

Six Misconceptions about Blue Ocean Strategy

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Since its initial publication in 2005, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant* has become an international bestseller, arousing huge interest among managers and business academics across the globe. Today, many companies and public organizations are using the frameworks and tools of Blue Ocean Strategy to pursue value innovation and achieve strategic transformation.

In China, “blue oceans” and “red oceans” have become frequently cited terms among business executives. Press and media often report stories about blue ocean business launches. In the meantime, there have occasionally been voices of scepticism or criticism about Blue Ocean Strategy, which, to a large extent, stem from misinterpretations or misunderstandings of this new and rising theory of strategy. This article seeks to identify and clarify the major misconceptions about Blue Ocean Strategy.

Misconception 1: Blue Ocean is about new products, new technologies or diversification beyond a company’s core business.

A new product could simply be a product extension or upgrade targeting a finer segment of the market. A new technology could turn out to be a mismatch for the market. And a business area that a company enters for diversification purposes could already be a red ocean of bloody competition itself. Using “new or old” to divide and define blue oceans and red oceans could be misleading, as it tends to push companies to pursue new things and give up existing competencies indiscriminately while neglecting the true essence of a blue ocean strategic move.

In fact, blue oceans are not about extension of existing product lines, nor about technology innovations per se. Blue oceans are created through looking across existing

boundaries of competition and reordering and recombining value elements in different markets, thereby reconstructing market boundaries. A blue ocean strategic move normally creates breakthroughs in value for both buyers and the company and unlocks new demand. In this sense, value innovation is the cornerstone of Blue Ocean Strategy. In reality, blue oceans are created with or without new technologies. For example, Motorola's multi-billion dollar project Iridium was a technological wonder. But as it didn't capture what buyers truly valued, the product was not able to unlock market demand and ended up a commercial failure. On the other hand, companies like Starbucks and Cirque du Soleil successfully created their blue oceans of new market space not by relying on new technologies, but through reconstructing industry boundaries to create unprecedented buyer value. In other blue ocean strategic moves such as Sony Walkman and Swatch, technology innovations were guided by and based on value innovation to play a key role in creating blue oceans.

What is new about blue oceans, therefore, is the exceptional buyer value they provide. The creation of a blue ocean of new market space is based upon reordering and reconstructing market realities and capturing new demand, rather than founded upon preempting technological trends in the future.

Misconception 2: Blue Ocean Strategy is a cowardly approach as it asks companies to evade the competition.

Some scholars interpret Blue Ocean Strategy as a strategic approach that asks companies to give up their existing businesses and switch to blue oceans. In their view, such an approach induces companies to evade the competition and take the blue ocean shortcut, and therefore is a speculative and cowardly approach. Theirs, however, is a complete misinterpretation of the blue ocean strategic thinking.

Blue Ocean Strategy stresses that blue oceans and red oceans form a continuum and that they are equally important in business practice. As managers are generally familiar with the rules of competition in the red oceans but know little about blue oceans, the founders of Blue Ocean Strategy focused on uncovering the strategic logic behind blue ocean strategic moves.

Looking back at the history of industrial evolution, one can find that red oceans and blue oceans take turns to dominate industrial landscapes. Oftentimes, bloody competitions in the red oceans give rise to brilliant strategic moves that create new market space and trigger a new round of industrial transformation. Blue oceans and Blue Ocean Strategy, therefore, are not coming out of thin air, but are patterns distilled from real business practice.

Whereas red ocean competition can be explained by competitive strategy, industrial transformation is a vacuum area in this school of strategy. Competitive strategy seeks to explain corporate behaviour under given structures. According to this strategic view, industrial transformation is determined by changes in exogenous conditions such as technological advances or macroeconomic conditions. However, when we study the history of industrial development, we can see that the process of industrial transformation is one of creating and re-creating industries by micro actors. Consider, for example, how IBM created the modern computer industry and how Apple and IBM opened the personal computers market. Indeed, when companies reconstruct markets by looking across conventional boundaries of competition, the old rules of competition are rendered irrelevant. Blue ocean creators therefore are entering into an uncontested market space. In this sense, blue ocean creators, rather than evading the competition, leave the latter far behind based on a thorough understanding of the dynamics of competition and key competing factors in the existing market space.

In reality, a company's business portfolio is likely to be composed of both red ocean and blue ocean businesses. Accordingly, the company may apply Red Ocean Strategy to some businesses and Blue Ocean Strategy to the others. When red ocean businesses can still provide revenue and profit streams for the company, business strategies suited to the red oceans are naturally needed. As competition gets increasingly intensified and the room for profit and growth shrinks day by day, it becomes imperative for the company to create new sources of profitable growth. The theoretical framework and actionable tools of Blue Ocean Strategy are created to meet such needs.

Misconception 3: Blue Ocean Strategy is a customer-oriented strategy

Blue Ocean Strategy asks companies to shift its focus from the competition to the buyer side. Does this mean that Blue Ocean Strategy is a customer-oriented strategy? The answer is no.

Blue Ocean Strategy talks about buyer value, not customer value. And buyers include both a company's customers and its noncustomers.

The notion of "customer orientation" or "customer is king" is nothing new. In fact, companies either try out of their ways to meet customer needs or actively guide such needs. Either way, they tend to focus on existing customers of the company and the industry. Market surveys normally target such customer groups. Consequentially companies make adjustments and modifications over existing value elements without gaining insights into how to reconstruct market boundaries.

Blue Ocean Strategy, on the other hand, tries to discover the paths for reconstructing market boundaries and creating new demand through exploring the industry's noncustomers. Consider, how did Southwest Airlines create a blue ocean of short-haul air travel? If the company had focused its attention merely on existing customers, it would have benchmarked other airline companies in providing better lounges, better food, and more hubs in big cities. In reality, Southwest Airlines looked at the industry's noncustomers, i.e., those travellers who chose ground transportations over air travel. In doing so, it found that what travellers truly valued was the flexibility and low costs of ground travel. Based on this insight, Southwest Airlines came up with a value curve that combined the flexibility and economy of car or bus travel with the speed of air travel, thereby providing breakthroughs in value for both the existing customers of commercial airlines and ground travellers.

Blue Ocean Strategy, therefore, is not about customer-orientation, but about creating new demand and capturing the mass of the target buyers based on noncustomer insights. Evidently, the principle behind Blue Ocean Strategy is totally different from that of market segmentation in traditional strategic thinking. Instead of looking for differences that divide customers, Blue Ocean Strategy focuses on the commonalities that unite buyers. Rather than trying to maximize market share through segmentation, Blue Ocean Strategy seeks to consolidate demand through desegmentation.

Misconception 4: Blue Ocean is only wishful thinking, as any blue ocean created usually turns red rapidly

Some people comment that although Blue Ocean Strategy depicts a very promising market prospect, it is more often than not wishful thinking or a flash in the pan, as in the world today where technologies are highly advanced and competition ever-intensified, any new product, once launched, will soon be imitated and copied. This is also one of the major mental blocks that hinder companies' moves towards blue oceans.

In fact, those "blue oceans" that turn red rapidly are usually not truly blue oceans. As mentioned above, people often mistake new products, new technologies, or new business launches for blue oceans, while in reality they could miss the key characteristics of a blue ocean strategic move.

Blue Ocean Strategy is in the first place a process rather than a market outcome. In this process, companies should follow the logic and sequence of a blue ocean strategic move. To create a blue ocean, a company should start off providing excellent utilities to the buyers. Next it should price its product or service strategically to capture the mass of the target buyers. Once a strategic price is determined, it is time to start from this pricing point to drive down costs in order to obtain a sufficient profit margin. Together, unbeatable buyer utilities, an attractive price accessible to the mass of target buyers, and a viable cost structure constitute Blue Ocean Strategy's built-in imitation barrier that effectively fends off imitators.

A traditional strategic approach often prices a product high at the beginning, leaving a rather big space easily accessible to imitators and low cost players, whose entries eventually turn the market into a red ocean. By contrast, Blue Ocean Strategy does not target high-end niche markets. Instead it aims to capture the mass and core of the reconstructed and expanded market. In this regard, Swatch provides another classical example. When Swatch was launched as a mass market fashion watch, the company did not price the watch at \$ 80 based on the labor and production costs in Switzerland. Instead, it priced Swatch at \$40, a price affordable to mass market buyers. Then Swatch worked backwards to lower costs through innovations in technology and production to finally arrive at a cost structure that ensures a lucrative margin for the company. Although Japanese and Hong Kong watchmakers historically enjoyed a cost advantage and were known for their quick ability to imitate, they were not able to pose a credible challenge to the excellent buyer utilities and attractive price of Swatch. Through pursuing these strategic steps in the right sequence, Swatch was able to create a blue ocean which it has

dominated over a long period of time. With an economy of scale and the word of mouth, Swatch has attracted mass followers and loyal fans, which constitute even higher barriers to imitation.

Misconception 5: Blue Ocean Strategy is like an old wine in a new bottle, as it is just a modified version of differentiation strategy.

Some people judge that the value innovation that Blue Ocean Strategy talks about is a different way of saying differentiation, and therefore is an old wine in a new bottle. This notion stems from a misunderstanding about Blue Ocean Strategy as well as one about the strategic choice of differentiation in Porter's competitive strategy.

The so called differentiation is one classical strategic choice in competitive strategy. In the strategic logic of competitive strategy, a company has to make a strategic choice between differentiation and cost leadership. The former seeks to build a premium brand through R&D and marketing efforts, whereas the latter seeks to maximize market share with a low cost offering. To competitive strategists, a company has to choose between these two strategic paths, as differentiation can only be achieved at a higher cost.

Competitive strategy summarizes the rules of the game in the red oceans correctly. However, as competition becomes more and more intensified in the red oceans and as demand stops increasing and even begins to shrink, the prospects for growth and profitability become dim. Take the example of the North American Airlines industry. Various airline companies competed in providing better onboard catering and ground facilities and services only to end up with higher cost structures that drove many airline companies into losses or even bankruptcy.

Value innovation as proposed by Blue Ocean Strategy seeks to point a new way out for these troubled companies. Blue Ocean Strategy is not about making a trade-off between differentiation and low cost, but about breaking the trade-off between the two. To achieve this, one needs to look across conventional boundaries of competition and reorder and reconstruct key factors of competition in different markets. Again, take the example of Southwest Airlines. It looked across the market boundaries of commercial airlines and ground travel, eliminated and reduced some of the factors that airline companies normally competed on, and raised and created

factors that buyer truly valued, thereby combining exceptional buyer value with a lower price and allowing itself to create a distinctive brand effect and unlock huge market demand.

The simultaneous pursuit of differentiation and low cost, therefore, is what separates Blue Ocean Strategy from traditional differentiation strategy. In a way, Blue Ocean Strategy starts with subtraction rather than addition. The four actions framework allows companies to improve their cost structure through eliminating and reducing, on the one hand, and to provide exceptional buyer value through raising and creating, on the other. To companies facing a resource crunch, the process of creating a blue ocean is one that leverages existing resources to achieve breakthroughs in value.

Misconception 6: Blue Ocean Strategy does not fit the need of Chinese companies

As Blue Ocean Strategy cites many empirical examples of Western companies, does this mean that the theory is rooted in Western business practice and does not suit the need of Chinese enterprises? The answer is no.

Indeed, the historical study of Blue Ocean Strategy is mainly based upon the business practice of European and American companies over a period of more than 100 years, although the book also cites some Asian examples. This is largely due to the fact that Western economies have a relatively long history of market economy and industry practice, and therefore may provide a larger sample of strategic moves for systematic comparisons and analyses.

In fact, Blue Ocean Strategy responds primarily to the needs of companies operating in a market economy. Twenty or thirty years ago, Blue Ocean Strategy might not be applicable to Chinese companies – at that time market economy was not established in China; many industries were in their infancies, and the country's domestic market was largely closed. Under these circumstances, many companies or entrepreneurs took advantage of the economic transition and achieved success simply by copying foreign business models or pursuing price arbitrage. However, since China's accession to WTO, its domestic market has become increasingly open and liberalized, and competition gets more intensified. The low cost strategy that Chinese companies have been relying on has exacerbated the situation to some extent. On the one hand, companies increasingly engage in price wars in the domestic market, which has accelerated

product commoditization and eroded companies' profitability. On the other, in international markets, low priced Chinese products are increasingly subject to protectionist pressures and under the attack of anti-dumping litigations. How can Chinese companies overcome the difficulties and try to profit from the high value added portion of foreign trade? In the domestic market, how can companies break away from the competition to create new space of profitability and growth? Undoubtedly Blue Ocean Strategy has provided a set of actionable frameworks and tools for Chinese companies to face up to the challenges both at home and abroad.

In short, as a strategic thinking, Blue Ocean Strategy is derived from the rich history of industrial development and business practice. It summarizes the underlying logic of those strategic moves that look across conventional boundaries to achieve breakthroughs in value and reset the rules of the game. Rather than following the blue ocean fashion blindly or rejecting it rashly, managers need to have an accurate understanding about the theory itself and a good mastery of its practical tools and frameworks. After all, to create blue oceans, managers need not only enthusiasm and passion, but also a systematic analytical approach and an effective process of strategy formulation and execution.

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