BLUE OCEAN STRATEGY

How to Create Uncontested Market Space and Make the Competition Irrelevant

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The Web site for this book is at www.blueoceanstrategy.com.

MAIN IDEA

The best way to beat your competition is, in fact, to stop competing against them.

In other words, when you go head-to-head against rivals for a share of the existing market, this is like competing in a "red ocean" – where the way you compete is by benchmarking your competition and trying to outdo them. A much better strategy is to look for "blue oceans" instead – untapped markets which nobody has ever targeted and which hold the potential for huge growth. In red oceans, your competitors set the agenda. In blue oceans, your competition becomes irrelevant.

In a 10-year study of 108 companies, it was found that 86-percent of new product launches were line extensions and only 14-percent were attempting to create blue ocean markets. Yet that 14-percent generated 38-percent of total revenues and 61-percent of total profits. It's clear, therefore, that companies which attempt to follow a blue ocean strategy have a much greater chance of success than those which follow a me-too strategy. Creating blue oceans should be the focus and goal of every manager.

1. Value Innovation – The Heart of Blue Ocean Strategies . . . . Pages 2 - 3

The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of blue ocean strategy. Value innovation is achievable only when a company's utility, price and cost structures are properly aligned. This whole system approach makes the creation of blue oceans sustainable because it integrates all the firm's functional and operational activities.

Costs
Eliminate unnecessary functions

▶

Value Innovation

▲

Buyer Value
Improve and create more functions

2. The Key Principles in Developing a Blue Ocean Strategy . . . . Pages 4 - 6

Blue ocean strategies are more about risk minimization and less about risk taking. There are four guiding principles for the successful formulation of blue ocean strategy. When utilized, these principles will reduce search risks, planning risks, scale risks and business model risks.

Key Principles in Formulating Blue Ocean Strategies

1	Reconstruct market boundaries	Reduced search risks
2	Focus on big picture, not numbers	Reduced planning risk
3	Reach beyond existing demand	Reduced scale risk
4	Get the strategic sequence right	Reduced business model risk

3. The Key Principles in Executing a Blue Ocean Strategy . . . . Pages 7 - 8

Formulating an effective blue ocean strategy is one challenge but executing that strategy well is an altogether different kind of challenge. To pull this off, you'll need to have buy-in from the top management and the ability to align your entire organization around the challenges of executing your blue ocean strategy. This is particularly daunting when the blue ocean strategy is a departure from business-as-usual. There are two principles involved by which companies can reduce organizational and management risks while executing a blue ocean strategy.

Key Principles in Executing Blue Ocean Strategies

1	Overcome organizational hurdles	Reduced organizational risks
2	Embed execution into the strategy	Reduced management risk

1. Value Innovation – The Heart of Blue Ocean Strategies

The key aim of blue ocean strategy is to create value innovation – driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of blue ocean strategy. Value innovation is achievable only when a company's utility, price and cost structures are properly aligned. This whole system approach makes the creation of blue oceans sustainable because it integrates all the firm's functional and operational activities.

Most corporate strategy has its roots in military strategy. Therefore, chief executive "officers" sitting in the corporate "headquarters" think about what their customer-facing people at the "front lines" are doing. Warfare has always been centered around confronting an opponent and fighting over a given piece of land. In this type of scenario, winning market share is everything. This is classical red ocean thinking.

In today's business environment, however, there are some very unique challenges:

- Industrial productivity has been enhanced by technology in all industries, meaning supply exceeds demand right across virtually all market segments.
- As trade barriers fall and globalization takes firmer hold, niche markets with high pricing are becoming extinct.
- Worldwide demand for many products is falling in sync with falling populations in many developed markets.

As a result, profit margins are shrinking, price wars are becoming more frequent and there has been accelerated commoditization of many products. To avoid having to compete aggressively for share of existing markets (red oceans), more and more companies are going to attempt to create to create new market space that is uncontested (blue oceans) and therefore potentially highly profitable.

Examples of some highly successful blue ocean strategies include:

- Apple Computer capturing a 60% share of the digital music industry with its i-Pod digital music player and iTunes digital music store.
- Ford introducing the Model T in 1908 at half the price of existing automobiles.
- CNN introducing real-time news that is playing 24/7 in 1980.
- Cirque du Soleil introducing a new touring show in 1984 that is part-circus and part-entertainment, and in less than 20-years achieving a level of revenue that took traditional circus companies more than one hundred years to achieve.
- Japanese automakers introducing small, fuel-efficient cars to the U.S. marketplace in the 1970s.
- Dell Computer Corporation applying a direct sales made-to-order business model to the personal computer industry in the mid-1990s.
- The launch of the twenty-four-screen megaplex in the United States in 1995 by American Multi-Cinema Inc. By offering superior seating, better sight and impressive sound capabilities, the megaplex brought people back to the movie theater at a time when VCRs and home theaters were believed to reign supreme.

All blue oceans moves succeed because they are focused more on value innovation and less on beating an established competitor. Value innovation is a simple concept to understand:

Costs
Eliminate unnecessary functions

▶

Value Innovation

▲

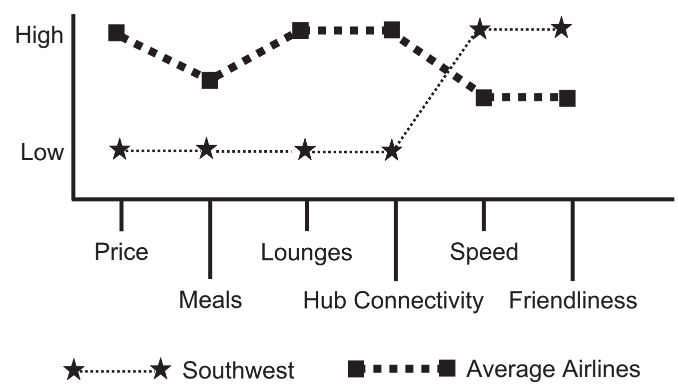
Buyer Value
Improve and create more functions

Value innovation occurs whenever companies align innovation with utility, price and cost benefits for customers. Companies that achieve value innovation pursue differentiation and low cost simultaneously. It means to grow the market significantly by converting noncustomers into customers. The key to achieving this is to offer customers features and elements which have never before been available at an affordable price. Over time, as economies of scale come into effect, costs will then be reduced still further.

So how do you actually go about developing a blue ocean strategy? There are a few key tools that can be used:

Tool #1 – *The Strategy Canvas*

A strategy canvas captures the current state of play in a known market. It highlights what factors the industry currently competes on in terms of products, services and delivery. For example, a simplified strategic canvas for Southwest Airlines would be:



In practical terms, the strategy canvas allows you to get a top-down view of how an industry currently invests, competes and attempts to provide benefits to customers. The strategy canvas for an industry may be complex. Low-cost players will have a different approach to the industry to the premium players.

To use a strategy canvas to develop a blue ocean strategy, you need to change your focus from competitors to alternatives. Specifically, you need to stop and think: "What would it take to get noncustomers of this industry to start buying?" This may require redefining the problem the industry focuses on and to come up with buyer value packages that draw elements from different industries. This will generate entirely different ideas from those which will be produced when you focus too much solely on attempting to develop better solutions than your competitors are currently offering customers.

Tool #2 – *The Four Actions Framework*

There are four key questions which should always be asked to challenge an industry's current operational paradigm:

4 Key Questions

1. Which factors can be eliminated?
2. Which factors can be reduced?
3. Which factors should be raised?
4. What factors should be created?

Every industry has some factors which are taken for granted, and which are considered to be the price of entry. Over time, there may be a fundamental change in what customers value, and the current products and services offered may, in fact, be over engineered and therefore too expensive. By asking these four key questions, you bring to the surface any competitive factors which are no longer relevant. You also uncover any implicit compromises customers may have been forced to make in the past.

Tool #3 – *The Grid*

Eliminate	Raise
▪ Action #1 ▪ Action #2	▪ Action #3 ▪ Action #4
Reduce	**Create**
▪ Action #5 ▪ Action #6	▪ Action #7 ▪ Action #8

The grid pushes companies not only to ask the four key questions but also to act on all four simultaneously to create a new value innovation. Completing the grid forces companies to articulate specifically what they will do differently. A secondary benefit of the grid is that managers at every level will understand what's required and be able to act in unison. In developing a grid, companies are also forced to robustly examine every factor they implicitly assume is necessary to compete.

When these three tools are used in unison, a workable blue ocean strategy can be developed. A good blue ocean strategy will have three defining characteristics:

1. *The blue ocean strategy will be tightly focused* – and everyone will understand on what factors the company is competing. This helps avoid the temptation to invest in things which are unrelated to those key competitive factors.
2. *The blue ocean strategy will diverge from that used by other industry players* – because you're looking across alternatives rather than solely attempting to be better than the established players.
3. *The blue ocean strategy will be clear-cut and easy to communicate* – meaning it will be able to be described in a tagline that is compelling and inviting. For example, Southwest's tagline could be: "The speed of a plane at the price of a car – whenever you need it". A great blue ocean strategy will be so obvious your competitors will wonder why they didn't think of that themselves.

"It will always be important to swim successfully in the red ocean by outcompeting 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."
– W. Chan Kim and Renee Mauborgne

"Our aim is to make the formulation and execution of blue ocean strategy as systematic and actionable as competing in the red waters of known market space. Only then can companies step up to the challenge of creating blue oceans in a smart and responsible way that is both opportunity maximizing and risk minimizing. No company – large or small, incumbent or new entrant – can afford to be a riverboat gambler. And no company should."
– W. Chan Kim and Renee Mauborgne

"The business environment in which most strategy and management approaches of the twentieth century evolved is increasingly disappearing. As red oceans become increasingly bloody, management will need to be more concerned with blue oceans than the current cohort of managers is accustomed to."
– W. Chan Kim and Renee 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 that 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 package 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, again the answer is many of them."
– W. Chan Kim and Renee Mauborgne

"Value innovation is a new way of thinking about and executing strategy that results in the creation of a blue ocean and a break from the competition. Importantly, value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off. It is conventionally believed that companies can either create greater value to customers at a higher cost or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create blue oceans pursue differentiation and low cost simultaneously."
– W. Chan Kim and Renee Mauborgne

"Value innovation is more than innovation. It is about strategy that embraces the entire system of a company's activities. Value innovation requires companies to orient the whole system toward achieving a leap in value for both buyers and themselves. Absent such an integral approach, innovation will remain divided from the core of strategy."
– W. Chan Kim and Renee Mauborgne

2. The Key Principles in Developing a Blue Ocean Strategy

Blue ocean strategies are more about risk minimization and less about risk taking. There are four guiding principles for the successful formulation of blue ocean strategy. When utilized, these principles will reduce search risks, planning risks, scale risks and business model risks.

Key Principle ▶ 1 Reconstruct market boundaries

For every company, there are literally hundreds of potential blue ocean strategy possibilities. The challenge lies in determining which are commercially viable and which are not. In practice, the key is to look at familiar data from a new perspective.

There are six paths companies typically follow to reconstruct their market possibilities and open up blue ocean possibilities:

1. *Look across alternative industries* – and determine what products and services have different forms but achieve the same purpose. Customers commonly make trade-offs between alternative industries. The space between these industries may provide some significant opportunities for value innovation. For example, NetJets combines the speed and convenience of commercial airline travel with the low fixed costs of fractional ownership used in other industries.
2. *Look across the strategic groups within an industry* – and understand which factors determine the customer's decision as to which group they will belong to. By offering the key determining factors from each group and eliminating everything else, a blue ocean can open up. For example, Lexus offers the quality of a high-end Mercedes, BMW or Jaguar at a price closer to that of a Cadillac or a Lincoln.
3. *Look across the chain of buyers* – and combine their differing definitions of value. Purchasers, users and influencers will all have different definitions of good value. If you challenge conventional wisdom about who is the target buyer, blue oceans can open up. For example, Canon developed small desktop copiers by changing their focus from corporate purchasers to users who liked the idea of their own personal photocopier at their desk.
4. *Look across complementary product and service offerings* – and come up with a total solution. If movie theaters did this, they might create a blue ocean by offering a babysitting service so people could go to the movies. In just the same way, Barnes & Noble changed their emphasis from selling books to creating an environment that celebrates reading and learning.
5. *Look across functional or emotional appeal* – and challenge the orientation of your industry. Inject some emotional elements into a product which has traditionally been marketed along functional lines. This is what Swatch has done with impressive results. Or, you might go the opposite direction. Transform your industry from being emotionally driven to being functional and no-nonsense. This is what Body Shop has done successfully. At the present time, blue ocean opportunities are being created in a number of service industries as they move from an emotional or relationship base to a much more functional orientation.
6. *Look across time* – and anticipate what will be the result when new technology is taken to its logical conclusion. Often, the way your industry delivers value is evolving rapidly. Blue ocean opportunities arise if you work backwards and identify what must be changed today to unlock a new blue ocean. For example, Apple's inspiration for the i-Pod was the success of Napster. It was clear there was consumer demand and available technology to download music digitally. Apple provided a legal, simple and cheap way to access music and thereby tapped into a sizeable blue ocean market.

"The process of discovering and creating blue oceans is not about predicting or preempting industry trends. Nor is it a trial-and-error process of implementing wild new business ideas that happen to come across manager's minds or intuition. Rather, managers are engaged in a structured process of reordering market realities in a fundamentally new way. Through reconstructing existing market elements across industry and market boundaries, they will be able to free themselves from head-to-head competition in the red ocean."
– W. Chan Kim and Renee Mauborgne

Key Principle ▶ 2 Focus on big picture, not numbers

Every strategic plan ever written by a corporate planning department starts with a lengthy description of current industry conditions and the competitive environment. Next up is usually an analysis of how to increase market share. In other words, the usual corporate planning process is very much red ocean oriented. There are even screeds of spreadsheets attached to back up every aspect of the plan. Little wonder strategic plans never lead to the creation of blue oceans.

To avoid this and do some outside-the-box thinking, you have to get people to focus on the big picture rather than letting the numbers confuse them. One way to do this is by drawing up your own company's strategy canvas rather than producing a strategic plan. A good strategy canvas:

- Will help everyone visualize accurately your current strategic position in the marketplace.
- Will allow you to chart what your future strategy can and should be.
- Helps everyone focus on the big picture rather than operational details.
- Specifies precisely what are the current and future factors that affect competition within your industry.
- Shows where both you and your competitors differ in the investments you're making for future success.
- Will stimulate dialogue between various business units about where the company should be heading.
- Will foster and enhance the transfer of strategic best practices across units within the firm.

Developing your firm's own strategy canvas is never easy. For a start, there will be loads of disagreement over what exactly are the various competitive factors. People will have differing levels of sensitivity about how you compare with your competitors in the various areas. And many managers will be tempted to define utility and value from the perspective of internal users rather than using the customer perspective. Despite all this, if you want to find blue ocean opportunities, you'll have to learn how to develop an effective strategy canvas.

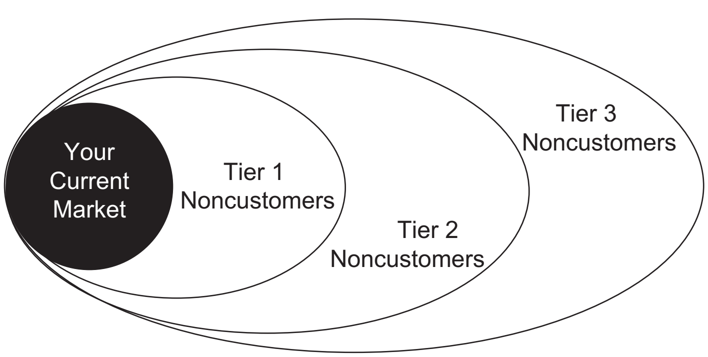
To develop your firm's strategy canvas:

1. *Get everyone on the same page first* – by developing a visual representation of where you are at present. Compare your business to your competition visually. Get everyone to see the bigger picture and not just their own vested interests. Draw up a proposed strategy canvas and debate it. Compare and contrast your strategy with that of your competitors. Invite everyone to fire up their imaginations and participate.
2. *Send a couple of teams of managers into the field* – and get them to talk face-to-face with customers. Find out precisely how people use or don't use your product or service. Don't outsource this and rely on second hand reports. Get out and see what's actually happening for yourself. This is the only way you'll come up with any strategic insights. If at all possible, spend time with noncustomers and learn why what you offer does not appeal to them. See what alternatives they are currently using. This is where blue oceans are formed. Have two teams do this, and let each propose a new strategy complete with its own compelling tagline.
3. *Hold a visual strategy fair* – where each field team presents their suggested strategies plotted on a strategy canvas. Let each team present their proposed strategy in ten minutes or less. Put each strategy canvas on the wall. Give everyone present five sticky notes to vote for their favorites. Tell people they can put all five on a single strategy if they find it compelling. That way whichever strategy is considered best will be immediately obvious. Decide on what your best future strategy can and should be.
4. *Communicate what you decide far and wide* – by distributing your before-and-after strategic profiles. Put this on one page for easy comparison. Have management walk employees through the changes. Make this new picture the centerpiece of everything that you do.

Key Principle ▶ 3 Reach beyond existing demand

Once a company creates a blue ocean, it then wants to maximize the size of the blue ocean being created. The bigger the new market is, the smaller the risk becomes in tooling up to serve that market. The key to achieving this is for companies to find ways to reach beyond existing customers and appeal to noncustomers.

Current noncustomers for your product or service can generally be classified into three one of three distinct tiers:



1. *The first tier are those people sitting on the edge of your current market* – and who will be happy to jump ship as soon as something better comes along. If you can offer these people a leap in value, they will buy more frequently, potentially unlocking a huge amount of demand. First-tier noncustomers also include those people who buy from you at minimal levels until they are convinced nothing better is available. If you can find commonalities rather than differences amongst noncustomers and fringe customers, you have something to focus on. Find out what they like about what you're currently doing and provide more. Find out what solutions they would like and gear up to provide just what's required. You'll probably find noncustomers will offer more insights into how to unlock and then grow a blue ocean than will your already contented existing customers. Take note of their requirements and you'll be well down the path towards unlocking a substantial blue ocean market.
2. *The second tier is the people who "refuse" to use your industry's current offerings* – because they are too expensive or too elaborate for their needs. If you take the time and effort to find out why these people don't buy, you may gain some excellent insights into how you can grow your market. Look for commonalities in the reasons why noncustomers don't presently buy. Find a way to answer these concerns and you can unlock a huge amount of new demand for your products and services. Challenge the implicit assumptions of your industry to create a leap in customer value.
3. *The third tier is the people who have never thought of your industry's offering as an option* – because their needs and the corresponding business opportunities have always assumed to belong to other markets. When you reach beyond existing demand, a very large ocean of latent demand waiting to be untapped can be accessed.

"There is no hard-and-fast rule to suggest which tier of noncustomers you should focus on and when. Because the scale of blue ocean opportunities that a specific tier of noncustomers can unlock varies across time and industries, you should focus on the tier that represents the biggest catchment at the time. But you should also explore whether there are overlapping commonalities across all three tiers of noncustomers. In that way, you can expand the scope of latent demand you can unleash. When that is the case, you should not focus on a specific tier but instead look across tiers. The rule here is to go for the largest catchment."

– W. Chan Kim and Renee Mauborgne

"By focusing on key commonalities across these noncustomers and existing customers, companies can understand how to pull them into their new market."

– W. Chan Kim and Renee Mauborgne

"The natural strategic orientation of many companies is toward retaining existing customers and seeking further segmentation opportunities. Although this might be a good way to gain a focused competitive advantage and increase share of the existing market space, it is not likely to produce a blue ocean that expands the market and creates new demand. To maximize the scale of your blue ocean you should first reach beyond existing demand to noncustomers and desegmentation opportunities as you formulate future strategies."

– W. Chan Kim and Renee Mauborgne

Key Principle ▶ 4 Get the strategic sequence right

The next challenge in exploiting the blue ocean market you've created is to build a robust business model that will enable you to profit from your idea. In doing this, it's important to get your strategic sequence right as you flesh out and then validate the commercial viability of your blue ocean idea. If you get this sequence right, your business model risks will be reduced.

The optimum strategic sequence is:

1. Unless your new idea offers exceptional additional utility for the customer, don't go any further. Note that utility is very different from novelty. Something new may be interesting, but until it makes the buyer's life simpler, more convenient, more productive or more fun, it will just be a nice idea. Products that offer exceptional utility:
   • Are easy to purchase.
   • Get delivered promptly and efficiently.
   • Don't require specialized training to use.
   • Won't require expensive supplementary products.
   • Are easy to maintain.
   • Can be disposed of easily at the end of their useful life.
2. When you get your price right, buyers not only will want what you offer but they will also be able to afford it. You need to know right from the start what price will quickly capture the mass market rather than expecting to charge early adopters an unsustainably high price. Companies have to start with an offer buyers cannot refuse and then work hard to keep it that way. Most often there will be a price corridor which is created by the availability and pricing of alternative products which provide comparable benefits. If it will be difficult for competitors to imitate what you're doing, you might be able to price near the top of this corridor. Conversely, if you're easy to imitate, you'd look at pricing near the bottom of this corridor to deter the competition. Regardless you want to set a strategic pricing point which will be highly attractive to the mass market purchaser rather than the specialist. This also helps you create market buzz as more and more people join the bandwagon.
3. Next up is a consideration of the profitability of your blue ocean idea. Here you need to consider whether you'll make a profit selling at your target price. Most companies look at this as a cost-plus exercise. For a blue ocean idea, however, costing must be considered as price-minus – start with the strategic price and then deduct the desired profit margin to arrive at a target cost point. To meet these aggressive target costs companies usually have to:
   - *Streamline operations and introduce cost innovations* – perhaps by replacing the product's raw materials by unconventional but less expensive alternatives.
   - *Change production methods and materials* – perhaps using newer and cheaper assembly techniques.
   - *Enter into partnering arrangements with other suppliers* – and let others carry out some of the key production and distribution activities more efficiently. This also allows you to leverage another company's expertise and economies of scale.
   - *Find ways to change the pricing model used within your industry* – perhaps by moving from buying to leasing, or by developing a rental or fractional ownership model. Some companies have even had great success providing products in return for an equity interest in the customer's business and future revenue streams.
4. Even if you have a product that offers exceptional utility, attractive pricing and profitability, it will still fail unless people find it easy to start using. By definition, a blue ocean idea will threaten the status quo. Therefore, the product must be adopted by three key constituencies:
   - *By employees* – who will unconsciously sabotage anything new if they perceive it as a threat to their livelihoods.
   - *By business partners* – who again need to be reassured the new product or service will not impact on their revenue streams or market position.
   - *By the general public* – who sometimes take offense over new ideas that threaten the status quo. A good example of this was public resistance to genetically modified foods.

"With an understanding of the right strategic sequence and of how to assess blue ocean ideas along the key criteria in that sequence, you dramatically reduce business model risk. The starting point is buyer utility. Is there a compelling reason for the mass of people to buy it? Absent this, there is no blue ocean potential to begin with. When you clear the exceptional utility bar, you advance to the second step: setting the right strategic price. Is your offering priced to attract the mass of target buyers so that they have a compelling ability to pay for your offering? These first two steps ensure that you create a leap in net buyer value. Securing the profit side brings us to the third element: cost. Can you produce your offering at the target price and still earn a healthy profit margin? The last step is to address adoption hurdles. The formulation of blue ocean strategy is complete only when you can address adoption hurdles in the beginning to ensure successful actualization of your idea."

– W. Chan Kim and Renee Mauborgne

"It is not enough to maximize the size of the blue ocean you are creating. You must profit from it to create a sustainable win-win outcome."

– W. Chan Kim and Renee Mauborgne

3. The Key Principles in Executing a Blue Ocean Strategy

Formulating an effective blue ocean strategy is one challenge but executing that strategy well is an altogether different kind of challenge. To pull this off, you'll need to have buy-in from the top management and the ability to align your entire organization around the challenges of executing your blue ocean strategy. This is particularly daunting when the blue ocean strategy is a departure from business-as-usual. There are two principles involved by which companies can reduce organizational and management risks while executing a blue ocean strategy.

Key Principle ▶ 1 Overcome organizational hurdles

There are usually four barriers to getting a company to move forward with a blue ocean strategy:
1. Most employees won't be aware of the need to change.
2. Limited resources are available.
3. It's difficult to motivate people to break from the status quo.
4. Internal politics may come into the equation.

The real key to overcoming these barriers is to use "tipping point leadership" – leadership that focuses on the people, acts and activities which exercise a disproportionate amount of influence on the performance of the entire organization. When tipping point leadership is applied, the organizational hurdles can be overcome and neutralized.

To be more specific, a tipping point leader addresses the four organizational hurdles to execution of a blue ocean strategy in this way:

1. *To make people aware of the need for a shift in strategy* – a tipping point leader will make people see the new realities of the marketplace firsthand and up close. By bringing employees face-to-face with the worst operational problems, people will usually come to their own conclusions about the imperative for change. Get your managers and others out of the office and meeting with disgruntled customers. Don't rely on customer surveys for your information, but get people out meeting dissatisfied customers in person. This will quickly highlight the gaps in perception which have evolved over time and inject a healthy dose of reality into everyone's thinking.
2. *To address the barrier of limited resources* – a tipping point leader will focus on multiplying the value of the resources which are available. The key is to look for "hot spots" which are activities which require low resource input but which will generate high performance gains. Tipping point leaders focus whatever resources are available intensively on these hot spots. They also look for ways they can trade the resources they don't need for those they do require. Every organization has programs and other activities which are run because of historical reasons rather than anything else. Effective tipping point leaders identify these resource drains and make some changes. They move available resources from one area to another to generate more bang for the buck. Doing this often takes courage, because entrenched programs always have their supporters, but moving already available resources from cold spots to hot spots within the organization can have a tremendous impact on blue ocean strategy execution.
3. *To challenge and motivate people to do something different (and better)* – a tipping point leader doesn't issue grand strategic vision statements. Nor does this type of leader issue a decree that from now on, everyone will think differently. Instead, an astute leader will do three things:
   - *Focus on the organization's key influencers or "kingpins"* – and get them moving in the new direction first. As these people are respected within the organization, their willingness to do different things will be highly persuasive.
   - *Use "fishbowl management"* – which means to make the actions of the kingpins highly visible and transparent while at the same time stressing inclusion and fair processes. The essence of fishbowl management is that you explain to everyone why change is required and stress that we're all in this together despite all the change that will be required to move forward. This should offset the feelings of suspicion and doubt which are typical of rank and file employees during times of change.
   - *"Atomize" the challenges* – which means to make things achievable and likely to succeed. A good tipping point leader breaks the overall objective down into bite-sized components that people can relate to as being doable and within their capabilities.
4. *To overcome any and all political hurdles thrown up by vested interests* – a tipping point leader follows a measured approach rather than trying to force changes through. In practical terms, this means the leader does three things well:
   - *Leverage those who have the most to gain from the strategic shift* – by building a broad coalition with the people who will benefit most. Get them to voice their support so you don't come across as a lone voice in the wilderness.
   - *Offset those who have the most to lose* – by isolating them. Anticipate their most likely angles of attack and have available facts and sound reasoning which will refute what the naysayers are suggesting. Be prepared to win the public perception battle in advance.
   - *Appoint a highly respected insider to your team* – someone who will know where all the land mines are likely to be, who will be most likely to support you and who is most likely to oppose the new strategy. This insider should help you navigate the political problems because they know the lay of the land.

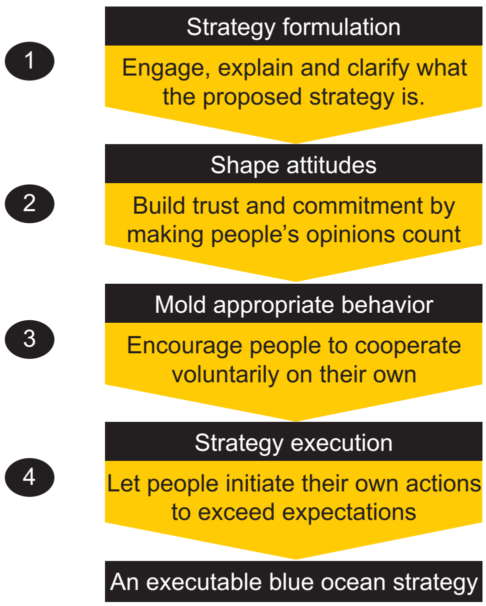
"The conventional theory of organizational change rests on transforming the masses. So change efforts are focused on moving the mass, requiring steep resources and long time frames – luxuries few executives can afford. Tipping point leadership, by contrast, takes a reverse course. To change the mass it focuses on transforming the extremes: the people, acts, and activities that exercise a disproportionate influence on performance. By transforming the extremes, tipping point leaders are able to change the core fast and at low cost to execute their new strategy. It is never easy to execute a strategic shift, and doing it fast with limited resources is even more difficult. Yet our research suggests that it can be achieved by leveraging tipping point leadership. By consciously addressing the hurdles to strategy execution and focusing on factors of disproportionate influence, you too can knock them over to actualize a strategic shift. Focus on acts of disproportionate influence. This is a critical leadership component."

– W. Chan Kim and Renee Mauborgne

Key Principle ▶ 2 Embed execution into the strategy

At the end of the day, the benefits of a blue ocean strategy will only be realized if everyone actually does what's required to make the necessary changes. To increase the likelihood people will execute the new strategy, it must be arrived at by a fair process which is inclusive rather than being simply dictated from the top down.

A fair process builds execution into the strategy because it creates buy-in up front. People feel like a level playing field exists in forming the strategy and therefore they are willing to cooperate in doing what is agreed. A fair process can be visualized as:



1. When formulating the blue ocean strategy, ask your people for their input and allow them to influence the discussion. Explain clearly why strategic changes are needed and state clearly what the new rules of the game will be in the event the proposed strategy gets adopted. Help everyone understand right at the outset what's being done and why so they will know without question what will be required of them as individuals. The emphasis here is on clarity which will ideally generate buy in.
2. Once people feel like they're actually in the loop, it becomes easier for trust and commitment to grow. Because they feel involved in strategy formulation, people are inclined to feel good about the new strategic direction.
3. Since people trust the process by which the new strategy has been developed, they are more inclined to cooperate voluntarily in doing what needs to be done.
4. As people get involved in the execution of the strategy, they feel comfortable about using their initiative. Ideally, they will even exert energy and put aside their narrow self-interests as well. When that happens, the blue ocean strategy will get absorbed into the organization's culture rather than being seen as something imposed by outside forces.

In all, crafting a blue ocean strategy is a dynamic rather than a static process. It makes sense to build execution into the strategy making process right from the outset. Fortunately, however, blue ocean strategies are inherently difficult for others to imitate. There are numerous barriers to imitation which are automatically built in to each blue ocean strategy. Specifically:

- A blue ocean strategy will always seem ridiculous to the entrenched market competitors. They are more likely to ridicule the new idea than to spend time considering how to compete against it.
- Brand image will often prevent a competitor from undertaking value innovation. To act that way would be seen as an indication their current business model is seriously flawed.
- The size of the market often limits the viability of direct competition. When a blue ocean strategy is executed, it might soak up all available demand, making it commercially impossible for a competitor to do the same.
- Intellectual property protection like patents or legal permits might be used to discourage imitation.
- The high volume generated by a value innovation might make it unlikely potential imitators could achieve comparable economies of scale.
- Network externalities might come into effect. The more customers you have, the greater your critical mass and the less chance there is a competitor could offer the same benefits you do.
- To clone what you do may require another organization to make unacceptable political, operational or cultural changes.
- With any luck, you might have so much buzz and customer loyalty that an imitator will not be able to gain a foothold in the marketplace.

In the event your own value curve begins to converge with those of your competitors, that's a good warning signal that it's time for you to value innovate again. Reach out for a different blue ocean by going right back to the beginning. By all means lengthen, widen and deepen your current revenue streams by making operational improvements and expanding geographically, but get out your strategy canvas and start looking for your next blue ocean at the same time. Long term success will depend on your organization's ability to create multiple blue oceans.

"The business world is becoming increasingly overcrowded. The competition will be more present and will remain a critical factor of the market reality. What we suggest is that to obtain high performance in this overcrowded market, companies should go beyond competing for share to creating blue oceans. Because blue and red oceans have always coexisted, however, practical reality demands that companies succeed in both oceans and master the strategies for both. But because companies already understand how to compete in red oceans, what they need to learn is how to make the competition irrelevant. We aim to balance the scales so that formulating and executing blue ocean strategy can become as systematic and actionable as competing in the red oceans of known market space. Blue ocean opportunities have been out there. As they have been explored, the market universe has been expanding. This expansion, we believe, is the root of growth."

– W. Chan Kim and Renee Mauborgne