

# **Blue Ocean Strategy**

## **How to Create Uncontested Market Space and Make the Competition Irrelevant**

<http://www.blueoceanstrategy.com/>

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### **Chapter One:**

The blue ocean strategy is best illustrated by the performance of Cirque du Soleil. Created in 1984 by a group of street performers, Cirque productions have been seen by almost 40 million people in 90 cities around the world. In less than 20 years, Cirque du Soleil has achieved revenue levels that took Ringling and Barnham and Bailey (the circus global champions of the circus industry) more than 100 years to attain.

What makes this rapid growth all the more remarkable is that it was not achieved in an attractive industry, but rather, in an industry with declining revenue for potential growth.

Cirque du Soleil's success was not attained by taking customers from the already shrinking circus industry (which had historically catered to children) but instead, they were successful because they created a new marketplace in which to compete. Their offering appealed to a whole new group of customers – namely, adults and corporate clients that were prepared to pay a price several times as great as traditional circuses for an unprecedented entertainment experience.

Cirque du Soleil succeeded because it realized that to win in the future, companies must stop competing with each other. The only way to beat the competition is to stop trying to beat the competition on the current playing field. To understand what Cirque du Soleil has achieved, imagine a market universe composed of two sorts of oceans: red oceans and blue oceans. Red oceans represent all of the industries in existence today. This is the known market space. Blue oceans denote all of the industries not in existence today. This is the unknown marketplace.

In the 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 gain a greater share of existing demand. As the market space gets crowded, prospects for profit and growth are reduced. Products become commodities and cutthroat competition turns the red ocean bloody.

Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding existing industry boundaries, as Cirque du Soleil did. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set.

### **Commentary:**

It should be noted that blue ocean strategies are largely uncharted. The dominant focus of strategy work over the past 25 years has been on competition based, red ocean strategies. The result has been a fairly

good understanding of how to compete skillfully in red waters – from analyzing the underlying economic structure of an existing industry to choosing a strategic position of low cost, or differentiation.

On the other hand, there is not really an analytic framework to create blue oceans and principles to effectively manage the risk.

Blue ocean strategy focuses on the ability to create new market space where there is no competition and where the demand for the services becomes uncontested.

It should be noted that most new business launches today are launches in the red ocean domain. For example, if you look at The Record, and new business offerings, you continually see new businesses opening up such as hair stylists, massage services and food services. They're all opening up in the red ocean marketplace. This is just increasing the supply of services and has no impact on demand. Ultimately, of course, this is what makes all products really commoditized.

On the other hand, if one was to launch a business with a blue ocean strategy and offering services that were not previously offered there is an opportunity to create a whole new demand cycle just like Cirque du Soleil did. Cirque du Soleil created a new market space in the entertainment sector, generating strong, profitable growth as a result. They did it in a declining industry because they were able to build a whole new demand for a service that did not previously exist.

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. The creators of blue oceans, surprisingly, didn't use the competition as their benchmark. Instead, they followed a different strategic logic that is called '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 is the 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 greater cost or create reasonable value at a lower cost. Here, a 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.

Cirque du Soleil, again, provides us with a great example of differentiation while coming in at a lower cost. Previously, circuses had to maintain animals, which are costly. Typically they ran 3 rings (or shows) at a time. This meant that they had to have more performers with obvious cost implications. In the Cirque du Soleil offering, they had but one venue for the show and they didn't need to use animals. They also didn't need to use name brand stars but, rather, hired a bunch of gymnasts who, again, were hired at a lower cost. So, in short, not only was Cirque du Soleil able to bring in their production at a lower cost than a normal circus, but they also provided a differentiated offering that appealed to a brand new audience: namely – the corporate and adult audience. Because of this differentiation they were able to charge a higher rate than for a normal circus. The combination then of this higher revenue and lower costs made the venue much more profitable than the circus industry.

Thus the creation of blue ocean is about driving costs down while simultaneously driving value up for buyers.

The diagram below shows the difference between the red ocean strategy and the blue ocean strategy:

<b>Red Ocean Versus Blue Ocean Strategy</b>	
<b>Red Ocean Strategy</b>	<b>Blue Ocean Strategy</b>
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit 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 its strategic choice of differentiation <i>or</i> low cost.	Align the whole system of a firm's activities in pursuit of differentiation <i>and</i> low cost.

**The Six Principles of Blue Ocean Strategy:**

1. Reconstruct Market Boundaries
2. Focus on the Big Picture, not the Numbers
3. Reach beyond existing demand
4. Get the Strategic Sequence Right
5. Overcome Key Organizational Hurdles
6. Build Execution in the Strategy

## **Chapter Two: Analytic Tools and Frameworks.**

The U.S. has the third largest aggregate consumption of wine worldwide. Yet, the \$20 Billion industry is intensely competitive. California wines dominate the domestic market, capturing 2/3 of all U.S. wine sales. These wines compete head-to-head with imported wines from France, Italy and Spain. And new world wines from countries such as Chile, Australia and Argentina have been increasing targeting the U.S. market. With the supply of wines increasing from Oregon, Washington and New York State, and with newly mature vineyard plantings in California, the number of wines has exploded. Yet, the U.S. consumer has essentially remained stagnant. The U.S. remains at 31<sup>st</sup> place in the world per capita wine consumption.

The intense competition has fueled on-going industry consolidation. The top 8 companies produce more than 75% of the wine in the U.S. and the estimated 1,600 other wineries produce the remaining 25%. The dominance of a few players allows them to leverage distributors to gain shelf space and put millions of dollars into above the line marketing budgets. Titanic battles are being fought for retail and distribution space. It's no surprise that weak, poorly run companies are increasingly being swept aside. Downward pressure on wine prices has set in.

In short, the U.S. wine industry faces intense competition, mounting price pressure, increasing bargaining power on the part of retail and distribution channels and flat demand despite overwhelming choice. Following conventional strategic thinking, the industry is hardly attractive. For strategists, the critical question is, "How do you break out of the red ocean of bloody competition to make the competition irrelevant?"

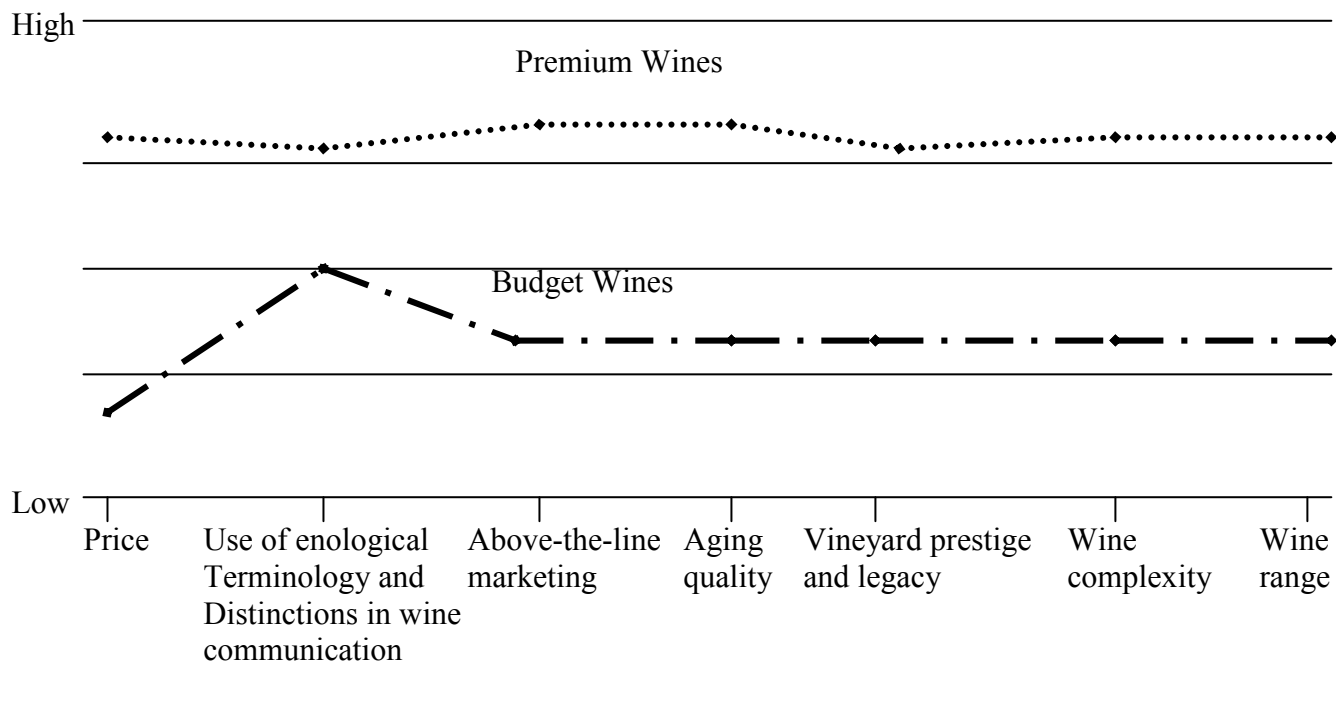
To address these questions, we turn to the strategy canvas and analytic framework that is central to Value Innovation and the creation of blue oceans.

### **Strategy Canvas**

In the case of the U.S. wine industry there are 7 principle factors:

- Price per bottle of wine
- An elite, refined image and packaging, including labels, announcing the wine medals won, and the use of esoteric enological terminology to stress the art and science of wine making
- Above the line marketing to raise consumer awareness in a crowded market and to encourage distributors and retailers to give prominence to a particular wine house
- Aging of quality wine
- The prestige of a wine's vineyard and its legacy
- The complexity and sophistication of wine's taste, including such things as tannins, and oak
- A diverse range of wines to cover all variety of grapes and consumer preferences from chardonnay to merlot, etc.

## The Strategy Canvas of the U.S. Wine Industry in the Late 1990s



So what we see from the above strategy canvas are value curves of either budget wines or premium wines. There are lots and lots of players in both of these segments. So, the wine industry in the U.S. was either benchmarked as a premium wine or a budget wine and the marketplace decided whether they were in the premium wine buying business or the budget wine buying business and from there everyone pretty much looked the same. Furthermore, if you did not fit into either a premium wine drinker or a budget wine drinker, then you went to alternative alcoholic beverages and avoided the wine industry in its entirety. In the case of the U.S. wine industry, the consumer had to choose between prestige wines or low cost wines and then had to go through the complexity of trying to figure out which wine they should buy. The wine makers complicated the purchase even further by advertising the personality of their wine, the characteristics of the soil the grapes were grown in, the tannins, oak, aging processes, etc. In other words, if you weren't a student of all this, you'd get confused and take a pass on purchasing.

Casella Wines of Australia shifted the strategy canvas of the U.S. wine industry. They redefined, through their blue ocean strategy, a wine that was fun to drink and easy to buy. They discovered that by coming out with a new offering, which was non-traditional and fun, they appealed to the 3 times as many U.S. consumers who had avoided wine and instead purchased beer, spirits and ready to make cocktails. In other words, they captured a whole new market of wine drinkers. They found out that those 3 times as many consumers found that the purchasing of wine to be intimidating, pretentious and complex. Thus, Casella Wines shifted the strategy canvas of the wine industry in such a way that they stayed away from strategically focusing on competitions while, at the same time, appealing to non-customers.

## **The Four Actions Framework**

To reconstruct buyer value elements in crafting a new value curve, there are four actions that must be taken:

1. Which of the factors that the industry takes for granted should be eliminated?
2. Which factors should be reduced well below the industry standard?
3. Which factors should be raised well above the industry standard?
4. Which factors should be created that the industry has never offered?

The first question forces you to consider eliminating factors that companies in your industry have long competed on. Often those factors are taken for granted even though they no longer have value or may even detract from value. Sometimes there is a fundamental change in what buyers value, but companies that are focused on benchmarking one another do not act on or even perceive the change.

The second question forces you to determine whether products or services have been over-designed in the race to match and beat the competition. Here, companies over-serve customers, increasing their cost structure for no gain.

The third question pushes you to uncover and eliminate the compromises your industry forces your customers to make.

The fourth question helps you to discover entirely new sources of value for buyers and to create new demand and shift the strategic pricing of the industry.

It is by pursuing the first two questions (eliminating and reducing) that you gain insight on how to drop your cost structure vis-à-vis competitors.

### **Commentary:**

The second two factors (i.e. eliminating compromises that your industry forces customers to make and discovering new sources of value for buyers) provide you with insight into how to lift buyer value and create new demand.

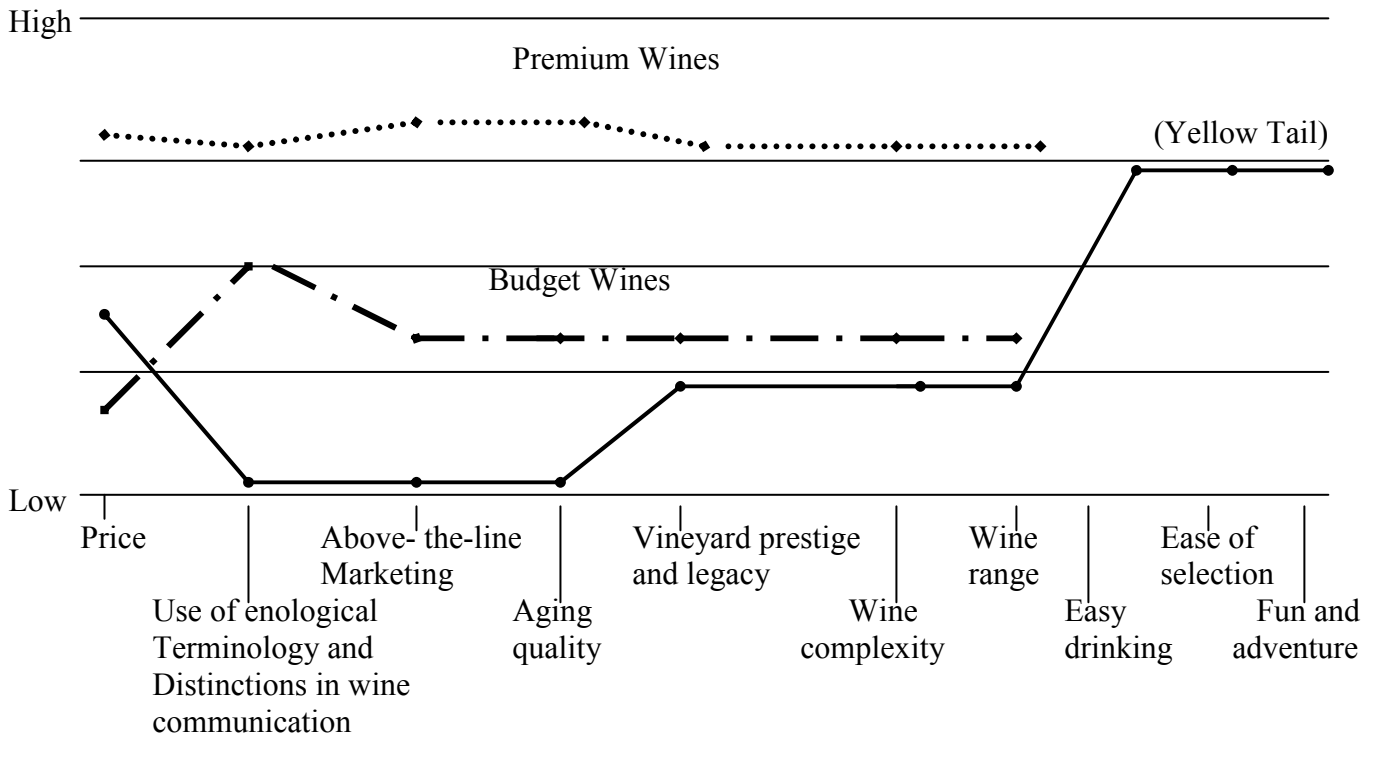
Collectively the four questions allow you to systematically explore how you can reconstruct buyer value elements across alternative industries to offer buyers an entirely new experience while simultaneously keeping your cost structure low.

When you apply the Four Actions Framework to the strategy canvas of your industry, you are getting a revealing new look at old perceived truths. In the case of the U.S. wine industry, by thinking in terms of these four actions (vis-à-vis the current industry logic and looking across alternatives and non-customers) Casella Wines created Yellow Tail, a wine whose strategic profile broke from the competition and created a blue ocean. Instead of offering wine as wine, Casella created a social drink accessible to everyone - beer drinkers, cocktail drinkers and other drinkers of non-wine beverages. Within the space of two years, the fun, social drink, Yellow Tail, emerged as the fastest growing brand in the history of both the Australian and U.S. wine industries and the number one imported wine in the U.S., surpassing the wines of France and Italy. By August 2003 it was the number 1 red wine in the 750ml bottle sold in the U.S., outstripping California labels. In mid-2003, Yellow Tail's moving average sales were tracking at 4.5 Million cases. In the context of a global wine glut, Yellow Tail has been racing to keep up with sales.

What's more, whereas large wine companies developed strong brands over decades of marketing investment, Yellow Tail leapfrogged all tall competitors with no promotional campaign, mass media or Blue Ocean Strategy

consumer advertising. It didn't simply steal sales from competitors - it grew the market. Yellow Tail brought non-wine drinkers, beer and ready to make cocktail consumers into the wine market. Moreover, novice table wine drinkers started to drink more frequently, jug wine drinkers moved up and drinkers of more expensive wine moved down to become consumers of Yellow Tail.

## Strategy Canvas of Yellow Tail



Above is the strategy canvas for Yellow Tail. Basically, Casella Wines found that the mass of Americans rejected wine because its complicated taste was difficult to appreciate. Accordingly, Yellow Tail was completely a new combination of wine characteristics that produced an uncomplicated wine structure that was instantly appealing to the mass of alcohol drinkers. The wine was soft in taste and approachable like ready to drink cocktails and beer, and had up-front primary flavours and pronounced fruit flavours. The sweet fruitiness of the wine also kept people's palates fresher, allowing them to enjoy another glass of wine without thinking about it (can you relate?). The result was an easy drinking wine that did not require years to develop an appreciation for.

In line with its simple fruity sweetness, Yellow Tail dramatically reduced or eliminated all the factors the wine industry had long competed on – tannins, oak, complexity and aging – and crafted a fine wine whether it was for the premium or the budget segment. With the need for aging eliminated, the needed working capital for aging wine at Casella Wines was also reduced, creating a faster payback for the wine produced. The wine industry criticized the sweet fruitiness of Yellow Tail wine, seeing it as significantly lowering the quality of wine and working against proper appreciation of fine wines and historic wine craftsmanship. These claims may have been true but customers of all sorts love the wine.

At the actual buying level wine, retailers in the U.S. had offered buyers piles of wine varieties but to the general consumer the choice was overwhelming and intimidating. The bottles looked the same, labels were complicated with enological terminology, understandable only to the wine connoisseur or hobbyist, and the choice was so extensive that sales clerks at retail shops were at an equal disadvantage for understanding or recommending wine to bewildered potential buyers.

Yellow Tail changed all that by creating ease of selection. It dramatically reduced the range of wines offered, creating only two - Chardonnay (the most popular white in the United States) and a Shiraz. It removed all the technical jargon from the bottles and created, instead, a striking, simple and non-traditional label featuring a kangaroo and the bright vibrant colours of orange and yellow on a black background. The wine boxes Yellow Tail came in were also the same vibrant colours with the name Yellow Tail printed boldly on the sides. The boxes served the purpose of acting as eye catching, unintimidating displays of wine.

Yellow Tail hit a home run in ease of selection when it made retail shop employees the ambassadors of Yellow Tail by giving them Australian outback clothing, including bushman hats and oilskin jackets to wear at work. The retail employees were inspired by the branded clothing and having a wine they, themselves, did not feel intimidated by. Recommendations to buy Yellow Tail flew out of their mouths. In short, it was fun to recommend Yellow Tail.

<b>The Eliminate-Reduce-Raise-Create Grid: The Case of Yellow Tail</b>	
<p><b>Eliminate</b></p> <ul style="list-style-type: none"> <li>Enological terminology and distinctions</li> <li>Aging qualities</li> <li>Above-the-line marketing</li> </ul>	<p><b>Raise</b></p> <ul style="list-style-type: none"> <li>Price versus budget wines</li> <li>Retail store involvement</li> </ul>
<p><b>Reduce</b></p> <ul style="list-style-type: none"> <li>Wine complexity</li> <li>Wine range</li> <li>Vineyard prestige</li> </ul>	<p><b>Create</b></p> <ul style="list-style-type: none"> <li>Easy drinking</li> <li>Ease of selection</li> <li>Fun and adventure</li> </ul>

## The Eliminate-Reduce-Raise-Create Grid: The Case of Cirque du Soleil

<p><b>Eliminate</b></p> <ul style="list-style-type: none"> <li>Star performers</li> <li>Animal shows</li> <li>Aisle concession sales</li> <li>Multiple show arenas</li> </ul>	<p><b>Raise</b></p> <ul style="list-style-type: none"> <li>Unique venue</li> </ul>
<p><b>Reduce</b></p> <ul style="list-style-type: none"> <li>Fun and humor</li> <li>Thrill and danger</li> </ul>	<p><b>Create</b></p> <ul style="list-style-type: none"> <li>Theme</li> <li>Refined environment</li> <li>Multiple productions</li> <li>Artistic music and dance</li> </ul>

### Chapter 3: Reconstruct Market Boundaries

Red ocean strategy tends to study 6 fundamental assumptions. These assumptions being:

1. Define their industry similarly and focus on being the best within it.
2. Look at their industry through the lens of generally accepted strategic groups (i.e. luxury automobiles, family vehicles, etc) and strive to stand out in the strategic group they play in.
3. Focus on the same buyer group, be it the purchaser (i.e. office equipment industry), the user (i.e. clothing industry) or the influencer (i.e. the pharmaceutical industry).
4. Define the scope of products and services offered by their industry similarly.
5. Accept their industries functional or emotional orientation.
6. Focus on the same point in time – often on current competitive threats – in formulating strategy.

Blue ocean strategies tend to focus specifically in on 6 paths, which are a different approach than the 6 strategies that red ocean companies seem to look at.

#### Path 1 – Look Across Alternative Industries

The example to illustrate this point is a company called NetJets. NetJets looked at the most lucrative mass of customers in the aviation industry, namely, corporate travelers. NetJets looked at the existing alternatives and found that when business travelers want to fly they have two principle choices: on one hand, a company executive can fly first class or business class on a commercial airline. On the other hand, a company can purchase its own aircraft to serve its corporate needs.

The strategic question is; why would corporations choose one alternative over the other? By focusing on the key factors that lead corporations to trade across alternatives and eliminating or reducing everything else, NetJets created its own blue ocean strategy.

Consider this: Why do corporations choose to use commercial airlines for their corporate travel? Surely, it's not because of the long check-ins and security lines, hectic flight transfers, overnight stays or congested airports. Rather, they choose commercial airlines for one reason only and that is cost. Commercial travel avoids the high up-front fixed cost of a multi-million dollar jet aircraft and the corporation only purchases the number of corporate airline tickets required throughout the year.

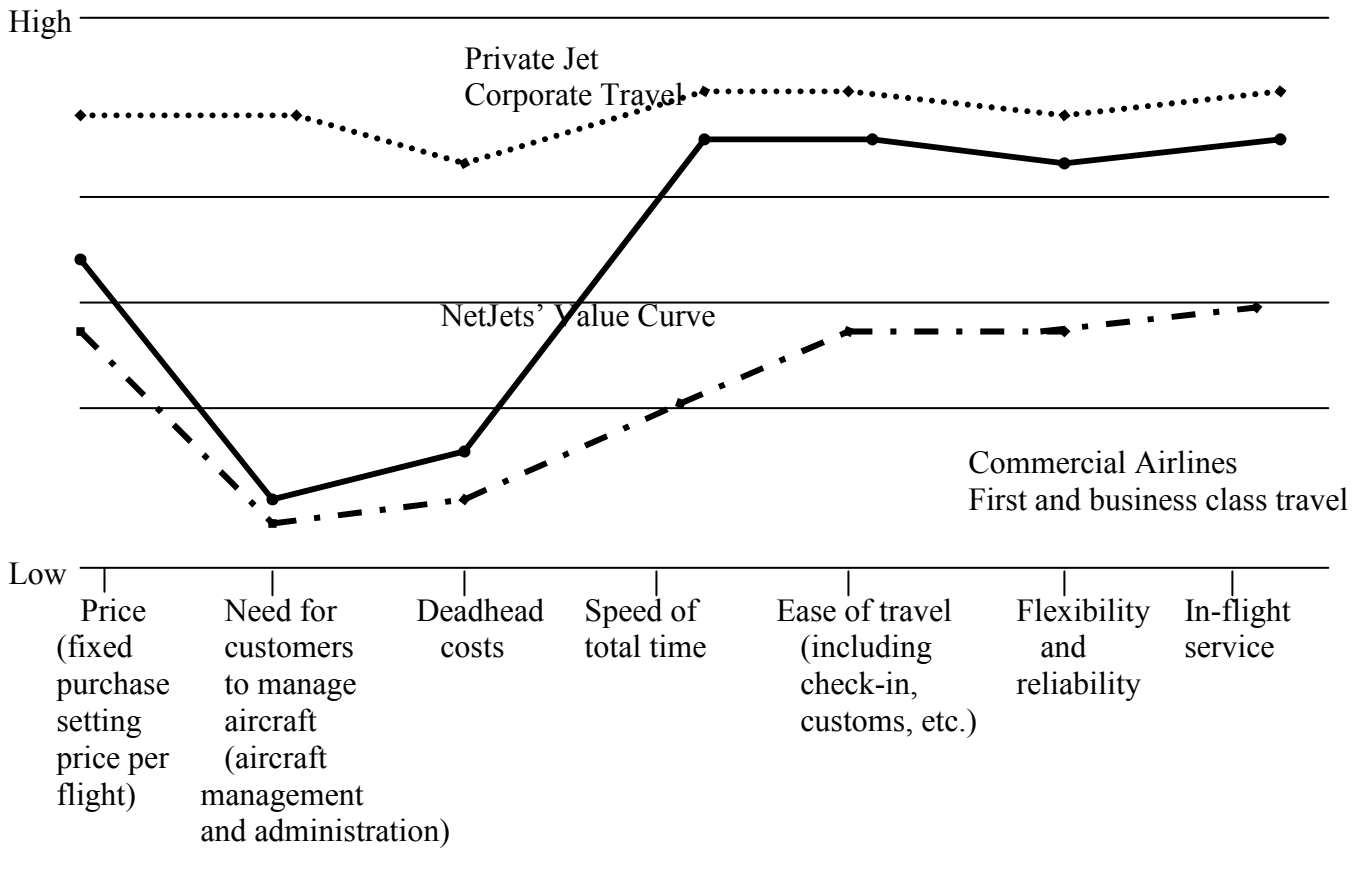
So, NetJets comes along and offers its customers a 1/6 ownership of an aircraft to be shared with 15 other customers. Starting at \$375,000 plus maintenance and monthly cost, owners can purchase a share in a \$6 million aircraft. Customers get the convenience of a private jet at the price of a commercial airline ticket. Comparing first class travel with a private aircraft the national business aviation association found out that when direct and indirect costs (i.e. hotel, meals, travel time, expenses) were factored in, the cost of first class commercial travel was significantly higher. The cost benefit analysis for 4 passengers on a theoretical trip from Newark to Austin, the real cost of the commercial trip was \$19,400, compared with \$10,100 in a private jet. As for NetJets, it avoids the enormous fixed cost that commercial airlines attempt to cover by filling larger and larger aircrafts. NetJets' smaller airplanes use smaller regional airports and limited staff keeps cost to a minimum.

To understand the rest of NetJets' formula, consider the flip side: Why do people choose corporate jets over commercial travel? Certainly, it is not to pay the multi-million dollar price to purchase planes. Nor is it to set up a dedicated flight department to take care of scheduling and other administrative matters. Nor is it to pay so called 'dead head' costs – the cost of flying the aircraft from its home base to where it's needed. Rather, corporations buy private jets to dramatically cut travel time, to reduce the hassle of congested airports, to allow for point-to-point travel, and to gain the benefit of having more energized and more productive executives that can hit the ground running upon arrival. So, NetJets is built on these distinctive strengths. Also, whereas 70% of commercial flights went to only 30 airports across the U.S., NetJets offered access to more than 5,500 airports across the country in convenient locations near business centres. Even on international flights, your plane pulls directly up to the customer office.

With point-to-point service and the number of exponential in the increase in number of airports to land in, there was no flight transfers; trips that otherwise would require overnight stay can be completed in a single day. The time from your car to take off is measured in minutes rather than hours. For instance, whereas a flight from Washington D.C. to Sacramento would take 10.5 hours on a commercial airline, it only took 5.2 hours on the NetJets aircraft.

Perhaps most appealing, your jet is always available with 4 hours notice. If a jet is not available, NetJets will charter one for you. Last, but not least, NetJets dramatically reduces issues related to security threats and offers clients customized in-flight service, such as having your favourite food and beverages available for you.

## Strategy Canvas of NetJets



### Path 2: Look Across Strategic Groups Within the Industry

Just as blue oceans can often be created by looking across alternative industries, so can they be unlocked by looking across strategic groups. The term, strategic groups, refers to a group of companies within an industry that pursue a similar strategy.

Strategic groups can generally be ranked in rough hierarchical order built on two dimensions: price and performance. Each jump in price tends to bring a corresponding jump in some dimensions of performance. Most companies focus on improving their competitive position within a strategic group. Mercedes, BMW and Jaguar, for example, focus on outperforming one another in the luxury car segment just as economy car makers focus on excelling over one another in their strategic group.

The key to creating a blue ocean across existing strategic groups is to break out of this narrow tunnel vision by understanding which factors determine customers' decisions to trade up or down from one group to another.

The example that we're going to look at here is Curves, the Texas based woman's fitness company. Since franchising in 1995 Curves has grown like wildfire with total revenues exceeding \$1 billion. A new Curves fitness store opens, on average, every 4 hours somewhere in the world. Interestingly enough, this growth was triggered almost entirely through word of mouth and buddy referrals.

Yet, at its inception, Curves was seen as entering an over-saturated market, gearing its offerings to customers who did not want it and making its offering significantly blander than the competition. In reality, however, Curves exploded demand in the U.S. fitness industry, unlocking a huge untapped market - a veritable blue ocean of women struggling and failing to keep in shape through sound fitness. Curves built on decisive advantages of two strategic groups in the U.S. fitness industry – traditional health clubs and home exercise programs – and eliminated or reduced everything else.

At one extreme, the U.S. fitness industry is awash with traditional health clubs that cater to both men and women offering a full range of exercise and sporting options, usually in upscale, urban locations. The trendy facilities are designed to attract the high-end health club set. They have a full range of aerobic and strength-training machines, a juice bar, instructors, full locker room with shower and sauna because the aim is for customers to spend social, as well as, exercise time there. Having fought their way across town to health clubs, customers typically spend at least an hour there and, more often, two. Membership fees for all of this are typically in the range of \$100/month – not cheap, guaranteeing that the market would stay upscale and small. Traditional health club customers represented only 12% of the entire population and concentrated overwhelmingly in the larger urban areas. Investment costs for the traditional full service health club run from \$500,000 to more than \$1million, depending upon the city centre location.

At the other extreme is the strategic group of the home exercise programs such as videos, books and magazines. These are a small fraction of the cost, are used at home, and generally require little or no exercise equipment. Instruction is minimal, being confined to the star of the exercise video or book and magazine explanation and illustrations.

The question is; what makes women trade either up or down between traditional health clubs and home exercise programs? Most women don't trade up to health clubs for the profusions of special machines, juice bars, locker rooms with sauna, pool and the chance to meet men. The average female non-athlete does not even want to run into men when she is working out – perhaps revealing lumps in her leotards. She is not inspired to line up behind machines in which she needs to change weights and adjust their incline angles. As for time, it has become an increasingly scarce commodity for the average woman. Few can afford to spend one or two hours at a health club several times a week. For the mass of women the city-centre location also presents traffic challenges – something that increases stress and discourages going to the gym.

It turns out that most women trade up to health clubs for one principle reason – when they are at home, it's too easy to find an excuse for not working out. It is hard to be disciplined in the confines of one's home if you are not already a committed sports enthusiast. Working out collectively rather than alone is more motivating and inspiring. Conversely, women who use home exercise programs do so primarily for the time saving, lower cost and privacy.

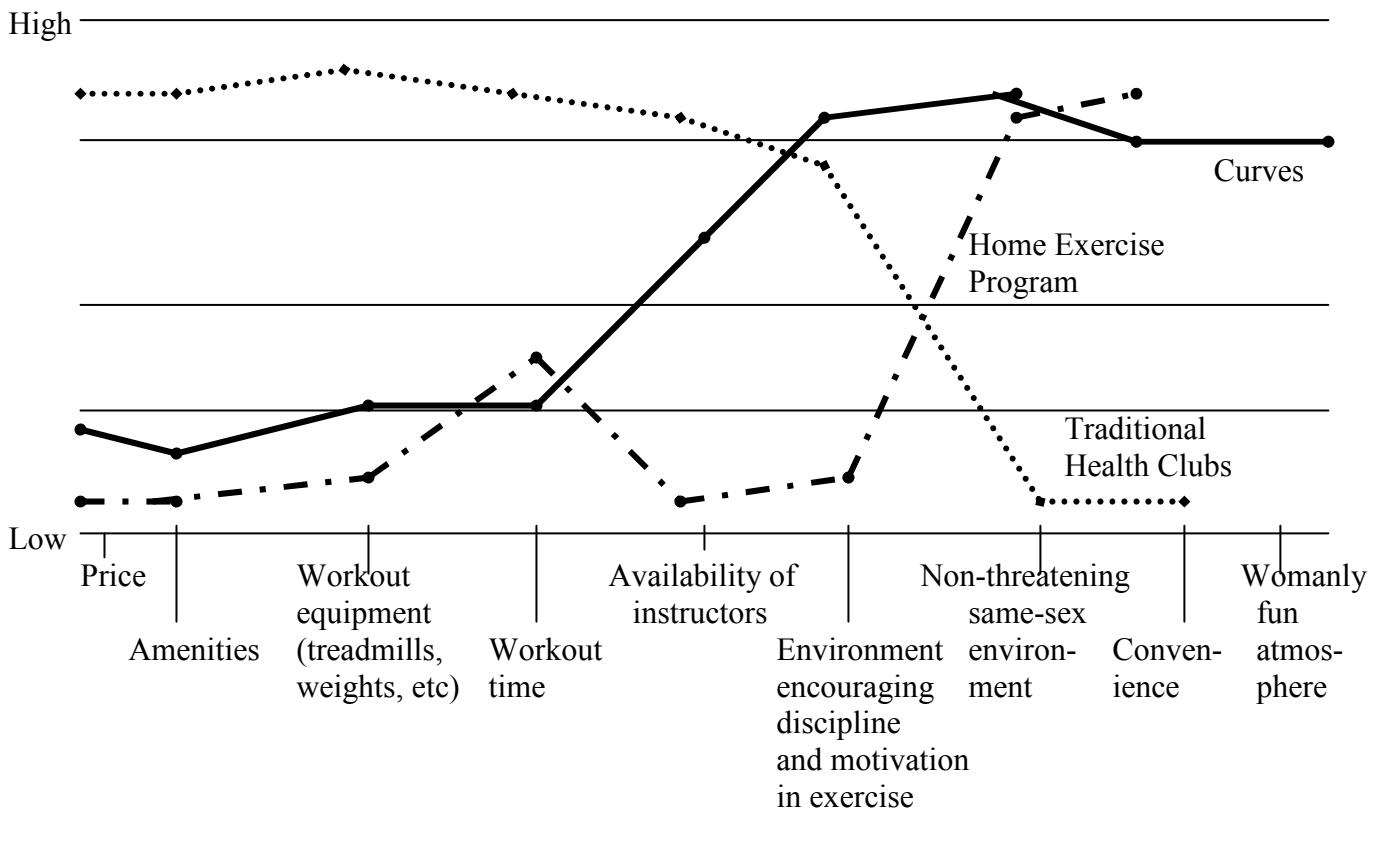
Curves built its blue ocean strategy by drawing on the distinctive strengths of these two strategic groups, eliminating and reducing everything else. Curves has eliminated all aspects of traditional health clubs that are of little interest to the broad mass of women. Gone is the profusion of special machines, food, spa, pool, and even locker rooms have been replaced by a few curtained off change areas.

The experience in a Curves club is entirely different from that of a typical health club. The member enters the exercise room where the machines, typically about 10, are arranged not in rows facing a television (as in the health club), but rather in a circle to facilitate interchange amongst members – making the experience fun. The quick-fit circuit training system uses hydraulic exercise machines, which need no adjusting. They are safe and simple to use and non-threatening. Specifically designed for women, these machines reduce impact stress and build strength and muscle. While exercising, women can talk and

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support one another. There are few, if any, mirrors on the wall and there are no men staring at you. Members move around the circle of machines and aerobic pads and in 30 minutes complete the whole workout. The result of reducing and focusing service on the essentials is that prices fall to around \$30 per month, opening the market to the broad mass of women. Curves tag line could be, “For the price of a cup of coffee a day, you can obtain the gift of health through proper exercise.” Compared with the start-up investment of \$500,000 to \$1 million for traditional health clubs, start up investments are in the range of \$25,000 to \$30,000 (excluding a \$20,000 franchise fee). Variable costs are significantly lower with personnel and maintenance of facilities dramatically reduced and rent reduced because of the much smaller space (i.e. 1,500 square feet in a nonprime suburban locations versus 35,000 to 100,000 square feet in prime urban locations.) Curves low cost business model makes its franchises easy to afford and helps explain why they have mushroomed so quickly.

### Strategy Canvas of Curves



### Path 3: Looking 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. The purchasers who pay for the product or service may differ from the actual users and in some cases there are important influencers as well. When they do, they frequently hold different definitions of value. A corporate purchasing agent, for example, may be more concerned with costs than the corporate user, who is likely to be far more concerned with ease of use. Similarly, a retailer may value a manufacturer’s

just-in-time stock replenishment and innovative financing. But consumer purchasers, although strongly influenced by channel, do not value these things.

Individual companies in an industry often target different customer segments – for example, large versus small customers. But an industry typically verges on a single buyer group. The pharmaceutical industry, for example, focuses overridingly on influencers: doctors (i.e. like we've been trying to do with distribution systems). The office equipment industry focuses heavily on purchasers: corporate purchasing departments. And the clothing industry sells predominantly to users. Sometimes there is a strong economic rationale for this process, but often it is as a result of industry practices that have never been questioned.

Challenging an industry's conventional wisdom about which buyer group to target can lead to the discovery of a new blue ocean. By looking across buyer groups, companies can gain new insights on how to redesign their value curves to focus on a previously overlooked set of buyers.

Let's consider the company, Bloomberg, which became one of the largest and most profitable business information providers in the world. Until Bloomberg's debut in the early 1980's Reuters and Telerate dominated the on-line financial information industry, providing news and prices in real time to the brokerage and investment community. The industry focused on purchasers - IT managers – who valued standardized systems, which made their lives easier.

This made no sense to Bloomberg. Traders and analysts, not IT managers, make or lose millions of dollars for their employers each day. Profit opportunities come from disparities in information. When markets are active, traders and analysts must make rapid decisions. Every second counts.

So, Bloomberg designed a system specifically to offer traders better value, one with easy to use terminals and keyboards labeled with familiar financial terms. The systems also have two flat panel monitors so the traders can see all the information they need at once without having to open and close numerous windows. Because traders must analyze information before they act, Bloomberg added a built in analytic capability that works with the press of a button. Before, traders and analysts had to download data and used a pencil and calculator to perform important financial calculations. Now, users can quickly run (what if) scenarios to compute returns on alternative investments.

By focusing on users, Bloomberg was able to see the paradox of traders' and analysts' personal lives. They have tremendous income, but work such long hours that they have little time to spend it. Realizing that markets have slow periods during the day when little trading takes place, Bloomberg decided to add information and purchasing services aimed at enhancing traders' personal lives. Traders can use these services to buy such items as flowers, clothing, and jewelry; make travel arrangements; get information about wine or search through real estate listing. By shifting its focus upstream from purchasers to users, Bloomberg created a value curve that was radically different from anything the industry had seen before. Many industries afford similar opportunities to create blue oceans.

#### **Path 4: Look Across Complimentary 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 boundaries of their industry product and service offerings. Take movie theaters - the ease and cost of getting a babysitter and parking the car affect the perceived value of going to the movies. Yet these complimentary services are beyond the boundaries of the movie theatre industry as it has been traditionally defined. Few cinema operators worry about how

hard or costly it is for people to get babysitters, but they should, because it affects demand for their business. Imagine a movie theatre with a babysitting service.

Untapped value is often hidden in complimentary products and services. The key is to define the total solution buyers seek when they choose a product or service. The simple way to do so is to think about what happens before, during, and after your product is used. Babysitting and parking the car are needed before people can go to the movies. Operating and application software are used along with computer hardware. In the airline industry, ground transportation is used after the flight and that is clearly part of what the customer needs to travel from one place to another.

### **Path 5: Look Across Functional or Emotional Appeal to Buyers**

Competition in an industry tends to converge not only on the accepted notion of the scope of its products or 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. Over time, functionally oriented industries become more functionally oriented; emotional industries become more emotionally oriented. When companies are willing to challenge the functional/emotional orientation of their industry they often find new market space. We've observed two common patterns. Emotionally oriented industries offer many extras that add price without enhancing functionality. Strip away those extras and they create a fundamentally simpler, lower priced, lower cost business model that customers welcome. Conversely, functionally oriented industries can often fuse commodity products with new life by adding a dose of emotion and by so doing, can stimulate new demand.

Two well-known examples are Swatch, which transformed the functionally driven budget watch industry into an emotionally driven fashion statement and the Body Shop, which did the reverse – transferring the emotionally driven industry of cosmetics into a functional, no-nonsense cosmetics house.

### **Path 6: Look Across Time**

All industries are subject to external trends that affect their businesses over time. Think of the rapid rise of the Internet or the global movement to protecting the environment. Looking at these trends with the right perspective can show you how to create blue ocean opportunities.

Identifying a trend and then looking across time and asking yourself what the market would look like if the trend were taken to its logical conclusion. Working back from that vision of a blue ocean strategy you can identify what must be changed today to unlock a new blue ocean.

A good example was Apple observing the illegal flood of music file sharing that began in the late 1990's. By 2003, more than 2 billion illegal music files were being traded every month. While the recording industry fought to stop the cannibalization of physical CDs, illegal digital music downloading continued to grow.

With the technology out there for anyone to digitally download music free instead of paying \$15 for an average CD, the trend toward digital music was clear. The trend was underscored by the fast growing demand for MP3 players that play mobile digital music, such as Apple's hit iPod.

In agreeing with 5 major music companies, BMG, EMI Group, Sony, Universal Music Group and Warner Brother Records, iTunes offered legal, easy to use and flexible a la carte music downloads. iTunes allowed buyers to freely browse 200,000 songs, listen to 30-second samples and download an initial song

Blue Ocean Strategy

for \$.99 or entire albums for \$9.99. By allowing people to buy individual songs and strategically price them far more reasonably, iTunes broke a key customer annoyance factor – the need to purchase an entire CD when they wanted only one or two songs from it.

iTunes also leapt passed free downloading services, providing sound quality as well as intuitive navigating, searching and browsing functions. To illegally download music, you must first search for the song, album or artist. If you're looking for a complete album, you must know the names of the songs in their order. It is rare to find a complete album to download in one location. The sound quality is consistently poor because most people burn CDs at a low bit rate to save space and most of the tracks available reflect the tastes of 16-year olds, so although, theoretically, there are billions of tracks available, the scope is limited.

In contrast, Apple's search and browsing functions were the best in the business. Moreover, iTunes music editors include a number of added features usually found in the record shops, including iTunes essentials such as best air bands or best love songs, staff favorites, celebrity play lists and billboard charts. The iTunes quality is the highest because iTunes encodes songs in a format called AAC, which offers sound quality superior to MP3s, including those burned at a very high data rate.

Apple iTunes is unlocking a blue ocean in digital music with the added advantage of increasing the attractiveness of its already hot iPod player.

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#### **Chapter 4: Focusing on the Big Picture, Not the Numbers**

How do you align your strategic planning process to focus on the big picture and apply these ideas in drawing your company's strategy canvas to arrive at a blue ocean strategy? This is no small challenge. Research reveals that most companies' strategic planning process keeps them wedded to red oceans. The process tends to drive companies to compete within existing market space.

Think of a typical strategic plan - it starts with a lengthy description of current industry conditions and the competitive situation. Next is the discussion of how to increase market share, capture new segments or cut cost, followed by an outline of numerous goals and initiatives. A full budget is almost invariably attached, as are lavish graphs and a bunch of spreadsheets. This process, finds managers spending the majority of their strategic thinking time filling in boxes and running numbers instead of thinking outside the box and developing a clear picture of how to break from the competition.

In order to develop a blue ocean strategy you need to focus on the big picture, not the numbers. This principle is key to mitigating the planning risk of investing lots of effort and lots of time but delivering only tactical red ocean moves. Here, we develop an alternative approach to the existing strategic planning process that is based not on preparing a document, but on drawing a strategy canvas. This approach consistently produces strategies that unlock the creativity of a wide range of people within an organization, open companies' eyes to blue oceans, and are easy to understand and communicate for effective communication.

In our research and consulting work, we have found that drawing a strategy canvas not only visualizes the company's current strategy position in its market place but also helps it chart its future strategy. Drawing a strategic strategy canvas does three things: (1) it shows the strategic profile of an industry by depicting very clearly the factors (and the possible future factors) that affect competition among industry players; (2) it shows a strategic profile of current and potential competitors, identifying which factors they invest

in strategically; (3) it shows the company’s strategic profile – or value curve – depicting how it invests in the factors of competition and how it might invest in them in the future.

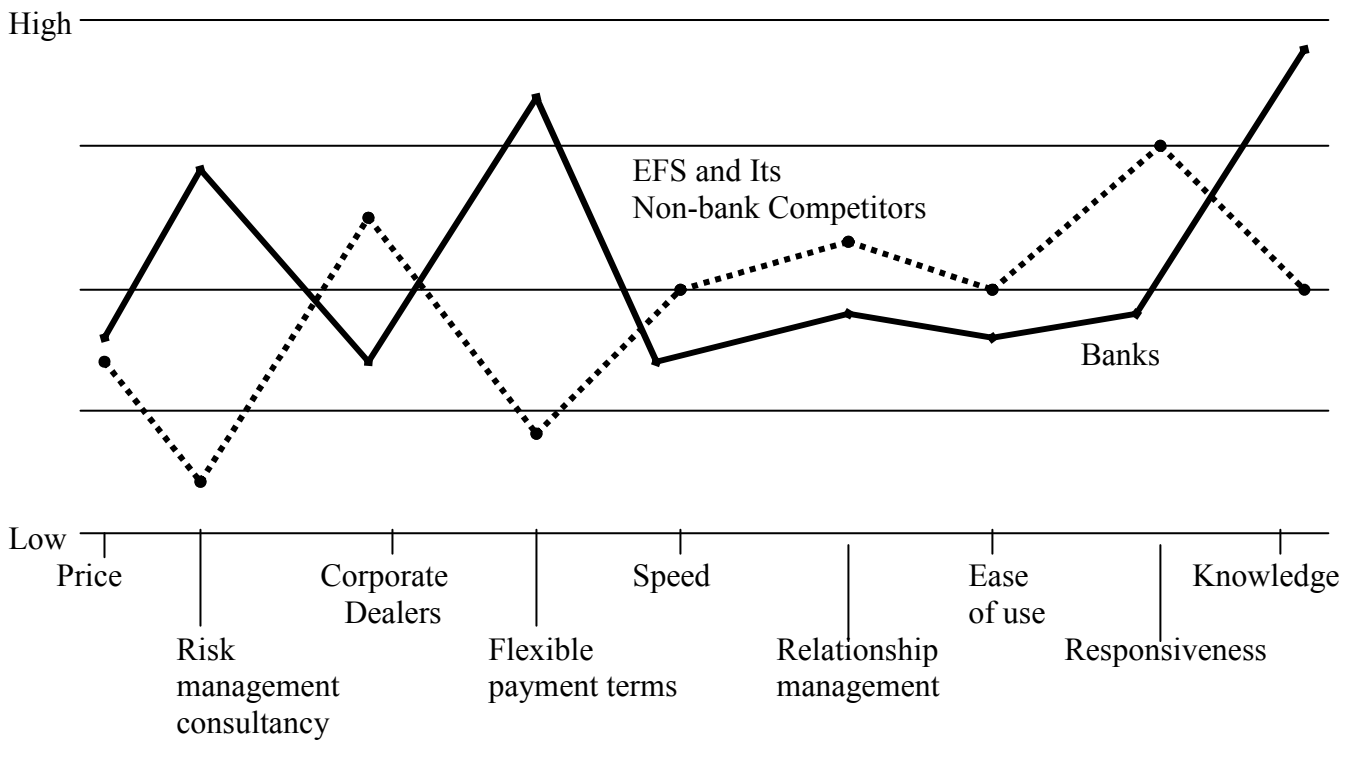
### Drawing Your Strategy Canvas – The Four Steps of Visualize Strategy

#### Step 1: Visual Awakening

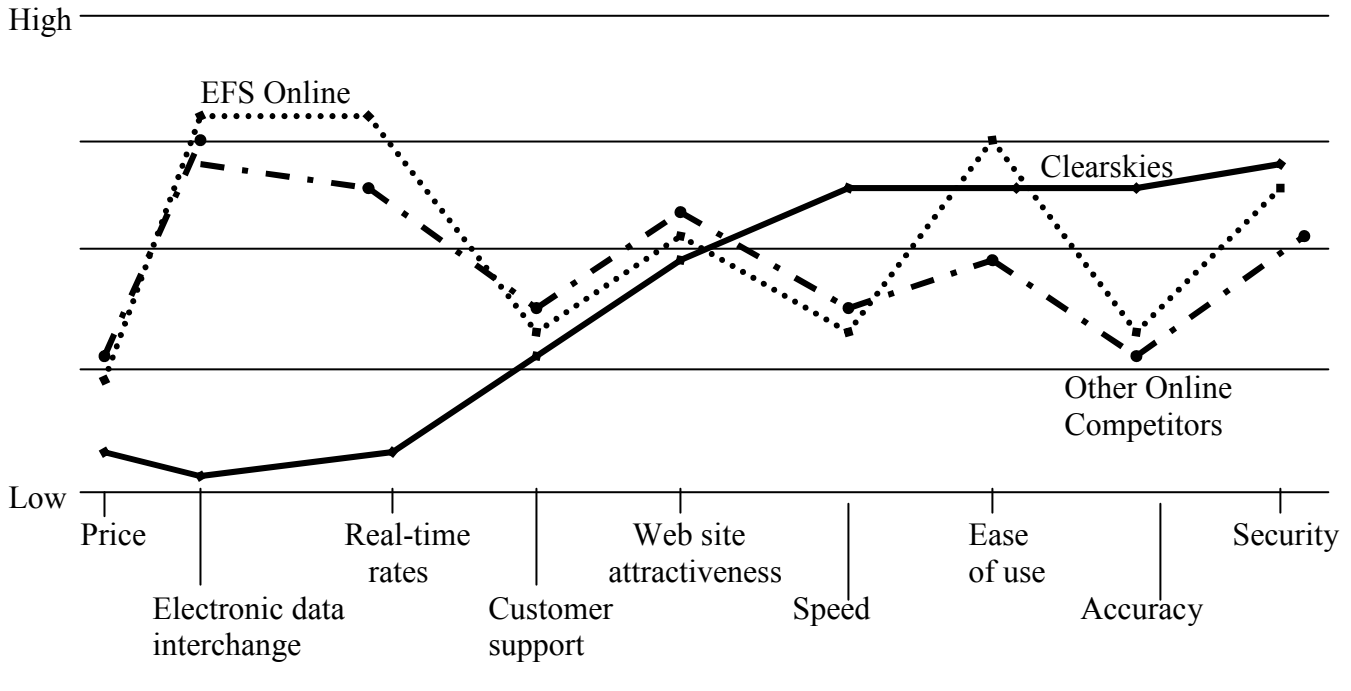
- Compare your business with your competitors by drawing your ‘as is’ strategy canvas.
- See where your strategy needs to change.

In the example in the book a company called European Financial Services (EFS) was studied. They basically had two businesses – one being offline the other being online - and behind closed doors their group completed two strategy canvass outlined below – one for their offline business and the other for their online business.

#### Strategy Canvas of Corporate Foreign Exchange, Offline



## Strategy Canvas of Corporate Foreign Exchange, Offline



### Step 2: Visual Exploration

This step calls for sending your 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. This step may seem obvious, but we have found that managers often outsource this part of the strategy making process. They rely on reports that other people (often one or two removes from the world that they report on) put together.

A company should never outsource its eyes. There is simply no substitute for seeing for yourself. Great strategic insights from your customer is genius in itself.

Going back to EFS, they sent their managers into the field for four weeks to explore six paths to creating blue oceans. In this process, each was to interview and observe 10 people involved in corporate foreign exchange, including lost customers, new customers, and customers of EFS competitors and alternatives. Managers also reached outside the industry's traditional boundaries to companies that did not use corporate foreign exchange services but that might in the future, such as Internet companies with global rates like Amazon.com. They interviewed the end users of corporate foreign exchange services – accounting and treasury departments of companies.

The field research overturned many of the conclusions managers had reached in the first step of the strategy creation process. For example, account relationship managers, who nearly everyone had agreed were a key to success and on whom EFS prided itself, turned out to be the company's Achilles heel. Customers hated wasting time dealing with relationship managers. To buyers, relationship managers were seen as relationship savers because EFS failed to deliver on its promises.

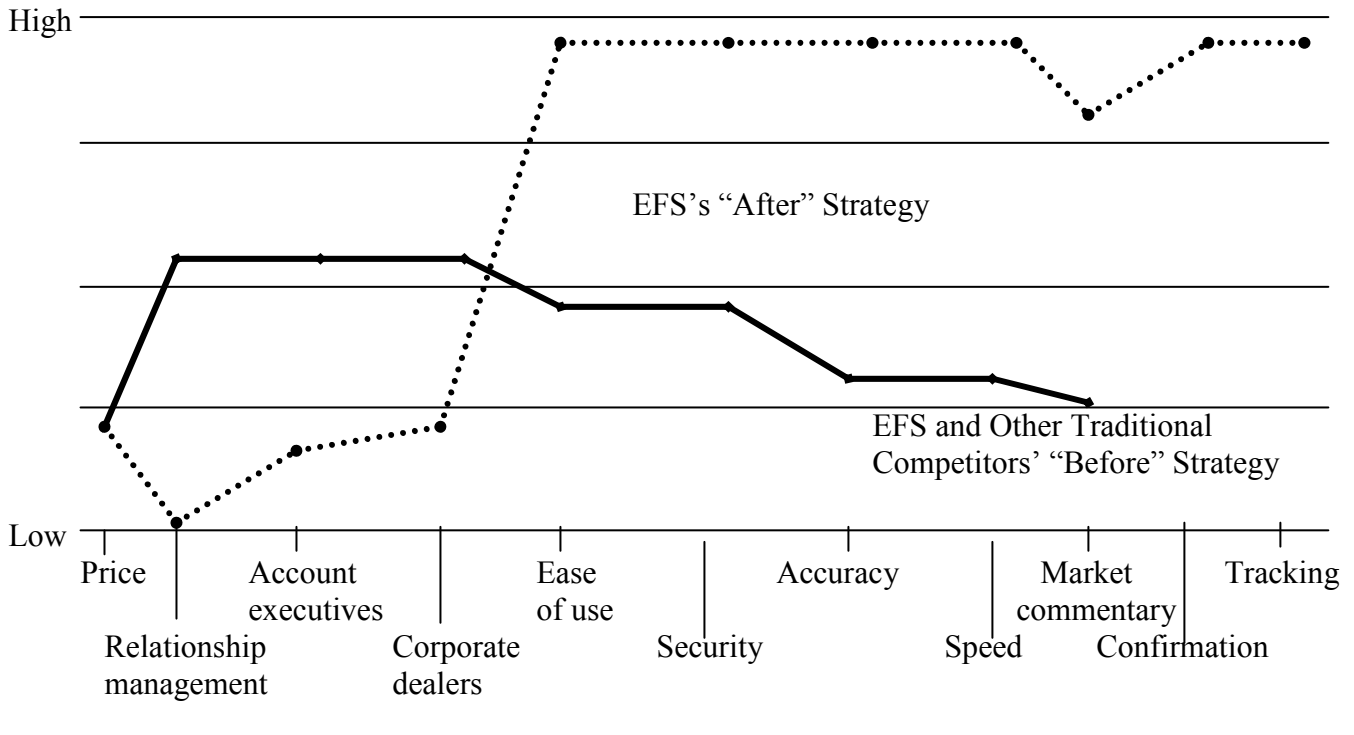
To everyone's astonishment, the factor customers valued most was getting speedy confirmation of transactions, which only one manager had previously suggested was important. The EFS managers saw that their customer's accounting department personnel spent a lot of time making phone calls to confirm

that payments had been made and to check when they would be received. Customers received numerous calls on the same subject, and the time wasted in handling them was compounded by the necessity of making further calls to the foreign exchange provider, namely EFS or a competitor. This feedback allowed EFS teams to go back to the drawing board.

**Step 3: Visual Strategy Fair**

Once feedback has been suggested, it’s time to go back and draw up a new strategy canvasses. In the EFS example, all of the managers that went out to the field were asked to draw up new strategy canvasses and present to senior management. Based upon what they learned from the field, they were able to draw a value curve on the strategy canvas that was in keeping with what they heard and what they thought they needed to move to. The new strategy canvas is shown below.

**EFS: Before and After**



## The Eliminate-Reduce-Raise-Create Grid: The Case of EFS

<p><b>Eliminate</b></p> <p>Relationship Management</p>	<p><b>Raise</b></p> <p>Ease of use</p> <p>Security</p> <p>Accuracy</p> <p>Speed</p> <p>Market commentary</p>
<p><b>Reduce</b></p> <p>Account executives</p> <p>Corporate dealers</p>	<p><b>Create</b></p> <p>Confirmation</p> <p>Tracking</p>

### Commentary:

These moves dramatically reduced EFS's costs because relationship managers and account executives were the highest cost element of their business. EFS future strategy emphasized ease of use, security, accuracy and speed. These factors would be delivered through computerization which would allow customers to input data directly instead of having to send a fax to EFS.

This action would also free up corporate dealer's time – a large portion of which had been spent completing paperwork and correcting errors. Dealers would now be able to provide richer market commentary, a key success factor. Using the Internet, EFS would send automatic confirmations to all customers. They would offer a payment tracking service, just as FedEx and UPS do for parcels. The foreign exchange industry had never offered these services before.

The new value curve exhibited the criteria of a successful strategy. It displayed more focus than the previous strategy; investments that were made were given a much stronger commitment than before. It also stood apart from the industry's existing me-too curves and lent itself to a compelling tag line, "The FedEx of corporate foreign exchange: easy, reliable, fast and trackable." By collapsing its online and traditional businesses into one compelling offering, EFS substantially cut the operational complexity of its business model, making systematic execution far easier.

#### **Step 4: Visual Communication**

After the future strategy is set, the last step is to communicate it in a way that can be easily understood by any employee. EFS distributed a one-page picture, showing its new and old strategic profile so that every employee could see where the company stood and where it had to focus its efforts to create a compelling future. The senior managers who participated in developing the strategy held meetings with their direct reports to walk them through the picture, explaining what needed to be eliminated, reduced, raised, and created to pursue a blue ocean strategy. Those people passed the message on to their direct reports. Employees were so motivated by the clear game plan that many pinned up a version of the picture in their cubicle as a reminder of EFS's new priorities and the gaps that needed to be closed.

The new picture became a reference point for all investment decisions. Only those ideas that would help EFS move from the old to the new value curve were given the go-ahead.

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#### **Chapter 5: Reach Beyond Existing Demand**

To maximize the size of a company's blue ocean, companies need to concentrate on the needs of non-customers. Instead of focusing on customer differences, they need to focus on powerful commonalities of what buyers value. That allows companies to reach beyond existing demand to unlock a new mass of customers that did not exist before.

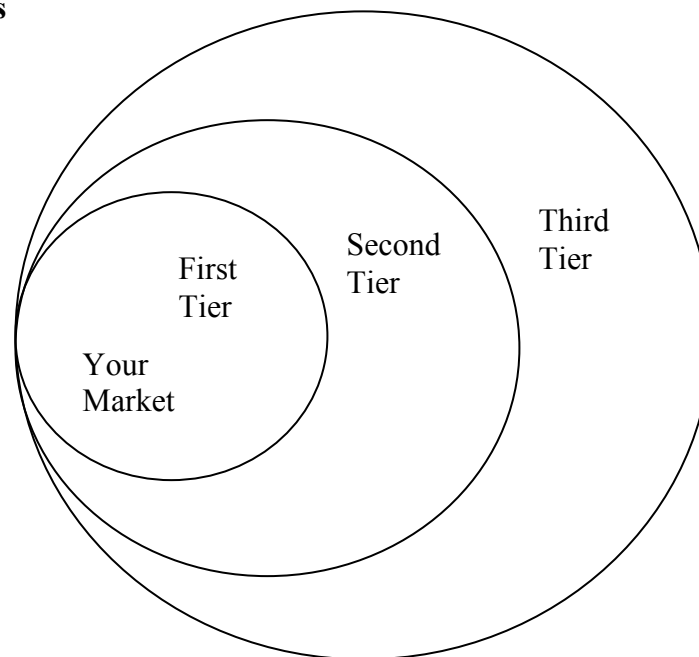
The example in the book is Callaway Golf. It aggregated new demand for its offering by looking to non-customers. While the U.S. golf industry fought to win a greater share of existing customers, Callaway created a blue ocean of new demand by asking why sports enthusiasts and people in the country club set had not taken up golf as a sport. By looking to why people shied away from golf, it found one key commonality, uniting the mass of non-customers - hitting the golf ball was perceived as too difficult. The small size of the golf club head demanded enormous hand-to-eye coordination, took time to master, and required concentration. As a result, fun was sapped for the novices and it took a long time to get good at the sport.

This understanding gave Calloway insight into how to aggregate new demand for its offering. The answer was Big Bertha, a golf club with a large head that made it far easier to hit the golf ball. Big Bertha not only converted non-customers of the industry into customers but it also pleased existing golf customers, making it a runaway best seller across the board. Interestingly, existing customers, unlike non-customers, had implicitly accepted the difficulty of the game. Although the mass of existing customers didn't like it, they had taken for granted that was the way the game was played. Instead of registering their dissatisfaction with golf club makers, they themselves accepted the responsibility to improve. By looking to non-customers and focusing on their key commonalities – not differences - Callaway saw how to aggregate new demand and offer the mass of customers and non-customers a leap in value.

So, the question is, where is your focus of attention? On capturing a greater share of existing customers, or on converting non-customers of the industry into new demand?

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## The Three Tiers of Non-customers



*First Tier: “Soon-to-be” non-customers who are on the edge of your market, waiting to jump ship.*

*Second Tier: “Refusing” non-customers who consciously choose against your market.*

*Third Tier: “Unexplored” non-customers who are in markets distant from yours.*

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### First-Tier Non-Customers

Consider how Pret A Manger, a British fast food chain that opened in 1988, has expanded its blue ocean by tapping into a huge latent demand of first-tier non-customers. Before Pret, professionals in European city centres principally frequented restaurants for lunch. Sit down lunches offered a nice meal and setting. However, the number of first-tier non-customers was high and rising. Growing concerns over the need for healthy eating gave people second thoughts about eating out in restaurants and professionals do not always have time for sit down meals. Some restaurants were also too expensive for lunch on a daily basis. So, professionals were increasingly grabbing something on the run, bringing a brown bag from home, and even skipping lunch.

Consider what Pret is like – walking into a Pret a Manger is like walking into a bright Art Deco studio. Along the walls are clean, refrigerated shelves stocked with more than 30 types of sandwiches (average price \$4- \$6) made fresh that day in the shop from fresh ingredients delivered early that morning. People can also choose from other freshly made items such as salads, yogurt, parfaits, blended juices and sushi. Each store has its own kitchen and non-fresh items are made by high quality producers. Even its New York stores, Pret’s baguettes are from Paris, its croissants are from Belgium and its Danish pastries are from Denmark. Nothing is kept over to the next day. Leftover food is given to home shelters.

In addition to offering fresh, healthy sandwiches and other food items, Pret speeds up the customer ordering experience from fast food’s queue-order-pay-wait-receive-sit down purchasing cycle to a much faster browse-pickup-pay-leave cycle. On average, customers spend just 90 seconds from the time they get in line to the time they leave the shop. This is made possible because Pret produces ready made sandwiches and other things at high volume, with a high standardization of assembly, it does not make to order, and does not serve its customers. They serve themselves, as in a supermarket.

Today, Pret A Manger sells more than 25 million sandwiches a year from its 130 stores in the UK and has recently opened stores in New York and Hong Kong. Sales are in excess of \$160 million and its growth potential triggered McDonald's to buy a 33% share of the company.

### **Second-Tier Non-customers**

These are refusing non-customers - people who either do not use or cannot afford to use the current market offerings because they find the offerings unacceptable or beyond their needs. Needs are either dealt with by other means or ignored. Consider how JCDecaux, a vendor of French outdoor advertising space, pulled a mass of refusing non-customers into its market. Before JCDecaux created a new concept in outdoor advertising called "street furniture" in 1964, the outdoor advertising industry included billboards and transport advertisements. Billboards typically were located on city outskirts and along roads where traffic quickly passed by. Transport advertisements comprised panels on buses and taxis, which again, people caught sight of only as they whizzed by. In short, outdoor advertising was not very popular because people were exposed to it for a very short period of time. This outdoor advertising was not acceptable to lesser-known companies because they could not carry the comprehensive messages needed to introduce new names and products. Hence, many companies refused to use outdoor advertising because it either didn't work or it was a luxury they couldn't afford.

JCDecaux realized the problem and began searching for a solution. The solution was to provide "street furniture" in downtown locations such as bus stops where people tended to wait and have a few minutes and hence had time to read and be influenced by advertising.

This gave the idea to provide "street furniture" including maintenance and upkeep, free to municipalities. JCDecaux figured that as long as the revenue generated from selling ad space exceeded the cost of providing and maintaining the furniture at an attractive profit margin, the company would be on a trajectory of strong, profitable growth. Accordingly, "street furniture" was created that would integrate advertising panels. In response to JCDecaux's exceptional value offering, the mass of refusing non-customers flocked to the industry. As a medium of advertisement, "street furniture" became the highest growth market in the overall display advertising industry. Global spending on "street furniture" between 1995 and 2000, for example, grew by 60%, compared with 20% total increase in the overall display advertising. And the operating margin of "street furniture" was as high as 40%, compared to 14% for billboards and 18% for transport advertisements.

Today, JCDecaux is the number one "street furniture" based ad provider worldwide, with 283,000 panels in 83 countries. The lesson here is that it was non-customers who shed the light and gave them the insight to develop this strategy.

### **The Third-Tier Non-Customer**

The third-tier non-customer is the farthest away from an industry's existing customer. Typically, these unexplored non-customers have not been targeted or thought of as potential customers by any player in the industry. That's because their needs and the business opportunities associated with them have somehow always been assumed to belong to other markets.

It would drive many companies crazy to know how many third-tier non-customers they are forfeiting. Just think of the long-held assumption that tooth whitening was a service provided exclusively by dentists and not by oral care consumer product companies. Consequently, oral care companies, until recently, never looked at the needs of these non-customers. When they did, they found an ocean of latent demand

waiting to be tapped; they also found that they had the capability to deliver safe, high quality, low cost, tooth-whitening solutions, and the market exploded.

**Summary:**

The natural strategic orientation of many companies is toward retaining existing customers and seeking further segmentation opportunities. This is especially true in the face of competitive pressure. Although this might be a good way to gain a focused, competitive advantage and increased share of the existing market, it is not likely to produce a blue ocean that expands the market and creates new demand. The point here 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. What we suggest is that to maximize the scale of your blue ocean, you should first reach beyond existing demand to non-customers and de-segmentation opportunities as you formulate future strategies.

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**Chapter 6: Getting the Strategic Sequence Right**

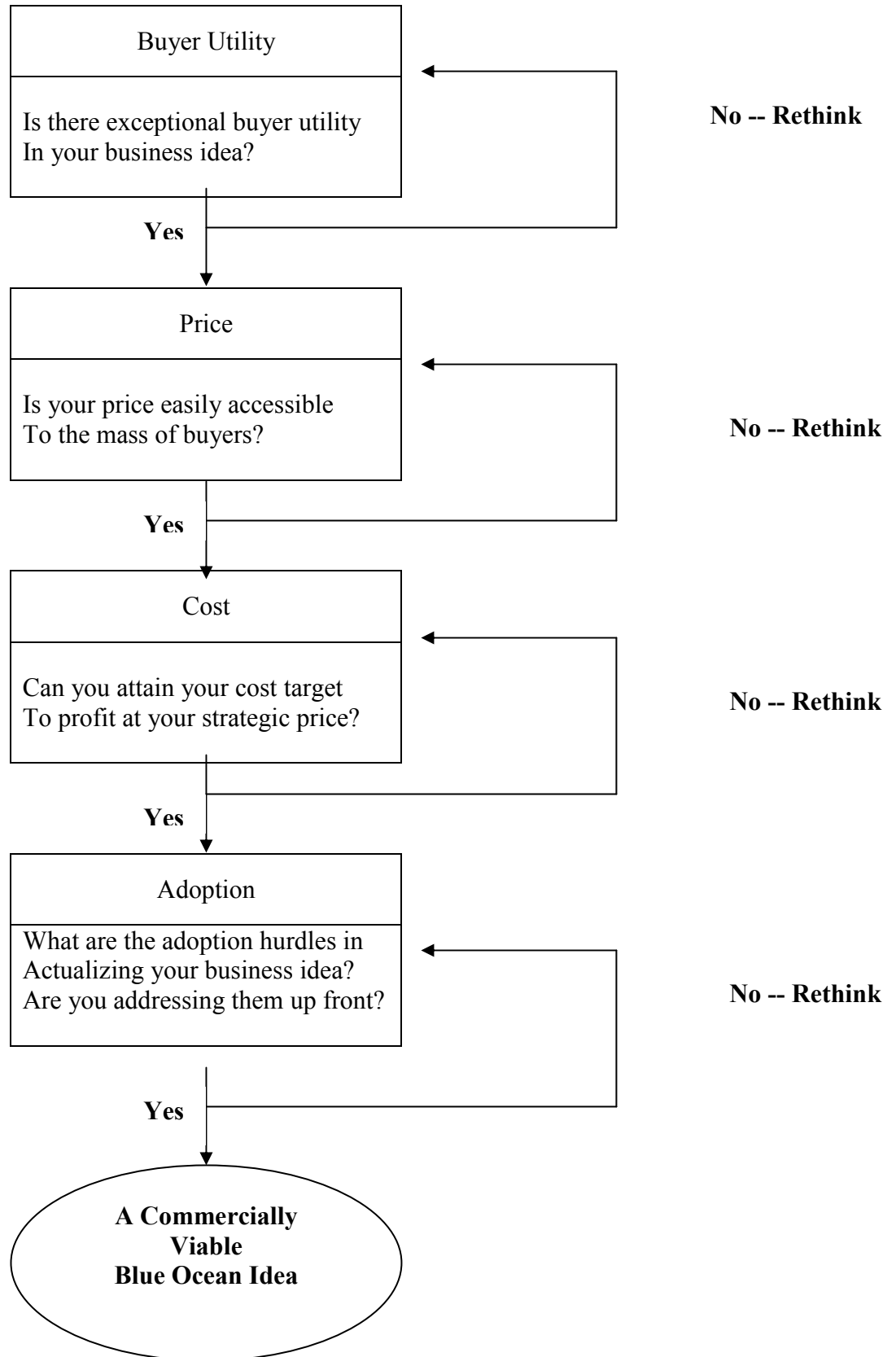
You've looked across the paths to discover possible blue oceans. You've constructed a strategy canvas that clearly articulates your future blue ocean strategy. And you have explored how to aggregate the largest possible mass of buyers for your idea. The next challenge is to build a robust business model to ensure that that you make a healthy profit on your blue ocean profit. This brings us to the principle of getting the strategic sequence right.

**The Right Strategic Sequence**

As shown in the diagram below, companies need to build their blue ocean strategy in the sequence of buyer utility, price, cost and adoption.

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## The Sequence of Blue Ocean Strategy



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The starting point is buyer utility. Does your offering unlock exceptional utility? Is there a compelling reason for the mass of people to buy it? Absent this, there is no blue ocean potential to begin with.

When you clear the exceptional utility bar, you advance to the second step - setting the right strategic price. Remember, a company does not want to rely solely on price to create demand. The key question here is this: Is your offering priced to attract the mass of target buyers so that they have a compelling ability to pay for your offering?

Securing the profit side brings us to the third element: cost. Can you produce your offering at the target price and still earn a healthy profit margin? Can you profit at the strategic price – the price easily accessible to the mass of target buyers? The cost side of a company’s business model ensures that it creates a leap in value for itself in the form of profit – that is, the price of the offering minus the cost of the production. It’s the combination of exceptional utility, strategic pricing and target costing that allows companies to achieve value innovation – a leap in value for both buyers and companies.

The last step is to address adoption hurdles. What are the adoption hurdles in rolling out your idea? Adoption hurdles include, for example, potential resistance to the idea by retailers or partners. Because blue ocean strategies represent a significant departure from red oceans, it is key to address adoption hurdles upfront.

### **Testing for Exceptional Utility**

The need to assess the buyer utility of your offering may seem self-evident. Yet, many companies fail to deliver exception value because they are obsessed by the novelty of their product or service. To review exceptional Utility you should think about the buyer utility map. Included in this map to review are:

- Customer productivity
- Simplicity
- Convenience
- Risk
- Fun and image
- Environmental friendliness

To test for exceptional utility, companies should check whether their offering has removed the greatest blocks to utility across the entire buyer experience cycle for customers and non-customers. The greatest blocks to utility often represent the greatest and most pressing opportunities to unlock exceptional value.

Consider the Ford Model T - before its début, more than 500 automakers in the U.S. focused on building custom made luxury autos for the wealthy. In terms of the buyer utility map, the entire industry focused on image and in the use phase, creating luxury cars for fashionable weekend outings.

The greatest blocks to utility for the mass of people, however, were not redefining the auto’s luxury or stylish image. Rather, they had to do with two other factors. One was the convenience in the use phase. The bumpy and muddy dirt roads that prevailed at the century’s start were a natural for horses to tread over but often prevented finely crafted autos from passing. This significantly limited where and when cars could travel, making the use of the car limited and inconvenient. The second utility was risk in the maintenance phase. The cars, being finely crafted and having multiple options, often broke down, requiring experts to fix them and experts were expensive and in short supply. In one fell swoop Ford’s Mode T eliminated these two utility blocks. The Model T was called the car for the great multitude. It

came in only one colour (black) and one model, with scant options. It was reliable. It was durable; it was designed to travel effortlessly over dirt roads and in the rain, sleet or shine. It was easy to fix and use. People could learn to drive it in one day.

### **From Exceptional Utility to Strategic Pricing**

To secure a strong revenue stream for your offering, you must set the right strategic price. This step ensures that buyers not only will want to buy your offering but will also have a compelling ability to pay for it. Examples of pricing would be South West Airlines, where they competed in a market with people paying an average of \$400 to buy an economy class short-haul ticket to about \$60 for the cost of going the same distance by car. The key here is not to pursue pricing against the competition within the industry, but rather to pursue pricing against substitutes and alternatives across industries and non-industries. Had Ford, for example, priced its Model T against other autos, which were more than 3 times the price of horse drawn carriages, the market for Model T would not have exploded.

So, when we think about our pricing (where we are sitting as compared to other alternatives), up until now, we have used our assessment report at \$1500 and provided a road map for our client as a good part of our strategic pricing. How does this compare to other offerings such as Standard Life that does it for the price of placing product, the Covenant Group that is significantly less (I believe \$1800) or the Strategic Coach, which has a minimum upfront outlay of \$6,000?

### **From Strategic Pricing to Target Costing**

Target costing, the next step in the strategic sequence, addresses the profit side of the business model. To maximize the profit potential of a blue ocean idea, companies should start with a strategic price and then deduct its desired profit margin from the price to arrive at a target cost.

Consider the cost innovations that Ford had to introduce to meet its aggressive target cost for the Model T. Ford had to scrap the standard manufacturing system in which cars were made by skilled craftsmen from start to finish. Instead, Ford introduced the assembly line, which replaced skilled craftsmen with ordinary, unskilled laborers who worked one small task faster and more efficiently, cutting the time to make a Model T from 21 days to 4 days and cutting labour hours by 60%. Had Ford not introduced these cost innovations, it could not have met its strategic price profitability.

### **From Utility, Price, and Cost to Adoption**

Once utility, price and cost have been established, then it's a matter of identifying the adoption hurdles and implementing the business idea. The factors to consider would be things like current employees, business partners, and, of course, the buying public. These are the key stakeholders in creating the new blue ocean strategy.

## **Chapter 7: Overcome Key Organization Hurdles**

This chapter is devoted to dealing with the hurdles that one must overcome to execute a blue ocean strategy. Examples of this would be employees who do not either understand or want to be part of the new blue ocean strategy.

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## **Chapter 8: Build Execution in the Strategy**

This chapter deals with how to create execution in a large company where top management has built the blue ocean strategy but now needs to get the rest of the company to execute and buy into the new blue ocean strategy.

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## **Chapter 9: Conclusion - Sustainability and Renewal of Blue Ocean Strategy**

So once you've got your blue ocean strategy in place, how do you sustain it and then renew it?

## **Appendix A:**

### **A Sketch of the Historical Pattern of Blue Ocean Creation**

Appendix A deals with industries where blue ocean strategies have been evolving as the industry has matured. I give the example of the automobile industry where they moved from luxury automobiles to the Model T to the creation of General Motors, to the creation of small, fuel-efficient Japanese cars, to Chrysler's Mini Van.

## **Appendix B:**

### **Value Innovation**

The example here is Cirque du Soleil where they created a new value and identified a new market to deliver that value.

## **Appendix C:**

### **The Market Dynamics of Value Innovation**

The focus of blue ocean strategy is not on restricting output at a high price but rather on creating new aggregate demand through a leap in buyer value at an accessible price. The creation of new value benefits the buyers, the company and society at large.