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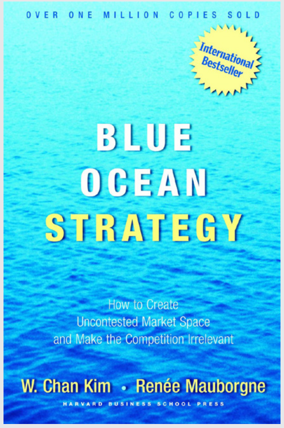
abbreviated principles



Blue Ocean Strategy

How to Created Uncontested Market Space and Make the Competition Irrelevant

W. Chan Kim & Renee Mauborgne
Harvard Business Review Press 2005
256 pages

Rating

9
- 9 Importance
- 8 Innovation
- 9 Style

Focus

- Leadership & Management
- Strategy
- Sales & Marketing
- Finance
- Human Resources
- IT, Production & Logistics
- Career & Self-Development
- Small Business
- Economics & Politics
- Industries
- Global Business
- Concepts & Trends

Take-aways

- Most corporate strategies grew from military models featuring direct confrontations.
- When businesses directly compete, the battlefield becomes over-crowded so all participants suffer from reduced market share, growth, and profits.
- The blue ocean strategy builds new businesses where none existed, giving innovative entries clear sailing. For example, businesses, such as cell phones and biotechnology, barely existed 30 years ago.
- Blue ocean industries are more profitable than fields with head-to-head competitors.
- Businesses that pursue this course should offer their customers a blue ocean “value innovation,” that is, tangible product advancements accompanied by demonstrable savings.
- Blue ocean practitioners need to be prepared to wear life jackets. The six steps of blue ocean imple mentation each carry a risk. The six steps are:
  > Reconstruct market boundaries
  > Focus on the big picture
  > Reach beyond existing demand
  > Get the strategic sequence right
  > Overcome key organizational hurdles
  > Build execution into strategy
- When plotting a blue ocean course, practitioners use a “strategy canvas” to chart the competition and exploit their shortcomings. A strategy canvas is a graph where the horizontal axis captures the range of factors that the industry competes on and invests in, and the vertical axis captures the offering level that buyers receive across all these key competing factors.
- Developing a blue ocean strategy requires all hands on deck.

Relevance

What you will learn
1) What is a Blue Ocean Strategy
2)What are the principles and characteristics of Blue Ocean Strategy

Summary

In Blue Ocean Strategy, the red ocean as where most companies compete, seeking customers from the same market as their competitors, Kim and Mauborgne suggest that companies break out of the red ocean of bloody competition by creating uncontested market space in the blue ocean that makes the competition irrelevant.

BLUE OCEAN STRATEGY

1. Focus on non-customers
2. Create uncontested market space
3. Make the competition irrelevant
4. Create and capture new demand
5. Break the value-cost trade-off

Guiding Principles

As you create your blue ocean strategies, be aware of four guiding principles.

The **first** is to break from the competition and reconstruct market boundaries. For example: Novo Nordisk looked past the red ocean of doctors as the market for insulin to the blue ocean of diabetics and became a diabetic's care company rather than just a producer of insulin.

The **second** guiding principle is to focus on the big picture, not the numbers. The right strategic planning process is critical to developing a good strategy. Unfortunately, old habits die hard, and planning processes become mired in the numbers.

The **third** guiding principle is to reach beyond existing demand. Historic strategic planning processes encourage focusing on current markets and further defining niches, thus continuing a red ocean existence.

To have a profitable and robust strategy, you must follow the fourth guiding principle: get the strategic sequence right. The right strategic sequence of buyer utility, price, cost, and adoptions will ensure commercial viability.

Business models usually start with the cost and build the price based on how much profit they want to make. Blue ocean strategies suggest starting with the utility to the customer and then setting the consumer price and designing the model so that the cost allows the profit desired. My experience is that companies juggle cost and price, trying to decide the highest price the market will bear and adding or subtracting features until they get a nominal product they think they can sell at the highest profit. Many times they never even get around to the subject of value to the customer.

How to create Blue Oceans

Value innovation is the cornerstone of blue ocean strategy and is not new. Innovation align with utility, price, and cost positions while overcoming the execution hurdles. They decry the value cost tradeoff so common today and provide useful tools that encourage you to think alternatives instead of competitors, and noncustomers instead of customers.

One tool is the strategy canvas used to create value. This is a diagnostic and action-oriented chart that plots the current state of play (low vs. high activity) in the known market against the range of factors used to compete. The resulting value curve shows where the competition is currently investing and what they offer buyers. This creates the current value curve. Once you have created that, look at each factor and decide which of four primary actions (eliminating, reducing, increasing, or creating) could be taken to create value to noncustomers. These actions will dramatically change your value curve. For example: What factors on the strategy canvas should be eliminated that don't add value? What factors should be reduced below the industry standard to avoid over delivering? What factors should be raised above the industry standard so that customers won't have to make compromises? What factors should be created that are new to the industry?

Characteristics of Blue Ocean Strategy

Once these actions have been taken, look to see if your strategy has the three characteristics of a good blue ocean strategy. Does it have focus? Does it diverge from other players? Does it have a good tag line? Look to alternatives rather than the competition.

Execution is Key

The final section of the book goes into detail about how to execute the blue ocean strategy. This is an important section that covers overcoming the organizational hurdles: how to build execution into the blue ocean strategy, and how to sustain and when to renew the strategy.

How do you get employees to be aware of the need for the new strategy, abandon the status quo, and jump on the execution wagon? How can you accomplish each phase without increasing the resources needed? How do you motivate employees to become enthusiastic supporters rather than reluctant participants or, worse, saboteurs? Tipping point leadership—popularized by Malcom Gladwell's book, The Tipping Point—where leaders mobilize a company by flipping conventional wisdom on its head, is necessary to overcome these hurdles quickly at low cost, winning support for the strategy in the process.

Before people will execute a new strategic plan, their minds and hearts must align with the new strategy. Then they willingly go beyond compulsory execution to voluntary cooperation in implementation. Fair process is vital here. When management has engaged employees in pertinent aspects of the strategic decision making, explained the strategic choices, and effectively communicated the new rules of the game—then employees will judge the process as fair. A blue ocean strategy successfully implemented provides strong barriers of imitation, giving a 10- to 15-year lead over the competition.

About the Author

Pat Hiban is a top producing real estate agent and owner of the Pat Hiban Group, currently one of the founders of GoBundance a masterminding group of high minded, goal oriented individuals looking to Grab Life Big and founder/host of Pat Hiban Interviews Real Estate Rockstars.