CREATING BLUE OCEANS & BLUE OCEAN ANALYTIC TOOLS

Comparing Two Oceans

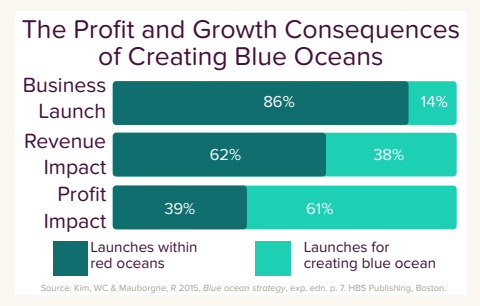
Blue Oceans: Untapped market space free of competition, where firms can create customers. Blue oceans have the potential to provide rapid profit growth.

Red Oceans: Established markets with entrenched industry practices and intense competition for profits.

Strategic move: The set of decisions a firm makes to create blue oceans.

Value innovation: Creating an increase in value to customers while reducing firm costs, rendering competitors irrelevant.

Value-cost trade-off: The paradigm of many competitive strategies in which greater value comes at a greater cost and lower value comes at a lower cost.

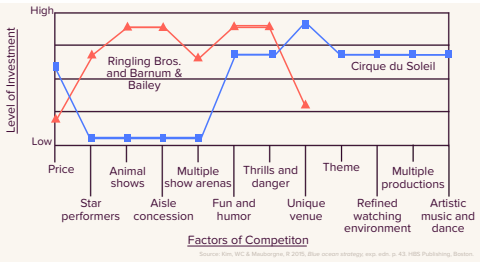


The Strategy Canvas

Strategy Canvas: A tool used to illustrate a company's competitive strategy.

Factors of competition: Factors that an industry competes on and invests in; for example, price.

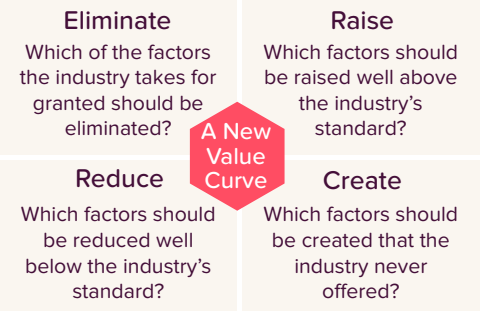
Value curve: A line made by plotting a company's profile across a strategy canvas.



Optimizing Strategy

Four actions framework: Four questions used to facilitate understanding or formulation of a company strategy.

Eliminate-reduce-raise-create (ERRC) grid: A helpful tool used to complement the four actions framework.



*Source: **BOS**, 2005 hardback, pg. 29*

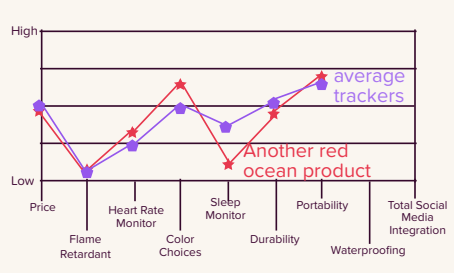
Successful **blue ocean strategy** has three hallmarks:

1. **Focus:** An emphasis on only key factors of competition.
2. **Divergence:** A break from an industry's prevailing strategies.
3. **Compelling tagline:** e.g. Southwest's, "The speed of a plane at the price of a car—whenever you need it."

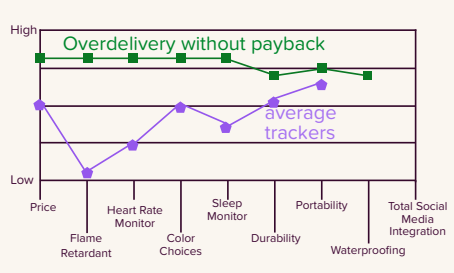
©2017 Pedago, LLC. All rights reserved.

BLUE OCEAN ANALYTIC TOOLS & CHARTING YOUR COURSE

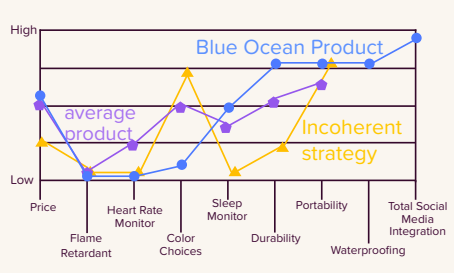
Reading Value Curves



Curves that converge suggest a red ocean product.



High investment across all factors signifies **overdelivering without payback**: investing in options or features that add little value for consumers.



Zigzags indicate a corporation with an **incoherent** strategy. A divergent curve indicates a blue ocean product.

Strategic Pricing

Price corridor of the mass: A process for finding an optimal price point involving the following two steps:

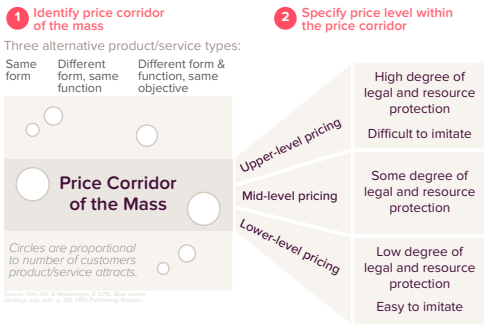
1. Identify any existing alternatives to your product, either with differing forms and the same function, or differing form and function, but the same **objective**.
2. Examine the price and user base of each alternative.

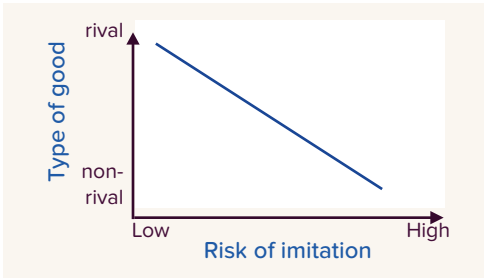
Network externalities: A phenomenon in which people place little value on a product used by few others. This makes setting a strategic price crucial.

Rival goods: Resources only your firm can use at any given time.

Nonrival goods: Resources anyone can use.

Low excludability: Causes a product to be vulnerable if it doesn't have a limitation on its use by rival firms.





Target Costing

Three levers of cost reduction:

Streamlining: Simplifying and optimizing operations.

Partnering: Forming strategic alliances to share cost burden with other firms.

Pricing innovation: Changing the way a product or service is monetized, e.g., Blockbuster's choice to rent videotapes to consumers rather than to sell them.

Price-minus costing

strategic price − desired profit margin = target cost

Cost-plus pricing

cost + desired profit margin = price

©2017 Pedago, LLC. All rights reserved.

Strategic Sequence

Strategic sequence: A four-step process for formulating and evaluating blue ocean ideas.

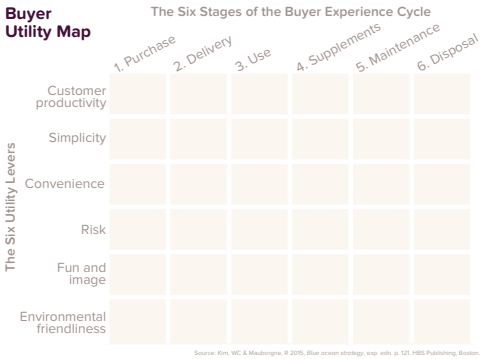
1. **Buyer utility:** The amount of value a product or service delivers to a buyer. This can be increased either by pulling one of the **six utility levers**, or by removing **blocks to buyer utility**.

Six stages of the buyer experience cycle:

1. Purchase
2. Delivery
3. Use
4. Supplements
5. Maintenance
6. Disposal

Six utility levers

- customer productivity
- simplicity
- convenience
- environmental friendliness
- risk
- fun and image



Buyer utility map: Used to determine how and when a product can deliver exceptional value.

2. **Strategic pricing:** Setting a price that will attract the greatest number of customers in the shortest amount of time.
3. **Target costing:** Using insights gained from determining optimal price points to set your target cost of production.
4. **Adoption:** Ensure smooth adoption by engaging and educating the three primary stakeholders: employees, business partners, and the general public.

Blue Ocean Idea Index: A birds-eye view of the commercial viability of blue ocean ideas.

		Your Offering
Utility	Is there exceptional utility?	
Price	Is the price easily accessible to the mass of buyers?	
Cost	Does the cost structure meet the target cost?	
Adoption	Have you addressed adoption hurdles up front?	

Source: Kim, WC & Mauborgne, R 2015, *Blue ocean strategy,* exp. edn. p. 140. HBS Publishing, Boston.

©2017 Pedago, LLC. All rights reserved.