

# Striking out for deeper waters

**Title:** *Blue Ocean Strategy*

**Subtitle:** *How to create uncontested market space and make the competition irrelevant*

**Author:** W Chan Kim and Renée Mauborgne

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As a book, the *Blue Ocean Strategy* has been on bookshelves for about three years. As a concept, the theory of value innovation has been around for much longer. And yet, every year, one will find that the terminology of blue and red oceans is being used to explain or justify corporate fiscal performances.

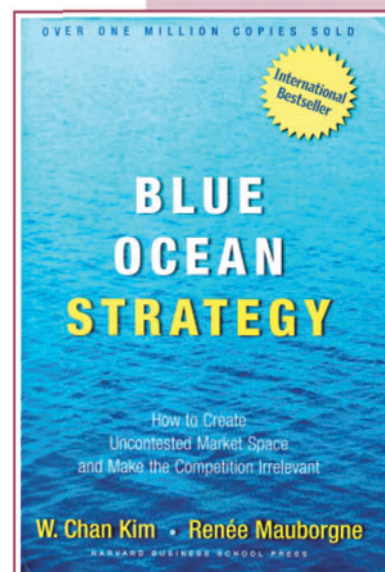
Management concepts, much like products, have a shelf life. They ‘buzz’ for a period of time and fade into oblivion if not proven in practice. As a concept, blue ocean strategy has been around for far too long to continue being characterised as a buzzword. It was first introduced as ‘value innovation’ in an article in the *Harvard Business Review* in 1997.

In 2005, *Blue Ocean Strategy* was published as a book that achieved immense popularity, selling over a million copies since publication. The book analyses 150 strategic moves by 30 companies over the past 100 years and points out why these moves contributed to the success of these firms. Simply put, authors Kim and Mauborgne argue that companies either fail with “red ocean” strategies or succeed with “blue ocean” ones.

The ocean turns red when companies compete in the same market, using similar strategies, battling for the same customers and resources, which increasingly become scarce. The struggle is violent and the pay-off comparatively meagre.

By contrast, “blue ocean” strategy refers to innovative thinking which allows companies to create markets and profits where none existed. With innovative moves, companies find themselves sailing the blue ocean, which signifies smooth sailing, high profits and the non-existence of competition — that is, for a period of time, until others set sail for the same territory and the oceans begin to turn red all over again. For a period of time, though, the pioneering company is the undisputed master of the high seas.

In March, with Japanese companies poised to report the first drop in combined profit in seven years, a frequently heard sentiment on the country’s stock markets was that investments should head in the direction of “companies in the blue ocean rather than those in the red ocean”.



Reflecting these sentiments was the phenomenon of a world leading company, such as Toyota Motor Corp, poised to become the world's No 1 automotive company, finding its shares dumped by major US investment firms, William Blair and Fidelity on the Japanese stock exchanges.

Market sentiment was in favour of companies like Nintendo Co, which by October 2007 had moved up the stock market ladder to become the second most valuable company in Japan after Toyota Motor. Nintendo had unleashed Wii Sports, the Wii Remote, the DS and now the Wii Fit — all of them game-changing moves. These products were not positioned for the hard core gamer; instead they were aimed at the confirmed non-gamer, or people in the 35-40 plus age group, least likely to be seen with gaming consoles in their hand.

Around the time Nintendo was assuming second spot in the Japanese stock market, thanks to its blue ocean moves, China Mobile Communications Corp chief executive, Wang Jianzhou, was confirming to the world that his company had added 5 million new customers every month over 2007.

This was a marked change from the time when Wang had taken over operations at China Mobile in 2004 at a time when the company was considered a big, slow elephant with low prospects. Wang thought of China's hinterland as a blue ocean market, where the company could have a free run without having to compete with rivals. The company's low cost structure assured it of comfortable margins, even though it would be serving small fry. Infrastructure costs would be a fraction of those in cities like Beijing.

With 361.06 million fixed telecommunication subscribers as of March 31, 2008, it is now projected that China Mobile will have a subscriber growth of 43.7 per cent over a 2007-2010 forecast period and its market share in the country will increase to 70.8 per cent by 2010. In March 2008, mobile phone subscribers in China sent 58.61 billion SMS text messages, averaging 3.32 messages per subscription a day. Wang and China Mobile, are currently sailing the blue ocean.

As a path-breaking work, *Blue Ocean Strategy* would now appear to be almost at par with other seminal concepts of our time, such as those propagated by CK Prahalad in *The Fortune at the Bottom of the Pyramid*.

It comes as no surprise that for the latter half of 2007, the authors of *Blue Ocean Strategy*, W Chan Kim and

Renée Mauborgne, now figure in the sixth place in the 'The Thinkers 50' biennial poll of business thinkers. ●

*Rajiv Singh*

## EXCERPT

What consistently separated winners from losers in creating blue oceans was their approach to strategy. The companies caught in the red ocean followed a conventional approach, racing to beat the competition by building a defensible position within the existing industry order. The creators of blue oceans, surprisingly, didn't use the competition as their benchmark. Instead, they followed a different strategic logic that we call value innovation. Value innovation is the cornerstone of blue ocean strategy. We call it value innovation because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space.

Value innovation places equal emphasis on value and innovation. Value without innovation tends to focus on value creation on an incremental scale, something that improves value but is not sufficient to make you stand out in the marketplace. Innovation without value tends to be technology-driven, market pioneering, or futuristic, often shooting beyond what buyers are ready to accept and pay for. In this sense, it is important to distinguish between value innovation as opposed to technology innovation and market pioneering. Our study shows that what separates winners from losers in creating blue oceans is neither bleeding-edge technology nor "timing for market entry." Sometimes these exist; more often, however, they do not. Value innovation occurs only when companies align innovation with utility, price, and cost positions. If they fail to anchor innovation with value in this way, technology innovators and market pioneers often lay the eggs that other companies hatch.

Value innovation is a new way of thinking about and executing strategy that results in the creation of a blue ocean and a break from the competition. Importantly, value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off. It is conventionally believed that companies can either create greater value to customers at a higher cost or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create blue oceans pursue differentiation and low cost simultaneously.