A Conversation with W. Chan Kim and Renee Mauborgne
authors of **BLUE OCEAN STRATEGY**

1) **What is a blue ocean strategy?**

<u>Kim & Mauborgne</u>: Blue Ocean Strategy is a way to make the competition irrelevant by creating a leap in value for both the company and its customers.

2) **What are red and blue oceans, and why do you use the colors red and blue?**

<u>Kim & Mauborgne:</u> We use the terms red and blue oceans to describe the market universe. Red oceans are all the industries in existence today—the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody. Hence, the term "red" oceans.

Blue oceans, in contrast, denote all the industries *not* in existence today—the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored. Like the "blue" ocean, it is vast, deep, powerful, in terms of profitable growth, and infinite.

3) **How does blue ocean strategy fundamentally differ from red ocean strategy?**

<u>Kim & Mauborgne</u>: To sustain themselves in the marketplace, red ocean strategists focus on building advantages over the competition, usually by assessing what competitors do and striving to do it better. Here, grabbing a bigger share of a finite market is seen as a zero-sum game in which one company's gain is achieved at another company's loss. They focus on dividing up the red ocean, where growth is increasingly limited. Such strategic thinking leads firms to divide industries into attractive and unattractive ones and to decide accordingly whether or not to enter.

Blue ocean strategists recognize that market boundaries exist only in managers' minds, and they do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn, requires a shift of attention from supply to demand, from a focus on competing to a focus on creating innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low-cost.

Under blue ocean strategy, there is scarcely an attractive or unattractive industry per se because the level of industry attractiveness can be altered through companies' conscientious efforts. As market structure is changed by breaking the value/cost tradeoff, so are the rules of the game. Competition in the old game is therefore rendered irrelevant. By expanding the demand side of the economy new wealth is created. Such a strategy therefore allows firms to largely play a non–zero-sum game, with high payoff possibilities.

4) Why are so many CEOs focused on the red ocean, while as you're claiming, the money is increasingly in the blue ocean?

Kim & Mauborgne: Blue and red oceans have always coexisted and always will. Practical reality, therefore, demands that companies understand the strategic logic of both types of oceans. At present, however, competing in red oceans dominates the field of strategy in theory and in practice. Part of the reason traces back to the historical foundation of business strategy—war—where territory is defined and limited and opponents compete to protect and enlarge their share of limited and existing terrain. This focus on beating the competition in existing market space was exasperated by the meteoric rise of the Japanese in the 1970s and 1980s. Faced with mounting competition in the global marketplace as, for virtually the first time in corporate history, customers were deserting Western companies in droves, the center of strategic thinking gravitated further towards the competition. A slew of competition-based strategies emerged which argued that competition is at the core of the success and failure of firms, and that competition determines the appropriateness of a firm's activities that can contribute to its performance.

The result has been a fairly good understanding of how to compete skillfully in red waters, from analyzing the underlying economic structure of an existing industry, to choosing a strategic position of low cost or differentiation or focus, to benchmarking the competition. Yet, although some discussions around blue oceans exist, little practical guidance exists to create and capture them. This largely explains why CEOs remain focused on red oceans—it's the ocean they are familiar with and feel equipped to compete in.

What **BLUE OCEAN STRATEGY** seeks to do is to make the creation and capturing of blue oceans as systematic and actionable as competing in the red waters of known market space. For although blue ocean strategists have always existed, for the most part their strategies have been largely unconscious. Blue ocean strategy seeks to remedy this by not only decoding the pattern and principles behind the successful creation of blue oceans, but also providing the analytical frameworks and tools to act on this insight.

5) What makes blue ocean strategy imperative in today's business climate?

Kim & Mauborgne: Prospects in most established market spaces—red oceans—are shrinking steadily. Technological advances have substantially improved industrial productivity, permitting suppliers to produce an unprecedented array of products and services. And as trade barriers between nations and regions fall and information on products and prices becomes instantly and globally available, niche markets and monopoly havens are continuing to disappear. At the same time, there is little evidence of any increase in demand, at least in the developed markets, where recent United Nations statistics even point to declining populations.

The result is that in more and more industries, supply is overtaking demand. This situation has inevitably hastened the commoditization of products and services, stoked price wars, and shrunk profit margins. According to recent studies, major American brands in a variety of product and service categories have become more and more alike. And as brands become more similar, people increasingly base purchase choices on price. People no longer insist, as in the past, that their laundry detergent be Tide. Nor do they necessarily stick to Colgate when there is a special promotion for Crest, and vice versa. In overcrowded industries, differentiating brands becomes harder both in economic upturns and in downturns.

As products and services increasingly become commodities in overcrowded industries and companies' profitable growth shrinks, companies are driven to compete principally on cost. One result of this has been the rising exodus of jobs to low cost countries like India and China as companies increasingly engage in outsourcing. While governments may seek to solve the issue of outsourcing through legislation, history teaches us that this is not a long-term solution. The long-term solution to creating jobs is in companies creating compelling products and services that take them out of the vicious cycle of commodity competition. This means moving companies' products and services from the red ocean to the blue ocean. These issues alone make blue ocean strategy a rising imperative for CEOs.

6) Are you saying red ocean strategy is no longer useful?

Kim & Mauborgne: Absolutely not. It will always be important to swim successfully in the red ocean by out-competing rivals. Red oceans will always matter and will always be a fact of business life. But with supply exceeding demand in more industries, competing for a share of contracting markets, while necessary, will not be sufficient to sustain high performance. Companies need to go beyond competing. To seize new profit and growth opportunities they also need to create blue oceans. A better balance must be struck across red ocean and blue ocean initiatives.

7) In your research, why did you choose "strategic move" as your unit of analysis instead of the popularly used company or industry? And how do you define strategic move?

Kim & Mauborgne: When we first asked ourselves if there is a systematic approach to create blue oceans, we began by looking at the basic unit of analysis used in business literature: the company. However, history reveals that there are no perpetually excellent companies. Consider *In Search of Excellence*, the first bestselling business book published in 1982. Within just five years two-thirds of the identified model firms in the book had declined. Likewise, for those sample companies in the book *Built to Last*, another blockbuster business book, it was later found that if industry performance was removed from the equation, many of the companies in *Built to Last* were no longer exceptionally excellent. As Foster and Kaplan point out in *Creative Destruction*, the companies listed certainly outperformed their markets, but so did their entire industries.

So if there is no perpetually high-performing company and if the same company can be brilliant at one moment and wrongheaded at another, it appears that the company is not the appropriate unit of analysis in exploring the roots of high performance. Likewise, there are no perpetually excellent industries. Consider IT. Five years ago people envied companies in that industry, today the reverse is largely true.

Our analysis of industry history revealed that the "strategic move," and not the company or the industry, is the right unit of analysis for explaining the creation of blue oceans and the root of profitable growth. By "strategic move," we mean the set of managerial actions and decisions involved in making a major market-creating business offering. The strategic moves we discuss—moves that have delivered products and services that opened and captured new market space, with a significant leap in demand—contain great stories of profitable growth. We built our study around these strategic moves (over 150 from over 30 industries spanning from 1880 to 2000) to understand the pattern by which blue oceans are created and captured and high performance is achieved.

8) Is blue ocean strategy applicable to all types industries including businesses that are several steps upstream from consumers?

Kim & Mauborgne: Yes, blue ocean strategy applies across all types of industries from the typical suspects of consumer product goods to b2b, industrial, pharmaceutical, financial services, entertainment, IT, and even defense. **BLUE OCEAN STRATEGY** drives this point home by highlighting a rich array of companies creating blue oceans across diverse, and unexpected, industry domains from NetJets in jet travel, to NABI in the municipal bus industry, to Cemex in cement, to Joint Striker Fighter in defense, to Cirque du Soleil in entertainment. Our experience further suggests two interesting findings with respect to businesses several steps removed from the final consumer. First, companies in these industries tend to view their businesses as commodity businesses with little room to offer innovative value. This has effectively created a self-fulfilling prophecy in that the more these companies view their businesses as commodities, the more they treat their businesses as such. Secondly, we observed that the more removed companies are from the final customer, the more levers there are to unlock innovative value as every company in that chain can be viewed as a customer. If a company can't see an opportunity to unlock innovative value for the next direct customer in that chain, there are still opportunities to unlock innovative value for that customer's customers, and so forth.

9) Is blue ocean strategy only intended for start-ups?

Kim & Mauborgne: Whereas blue ocean strategies create new market space and change industry dynamics, they are not necessarily initiated by new entrants to an industry. In our work, we looked back over 100 years of data on blue ocean creation to see what patterns could be discerned. We found that blue oceans were created by both industry incumbents and new entrants, challenging the lore that start-ups have natural advantages over established companies in creating new market space. In the auto industry, think of GM which created the blue ocean of emotional, stylized cars in the 1920s, or the Japanese which created the blue ocean of small, gas efficient autos in the 70s, or Chrysler which created the blue ocean of minivans in the 80s—all were incumbents. Moreover, the blue oceans made by incumbents were usually within their core businesses. In fact, most blue oceans are created from within, not beyond, red oceans of existing industries. This challenges the view that new markets are in distant waters. Blue oceans are right next to you in every industry. Issues of perceived cannibalization or creative destruction for established companies also proved to be exaggerated. Blue oceans created profitable growth for every company launching them, start-ups and incumbents alike.

Our findings are encouraging for executives at the large, established corporations that are traditionally seen as the victims of new market space creation. For what they reveal is that large R&D budgets are not the key to creating new market space. The key is making the right strategic moves. What's more, companies that understand what drives good strategic moves—incumbents or start-ups—will be well placed to create multiple blue oceans over time, thereby continuing to deliver high growth and profits over a sustained period. The creation of blue oceans, in other words, is a product of strategy and as such is very much a product of managerial action, not the size or age of the firm.

10) Is blue ocean strategy new?

Kim & Mauborgne: Although the term blue oceans is new, their existence is not. They are a feature of business life, past and present. Look back one hundred years and ask yourself, how many of today's industries were then unknown? The answer: many industries as basic as automobiles, music recording, aviation, petrochemicals, health care, and management consulting were unheard of or had just begun to emerge at the time. Now turn the clock back only thirty years. Again, a plethora of multibillion-dollar industries jumps out—mutual funds, cell phones, gas-fired electricity plants, biotechnology, discount retail, express delivery, minivans, snowboards, coffee bars, and home videos to name a few. Just three decades ago, none of these industries existed in a meaningful way.

Now put the clock forward twenty years—or perhaps fifty years—and ask yourself how many now unknown industries will likely exist then. If history is any predictor of the future, the answer is many of them.