

Blue Ocean Strategy challenges companies to make competition irrelevant

prof. dr. W. Chan Kim

Blue Ocean Strategy, introduced by professor W. Chan Kim and professor Renée Mauborgne, and based on a study of 150 strategic moves spanning more than a hundred years and 30 industries, “is about creating and capturing uncontested market space, thereby making the competition irrelevant.” Kim, who is currently a professor at INSEAD, the world’s second largest business school, explains why Blue Ocean Strategy has already proven to be a ‘rising imperative’.

The concept Kim and Mauborgne describe in ‘Blue Ocean Strategy’ - the #1 Strategy Book of 2005 - is as simple as it is fascinating. Blue oceans represent unknown, newly created market space. They are about creating new opportunities and applying identifiable patterns to generate innovative thinking. Red oceans represent all the industries in existence today - the known market space. These are very competitive, segmented, shark-infested waters with shrinking opportunities. History proves that markets are born as blue oceans and evolve to red through competition, commoditisation and over-supply. “Blue Ocean Strategy is about pursuing what we call Value Innovation - the simultaneous pursuit of differentiation and low cost. A company pursues Value Innovation by aligning three propositions. First, value proposition (utility minus price) by creating an offer that dramatically increases buyer utility at the right price for the mass of the market; Second, profit proposition (price minus cost) by creating a leap in value for the company itself by making tidy profits; Third, people proposition by practicing fair process and tipping point leadership.”

According to prof. Kim, companies in the red ocean face limited growth, because industry boundaries are defined and accepted, and the competitive rules of the game are known. The companies try to outperform their rivals 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. This cutthroat competition, while products become commodities, turns the red ocean bloody and reduces the prospect for profits and growth.”

Was that the reason to initiate a decade-long study of 150 strategic moves?

“Yes. We saw that the business universe is composed not only of red oceans, but also of what we call blue oceans of new market space. Turn the clock back only 30 years and you quickly find that many multi-billion dollar industries that exist today did not exist then. Think of discount retailers, the minivan, gas-fired electricity plants, biotechnology, men’s cosmetics, the Internet, and cell phones to name just a few. These new markets were created by not taking

existing industry conditions for granted or trying to position within them. The conventional strategy paradigm failed to explain how to create and capture the more lucrative, growing part of the market universe. This central void in the field of strategy inspired our research journey. The overriding question we had was whether there was a pattern to blue ocean creation. And indeed, as reported in our book, 150 blue ocean creations revealed clear patterns across companies, industries, and time. We found that those who seek to create blue oceans did not follow conventional strategic logic; instead they pursued Value Innovation.”

Were the findings of the study a surprise or a confirmation of what you already knew?

“The findings were mixed: some were surprising and some were confirmation of what we hypothesised. Although the term Blue Ocean is new, their existence is not. Our study began by asking why companies have become quite good at incremental competition-based thinking over the last 25 years but few have any idea of how to create market dominance, new demand, and high profitable growth.



Text: Jacques Geluk



We looked for the assumptions, logics, and practices that lock a company in the competition race. Having studied over 150 successful and unsuccessful strategic moves in more than 30 industries, we found that behind what appeared to be idiosyncratic business events there existed a consistent and common pattern of strategic thinking that was fundamentally different from the existing competition-based one."

Could you please name some of the most important blue ocean strategic moves?

"There are numerous examples of blue ocean strategic moves in every corner of the world. I will start with the strategic move of a Belgian company, Bert Claey's 'Kinopolis', the world's first 'megaplex' cinema in Belgium. The Bert Claey's Group built new market space around Belgium's cinemas by refusing to accept common perceptions that the industry was declining due to the spread of video recorders and cable TV. Bert Claey's ignored long-term decline and created this 'megaplex' cinema with 25 screens and seating for 7,600 audiences. Other

examples of more significant blue ocean strategic moves include Ford's model T, Sony's Walkman, Dell's made-to-order, Starbucks, Nintendo's Wii, and so on."

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The book you and professor Mauborgne wrote to introduce the Blue Ocean Strategy, has sold over 1,000,000 copies the first year alone and has been translated into 41 languages, does this mean many companies were stuck in a red ocean and needed a way out desperately?

"Yes. Prospects in most established market space - red oceans - are shrinking steadily. Technological advances have substantially improved industrial productivity, permitting suppliers to produce an unprecedented array of products and services. As trade

barriers between nations and regions fall and information on products and prices becomes instantly and globally available, niche markets and monopoly havens are continuing to disappear. At the same time, there is little evidence of any increase in demand, at least in the developed markets, where recent United Nations statistics even point to declining populations. The result is that within more and more industries, supply is overtaking demand. This situation has inevitably hastened the commoditisation of products and services, stoked price wars and shrunken profit margins. According to recent studies major American brands in a variety of product and service categories have become more and more alike. People no longer insist, as in the past, that their laundry detergent be Tide. Nor do they necessarily stick to Colgate when there is a special promotion for Crest, and vice versa. In overcrowded industries, differentiating brands becomes harder both in economic upturns and in downturns. As products and services increasingly become commodities in overcrowded industries and companies' profitable growth shrinks, companies are driven to compete principally on cost. One result of this has been the rising exodus of

jobs to low cost countries like India and China as companies increasingly engage in outsourcing. While governments may seek to solve the issue of outsourcing through legislation, history teaches us that this is not a long-term solution. The long-term solution to create jobs is in companies creating compelling products and services that take them out of the vicious cycle of commodity competition. This means moving companies' products and services from the red ocean to the blue ocean. These issues alone make blue ocean strategy a rising imperative."

There are many strategies available, why should organisations choose yours?

"In competitive strategy, we have frameworks and methodologies to test, calibrate, and analyze our competitive decisions. Yet, we have lacked the tools and methodologies to help us systematically execute market creating and capturing uncontested market space, hence making the competition irrelevant. Our book 'Blue Ocean Strategy', we believe redresses this imbalance. The book clearly outlines both strategic logic behind creating new market space, and moreover, the practical frameworks and methodologies for the systematic creation and capture of blue oceans, the uncontested market space which is untainted by competition and where there is ample opportunity for growth. In short, our book 'Blue Ocean Strategy' stands out in this overcrowded world of strategy theories both in its distinctive concepts and in its systematical methodologies to produce the results."

How many organisations have implemented the Blue Ocean Strategy so far and have they overcome their problems?

There are countless for/non profit organisations which had/have implemented Blue Ocean Strategy. The response from companies has been incredibly powerful. We have been working with the world's top enterprises. Companies such as AOL, Aviva, Nintendo, Kimberly Clark, Samsung, Toshiba, and so on have embraced Blue Ocean Strategy as their strategic focus. And there are many other Fortune 500 companies which are using Blue Ocean Strategy, however, for reasons of confidentiality and legal restrictions we cannot say what they are developing just yet. Also, Blue Ocean Strategy is broadly implemented in the public domain. Recently, countries like Singapore and Malaysia have applied Blue Ocean Strategy in overcoming their problems and creating blue oceans for a prosperous future. There has been surging interest in Blue Ocean Strategy from companies, governments, and non-profit organisations across the globe. In response to that, professor Mauborgne and I founded INSEAD Blue Ocean Strategy Institute (IBOSI) and Blue Ocean Strategy Network (BOSN) so that Blue Ocean Strategy can continue to develop further in academia and practice. In fact, our Global Blue Ocean Strategy teams are increasingly demanded to launch many private and public projects to contribute more through the practical application of Blue Ocean Strategy on the theoretically firm ground."

What would happen if too many organisations use your strategy: won't the effect wear off?

"I don't think so. Organisations being companies or countries have their own unique history, culture, and characteris-

tics. As they apply Blue Ocean Strategy to their strategic moves, they are likely to produce their own interpretations, and ways of creating blue oceans. In the end, the world will create more wealth and will progress further with more blue oceans that create a win-win for organisations."

Finally, could you tell our readers something about your cooperation with Renée Mauborgne, who is a professor of strategy at INSEAD?

I met professor Mauborgne twenty-something years ago in a classroom. I was the professor and she was the student then. And we have worked together ever since, first in the United States and now at INSEAD in France, with time also spent in Asia along the way. We have been on a long journey sharing an intellectual curiosity to understand what it takes to stand apart and create strong profitable growth. Exploring our ideas was not easy as we often saw ourselves as two wet rats in a drain.

The 'Blue Ocean Strategy' book is the result of our intellectual journey and partnership of more than twenty years. But, more importantly, the book is not the victory of an idea but of a friendship that we have found more meaningful than any idea in the world of business. It has made our lives rich and our worlds more beautiful. Professor Mauborgne is much more than a super-intellect; she is a beautiful human being.



Prof. W. Chan Kim is co-founder and co-director of the INSEAD Blue Ocean Strategy Institute and The BCG Chair Professor of Strategy and International Management at INSEAD, France. Prior to joining INSEAD, he was a professor at the University of Michigan Business School. He has served as a board member as well as an advisor for a number of multinational corporations in Europe, the U.S. and Pacific Asia. He is an advisory member for the European Union and is the country advisor to Malaysia. He is a fellow of the World Economic Forum. Prof. Kim is one of the world's leading authorities on business strategy, innovation. Thinkers 50 placed Chan among the top ten most influential business thinkers in the world. Chan's book, 'Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant' (Renée Mauborgne, co-author), is an international bestseller. 'Blue Ocean Strategy' sold over one million copies in its first year and is currently being published in 41 languages, breaking Harvard Business Press's historical record of most foreign language translations ever achieved. wchankim@speakersacademy.eu