The evolution of strategic thinking and practices: Blue Ocean Strategy

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ABSTRACT

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CHAPTER 1: Introduction

Study purpose

Research Object

Limitation

In this introduction I will discuss the study purpose, explain my research object and finally I will describe the limitations I faced.

Blue Ocean strategy is a strategy that advice companies to go to a new market, which interest customers and avoid competition from the existing market. This strategy makes possible for companies, entrepreneurs to increase their chances of success.

In order to maximize the efficiency of the strategy, it is better for companies to initiate it when the business starts. The early firms pursue it, the more profits margin will be.

Blue Ocean strategy can help companies to find new market in which they can capture more customers while improving cost structure. (Gorrell, 2005)

Kim and Mauborgne (2005) introduced a theory which leads corporate to create a new market to make competition irrelevant. This theory is called: "Blue Ocean Strategy". Red oceans are all the industries existing today. Blue oceans strategy's goal is to modify a product/service and establish a new market space by targeting new potential customers. In this market space, the competition will be irrelevant which will give a certain competitive advantage. By applying blue ocean strategy, a firm can get a new chance. To beat competition you have to outdo them. You have to enlarge your vision, go out of the red ocean and "swim" in the blue ocean, where the competition is irrelevant.

Through my research, readings and my interviews more and more questions appeared. In order, to give a deep insight on the blue ocean strategy I selected the most relevant ones that I will enumerate in my research object.

1.2 Research object

The aim of this master's thesis is to deeply explain Blue Ocean strategy in order to be easily understood by any leaders who want to develop it, students who want to understand it and managers who need to apply it. I will explain the key factors of success of a blue ocean strategy and why it is so successful. I will try to depict and analyze the ideas who led to the blue ocean strategy idea and concept. Finally, I will try to answer to these questions: Do companies know the blue ocean theory or they apply it without knowing the concept? Do the consultants introduce the blue ocean strategy to companies? Can I add/bring something to this strategy? Does the strategy have lacks?

Moreover, this thesis will help to understand the competitive environment and strategic management and thus increase the level of scientific knowledge in this area.

Nevertheless, as a student, I had some limitations that I will describe in the next part.

1.3 Limitation

Our research is an independent study for Linnaeus University. Due to my academic ability and time constraints, there must be some limitations inside my thesis, which can be improved a lot in the future study.

Firstly, for time and ability reasons, this thesis will be more an introduction and the beginning of a development rather than a full study. Moreover, it will be based on a theoretical perspective and on few examples to precise my point of view.

Secondly, since the study of this thesis is based on an internet and library research, some natural disadvantages cannot be avoided. Authenticity and reliability of few interviews are variable that might lead some errors to my final results.

Thirdly, I only interviewed French consultants.

Finally, this thesis will be a good introduction for further research. For example, how to improve the validity of the blue ocean theory?

Chapter 2: Research methodology

Research questions

Research methodology

Primary Data

Secondary Data

Literature review

The aim of this chapter is to explain the methodology that i used through the thesis process. I will describe my research questions, how I selected my information and from which sources. Finally, I will describe my plan of action.

2.1 Research questions

Lot of things has been written about relations between blue ocean and previous theories and concepts. Nevertheless, do we really know the philosophical influence? So my first research question was: What is the philosophical influence which led to the idea of blue ocean?
Another aspect of my research is the recognition of blue ocean strategy. Do companies really know that concept or do they apply it without putting a name on it?
Finally, my last question was related to the previous one, do companies are influenced by consultant?

2.2 Research methodology

2.2.1 Secondary Data

Secondary data is information that is not directly descending from the original source but have been taken from another researcher or author. Merriam (2009)

Secondary data is data collected by someone other than me. I used secondary data as main data.

That is why I used books, thesis, surveys, organizational records and data collected through qualitative methodologies or qualitative research. Of course, I looked for reliable, suitable and adequate sources. Data are reliable because I checked who collected the data, the sources, methods used and accuracy. Data are suitable because it answers definitions and fill with my objectives, scope and nature of the surveys. Data are adequate because I checked the accuracy and completeness.

2.2.2 Primary Data

Primary data is information that the authors themselves gathered by having direct contact with the source of information, it is basic for us information that is necessary to fulfill the purpose for this thesis. (Merriam 2009)

Conversations are aiming to gathering facts from a subjective perspective and focuses on the person's opinion rather than an objective truth (Arbnor & Bjerke 2009).

In order to have the best insight, I interviewed by phone five French people working for major companies that I will point out later on this thesis. These conversations helped me to get a better point of view on the application of blue ocean strategy according to the markets.

Primary data are collected on source which has not been subjected to processing or any other manipulation. So, primary data are specific to my research. I used them in order to forge my opinion and understand theories thanks to what is already known on the subject today. Then, I used secondary data to create a background for my work.

I tried to find a maximum of documentation about our subject. Thanks to that, I am able to know the principal theories and forged my own opinion and way to work.

My plan of action:

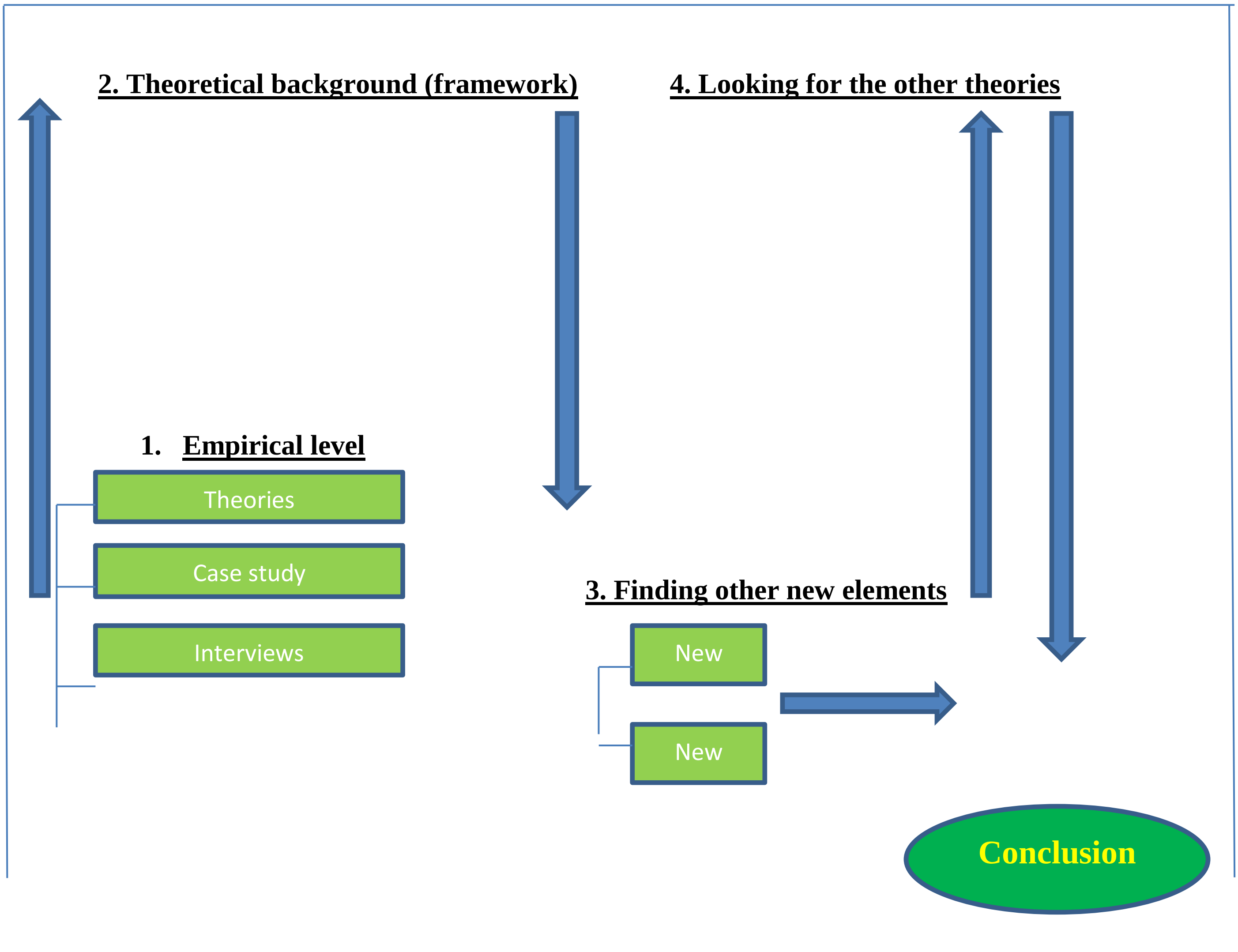

Figure 1: Constructed by the author

My investigations started the empirical level. With the help of theories, case studies and interviews I was able to derive concepts to be further research at the theoretical level. After the theoretical background was established, new elements emerged. Thus, this enabled me to look for new theories with the help of which I will derive a conclusion and thereby answering all the research questions.

Another graph that I built to describes my understanding of my future actions through actors view is:

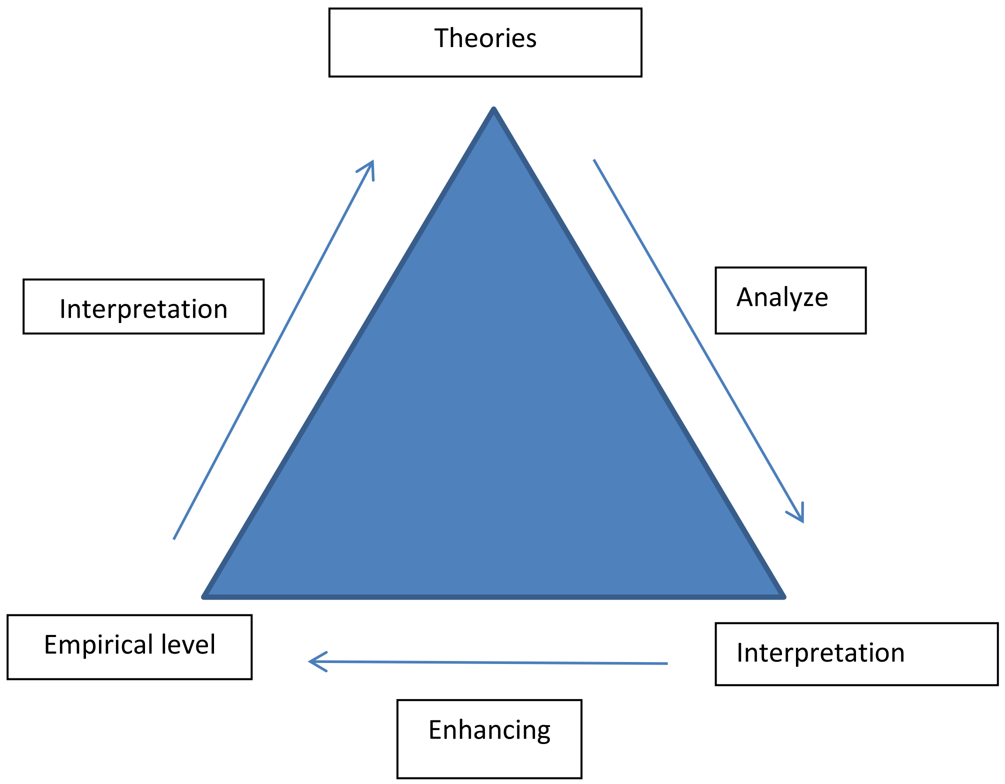

Figure 2: Constructed by the author

2.3Literature review

A literature review refers to those texts being used to review the key points of current knowledge and methodological approaches on a particular topic. (Vikipedia, 2010) I use literature review to collect secondary data from published report, journals and even from online portal. I also review some classical theories and methods applying in my thesis such as Porter's five competition forces theory, Kim's Blue Ocean theory to achieve the purpose of my thesis.

All the data that I collected are from relevant sources that can be verified which strengthen the validity of my thesis.

Chapter 3: Theoretical perspective

In the following chapter i will explain the concepts that have been used. I will describe the all process of a blue ocean strategy. First, I will explain the concept and how has it be influenced. Then, I will describe its development and application. Finally, I will point out its execution.

3.1 Strategic leadership

"Strategy is a plan, pattern, position and perspective" (Mintzberg, 1994; pg 2).

Strategic leadership gives a vision for the success of a company. It also creates strategic thinking to generate future growth. Strategic leadership develops a multiplicity of appropriate strategies depending on the context in order to create value.

Strategic leadership refers to the ability of a manager to suggest his vision to a firm but also persuade and empower all employees. It is a strategy for managing employees. Thanks to strategic leadership it is both possible to influence employees and make organizational modifications. Strategic leaders have to control their environment not to be badly influenced. The main goals are productivity and efficiency. However, empowering employees is very important too. Employees have to understand the vision, adopt it and share it. So, they will understand the needs of the companies and react consequently. Employees will forecast the needs and will follow their ideas according to the organization's vision.

Rewards and incentive system are generally used by strategic leaders. It helps employees to be focus, more productive and empower them. Leaders have to take care of their employees is they want reciprocity. Leaders have to help employees to realize their objectives. That's why they need good perception and planning skills. They also need, like a chess player to foresee and understand a broader picture.

These are some of the skills required by a strategic leader to enhance performance:

- To be loyal to their vision. Leaders have to stick to their vision by their action and discourse.
- To be aware of everything in the company. Leaders have to by constantly updated on what is happening in their companies. It will improve reaction quality and time.
- To listen their employees. Leaders have to understand their employee's point of views. Moreover to share their vision, leaders have to spread it, then listen employees to see if they well understand it.
- To think like a chess player, several move ahead. A good leader must forecast.
- To know a bit of everything. A good leader shouldn't be specialized. He needs to be able to understand and speak about every job aspect in his company.
- To motivate. Leaders have to set the example. They have to motivate and be an inspiration.

- Strategic leaders must be social. Their social skills are important. They also need a good self-control to think before making a move.
- Strategic leaders must be able to do their introspection. A good leader must know his employees but himself better.
- An empowering leader knows when to delegate to be more efficient and productive.

Strategic leadership is a key resource to have a strong competitive advantage as Chandler (1962), Selznick (1957), Ansoff (1965) and Drucker (1954) proved it. Hamel and Prahalad (1990) suggested that knowing core competencies of a company gives you a competitive advantage. Kay (1993) demonstrated that value adding is the main purpose all business activities. Organizations can look for competitive advantages and value adding thanks to innovation, reputation and structure. According to Ries and Trout (1981), strategies should be defined by external factors as customers and competition environments. Many tools can be used to identify and understand the main factors influencing competiveness and environment as perceptual mapping, multidimensional scaling, factor analysis… Moreover, Porter (1979) five forces analysis was mostly used to analyze and understand competitive environment.

To sum-up, strategic leaders must know their competitive environment to act faster and more efficiently than the competition. They have to provide clear vision and directions for companies and employees. Good leaders also have to empower people and foresee to create growth.

The mail goal of strategic leadership is to have a competitive advantage in the existing market and that is what the blue ocean strategy tries to offer.

3.2 Blue Ocean strategy

3.2.1 Definition

Kim and Mauborgne (2005) created a new strategy called "Blue ocean strategy". Indeed, Kim and Mauborgne shared the market in two parts: Red and blue oceans. Red oceans are nowadays existing markets, known market spaces. On the other side, Blue oceans represent none existing markets with unknown market spaces.

Organizations that develop a blue ocean strategy analyzed the market and create a new need, product, service well-adapted to the demand. Red oceans are over-saturated and one of the solutions for companies is to go out of these oceans by accepting the blue ocean strategy challenge. In that challenge, companies will have to create a new market, where the competition will be non-existing at the beginning then irrelevant for a while. The company who create the blue ocean will be monopolistic. To create a blue ocean strategy, leaders have to think outside the box and push limits beyond the barriers.

Red oceans are existing market spaces, with known products, strategies and competitors. Low-price and quality are some of the factors the competition is based-on. The market is over-crowded and all companies' goal is to acquire a bit more market shares every year. All actors' positions are well-known and it is almost impossible for new entrants to settle and compete. Profit and growth are limited due to the strong competition.

On the contrary, according to Kim and Mauborgne (2005), in blue oceans competition is irrelevant because it is new market space with no boundaries or rules. It is a strategic space, where the first entrant will create the product, demand, rules and it will on a long term perspective extremely beneficial for him. Indeed, by fixing all the criteria, competition will be irrelevant. Nevertheless, creating a blue ocean requires a good analysis, risk-management and of course money.

3.2.2 Concept of Blue Ocean strategy

To create a blue ocean is a necessity for companies who want to move on. Several factors as globalization, technology, innovation, prices, and market shares are facts leading companies to choose their best solution: blue ocean strategy. The strategy is to create a new demand and go in another direction than competition.

Thanks to blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant.

Some of the reasons to develop a Blue Ocean Strategy are:

- ✓ Supply exceeds demand in lot of industries
- ✓ Globalization
- ✓ Price wars
- ✓ Low profit margins
- ✓ Niche markets disappearance
- ✓ Norms and regulations
- ✓ Brands are more and more similar so the selection is based on the price
- ✓ Commoditization of products and services

"Companies' innovation is in deep relation with price and costs. In red oceans, companies have to make a choice between differentiation and cost domination. In blue oceans, both objectives are targeted". Kim and Mauborgne (2005)

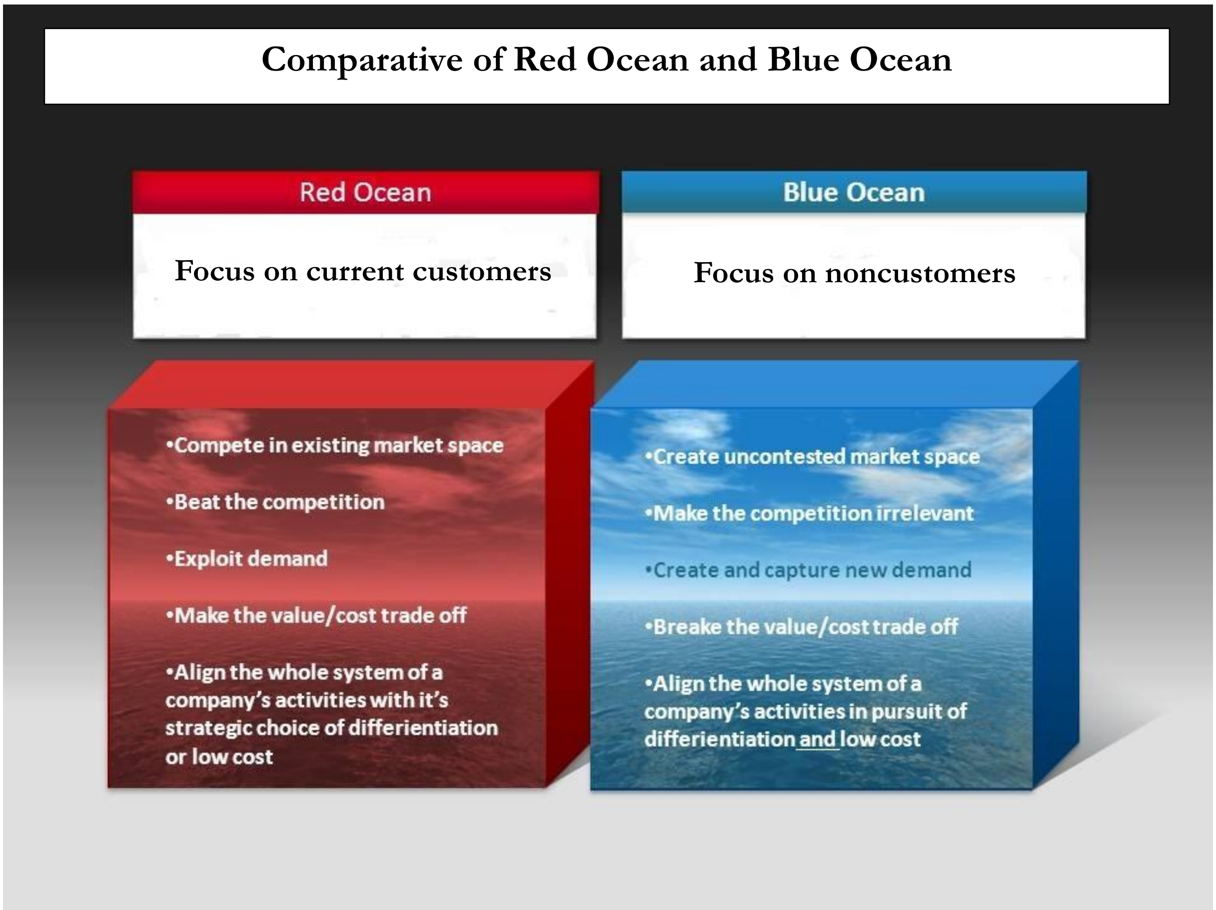

Figure 3: Comparative of Red Ocean and Blue Ocean (Kim and Mauborgne, 2005)

The aim of this table is to sum-up the advantages and disadvantages of a blue ocean strategy by comparing Red Ocean and blue ocean focuses. This table points out that red ocean are focus on factors which cannot easily support modifications. On the contrary, everything in the blue ocean strategy makes value-innovation and improvements possible.

The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of blue ocean strategy.

Value to buyer = offering utility – offering utility's price

Value of the company = offering's price – offering's price's cost

Value innovation is achievable only when a company's utility, price and cost structures are properly aligned.

This whole system approach makes the creation of blue oceans sustainable because it integrates all the firm's functional and operational activities". Kim and Mauborgne (2005)

So, value innovation has a positive impact on companies' cost structure and its offer. Moreover, on one hand, an economy of scales is done due to the limitation or expulsion of criteria. On the other hand, the value for the buyer is shown by creating new criteria or adjusting the old ones.

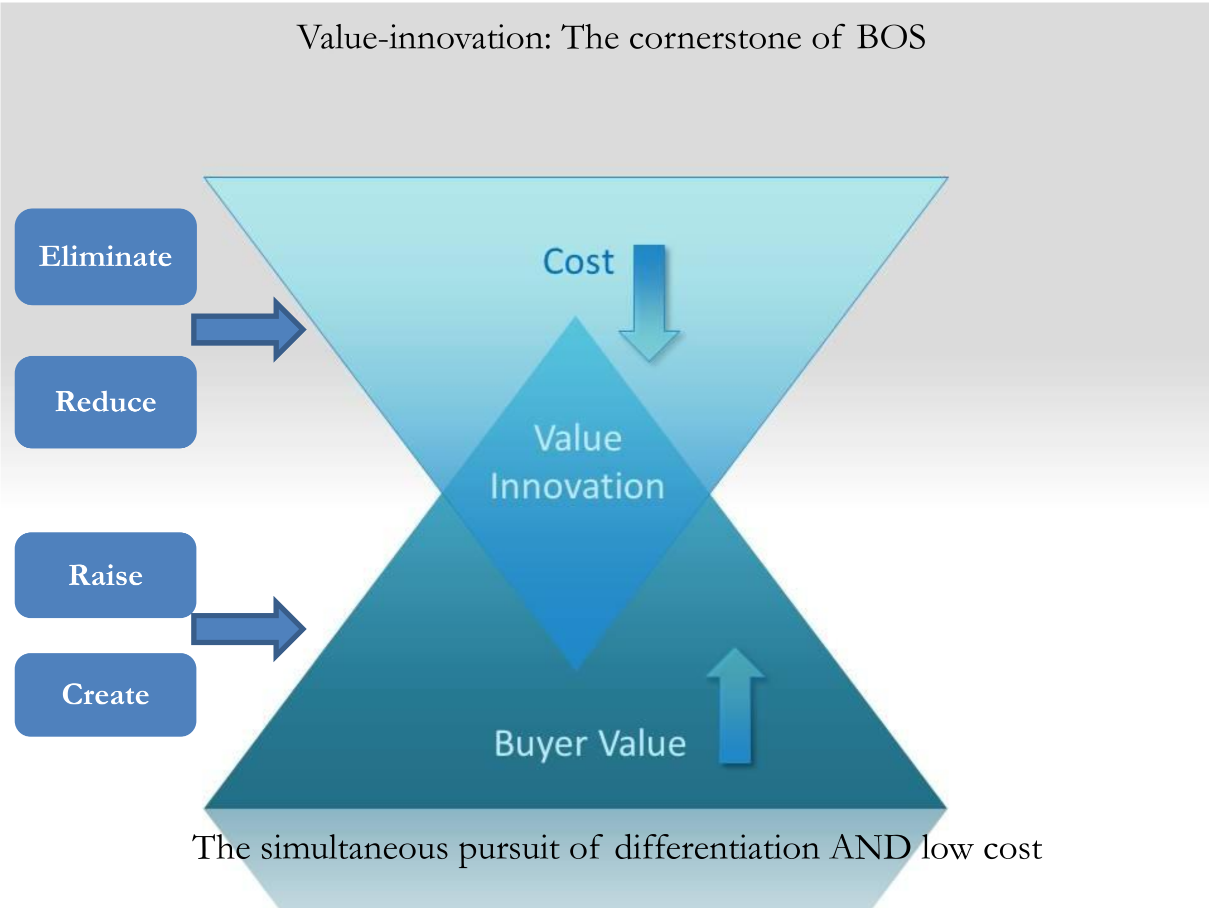

Figure 4: Value-innovation: The cornerstone of Blue Ocean Strategy (Kim and Mauborgne, 2005)

Value-innovation defies one of the most commonly accepted dogmas of competition-based strategy: The value-cost trade-off. It is conventionally believed that companies can either create greater value to the customers at higher cost or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create blue oceans pursue differentiation and low cost simultaneously. (Kim and Mauborgne, 2005)

In order to fully understand the concept of Blue Ocean Strategy, I think it is important to know the studies, concepts and theories related to this theory. Further in this thesis, I will point out the authors and theories who influenced Kim and Mauborgne in the creation of their theory.

3.2.3 Studies, theories and concepts related to blue ocean strategy

"Blue ocean strategy is the best way to make competition irrelevant on a market space". Kim and Mauborgne (2005)

Through my research and the examples given by Kim and Mauborgne, I found that many authors demonstrated that blue ocean strategy is used all over the world and is successful.

According to Abraham (2006), "Correctly defining the market space of companies help companies find an industry they monopoly in".

According to Madden (2009), "blue ocean strategy has an advantage in identifying more clearly market since simply better approach is lack of thinking of impacts from consumers' demands".

Sheehan and Vaidyanathan (2009) demonstrate that "blue ocean strategy enable managers to capture unique value for consumers".

According to some researchers, there is a common strengthen relationship between blue Ocean strategy and innovation.

Côté (2005) develops the idea that a company should create a new product to improve their strategy.

Colman and Buckley (2005) suggest that value innovation is the base on which blue ocean are built.

Leavy (2005) affirms that blue ocean leads companies to create more value.

Kim and Mauborgne (2005) demonstrate that blue ocean strategy help organizations to innovate and bring new products to market.

Morris (2007) demonstrates organizations using blue ocean strategy to meet the challenge of innovation will bring themselves substantially advantages with their innovation.

Moyer (2006) points out that innovation lead companies to blue ocean and bring a competitive advantage.

Kim, In and Baik (2008) prove that blue ocean strategy helps to satisfy existing customers but also reach previous non-customers.

Some authors also worked on the relation between blue ocean strategy and cost structure as Snell (2008) and Wanless (2009)

Finally, Becher (2008) made a relation between Chaos theory and blue ocean strategy.

One of the authors who influenced the most the blue ocean theory is Porter. Indeed, Kim and Mauborgne criticize Porther's theory in which "successful businesses are either low cost providers or niche players. Kim and Mauborgne, on the contrary argue that "successful businesses can be low cost providers and niche players".

3.2.4 Porter's influence

In order to begin a blue ocean it is important to know and understand the market space. According to Porter (1979) "Five forces analysis is a good tool to describe the structure of industry". The five forces help to know the profitability of an industry and its impact on strategy development. In 2008, Porter, detailed his theory:

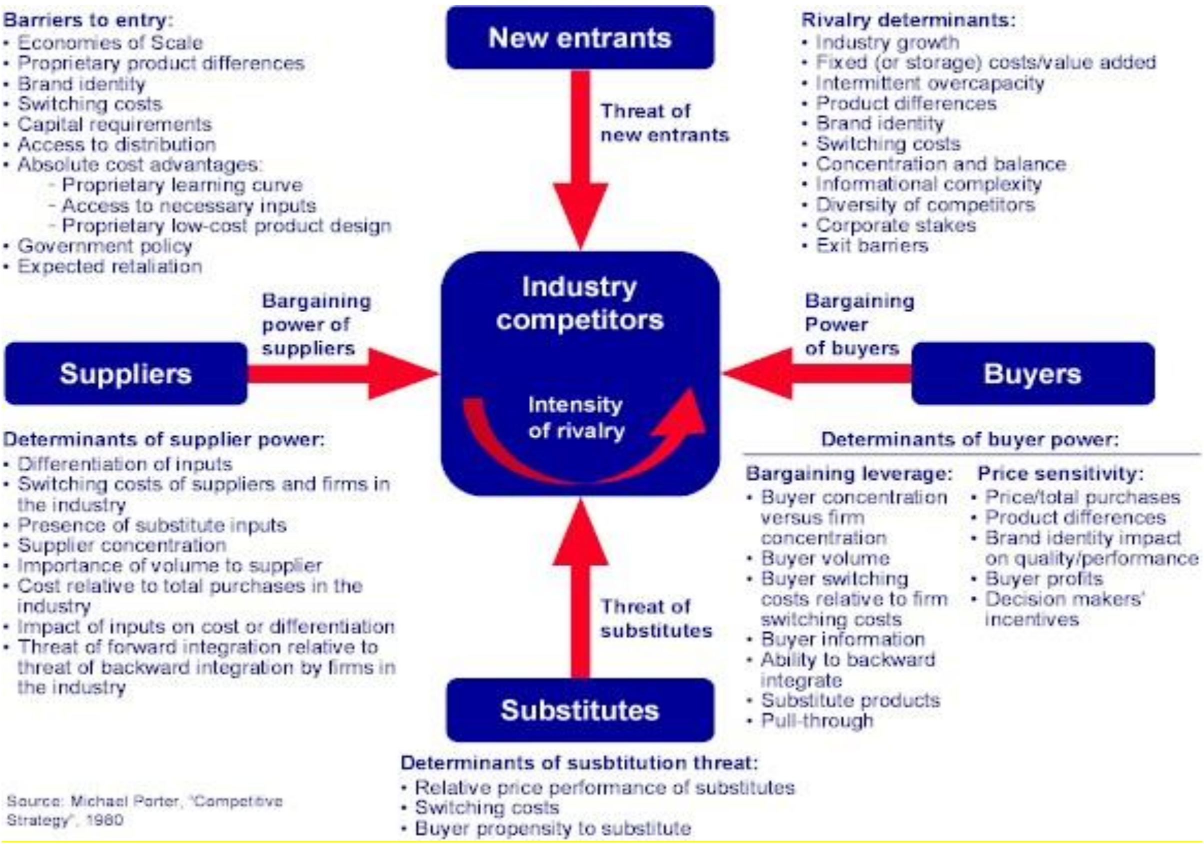

Figure 5: The five competitive forces that shape strategy (Porter, 2008)

Thanks to Porter five forces it is easier to understand the market and its factors so to initiate a blue ocean. Indeed, knowing the market characteristics is one of the main points required to develop a blue ocean. It will bring advantages on the elaboration of the strategy but also on the leads which have to be followed.

However, the idea of value innovation rejects the traditional view of Michael Porter on strategy, where companies achieve competitive advantage through either one of the two competencies: product differentiation or cost efficiency (Porter, 1980). Porter argues that only one strategy should be followed, if not a firm will lose focus and thereby its direction. The counterargument here of Kim and Mauborgne is, that companies compete against each other viciously with every action they take. Each company tries to capture and steal as many customers as possible from the existing market by providing more value than the competition. Value innovation does not differentiate the two competencies. Rather, it places equal importance on both high value and reducing costs and therefore follows both strategies at the same time

3.2.5 Development of Blue Ocean strategy

In order to operate a successful blue ocean strategy you have to minimize risks by following few principles. They will help on identifying the risks, planning, scaling and on the business model risks. Every company can develop thousands of different blue ocean strategy. That is why the goal is to find the more adapted ones. According to Kim and Mauborgne (2005) in order to find the best strategy, determine the market alternatives and develop a blue ocean, companies have to follow these six steps to:

Reconstruct Market Boundaries

Boundaries of Competition	Head-to-Head Competition	Creating New Market Space
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 its industry
Buyer Group	Focuses on better serving the buyer group	Redefines the buyer group of the industry
Scope of Product and Service Offerings	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings that go beyond the bounds of its industry
Functional-emotional Orientation of an Industry	Focuses on improving price-performance with the functional-emotional orientation of this industry	Rethinks the functional-emotional orientation of its industry
Time/Trends	Focuses on adapting to external trends as they occur	Participation in shaping external trends over time

Figure 6: Reconstruct the market boundaries (Kim and Mauborgne, 2005)

All these steps will help for formulating the blue ocean strategy by reconstructing the market boundaries.

The first step indicates that value innovation can be done between alternative industries. Indeed, opportunities will be created due to products and services different forms but serving a shared goal.

The second step suggests that the creation of a blue ocean is possible by proposing a common key factor from all strategic groups and avoid the other ones.

The third step points out the fact that a blue ocean can be created by challenging established thoughts about who are the buyers and users.

The fourth step underlines the fact that companies need to find a complete solution for their products or services. For example, a restaurant can open a crèche for customer's kids.

The fifth step suggests adding emotion to products or services. It will increase the attractiveness.

The sixth step recommends identifying issues, trying to find solutions and forecast them. A blue ocean might be created from there.

In order to create a blue ocean, you have to think outside-the-box. You have to share an explicit vision that everybody will understand and feel empower by it. According to Kim and Mauborgne (2005) "you have to draw up your own company's strategy canvas rather than producing a strategic plan".

Many people will have issues with developing a good strategy canvas but it will bring plenty advantages.

Indeed, thanks to it:

- People will understand the company's strategic position in the marketplace.
- It will help sharing the vision and focus on main tasks and requirements.
- It will underline the factors concerning the industry and make clear the differences between your company and competitors.
- It will increase communication between system business units.
- It will help employees to share their skills and ideas.

In order to develop a company's strategic canvas leaders will have to:

a. Share their vision and make it understood by all employees. Employees needs to know the situation of the company, it position in the marketplace. They need to share the vision in order to feel as a part of a bigger plan and be empowered.
b. Know their customers. A company must know their customers habits and why do they use their products and the competitors one. It will bring a competitive advantage because leaders will know the pros and the cons of every product. Most importantly, talk with non-customers and try to understand why they are reluctant. A blue ocean might be created from there. A new strategy, product or service can be developed from there.
c. Ask employee's strategies points of view. It will help leaders to know which strategy is the best and should be applied.
d. Communicate with all services. A leader must keep inform his teams.

A company operating a blue ocean should have two main goals about users: to keep their customers but more importantly reach their non-customers.

To reach beyond existing demand is one of the key components of achieving value innovation. To succeed, companies have to focus on existing customers but also to focus on non-customers to maximize the size of the blue ocean.

According to Kim and Mauborgne (2005), "non-customers can be classified into three different tiers":

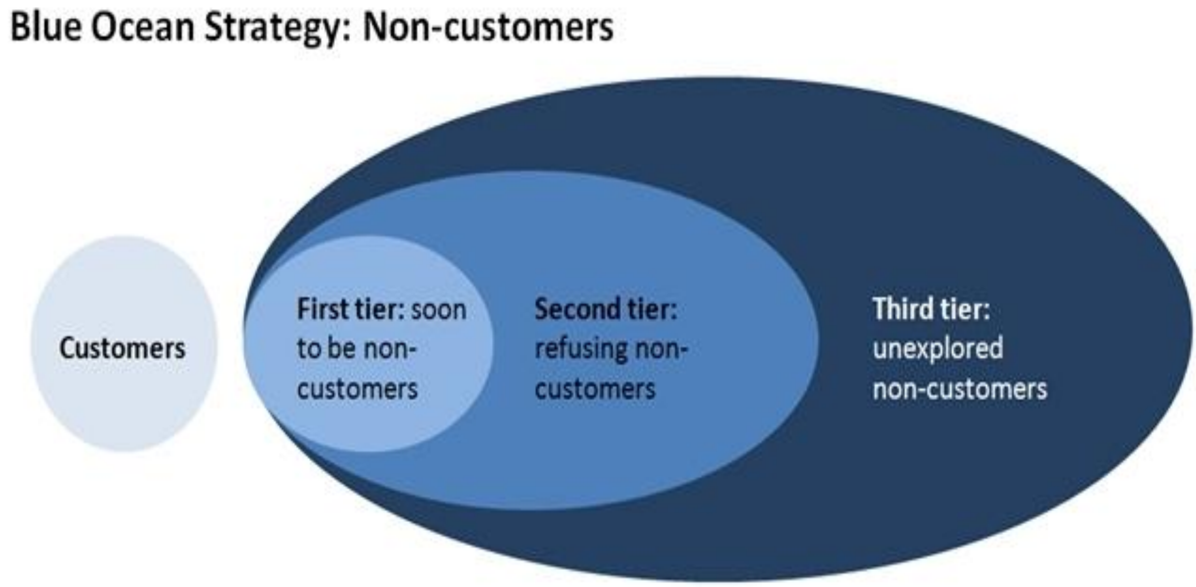

Figure 7: Blue ocean strategy: Non-customers (Kim and Mauborgne, 2005)

The first tier "Soon-to-be" represents future customers who are just waiting for an improved product. Something makes them reluctant to the actual one but with some minors modifications they will buy it. This category also includes non-regular customers who choose your product because nothing better is available on the market. Companies should try to find what that customer is looking for in order to satisfy them with a new adapted product which will also bring new customers. A blue ocean will be created from there. Non-customers will give better advices than actual customers who are already happy with the product.

The second tier "Refusing" represents non-customers who thinks that the product companies offer is not affordable or not adapted to their demand. The goal here is to understand their issues and fix them in order to expand the market; it might bring a lot of new customers.

The third tier "Unexplored" represents non-customers who never thoughts about your product or services. Indeed, their needs are fulfill by other markets. You have to understand why and if you can see on a bigger plan and offer beyond existing demand a blue ocean will be created.

As a new strategy, Blue Ocean is constantly evolving and updated. Indeed, in 2004, Kim and Mauborgne affirm that blue ocean is a tool to create brands equity for at least 10 years. In 2005, Kim and Mauborgne differentiate strategy and innovation, make clear the demand and the importance of strategies in business. They also developed the concept of value-innovation which now is the center of blue ocean strategy. According to Kim and Mauborgne (2007) a company has to fully understand the market environment to create a new demand. In 2009, they suggest that a company structure and its competitive environment are two factors which need to be taken into consideration while leaders are thinking about future strategies.

In order to assure the success of the new strategy a company has to follow the principles and concept of blue ocean strategy one by one. It will result on a strong business model with high results.

According to Kim and Mauborgne (2005) companies have to focus on:

1. Utility for the buyer
2. Price
3. Costs
4. Share the new vision
5. Make the vision understood by all employees

This focus has to be sequential in order to be logical and give the best results.
Indeed, thanks to the right strategic sequence the company is allowed to implement its strategy and also decrease their business model risks.

If any of the steps are not fulfill, you have to rethink in order to make it right. If the sequence is complete you will have a viable blue ocean concept.

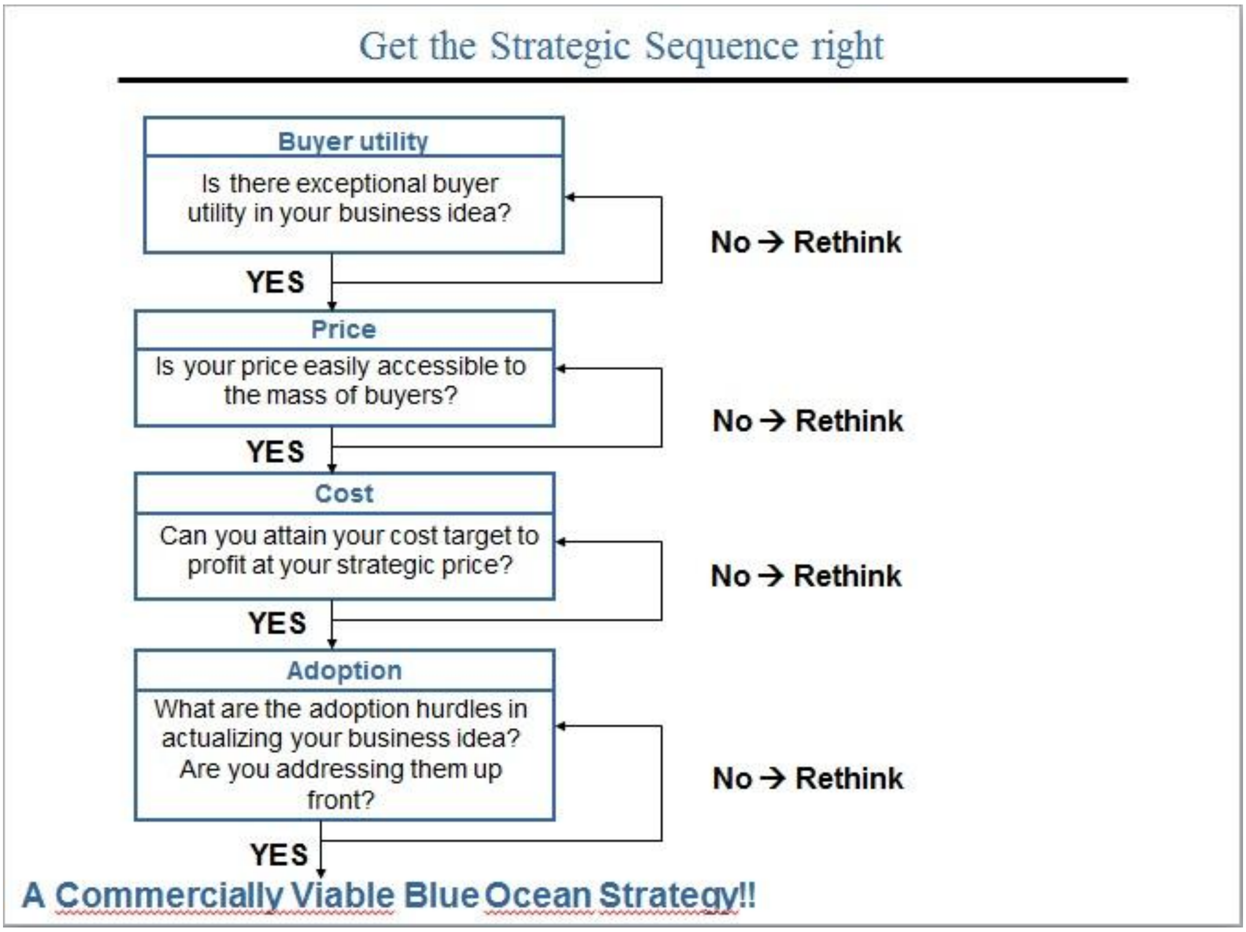

Figure 8: "Blue ocean strategy" (Kim and Mauborgne, 2005)

As explain in that figure, companies need to build their strategy in the sequence of buyer utility, price, cost and adoption. The first point is buyer utility and if there is a lack of it there is no blue ocean potential to start with. Then, companies have to options: park the idea or rethink till the company can answer yes.

A company does not want to rely on price to create demand. So in order to move on, companies have to answer yes to the question: "Is your price easily accessible to the mass of buyers?" If the answer is negative, people won't buy the product or service.

To have strong revenue flowing, the strategic price must be set. This procedure will ensure that consumers will want to buy and will have the compelling ability to achieve it. It is fundamental, from the start, to know the price that will bring mass of target consumers.

The strategic price defined must not only attract customers but also retain them. The reputation must be earned since day one and rapidly spread by networked society. That is important to avoid imitations and turn the blue ocean in Red Ocean.

When exceptional utility is combined with strategic pricing, imitation is discouraged.

Cost is really important to secure the profits. When the target cost cannot be met, the idea won't be profitable or you will have to innovate to hit the target cost.
It is strategic to reach to a cost structure that allows profitability and it is hard to competitors to imitate. To be successful with target costing, the strategy profile must be divergent but with focus.
People have to adopt your idea. For that, you have to overcome the hurdles. Concerns of employees, business partners and general public must be addressed to avoid resistance and fears, when changing the current status quo. Awareness should be developed to communicate the advantages that everyone will have with the success of the actions.

Kim and Mauborgne (2005) explain that thanks to blue ocean strategy, companies create a new undisputed market space where they can fix all the rules, criteria and factors which can influence the market. They innovate and create a value jump which makes competition irrelevant. To create this new value, the four actions framework has to be followed.

The four actions framework of Blue Ocean strategy

A blue ocean strategy resides on the fact to rethink the company's strategy from competitors to alternatives points of view plus from attracting non-customers. According to Kim and Mauborgne (2005) "The strategy canvas contains two parts, a diagnostic and an action framework". The strategy canvas helps the company to situate itself on the market space. The four action framework is used to build a new blue ocean strategy in an existing market.

The four action framework consists of four questions which will lead to a new value curve:

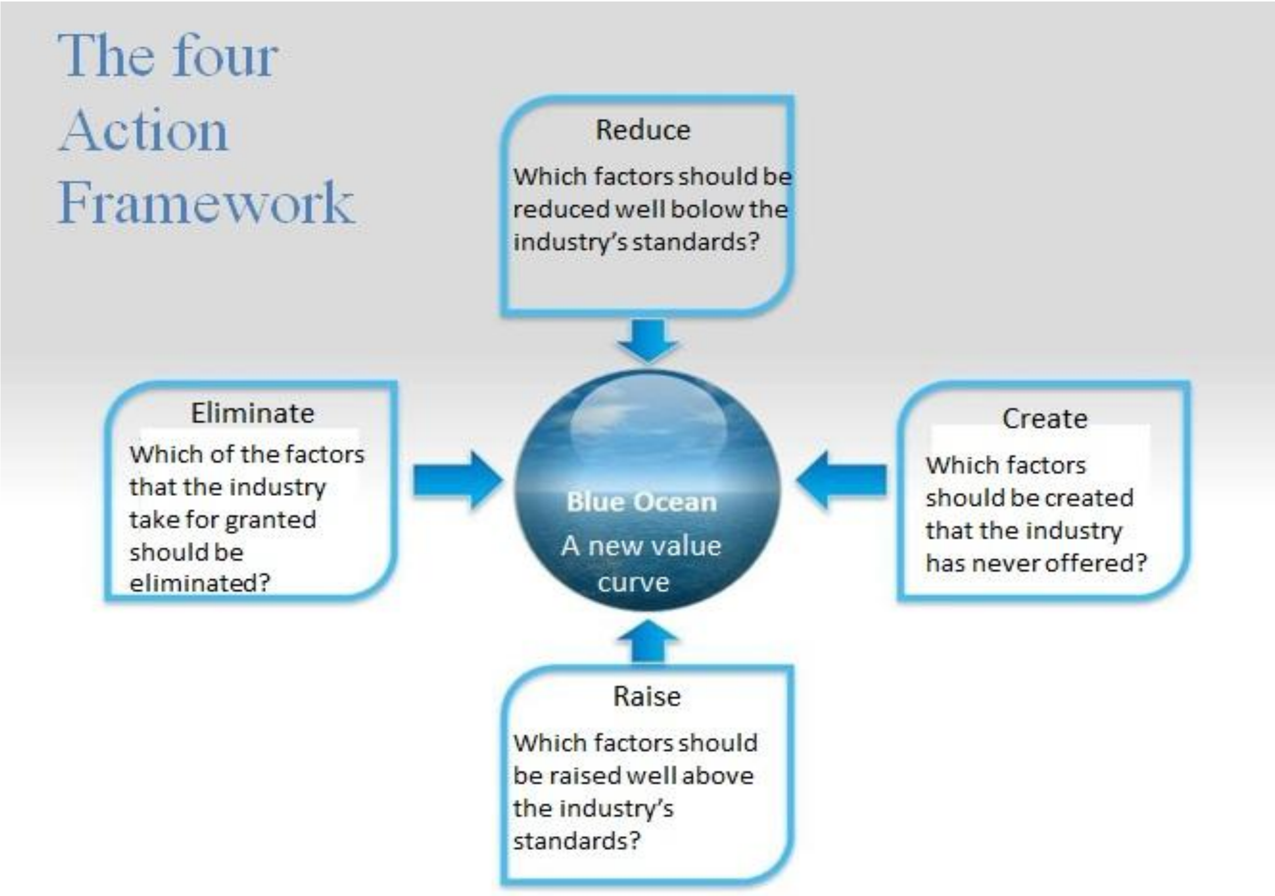

Figure 9: The four action framework (Kim and Mauborgne, 2005)

The goal of the "eliminate" factor is to cut costs used for competition and which are impact less.
The goal of the "reduce" factor is to limit the product and services to those which are "successful". Companies don't need to focus on products which are not working and costing money just to have a larger ranger.
The goal of the "raise" factor is to understand what are the customers' standards and go upon them to make them more than just satisfied.
The goal of the "create" factor is to find what will create a new demand/market.
These entire factors combine will lead a company to create a blue ocean.

The four action framework will help companies knowing which competitive factors are irrelevant but also customers' compromises. The company will not only ask itself these questions it will also work on it at the same time in order to create new value innovation.

Thanks to the four action framework, managers and all employees will be able to understand the strategy, the leader's vision and so work effectively to reach the company's goals. If all these tools are correctly used an effective blue ocean strategy will be created and launched. According to Kim and Mauborgne (2005) "A good blue ocean strategy will have three defining characteristics".

According to Kim and Mauborgne (2005) these characteristics are:

- ✓ The blue ocean strategy will be clear for every participant. So, employees will be focus on key factors of success rather than working on unrelated things.
- ✓ One main characteristics of a blue ocean is that the strategy must be different from competitors. Companies must not focus on their competitors' strategy.
- ✓ A blue ocean strategy should be easy to explain and understand. Communication is a key. Leaders must share their vision, ideas and explain them clearly.

Moreover, according to Kim and Mauborgne (2005), in order to create new strategic market spaces it is important to take a new look on current characteristics. So, they created six steps to do it easily.

These steps are:

	Head-to-Head Competition		Blue Ocean Creations
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

Table 1: Blue ocean strategy (Kim and Mauborgne, 2005)

Conceptualizing and developing a strategy are the steps before its execution. Of course, that execution requires a specific process that I am going to describe.

3.2.6 Executing a blue ocean strategy

According to Kim and Mauborgne (2005) while developing a blue ocean strategy, a company encounters four barriers:

Figure 10: Overcome key organizational hurdles (Kim and Mauborgne, 2005)

Once a company has developed a blue ocean strategy with a profitable business model, it must execute it. The challenge of execution exists, of course, for any strategy. Companies, like individuals, often have a tough time translating thought into action whether in red or blue oceans. The challenges managers face are steep. They face four hurdles:

- A cognitive hurdle. Waking employees up to the need for a strategic shift. Red oceans may not be the paths to future profitable growth, but they feel comfortable to people and may have even served an organization well until now, so why rock the boat?
- Limited resources. The greater the shift in strategy, the greater it is assumed are the resources needed to execute it. But many companies find resources in notoriously short supply
- Motivation. How do you motivate key players to move fast and tenaciously to carry out a break from the status quo?

- Politics. As one manager put it, "In our organization you get shot down before you stand up."

Although all companies face different degrees of these hurdles, and many may face only some subset of the four, knowing how to triumph over them is key to attenuating organizational risk.
To achieve this effectively, however, companies must abandon perceived wisdom on effecting change. Conventional wisdom asserts that the greater the change, the greater the resources and time you will need to bring about results. Instead, you need to flip conventional wisdom on its head using what is called *tipping point leadership*. *Tipping point leadership* allows you to overcome these four hurdles fast and at low cost while winning employees' backing in executing a break from the status quo.

The key questions answered by tipping point leaders are as follows: What factors or acts exercise a disproportionately positive influence on breaking the status quo? On getting the maximum bang out of each buck of resources? On motivating key players to aggressively move forward with change? And on knocking down political roadblocks that often trip up even the best strategies? By single-mindedly focusing on points of disproportionate influence, tipping point leaders can topple the four hurdles that limit execution of blue ocean strategy. They can do this fast and at low cost.

Figure 11: Build execution into strategy (Kim and Mauborgne, 2005)

Leaders must share their vision, adopt a clear and understandable communication strategy and take the needed time to succeed.

Participants must be aware of the strategy modifications. Leaders must explain the reasons and the position of the company compare to the other actors on the market. Leaders have to well brief their managers who will brief the rest of the employees.

Another important aspect is to focus on high performance activities. It is useless to have cost on an activity generating few benefices. A company has to focus on quality/price/results. It will unlock resources which could help improving different aspects of the company.

It is really important to empower company's employees. Indeed, they will be more efficient and will work harder in order to reach a common goal. Of course, incentives or challenges are good ways to motivate.

While implementing changes it is really important to take care of the impact on the enterprise culture. Leaders should not underestimate the impact. In order to make the transition easier it can be interesting, for a leader, to have a well-known respected employees on his side. He will help demining all the possible traps.

"The conventional theory of organizational change rests on transforming the masses. So change efforts are focused on moving the mass, requiring steep resources and long time frames – luxuries few executives can afford. Tipping point leadership, by contrast, takes a reverse course. To change the mass it focuses on transforming the extremes: the people, acts, and activities that exercise a disproportionate influence on performance. By transforming the extremes, tipping point leaders are able to change the core fast and at low cost to execute their new strategy. It is never easy to execute a strategic shift, and doing it fast with limited resources is even more difficult. Yet our research suggests that it can be achieved by leveraging tipping point leadership. By consciously addressing the hurdles to strategy execution and focusing on factors of disproportionate influence, you too can knock them over to actualize a strategic shift. Focus on acts of disproportionate influence. This is a critical leadership component." Kim and Mauborgne (2005)

In order to indorse my work, I am going to explain my research findings by starting with underlining successful companies which used the blue ocean strategy.

Chapter 4: Research findings

Companies using Blue Ocean strategy

Previous thoughts who led to the idea and the practice of Blue Ocean strategy

Spread of Blue ocean concept to companies

Efforts of improving the Blue Ocean strategy

In this chapter, i will point out the major companies who used a blue ocean strategy. I will relate the previous ideas, theories and concepts developed above with my findings in order to answer my research questions.

4.1 Companies using blue ocean strategy

It is known that corporate strategies have their root in military strategy. Moreover, we can compare “red oceans” with warfare; a market space where all competitors are fighting for shares. Consequently to these strategies, profit margins are low, there is a price war and many companies disappear. In order to escape from this warfare, one of the solutions is developing a blue ocean: a new market space with high profitability, irrelevant competition and many opportunities.

“In a 10-year study of 108 companies, it was found that 86-percent of new product launches were line extensions and only 14-percentwere attempting to create blue ocean markets. Yet that 14-percent generated 38-percent of total revenues and 61-percent of total profits”. Kim and Mauborgne (2005) It is an indisputable proof of the blue ocean success.

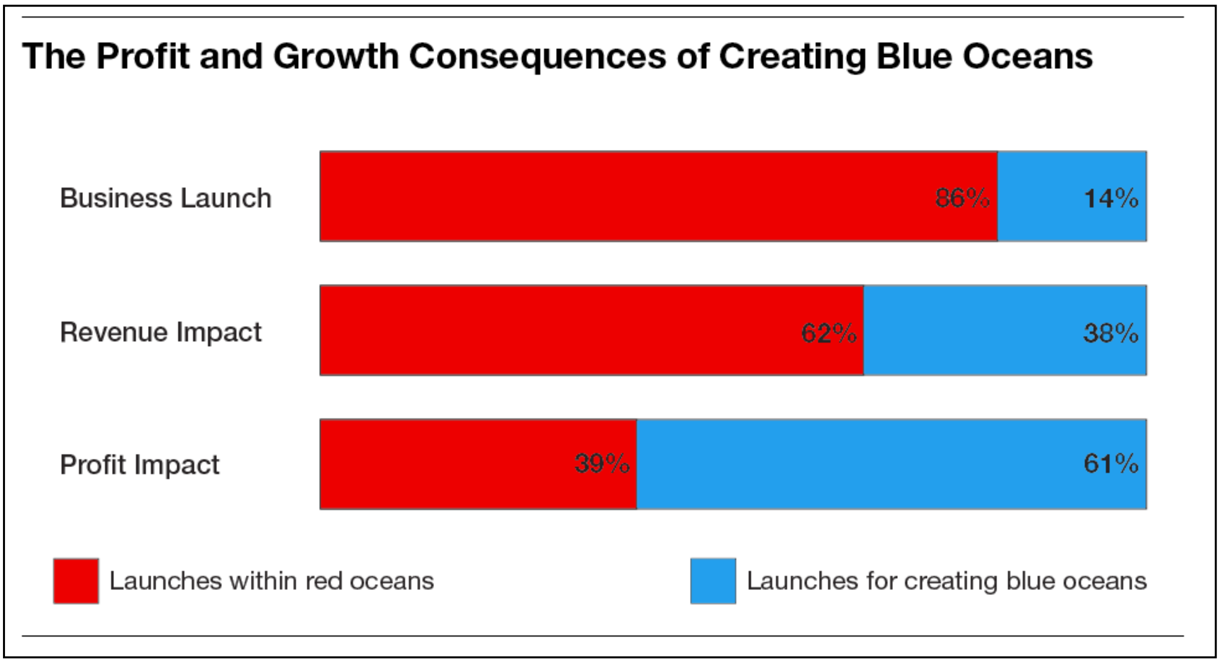

Figure 12: The profit and growth consequences of creating Blue Oceans (Kim and Mauborgne, 2005)

To indorse my words, I would like to present some companies who used a blue ocean strategy successfully.

As far as I am concerned I think that Apple is the most representative example of a successful blue ocean strategy. It is confirmed by their actual i-Pod market shares:

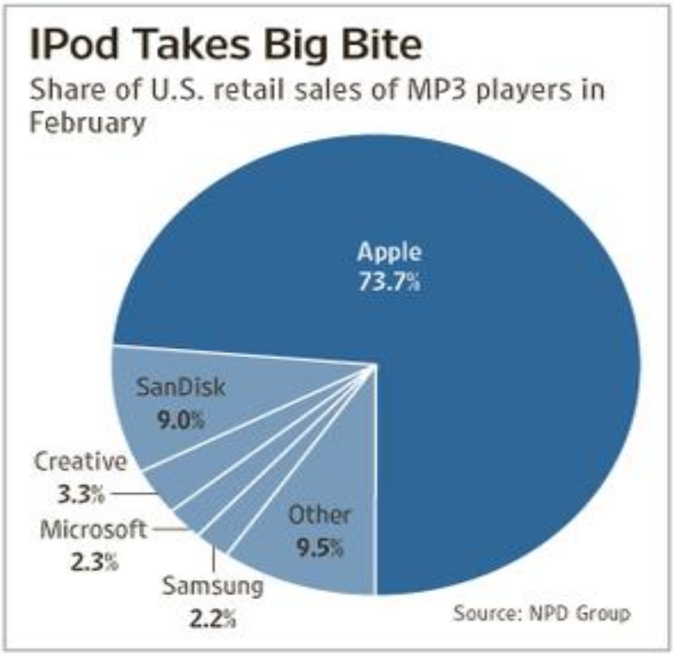

Figure 13: afterdawn.com

Apple created a need from an existing market and met with success. Apple took their inspiration from Napster. The success of Napster made cleat the fact there where a strong consumer demands on digital music. Consumers could already download the music it was logical to give them a new tool to listen it.

As a second example, I point out Ford which Model T was sold at half the price of its competitors.
As a third example I put forward CNN, which created, in 1980, 24/7 real time news.
As a fourth example, I think that Le cirque du Soleil realized one of the most successful blue ocean. Indeed, the market was in a deep crisis and thanks to their focus on adults rather than on kids they made a revolution on the circus industry.
I also would like to underline the success of Dell computer and its direct sales made-to-order business model.
Thousands of companies realized successful Blue Ocean which improved them as Samsung, Nokia, IBM, Whirlpool or Net jets.

According to W. Chan Kim and Renee Mauborgne (2005) "The process of discovering and creating blue oceans is not about predicting or preempting industry trends. Nor is it a trial-and-error process of implementing wild new business ideas that happen to come across manager's minds or intuition. Rather, managers are engaged in a structured process of reordering market realities in a fundamentally new way. Through reconstructing existing market elements across industry and market boundaries, they will be able to free themselves from head-to-head competition in the red ocean."

A theory must be inspired by something or someone. In the next part I am going to suggest the previous thoughts who led to the idea and the practice of Blue Ocean strategy

4.2 Previous thoughts who led to the idea and the practice of Blue Ocean strategy

I believe that every idea, theory or concept has its own roots. So, I tried to understand where the idea of Blue Ocean can come from.

As far as I am concerned I think that blue ocean strategy comes from collective thoughts.

First of all, I will say that blue ocean strategy has been influenced by Mintzberg and his theory on strategic planning. Mintzberg developed the idea that planning helps to formalize a system and so has an impact on strategies that the company already developed.

I do believe that Hamel also influenced Kim and Mauborgne through his book "Competing for the future" (Hamel, 1994). Hamel developed the idea that a strategy is emotional and analytical. Moreover, he affirms that in a new strategy is not to create it but to implement it. Additionally, he suggests that core competencies are the "collective learning" in the company. Furthermore, according to Hamel (1994) "a company surrenders today's business when it gets smaller faster than it gets better. A company surrenders tomorrow's business when it gets better without getting different".

I also think that Jim Collins book "Built to Last" (1994) influenced Kim and Mauborgne. Indeed, in his book Jim Collins explains that in order to be successful on a long term a company must have a solid unique strategy.

I believe that Kaplan and Norton also had an impact on the blue ocean strategy through their book "The Balanced Scorecard". Indeed, it explains what kind of information a leader/manager must know from four different perspectives (Financial, Customer, Internal and Innovation).

They also took inspiration from Kenichi Ohmae and his book "The borderless World" (1990). In his book Kenichi Ohmae suggests the importance of three C's which are Company, Customer and Competition. From my point of view, the most important aspect that he develops is the importance of the customers rather than the competitors.

Last but not least I think that Kim and Mauborgne were influenced by C. Handy and his book "The age of unreason" (1989). Handy suggests that nothing is fully acquired and you can lose what you get. It is a warning and it is important to forecast and minimize risks as much as possible.

Finally, I believe that Schumpeter influenced the Blue Ocean theory with his reconstructionist view of strategy and his relation between strategy and innovation.

To put in a nutshell, the blue ocean theory is based on a mix of various theories, concepts and thoughts.

In the next part, I am going to point out the spread of blue ocean theory to companies.

4.3 Spread of Blue ocean concept to companies

In order to have pertinent results on my research questions I interview by phone five actors working in the consulting field for major companies. I interviewed Pascale Moortgat, CEO of Moortgat Consulting in Paris, Lorraine Daure, junior consultant at Ernst & Young, Remi Boutin who works as a strategic consultant for KPMG, Arthut Droin senior consultant for Price Waterhouse Coopers and Meriam Kadoura Business analyst at Deloitte.

The interview with Pacale Moortgat started with innovation. She explained to great extent the importance of the value-innovation in the blue ocean strategy. She revealed that they were actually working on their own blue ocean. It was really interesting and full of information to have an insight in this process. Most of her clients come from the food and beverage industry, where there is acerb competition and high product rotation.

The interview with Lorraine Daure was focused on the development of a blue ocean strategy. She gave me an insight into the insurance market which provided me with an image of this competitive sector. She also pointed out the challenges these companies have to do a blue ocean in this highly regulated industry.

The interview with Remi Boutin also brought to light some concerns for the applicability of this strategy. Indeed, because of the obsolescence in the high-tech industry the applicability of the blue ocean strategy is limited. On one hand, it is limited in application; on the other hand a well-constructed strategic plan could lead to favorable results with a reasonable amount of time.

The interview with Arthur Droin was focused on clients coming from the banking sector. He explained me the difficulties for banks to go out of the red ocean. Indeed, it is really hard to develop a new service or product and so create a blue ocean. It is really hard for banks to differentiate themselves. People become loyal overtime and even if a competitor has a new service or product, clients are not easily going to change of bank. The financial part of their live is something that they hold in high regard.

The interview with Meriam Kadoura was focused on the energy & resources market. It is in the lime-light. She explained the importance of Blue Ocean in that particular constantly evolving industry. There is an urgency to make a switch of technology in order to use cleaner renewable sources of energy. She pointed out the high costs of implementing a blue ocean strategy in such an industry because of the investments required. Moreover, there is a lack of regulation as an incentive to pursue other avenues.

Through my extensive conversation with them, they confirmed my thoughts about my research questions.
Firstly, all of them confirmed that companies mostly don't know the blue ocean strategy theory but they know and understand the concept.
Secondly, it is the consultants who propose the use of blue ocean strategy. From their experience, they affirm that depending of the business industries; clients have a different level of awareness about this strategy. I also found that the higher the competition is in the market, the higher the level of awareness is.

In my opinion the discussion led me to rethink about the costs, the challenges, the barriers or pursuing the blue ocean strategy. It made me reconsider my opinion on this strategy and I asked myself if the blue ocean theory can be improved? In the next section, this discussion will be deepened.

4.4 Efforts of improving the blue ocean strategy

Through my research findings, interviews and readings I believe that the blue ocean strategy can be subject to some improvement. Theories that are scientific have higher explaining and predicting power, and are more believable as they are based on a good amount of evidence and objectivity (Bauer, 1992). Kim and Mauborgne theory has been developed through observations and suppositions. In order to be relevant these suppositions need to be tested. To go further in the empirical cycle, these assumptions need to be turned into hypotheses and testable predictions (de Groot, 1961). They tried to do it through different companies' examples Cirque du Soleil or Yellow Tail.

The problem is that Kim and Mauborgne work is only focused on successful companies and the blue ocean strategy putted in place is not the only factor of success. The question becomes: Does the blue ocean strategy is the key factor of success?

Moreover, some companies' strategy which fulfill the criteria are not considered as blue ocean or at least not explained as so. I do believe that the definition of blue ocean in unclear.

In order to make their theory more relevant I think that the number of case studies should be increased. Cross-comparisons and additional literature should also be included to gain more insights and perspectives on the subject (Eisenhardt, 1989).

Another point that I found through my interviews is the relation between the creation of blue ocean and the density of the competition. Indeed, if a market is saturated it will be interesting to develop a blue ocean strategy but won't it be easier for the leader rather than one of the followers?

Moreover, it seems that some markets can be reluctant to the theory developed by Kim and Mauborgne. Indeed, the banking industry is saturated, the offers are similar… factors which should lead to a blue ocean. Nevertheless, it seems almost impossible to realize one or at least a profitable one. The competition will be irrelevant for a short period of time and it seems that the company who realize it will not have a true competitive advantage for a long period of time.

To conclude, I think that this theory has a lot of potential but is not fully exploited. With some improvement, this theory could be irrefutable rather than being hypothetical.

Chapter 5: Conclusion

Conclusion

Further research

In this final chapter, i will draw the conclusion of my work according to my research findings and collected data. Moreover, I will present my recommendations for further research.

5.1 Conclusion

Companies are used to compete into red oceans with high competition, low profit margins, and almost inexistent opportunities. However, a solution exists: blue ocean strategy.

Blue ocean strategy is a mix of concepts, theories and tools leading companies to think out of the box, move away from competition by creating a new market space where the company will fix the entire context, rules and where the competition will be irrelevant. Company will now be focus on the value of the customer rather than on the value of competitors. Value innovation is the key concept in blue ocean strategy, it provides the strategy framework. Thanks to Blue Ocean, the company is "free" of modifying factors of competition.

In order to be more competitive, one of blue ocean strategy's goals is to realize economies of scale by reducing costs and competitive characteristics. In order to achieve the blue ocean strategy successfully many steps (that I illustrated along this thesis) have to be fulfilled. The result will not be perceived except if all participants make their part.

Leaders have an important role into the establishment of a blue ocean strategy:

- ✓ It is really important that every actors clearly understand the vision, the strategy. Leaders have to deeply explain the reasons of such strategic changes, take time to explain and above all listen to the participants.
- ✓ If everyone knows and understands what is expected, they will feel empower and will be more productive and will take more responsibilities. They will only focus on what should be done in order to achieve the common goal. In the best case, they will put the company's interest before their own.
- ✓ They will be involved in something they trust and care about which will facilitate communication.

Developing a blue ocean strategy will lead to many advantages. Indeed, competitors will not care about your situation and will not expect the company and its new strategy to succeed. So, in case of success, the company will be one step ahead and the competition will be irrelevant.

By creating the blue ocean, the company will be in a strong position because it will set the rules, prices, regulations, standards… So, it will be difficult for any entrant to compete. In best cases, the competition will be irrelevant for a decade; you will have high profit margins, enough time to secure the loyalty of customers and already have a strong knowledge and analysis of the environment. The company originally creating the blue ocean will have strong competitive advantages that it also might prevent imitation.

In addition, thanks to the knowledge of the environment, your company can easily estimate competitors' strengths, weaknesses and positions on the market. It will give you another advantage: the possibility to create again a blue ocean. Once again, you will be one step ahead. Your ability to create Blue Ocean is linked with your long term success.

"The business world is becoming increasingly overcrowded. The competition will be more present and will remain a critical factor of the market reality. What we suggest is that to obtain high performance in this overcrowded market, companies should go beyond competing for share to creating blue oceans. Because blue and red oceans have always coexisted, however, practical reality demands that companies succeed in both oceans and master the strategies for both. But because companies already understand how to compete in red oceans, what they need to learn is how to make the competition irrelevant. We aim to balance the scales so that formulating and executing blue ocean strategy can become as systematic and actionable as competing in the red oceans of known market space. Blue ocean opportunities have been out there. As they have been explored, the market universe has been expanding. This expansion, we believe, is the root of growth." W. Chan Kim and Renee Mauborgne

To conclude, I would like to points of my research findings. According to my research it seems that Kim and Mauborgne gave us a strong theory which unfortunately has not been enough tested. Indeed, they based their theory on assumptions, observations and on successful case studies. I think it is enough to create some doubts about the relevance of the theory. Moreover, in spite of the book being a best seller it seems that companies, as a majority, don't know the theory or at least don't the name and that is consultant who named it and make companies follow the different processes.

5.2 Further research

Through my research, many questions were born. I tried to answer to the ones I considered the most relevant.

First, I believe that I pointed out in this thesis, through my research questions some sensible points which should be subject to further research.

Second, I think that the process described by Kim and Mauborgne of finding value-innovation is uncompleted and should be examined.

Third, they developed many processes, step to make the blue ocean strategy successful but I think that many factors are not specified as Marketing.

Fourth, I think that their competition point of view is a bit restrictive and can be extended.

Finally, they explain that the strategy will minimize risks but do not show to what extent and it will be interesting to have further development.

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Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.

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