000 artisans and will increase to 100,000 in next few years.

OYO rooms started in 2013 uses technology to find budget hotels on par with star hotels. It is the successful execution of blue ocean strategy, by offering superior value and reducing the cost of business

Starbucks: The success of Starbucks coffee shop is yet another block in the tales of Blue Ocean strategy. They separated themselves from their competitors by combining differentiation, low cost and customer oriented approach. It focused on maximizing the brands exposure .It offered a variety of products. It had specialized staff, offered personalize coffee mugs; they changed the furnishings throughout the stores, to persuade their customers to spend more time at their store. [10]

We have observed that this strategy is very much useful in automobile industries, services hospitality, Retailing, and other online services. When surf was the market leader Nirma came as a non-competing product which was yet a competition to the expensive surf, in relation to cheap Nirma.

Different Perspectives of Blue Ocean Strategy

1. Job Search Strategy using Blue Ocean

Draw a graph with ten qualities, skills and traits to qualify a typical job candidate for a position. On the Y axis draw a scale from one to ten and map out the line where a typical candidate for each factor listed on the y axis. Fill in the data for two typical candidates. Linea A and B represent these two candidates drawing both lines help you visualize how each is different from the competition, this holds good for companies too.

Find out which of these factors are unnecessary and which can be downplayed. Determine which new value which can raise you to a point where no one else can touch.

Create new value to get your line looking different from that of a typical candidate.

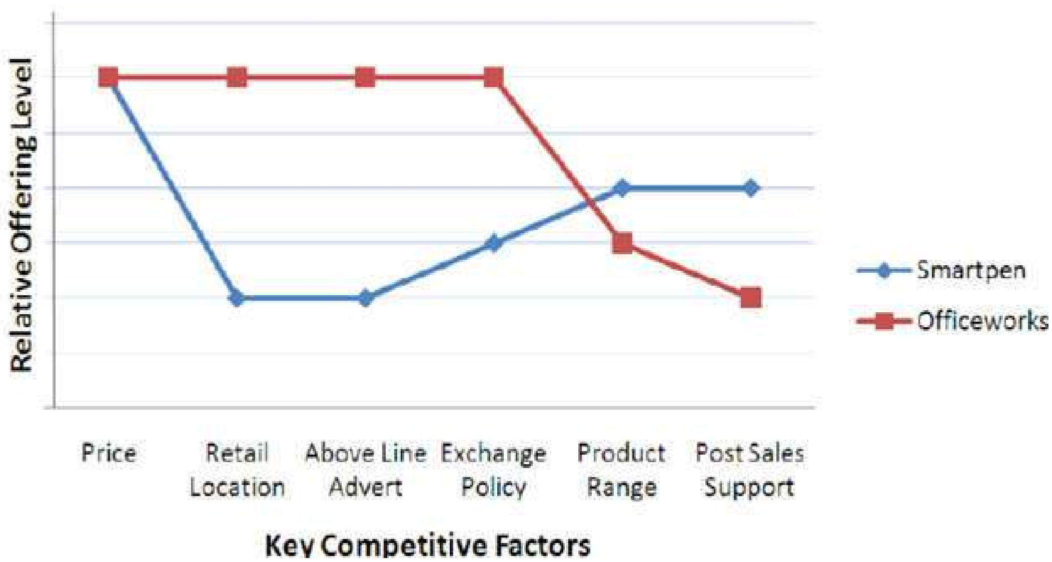
The candidate decides that this position really needs someone with high energy who can inspire and motivate others on the team. Consequently, he adds these factors to his chart and gives himself high marks because he knows how much enthusiasm he brings to the table compared to other job seekers.

After you have your chart, you can clearly see how you're different from your competition. Embed these differentiating factors into everything you do with your brand.[11]

Graph 1:

2. Blue strategy allows companies to analyze their current situation

One of the most useful tools in the blue ocean strategy methodology is the strategy canvas. It allows companies to analyze their current situation and understand the criteria and assumptions against which both they and their competitors' compete. It helps establish where expenditure and focus are directed and can help an organization understand its competitive value in the current environment .Insights of opportunity that competitors are failing to see can be found.The below is shown the differences in the strengths of 'Smarten' And 'Office works' companies in Australia [12].



Graph 2:

Conclusion

A company that plans to use the Blue Ocean Strategy must be aware, that the creation of Blue Oceans is a dynamic process and not a single task of implementing a strategy. A reason for this is the fact that sooner or later, competition will arise in new created uncontested markets. Companies should adopt innovative strategies to venture into new markets, to create new demand, and to create the best value proposition.

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