Business Analysis for Engineers
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Lecture -35
Blue Ocean and conclusion

Last class, I just stopped with, a brief introduction into the, fourth strategic option namely the, Blue Ocean strategy. The fundamental thought for this new Strategic model, is from the fact that, the way in which, conventional competition behaves, within a defined industry or Market space, definitely does not provide room for, a sustained profitable growth, in the future.

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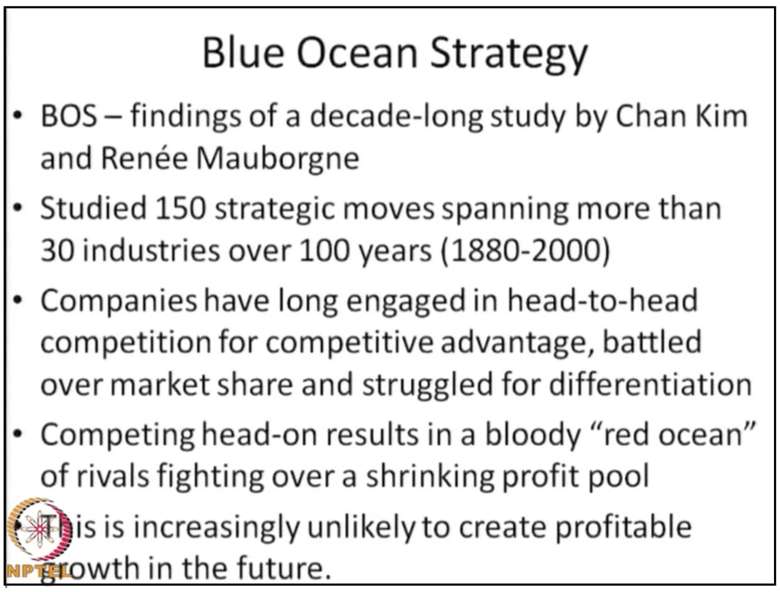

Then, there needs to be an alternate strategic option, to think beyond the existing Market space. And, some companies successfully did, the strategic exercise. And, the way in which, companies in over 30 industries behaved, in the last 100 years, and selectively analysing over 150 strategic moves, that these companies made, two professors from the INSEAD Business School, namely Professor Kim, and Professor Mauborgne, coined this Blue Ocean strategy, which created a strategic shift, and new thinking paradigms, amongst management consultants.

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It very simply means that, if companies need to be successful in the future, it just cannot afford to be successful by, the conventional head-on competition, with the existing competitors. But, by creating what it calls, the Blue Oceans. Which means, Blue Oceans of an uncontested Market space. An uncontested Market space, with a great potential for growth. And, by doing so, since it is a new uncontested Market space, it makes the existing competition, completely irrelevant. So, the shift has been from, competing with rivals, to a new uncontested Market space, that makes competition entirely irrelevant.

This is what, is referred to as, the Blue Ocean strategy. This Blue Ocean is about, creating this new Market space. While the Red Ocean, that I talked previously was about, just the existing Market space, where the competition is very intense and bloody. And hence, it is this Red Ocean. And, this Blue Ocean is about, how to create, such new unchartered Market space. And, by creating this new Market space, we are in effect, making competition irrelevant, for a substantive period of time, in the future.

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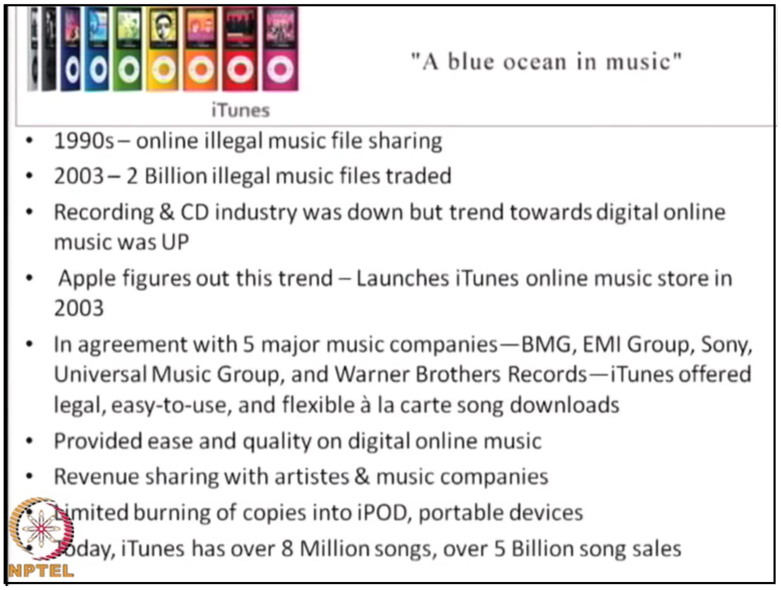

I will give you a few examples, for you to appreciate this Blue Ocean strategy, better. Apple's iTunes, is a great example to explain how, this is a Blue Ocean, in the Music industry. Many of you know how, in the most part of 1990’s, almost the entire part of 1990’s, with the advent of internet, there was this tremendous sharing of data, of which, online music was also very popular. Online music was shared across the internet, not through a legal platform. So, there was tremendous amount of online illegal music file sharing.

That, it was so popular in 2003, it was estimated around, 2 Billion illegal music files, were being traded. And, this definitely is not good news for, the Music Recording industry, or even the CD industry. But, the message was very clear, that there was a growing trend towards, Digital Online music. That, the trend towards Digital Online music was up, sent some very key business messages. And, Apple was a company, that figured out this trend, and launched, what it called the iTunes, which was an Online Music Store.

And, this was in 2003, that Apple launched its iTunes. Because, it felt that, it needed to leverage, this growing trend of Digital Online music, and establish a formal legal business platform, which hitherto was never done by any company. And, Apple started this iTunes in 2003. And, the rest was history. It brought together, 5 major music companies. And then, use iTunes as a platform, where it was easy to identify songs. It was kind of a digital store, where customers could identify, whatever songs that they wanted.

Need not necessarily buy, the entire CD, if only 2 of those 5 songs, were interesting to them. And, that was the way in which, usually, Music CD was purchased. And, iTunes was delivered on a legal platform. And, that I just listen to the first 30 seconds, or a sample song, before I even purchase it. This was the value, that was being offered. And, from a given set of 8 or 10 songs, I could select 3. And, pay just as, I select them, to use them, in full. So, it provided a lot of value additions, provided great ease.

And remember, during the 1990's, when these digital music were traded online illegally, the quality of the music was not that good. So, it also addresses the issue of legal, pay as you choose, and high quality music, available online. And, it also limited, to check the proliferation of such downloads, reaching many different end-users. It limited burning of copies, into portable devices, and Apple's own iPod. In fact, iPod was again, a huge by-product success of iTunes. And, it established revenue sharing models, with various artists and music companies.

Now, it just transforms the way in which, online digital music, became a tradable commodity. From, what it was in the 90's, done through an illegal way, it transforms the entire business, and set a new business platform, for online music. It created a new Market space. It created this Blue Ocean. A Blue Ocean, in the Digital Online music. That, today, you see iTunes has over 8 Million songs, in its online database. Over, 5 Billion songs, have already been sold.

So, you understand the way in which, Apple picked up the growing trend, towards appreciating and enjoying music, that can be downloaded online. And, found a new business opportunity, which nobody else started off. And hence, it was uncontested. And, created a new business process by itself. And, making existing competition, in the existing traditional business model, irrelevant to its new Blue Ocean, that it started.

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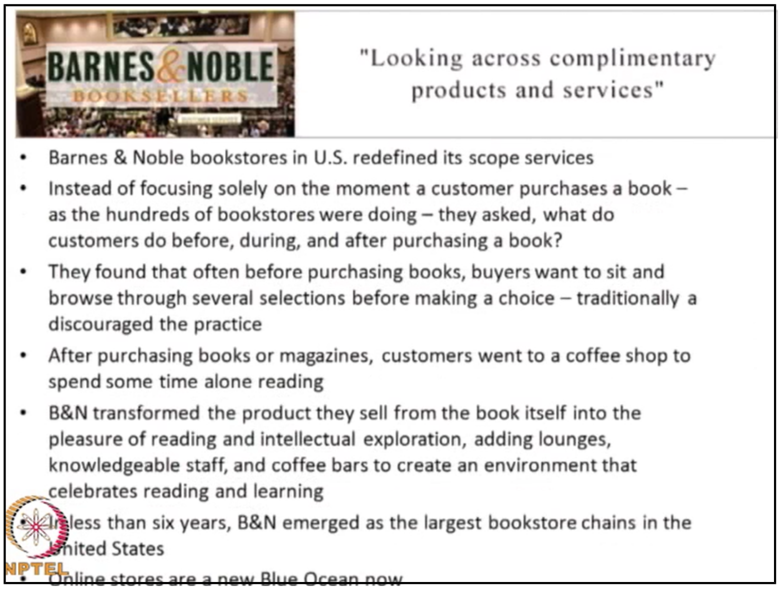

This is one example. The other example of a Blue Ocean strategy is, the Barnes & Noble bookstores, the booksellers. They started looking at, complementary products and services. They just thought beyond traditional bookstores. It tried to redefine, the scope of services, that traditionally bookstores used to offer. Barnes & Noble instead of solely focusing on, the time at which, the moment at which, a customer purchased a book. Because, this is how, traditionally bookstores operated.

They ask themselves the question, what is that a customer does, before he purchases a book, or during the time he purchases a book, or after purchasing a book. And, answers to these new questions actually gave them, a new Blue Ocean for them, to explore. They found that, even before they purchase a book, customers wanted to sit and browse through several selections of these books, before making a choice. And, this is something, that usually traditional bookstores, discourage customers from doing.

They would not like, customers to take a book, sit down, and quickly flipped through the pages, read some portion, before they actually take a decision, to buy a book. And, after purchasing a book, typically a customer would go to a coffee shop, to spend some time alone, reading these books. So, these were some customer patterns, that emerged as business signals, for Barnes & Noble. As a result of which, they transformed, the conventional product namely the book that they are selling, into an experience by itself, that it was no longer a store that sells book.

But, it was selling, a book purchasing, reading, experience. So, it was able to give the customers, the pleasure of reading. For the customer, it was kind of an intellectual exploration. Because, the stores, now started offering lounges for customers, to sit, flip through some of the pages, before they actually purchase a book. And, also attached to a bookstore, some coffee shops. So, that after the purchase, it creates an environment for the customers, to actually sit and celebrate the experience of reading. And, this had a telling impact, on the success story of Barnes & Noble.

Because, after they did this, in less than 6 years, it emerged as, one of the largest bookstore chains, in the US. But, of course now, we find that online stores, are another Blue Ocean. It is another Blue Ocean strategy, where it went beyond the new Barnes & Noble, to create another uncontested Market space where books, not only books, a variety of products and services were offered online. And, you had big firms like, Amazon, or eBay, which created this Blue Ocean. So, this is one example of, a Blue Ocean strategy.

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Another very good example that I thought, will explain this Blue Ocean strategy better, is the shaadi.com. Now, traditionally, marriages were arranged, with the help of a marriage broker. And, the success of striking a marriage relationship, was dependent on the broker's ability, to match the matrimony. Because, the families were situated at, different geographies far apart. So, it was the physical presence of a broker, that actually ensured that, the marriage matrimony was a successful one.

It was the ability of the broker, to connect and build that social cloud, that was becoming essential, to make sure, that successful marriages are made. Now, shaadi.com decided to leverage, the use of internet as a medium, to do this matchmaking. And, as a result of which, it removed all these geographical barriers, and made marriage matrimony, more interactive and real-time. And this, the way in which they entered into, an unchartered Market space, which was till at that point of time, dominated by marriage brokers, in physical real-time mode.

It created, a matrimonial service online, and provided a platform for brides and grooms, to meet. And today, this matrimonial service has touched over, 20 Million people. Now, this again, is a very good example of, creating an uncontested Market space, that made existing competition in this case, marriage brokers irrelevant. So, these are the three popular examples, that I thought, I will use to start, and explain, what Blue Ocean strategy is all about.

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RED OCEAN vs BLUE OCEAN

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value-cost trade-off.	Break the value-cost trade-off.
Align the whole system of a strategic firm's activities with its choice *of* differentiation or low cost.	Align the whole system of a firm's activities in pursuit of differentiation *and* low cost. ➡ VALUE INNOVATION

And, what conventionally is happening in the Market space, is what we call as, Red Ocean. Now, if Red Ocean strategy is about competing in an existing Market space, as I told you before, Blue Ocean strategy is about creating an uncontested, a new Market space, where it is not about beating competition. Because, beating competition was the crux for Red Ocean strategy. In a Blue Ocean strategy, it is about making the competition, irrelevant. The rivalry becomes irrelevant.

And, in a head-on competition, in the conventional Red Ocean strategy, is to exploit as much as possible, the existing Market pool. Because, the Market pool is limited. And, intense competition of this type, can be successful, by only exploiting the existing demand. Whereas, in a Blue Ocean strategy, it is the propensity to create, and capture new demand, that forms the key. And, as I have told you before, it is the value cost trade-off, that needs to be made. We need to create this, value cost trade-off. Whereas, a Blue Ocean strategy tries to break this, and align the whole system, in pursuit of both differentiation and low-cost.

And, it calls this as, creating a new value innovation. It is a little different from the Red Ocean strategy, where previously I have told you that, it is difficult to have, differentiation and low-cost together. These, remember, when we talked about generic strategies. But, Blue Ocean strategy creates a paradigm shift, where it tends to build a new system, that actively pursues in creating both differentiation and low-cost, and finds at the intersection of these two, provides the value innovation.

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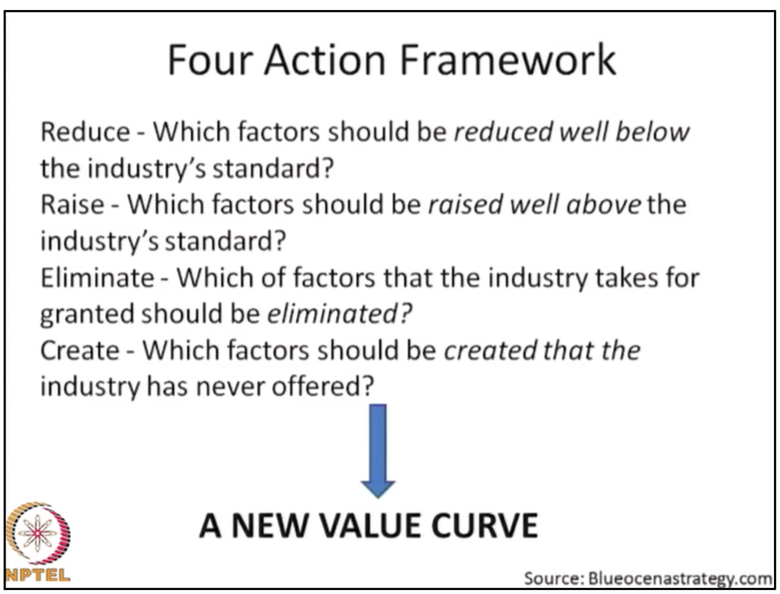

And, how do I do that. And, this is what, the authors of Blue Ocean strategy themselves call, the four action framework, is by either reducing, raising, or eliminating, or creating. Reducing factors, that should be reduced, below the industry standard, if applicable. Or, raising factors, that should be raised, well about the industry standard.

Which means, we are making the industry itself, we are creating a new industry standard, we are creating a new industry itself. Or, eliminate some of the factors, that the industry takes for granted. Or, create new factors, that the industry has never created, so far. Now, all of this provides, this new value innovation, a new value curve experience. And, the more and more, that organisations try to do this earlier, the more and more is the value learning curve experience.

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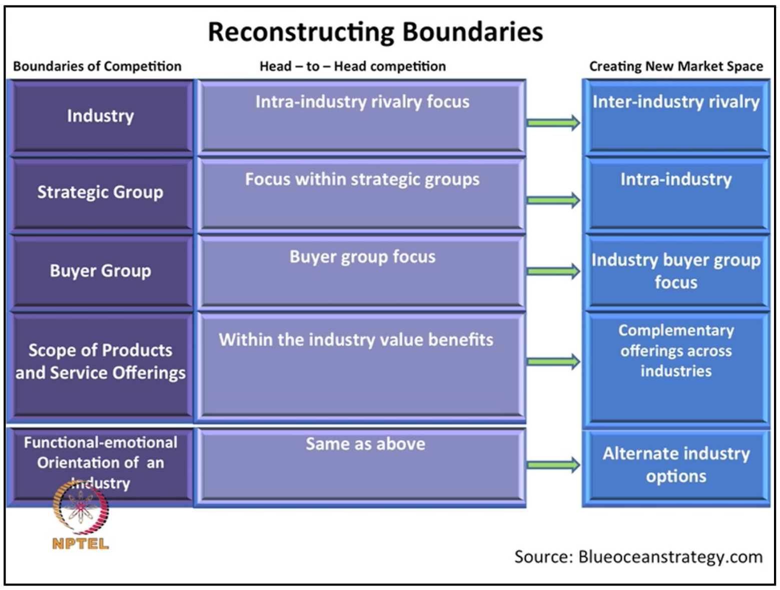

Now, the essence of this Blue Ocean strategy is to, shift the Market space, try to dismantle existing boundaries, or try to reconstruct boundaries. And, boundaries appear, in different forms. It could be, an industry boundary, or a strategic growth boundary, or a buyer group boundary, whatever the case may be. But, a Blue Ocean strategy tries to redefine, or reconstruct these boundaries, in a way that is different from, conventional competition.

If you take industry for example, in the conventional Red Ocean strategy, if the boundaries of competition come from industry, then the focus has always remained, on the rivals within the industry, then in a Blue Ocean strategy, where it looks across alternative industries. Same is the case, with the strategy group, where the competitive position is within a strategic group. Whereas, in a Blue Ocean strategy, it tries to look across, strategy groups within the industry.

Or, in the buyer group boundaries, if focus is on better serving, the existing buyer group. In Blue Ocean, we try to redefine the buyer group. Or, try to see, if there are new buyers. In terms of the scope of the product and service offerings, a Red Ocean strategy focuses on maximising, the value of the product and service offerings, within the boundaries of the existing industry. Whereas, in a Blue Ocean strategy, as explained in the case of Barnes & Noble, we try to see whether we can provide, complementary products and services, that go beyond the bounds of the industrial whelms.

And, of course, the functional emotional orientation. If it is about improving price to performance, it tries to even, the Blue Ocean strategy tries to rethink, this functional emotional orientation, in an industry. Thinks beyond the conventional price performance. And, this is where, this value innovation, that I talked about before, comes into play. The Red Ocean strategy, tries to adapt to the external trends, as they occur. Whereas, a Blue Ocean strategy tries to shape, the external trend itself.

It tries to define, an emerging trend, over a period of time. And, that is the example of the Apple's iTunes. It just redefines, the trend of Digital Online music. So, it is the propensity, the potential of organisations to view, boundaries as artificial, or boundaries that can be eliminated, or redefined, or reconstructed, that makes organisation think, in the Blue Ocean strategy mindscape, to create a new Market space, by reconstructing these boundaries.

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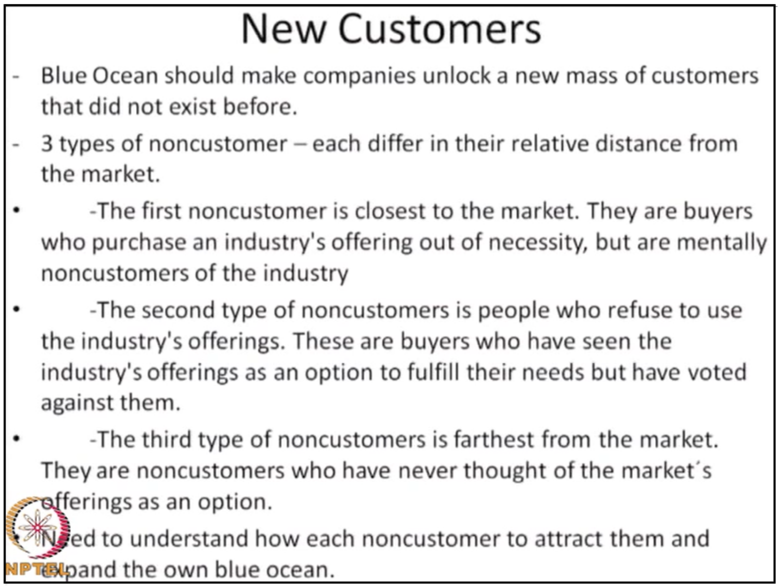

And, to all of this, it is the customers, that form the centrepiece. And, Blue Ocean strategy, tries to make companies, unlock a new mass of customers, that did not exist before. There are 3 types of non-customers, as they are actually referred to. And, each of them are differing, in terms of the relative distance, from the Market. And, it is these non-customers, that a Blue Ocean strategy must be targeting. The first non-customer is somebody, who is close to the Market.

They are buyers, who purchase an industries offering, out of a sheer necessity. But, internally, they have internalise themselves, or mentally, they are non-customers of the industry. Or, the second type of non-customers, they know that this is a product, that is available in the industry. And, they still refuse to use, the industries offerings. Which means, that they are very clear, that they do not need this product.

The third type of non-customers, is the farthest from the Market. They have never thought of the Markets offering as an option. And, a Blue Ocean strategy is about, understanding how each of these non-customers behave, and attract them as the new customers, in this new Market space. So, they are no longer non-customers, they are new customers, into this, new Market space.

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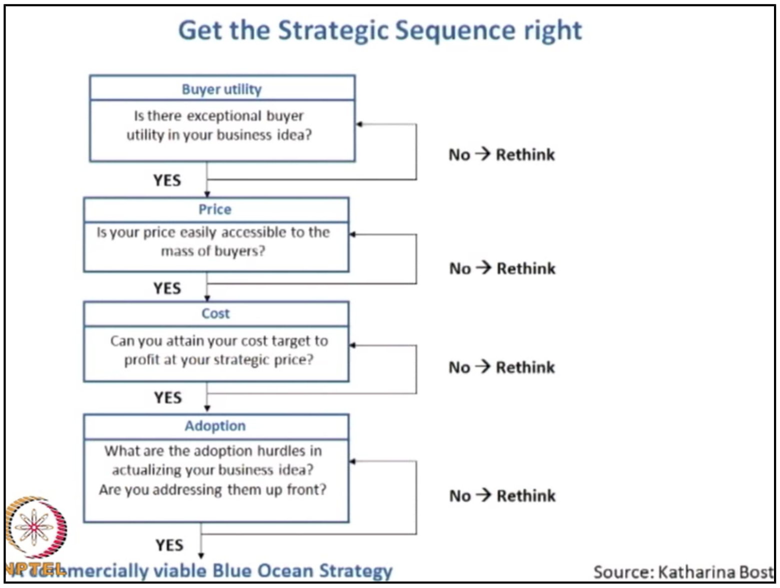

So, if you need to get a strategic sequence, to build a viable Blue Ocean strategy, ask the first question, whether there is an exceptional buyer utility, in the business idea. If, no, again rethink. If, yes, is it offered at a price, that is accessible, to a mass of buyers. If it is yes, can you attain the cost target, to profit, at the strategic price. If it is yes, then jump into adoption, how do you implement this, and how do you remove the hurdles, in actualising this business idea. And, if you are able to address them upfront, then put in place, a commercially viable Blue Ocean strategy.

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Now, there is this website called, blueoceanstrategy.com. And, it gives you a number of examples for you to appreciate, this Blue Ocean strategy. It is not an abstract strategic concept. To put it plain and simple, it encourages organisations, to always think beyond the conventional boundaries, to create a new Market space, and in the process, make competition irrelevant. And, many organisations did this.

I gave you, 3 examples. But, if you go to this blueoceanstrategy.com, you will find a number of examples. Be it, the Novo Nordisk in the Insulin business, or Philips in the tea filter business, or in New York's Police Department, or Canon, Bloomberg, a number of such examples, that will make you understand, a new concept, that shook the corporate world, in the late 2000, the first decade of 2000.

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Now, as we come close, to this module on strategy, we need to understand that, the exercise of strategy formulation is very important. The reason that, every organisation needs to have a strategy in place, is because, the business landscape itself is changing. If organisations need to be successful, they cannot afford to have a laid-back experience, and say that, strategy is irrelevant for them. Organisations need to understand, that the extent to which, businesses are getting globalised.

Policies are, de-regulatory. The way in which, technology has updated. The changing demography and lifestyles of end users, necessitates a new thinking paradigm. And, not necessarily just one Strategic model, but a thinking paradigm, that make organisations to believe, that they need to have a strategy in place. A strategy, that is easy to communicate, and that is in perfect alignment, with the mission and vision, of the organisation.

And, a strategy, that can be coordinated, and make all of those, within an organisation, involved in the process. And, the strategy formulation by itself is an exercise, that will provide a direction, which can give reasons, for success or failure, and address failures, accordingly. And, in the absence of a strategic framework, it is very difficult, to build an alignment with corporate vision and mission. It is only that strategic framework, that binds people and processes together, with the corporate vision and mission.

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And, if you ask the question, what is a good strategy. A good strategy, should necessarily be result oriented, and not process-oriented. Anything that you implement as a good strategy, must deliver results, which can be evaluated. It must be original, creative, and must be easy to implement, not a complicated strategic tool. It must be aligned, with the people, the process, and the purpose, the context, that it is trying to address.

And, always trying to create a value proposition, that offers an incremental cost benefit output. There is no point in having, a good strategy in place, and not delivering a value proposition. Or, delivering a value proposition, but not the expected cost benefit output. So, it should be a good combination, of a good value proposition, with a good cost benefit output.

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And, this we can do, by using a number of ingredients, that are responsible for the success or failure, of a strategic pace. As I told you before, we need the environmental scan to understand, what is happening outside the organisation. We need to understand, consumers better. We need to understand, vendors better. Various stakeholders. When we talk about the value chain, various stakeholders, and how they influence the process, how they influence the various activities, in an organisation.

We need to understand, the industry and competition. We need to know, what are the technological changes, that are happening. And, how was organisations, we need to innovate, by leveraging these technological changes. And, it is about how, we involve people. The success or failure of many of the strategies, have been because of the lack of involvement of people in the process. So, people involvement, is a very, very important ingredient, for strategy.

And, it needs, the endorsement, the encouragement, and understanding, from the top management. And, communicated so well, that it gets embedded, from top to down. And, always ready to take feedback, from any outcome. And, this feedback comes from the way in which, the results are communicated. And, make sure, that the entire process is very balanced. And, at times, we have a very good strategy in place, the implementation is so complicated, in its design.

Or, in fact, it is overdesigned, that we spend more resources in the design, and then loose direction in the implementation. And, at the end of the day, we need to be ready, to experiment alternate models. Many organisations have failed because, they have failed to realise, that there is an alternate successful Strategic model. So, it is this thought process, the willingness, is also an important ingredient, for a good strategy to be in place.

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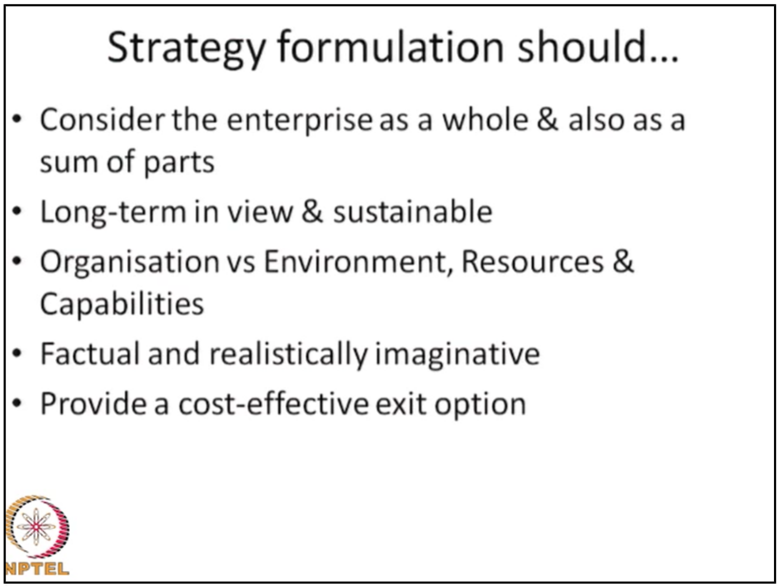

A good strategy, when it is formulated, must always see, the enterprise, the organisation, as a whole, and also as a sum of the parts. It is this double-barrelled, corporate as well as individual business units, to be seen, is something that is very important, to be considered during a strategy formulation exercise. Of course, we hear terms like, short-term, medium-term, strategies.

But, the overall, the corporate strategy by itself, needs to be long-term in view, because we are talking about, a sustainable competitive advantage. And. We need to ensure, that the organisation, is matched against, the environment in which it exists, and internally, the resources that the organisation has. And, the capabilities of an organisation, the capabilities that it has to deliver, using the existing resources, and the way in which, it is stacked against the environment.

And, the strategy exercise must be, factual, and realistically imaginative. It cannot be, just imaginative, right through. And, if there is a failure, the strategy formulation exercise must have, a cost-effective exit option, as well. Because, at times, to exit from a particular business, is a better strategy, than to continue with it. And, we need to have strategies, to exit the business, as well.

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And, if you look at this, this comes from various stakeholders, environment, as well as, within an organisation, where we need a strong leadership, that can marshal the human resource effectively, through a structured design, which provides good information and control systems, which acts as a good feedback mechanism.

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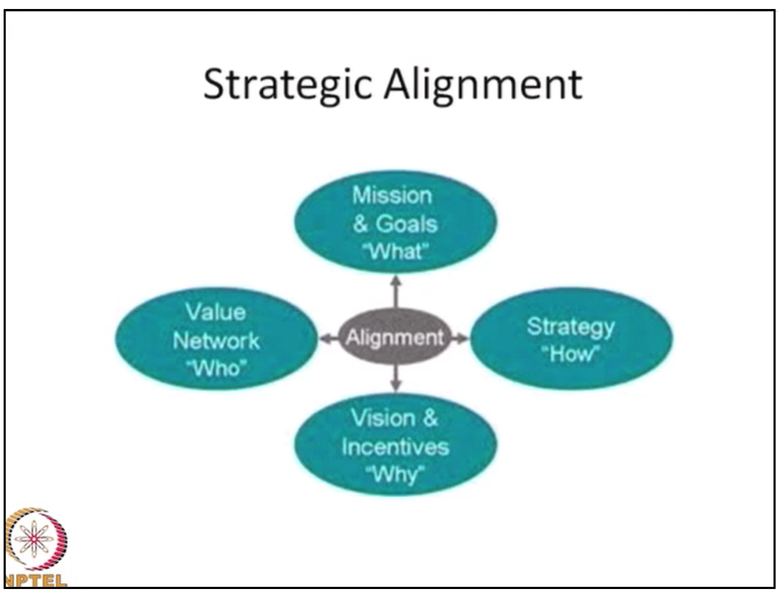

And, if all of this is in place, the missions and goals of an organisation, and how to achieve these missions and goals through strategies, who needs to be involved in this, the vision and incentives of an organisation, I have always been telling that, anything that has a multiplier effect, because of multiple stakeholders involved in this, have to reinforce against each other, and positively reinforced. And hence, the need that, there must be a good alignment, is very essential. And, this strategic alignment, is the key for success or failure, of any Strategic model, that an organisation decides to put in place.

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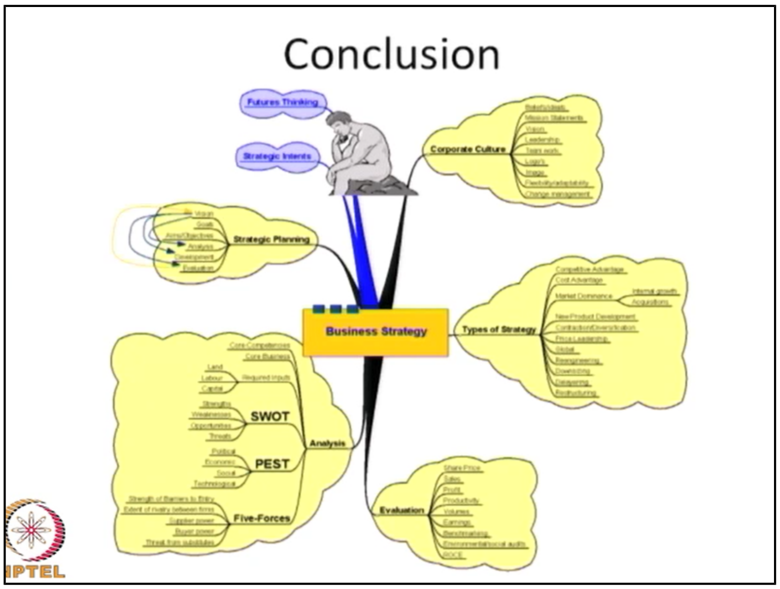

So, a strategy is about, this entire whole 9 Yards. It involves the corporate culture. The type of strategy itself. And, how we are able to evaluate, and pick the right strategy. And also, involves a lot of analysis, internal as well as external. A strategic planning exercise. So, to conclude, business strategy is a big game. A game in which, there are a number of players involved. A game in which, players are not the one, that who actively participate in the game.

But, they are also players, who were outside the game. So, it is a spectrum of different stakeholders, who are involved. And, it is the ability of organisations, to understand the importance of each of these stakeholders, to understand the internal strengths and weaknesses, within the organisation. And, to develop a coherent synergy amongst, internal and external, strengths, weaknesses, opportunities, and threats.

And, to put in place, a Strategic model, that is capable of delivering, a unique value proposition, which could be either from, a cost, or could be from, a differentiation, or could be from, a focused initiative, or could be from, a core competency mode of approach, or could be the Blue Ocean strategy approach, that we just now discussed. The input, the design for a strategy, can come from any of these models. But, the fundamental, is to create, a competitive advantage.

A competitive advantage, which rests on a unique value proposition, that organisations are able to deliver. And, as long as this competitive advantage, is sustainable over a period of time, then the strategy is successful. And, by the time that this, no longer becomes, a sustainable competitive advantage. Because, competition is either imitated, or customers no longer feel that, the value that you are offering, is valuable. Then, we need to look out, for alternate Strategic models.

And, how do we do this. The strategy formulation exercise, starts. We do an environmental scan. Then, we do an internal analysis. Then, evaluate amongst the various, strategic options available, one that can best fit. And, that addresses, the vision and mission of the organisation, so that, it is in alignment with them. And then, implement the strategy. And then, we have our feedback and control mechanisms. And, try to see whether, this is sustainable, and the successful one.

So, it is not just one strategy, that fixes the issue for perpetuity. It is always an iterative exercise. And, organisations have to be in mindful of this fact that, as long as competitive advantage is sustainable, then things are okay. And, it should be the earnest endeavour of organisations, to always build a Strategic model, that ensures this unique value proposition, delivered over a period of time. Because, it is this uniqueness, that gives them the competitive advantage.

Before, I conclude, I would also encourage you to watch, a good video, on the Blue Ocean strategy. Because, that is the 4 Strategic models, that I discussed. The last in this strategic options, that we were discussing. And, in terms of the chronology of strategic options, the Blue Ocean strategy is the most recent one, that took corporations by storm. So, I think, that video, would be a good conclusion, for this module on strategy.

As, we move forward, the next few sessions, I would be handling classes on, Economics. A little bit of Microeconomics, Macroeconomics. Economics as a Science, that actually deals with

Human Behaviour, to variations in the Supply and Demand characteristics of the Market. So, as we go forward, some introductory session on Economics. And then, we will talk about, specific issues on Macroeconomics, and a little bit of Microeconomics. Thank you.