THE WORLD OF MANAGEMENT-SPEAK HAS GIVEN US 'BLUE skies thinking'. But the next buzz phrase could be 'blue ocean strategy'. *Blue Ocean Strategy* is the title of a new book which will be published later this year by two of the world's more respected business school professors, W Chan Kim and Renée Mauborgne. The sub-title 'How to create uncontested market space and make the competition irrelevant', underscores why it is likely to be a must-read for marketing professionals. But can the authors live up to the sub-title's bold promise?

Kim and Mauborgne have been researching the world of strategy for years. They're rigorous academics who believe in accumulating accurate evidence and then drawing careful and sober conclusions from it. *the marketer* caught up with the pair at Insead, the business school just outside Paris.

The heart of a blue ocean strategy is that companies can be more successful by making 'leapfrog' strategic moves into new markets rather than competing in existing marketplaces. It seemed appropriate to ask Kim and Mauborgne how exactly these leapfrog moves differ from the incremental progress more familiar to most marketers.

"If you look around today, there are so many companies investing in getting their strategy right," Kim and Mauborgne say. "Yet they increasingly look like mirror images of one another, competing head to head, facing shrinking demand and mounting costs and price pressures. Why? The reason is that while companies have become quite good at incremental competition-based strategic thinking over the last 25 years, few have any idea how to create market dominance, new demand and high-profitable growth.

"So we asked, what are the assumptions, logics and practices that lock a company into the competitive race? How can a company break away from such a race? Having studied over 150 successful and unsuccessful strategic moves in more than 30 industries, we found that there existed a consistent and common pattern of strategic thinking that was fundamentally different from the existing competition-based approach."

The strategic moves that create new market space and break the trade-off between differentiation and low cost don't focus on beating the competition through incremental changes, believe Kim and Mauborgne. "Rather, the focus is on making the competition irrelevant by creating a leap in value for buyers and the company that opened up new and uncontested market space. The pattern of strategic thinking behind each strategic move is what we call 'value innovation'. Value innovation is the simultaneous pursuit of differentiation and lower costs."

Creating a new playing field

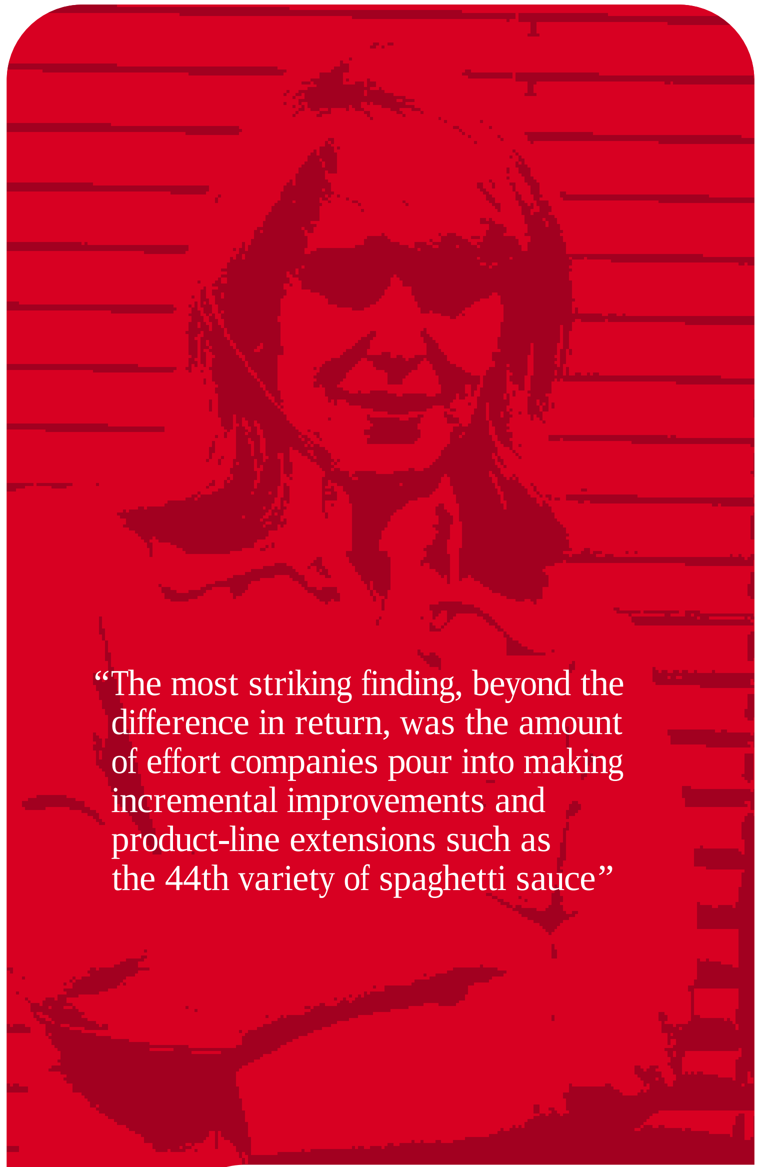
So how do Kim and Mauborgne see value innovation differing from the business innovation that most marketers practise?

"When most people think of business innovation they think of new products, new ventures, market pioneering and first-mover advantage. But value innovation is really about challenging assumptions about strategy, redefining market boundaries and making the competition irrelevant rather than competing on established ground. It is geared towards creating new market space and encompasses the entire value chain from product, service and delivery to costs and pricing, instead of any one function.

Why the competition doesn't matter

PETER BARTRAM ASKS W CHAN KIM AND RENÉE MAUBORGNE HOW MARKETERS CAN LEAPFROG INTO NEW MARKETS


SUSAN TURTON



“The most striking finding, beyond the difference in return, was the amount of effort companies pour into making incremental improvements and product-line extensions such as the 44th variety of spaghetti sauce”

“Our point is that value and innovation are inseparable. Value without innovation can include value creation that simply improves the buyers' net utility at an incremental scale. But value improvements get you only so far. Innovation without value is too generic, too unfocused to base successful strategic decisions on. It can also be too technology driven.

“Technology pioneering is not the same as value innovation. There are plenty of examples of companies that pioneered technology and then failed to capitalise on it. In computer technology, MITS was the father of home PC technology, but it was companies that value innovated, such as Apple and Dell, that linked that technology to value and brought it to the mass market. Of course, technology is not unimportant, just that innovation has to be linked to value.

“Value innovation is fundamentally concerned with redefining the established boundaries of a market by offering buyers an unprecedented set of utilities, combined with a profitable business model. This creates a win-win. Customers win by gaining a leap in value; companies win by creating new market space, which in turn makes the competition irrelevant.

“Instead of playing on the same field, you have created a new one. Value innovation is not innovation per se, which often centres on functionally driven activities such as production innovation. Value innovation is strategy.”

True value innovation means profit

More than a few marketers may well be thinking ‘yes, but...’ and with good reason. Many business gurus have propounded weird and wonderful theories that, when it comes to real life, simply don't stack up. But what distinguishes Kim and Mauborgne's research from the usual strategy waffle is a strong empirical element. They studied more than 100 companies' new product business launches and discovered that 86% were line extensions or incremental improvements. But the 14% of business launches that were true value innovations accounted for 38% of their companies' revenues and 61% of the profit.

The pair explain: “The most striking finding, beyond the difference in return, was the amount of effort companies pour into making incremental improvements and product-line extensions such as the 44th variety of spaghetti sauce. That explains why we find so many companies with overworked staffs and significant ‘innovation’ budgets, but with little gain.”

Finding your own space

Is it really possible for marketers to break free and search for that elusive new ‘market space’? Or do they have to wait for the kind of demographic, social or technological change that tends to underpin new markets? Kim and Mauborgne believe the big new industries of the last 30 years – IT, financial services, café bars, software, mobile phones – were not driven by social trends or new technologies: they were the result of reconstructing existing value elements.

They say: “We have a hugely underestimated capacity to create new industries, and this can happen any time in any industry. Everyone assumes that the number of industries stays the same over time, but it doesn't. The moment you take an environmentally deterministic view of your company you are a victim of your environment.

“Consider how Canon created the personal copier market with less advanced technology by shifting its strategic focus from corporate purchasers, who wanted big, fast, powerful machines, to the users – office staff who wanted small, convenient copying machines next to their desks.”

They add: “All industries are created not by big resources but by big ideas.” But that turns on its head conventional business thinking which argues that companies in major industries, such as aerospace or pharmaceuticals, need a global presence in order to generate the massive revenues needed to fund their huge new product development budgets.

Kim and Mauborgne see it differently. “Comparing the resources necessary to roll out new product lines can be like comparing apples and oranges. Indeed, some industries require relatively more resources. But regardless of the industry, the challenge is not to emulate what other companies have done, but to understand the thinking process that allowed these companies to create a new market and value innovations.”

So, how should marketers help pilot their company to a new market space? And how can they keep their companies ahead once they're there? Kim and Mauborgne say: “Give companies 20 factors they compete on, and they will agree on ten but dispute the remainder. That is a large part of the reason organisations are over-tired and lacking in creative momentum. Because companies often lack a clear, compelling strategy, projects are often undertaken that pull the organisation in different directions.

“Individually, a case can be made to justify each project, but collectively the actions do not add up to significant gains. Once your breakthrough strategy is identified, the first task of the marketing department is to clearly articulate this strategy both externally and internally. Its second task is to lengthen, widen and deepen the rent streams where value innovations occur through traditional marketing methods.”

Can companies really sustain the innovative energy required to leap into new market spaces? Kim and Mauborgne admit that it's not going to be easy and cite the example of The Body Shop: “Once The Body Shop had carved out its own market, the company focused on mining that new market space. That was all right when few players imitated it. But as more competitors moved into its market space, the company became involved in a battle for market share. This was the wrong strategy.

“As other companies' strategies converge towards your own, history shows you need to create new market space again and break away. Examples of companies which have made successful breakthrough strategic moves include IBM in the computer industry and AMC in the cinema industry. But it is something that companies have to get much better at.”

Out on the strategic blue ocean wave

In Kim and Mauborgne's thinking, it is imperative a company value innovates again and again. “Although imitators will always follow companies that value innovate, there are a number of factors that intrinsically allow value innovators to stave off imitators. Value innovations usually don't make much sense to an incumbent's conventional logic; high volume often leads to rapid cost advantages; there are often inimitable assets; and there are likely brand image conflicts. A breakthrough strategic profile has focus, divergence and a compelling tagline. Yet once your competitor's strategic profile begins to resemble your own, you know it's time to start revisiting your strategy and redraw your strategic profile to a new frontier.”

So business life on the strategic blue ocean looks like having more than its fair share of squalls and tempests. tm

Blue Ocean Strategy *is planned for publication by Harvard Business School Publishing*

FOR MORE ABOUT PROFESSORS KIM AND MAUBORGNE'S WORK VISIT: WWW.INSEAD.EDU/KIM OR WWW.INSEAD.EDU/MAUBORGNE

The board's role in charting the course

What part should the board play in guiding a company into new market spaces?

“The first step for executives pursuing profitable growth is to plot the company's current and planned portfolios on what we call a Pioneer-Migrator-Settler (PMS) Map. Revenue, profitability and market share are all reflections of how a company has done in the past,” say Kim and Mauborgne.

“Contrary to what conventional strategic thinking suggests, those measures cannot point the way to the future. Today's market share is a reflection of how well a business has performed historically. The PMS Map helps the board assess the future profitable growth potential of their portfolio of businesses based on the degree of value and innovation those businesses offer to buyers.

“Pioneers are businesses that offer unprecedented value; settlers are me-too businesses and migrators are in between. If a board finds that a company's portfolio of businesses or products is made up predominantly of settlers, irrespective of current performance, the company is strategically vulnerable.

“Identifying a potentially successful strategic move does not require any special capacities, vision or foresight about the future. All come from looking at familiar data from a new perspective. Companies that value innovate reconstruct existing market elements across industry and market boundaries.

“Next they must look at the bottom line. It is very important to remember that value innovation is about creating an unprecedented set of utilities at a lower cost. It is not about making trade-offs, but about simultaneously pursuing both exceptional value and lower costs.”

“The challenge is not to emulate what other companies have done, but to understand the thinking process that allowed these companies to create a new market”