

Falkirk Enterprise Action Trust

Blue Ocean Strategy

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Good afternoon. My name is Mike Breewood. I work with SMEs in Central Scotland helping them to use marketing strategies to grow their businesses, that is I help them to understand what they offer, who they are offering it to and why those potential customers should buy from them.

I'd like to thank Jim for giving me this chance to come and talk to you all. When he briefed me on the talk he gave me a very simple specification – he said “NO JARGON” and “IT’S GOT TO BE USEFUL TO THEM AS SOON AS THEY LEAVE”.

With those injunctions ringing in my ears, it didn't take me long to suggest that I should talk about “Blue Ocean Strategy” .

Does your business feel like this?

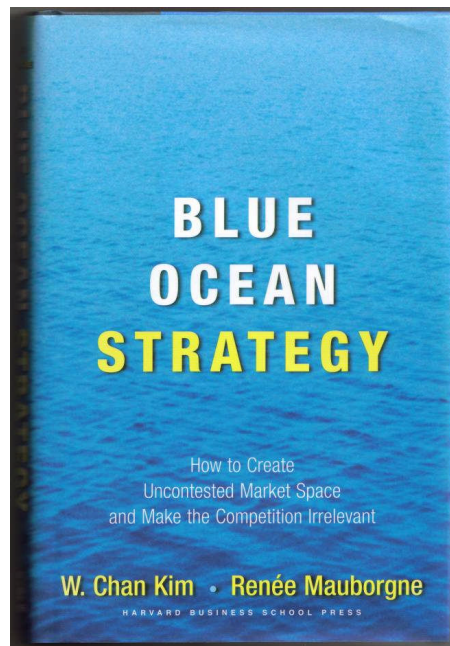


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Before I explain about why I chose to talk on Blue Ocean Strategy, let me ask for a show of hands – does your business feel like this? Is the competition grinding you down? Is it a constant struggle to survive? Is there always some other beastie coming out to take a bite at you?

Yes, I thought so! We all have those feelings.

What I'm going to go on and talk about is a way to break out of that fight to the death – Blue Ocean Strategy.



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The basis for this talk is a book.

Blue Ocean Strategy – or HOW TO CREATE UNCONTESTED MARKET SPACE AND MAKE THE COMPETITION IRRELEVANT describes the ideas of W. Chan Kim and Renee Mauborgne, two academics at the INSEAD business school near Paris.

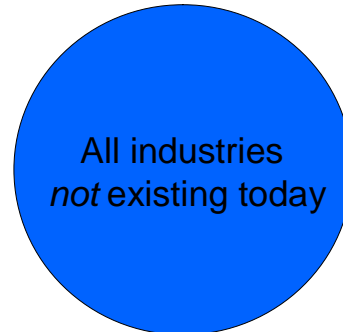
I chose to talk about these ideas today because, as I read the book, they generated a huge number of lightbulb moments – I kept thinking “ah yes, we can use these ideas with this client and with that client”. It has been one of the most practical and useful books that I have come across in the last three years.

Red Oceans and Blue Oceans



All industries
existing today

- focus on market share
- trend to declining profits
- products become commodities
- cutthroat competition



All industries
not existing today

- untapped markets
- demand creation
- highly profitable growth

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Blue Ocean Strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant.

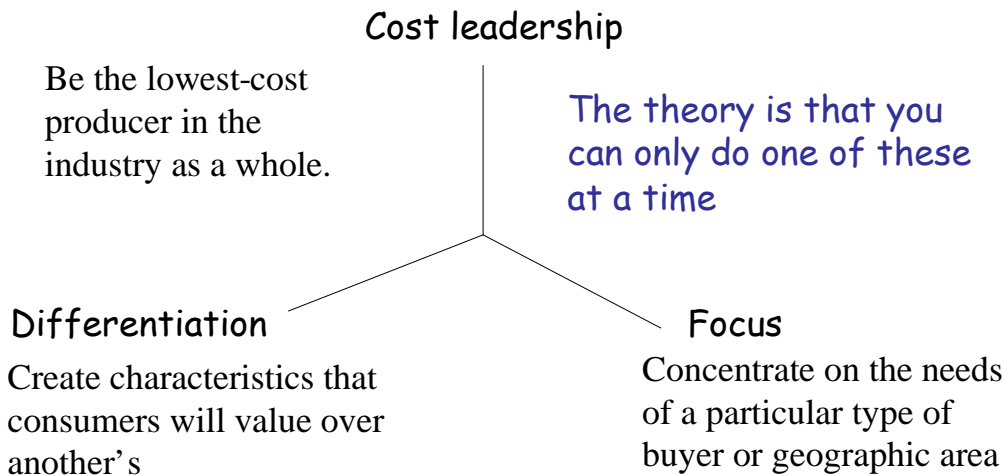
Instead of dividing up existing – and often shrinking – demand and benchmarking competitors, Blue Ocean Strategy is about growing demand and breaking away from the competition.

So, lets look at where you are today. The chances are that you (actually all of us) are firmly stuck in a Red Ocean. The big question is “HOW DO WE make the most of the potential that awaits?”

We have to recognise that we’ll never get away from the Red Ocean completely – but why put all your energies into a hard fight when you can put some of them into an easy conquest?

Red Oceans have been dominated by competition-based strategies, with a strong influence from military thinking – it’s all about confronting an opponent and fighting over a given piece of land that is both limited and constant. The language is that of war, not that of business. By contrast we know that the distinctive strength of the business world is the capacity to create new market spaces that are uncontested at the outset – so we need strategies to help us do that!

Traditional Competitive Strategies



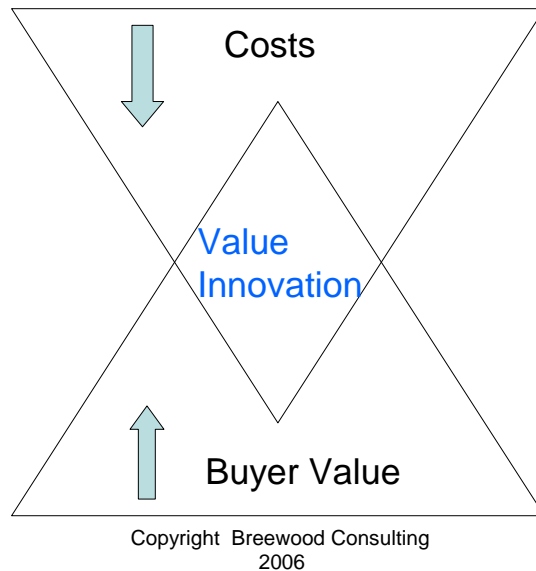
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If you read the traditional marketing theory (chaps like Michael Porter for instance) then you have to choose one and one only of these three strategy options.

Whichever you pick you have hard choices to make.

Go for the cost(price) leadership and you find that you are always struggling to keep your costs down and worried that someone else has deeper pockets than you do; go for differentiation and you could spend lots of money on differences that the market doesn't value; go for focus and you could find that you have restricted the size of market you have available to you.

Value Innovation – the heart of Blue Ocean Strategy



The creators of Blue Ocean strategies don't use the competition as their benchmark – instead, they focus on making the competition irrelevant by creating a leap in value for buyers and for their company.

By contrast with traditional competitive strategies, where companies EITHER created a difference (usually at some cost to the consumer) OR went for low cost (in a trad-off with value for the consumer), the Blue Ocean strategist does BOTH at once, by seeking to bring value that is appreciated by the consumer and by bringing down costs.

Now, that's all very well – but how can you do that? Value innovation is created in that bit in the middle where a company does things that favorably affect both its cost structure and its value proposition to buyers.

Cost savings are made by eliminating and reducing the factors that an industry competes on. Buyer value is lifted by raising and creating elements that the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that the superior buyer value generates.

Let's turn now to HOW we can build such a strategy and look at the principles that we'll need to follow.

Three Key Tools

- The Strategy Canvas
- The Four Actions Framework
- The Eliminate-Reduce-Raise-Create Grid

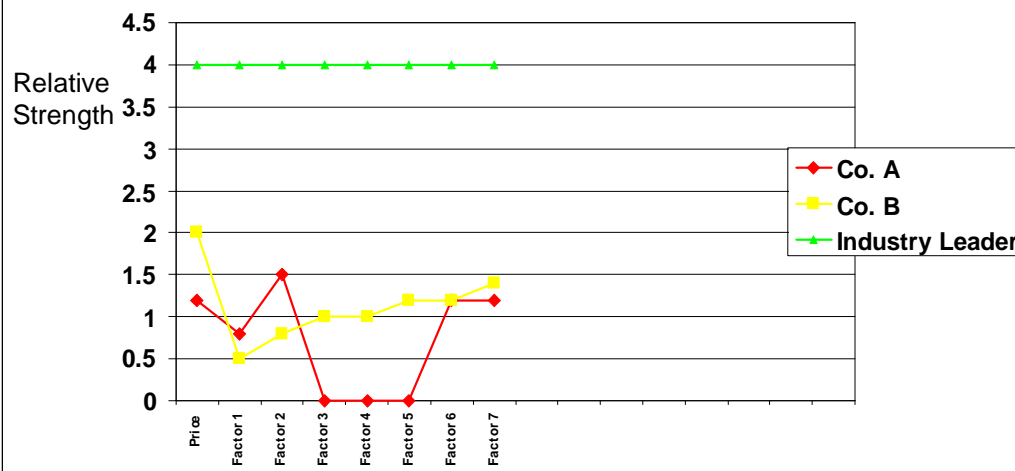
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Kim and Mauborgne describe three key tools to help create a Blue Ocean Strategy; the Strategy Canvas, the Four Actions Framework and the Eliminate-Reduce-Raise-Create Grid.

These tools are, on the face of it, very simple.

Lets look at each of them in turn.

Strategy Canvas - format



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The strategy canvas serves two purposes. First, it captures the current state of play in the known market space. This allows you to understand where the competition is currently investing, the factors the industry currently competes on in products, service and delivery and what customers receive from the existing competitive offerings on the market. Second, it shows what actions it may be useful to take as a result of that understanding.

What is shown here is a standard format for a strategy canvas.

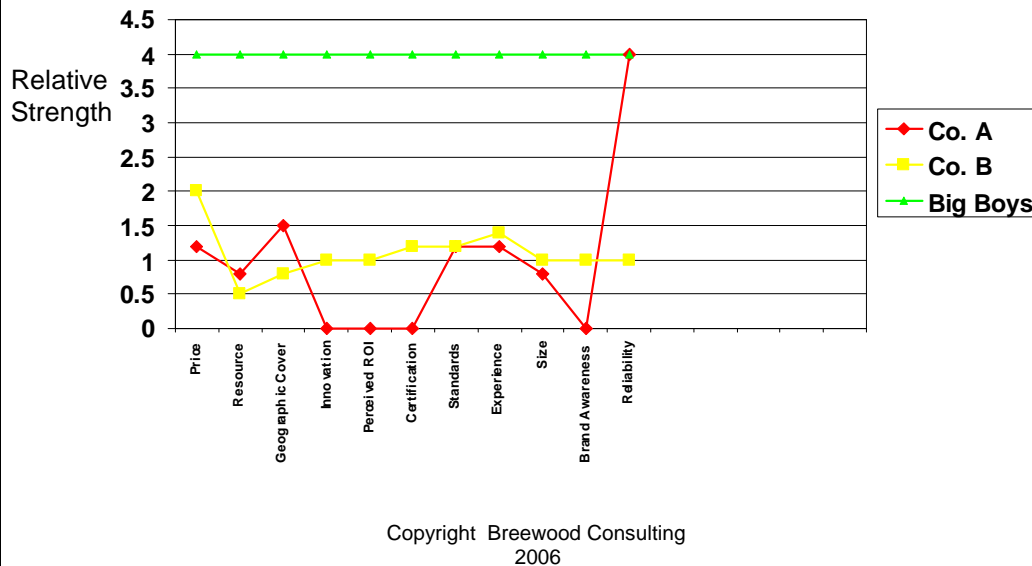
The horizontal axis captures the range of factors the industry competes on and invests in. The vertical axis captures the offering level that buyers receive across all of these key competing factors. A high score means that a company offers buyers more and hence invests more in that factor. In the case of price, a higher score indicates a higher price.

The Value Curve is a graphic depiction of a company's relative performance across its industry's factors of competition.

To set a company on a strong, profitable growth path it won't work to simply benchmark competitors and try to outcompete them by offering a little more for a little less – and unfortunately asking customers what they want isn't the answer either – as they are unlikely to be able to imagine anything outside their current market experience.

To change the Strategy Canvas of an industry it is important to change focus from competitors to alternatives and from customers to noncustomers. By doing this you are able to reconstruct buyer value elements from outside your current industry boundaries.

Strategy Canvas – Client example

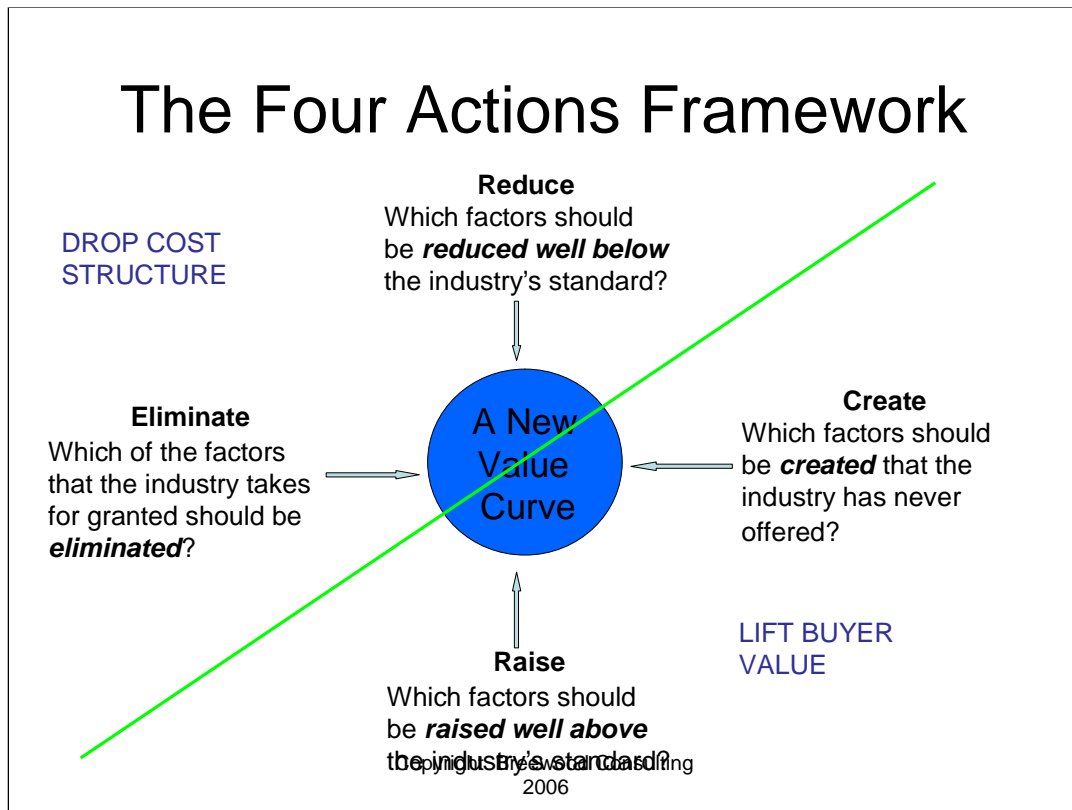


The example shown here is a strategy canvas prepared for a client of mine. They were comparing themselves to their nearest competitor and also with some of the industry's Big Boys (whom they were increasingly bumping up against).

It was clear from this analysis that my client could improve its pricing, compared to its nearest competitor – and it was also clear where its areas of weaknesses were compared to that competitor. These changes were relatively easy to consider and implement – but those changes alone would still only leave my client better off in its existing market – and would do nothing to help a step-change in performance.

You'll remember I said that to change the Strategy Canvas of an industry it is important to change focus from competitors to alternatives and from customers to noncustomers. By doing this you are able to reconstruct buyer value elements from outside your current industry boundaries. To get there we need to use the next tool – the Four Actions Framework.

The Four Actions Framework



These are the four key questions used to challenge an industry's strategic logic and business model.

The first question forces you to consider eliminating factors that companies in your industry have long competed on – even though they may no longer have value, or even detract from customer value.

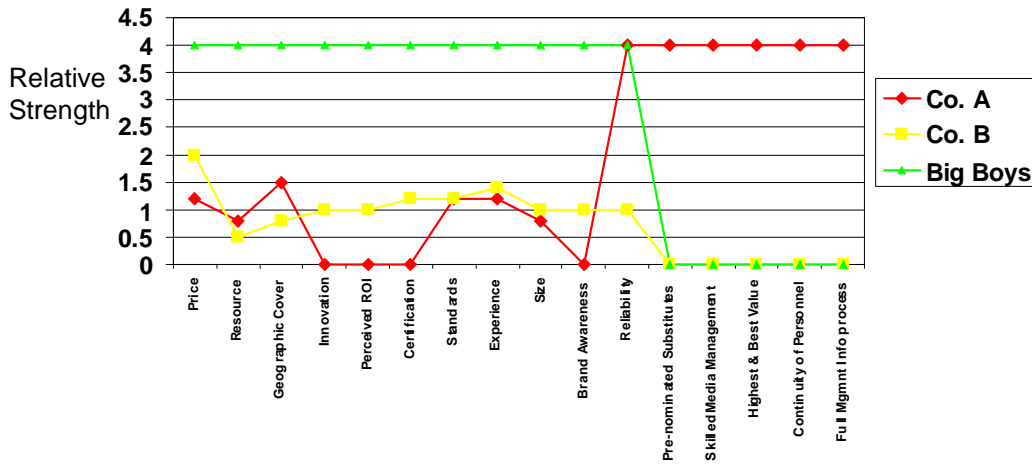
The second question forces you to determine whether products or services have been overdesigned in the race to match and beat the competition – here companies overserve customers, increasing their cost structure for no gain.

The third question pushes you to uncover and eliminate the compromises your industry forces your customers to make (LIKE THE UTILITIES THAT INSIST THEY CAN'T GIVE CUSTOMERS A FIXED APPONTMENT TIME FOR A TRADESMAN TO CALL).

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

Questions 1 and 2 help you gain insight into how to drop your cost structure compared to competitors – questions 3 and 4 help you to identify how to lift buyer value and create new demand.

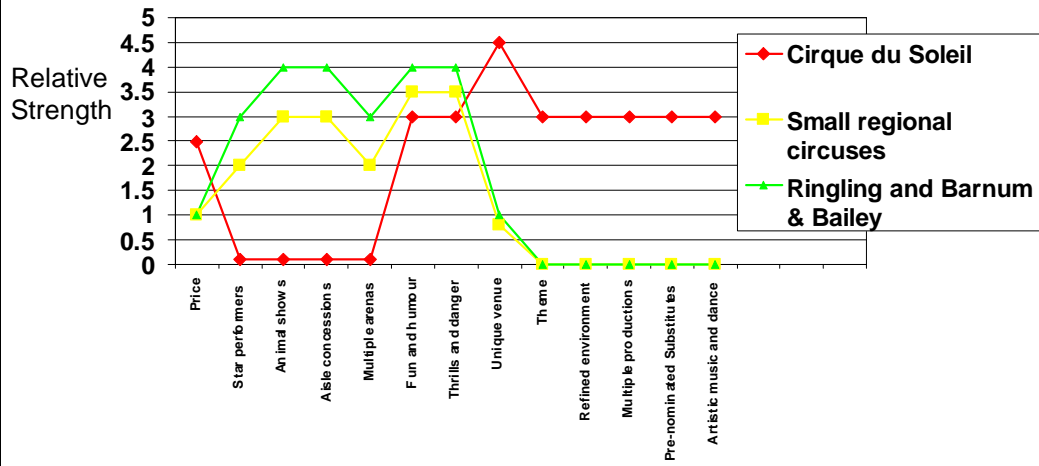
Strategy Canvas - after



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After going through the Four Actions Framework, my client was able to identify new factors of competition with which to approach the market. It was also able to identify areas where it needed to take remedial action – like increase its prices and invest in brand awareness.

Strategy Canvas – Cirque du Soleil



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Here is another example – the Canadian circus cirque du Soleil – the circus that reinvented circus.

Eliminate-Reduce-Raise-Create Grid for Cirque du Soleil

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

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Cirque du Soleil reduced the cost of their show compared to traditional circuses and drew entirely new audiences by appealing to noncustomers of traditional circuses, i.e. to theatergoers. The net effect is that they could charge more than traditional circuses but a little less than theaters = making much more profit than their erstwhile competitors.

So what makes a good Blue Ocean strategy?

1. Focus
2. Divergence
3. Compelling tagline

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Using the Value Curve to portray the strategy, the Curve should show that is focussed, i.e. The company does not diffuse all of its efforts across all key factors of competition.

The shape of the Value Curve should clearly diverge from competitors – which means that the company is not simply benchmarking competitors but is instead looking across alternatives.

The tagline should express the company's focus and diversity clearly and simply.

Without these qualities a company's strategy is likely to be muddled, undifferentiated and hard to communicate, with a high cost structure. When a company's value curve lacks focus, its cost structure will tend to be high and its business model complex in implementation and in execution. When it lacks divergence a company's strategy is a me-too, with no reason to stand apart in the marketplace. When it lacks a compelling tagline that speaks to buyers it is likely to be internally driven or a classic example of innovation for innovation's sake with no great commercial potential and no natural take-off capability

Six Principles of Blue Ocean Strategy

Building the Strategy

- Reconstruct market boundaries
- Focus on the big picture
- Reach beyond existing demand
- Get the sequence right

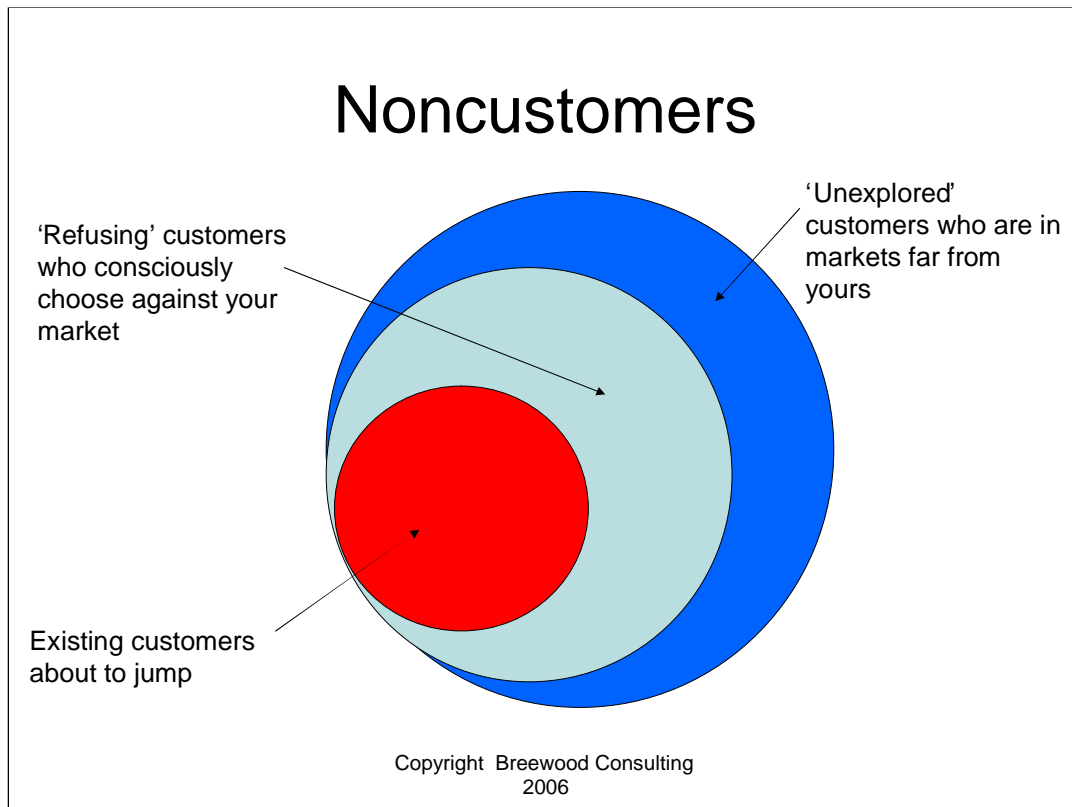
Making it happen

- Overcome organisational hurdles
- Build execution into the strategy

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Kim and Mauborgne describe 6 principles to guide you in building a BOS. I'm not going to go through all 6 of them now – but I'd like to focus on just two of them; Reaching beyond existing demand and getting the sequence right.

Before doing that, I'd like to emphasise how important the execution is. If you are right, then you have to prepare for success. Think of what Carphone Warehouse has done with its recent offer – by adding value to what they offer they are reaching out to thousands of current non-customers – but they weren't ready to cope with the flood of success.



How do you maximise the size of the blue ocean you are creating? You have to reach beyond existing demand. To do that you need to challenge two conventional practices; the first is the focus on existing customers; the second is the drive to ever finer segmentation to accommodate buyer differences.

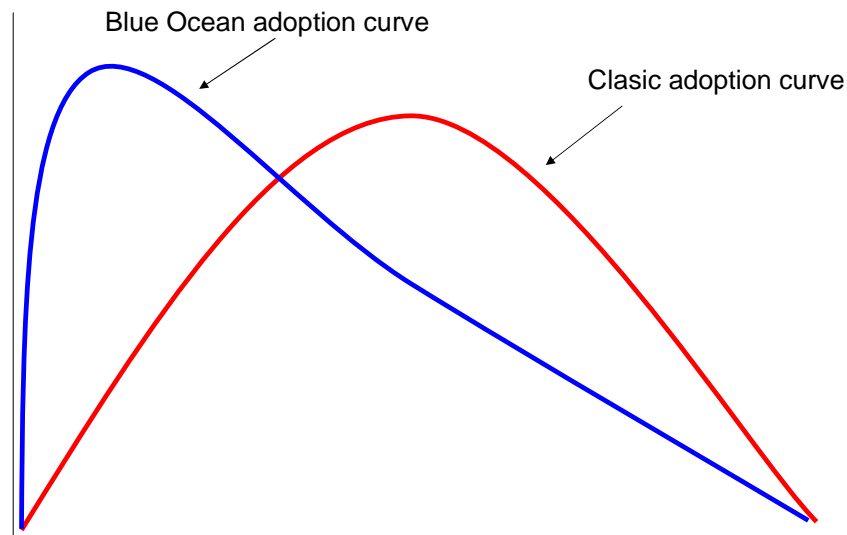
To maximise size of blue oceans, companies need to take a reverse course. Instead of focussing on existing customers, they need to focus on noncustomers. And instead of focussing on customer difference, they need to build on powerful commonalities in what customers value – allowing them to reach beyond existing demand to unlock a new mass of customers that did not exist before. Think of Callaway Golf. It looked at people who didn't play golf and tried to analyse why not. They found that many non-golfers had shied away because they thought that it was too difficult to hit a golf ball with the then-normal golf clubs. Hitting the ball took time to master and was demotivating for beginners. Their answer was to develop the Big Bertha club with a large head. It not only converted noncustomers of golf into customers, but it pleased existing customers (with the exception of the professionals and long-time customers, who felt that golf was meant to be hard...).

Noncustomers include those who are actually customers, but who are waiting for a chance to go elsewhere – but if offered a leap in value, not only would they stay, but they would buy more often.

Refusing customers have consciously decided against using current market offerings – if you can find out why and deal with those reasons, then you unleash considerable latent demand.

The third group is that of the unexplored customers, Typically they have never been considered as customers, mainly because their needs and the opportunities arising from those needs have always been assumed to belong to other markets. Look at Amazon's recent announcement that they are to sell groceries as well as books and other consumer durables as an example of exploitation of such customers.

Get the price right



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By making the price of your Blue Ocean offering absolutely accessible, you encourage much faster adoption of your offering, compared to the classic pricing model of high pricing for early adopters, followed by gradual erosion of pricing power as more adopters follow on and more competition enters the market.

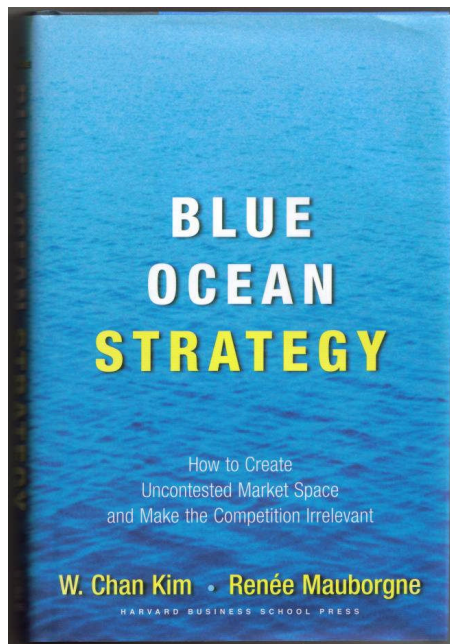
Get the bulk of adopters early and the market is less attractive to competition – as there are fewer adopters available for them and the price of the offering is already hard for them to match.

Get the order right

1. Is there exceptional usefulness for the buyer in your business idea – **if NOT then Rethink**
2. Is your price easily accessible to the mass of buyers – **if NOT then Rethink**
3. Can you attain your cost target to make the desired profit at your strategic price – **if NOT then Rethink**
4. What are the hurdles to buyer adoption in your business idea and are you addressing them up front – **if NOT then Rethink**

If you can answer YES to all of these questions – then you may have a commercially viable Blue Ocean Strategy

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In summary – the ideas in Blue Ocean Strategy are simple – they rely on a deep understanding of your industry and the factors of competition in your industry – but you don't need a consultant to tell you about them – the book is a very easy read and I would encourage you all to try out the ideas in this book on your business.

Thank you for listening – I hope you've found these ideas inspiring and potentially useful. Now, any questions?