

Make waves with 'blue-ocean' innovation

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Blue Ocean Strategy

By W. Chan Kim and

Renée Mauborgne

Harvard Business School Press,

240 pages, \$41.95

MarketBusters

By Rita Gunther McGrath and

Ian C. MacMillan

Harvard Business School Press,

264 pages, \$37.95

Is your company swimming effortlessly in a vast blue ocean? Or is it treading water in a red ocean, coloured with the blood of an increasing number of competitors vying for the same customers?

Most companies jump into the red ocean. In their book, W. Chan Kim and Renée Mauborgne, professors at INSEAD in France, say that 86 per cent of product launches by 108 major companies were line extensions -- incremental improvements in the red ocean of existing market space.

But the remaining 14 per cent were making waves with innovative offerings aimed at creating a new market. Those so-called blue ocean offerings generated 38 per cent of the total revenues and 61 per cent of total profits.

Their favourite example is Cirque du Soleil, which danced away from the declining circus industry aimed at children, and created a dazzling new spectacle for adults.

And there are many other examples of blue-ocean players, including Henry Ford and his Model T, CNN, Starbucks Corp. and Southwest Airlines Co.

Instead of focusing on beating their competition, these companies came up with something entirely new through what the authors call value innovation. They devised a novel mix of features and benefits that customers would find attractive, opening up new and uncontested market space, and rendering the competition irrelevant.

In doing so, they ignored a shibboleth of strategy: Companies can choose either to offer greater value to customers at a higher cost, or reasonable value at a lower cost. These companies provided more value at lower cost.

To do that involves answering four questions:

Eliminate: Which of the factors that the industry takes for granted should be eliminated?

Reduce: Which factors could be reduced well below the industry standard, without consumers minding?

Raise: Which factors should be raised well above the industry's standard?

Create: Which factors should be created that the industry has never offered?

Cirque Du Soleil, for example, eliminated expensive circus star performers, costly and controversial animal shows, aisle concessions and the three-ring venues, which the public found frustrating. They reduced the fun and humour, and thrills and danger. They raised the standard by having just one focal point for the audience's attention at any time, like a stage show. And they created a theme for their presentations, a more refined environment, multiple productions and artistic music and dance.

The book is clearly written, offering many examples of blue-ocean strategies and the techniques to develop such a scheme.

It also has a fascinating chapter on what the authors call "tipping point leadership" which, using former New York Police Commissioner Bill Bratton as an example, shows how to win internal backing for your new initiative without a great commitment of resources. Instead, you leverage factors that can have a disproportionate impact, such as redirecting resources to "hot spots" that have high-potential performance gains, and zooming in on the key influencers in your organization.

In *MarketBusters*, Rita Gunther McGrath, a professor at Columbia University, and Ian C. MacMillan, a professor at the Wharton School of Business, offer 40 strategic moves to drive business growth. Those fall into five categories:

Transform the customers' experience, as Texas Instruments Inc. did by using radio frequency identification technology (RFID) in ExxonMobil's Speedpass, allowing gas payment with the wave of an electronic tag.

Transform your offerings and their attributes, as Procter & Gamble Co. did by making electric toothbrushes more affordable.

Redefine key metrics, including the "unit of business" -- the fundamental thing you sell -
- as GE Medical Systems did when it went from selling medical devices to selling equipment-utilization contracts.

Exploit industry shifts, as big box retailers and consolidators are doing in industries that have become mature and can benefit from volume sales, technological and pricing advantages.

Exploit emerging opportunities, as Subway did by capitalizing on the trend to healthy eating.

With 40 possible game plans, the book is difficult reading at times as you try to pick your way through the concepts, but the framework makes sense and the authors certainly provide strategic options for everyone -- including different ways to seek out your blue ocean.

The book also has two excellent tools you can apply in your company: an attribute map, which illuminates how your offering pleases or displeases key customers, and a delay and resistance analysis, which charts the obstacles you will face in implementation and how to overcome them.