BLUE OCEAN STRATEGY

How to Create Uncontested Market Space and Make the Competition Irrelevant

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The Web site for this book is at www.blueoceanstrategy.com.

MAIN IDEA

The best way to beat your competition is, in fact, to stop competing against them.

In other words, when you go head-to-head against rivals for a share of the existing market, this is like competing in a “red ocean” – where the way you compete is by benchmarking your competition and trying to outdo them. A much better strategy is to look for “blue oceans” instead – untapped markets which nobody has ever targeted and which hold the potential for huge growth. In red oceans, your competitors set the agenda. In blue oceans, your competition becomes irrelevant.

In a 10-year study of 108 companies, it was found that 86-percent of new product launches were line extensions and only 14-percent were attempting to create blue ocean markets. Yet that 14-percent generated 38-percent of total revenues and 61-percent of total profits. It’s clear, therefore, that companies which attempt to follow a blue ocean strategy have a much greater chance of success than those which follow a me-too strategy. Creating blue oceans should be the focus and goal of every manager.

1. Value Innovation – The Heart of Blue Ocean Strategies . . . . Pages 2 - 3

The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of blue ocean strategy. Value innovation is achievable only when a company’s utility, price and cost structures are properly aligned. This whole system approach makes the creation of blue oceans sustainable because it integrates all the firm’s functional and operational activities.

Costs
Eliminate unnecessary functions
▶
Value Innovation
▲
Buyer Value
Improve and create more functions

2. The Key Principles in Developing a Blue Ocean Strategy . . . . Pages 4 - 6

Blue ocean strategies are more about risk minimization and less about risk taking. There are four guiding principles for the successful formulation of blue ocean strategy. When utilized, these principles will reduce search risks, planning risks, scale risks and business model risks.

Key Principles in Formulating Blue Ocean Strategies

1. Reconstruct market boundaries ▶ Reduced search risks
2. Focus on big picture, not numbers ▶ Reduced planning risk
3. Reach beyond existing demand ▶ Reduced scale risk
4. Get the strategic sequence right ▶ Reduced business model risk

3. The Key Principles in Executing a Blue Ocean Strategy . . . . Pages 7 - 8

Formulating an effective blue ocean strategy is one challenge but executing that strategy well is an altogether different kind of challenge. To pull this off, you’ll need to have buy-in from the top management and the ability to align your entire organization around the challenges of executing your blue ocean strategy. This is particularly daunting when the blue ocean strategy is a departure from business-as-usual. There are two principles involved by which companies can reduce organizational and management risks while executing a blue ocean strategy.

Key Principles in Executing Blue Ocean Strategies

1. Overcome organizational hurdles ▶ Reduced organizational risks
2. Embed execution into the strategy ▶ Reduced management risk

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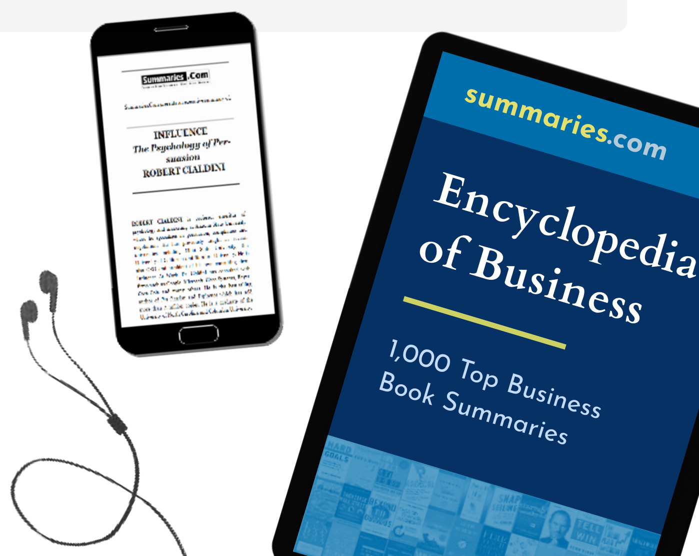

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