# Blue Ocean Strategy

## Idea In Short

As eBay did with the online auction industry, companies can sometimes create entirely new industries. In most cases, companies alter their existing boundaries to create new opportunities; Cirque du soleil created a new market that blurred the lines between circus and theatre in the highly competitive traditional circus industry. Other examples, such as Yellow Tail Wine and South West Airlines have simply differentiated themselves from the competition through superior customer-centricity. The core tenet of the Blue Ocean Strategy is to create uncontested markets - Blue Oceans – to make competition irrelevant. By looking at areas where the competition is not looking and delivering compelling customer value, businesses can establish market leadership.

Blue Ocean strategy refers to markets for products and services where there is little to no competition. This strategy revolves around searching for a business in which very few firms operate and where there is no pricing pressure. Instead of viciously competing with other companies, organizations should find a way to work in a marketplace that is free of competitors. Today, most firms operate under intense competition and face immense pressure to gain market share. This situation usually happens when a business operates in a saturated market, also known as Red Ocean. With limited room to grow, a business looks for new avenues and business models where they can enjoy uncontested market share or Blue Ocean. A Blue Ocean exists when there is potential for higher profits, as there is now competition or irrelevant competition. A Blue Ocean is characterized by:

- Low competition or absence of it
- Products that combine good Value and affordable price
- Large enterprises on the market

If you decide to follow the Blue ocean strategy, your aim not to be better than your competitors, but to make them irrelevant by creating a new market space.

## Competitive Strategy

Much of the conventional literature on strategy revolves around beating the competition and to become better than the rivals to gain competitive advantage. However, in 2005, INSEAD Professors W. Chan Kim and Renée Mauborgne challenged these conventional ideas of strategy. They argued that businesses should not occupy themselves with competition as the center of their strategic thinking. Instead, they should focus their energies on creating new, uncontested markets by creating leaps in customer value. In other words, companies are better off searching for ways to gain uncontested market spaces than competing with similar companies. These new spaces, called Blue Oceans, compared the struggle for survival in bloody Red Oceans marked by vicious competition. Simultaneous pursuit of high product differentiation and low cost underlie the Blue Ocean Strategy to make the competition irrelevant.

## Red Ocean Strategy

Red Oceans represent the known market space. Here, the market players have a clear understanding of the boundaries that define their industry. Companies know the competitive rules of the game and try to outperform each other to win greater market share or capture customer demand. Managing in a Red Ocean is about beating the competition and exploiting existing demand. However, as the market space gets more crowded due to increased competition, prospects for profits and growth diminish. Products and services become commodities. Cutthroat competition results in a bloody Red Ocean of rivals fighting over a shrinking profit pool. The conventional competitive strategy frameworks, such as Porter's Five Forces, Generic Strategies and the Value Disciplines apply here. In this competitive landscape, businesses should clearly position themselves through differentiation and / or cost leadership strategy to better compete for market share.

## Blue Ocean Strategy

In contrast, Blue Oceans denote the unknown markets and industries in emergence today. These unknown market spaces are untainted by competition. In Blue Oceans, entirely new industries, markets and demand are created rather than fought over. According to this strategy principles, companies should try to find or create new markets where competition does not yet exist. In these unexplored and untapped markets, there is ample opportunity for growth that is both profitable and rapid. In addition, competition is irrelevant because the

rules of the game are not set yet. While the red ocean strategy is a zero-sum game - splitting up the pie among the rivals, the blue ocean strategy is about creating the pie and / or growing it. The authors, Chan Kim and Mauborgne, articulate a framework called Value Innovation to guide this shift in transition from red to blue oceans. The transformation to blue ocean strategy allows for simultaneous pursuit of both, differentiation and cost leadership.

## Case: Cirque du Soleil

Cirque du Soleil managed to become a successful and prominent player in the declining circus industry. In the 1980's, circuses were focusing on benchmarking similar circuses to steal market share from a shrinking demand pool. However, Cirque du Soleil reinvented the circus experience by eliminating and reducing factors that were costly and didn't add much value to customers anymore. For example, they quit using animals during their shows. Apart from the increasing public discomfort people had with the use of animals, it was also very expensive to feed, move and train animals for the show. Eliminating this factor alone was therefore a massive improvement in Value Innovation. In addition, Cirque du Soleil elevated the customer experience by focusing on adults as well as the traditional focus on kids. They therefore borrowed elements from Broadway shows to make the shows more theatrical and magical. These changes allowed Cirque du Soleil to strategically raise their ticket prices to match those of the theater industry. Through both, differentiation and cost leadership, Cirque du Soleil created a new Blue Ocean that was never witnessed before. Blue oceans are areas of the market where your competition is currently not. Blue Oceans lead to easy uncontested growth from demand created, rather than fought over. Furthermore, rapid growth in sales and profits result from a lack of competition. In addition, broader and deeper market opportunities emerge as this uncharted space is yet to be explored. This frameworks forces companies to critically examine the factors and entrenched rules of competition. It also guides leaders to challenge their assumptions they unconsciously make while competing. With increased clarity and focus, they can then search for blue oceans within their industries and catalyze the transformation.

## Summary

Formulating a Blue Ocean strategy is complicated and risky. However, if you manage to

create a product / service that clearly communicates its value, people will notice you on the market and you will experience a significant revenue upside for years to come.