W. Chan Kim and Renée Mauborgne dispel blue ocean myths

Robert M. Randall


The original version of the book, published in 2005, introduced and defined the theory and practice of blue ocean strategy – a unique methodology for creating commercially relevant new market space – which it supported with frameworks and analytic tools. Almost immediately the concepts of “blue ocean” and “red ocean” strategies were being tossed around in management meetings in companies across the globe.[1] However, managers’ mental models, which are based on their backgrounds and pre-existing knowledge, sometimes led them to confuse blue ocean strategy with disruption theory, niche marketing, customer-focused innovation and other pioneering practices. To get the most out of the blue ocean strategy methodologies and tools, an accurate understanding on the underpinning concepts that guide their proper application is essential. For guidance, Robert M. Randall, Editor of *Strategy & Leadership*, asked Chan Kim and Renée Mauborgne to differentiate blue ocean strategy from various other approaches to strategic marketing and innovation.

*Strategy & Leadership:* Does implementing a blue ocean strategy start by focusing on the unserved needs of current customers?

Chan Kim and Renée Mauborgne: A blue ocean strategist gains insights about reconstructing market boundaries not by looking at existing customers, but by exploring noncustomers. When organizations mistakenly assume that blue ocean strategy is about being customer led, they reflexively focus on what they’ve always focused on: existing customers and how to make them happier. While such a perspective may shed insight on ways to improve value for current industry customers, it is not the path to create new demand. To create new demand, an organization needs to turn its focus to noncustomers and why they refuse to patronize an industry. Noncustomers, not customers, hold the greatest insight into an industry’s pain points and points of intimidation that limit the size and boundary of the industry.
S&L: To create blue oceans, must a company venture beyond its core business?

Kim and Mauborgne: There is a common misperception that to create a blue ocean and break out of the red, organizations must venture into industries outside their core, which understandably appears to multiply risk. And a select few do. Virgin is a classic example, and Apple in recent years metamorphosed from a computer maker to a consumer electronics and media giant. These, however, are exceptions, not the rule. Blue oceans can just as easily and more readily be created smack in the middle of an organization’s existing core businesses.

This challenges the view that new markets are in distant waters. Blue oceans are right next to you in every industry. When companies mistakenly believe that they must venture beyond their core business to create blue oceans, they tend to either shy away from venturing beyond the red ocean or, to the contrary, look far afield to other industries that have little overlap with their knowledge, skills and competencies.

S&L: Is there a general misconception that blue ocean strategy is primarily about adopting new technologies?

Kim and Mauborgne: A blue ocean strategic move is not always about technology innovation. Even where technology is heavily involved, as with Salesforce.com, Intuit’s Quicken, or Apple’s iPhone, the reason buyers love these blue ocean offerings isn’t because they involve bleeding-edge technology, but because these offerings make the technology essentially disappear from buyers’ minds. The products and services are so simple, easy to use, fun and productive. So technology is not a defining feature. You can create blue oceans with or without it. However, where technology is involved, it’s key that you link it to value. Ask: how does your product or service offer a leap in productivity, simplicity, ease of use, convenience, fun or environmental friendliness? Value innovation, not technology innovation, is what opens up commercially compelling new markets.

S&L: To successfully create a sustainable blue ocean, must a company be first to market?

Kim and Mauborgne: Blue ocean strategy is about being first to get the customer offering right by linking innovation to value. Organizations that mistakenly assume blue ocean strategy is about being first to market all too often get their priorities wrong. They inadvertently put speed before value. To avoid this trap, companies need to continuously drive home the idea that while speed is important, even more important is linking innovation to value.

S&L: Are blue ocean strategy and differentiation strategy synonymous?

Kim and Mauborgne: Under traditional competitive strategy, differentiation is achieved by providing premium value at a higher cost to the company and at a higher price for customers. Differentiation is a strategic choice that reflects the value-cost trade-off in a given market structure. Blue ocean strategy, by contrast, requires breaking the value-cost trade off to open up new market space. It is about pursuing differentiation and low cost simultaneously.

Blue ocean strategy is an “and-and,” not an either-or, strategy. When companies mistakenly assume that blue ocean strategy is synonymous with differentiation, they all too
often miss the “and-and” of blue ocean strategy. Instead they tend to focus on what to raise and create to stand apart and pay scant heed to what they can eliminate and reduce to simultaneously achieve low cost.

**S&L**: Is a blue ocean strategy just a version of a low-cost, low-pricing strategy?

**Kim and Mauborgne**: Effective blue ocean strategy pursues both differentiation and low cost simultaneously by reconstructing market boundaries. Instead of focusing on low cost, it seeks to create a leap in buyer value at a lower cost. Further, a blue ocean strategic move captures the mass of target buyers not through low-cost pricing, but through strategic pricing. The key here is not to pursue pricing against the competition within an industry but to pursue pricing against substitutes and alternatives that are currently capturing the noncustomers of your industry.

**S&L**: What’s the significant difference between blue ocean strategy and an innovation initiative?

**Kim and Mauborgne**: Blue ocean strategy is not synonymous with innovation. Unlike blue ocean strategy, innovation is a very broad concept that is based on an original and useful idea regardless of whether that idea is linked to a leap in value that can appeal to the mass of buyers.

Simply creating something original and useful through innovation is not enough to create and capture a blue ocean, even if the innovation wins the company accolades and its researchers a Nobel Prize. To capture a commercially compelling blue ocean, companies need a strategy that can align their value, profit and people propositions in pursuit of both differentiation and low cost.

**S&L**: What is wrong with thinking of blue ocean strategy as a strategic marketing strategy?

**Kim and Mauborgne**: Certainly, the blue ocean strategy frameworks and tools can be effectively deployed to reframe, analyze and resolve the marketing issues of an organization as it strives to break out of its red ocean. Especially relevant are those issues related to developing a blue ocean value proposition. However, blue ocean strategy requires more than a compelling value proposition. Sustainable success can only be achieved when a company’s value proposition is supported by key internal and external people involved in its execution and is complemented by a strong profit proposition. Hence, to equate blue ocean strategy with a theory of marketing myopically masks the holistic approach needed to create a sustainable high-performance strategy, including overcoming organizational hurdles, winning people’s trust and commitment, and creating the proper incentives via a compelling people proposition.

It’s also important not to confuse blue ocean strategy with niche strategy. While the field of marketing has placed significant emphasis on finer segmentation to effectively capture niche markets, blue ocean strategy works in the reverse direction. It is more about desegregating markets by focusing on key commonalities across buyer groups to open up and capture the largest portion of new demand.

**S&L**: Almost by definition blue ocean strategy seems to be about fleeing competition. Isn’t some competition good for companies? If so, why pursue a blue ocean strategy?

> “Blue oceans can just as easily and more readily be created smack in the middle of an organization’s existing core businesses.”
Kim and Mauborgne: Historically, economists argued that absent competition, companies have no incentive to improve their product or service. Certainly, with competition companies are pushed to up their game, lower their prices, and improve their products and services. However, when supply exceeds demand, as it does in an increasing array of industries, the intensity of competition tends to have deleterious effects on the profitable growth of organizations, as more and more firms fight to win a slice of a given pool of customers. This is why blue ocean strategy argues that firms need to go beyond the mere improvement of product or services in overcrowded industries and pursue value innovation to open up new market space and make the competition irrelevant.

S&L: Is blue ocean strategy synonymous with creative destruction?

Kim and Mauborgne: Blue ocean strategy is a concept that goes beyond creative destruction to embrace nondestructive creation, which is its overriding emphasis. Take Viagra, which created a blue ocean in lifestyle drugs. Did Viagra effectively disrupt an existing industry by displacing an earlier technology or existing product or service? No. It created a blue ocean via nondestructive creation. By reconstructing existing market boundaries, blue ocean strategy creates new market space within and beyond existing industries. When new market space is created beyond existing industry boundaries, as with Viagra, reconstruction tends to bring about nondestructive creation. When, on the other hand, new market space is created within an existing industry, like disruptive innovation, displacement tends to occur.

The important question for practice is, what drives blue ocean strategy to go beyond creative destruction to nondestructive creation, which is a key goal of most companies as well as of governments in their quest to stimulate economic growth? The essential point here is that blue ocean strategy is not about finding a better or lower-cost solution to the existing problem of an industry, both of which trigger disruption and displacement of existing products and services. Instead, blue ocean strategy is about redefining the problem itself, which tends to create new demand or an offering that often complements rather than displaces existing products and services.

To put the ideas and methodologies of blue ocean strategy into proper practice, leaders need to also have a robust understanding of the misconceptions that lurk—the red ocean traps of destructive competition. Only by dispelling the misconceptions can leaders move forward toward the ultimate goal of bringing blue ocean strategy theory to successful practice.

Note


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