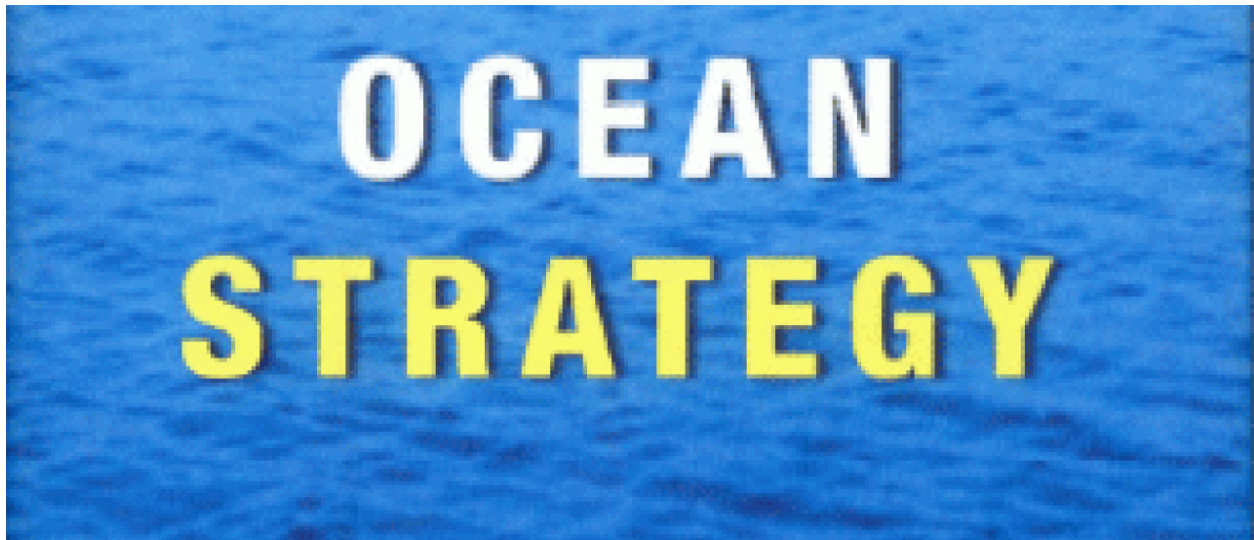

Blue Ocean Strategy: The primer



The book 'Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant' has had a huge impact worldwide. Written by two INSEAD professors, W. Chan Kim and Renée Mauborgne, it sold more than a million copies within its first year of publication and has been translated into 39 languages, breaking Harvard Publishing records as the fastest selling book in print.

In the lead up to writing the award-winning book, Kim and Mauborgne spent 15 years studying strategic moves by companies in more than 30 industries over a period spanning from 1880 to 2000. Traditionally competition has been at the heart of corporate strategy – country versus country, company versus company, and even business school versus business school. The key question is usually how can a company outdo its rivals? Competitive strategy and advantage were born from Harvard Business School, with the focus always on competition. The fundamental roots of this view of strategy can be traced to military strategy. Even the vocabulary of companies can be traced to the military with words such as chief executive “officers”, “headquarters”, “troops” and “frontline” often applied within the corporate milieu. The rule of strategy has been that to gain share in a given market place you must take something from the competitor. In other words, you win, they lose. This is

known as zero-sum gain.

In this traditional view of strategy, it is presumed that the structure is fixed – the environment and conditions are already determined and cannot be changed by the efforts of a company. In academic terms this is known as the structuralist view or environmental determinism. “Strategy thus becomes a question of outpacing rivals to gain a greater share from a limited economic pie,” Mauborgne says. “But when we look at industry who do we admire most? Those who outpace rivals? Yes, we admire winners. But more so, we admire people who create new paradigms, businesses and market spaces. These are what expand the pie of intellectual and creative wealth. In other words, creating a non-zero sum game.” This shift from win-lose to a win-win is the essence of Kim and Mauborgne’s Blue Ocean strategy.

According to Kim and Mauborgne, markets are made up of red and blue oceans. The red ocean represents the known market space where all the industries currently exist. In this space all the boundaries are defined and accepted, with companies trying to outperform each other. However, as the market space becomes congested, the potential for profits and growth decrease.

In contrast, blue oceans are untapped market space characterized by demand creation and opportunities for highly profitable growth. Kim says “Blue Ocean Strategy goes beyond competition by opening up a larger ‘pie.’ It challenges the traditional structuralist view of strategy that regards industry structure as fixed and given. In contrast, Blue Ocean Strategy is based on a reconstructionist view of strategy whereby companies can shift the productivity frontier outwards by reconstructing market boundaries to create a bigger economic pie.”

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Focus on existing customers	Focus on non-customers
Exploit existing demand	Create and capture new demand
Make the value-cost tradeoff (create greater value to customers at a higher cost or create reasonable value at a lower cost)	Break the value-cost tradeoff (Seek greater value to customers and low cost simultaneously)
Align the whole system of firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost.

The book gives practical examples and puts forward conceptual tools as well as lays the underpinnings for the reconstructionist theory. It argues key to creating new market space is the simultaneous pursuit of differentiation and low cost. That's what allows a company to create a new value curve. For example, Cirque du Soleil eliminated animals and star performers from the show, which dropped its cost structure and created an all new element of artistic dance and music to achieve differentiation.

Kim and Mauborgne's work is both "managerial and theoretical" and can be used at all levels: national – to improve social and environmental wealth – as well as at an individual level. Blue ocean markets can be created in all walks of life, the INSEAD professors argue, not just technology-driven industries.

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