AMERICAN JOURNAL OF BUSINESS AND MANAGEMENT RESEARCH
Volume 1, Issue 1
ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

BLUE OCEAN STRATEGY

A marketing theory to create uncontested market space and make the competition irrelevant

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Abstract

In the 21st century the world is changing; dramatic shifts in technology and the global marketplace are having a profound impact on organizations. Whether they operate in the private, public or non-profit sectors, organizations in every continent need to rethink the way they do business.Organizations can no longer afford to build a strategy on existing environmental and industry conditions, but instead shape them in their favour.

***Blue Ocean Strategy** is a marketing theory by W. Chan Kim and Renée Mauborgne, professors at INSEAD Business School, in their 2005 book - Blue Ocean Strategy.Based on a study of 150 strategic moves spanning more than a hundred years and thirty industries, Kim and Mauborgne argue that companies can succeed by creating "blue oceans" of uncontested market space, as opposed to "red oceans" where competitors fight for dominance. They assert that these strategic moves create a leap in value for the company, its buyers, and its employees while unlocking new demand and making the competition irrelevant*

***Keywords :**marketing theory, value, demand, competition, strategy*

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Introduction

Supply is overtaking demand in more and more industries. As technology continues to improve industrial productivity, suppliers are producing a greater range of products and services than ever before.The result is that supply is overtaking demand in more and more industries, leading to greater commoditization of products and services.As brands become more similar, people increasingly base their purchase decisions on price, leading to shrinking profit margins. And so it becomes harder for brands to differentiate themselves, leading many companies to compete principally on cost.

Healthcare, education, financial services, energy– these industries and sectors matter to every one of us. However, as demand continues to grow, budgets diminish and pressures increase. Now, more than before, the players in these and other industries and sectors need to find creative solutions, ie, a shift in thinking that achieves innovation at lower costs.

Companies from China, India and Latin America are changing the economic landscape. They are competitors with global ambitions as big as any American, European or Japanese company.In addition, players from all corners of the world can participate in global markets through the internet at low cost.To stand apart in these overcrowded markets, you need to be creative through value innovation.

The big emerging economies – China, India, and Brazil – are not like the developed economies the world has counted on in the past to consume its goods and services. The new, developing markets are the product of low, but rising, per capita income for very large populations. To respond to the huge potential demand in these countries, companies need to offer affordable goods and services. These same populations also have increasing access to the internet, mobile phones, and TVs with global channels that raise their sophistication, demands, and desires. To

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

capture these increasingly well-informed customer markets, companies need to offer both differentiation and low cost.

The surge in social network sites, user-driven content, and internet ratings have become ubiquitous around the globe, shifting the power and credibility of voice from organizations to individuals. Today's buyers broadcast their opinions, and share their experiences on Twitter, Facebook, YouTube and elsewhere online. Today's organizations can't afford to be another me-too offering when their competitors have the same access to huge audiences online.Hence there is a need for a disruptive strategy for businesses to be innovative and re-define their market.

Literature review

Professor Chan Kim and Professor Renée Mauborgne introduced the concepts of Red and Blue oceans in their 2005 book - Blue Ocean Strategy. As per their theory, the market universe is composed of two types of oceans – Blue and Red.

Red oceans are all the industries in existence today – the known market space. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known.Here, companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, profits and growth are reduced. Products become commodities, leading to cutthroat or 'bloody' competition. Hence the term - red oceans.

Blue oceans, in contrast, denote all the industries not in existence today – the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid.In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. A blue ocean is an analogy to describe the wider, deeper potential to be found in unexplored market space. A blue ocean is vast, deep, and powerful in terms of profitable growth

Companies traditionally work in a "Red Ocean" environment, where businesses compete each other to grab a bigger piece of the pie. Conversely, in "Blue Ocean", the aim is not to win over

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

the competitors, instead to make the competition irrelevant. The authors suggested a "Four Actions Framework" for businesses to discover a blue ocean.

Blue ocean strategy is the simultaneous pursuit of differentiation and low cost to open up a new market space and create new demand. It is about creating and capturing uncontested market space, thereby making the competition irrelevant. It is based on the view that market boundaries and industry structure are not a given and can be reconstructed by the actions and beliefs of industry players.

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market place	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploiting existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value - cost trade-off
Align the whole system of a firm's activities with it's strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost

The Impact of Creating Blue Oceans

Kim and Mauborgne studied 108 newbusinesses across 30 differentindustriesto quantify the impact of creating blue oceans on a company's growth in both revenues and profits. 92 of those businessesadopted a red ocean strategy and aimedat outperforming the competition. The remaining 16 businesses adopted a blueocean strategy and avoided competitionin search for a new category that theycould dominate. When looking at thecollective profits of all 108 companies acrossseveral years the 92 red oceanbusinesses only accounted for 39% of thetotal profits. That meant 61 % ofthe profits were generated by just 16blue ocean businesses. Upon further studythe authors discovered that the blueocean businesses went on to dominate therespective markets for ten to fifteenyears after their initial launch

Let's understand Blue Ocean strategy with the help of an example. Apple ventured into digital music in 2003 with its product iTunes. Apple users can download legal and high-quality music at

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

a reasonable price from iTunes making traditional sources of distribution of music irrelevant. Earlier compact disks or CDs were used as a traditional medium to distribute and listen to music. Apple was successful in capturing the growing demand of music for users on the go. All the available Apple products have iTunes for users to download music.

How to shift from red to blue oceans?

A **blue ocean shift** means moving an organization from cutthroat markets to wide-open new markets in a way that the organisation's employees own and drive the process.

To successfully shift from red oceans of bloody competition to blue oceans of new market space depends on three key components: **having the right perspective**, a clear roadmap with **market-creating tools**, and **building employee confidence** at every level to drive and own the process.

a) Having the right perspective

1. Re-shaping the industry

When business leaders develop strategy, they nearly always begin by analyzing the environment: Is the industry growing or shrinking? Is customer demand up or down? Most business leaders build their strategies based on such assessments. In other words, structure shapes strategy.

Blue ocean strategy does not take industry practices as a given, when faced with intense competition, declining demand and increasing costs. It recognizesthat while the industry conditions exist, individual firms created them. Industry boundaries are not fixed. A blue ocean strategist doesn't let the structure of the industry shape his strategy because, just as individual firms created existing industry conditions, individual firms can shape them too. Examples include Apple in the consumer electronics industry andOyo Rooms in the hospitality industry.

2. **Make the competition irrelevant**

Most organizations are stuck in the trap of competing. Having accepted the industry structure as a given, business leaders benchmark their rivals and focus on outperforming them to achieve a competitive advantage. However, focusing on building a competitive advantage leads to imitative, not innovative, approaches to the market.In other words, more the focus on benchmarking and outpacing the competition, the more the organizational strategy will look like the competitor's

Every successful company, by definition, has a competitive advantage.The problem is that when managers are urged to secure a competitive advantage, they automatically look to the competition. Rather than looking at what buyers' value, managers end up defining the strategy based on the competition.

A blue ocean strategy, on the other hand, doesn't focus on benchmarking or imitating competitors, or on trying to improve on their best practices. Instead, they focus on how to make the competition irrelevant.

3. **Focus on creating and capturing new demand**

Customer satisfaction and understanding customer needs are a priority for any organization. Most organizations regularly monitor customer satisfaction scores through customer satisfaction surveys, for example. This can lead to finer segmentation and greater customization to meet your customers' specialized needs.

A blue ocean strategydoes not just focus on satisfying existing customers; since focusing on existing customers keeps a company anchored in the red ocean of existing market space. In most industries, organizations converge around a common definition of who their customers are. This prevents companies from seeing the wider potential of new demand outside their industry that

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

they could tap into. In many industries, existing customers are just a drop in the bucket, compared with all the non-customers who can be reached through market-creating strategies.

Instead of fighting to win a greater percentage of existing customers, blue ocean strategy looks to non-customers, uncover the pain points their industry imposes on buyers and why many refuse its offerings.

4. Pursue differentiation and low cost instead of a value-cost trade-off

A differentiation strategy often amounts to little more than adding bells and whistles to the industry's current approach. On the other hand, pursuing a low-cost strategy often means cutting back the industry's existing competing factors without creating anything new to stand apart.To offer buyers a quantum leap in value and break the value-cost trade-off, blue ocean strategyfocus as much on what to eliminate and reduce as it does on what to raise and create.

b) Blue Ocean Tools

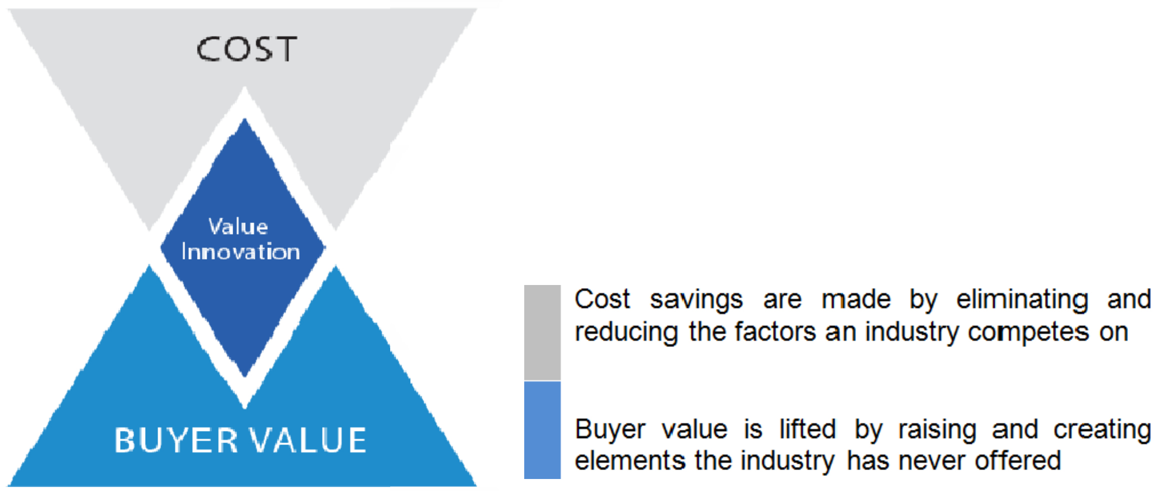
Professors Kim and Mauborgne have created a comprehensive set of analytic tools and frameworks to create blue oceans of new market space. In their book, ***Blue Ocean Shift*** (2017), Kim and Mauborgne share how to put these practical market-creating tools into practice. A few of these tools re discussed below.

1. Value Innovation

Value Innovation is the simultaneous pursuit of differentiation and low cost, creating a leap in value for both buyers and the company. The concept of Value Innovation developed by W. Chan Kim and Renée Mauborgne is the cornerstone of market-creating strategy. Because value to buyers comes from the offering's utility minus its price, and because value to the company is

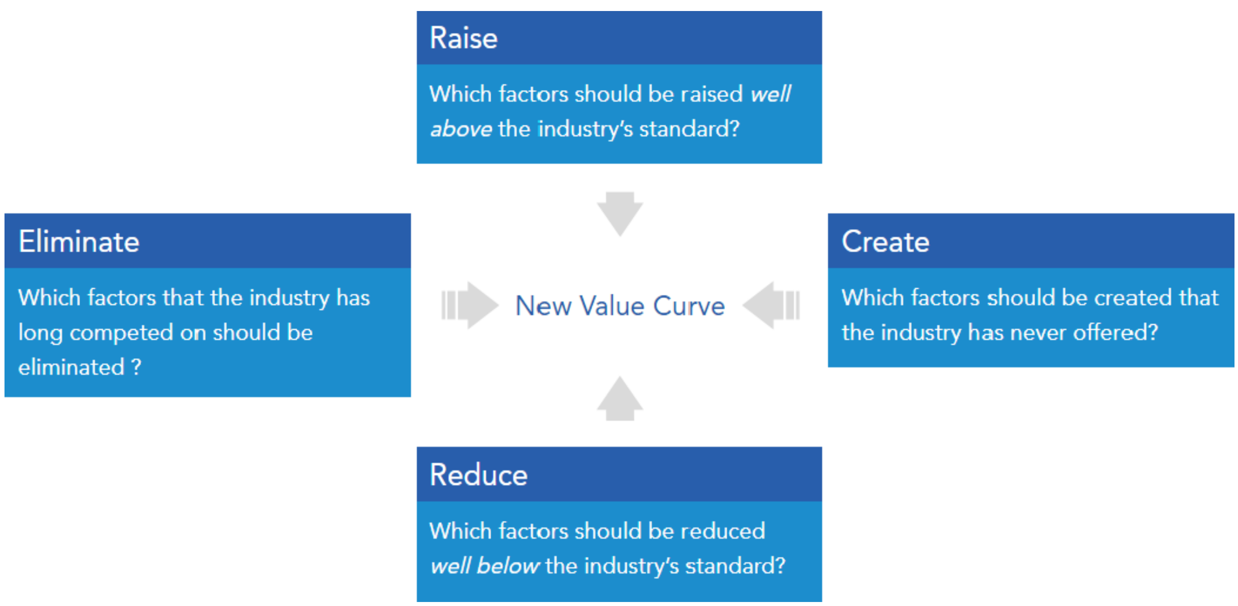
ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

generated from the offering's price minus its cost, value innovation is achiev ed only when the whole system of utility, price, and cost is aligned.



2. The four actions framewoı k

The four actions framework aids in eliminating the trade-off between differentiation and low cost within a company. poses four key questions, shown in the diagram, to challenge an industry's strategic logic



ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

3. Six Paths Framework

The Six Paths Framework allows managers to address the search risk many companies struggle with. It enables them to successfully identify out of the haystack of possibilities that exist, commercially compelling blue oceans by reconstructing market boundaries.

	Head to Head competition	Blue Ocean Creation
Industry	Focuses on rivals within its industry	Looks across alternate industries
Strategic Group	Focuses on competitive position within strategic group	Looks across strategic groups within industries
Buyer Group	Focuses on better serving the buyer group	Redefines the industry buyer group
Scope of product or service offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings
Functional – Emotional orientation	Focuses on improving the price performance within the functional – emotional orientation of its industry	Rethinks the functional – emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	Participates in shaping external trends over time

4. Three Tiers of non-customers

To grow their share of a market, companies strive to retain and expand their existing customer base.

Although the universe of non-customers typically offers blue ocean opportunities, few companies have keen insight into who non-customers are and how to unlock them. To convert this huge latent demand into real demand in the form of new customers, companies need to deepen their understanding of the universe of non-customers.By focusing on key commonalities across these non-customers and existing customers, companies can understand how to pull them into their new market.

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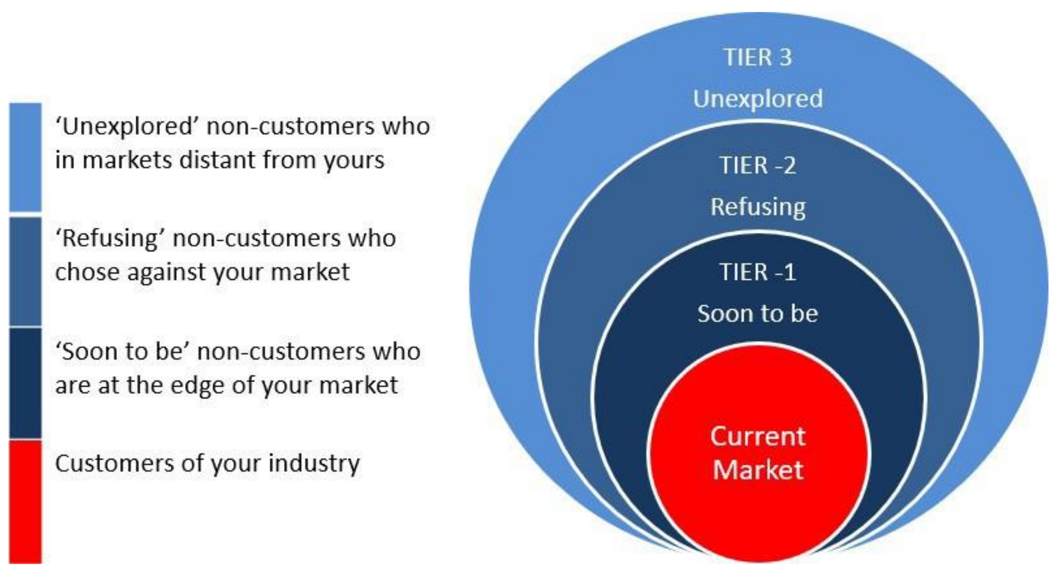
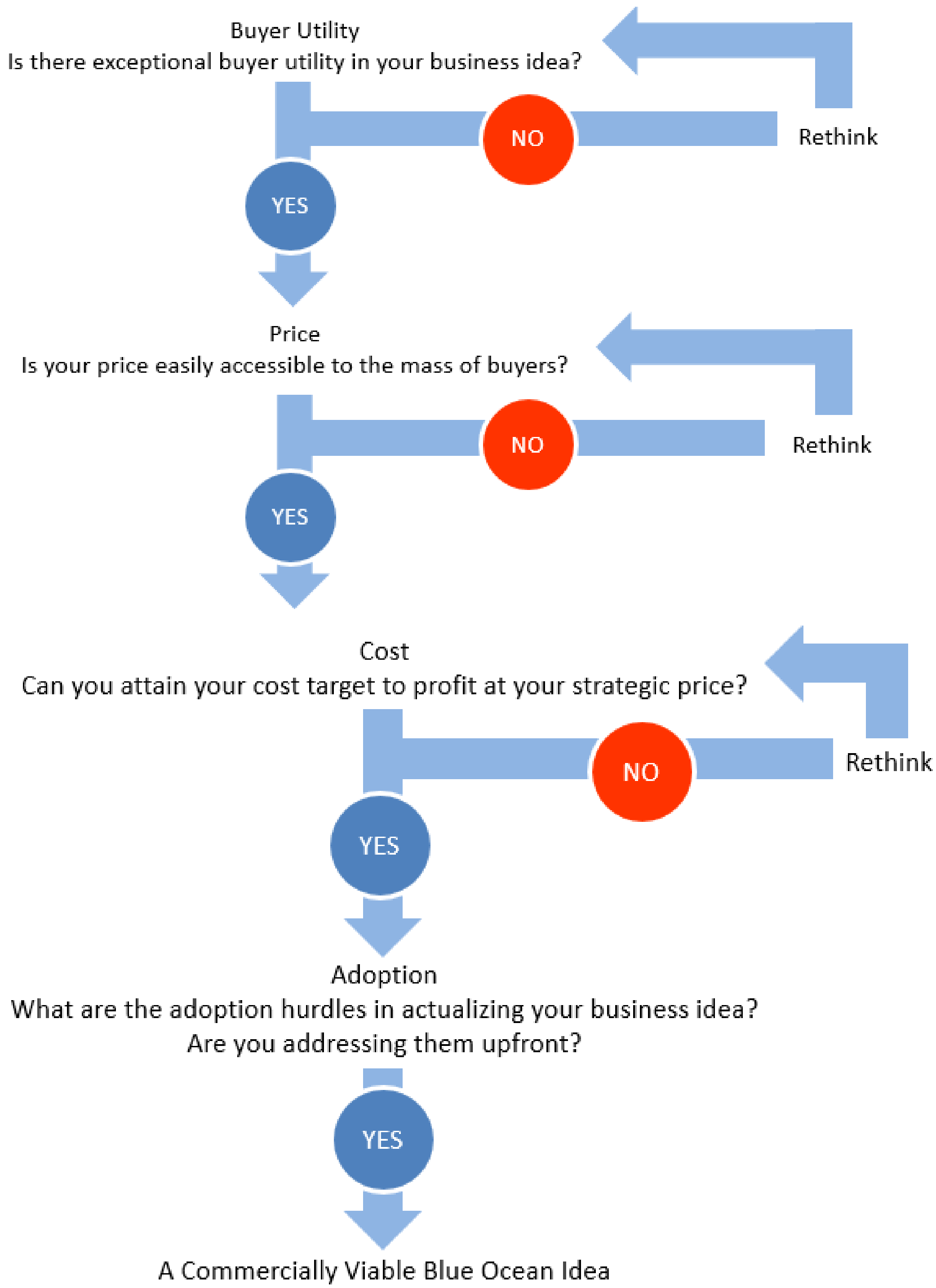
The first tier of non-customers is closest to the current market, sitting just on the edge. They are buyers who minimally purchase an industry's offering out of necessity but are mentally non-customers of the industry.The second tier of non-customers is people who refuse to use an industry's offering. These are buyers who have seen the current offering as an option to fulfill their needs but have decided against participating.The third tier of non-customers is farthest from the market. They have never considered the market's offering as an option.



5. Sequence of Blue Ocean Strategy

Companies need to build their blue ocean strategy in the sequence of buyer utility, price, cost, and adoption. This allows them to build a viable business model and ensure that a company profits from the blue ocean it is creating. Kim and Mauborgne argue that with an understanding of the right strategic sequence and of how to assess blue ocean ideas against the key criteria in that sequence, companies can dramatically reduce business model risk and ensure that both the company and its customers win as it creates new business terrain.

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108



Recent examples of Blue Ocean Strategy execution:

There are several businesses who have used this strategy to dominate their market

a) Starbucks:

Starbucks entered a historically crowded marketplace - the coffee shop industry. However, Starbucks redefined highly competitive coffee shop business and successfully created an uncontested market by turning the simple coffee drinking experience into a way of life experience by drastically redefining the coffee shop environment by adding music, Wi-Fi, relaxed seating and luxurious interiors. Till Starbucks disrupted the traditional coffee shop market most of the focus was on the price, location and quality of coffee shops. Starbucks innovative value proposition includes wide variety of mostly coffee based menu along with other types of drinks that catered to wide range of audience who are willing to pay top buck for the luxurious and relaxed interiors that are perfect environment for socializing with friends and relax.

Professor Kim has said that Starbucks combined the Mom & Pop Coffee shop with the comfort of a modern five-star hotel lobby which is the most suitable environment for relaxing and socializing with friends. While it is true that Starbucks sells coffee, “what they are really selling is atmosphere,” he said. “By changing the atmosphere in which coffee is sold, Starbucks created an uncontested market and made the competition irrelevant. Starbucks created and captured new demand.”

In order to hold onto its competitive advantage and create new value proposition for its customers Starbucks focused on the use of IT, mobility and social media.One such innovative value proposition by Starbucks is the Mobile Payments Application. Starbucks launched its mobile card app in 16 stores in early 2009 and after customer’s adoption increased, Starbucks expanded it countrywide in United States and the mobile app allowed customers to pay by displaying a barcode that will be scanned in the store.

The innovative mobile app has digital tipping options, dashboard showing the current reward or loyalty points level, points available with current transaction, pick of the week coffee, recent transactions and messages. The App can also integrate with social media sites like Facebook,

 ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

Twitter, etc. where customers can proudly show case their reward level milestones with their friends and family. This will further add up to their brand reputation and brand loyalty. By simply shaking the phone customers can choose the barcode of the coffee drink they want to buy and pay accordingly.

Starbucks' disruptive mobile strategy integrated its highly successful loyalty program called My Starbucks Rewards with payments by customers. Starbucks further incentivizes the customers who habitually buy and pay through mobile app and more reward points are awarded that are redeemed for free drinks and food. "Customers can pre-order their coffee ahead of arriving at a store using the mobile app and pick up the coffee later"Howard Schultz, Starbucks CEO has said.

Through its mobile payment system Starbucks eliminated the need to carry cash, coin change issues, tipping problems, reduced the time spent on ordering and making coffee, understanding the menu and coffee types, offers and rewards available, raised the customer delight, loyalty and rewards, number of visits, new customers and created a new revenue source for the company, helped in acquiring new customers and also created a uncontested space in the digital wallet market. The Eliminate, Raise Reduce and Create gird and value proposition proves the fact that Starbucks is successfully defending its blue ocean market and using strategy to maintain its competitive advantage and dominant position in the industry

b) OYO Rooms- an Indian example:

Ritesh Agarwal founded OYO Rooms, a hotel aggregator in the year 2013. This 5-year-old start-up has already disrupted the Indian hospitality segment with the use of technology. It eases travelers to find budget hotels which are on par with star hotels in value offering. Today, OYO Rooms has its presence in 234 cities with 8500+ hotels in India, Malaysia, Nepal, China and Indonesia, offering standardized stay experience.

Today OYO is one of the fastest growing hotel chains in China. In the last six months, OYO Rooms has built a base of over 50,000 rooms in China across 26 cities. In terms of overall number or rooms, OYO Rooms is seven times bigger than other market players like The Taj group of Hotels and Lemon Tree Hotels. At present, the total number of rooms available on OYO is 101,000.

OYO brings ‘predictability’ as a key value that is usually missing with budget hospitality sector.The network of OYO is guaranteed to provide standardization on various measures in each room including free Wi-Fi, breakfast, flat screen TVs, branded toiletries, 6-inch shower heads, a beverage tray and so on. The predictable and quality experience is assured by performing an audit of these standards on a regular interval. Oyo also have room recommendations for solo travelers, couples, business travelers, and women.

We can attribute the triumph of OYO to the successful execution of Blue Ocean Strategy in the hospitality sector. Value innovation, the cornerstone of Blue Ocean Strategy, by offering superior customer value and concurrently reducing the cost of the business. The business concept of OYO Rooms eliminated extravagant features of 3-star and higher hotels, such as stylish lounges, sports club, spa, and so on but, at the same time retaining standardized services and hygiene of sophisticated hotels. As a result, OYO Rooms could significantly reduce the price per room compared to three-star hotels and outperformed in providing superior customer value.Oyo unlocks disproportionate business by attracting 3 star customers to trade down while non-star customers trade up to Oyo Rooms.

Conclusion :

Today, asbusiness leaders areinterested in finding blue waters for their next business idea and dominating amarket for years, they couldstart byfocusing on the frustrations ofcustomers outside of their current marketspace then look at existing products orservices within the market and look for answers to thesefour questions - what can I eliminate, what can I reduce. what can I raise and what can Iincorporate to create something new andattract infrequent or absent customersby pulling these four levers.

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

The Blue Ocean strategy can be used by business leaders to gradually develop a product that defiesthe status quo and creates a new productcategory that they will dominate. The core message from this strategy is to stopfocusing on how you could beat thecompetition and start focusing on how you can make the competition irrelevant.

Limitations:

While Kim and Mauborgne propose approaches to finding uncontested market space, at the present there are few success stories of companies that have actively applied their theories. Hence, a critical question is whether this theory and its related ideas are descriptive rather than prescriptive. The authors present many examples of successful innovations, and then explain from their Blue Ocean perspective – essentially interpreting success through their lenses.

It has been argued that rather than a theory, blue ocean strategy is asuccessful attempt to brand a set of already existing concepts and frameworks. The blue ocean/red ocean analogy is a powerful and memorable metaphor, which is responsible for its popularity. This metaphor can be powerful enough to stimulate people to action. However, the concepts behind the Blue Ocean Strategy (such as the competing factors, the consumer cycle, non-customers, etc.) are not new. Many of these tools are also used by Six Sigma practitioners and proposed by other management theorists

Further Directions :Use of data

Data has become a valuable tool for businesses for their Blue Ocean Shift process. Companies have begun to analyze data to glean insights that can help improve their businesses. That's why more organizations are seeking professionals who can make sense out of the large volume of data. Organisations that can understand their data correctly will be better equipped to sail the Blue Ocean and grow their business smoothly without any challenge.Data science will provide insight and make it easier and process faster to know what all attributes should remain and what

ISSN (Online) - 2691-5103
ISSN (Print) - 2693-4108

should be discarded in an automated manner. It involves value innovation, which gives organizations the ability to combine differentiation and low-cost at the same time.

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