Strategy involves standing out from the competition and making choices that give the company a unique and valuable position by offering distinctive products and services. [Competitive advantage](https://www.mbaknol.com/strategic-management/competitive-advantage/) and [profitability](https://www.mbaknol.com/project-management/commercial-or-financial-profitability/) can be achieved simultaneously by approaches that create consistent internal [synergies](https://www.mbaknol.com/modern-management-concepts/synergy-map/) and combine a company’s operational activities efficiently. Strategies are formed at various [levels of the organization](https://www.mbaknol.com/management-concepts/management-levels-in-an-organization/). However, a typical [organizational structure incorporates strategies](https://www.mbaknol.com/strategic-management/relationship-of-organizational-structure-with-strategy-and-culture/) at 3 specific levels: corporate, business and functional.  [Corporate strategy](https://www.mbaknol.com/strategic-management/grand-strategy-matrix/) defines a company’s holistic growth and management direction pertaining to its various businesses, products and services. [Business strategies](https://www.mbaknol.com/strategic-management/different-business-strategies/), on the other hand, are established at the divisional levels and typically focus on [enhancing the strategic business unit’s competitive position](https://www.mbaknol.com/modern-management-concepts/balanced-scorecard-bsc-a-strategic-management-tool/) in its industry. Functional strategies aim to maximize resource [productivity](https://www.mbaknol.com/human-resource-management/morale-and-productivity/) and are typically set by functional departments within each SBU to improve competencies and performance.

[Blue Ocean strategies](https://www.mbaknol.com/modern-management-concepts/an-introduction-to-blue-ocean-strategy/) are a form of business level strategies that enable firms to [achieve sustainable competitive advantage](https://www.mbaknol.com/international-business/achieving-a-sustainable-competitive-advantage/) by tapping uncontested market space. Developed by INSEAD professors, [W. Chan Kim](https://www.blueoceanstrategy.com/about-the-authors/w-chan-kim/) and [Renee Mauborgne](https://www.blueoceanstrategy.com/about-the-authors/renee-mauborgne/), Blue Ocean strategies were derived from analyzing winners and losers of more than 150 strategic moves across 30 industries, including hotel, cinema, automobile, retail, airlines etc., over the course of several years.

Conventional competitive or red ocean strategies encourage firms to choose between value and [differentiation](https://www.mbaknol.com/strategic-management/differentiation-strategy/) to compete in prevailing markets with clearly defined boundaries and conditions. In red oceans, firms aim to gain [market share](https://www.mbaknol.com/management-concepts/marketing-planning-strategic-planning-in-marketing/) by exploiting existing demand and overtaking competitors. [Ruthless competition](https://www.mbaknol.com/strategic-management/hypercompetition/) in red oceans confines companies to benchmark against competitors, and make incremental improvements that [increase costs](https://www.mbaknol.com/strategic-management/reasons-for-the-increased-diversification-by-business-firms/)without increasing revenues or having much impact on demand. This results in a crowded market space, difficulty to [differentiate products and services](https://www.mbaknol.com/strategic-management/bowmans-strategy-clock/), greater supply than demand, price wars, which turn the ocean bloody and red ensuing a reduction in profit and growth.

Contrastingly in Blue Oceans, firms go beyond industry borders and make the competition extraneous by redefining the industry, creating new demand and [profitable growth](https://www.mbaknol.com/strategic-management/ansoff-matrix-product-market-grid/). This is achieved by filling [strategic gaps](https://www.mbaknol.com/strategic-management/benchmarking-as-a-strategic-business-tool/) and targeting markets and opportunities that are not being served. Instead of encouraging firms to build a defensible position in an existing industry, this approach follows a re-constructionist view whereby firms recognize key factors valued by customers within conventional industry borders and reconstruct these factors across market boundaries while concurrently pursuing [differentiation](https://www.mbaknol.com/strategic-management/differentiation-strategy/) and [cost leadership](https://www.mbaknol.com/strategic-management/cost-leadership-strategy/).

To provide a quantitative impact of Blue Ocean strategies, evidence of business launches of 108 companies  over the years  shows that:

* 86% launches that were incremental improvements within existing industries accounted for only 62% total revenues and 39% profits.
* The remaining 14% launches that created Blue Oceans resulted in 38% total revenues and comprised 61% of total profits.

A [strategy canvas](https://www.mbaknol.com/modern-management-concepts/an-introduction-to-blue-ocean-strategy/) and four action plans are some primary tools that assist customers with formulating and executing Blue Ocean strategies to target unexploited opportunities. Strategy Canvas allows firms to [identify key success factors](https://www.mbaknol.com/modern-management-concepts/balanced-scorecard-bsc-a-strategic-management-tool/) in its market that are important to customers and hence [provide competitive advantage](https://www.mbaknol.com/strategic-management/durability-of-competitive-advantage/) or disadvantage.   By allowing the firm to assess the current situation in its market space and comprehend the factors that competitors invest in, the firm is able to analyse itself in relation to its existing competitors based on key competing factors explore routs to [new market space](https://www.mbaknol.com/strategic-management/the-strategic-position-and-action-evaluation-matrix-space/) and determine how to convert non-customers into customers by looking at the big picture. Depicted in a graphic form, the horizontal axis represents the range of factors while the vertical axis show the level at which these key factors are offered. The [value curve](https://www.mbaknol.com/global-business-environment/experience-curve/), a key component of the canvas graphically plots the relative performance of companies in the known market space across the range of factors. This tool therefore enables firms to minimize competition and risk and maximize opportunity. By having a drastically different value curve, a firm can create [value innovation](https://www.mbaknol.com/management-case-studies/case-study-business-innovation-lessons-from-salesforce-com/)which involves tapping into new market by creating new factors where the customer’s requirements were previously not served. In addition, the firm can also surpass performance on industry factors where competitors are not doing very well.

[Value innovation is a key foundation of Blue Ocean thinking](https://www.mbaknol.com/modern-management-concepts/an-introduction-to-blue-ocean-strategy/) which involves eliminating or minimizing factors that the industry competes on and creating factors that were never previously offered by the industry. This enables firms to save costs and drives up their product or service value for customers allowing companies to break the value-cost trade-off. Value Innovation also involves aligning utility, price and cost. The superior product or service value offered by the firms results in high sales volume over time, and further reduced costs due to economies of scale.

It is important to note that most key industries such as automobile, biotechnology, telecommunication, cell phones are a result of blue ocean thinking. Historically, several companies across numerous industries have offered major products and services that opened new market space and generated significant demand. The case of the evolving US automobile industry provides key evidence of Blue Ocean strategies success.

In 1893 when horse buggies were the primary means of transportation in the US, the Duryea brothers invented the first one-cylinder auto. Following this launch several auto manufacturers entered the market to make conventional automobiles at a time when they were considered an unreliable, and unaffordable luxury. Furthermore, they weren’t expected to become popular in the future, making the industry look small and unattractive by conventional wisdom.

In 1908, [Henry Ford went beyond boundaries by introducing the Model T](https://www.mbaknol.com/management-case-studies/case-study-the-magic-of-ford/), which was made using preeminent components, and only came in one color and model. Marketed as reliable and durable, and sold at half price of existing automobiles, it soon captured the mass market with its reputation as a high quality, low priced car. Its price dropped even further over the years and it went on to sell cheaper than the carriage.   As the car was easy to manufacture and highly standardized, Ford used unskilled workers on its assembly line who could build them quickly and efficiently, thereby reducing costs. This allowed the company to charge a reasonable price for its cars, increase its sales, and the size of the automobile industry in the process. While most automakers made expensive automobiles, Ford created a huge  Blue Ocean with its Model T eventually becoming the main mode of transportation.

Following this in 1924 when the car became an essential household item, GM created a  Blue Ocean by launching a line of automobiles that were different to Ford’s basic functional, one color, single model concept. By appealing to the emotion of the US mass market, its strategy included building fun, exciting, and comfortable cars fit for ‘every purpose’. The range of models offered by GM included different colors and styles that were updated each year thus creating new demand for fashionable cars.   The ease of replaceability of these cars also led to the formation of the used car market and GM eventually surpassed Ford as the leading car-maker.

In the 1970s, the Japanese created a new  Blue Ocean by producing small fuel efficient cars by challenging US car-makers and their notion of bigger and better cars. While the big three car manufacturers focused on [benchmarking](https://www.mbaknol.com/strategic-management/benchmarking-as-a-strategic-business-tool/) and competing one another, Japanese car-makers changed conventional logic by introducing and offering a new value concept of good quality, compact, and gas efficient cars. Demand for these cars soared further because of the US oil crisis in the 1970s as consumers turned to fuel efficient cars like [Honda](https://www.mbaknol.com/marketing-management/corporate-branding-case-study-power-of-dreams-campaign-by-honda/), [Toyota](https://www.mbaknol.com/management-case-studies/case-study-of-toyota-international-entry-strategies/), and [Nissan](https://www.mbaknol.com/management-case-studies/case-study-nissans-successful-turnaround-under-carlos-ghosn/). Apart from reducing the [competitiveness](https://www.mbaknol.com/international-business/competitiveness-for-globalization/) of US car makers, this Blue Ocean also challenged their survival.

In 1948, troubled and on the edge of [bankruptcy](https://www.mbaknol.com/strategic-management/strategic-decisions-for-sustainable-business/), Chrysler launched the minivan creating another  Blue Ocean in the auto industry. By developing an entirely new type of vehicle, the company provided a middle ground between the car and van. The minivan had the functionality of both, was smaller and easier to handle than a van, and more spacious than a car. This heavily appealed to nuclear families that needed sufficient space to hold important necessities in addition to passengers. By exploiting this untapped market space, the minivan became Chrysler’s bestselling vehicle within the first year, enabling the company to regain its position in the market and earn significant revenues over the next couple of years. This success also led to the SUV boom in the 90s by extending the  Blue Ocean that Chrysler had tapped into.

These examples show how companies that created Blue Oceans were able to earn more revenues than industry leaders in a short time span and managed to achieve growth in industries with limited potential that were unattractive according to competition based strategies. The evolution of the auto industry because of Blue Ocean thinking also indicates that auto companies became successful by appealing to new customers and breaking way from the competition instead of poaching customers from competitors. Instead of offering better solutions to given problems, they redefined the problem by offering comfortable and functional cars for reasonable prices thus reinventing user experience. The implementation of these strategies not only challenged the status quo of the automobile industry but also allowed it to positively evolve over the years generating profitable growth in the process.

By creating a whole new concept that broke the value-cost trade-off and by looking across the market boundaries, the automobile companies offered new critical success factors into their offerings, eliminated or reduced irrelevant factors thereby increasing demand. Invented new forms of transportation by eliminating costly production methods enabled these car-makers to achieve both differentiation and cost.

Laundry soaps and detergents were two main divisions in the wash market in India in the mid Seventies. The laundry soap was strongly fragmented. It was the price of oil that decided the quality and price of this product. The second category, the detergent, produced mainly bars and powder and this market was developing very strongly at this time. Also, Unilever’s branch in India was playing the dominant role in these markets. After that, there was a small businessman who started his own detergent business in 1969. He priced his washing powder just one third of the price provided by Unilever. Moreover, his detergent, called Nirma, had the quality 25% lower than that of existing detergent product. Furthermore, that Indian businessman also built a strong distribution system in the Western area where he located his business. At that time, due to demand on mass production, Unilever’s Indian base had to use “blowing tower”, which cost it a lot of capital. In contrast, producing smaller scale of detergent powder enabled Nirma’s to save a remarkable capital. Apart from low starting capital, he also benefited lower material cost due to substantial dependence on “soda ash”, one of the main ingredients formulating washing powder. Nirma brand truly became popular because its price and quality satisfied low-income Indian residents. By the mid of 1980s the Indian entrepreneur reached a market share of 30%. Base on such success of washing powder, he continued to develop detergent bars. However, Unilever’s Indian based branch did not accept Nirma’s surpass. The subsidiary revealed a product called Wheel which had the same price and other costs as Nirma. Evidently, it removed blowing tower technology in the production of Wheel in order to be cost-effective. Because Wheel was the follower of Nirma, it had to do a lot of marketing strategies and conducted numerous communicative methods with potential customers. Consequently, Indian customers started to be aware of Wheel brand in particular and detergent powder in general. Before the competition between Wheel and Nirma took place, a huge number of Indian customers used laundry soaps instead of detergent products. In short, it was the battle between Unilever’s subsidiary and Nirma’s owner that led to the reveal of a new detergent product that did not use blowing tower technology and high awareness among Indian customers who initially used laundry soap. The historical case of Nirma-Wheel which presented an innovative value and dramatic change in customers’ usage was considered the most typical example of blue ocean strategy in India.

It is not by chance that companies transfer from Red Ocean to Blue Ocean strategy. There are some driving reasons that stimulate the creation of blue oceans. The first element involves the invention of advanced technologies that have substantially developed productivity and enabled manufacturers to release new products and services that are totally unprecedented. However, due to a variety of innovative products in the same industry, supply power exceeds customer demand. This trend must be taken into great consideration especially in the globalization. In fact, products and services have become globally exchanges, which nearly eliminate traditional economic barriers among countries. As a result, the impact of monopoly is on the verge of disappearing. Such situation indicates that Red Ocean has become overcrowded and so bloody that managers need to be more concerned with Blue Ocean as escape for current strategy and management. Once again, the pressure of Red Ocean is one of the driving forces that make companies to focus on Blue Ocean strategy if they want to survive in the future.

There have been a lot of examples on the creation of Blue Ocean in the Automobile and Computer Industries.

The Ford Model T was released in 1908. It is the first car which was produced in mass. A lot of Americans could afford to buy the car at reasonable price.

General Motors created a blue ocean in 1924 by designing car with fashionable and fun style. It aimed at providing every car for every purse and purpose.

Japanese auto manufacturers created a blue ocean in the 1970s with reliable cars which were famous for fuel efficient.

Chrysler Minivan in 1984 created a Blue Ocean by unveiling a new class of automobile that was a minivan which could be used as a car but had the passenger seats of a van.

CTR created a Blue Ocean in 1914 when modifying the business machine by simplifying the tab machines. CTR later called it IBM.

Apple created a Blue Ocean in 1978 when it released the personal computer. Although it was not the first personal computer, it was very easy for users.

In 1992, The Compaq Servers created a Blue Ocean by unveiling its Pro Signia server. The server was only at one third of a micro computer’s price and supported buyers with capability of saving file and printing.

Dell created a new buying method and delivery system that was considered one of the most popular Blue Oceans in the mid-1990.

In the past, Blue Ocean Strategy was considered more risky than Red Ocean strategy. However, researchers have proved that this strategy is more likely to reduce risks than the Red one. It does not mean that applying Blue Ocean strategy can eliminate all risks. There is no strategy that can have such ability whatever Blue or Ocean one. According to W. Chan Kim and Rene ´e Mauborgne, there are exactly six risks related to this strategy including search, plan, scope, business paradigm, organization, and management risk. Of those risks, search, plan, scope, and business paradigm involve the process of constituting a strategy while organization and management risks occur around the process of implementing the strategy. Relevant to these risks, the author proposed six solutions to minimize the risks. For the search risk, it is advisable for companies to ‘reconstruct market boundaries’. This means companies need to carefully examine the possibilities and harvest blue ocean chance in advance. In order to curb plan risk, ‘focusing on the big picture’ is proposed to prevent enterprises from wasting money and time executing red ocean strategies. The third solution, ‘reach beyond existing demand’ expands customer demand for companies by offering them new values. Getting the exact strategic sequence helps the companies to reduce business risk by supporting them to build a reasonable model ensuring the Blue Ocean strategy will generate good profit. The fifth solution provides companies tips to overcome other organizations in the process of implementing Blue Ocean strategy while the last solution helps people deal with management risks by motivating their best abilities. On the way to creating Blue Ocean strategy, these solutions, or six principles, support enterprises to maximize their opportunities and mitigate potential risks.

In W. Chan Kim and Rene ´e Mauborgne’s research, they considered Blue Ocean strategy a ‘dynamic progress’. One typical example for this statement is the Body Shop in the 1980s. At that time, the shop was running its business very successfully. Instead of competing face-to-face with famous cosmetics brands, it focused on developing a beauty market with natural products. Evidently, this unique idea helped the Body Shop become a dominator in this type of market. The shop earned huge profits from beauty products made from natural ingredients. However, it does not last long that Body Shop had to compete with new participants in its field. Despite fierce competition, Body Shop is still keeping its idea of this product. The problem is that the shop has not recognized the reason for its strategic move. In details, the shop had generated a brilliant idea on its business. At that time, Body Shop was the only player in natural product. As a result, it can achieve a large market share and a lot of customers without struggling with any rival. By chance, Body Shop successfully created a Blue Ocean. However, when other shops realize the potential of this market, they jump into making natural beauty products and become Body Shop’s competitors. Consequently, the market that Body Shop has penetrated into becomes a Red Ocean. So, the lesson for any company is that once creating a Blue Ocean, the company must swim as far as possible in the ocean, leaving the imitators behind at a great distance. It is important to prolong the first mover advantage and protect the surrounding area. Moreover, once other imitators have succeeded in reaching the Blue Ocean, it obviously turns out to be a Red Ocean. Therefore, whenever realizing the signal of competition, a Blue Ocean company needs to create other blue ocean in order to be another first mover. In short, Blue Ocean strategy stimulates an on-going-process including creating, protecting, and reaching other Blue Ocean. This confirms the author’s assumption that it is a dynamic strategy.

According to research by IBM executives, Blue Oceans helps companies gain significant profit in the future. Blue Oceans are thought to have great impact on profit opportunities for a lot of enterprises and companies. The following charts indicate such potentials of profit for any organization applying Blue Ocean strategy.

Apart from impacting on an organization’s future profit, Blue Oceans also supports that organization to create different strategies and achieve sustaining business plans. In order to provide such support, Blue Oceans have certain principles and assumptions. For key principles, Blue Oceans do not follow constructed boundaries for competition in Red Oceans. Instead, they expand the boundaries for new competitive elements. Moreover, Blue Oceans even create new visions for organizations’ strategies in order to go beyond existing products and services, to constitute and increase new demand .

Particularly, based on Blue Oceans’ principles, companies can generate strategies that help them avoid face-to-face competition as they usually suffer in Red Oceans. For this aspect, Blue Ocean strategy will look for new customer throughout different industries, or target diverse groups in a specific industry. In automobiles industry, there are certain established rules that prevent enterprises to change. For example, the segmentation of automobile market is hardly changeable. There are some fixed segments including luxury market and economy market. These segments are in close relationship with a system of price and production performance that nearly no automotive enterprise attempts to change. However, such situations create opportunity for a Blue Ocean Strategy. In fact, Blue Oceans go in an opposite direction with the Red Ocean. For traditional market, organizations can either choose to provide great innovation value at high prices or sell products at lower price for lower quality. Blue Oceans, in contrast, aims at implementing both cases. Moreover, Blue Ocean strategy intends to instruct a company to eliminate or reduce factors that industry in Red Oceans takes for granted. Also, Blue Ocean strategy assists an organization to raise innovation value or encourage factors to create new potential values. In short, Blue Ocean strategy supports a company to eliminate or reduce certain value offerings that have been taken for granted. For this aspect, consumer choice is partly prevented. On the other hand, Blue Ocean strategy helps a company to create or enhance other innovation value.

In fact, Blue Ocean strategy cannot be avoided in modern business. When Red Ocean becomes too crowded, the need of creating a Blue Ocean strategy will increase. Blue Ocean is a dynamic process that helps companies to create, and capture their own business. Moreover, Blue Ocean supports companies to generate new Blue Ocean when new competitors come into their Blue Ocean. This strategy on one hand minimizes and eliminates old value offerings while on the other hand creates and increases new value innovation. Once a company has succeeded in creating a Blue Ocean, it needs to keeps a distance as far as possible from competitors. However, if their field is invaded, they should find other Blue Ocean to invest in. Blue Ocean maintains a company’s competitive advantage, helps it gain substantial market share and customers, and accounts for a disproportion contribution to future profit.

A strategy canvas and four action plans are some primary tools that assist customers with formulating and executing BO strategies to target unexploited opportunities.

Strategy Canvas allows firms to identify key success factors in its market that are important to customers and hence provide competitive advantage or disadvantage. By allowing the firm to assess the current situation in its market space and comprehend the factors that competitors invest in, the firm is able to analyse itself in relation to its existing competitors based on key competing factors explore routs to new market space and determine how to convert non-customers into customers by looking at the big picture. Depicted in a graphic form, the horizontal axis represents the range of factors while the vertical axis show the level at which these key factors are offered. The value curve, a key component of the canvas graphically plots the relative performance of companies in the known market space across the range of factors. This tool therefore enables firms to minimize competition and risk and maximize opportunity.

Four Actions Framework was introduced in order to split the trade-off between low-cost and differentiation to make way for a creation of a new value curve. The four actions taken here are: 1) Create — Here, the idea is to create new industry factors that can generate value and anew market and were not offered before. 2) Reduce — Here, the idea is to reduce any of those factors which were nothing more than a consequence of the competition between industry players to differentiate themselves. 3) Eliminate — In this step, the idea is to identify those factors which have been the basis of industry competition for a long time and 4) Raise — Finally, the idea is to identify those factors that need to be raised above where they are in the industry at present.

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Read More: Adoption of Blue Ocean Strategies in Business

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Following this in 1924 when the car became an essential household item, GM created a Blue Ocean by launching a line of automobiles that were different to Ford’s basic functional, one color, single model concept. By appealing to the emotion of the US mass market, its strategy included building fun, exciting, and comfortable cars fit for ‘every purpose’. The range of models offered by GM included different colors and styles that were updated each year thus creating new demand for fashionable cars. The ease of replaceability of these cars also led to the formation of the used car market and GM eventually surpassed Ford as the leading car maker.

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In 1948, troubled and on the edge of bankruptcy, Chrysler launched the minivan creating another BO in the auto industry. By developing an entirely new type of vehicle, the company provided a middle ground between the car and van. The minivan had the functionality of both, was smaller and easier to handle than a van, and more spacious than a car. This heavily appealed to nuclear families that needed sufficient space to hold important necessities in addition to passengers. By exploiting this untapped market space, the minivan became Chrysler’s bestselling vehicle within the first year, enabling the company to regain its position in the market and earn significant revenues over the next couple of years. This success also led to the SUV boom in the 90s by extending the Blue Ocean that Chrysler had tapped into.

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Read More: Significance of Blue Ocean Strategies

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