

BLUE OCEAN STRATEGY, EXPANDED EDITION

**HOW TO CREATE UNCONTESTED MARKET SPACE
AND MAKE THE COMPETITION IRRELEVANT**

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FIGURE 1-1

The profit and growth consequences of creating blue oceans

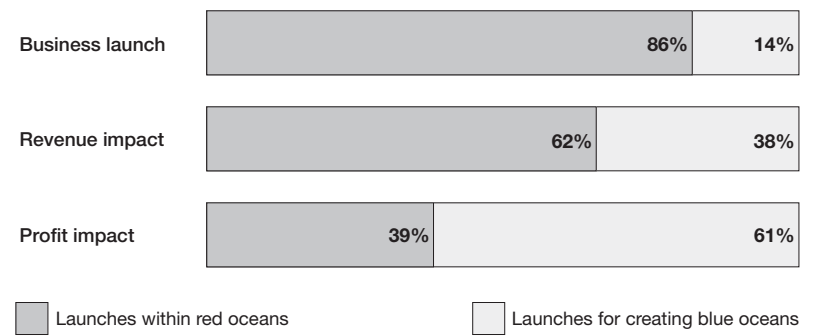


FIGURE 1-2

Value innovation: The cornerstone of blue ocean strategy

Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates.

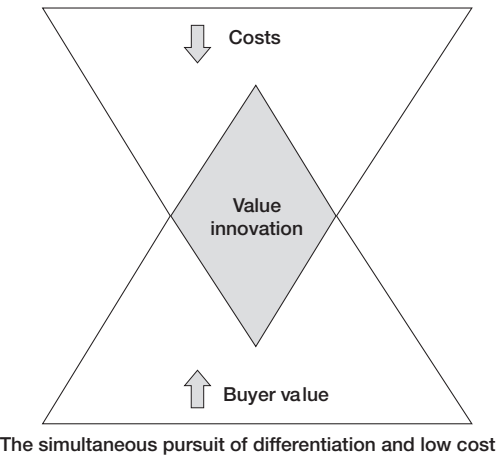


FIGURE 1-3

Red ocean versus blue ocean strategy

Red ocean strategy	Blue ocean strategy
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.

FIGURE 1-4

The eight principles of blue ocean strategy

Formulation principles

Reconstruct market boundaries.
Focus on the big picture, not the numbers.
Reach beyond existing demand.
Get the strategic sequence right.

Risk factor each principle attenuates

- ↓ Search risk
- ↓ Planning risk
- ↓ Scale risk
- ↓ Business model risk

Execution principles

Overcome key organizational hurdles.
Build execution into strategy.
Align the value, profit, and people propositions.
Renew blue oceans.

Risk factor each principle attenuates

- ↓ Organizational risk
- ↓ Management risk
- ↓ Sustainability risk
- ↓ Renewal risk

FIGURE 2-1

The strategy canvas of the US wine industry in the late 1990s

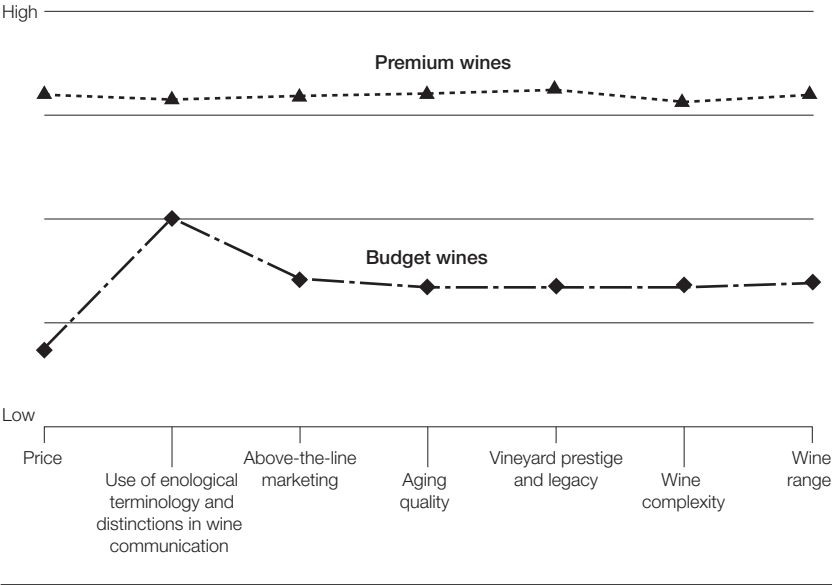


FIGURE 2-2

The four actions framework

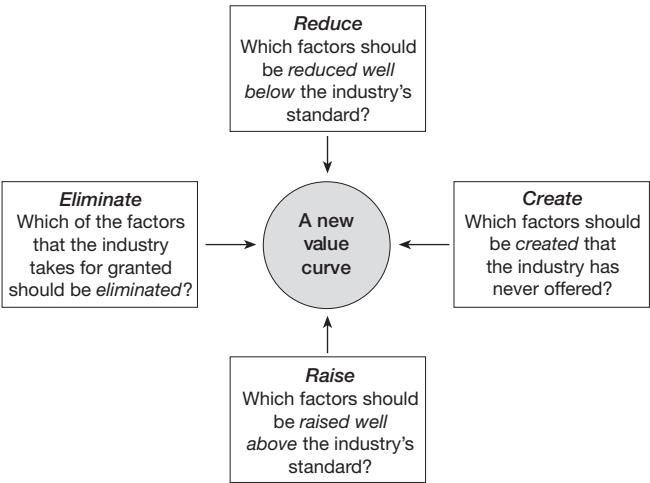


FIGURE 2-3

The strategy canvas of [yellow tail]

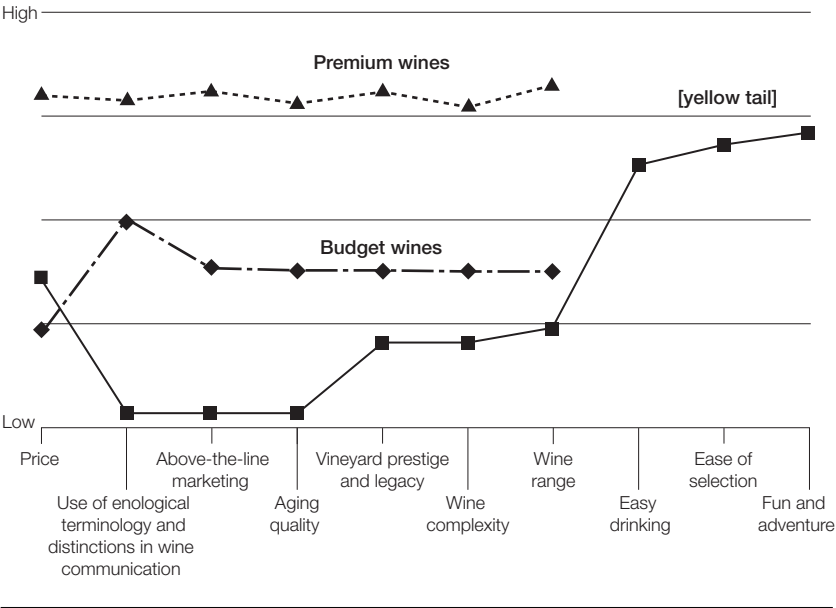


FIGURE 2-4

Eliminate-reduce-raise-create grid: The case of [yellow tail]

Eliminate Enological terminology and distinctions Above-the-line marketing Aging qualities	Raise Price versus budget wines
Reduce Vineyard prestige and legacy Wine complexity Wine range	Create Easy drinking Ease of selection including retail store support Fun and adventure

FIGURE 2-5

Eliminate-reduce-raise-create grid: The case of Cirque du Soleil

Eliminate Star performers Animal shows Aisle concession sales Multiple show arenas	Raise Price Unique venue
Reduce Fun and humor Thrill and danger	Create Theme Refined environment Multiple productions Artistic music and dance

FIGURE 2-6

The strategy canvas of Southwest Airlines

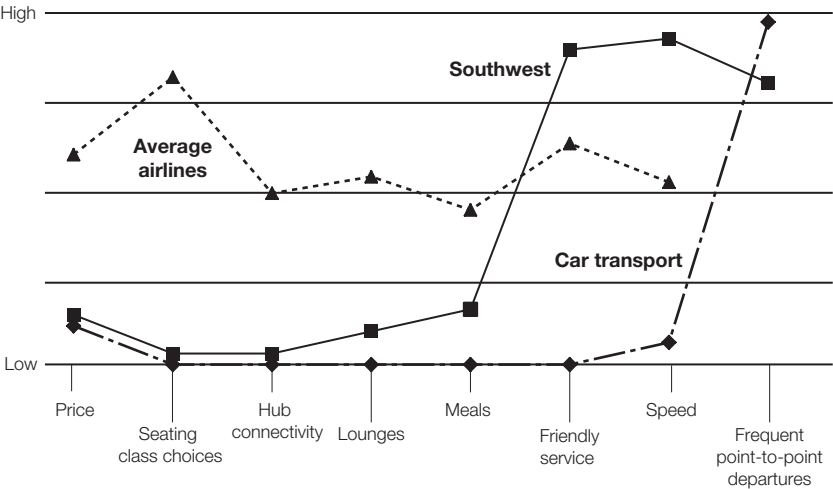


FIGURE 2-7

The strategy canvas of Cirque du Soleil

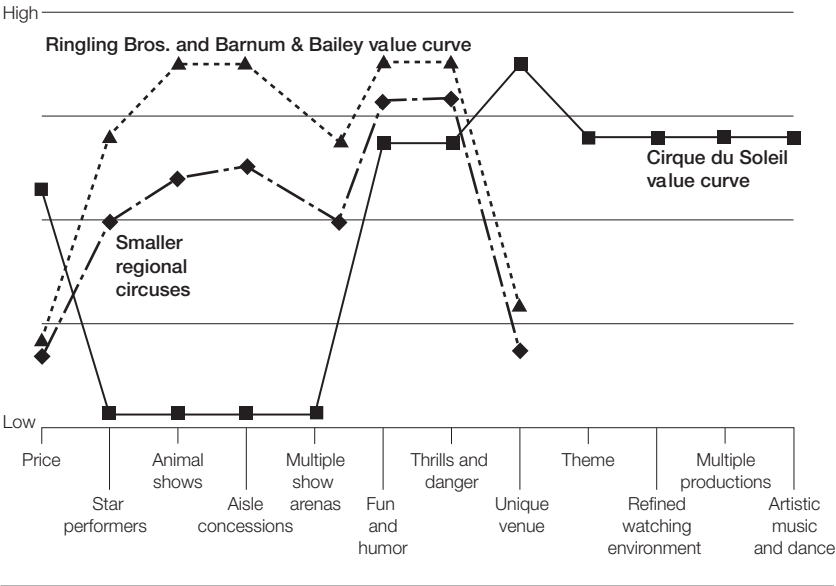


FIGURE 3-1

The strategy canvas of NetJets

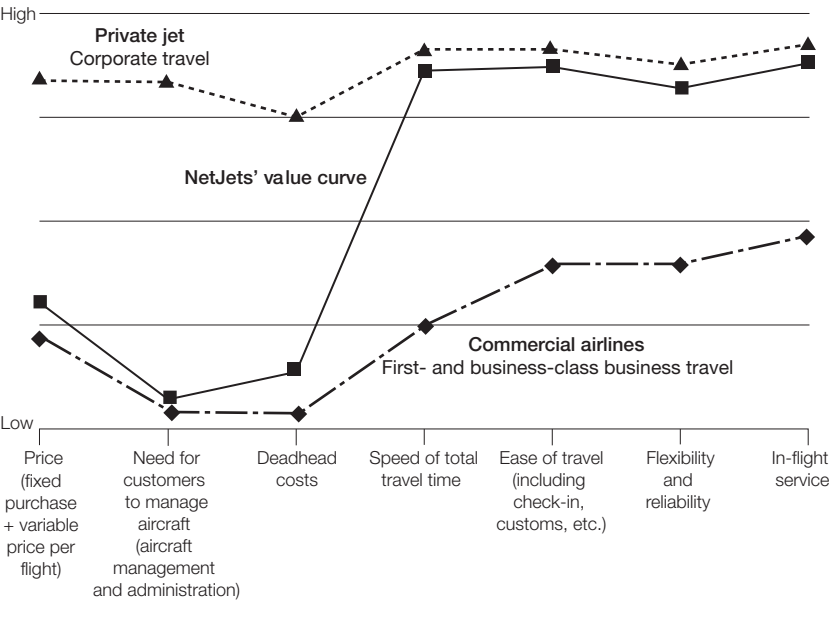


FIGURE 3-2

The strategy canvas of Curves

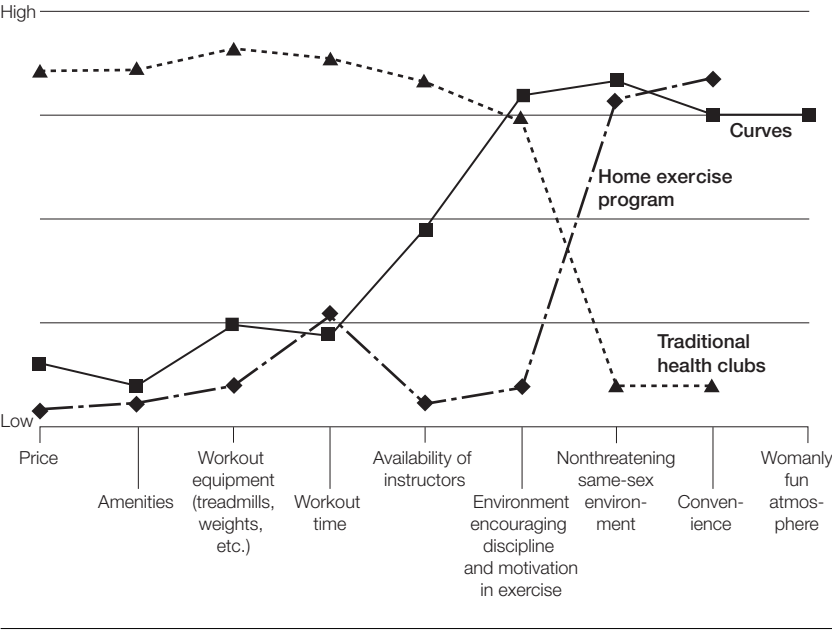


FIGURE 3-3

The strategy canvas of the US municipal bus industry, circa 2001

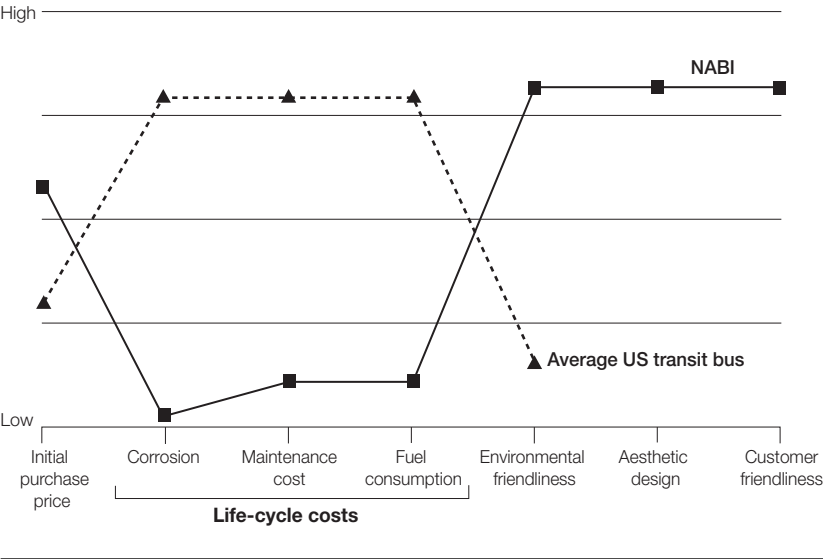


FIGURE 3-4

The strategy canvas of QB House

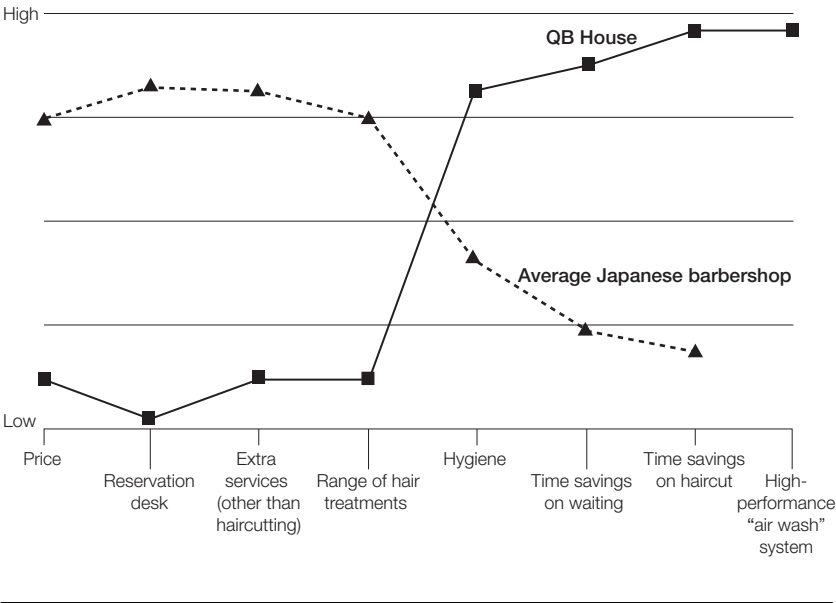


FIGURE 3-5

From head-to-head competition to blue ocean creation

	Head-to-head competition		Blue ocean creation
Industry	Focuses on rivals within its industry	→	Looks across alternative industries
Strategic group	Focuses on competitive position within strategic group	→	Looks across strategic groups within industry
Buyer group	Focuses on better serving the buyer group	→	Redefines the industry buyer group
Scope of product or service offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	→	Looks across to complementary product and service offerings
Functional-emotional orientation	Focuses on improving price performance within the functional-emotional orientation of its industry	→	Rethinks the functional-emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	→	Participates in shaping external trends over time

FIGURE 4-1

The four steps of visualizing strategy

1. Visual awakening	2. Visual exploration	3. Visual strategy fair	4. Visual communication
<ul style="list-style-type: none">• Compare your business with your competitors' by drawing your "as is" strategy canvas.• See where your strategy needs to change.	<ul style="list-style-type: none">• Go into the field to explore the six paths to creating blue oceans.• Observe the distinctive advantages of alternative products and services.• See which factors you should eliminate, create, or change.	<ul style="list-style-type: none">• Draw your "to be" strategy canvas based on insights from field observations.• Get feedback on alternative strategy canvases from customers, competitors' customers, and noncustomers.• Use feedback to build the best "to be" future strategy.	<ul style="list-style-type: none">• Distribute your before-and-after strategic profiles on one page for easy comparison.• Support only those projects and operational moves that allow your company to close the gaps to actualize the new strategy.

FIGURE 4-2

The strategy canvas of corporate foreign exchange, offline

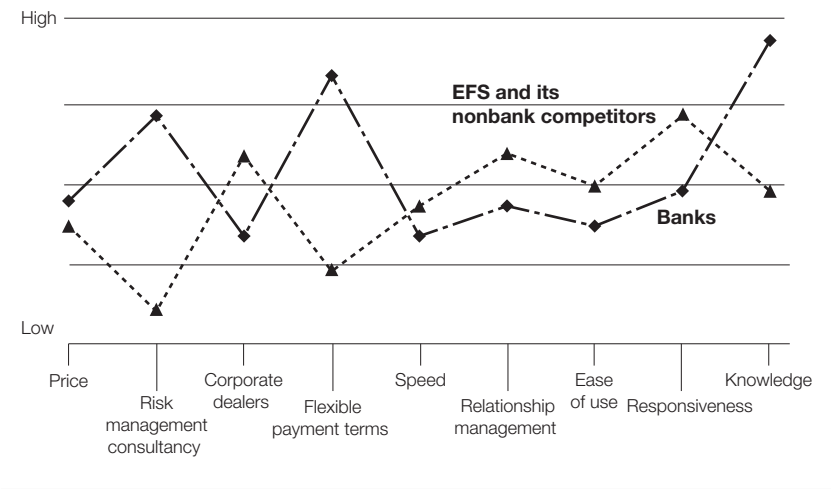


FIGURE 4-3

The strategy canvas of corporate foreign exchange, online

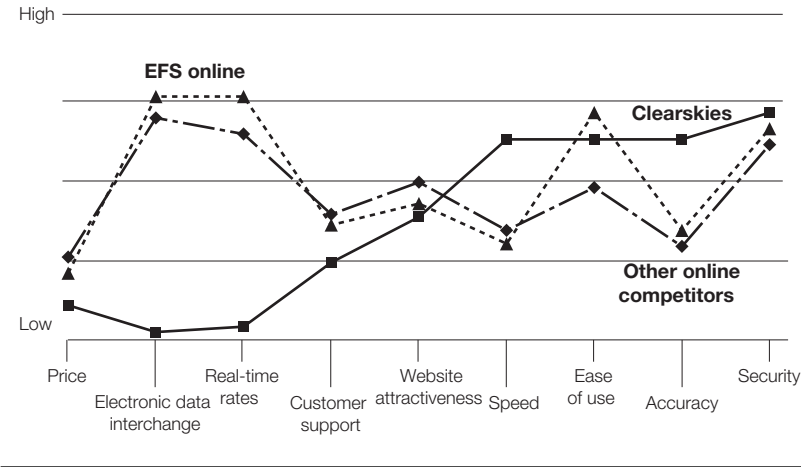


FIGURE 4-4

EFS: Before and after

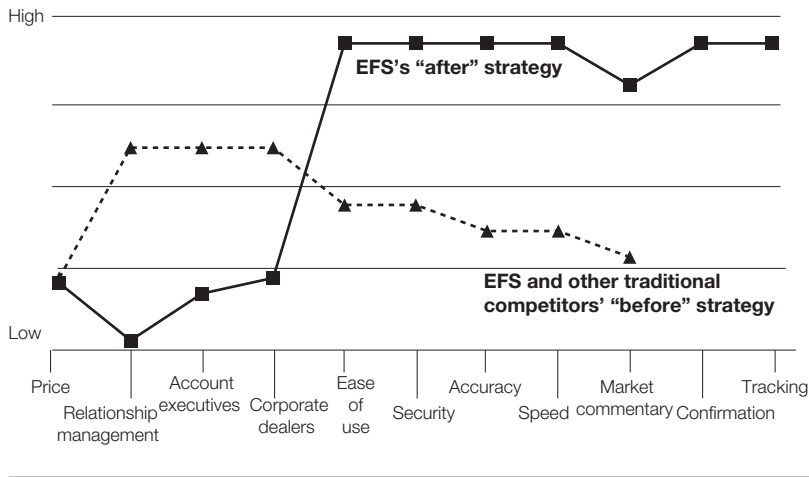


FIGURE 4-5

Eliminate-reduce-raise-create grid: The case of EFS

Eliminate Relationship management	Raise Ease of use Security Accuracy Speed Market commentary
Reduce Account executives Corporate dealers	Create Confirmation Tracking

FIGURE 4-6

Testing the growth potential of a portfolio of businesses

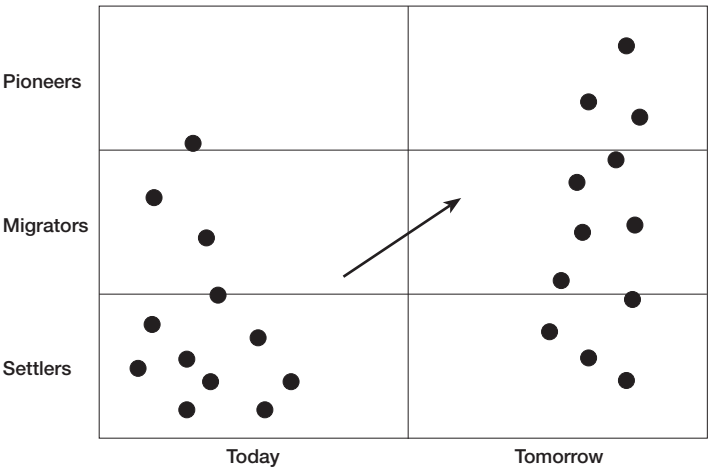
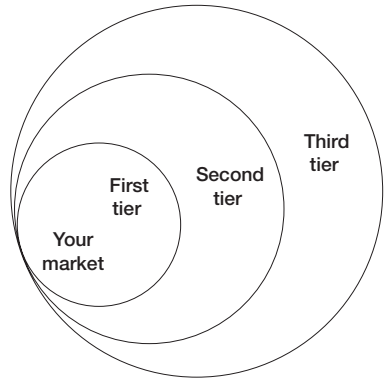


FIGURE 5-1

The three tiers of noncustomers



First tier: "Soon-to-be" noncustomers who are on the edge of your market, waiting to jump ship.

Second tier: "Refusing" noncustomers who consciously choose against your market.

Third tier: "Unexplored" noncustomers who are in markets distant from yours.

FIGURE 5-2

The key competing factors of the defense aerospace industry

The JSF project found that despite the wide range of key competing factors, only those shaded in grey were decisive to each branch's fighter aircraft decision.

Air Force	Navy	Marines	
Lightweight	Two engines	STOVL	Design customization
Integrated avionics	Two seats	Lightweight	
Stealth	Large wings	Short wings	
Supercruise engine	Durability	Countermeasures	
Long-distance	Long-distance		
Agility	Maintainability		
Air-air armaments	Large/flexible weapons payload	Large/flexible weapons payload	Weapons customization
Fixed internal weapons payload	Air-air and air-ground armaments	Air-ground armaments	
		Electronic warfare	
An aircraft built for every mission	An aircraft built for every mission	An aircraft built for every mission	Mission customization

FIGURE 6-1

The sequence of blue ocean strategy

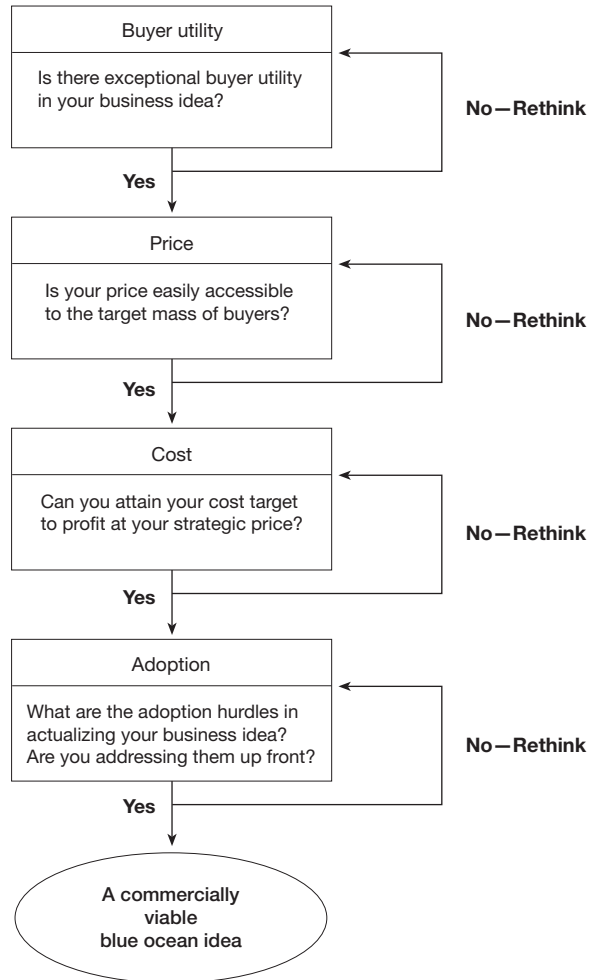


FIGURE 6-2

The buyer utility map

		The six stages of the buyer experience cycle					
		1. Purchase	2. Delivery	3. Use	4. Supplements	5. Maintenance	6. Disposal
The six utility levers	Customer productivity						
	Simplicity						
	Convenience						
	Risk						
	Fun and image						
	Environmental friendliness						

FIGURE 6-3

The buyer experience cycle

Purchase	Delivery	Use	Supplements	Maintenance	Disposal
How long does it take to find the product you need?	How long does it take to get the product delivered?	Does the product require training or expert assistance?	Do you need other products and services to make this product work?	Does the product require external maintenance?	Does use of the product create waste items?
Is the place of purchase attractive and accessible?	How difficult is it to unpack and install the new product?	Is the product easy to store when not in use?	If so, how costly are they?	How easy is it to maintain and upgrade the product?	How easy is it to dispose of the product?
How secure is the transaction environment?	Do buyers have to arrange delivery themselves? If yes, how costly and difficult is this?	How effective are the product's features and functions?	How much time do they take?	How costly is maintenance?	Are there legal or environmental issues in disposing of the product safely?
How rapidly can you make a purchase?		Does the product or service deliver far more power or options than required by the average user? Is it overcharged with bells and whistles?	How much pain do they cause?	How easy are they to obtain?	How costly is disposal?

FIGURE 6-4

Uncovering the blocks to buyer utility

Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Customer productivity:		In which stage are the biggest blocks to customer productivity?			
Simplicity:		In which stage are the biggest blocks to simplicity?			
Convenience:		In which stage are the biggest blocks to convenience?			
Risk:		In which stage are the biggest blocks to reducing risks?			
Fun and image:		In which stage are the biggest blocks to fun and image?			
Environmental friendliness:		In which stage are the biggest blocks to environmental friendliness?			

FIGURE 6-5

The price corridor of the target mass

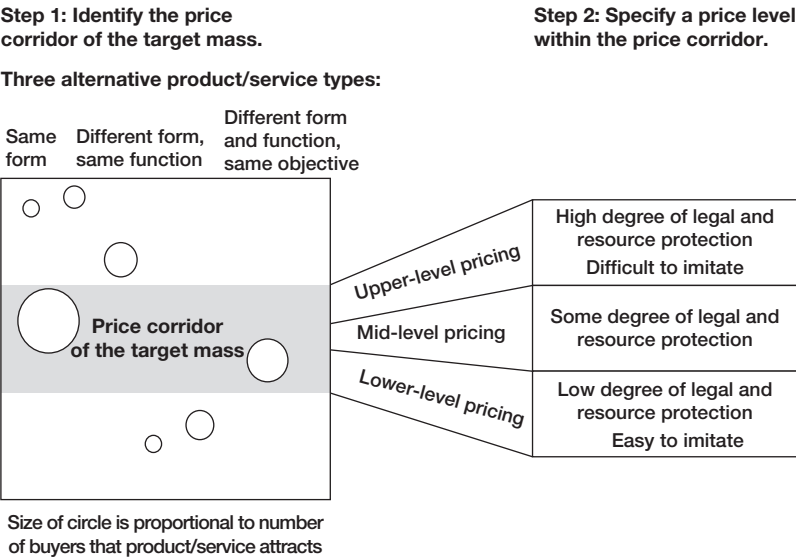


FIGURE 6-6

The profit model of blue ocean strategy

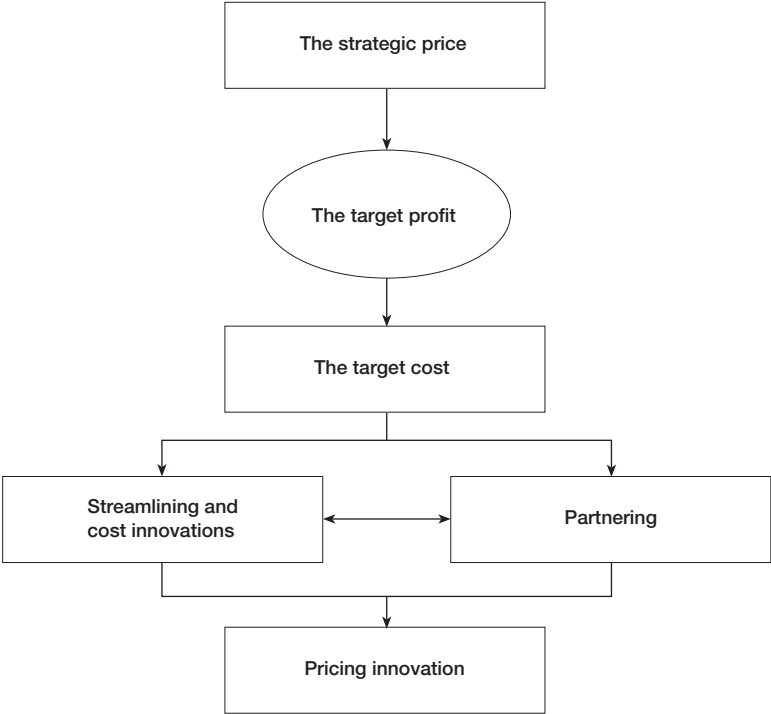


FIGURE 6-7

Blue ocean idea (BOI) index

		Philips CD-i	Motorola Iridium	DoCoMo i-mode Japan
Utility	Is there exceptional utility? Are there compelling reasons to buy your offering?	-	-	+
Price	Is your price easily accessible to the target mass of buyers?	-	-	+
Cost	Does your cost structure meet the target cost?	-	-	+
Adoption	Have you addressed adoption hurdles up front?	-	+/-	+

FIGURE 7-1

The four organizational hurdles to strategy execution

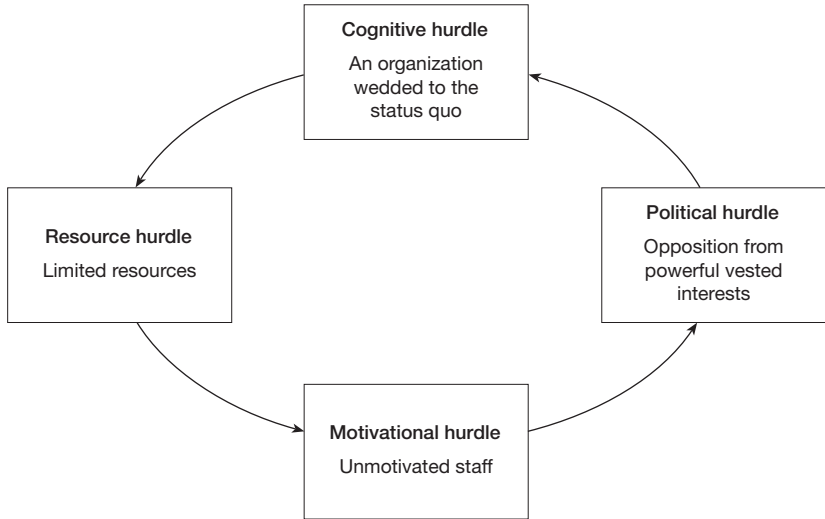


FIGURE 7-2

The strategy canvas of Transit: How Bratton refocused resources

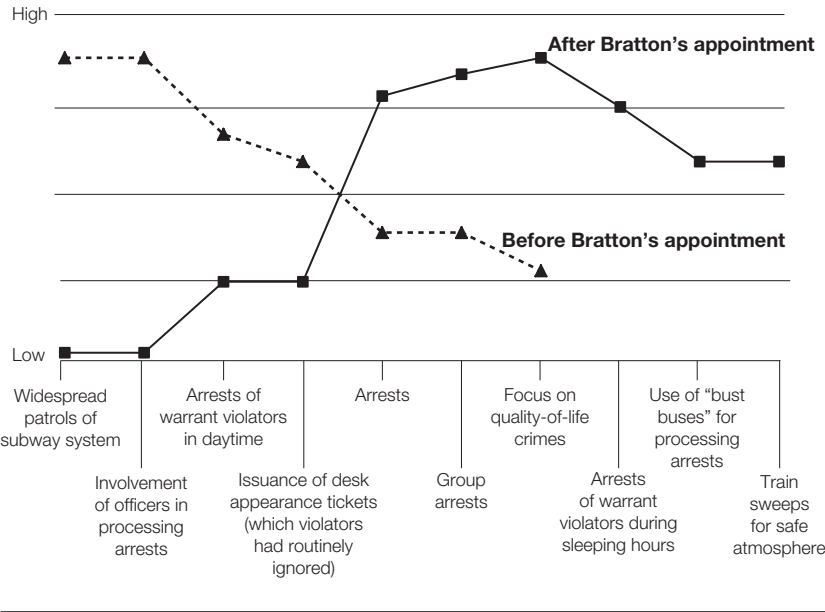


FIGURE 7-3

Conventional wisdom versus tipping point leadership

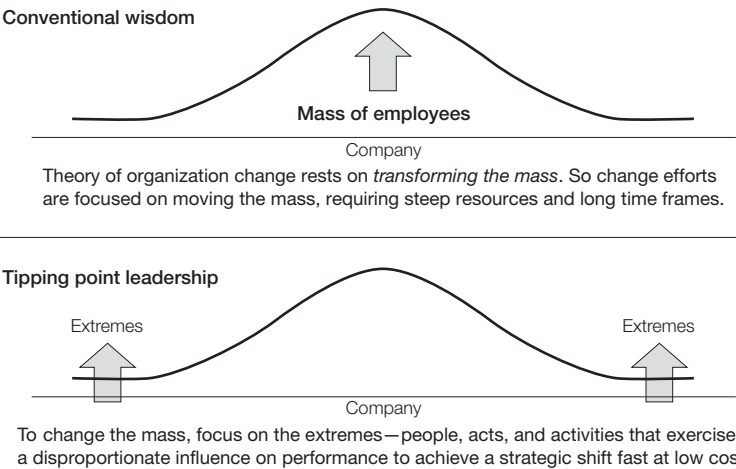


FIGURE 8-1

How fair process affects people's attitudes and behavior

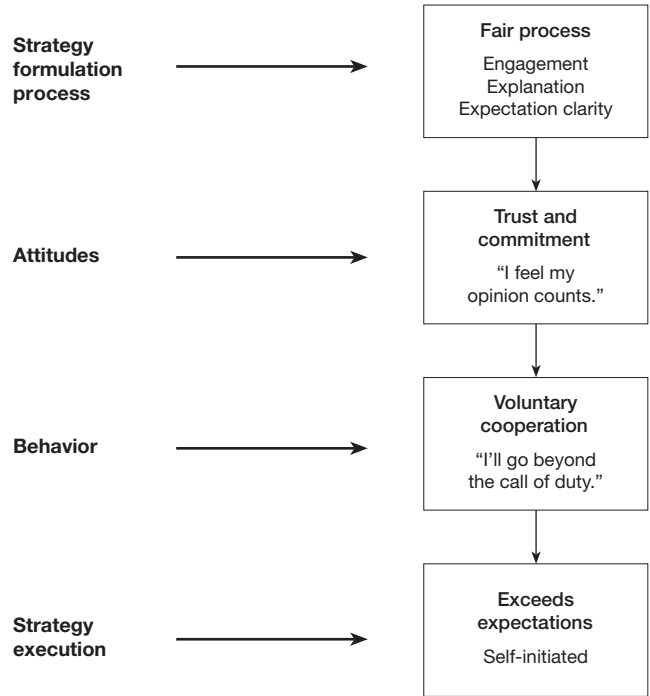


FIGURE 8-2

The consequences of the presence and absence of fair process in strategy formulation and execution

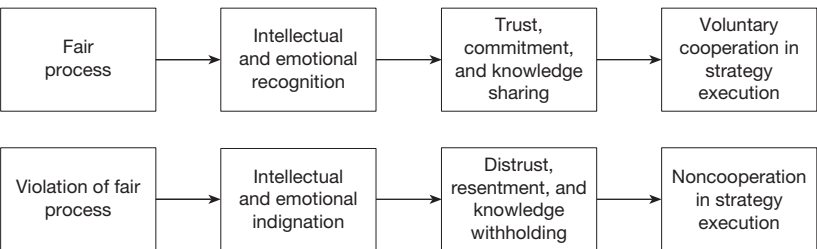


FIGURE 9-1

Achieving strategy alignment

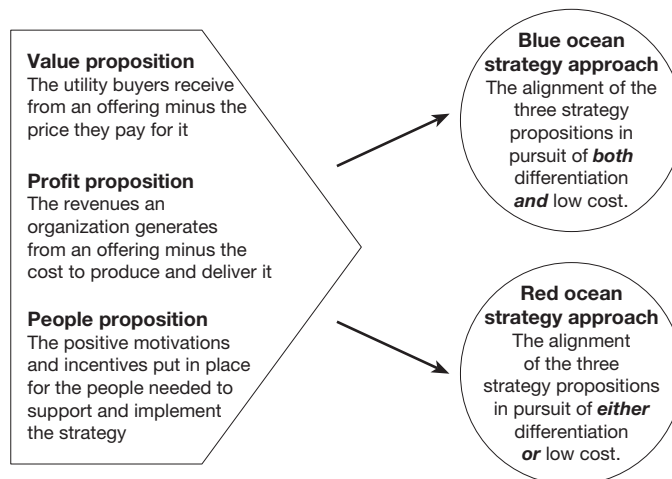


FIGURE 10-1

Imitation barriers to blue ocean strategy

Alignment barrier

- Alignment of the value, profit, and people propositions around both differentiation and low cost builds sustainability and hence a formidable barrier to imitation.

Cognitive and organizational barrier

- Value innovation does not make sense to a company's conventional logic.
- Imitation often requires significant organizational changes.

Brand barrier

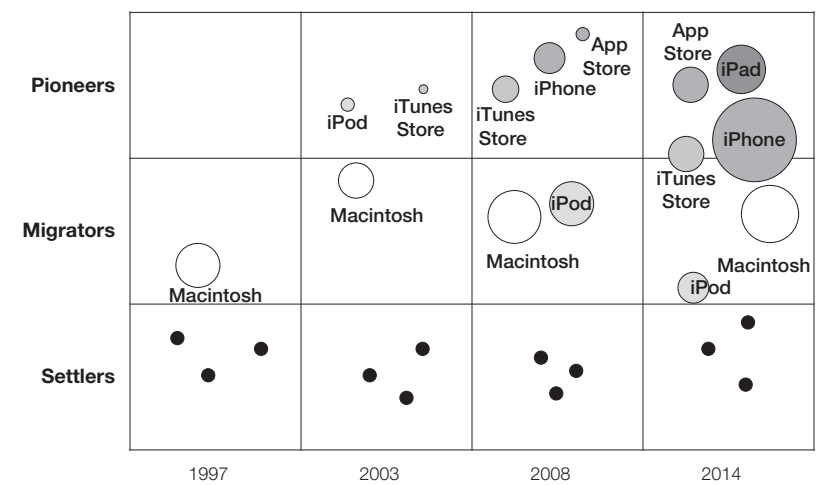
- Blue ocean strategy may conflict with other companies' brand image.
- Companies that value-innovate earn brand buzz and a loyal customer following that tends to shun imitators.

Economic and legal barrier

- Natural monopoly: The market often cannot support a second player.
- High volume leads to rapid cost advantage for the value innovator, discouraging followers from entering the market.
- Network externalities discourage imitation.
- Patents or legal permits block imitation.

FIGURE 10-2

Apple's portfolio of businesses on the dynamic PMS map



While the size of named circles roughly represents the relative revenues of Apple's main businesses, that of unnamed dots does not as they simply represent Apple's peripheral products and services. The Apple Store is not plotted, although it is recognized as a blue ocean in the retail industry, as its sales are already captured in all existing products.

FIGURE C-1

The market dynamics of value innovation

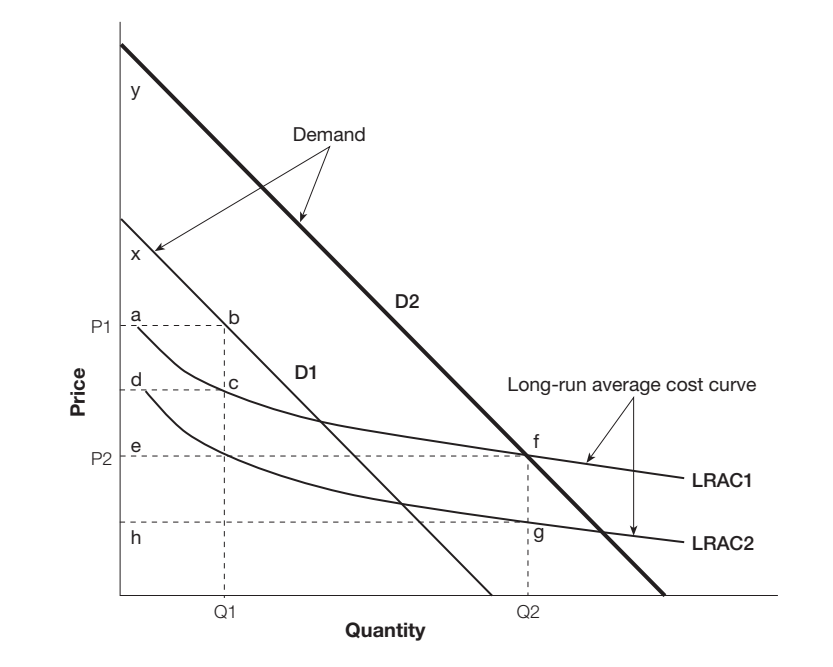


FIGURE C-2

From perfect competition to monopolist practice

