

Leg 10. From Cardiff to Gothenburg

The Blue Ocean Strategy



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OUTLINE. The Blue Ocean Strategy

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**Introduction to
Blue Ocean
Strategy (BOS)**



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**Blue Ocean Strategy
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Jesus Renedo/Volvo Ocean Race

5 June 2018

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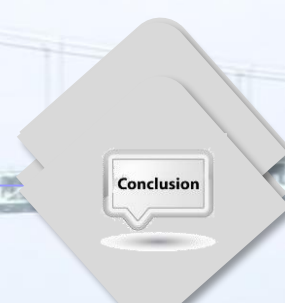
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We are here!

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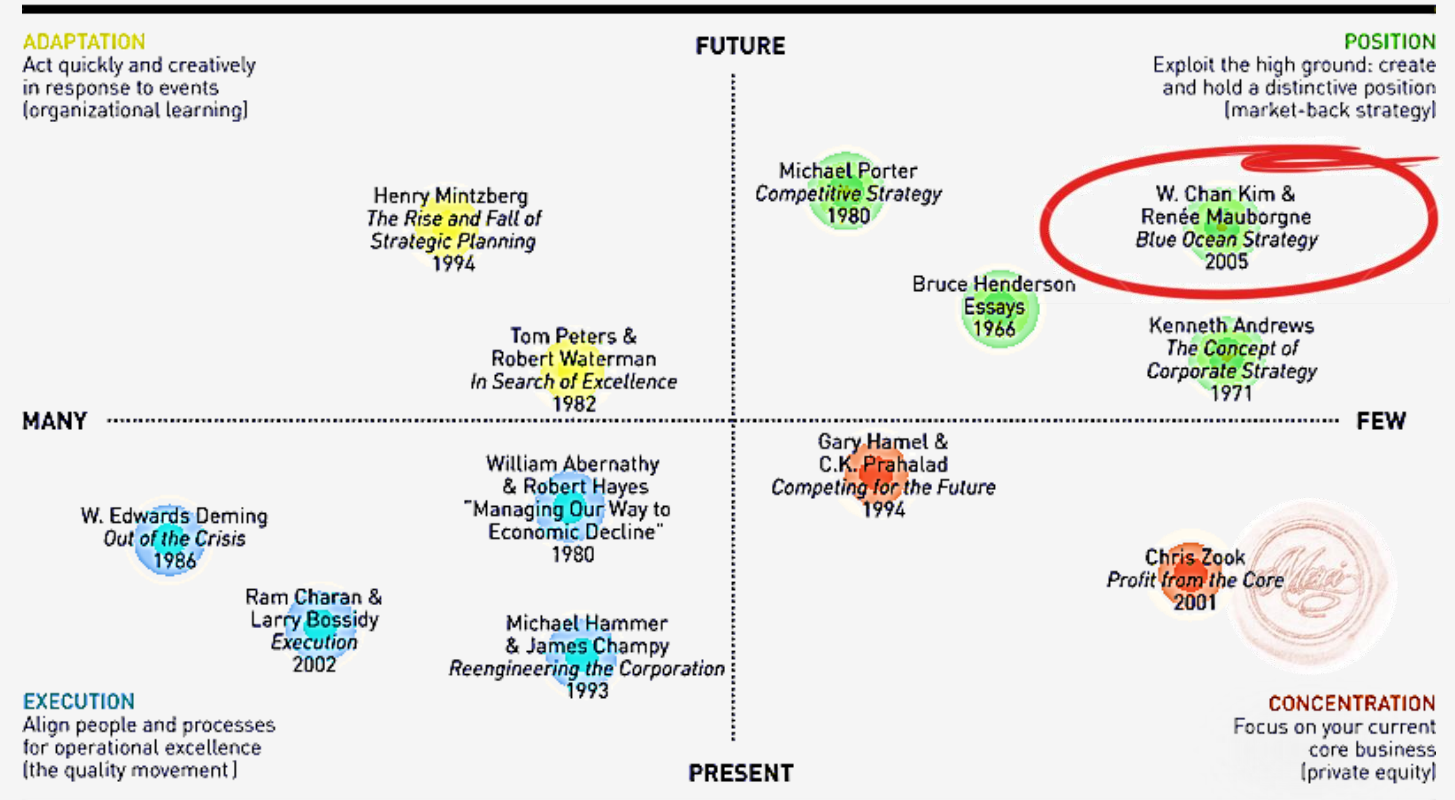


Introduction to Blue Ocean Strategy

Once upon a time in October 2004, Professors W. Chan Kim and Renée Mauborgne from INSEAD published for the first time an article called "Blue Ocean Strategy" at Harvard Business Review magazine.



Professors W. Chan Kim and Renée Mauborgne, INSEAD, France.



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What makes the “Blue Ocean Strategy” so appealing?

Blue is a beautiful color.

It is a new way of thinking about designing, creating and executing strategy.

Because it causes a feeling of hope.

It is a new choice to stop to compete principally on costs.

When supply overtakes demand, it hastens commoditization of products and services, pricing wars and industry destruction. The Blue Ocean Strategy is a long term solution to the latter problems.

In the middle of over-crowded competition it generates new market spaces to win.

It creates a leap in value for buyers and your company

The technological advances push forward to create new blue oceans.

Because it gives alternatives to get out of the vicious cycle of commodity competition.

It is beyond the win-win strategy.

Focus on making the competition neither here nor there.



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What is the Blue Ocean Strategy?

Definition of Blue Ocean Strategy

Blue Ocean Strategy generally refers to the business strategy of doing business where there is no competitors. It is about the creation of a new, uncontested market space that makes competitors irrelevant (neither here nor there) and that creates new consumer value often while decreasing costs. This term was introduced and coined by Professors W. Chan Kim and Renée Mauborgne in their best-selling book of the same name in 2005.

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Red Oceans Vs Blue Oceans

A shark swimming in a body of water that has a deep red, blood-like color. The shark is positioned in the center, facing forward, with its mouth slightly open.

- **Perspective: “Defend Current Position”**
- **Compete in existing markets**
- **Beat the competition**
- **Exploit existing demand**
- **Make the value cost trade-off**
- **Align the whole system of the firm’s activities with its strategic choice of differentiation OR low-cost**

A sailboat with a yellow sail and a blue hull, racing on a deep blue ocean. The boat is angled towards the right, with its sails fully deployed. The name 'Brunel' is visible on the side of the hull.

- **Perspective: “Innovate and Pursue New Opportunities”**
- **Create uncontested market space**
- **Make the competition “neither here nor there” or irrelevant**
- **Create and capture new clients (demand)**
- **Break the value-cost trade-off**
- **Align the whole system of the firm’s activities in pursuit of differentiation AND low cost**



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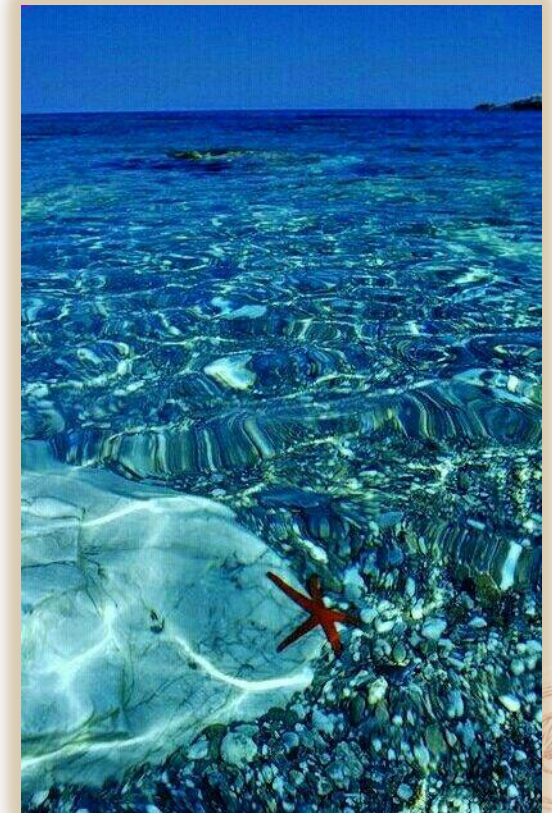
What kind of logic is needed to guide the creation of new blue oceans?

Doing business where there are no competitors, implies the creation of a new industry.

It is about creating new ideas, products, services. **It is not easy.**

1. Blue Oceans are not about technology innovation alone, but they can be originated by a technology evolution or technological simplification.
2. Incumbents often create blue oceans – and usually within their core businesses. Must blue oceans made by incumbents are created from within,

- not beyond red oceans or existing industries. This clarifies that new markets are not in distant markets, but right next to you in every industry
3. Company and industry are the wrong units of analysis when it comes to new blue oceans. The same company can be brilliant at one time, and wrongheaded at another. The most appropriate unit of analysis is the **strategic move**.
 4. Creating blue oceans builds brands. A new blue ocean strategic move can create brand equity for decades.

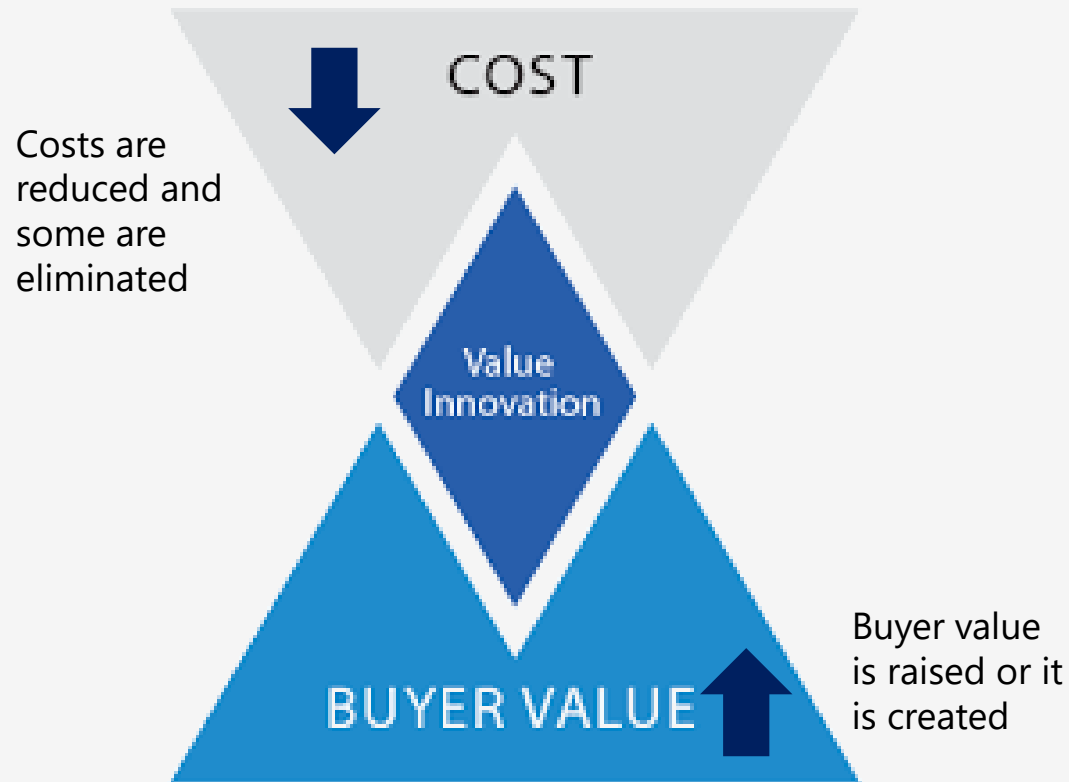


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Value Innovation is the foundation of the Blue Ocean Strategy...



- Value innovation is the cornerstone or foundation of the blue-ocean strategy. Companies focus on getting out of existing market boundaries by creating a leap in value for buyers and leaving the competition behind (Kim & Mauborgne, 2005)
- It focuses on simultaneous pursuit of differentiation and low cost thereby creating a better value for both buyer and the company.
- By opening up a new and uncontested market space, these buyers are now served with products and services.
- Value innovation can occur anywhere in the entire range of the company activities such as new product-service, delivery, customer service, and the whole business model.
- **Most powerful value innovation: it is difficult to imitate and it prevent imitators to enter the market.**
- Value is accomplished by attaining economic profits.



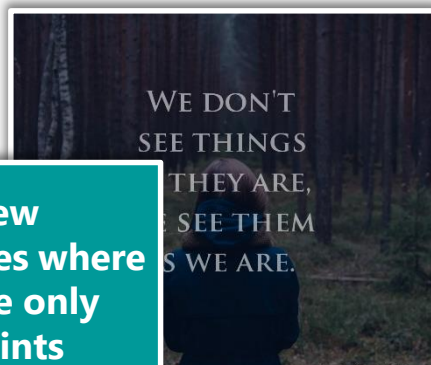
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The mentality of the “blue ocean strategists” is different...

See new opportunities where others see only constraints



Do not take Industry conditions as given. Set out to reshape them in their favor.



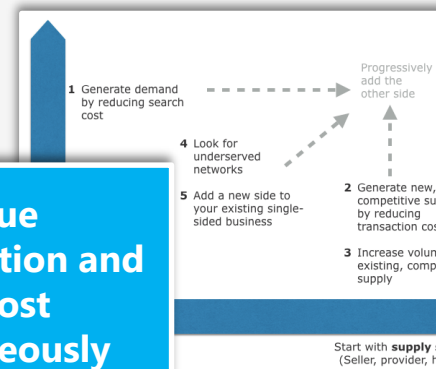
Do not seek to beat the competition. Aim to make the competition irrelevant.



Focus on creating and capturing new demand, not fighting over existing customers.



Pursue differentiation and low cost simultaneously



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Do you think “The Blue Ocean Strategy” is an answer to our brain desire to “escape” from competition... or to create new possibilities?

- When we feel completely overwhelmed by emotions and competition, sometimes the best strategy is to just walk away and do something else. Most of our competitors are “our competition”, because we are in the same industry.
- Even if temporary, the idea of finding a new blue ocean market space, is quite healthy. Once we leave the red ocean, and start our own blue ocean product-service-markets, anything we do, is quite irrelevant for our former competitors.
- But what happen when we have invested all our life in a red ocean, and we know everything we have is there? Is it easy to make the efforts to leave the red ocean? What happen if we wait our red ocean competitors out?



- **What is Escapism?** It is “an inclination to or habit of retreating from unpleasant or unacceptable reality.”
- **Escape** from a **read ocean**, can be a particularly effective technique to deal with our own corporate strategy, because it provides a safe space to act out without the pressure of competitors. At least initially. “Processing like this is important because it refreshes the mind and prepares oneself to tackle more difficult tasks in the future”.

*“Escapism.” Collins English Dictionary - Complete & Unabridged 10th Edition.
HarperCollins Publishers. 01 May. 2014.*

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The Blue Ocean Strategy tries to offer new gains not at expenses of others... The Competitive Strategy tries to dominate its competitive position in existing markets.

- The Blue Ocean Strategy is an opposite contrast of the "Competitive Strategy".
- If you are a five-forces disciple, you will try to dominate existing markets.
- If you are a blue-ocean fan, you will try to look for opportunities to create new products-services and markets.
- Both approaches to strategy have their own devotees.
- The Blue Ocean Strategy approach seems to be a good strategy at the beginning. Any blue-ocean if successful will end up transforming itself in a Red Ocean market, once the

industry profits, and the number of producers would both steadily increase. Companies will succeed by staking out the new blue ocean industry.

A Harvard Research Study shows that competition eventually erodes the profits from innovation. "But that's a slow process, requiring 15 years or so, which suggests that it takes the better part of a generation for the blue-ocean approach to yield to competitive strategy".

Source: <https://hbr.org/2010/05/blue-ocean-vs-five-forces>



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On our next post, we will dig into the specific Blue Ocean Strategy insights path...



Picture Source: Pinterest.com

Bad planning - No waves and surrounded by Sharks.

Thank you!

