

Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant

Blue oceans ... are defined by untapped market space, demand creation, and the opportunity for highly profitable growth... Without analytic frameworks ... and principles to effectively manage risk, creating blue oceans has remained wishful thinking that is seen as too risky for managers to pursue as a strategy.

... scant work exists on building a viable alternative to existing strategic planning, which is the most essential management task ...

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Vision

Uncontested market space

Mission

To make the formulation and execution of blue ocean strategy as systematic and actionable as competing in the red waters of known market space.

Values

Friendship: This is a book about friendship, about loyalty, about believing in one another.

Loyalty

Strategic Moves: ... the strategic move, and not the company or the industry, is the right unit of analysis for explaining the creation of blue oceans and sustained high performance. A strategic move is the set of managerial actions and decisions involved in making a major market-creating business offering.

Value Innovation: ... instead of focusing on beating the competition ... 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 innovation occurs only when companies align innovation with utility, price, and cost positions.

Utility: The six buyer utility layers are: Customer productivity, Simplicity, Convenience, Risk, Fun and image, and Environmental friendliness

Customer Productivity

Simplicity

Convenience

Risk

Fun

Environmental Friendliness

Price

Cost: ... the creation of blue oceans is about driving cost down while simultaneously driving value up for buyers.

Strategy: ... value innovation is more than innovation. It is about strategy that embraces the entire system of a company's activities... an effective blue ocean strategy ... has three complementary qualities: focus, divergence, and a compelling tagline.

Focus: Every great strategy has focus ...

Divergence: ... the value curves of blue ocean strategies always stand apart. By applying the four actions of eliminating, reducing, raising, and creating, they differentiate ...

Taglines: A good strategy has a clear-cut and compelling tagline.

Value Leaps: Value innovation requires companies to orient the whole system toward achieving a leap in value for both buyers and themselves.

Market Reconstruction: ... value innovation is based on the view that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players.

New Best-Practice Rules: In the reconstructionist world ... the strategic aim is to create new best-practice rules by breaking the existing value-cost trade-off and thereby creating a blue ocean.

Collective Wisdom: ... strategic planning should be more about collective wisdom building than top-down or bottom-up planning.

Conversation: ... it should be more conversational than solely documentation-driven ...

Big Pictures: ... it should be more about building the big picture than about number-crunching exercises.

Creativity: It should have a creative component instead of being strictly analysis-driven.

Motivation: ... it should be more motivational, invoking willing commitment, than bargaining-driven, producing negotiated commitment.

Commitment

1. Reconstruction

Reconstruct market boundaries

... we found six basic approaches to remaking market boundaries. We call this the six paths framework

Path 1. Alternatives

Look across alternative industries

Alternatives are broader than substitutes. Products or services that have different forms but offer the same functionality or core utility are often substitutes for each other. On the other hand, alternatives include products or services that have different functions and forms but the same purpose.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Path 2. Groups

Look across strategic groups within industries

... strategic groups ... refers to a group of companies within an industry that pursue a similar strategy. In most industries, the fundamental strategic differences among industry players are captured by a small number of strategic groups. Strategic groups can generally be ranked in a rough hierarchical order built on two dimensions: price and performance.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Path 3. Buyers

Look across the chain of buyers

In most industries, competitors converge around a common definition of who the target buyer is. In reality, though, there is a chain of "buyers" who are directly or indirectly involved in the buying decision... Although these three groups may overlap, they often differ. When they do, they frequently hold different definitions of value... Challenging the conventional wisdom about which buyer group to target can lead to the discovery of new blue ocean. By looking across buyer groups, companies can gain new insights into how to redesign their value curves to focus on a previously overlooked set of buyers... By questioning conventional definitions of who can and should be the target buyer, companies can often see fundamentally new ways to unlock value.

Stakeholder(s):

Purchasers

Role: Payment
paying for products and services

Influencers

Role: Influence
influencing the purchase of products and services

Users

Role: Usage
using products and services

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Path 4. Offerings

Look across complementary product and service offerings

Few products and services are used in a vacuum. In most cases, other products and services affect their value. But in most industries, rivals converge within the bounds of their industry's product and service offerings... Untapped value is often hidden in complementary products and services. The key is to define the total solution buyers seek when they choose a product or service.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Path 5. Appeal

Look across functional or emotional appeal to buyers

Competition in an industry tends to converge not only on an accepted notion of the scope of its products and services but also on one of two possible bases of appeal. Some industries compete principally on price and function largely on calculations of utility; their appeal is rational. Other industries compete largely on feelings; their appeal is emotional. Yet the appeal of most products or services is rarely intrinsically one or the other... When companies are willing to challenge the functional-emotional orientation of their industry, they often find new market space.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Path 6. Trends*Look across time*

All industries are subject to external trends that affect their businesses over time... Looking at these trends with the right perspective can show ... how to create blue ocean opportunities. Many companies adapt incrementally and somewhat passively as events unfold. Whether it's the emergence of new technologies or major regulatory changes, managers tend to focus on projecting the trend itself... But key insights into blue ocean strategy rarely come from projecting the trend itself. Instead they arise from business insights into how the trend will change value to customers and impact the company's business model. By looking across time — from the value the market delivers today to the value it might deliver tomorrow — managers can actively shape their future and lay claim to a new blue ocean.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

2. Focus

Focus on the big picture, not the numbers

... few strategic plans lead to the creation of blue oceans or are translated into action. Executives are paralyzed by the middle. Few employees deep down in the company even know what the strategy is... most plans don't contain a strategy at all but rather a smorgasbord of tactics that individually make sense but collectively don't add up to a unified, clear direction that sets a company apart — let alone makes the competition irrelevant... we have found that drawing a strategy canvas not only visualizes a company's current strategic position in the marketplace but also helps it chart its future strategy.

Step 1. Visual Awakening

Draw the value curve of the company's strategy

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Step 2. Visual Exploration

Send a team into the field, putting managers face-to-face with what they must make sense of: how people use or don't use their products or services.

For each visual strategy ... write a compelling tagline that [captures] the essence of the strategy and [speaks] directly to buyers.

Stakeholder(s):

Managers

Role: Observation

A company should never outsource its eyes. There is simply no substitute for seeing for yourself... You should not only talk to ... people but also watch them in action. Identifying the array of complementary products and services that are consumed alongside your own may give you insight into bundling opportunities... [Also] look at how

customers might find alternative ways of fulfilling the need that your product or service satisfies.

Customers

Role: Conversation

Noncustomers

Role: Conversation

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Step 3. Visual Strategy Fair

Present strategy canvases at a visual strategy fair.

Stakeholder(s):**Teams**

Role: Presentation

Executives**Customers****Noncustomers****Customers of Competitors****Judges**

Role: Rating

Evaluation of alternative visual strategies

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Step 4. Visual Communication

Communicate the chosen strategy in a way that can easily be understood by any employee.

Stakeholder(s):**Senior Managers****Employees****Performance Indicators**

Description	Type	Start Date	End Date
	Target		
	Actual		

3. Reach

Reach beyond existing demand

[To] maximize the size of the blue ocean you are creating ... reach beyond existing demand... challenge two conventional strategy practices. One is the focus on existing customers. The other is the drive for finer segmentation to accommodate buyer differences... To maximize the size of [the] blue oceans, companies ... need to look to noncustomers. And instead of focusing on customer differences, they need to build on powerful commonalities in what buyers value... To reach beyond existing demand, think noncustomers before customers; commonalities before differences; and desegmentation before pursuing finer segmentation.

Stakeholder(s)

Noncustomers, First Tier :

Buyers who minimally purchase an industry's offerings out of necessity but are mentally noncustomers ... waiting to jump ship and leave the industry as soon as the opportunity presents itself... However, if offered a leap in value, not only would they stay, but also their frequency of purchases would multiply, unlocking enormous latent demand.

Role: Buying

Noncustomers, Tier Two :

... people who refuse to use [the] industry's offerings... buyers who have seen [the] offerings as an option to fill their needs but have voted against them.

Role: Buying

Noncustomers, Tier 3 :

... noncustomers who have never thought of [the] market's offerings as an option.

Role: Buying

3.1. New Markets

Focus on key commonalities across noncustomers and existing customers [to] understand how to pull them into [a] new market.

... focus on the tier that represents the biggest catchment ... But ... also explore whether there are overlapping commonalities across all three tiers... The point ... is not to argue that it's wrong to focus on existing customers or segmentation but rather to challenge these existing, taken-for-granted strategic orientations... to maximize the scale of your blue ocean you should first reach beyond existing demand to noncustomers and desegmentation opportunities ...

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

4. Sequencing

Get the strategic sequence right

... build a robust business model to ensure that you make a healthy profit ...

4.1. Buyer Utility

Unlock exceptional utility [and create] a compelling reason for the mass of people to buy ...

check whether [the] offering has removed the greatest blocks to utility across the entire buyer experience for customers and noncustomers. The greatest blocks to utility often represent the greatest and most pressing opportunities to unlock exceptional value.

Stakeholder(s):

Buyers

Role: Recognition

Recognition of the exceptional utility of the offering

Performance Indicators

Buyer Utility

A buyer's experience can usually be broken into a cycle of six stages, running more or less sequentially from purchase to disposal... Cutting across the stages of buyer's experience are ... utility levers ... ways in which companies can unlock exceptional utility for buyers.

Description	Type	Start Date	End Date	Mapping
Locate proposed offerings on the thirty-six spaces of the buyer utility map.	Target			
	Actual			

4.2. Pricing

Set the right strategic price ... to attract the mass of target buyers.

It is increasingly important ... to know from the start what price will quickly capture the mass of target buyers. There are two reasons ... First ... volume generates higher returns than it used to... second ... to a buyer, the value of a product or service may be closely tied to the total number of people using it... the strategic price ... must not only attract buyers in large numbers but also help ... retain them. Given the high potential for free riding, an offering's reputation must be earned on day one, because brand building increasingly relies heavily on word-of-mouth recommendations spreading rapidly through our networked society. Companies must therefore start with an offer that buyers can't refuse and must keep it that way to discourage any free-riding imitations... We have developed a tool called the "price corridor of the mass" to help managers find the right price for an irresistible offer ...

Stakeholder(s):

Buyers

Role: Attraction

Attraction to the offering due to its value for the price

Performance Indicators

Attraction

Description	Type	Start Date	End Date
Attraction to the offering due to its value for the price	Target		
	Actual		

Step 1. Identification

Identify the price corridor of the mass.

... look first at the products and services that most closely resemble [the] idea in terms of form... understand the price sensitivities of those people who will be comparing the new product or service with a host a very different-looking products and services offered outside the group of traditional companies ... that fall into two categories: those that take different forms but perform the same function, and those that take different forms and functions but share the same over-arching objective... Listing the groups of alternative products and services allows managers to see the full range of buyers they can poach from other industries as well as from nonindustries ... The price bandwidth that captures the largest groups of target buyers is the price corridor of the mass.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Step 2. Specification

Specify a level within a price corridor.

... determine how high a price ... to set within the corridor without inviting competition from imitation products or services... companies with uncertain patent and asset protection should consider pricing somewhere in the middle of the corridor... companies that have no such protection ... must set a relatively low price.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

4.3. Cost

Produce the offering at a target cost easily accessible to the mass of target buyers while still earning a healthy profit margin.

To maximize the profit potential of a blue ocean idea, a company should start with the strategic price and then deduct its desired profit margin from the price to arrive at a target cost... price-minus costing, and not cost-plus pricing, is essential if you are to arrive at a cost structure that is both profitable and hard for potential followers to match... To hit the cost target, companies have three principal levers. The first involves streamlining operations and introducing cost innovations from manufacturing to distribution... a second lever ... is partnering... the third lever companies can use [is] changing the pricing model of the industry... what is pricing innovation for one industry ... is often a standard pricing model in another industry.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

4.4. Adoption

Address the hurdles to adoption.

Adoption hurdles include, for example, potential resistance to the idea by retailers or partners... The need to assess the buyer utility of [an] offering may seem self-evident. Yet many companies fail to deliver exceptional value because they are obsessed by the novelty of their product or service, especially if new technology plays a part in it.

Stakeholder(s):

Company Stakeholders :

Almost by definition, [a blue ocean strategy] threatens the status quo, and for that reason it may provoke fear and resistance among a company's three main stakeholders: its employees, its business partners, and the general public. Before plowing forward and investing in the new idea, the company must first overcome such fears by educating the fearful... In educating these three groups of stakeholders ... the key challenge is to engage in an open discussion about why the adoption of the new idea is necessary... explain its merits, set clear expectations for its ramifications, and describe how the company will address them. Stakeholders need to know that their voices have been heard and that there will be no surprises.

to find ways of defusing the threats so that everyone in the company wins, despite shifts in people's roles, responsibilities, and rewards.

Role: Production

Partners :

Potentially even more damaging than employee disaffection is the resistance of partners who fear that their revenue streams or market positions are threatened by a new business idea.

Role: Partnership

The General Public :

Opposition to a new business idea can also spread to the general public, especially if the idea is very new and innovative, threatening established social or political norms.

Role: Buying

Employees :

Before companies go public with an idea, they should make a concerted effort to communicate to employees that they are aware of the threats posed by execution of the idea. Companies should work with employees

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5. Organizational Hurdles

Overcome key organizational hurdles

... blue ocean strategy ... hinges on a shift from convergence to divergence in value curves at lower cost. That raises the execution bar... four hurdles [must be overcome]: One is cognitive: waking up employees to the need for a strategic shift... The second is ... limited resources... Third is motivation... The final hurdle is politics.

Stakeholder(s)

Leaders

Role: Tipping Point Leadership

Tipping point leadership ... overcome[s] these four hurdles fast and at low cost while winning employee's backing in executing a break from the status quo... there are people, acts, and activities that exercise disproportionate influence on performance... contrary to conventional

wisdom, mounting a massive challenge is not about putting forth an equally massive response... Rather, it is about conserving resources and cutting time by focusing on identifying and then leveraging the factors of disproportionate influence ...

5.1. Cognitive Hurdles

Break through the cognitive hurdles

Stakeholder(s):

Leaders

Role: Tipping Point Leadership

Tipping point leadership does not rely upon numbers to break through the organization's cognitive hurdle... [They] zoom in on the act of dispro-

portionate influence: making people see and experience harsh reality firsthand... Tipping point leadership ... inspire[s] a fast change in mindset that is internally driven of people's own accord.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.1.1. Operational Problems

To break the status quo, bring employees face-to-face with the worst operational problems.

Stakeholder(s):

Employees

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.1.2. Disgruntled Customers

Meet with and listen to disgruntled customers.

There is no substitute for meeting and listening to dissatisfied customers directly.

Stakeholder(s):

Disgruntled Customers

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.2. Resources

Jump the resource hurdle.

Stakeholder(s):

Tipping Point Leaders

Role: Resource Multiplication

Instead of focusing on getting more resources, tipping point leaders concentrate on multiplying the value of the resources they have.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.2.1. Hot Spots

Redistribute resources to hot spots.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.2.2. Cold Spots

Redistribute resources away from cold spots.

Free up resources by searching out cold spots.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.2.3. Horse Trading

Trade unneeded resources for those that are necessary.

Stakeholder(s):

Tipping Point Leaders

Role: Horse Trading

... tipping point leaders skillfully trade resources they don't need for those of others that they do need.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.3. Motivation

Jump the motivational hurdle.

... overarching strategic visions often inspire lip service instead of the intended action... Tipping point leadership [challenges the conventional wisdom of transforming the mass by taking] the reverse course. To change the mass it focuses on transforming the extremes: the people, acts, and activities that exercise a disproportionate influence on performance. By transforming the extremes, tipping point leaders are able to change the core fast and at low cost to execute their new strategy... [Focusing] on acts of disproportionate influence ... aligns employees' actions with the new strategy.

Stakeholder(s):

Tipping Point Leaders

Role: Employee Motivation

Instead of diffusing change efforts widely, tipping point leaders follow the reverse course and seek massive concentration. They focus on three factors

of disproportionate influence in motivating employees ... kingpins, fishbowl management, and atomization.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.3.1. Kingpins

Concentrate efforts on kingpins.

Stakeholder(s):

Kingpins :

the key influencers in the organization.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.3.2. Fishbowl

Place kingpins in a fishbowl.

At the heart of motivating kingpins in a sustained and meaningful way is to shine a spotlight on their actions in a repeated and highly visible way... "fishbowl" management, where kingpins' actions and inaction are made transparent to others ... For fishbowl management to work it must be based upon transparency, inclusion, and fair process.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.3.3. Atomization

Atomize to get the organization to change itself.

Atomization relates to the framing of the strategic challenge ... Unless people believe that the strategic challenge is attainable, the change is not likely to succeed... To make [a] challenge attainable [break] it into bite-size atoms ... to make it actionable to all levels ...

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

5.4. Politics

Knock over the political hurdle.

Identify ... detractors and supporters — forget the middle — and strive to create a win-win outcome for both. But move quickly. Isolate your detractors by building a broader coalition with your angels before the battle begins... Key to winning over ... detractors or devils is knowing all their likely angles of attack and building up counterarguments backed by irrefutable facts and reason.

Stakeholder(s):

Tipping Point Leaders

To overcome ... political forces, tipping point leaders focus on three disproportionate influence factors: leveraging angels, silencing devils, and getting a consigliere on their top management team.

Angels :

Those who have the most to gain from the strategic shift.

Devils :

Those who have the most to lose [from the change].

Consiglieres :

A politically adept but highly respected insider who knows in advance all the land mines, including who will fight [the change] and who will support [it].

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

DEMONSTRATION ONLY

6. Execution

Build execution into strategy

... it is only when all the members of an organization are aligned around a strategy and support it, for better or worse, that a company stands apart as great and consistent executor.

6.1. Culture

Create a culture of trust and commitment.

Create a culture of trust and commitment that motivates people to execute the agreed strategy — not to the letter, but to the spirit. People's minds and hearts must align with the new strategy so that at the level of the individual, people embrace it of their own accord and willingly go beyond the compulsory execution to voluntary cooperation in carrying it out.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

6.2. Start

Build execution into strategy from the start.

To build people's trust and commitment deep in the ranks and inspire their voluntary cooperation, companies need to build execution into strategy from the start.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

6.3. Process

Reach to fair process in the making and executing of strategy.

Companies must reach beyond the usual suspects of carrots and sticks. They must reach to fair process in the making and executing of strategy... There are three mutually reinforcing elements that define fair process: engagement, explanation, and clarity of expectation.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

6.3.1. Engagement

Involve individuals in the strategic decisions that affect them by asking for their input and allowing them to refute the merits of one another's ideas and assumptions.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

6.3.2. Explanation

Ensure that everyone involved and affected understands why final strategic decisions are made.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

6.3.3. Expectations

Clearly state the new rules.

Performance Indicators

Description	Type	Start Date	End Date
	Target		
	Actual		

Administrative Information

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