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Navigating the Oceans How to Render Business Rivals Irrelevant by Creating New Market Space

Review by Chris Lauer

Published more than two years ago, *Blue Ocean Strategy* remains an international best seller in 2007. This groundbreaking book continues to influence business leaders around the planet. Since its publication in March 2005, it has been translated into and published in a record 32 languages. This is the all-time record for a book published by Harvard Business School Press. The book is a Wall Street Journal and BusinessWeek best seller. It has also received numerous honors, including Fast Company's Best Books of 2005, Amazon.com's Top 10 Best Business Books of 2005 and Strategy + Business' Number One Strategy Book of 2005. *Blue Ocean Strategy* was also chosen as the Best Business Book of 2005 at the Frankfurt Book Fair.

Endless battles on the high seas of the marketplace have made the ocean of competition a bloody mess. Competitors fight for market share with similar tactics in familiar regions of this blood-red ocean.

An alternative to the scene of this murky melee is a "blue ocean" where no competition exists to challenge a company's strategic moves. In their best-selling book *Blue Ocean Strategy*, business experts W. Chan Kim and Renée Mauborgne help companies navigate toward blue oceans with a clearly rendered map. Complete with valuable new research and dozens of success stories, this straightforward guide to modern business strategy succinctly describes how companies can chart a course for unexplored regions in the market.

The authors not only describe how a variety of modern companies have been able to create profitable business models based on the pursuit of uncharted waters, they also

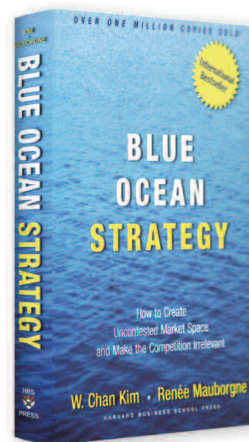
show executives how to pursue a logical strategy that can take them there.

Kim and Mauborgne help company leaders sail to blue oceans with lessons learned from successful companies profiting from the creation of new market space. The strategy the authors unfold explains many recent industry-shifting business phenomena, including Cirque du Soleil's spellbinding success, the dominance of Australia's [yellow tail] wines and the innovations that fueled the rise of Southwest Airlines. By charting the strategic factors that help these businesses thrive, the authors demonstrate a framework of actions that create new sources of value for a company's customers. They also show how blue oceans can be extremely profitable for those who choose this counterintuitive strategic path.

Throughout *Blue Ocean Strategy*, the authors show executives how to create a "strategy canvas" that plots a company's offerings according to its value to customers. The strategy canvas also helps company leaders compare their offerings to those of competitors. Lastly, the strategy canvas demonstrates how a new type of competitor can create market space in places missed by those competing for the same sources of value year after year.

Australian Wine

The authors point to Australian wine producer [yellow tail] as a clear example of a company that has successfully created its own blue ocean. When the company entered the wine market, it faced competitors on its own terms. By picking middle ground between the price points of premium wines and jug wines, [yellow tail] chose a new path to profitability. The company also chose to buck tradition by



BLUE OCEAN STRATEGY

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and Renée Mauborgne
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jettisoning the usual wine label copy boasting of historic vineyards and wine medals. Instead, labels on [yellow tail] bottles feature a simple kangaroo.

The company paid no attention to the haughty habits of wine aficionados. Instead, it went after those who like to drink other types of alcohol. These potential wine consumers demand less challenging flavors, so [yellow tail] built a sweet, fruity wine to suit their needs. In addition, those with more expensive tastes enjoy its lower price.

Kim and Mauborgne describe how [yellow tail] refused to struggle with rivals

on the same competitive battlefield where thousands of other wine companies with vague product differences fight for market share. The company rose to prominence with only two offerings: a Chardonnay and a Shiraz. To the chagrin of wineries in California, France and elsewhere, [yellow tail]’s Chardonnay quickly became the most popular white wine in the United States.

With a no-nonsense wine in a crowded marketplace, [yellow tail] created its own blue ocean. The company’s fresh perspective on wine consumption and its attention to consumers previously ignored by wine companies opened up new market space beyond the doldrums of the status quo.

Charting a Path to Blue Oceans

In *Blue Ocean Strategy*, the authors describe a variety of ways for companies to profit by breaking boundaries and thoughtfully exploring new domains. Their fresh ideas about innovation offer businesses new paths to success. One way a company can reconstruct the realities of its marketplace is to look across alternative industries for clues about where the blue oceans currently exist, the authors write.

Often, companies in various industries serve the same purpose for consumers. By looking at the similar functions that companies in disparate industries serve, a company can gain vast insight into better ways of serving its customers. Kim and Mauborgne write that “the space between alternative industries provides opportunities for value innovation.”

For example, NetJets was able to create new territory in the marketplace by simply evaluating alternatives to its own industry and then finding a solution that serves cus-

tomers needs. Over the past 20 years, NetJets has created a blue ocean with its concept of fractional jet ownership. By offering its customers one-sixteenth ownership of an aircraft, the company opened up an entirely new industry that provides business travelers with an alternative to the costs and inconveniences of trips on commercial airlines.

NetJets helps frequent air travelers eliminate expenses, time and hassles from their trips by offering the advantages of smaller airplanes, smaller airports and convenient planning. Building on these benefits, NetJets opened up a multibillion-dollar blue ocean. The authors explain that companies find new market spaces to dominate when they become aware of the factors that cause buyers to choose alternative industries.

Curves’ Middle Road

Companies can also find blue oceans by looking across strategic groups that pursue similar methods within the same industry, the authors write. Texas-based woman’s fitness company Curves created a blue ocean by examining two different parts of the fitness business: large health clubs and home exercise programs. By focusing on the best elements of both of these industries, Curves was able to offer women an alternative to previous choices.

Curves gives women the specific elements of a fitness club they enjoy most, such as a group environment and a female-friendly fitness program. The company also eliminates the high costs, mirrors, men, food, spa, pool and locker rooms women can live without. Kim and Mauborgne point out that Curves offers women the time savings, lower costs and privacy of home fitness programs found in videos, books and magazines. This middle path between strategic groups has become a billion-dollar blue ocean for the franchise.

Apple Sails Into Clear Waters With iTunes

The authors also present other paths to reconstructing market boundaries. These include looking across the entire chain of buyers for an offering, looking across complementary offerings, looking across functional or emotional appeal to buyers and looking into external trends that will shape the buying habits of future consumers.

By reviewing a situation over time, companies can identify future trends to create a new blue ocean. For example, Kim and Mauborgne describe how Apple observed the popularity of illegal music downloading software, such as Napster and Kazaa, and created a legal response to the new demand for digital music. Apple identified the trend and imagined its logical conclusion. With the launch of iTunes in 2003, Apple was able to capitalize on the versatility of its iPod players and the downloading habits of a new generation of music lovers.

The Big Picture

Blue Ocean Strategy not only presents ways to reconstruct market realities with proper planning, but it also offers specific ways a company can create a new, individualized strategic plan. The authors show managers how to master a visual tool of the strategy canvas. Any organization can get a better look at the big picture surrounding its offerings to consumers by drawing a strategy canvas plotting the strategic profile of the company, an industry, current competitors and potential competitors. This graphical representation of a company's offerings shows leaders how much of the company's resources are being placed into various competitive factors. It also illustrates how these investments might be rearranged to produce a blue ocean.

The authors explain that blue oceans are found when a strategic profile contains three distinct, complementary qualities: "focus, divergence and a compelling tagline." One company that embodies all three of these qualities is Southwest Airlines. For example, Southwest focuses on friendly service, speed and frequent point-to-point departures. The company's point-to-point flights among mid-sized cities make it unique among airlines operating through hub-and-spoke systems. "Cheaper, faster, no-frills flights" is the type of tagline that resonates with customers.

Visualize Open Water

Kim and Mauborgne outline a four-step process for visualizing a blue ocean of opportunities:

- The first step is drawing a clear picture of the company's current strategy on a strategy canvas. This diagram plots the company's points of differentiation on a low-to-high chart that indicates where the company stands on a variety of factors. Comparing the line formed by these points with the lines of other businesses shows a company where it needs to change its strategy.
- The next step is exploring the six paths to creating a blue ocean. By observing the advantages of alternative products and services, a company can determine which elements of its business need to be kept, discarded or changed.
- The third step is creating a new line on the strategy canvas that describes the endpoint: where the company wants to be when the waves of change have settled. This vision will be clearer once insights, feedback and observations are assembled during the fieldwork that happens while the various paths to blue oceans are explored, the authors write. Customers, competitors' customers and noncustomers can enhance the dialogue that will create the best future strategy.
- The final step to visualizing a blue ocean involves communicating the new strategy within the company to align stakeholders with it. The authors point out that company executives should spread the word by distributing a single-

page description of the company's old and new profiles. The single page is essential for easy comprehension and comparison. Kim and Mauborgne explain that success requires the company to support only company projects and operational moves that help it execute the new strategy.

Counterintuitive Thinking

Many of the suggestions offered in *Blue Ocean Strategy* are counterintuitive and contrary to advice from other strategy experts. When Kim and Mauborgne describe ways to expand a company's blue ocean, they write that existing customers are not the only stakeholders who should be considered. A company must also look at noncustomers. Instead of focusing on customer differences, the authors write, a company searching for a blue ocean must also look at the "powerful commonalities in what buyers value."

That is how Callaway Golf created a blue ocean. The authors explain how the company was able to expand its market to include sports enthusiasts and country club members who had never taken up golf. By looking at how nongolfers perceived golf, the company was able to grow its business beyond seasoned players. Callaway researched its noncustomers and found that those who were not playing golf at their country clubs had something in common: They thought hitting a tiny white ball with the small head of a golf club was too difficult. The small-headed golf clubs that once dominated the sport required more intense hand-eye coordination than most nongolfers could master. This difficulty was the reason most novices never pursued the sport.

Callaway responded to this problem by creating the Big Bertha: a golf club with a giant head that made it easier for players to strike the ball. Callaway's Big Bertha became a best seller because it helped new players hit the ball with ease, drawing them into the sport with better scores. Big Bertha drivers also appealed to seasoned players. By looking at the commonalities of nonplayers, the authors write, Callaway found a way to create new demand by noncustomers while enticing seasoned players to switch to its new offering.

Get Your Ducks in a Row

According to the authors, there is a specific sequence in which a blue ocean strategy must be built. The process starts with asking the right questions in the right order.

"... blue oceans are found when a strategic profile contains three distinct, complementary qualities: 'focus, divergence and a compelling tagline.'"

This allows companies to land upon a commercially viable blue ocean idea. The authors conveniently provide readers with the most effective sequence for the questions that must be asked.

First, the authors encourage companies to ask whether there is a compelling reason for customers to buy an offering. If the answer is no, then company planners must rethink what new product or service customers would buy. If the answer is yes, they can move to the question of price. If the price works, the cost of producing the product or service must be considered. The final question examines the difficulties of adoption. Once adoption hurdles have been addressed, the blue ocean idea is ready to be rolled out.

Execute, Sustain and Renew Change

Moving away from the status quo toward a blue ocean can be difficult for companies, but Kim and Mauborgne offer many tips for overcoming limited resources, doubtful employees, low motivation and political opposition. Although the degree of each of these organizational hurdles depends on the company, the authors explain that success requires overcoming each obstacle. The leadership required to achieve this involves another counterintuitive approach. Instead of fighting each of these forces with massive responses, the authors write that successful leaders must conserve their resources by “focusing on identifying and leveraging the factors of disproportionate influence in an organization.”

For example, when facing the cognitive hurdle of a company that is mired in the status quo, the authors offer two effective techniques that can change the mindset of an organization. The first way to shift mindsets entails directly presenting employees and superiors with the worst operational problems.

The second way to get employees and leaders to quickly switch their thinking away from the status quo is to encourage them to meet with disgruntled customers.

Direct customer contact and town hall meetings can lead quickly to breakthroughs.

In the last part of their book, the authors offer organizations ways to sustain and renew blue ocean strategies. To stay afloat in a blue ocean, they write, a company must create barriers to imitation. These barriers include patents, legal permits, strong brand images, huge economies of scale in purchasing and loyal followings.

Blue Ocean Strategy offers readers a plethora of ideas from a history of strategic moves spanning a century and involving 30 industries. The authors combine new research and case studies to form a valuable strategy guide that has been embraced by business leaders around the globe. By describing the concept of blue oceans in basic terms and compelling stories, Kim and Mauborgne have created a blueprint from which forward-looking leaders can realize the rich possibilities of uncharted waters. ■

The Demand for Blue Oceans

Across the globe from Germany, an article in the Malaysian newsmagazine *The Star Online*, claims that the deputy prime minister of Malaysia is a big fan of *Blue Ocean Strategy*. The article features a photograph of Deputy Prime Minister Datuk Seri Najib Tun Razak reading a copy of the business strategy book by W. Chan Kim and Renée Mauborgne.

The article, which appeared in the March 18, 2007, edition of the newsmagazine, explains that the deputy prime minister liked *Blue Ocean Strategy* “so much that he ordered 30 copies for members of his staff.”

In the article, Malaysia’s deputy prime minister describes the business concepts found in the book as “getting business opportunities by thinking out of the box, and creating a demand for something that was not there before.”

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New York Times and the *Financial Times*. Their *Harvard Business Review* articles have sold more than 500,000 reprints. They were selected for Thinkers 50, the global ranking of business thinkers, and *The Sunday Times* (London) called them “two of Europe’s brightest business thinkers.” They split their time between New York and Fontainebleau, France.

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