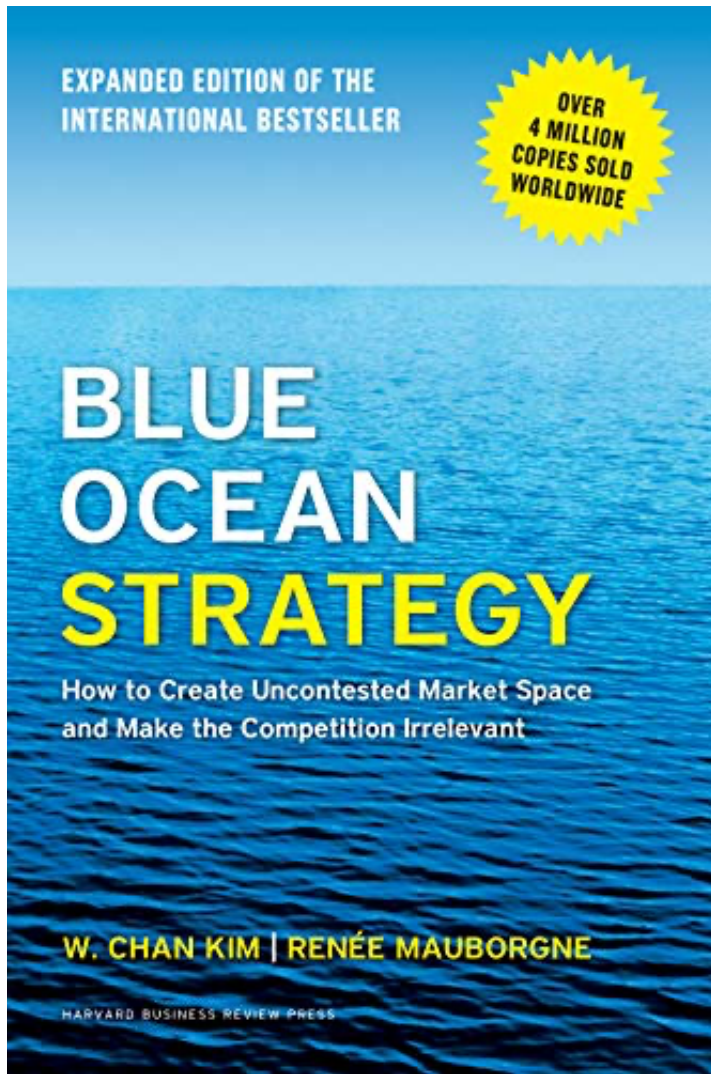




Lecture 3: Blue Ocean Strategy: Innovating in a Down Economy!

Strategy Over the Years

- Strengths and Weakness analysis, SWOT (HBS, late 60s)
- Portfolio approaches (GE, McKinsey, BCG 60-70s)
- Shareholder value, EVA (80s-90s),
- Michael Porter (mid 80s)
- Core Competence, Strategic Intent (Hamel, Prahalad, early 90s)
- Profit Zone (Adrian Slywotzky, et al)
- Disruptive technologies (Clay Christensen, late 90s)
- **Value Innovation (Chan Kim, Renée Mauborgne, late 90s).**

So what's new about Value Innovation/Blue Ocean Strategy?

What Is A Blue Ocean?

Red Ocean



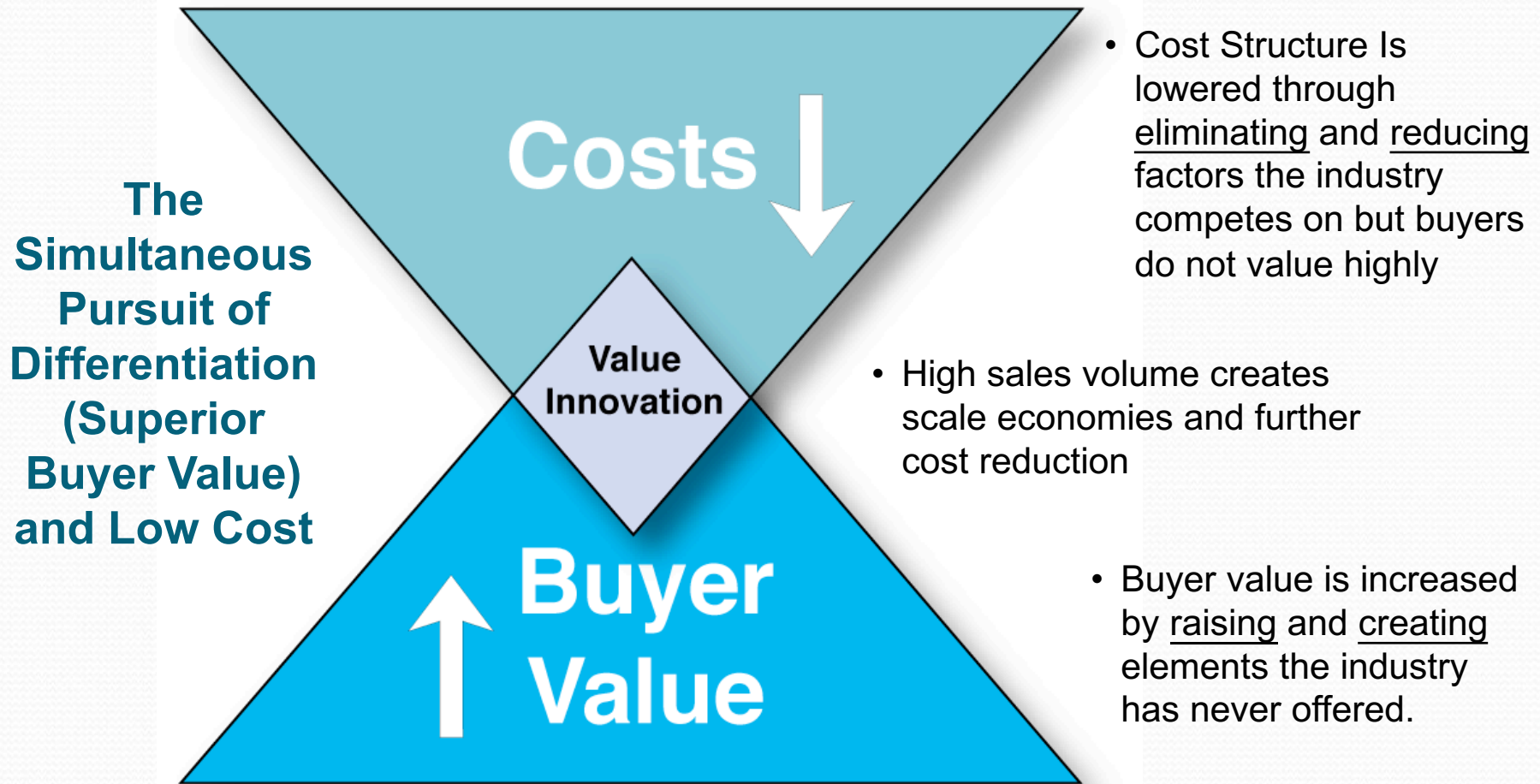
- Existing market space
- Industry boundaries are defined and accepted
- Cutthroat competition means the water is bloody red
- Growth and profits are restricted

Blue Ocean



- New market space
- Companies expand or go across industry boundaries
- Competition is irrelevant in the blue uncharted water
- Significant opportunity for profitable growth

Core Concept



Key Principle: Reach Beyond Existing Demand

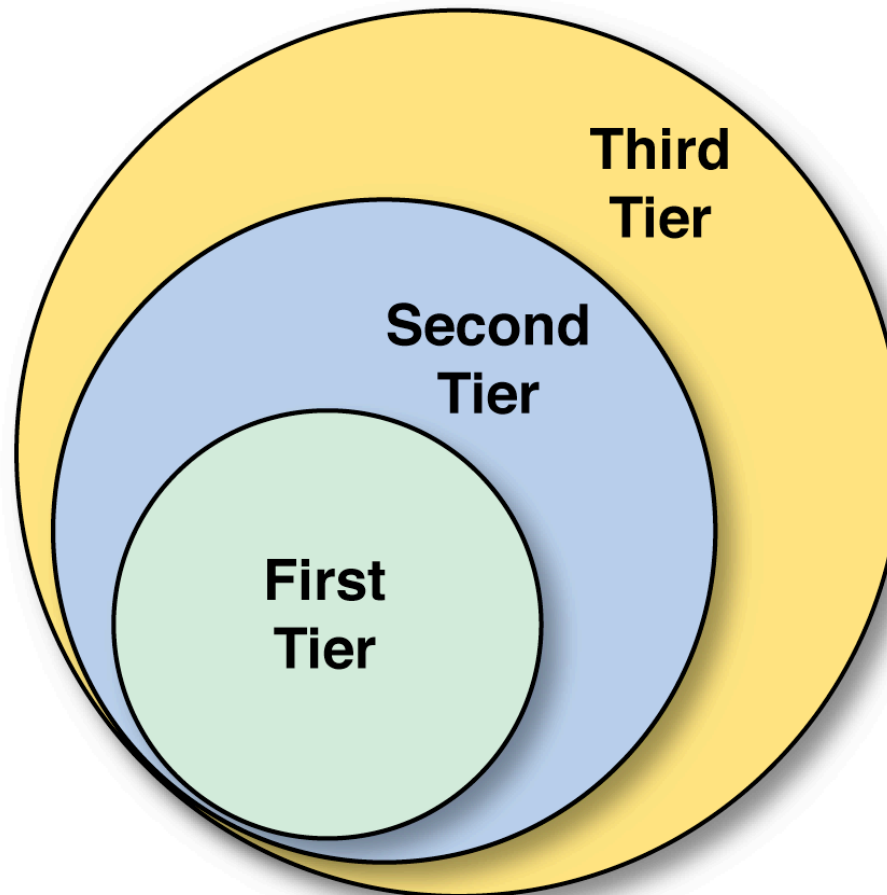
Engage the Three Tiers of Non-Customers

Tier 2

- Are aware of but don't use your industry's offerings.

Tier 1

- Soon-to-be non-customers.
- In search of better solutions.



Tier 3

- Have never thought of your market's offerings as an option.
- “Unexplored” customers who have not been targeted or thought of as potential customers by any player in the industry.

Benchmarking Focuses On Beating The Competition



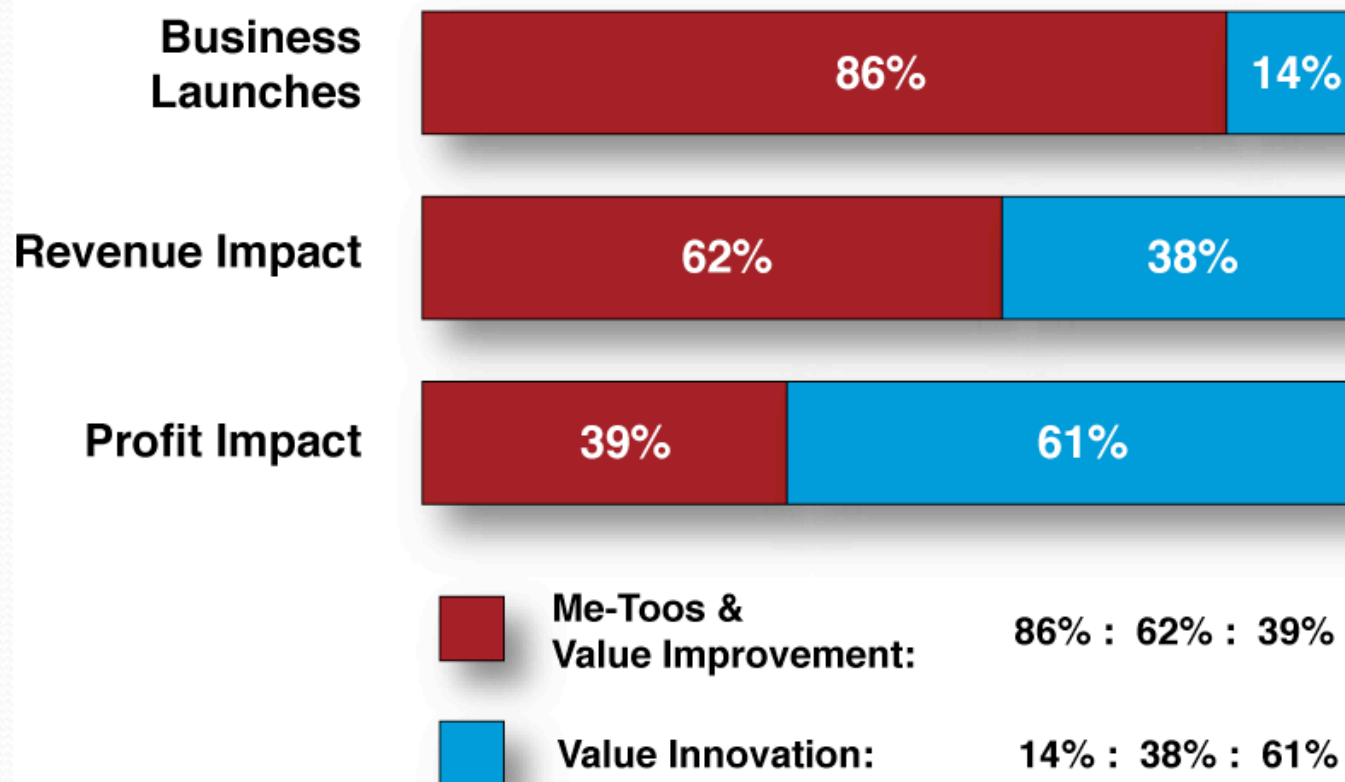
**“World’s Friendliest
Driver”**

- Callaway did not focus on competitors
- Launched “Big Bertha” in 1991
- Dominated the market by capturing share from rivals and expanding the total golf club market
 - e.g., attracted non golf playing sports enthusiasts

Rather than competing for a share of a contracting market, Value Innovators stimulate the demand side of the economy.

Why It's Important

The Sources of Profitable Growth



When Should *Blue Ocean Strategy* (BOS) Be Used?

- **Best Situations**

- Leadership is committed to investing in innovation for profitable growth and significant cost structure reduction
- Core business or organization is performing well
- Strategic, future-focused opportunities are not sacrificed to short-term priorities
- Leadership embraces new approaches and non-incremental thinking
- Leadership believes in the need for a well balanced portfolio of offerings/businesses tied to different growth strategies including Pioneers, not just Settlers and Migrators

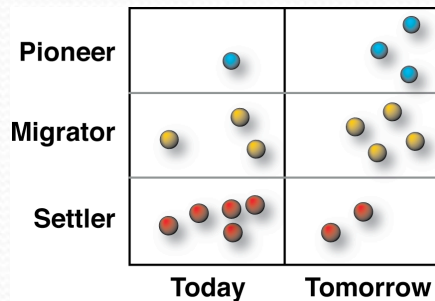
Using BOS for Business Development

- Think differently about how you position your services in this downturn
- BOS helps position your functional expertise and services more strategically
 - C-level introductions and conversations
 - Appeal to multiple functions and decision-makers
- Use Innovation positioning to increase appeal and demand for new project work
 - Corporate innovation isn't just about new products and top-line revenues, it's about cost structure and building capabilities too
 - Companies who invest now can make a break from competitors who are hunkering down
- Plus, connect what you do to a popular, recognized approach for added credibility

Four-Step Blue Ocean Strategy Process

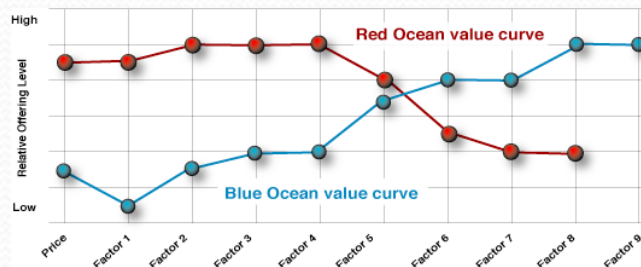
1. Visual Awakening	2. Visual Exploration	3. Visual Strategy Fair	4. Visual Communication
• Compare your business with your competitors' by drawing your "as is" strategy canvas • See where your strategy needs to change	• Go into the field to explore the six paths to creating blue oceans • Observe the distinctive advantages of alternative products and services • See which factors you should eliminate, create, or change	• Draw your "to be" strategy canvas based on insights from field observations • Get feedback on alternative strategy canvases from customers, non-customers, and competitors' customers • Use feedback to build the best "to be" future strategy	• Distribute your before-and-after strategic profiles on one page for easy comparison EXPLANATION • Support only those projects and operational moves that allow your company to close the gaps to actualize the new strategy. EXPECTATION CLARITY
ENGAGEMENT			

Blue Ocean Strategy Core Tools



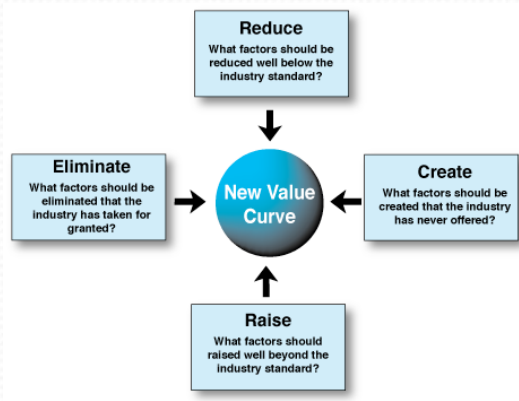
(1) Pioneer-Migrator-Settler Map

Finding the most promising possibilities for growth across a portfolio of service offerings



(2) Strategy Canvas and Value Curves

Graphically depicting how a company configures its offerings to deliver customer benefits relative to other industry players

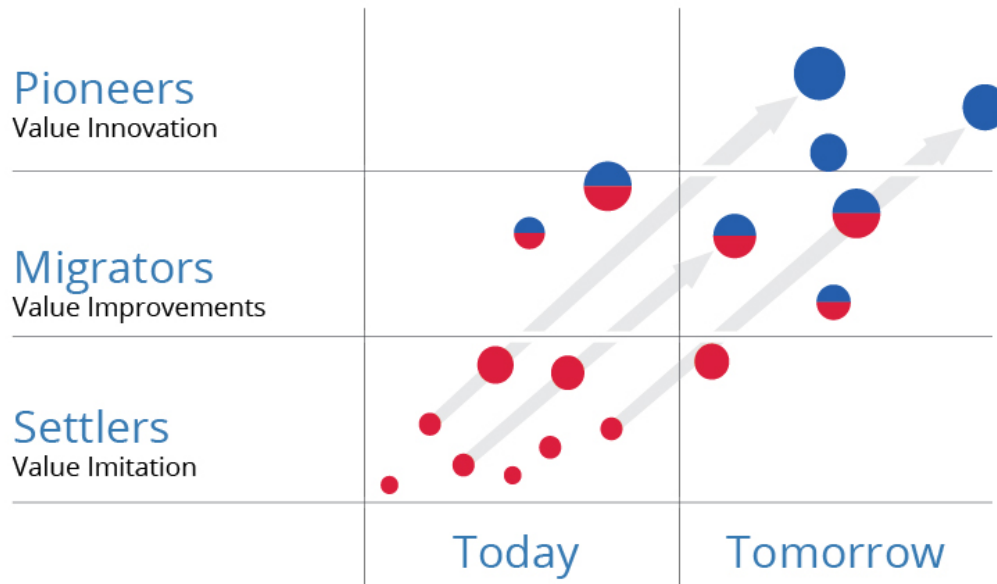


(3) Four Actions

Frameworks for discovering new ideas which can lead to future value curves

Plotting the Company' Portfolios

Pioneer-Migrator-Settler Map

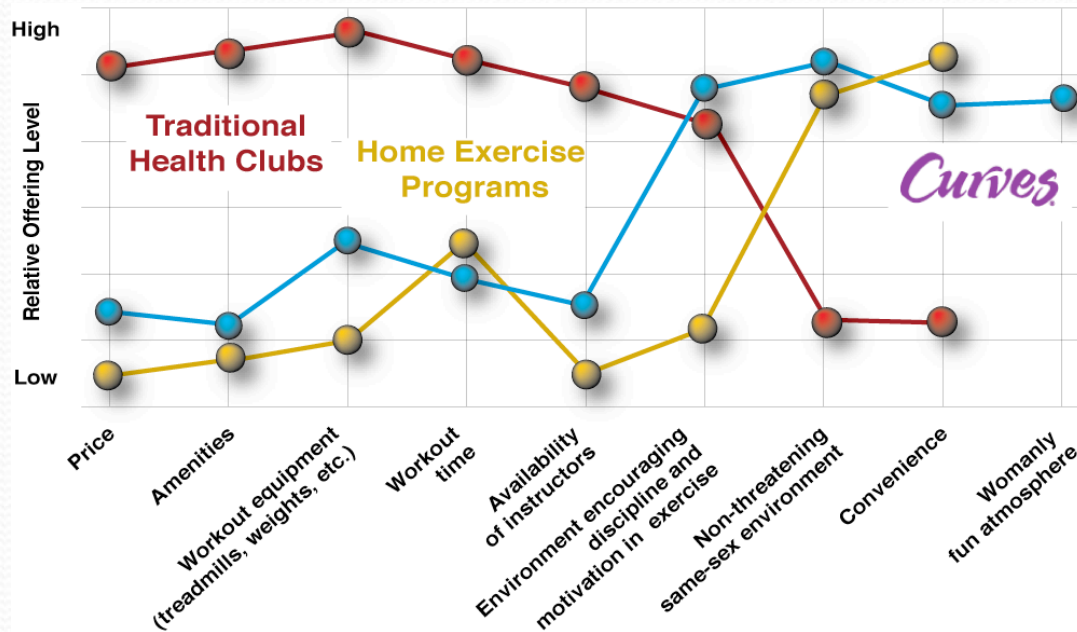


A useful exercise for a corporate management team pursuing profitable growth is to plot the company's current and planned portfolios on the Pioneer-Migrator-Settler Map

- **Settlers** are defined as me-too businesses
- **Migrators** are business offerings better than most in the marketplace and
- A company's *pioneers* are the businesses that offer unprecedented value.
- These are a company's blue ocean strategic moves, and are the most powerful sources of profitable growth. They are the only ones with a mass following of customers.

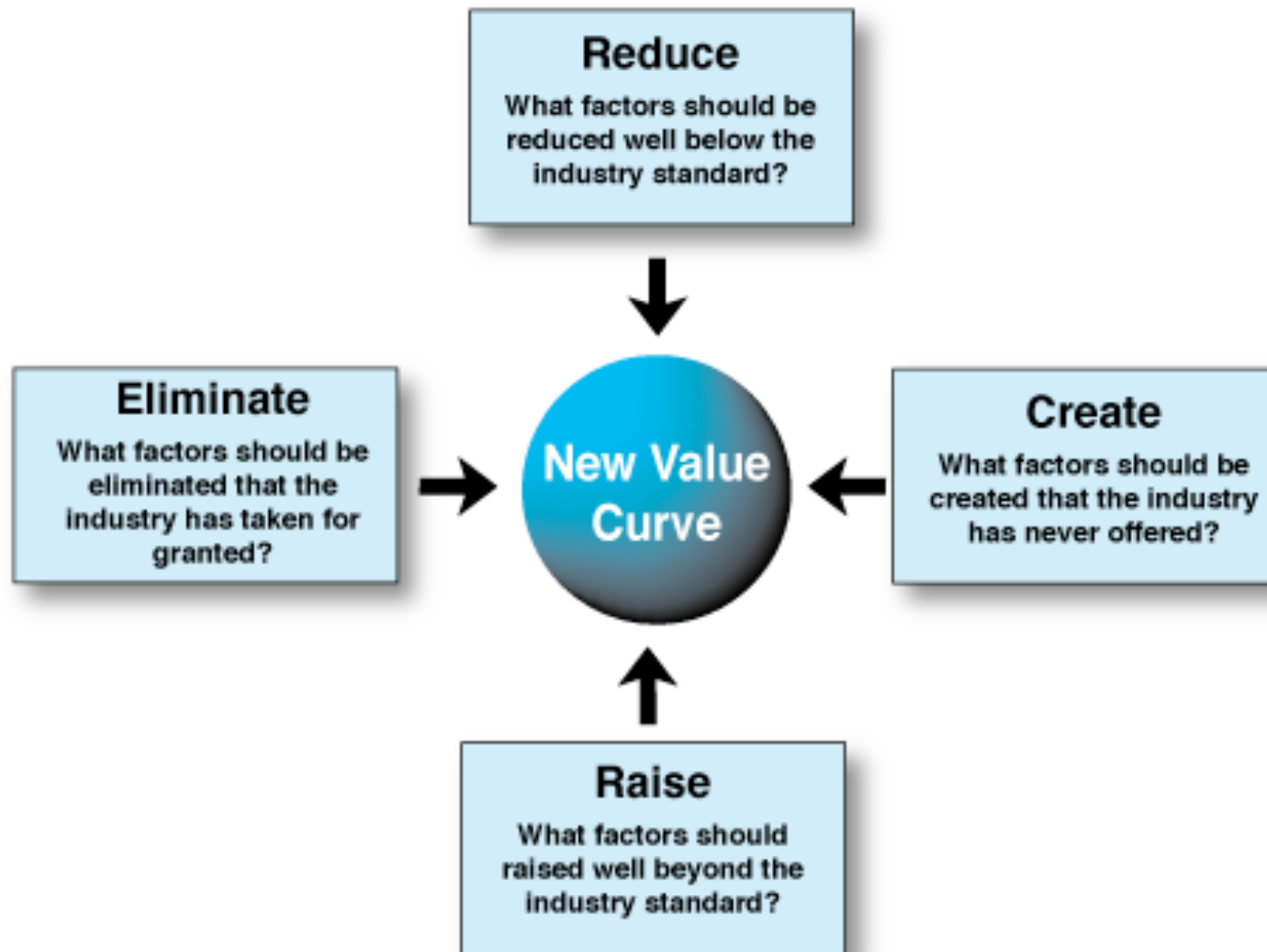
Drawing the Strategy Canvas

Example Strategy Canvas: Curves Customer: Consumer

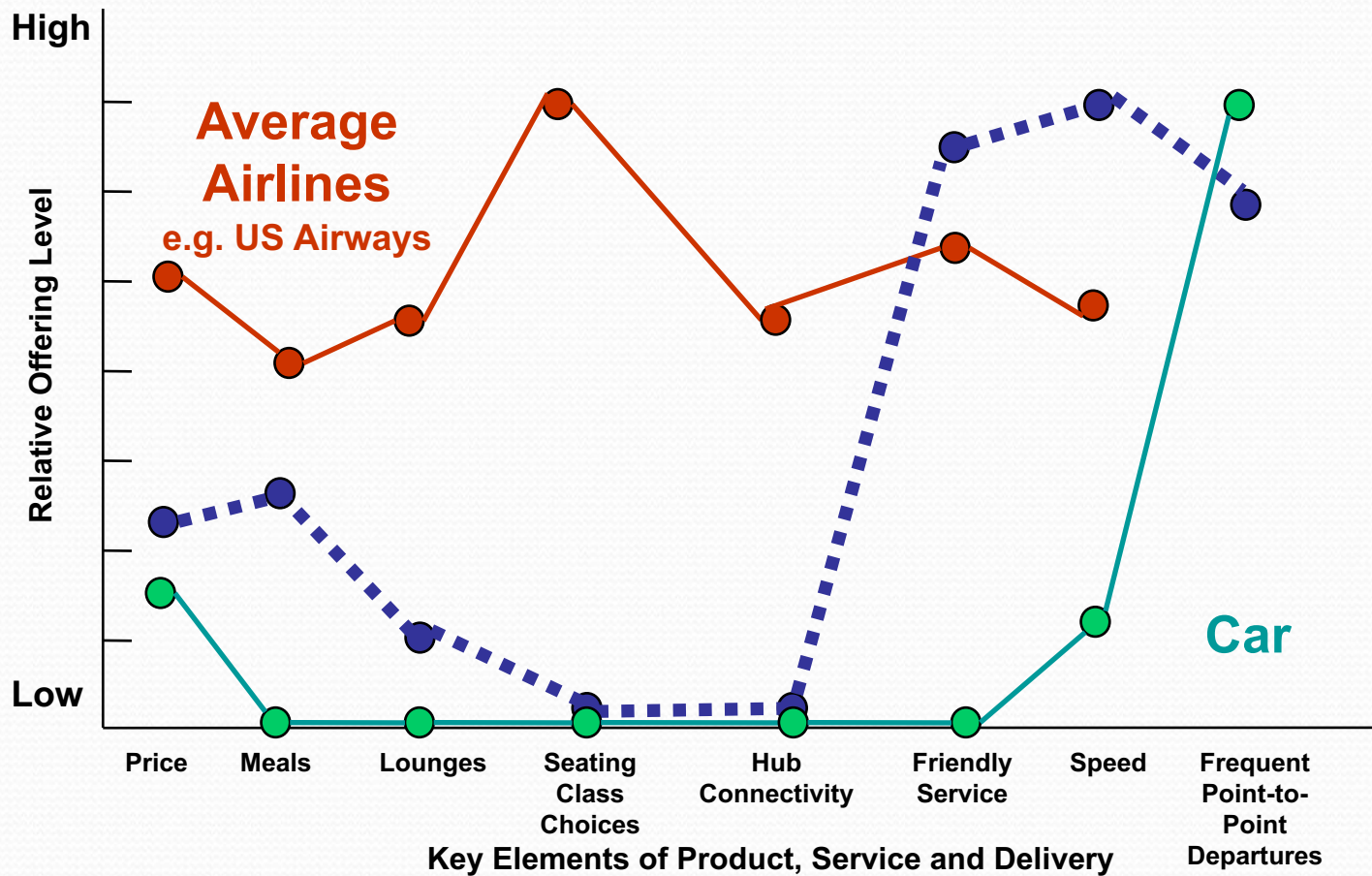


- Decide the relevant market and offering scope to draw
- Focus on the buyer/customer
- Put Price as the first factor of competition and rate it on an absolute value basis
- Carefully identify and discuss the factors and agree on definitions
- Try to streamline and simplify for visual clarity
 - Group related factors
 - Group similar competitors
 - Reorder the factors
- Draw multiple potential to-be value curves and test them

Four Actions for Creating New Value Curves



Example 1: Southwest

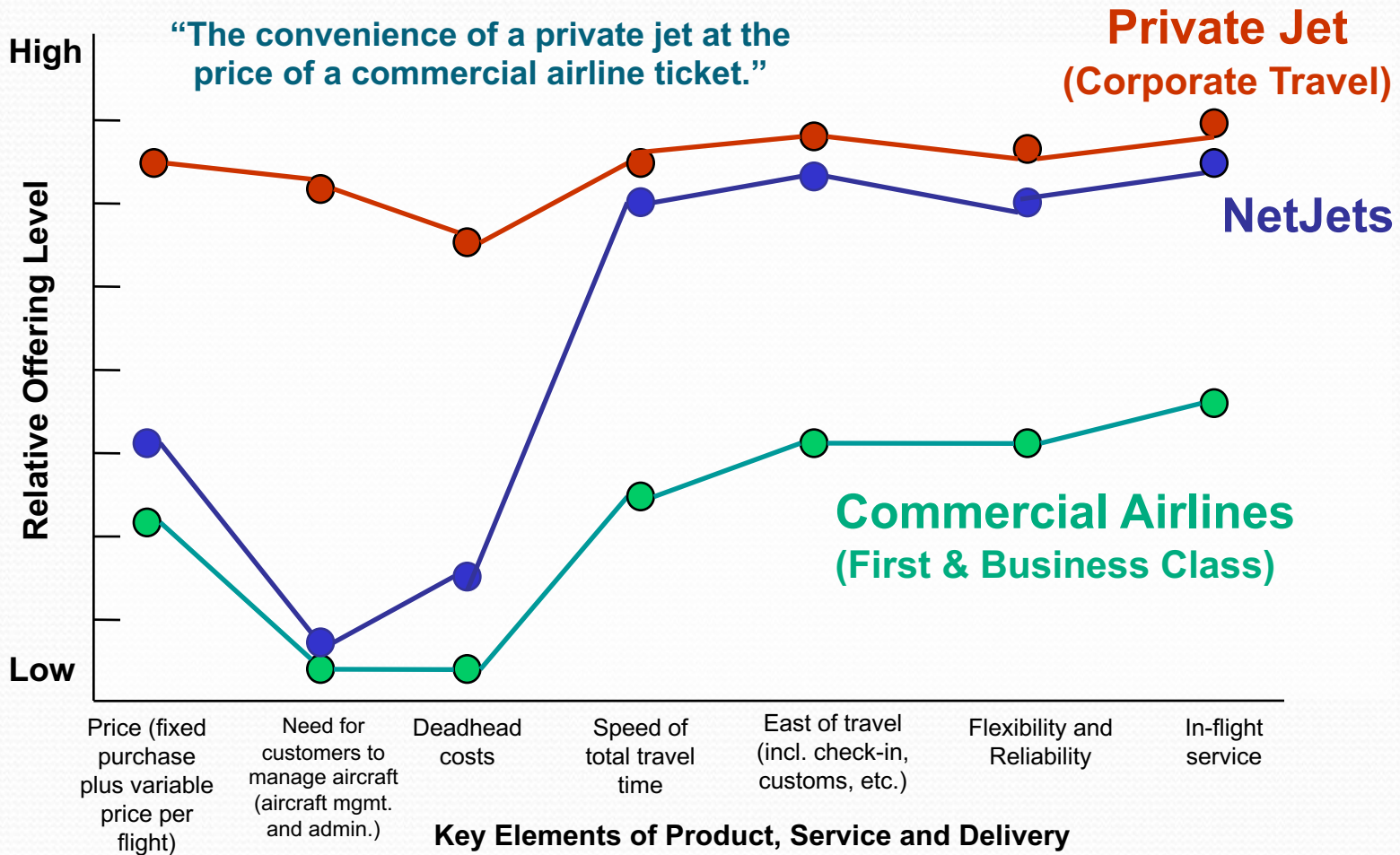


Southwest

Tagline:
“The speed of a
plane at the
price of a car –
whenever you
need it.”

Southwest's Value Curve Shows Its Blue Ocean Strategy Characteristics of Focus, Divergence and a Compelling Tagline.

Example 2: NetJets



Focus on the key factors that lead buyers to trade across industries and eliminate or reduce everything else.