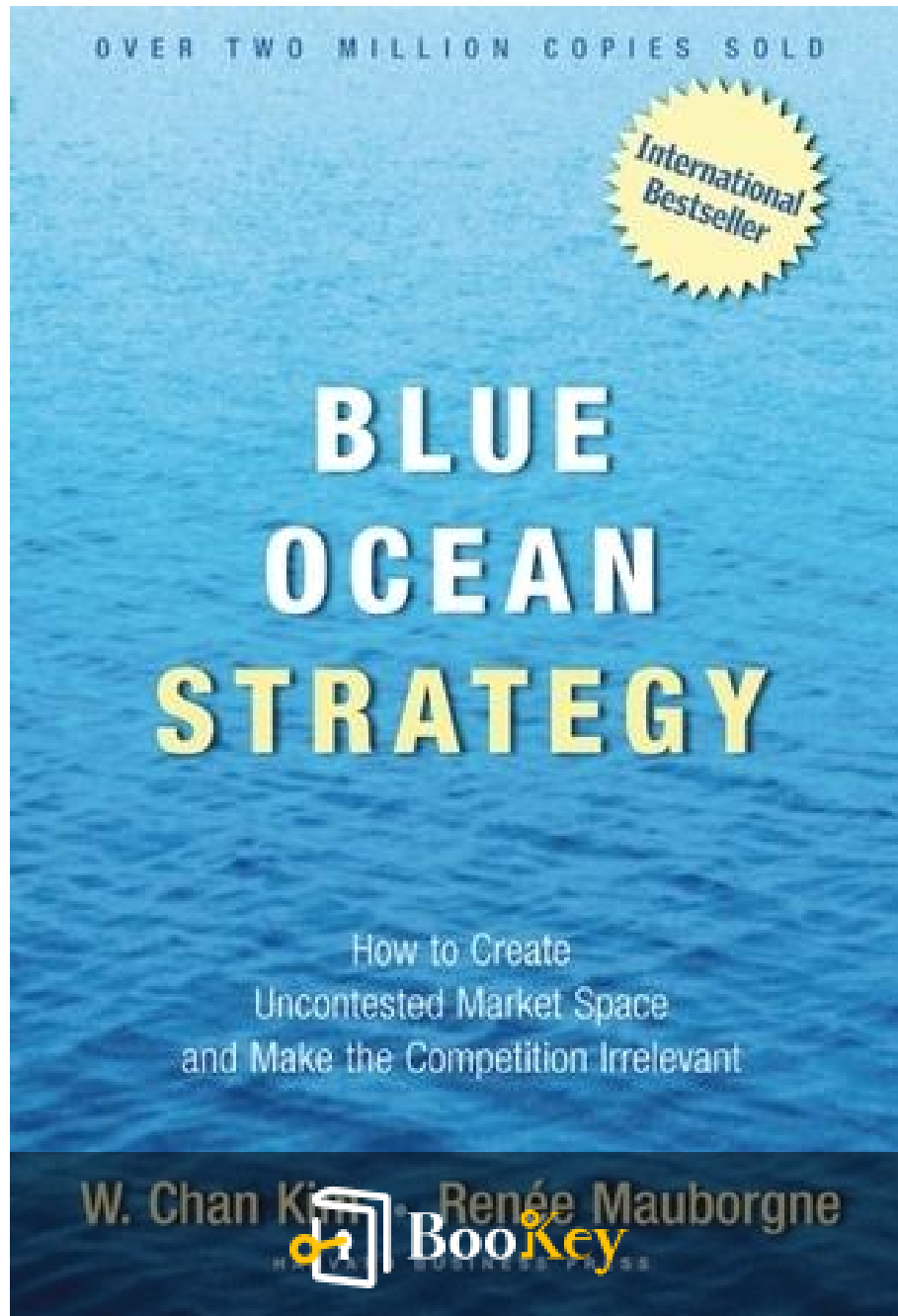


# Blue Ocean Strategy PDF (Limited Copy)

W. Chan Kim



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# **Blue Ocean Strategy Summary**

"Unlock Untapped Markets and Foster Uncontested Growth."

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## About the book

Are you ready to set sail away from the bloodied waters of conventional market competition and onto the serene, wide-open sea of boundless opportunity? **"Blue Ocean Strategy"** by W. Chan Kim invites you to rethink everything you know about business by encouraging you to leave the crowded, cut-throat markets and create your own, uncharted territories instead. In a captivating dance between theory and practical application, Kim outlines how companies can break free from the shackles of traditional business dogma, instead exploring innovative paths toward success by carving out uncontested market space. Through compelling case studies and inspiring narratives, the book illuminates a roadmap for creating value and fostering innovation, showing you how to turn competition irrelevant. It's not just about staying afloat—it's about charting your own course and thriving in the blue oceans of opportunity that await. Dive into this transformative journey and discover how to break the rules strategically for enduring success.

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## About the author

W. Chan Kim is a distinguished academic and a leading voice in the field of business strategy, celebrated primarily for pioneering the groundbreaking concept of "Blue Ocean Strategy." Currently serving as the Boston Consulting Group Bruce D. Henderson Chair Professor of Strategy and International Management at INSEAD, Kim's influence extends across academia and industry alike. His collaborative work with Renée Mauborgne has heavily impacted how businesses around the globe approach competition and market creation. An accomplished author and researcher, Kim's deep insights into strategic development have earned him numerous accolades, including being hailed among the top management thinkers worldwide. His writings transcend traditional business understanding, encouraging companies to tap into uncharted markets and opportunities, which he describes as "blue oceans." With a mix of innovative thought and practical application, W. Chan Kim's contributions continue to reshape strategic landscapes globally.

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# Chapter 1 Summary: Creating Blue Oceans

## Chapter 1 Summary: Creating Blue Oceans

In the first chapter of "Blue Ocean Strategy," the authors introduce the concept of blue oceans, using the success story of Cirque du Soleil as a prime example. Guy Laliberté, who transitioned from a street performer to the CEO of Cirque du Soleil, managed to reimagine the circus industry, which was otherwise in decline. Rather than competing within the traditional market space dominated by Ringling Bros. and Barnum & Bailey, Cirque du Soleil crafted a new market space—now termed a "blue ocean"—by appealing to adults and corporate clients with a unique mix of circus arts and theatrical storytelling.

The book contrasts two types of market spaces: red oceans, where competition is fierce within existing industries, and blue oceans, where uncharted territories offer untapped potential for growth and profitability. Red oceans are characterized by well-defined boundaries and rules, leading to limited growth prospects as companies engage in cutthroat competition. Blue oceans, on the other hand, promote innovation and differentiation, making competition irrelevant and paving the way for substantial growth.

The authors point out that while the notion of blue oceans is not new, their

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strategic importance has been underappreciated. Historically, many now-standard industries like automobiles, aviation, and e-commerce were once unknown blue oceans. The authors stress that given rapid technological advancements and globalization's effects, companies today face an over-supplied market landscape, heightening the need to explore blue oceans for growth.

To explore the underlying principles of blue ocean strategies, the authors suggest shifting the focus from companies or industries to "strategic moves," which are critical business decisions leading to new market creation. Success stories like those of Ford's Model T and CNN are cited, emphasizing that no company or industry is perpetually superior. Instead, what distinguishes them is their approach to innovation and strategic decision-making.

At the heart of blue ocean strategy lies "value innovation," which defies the traditional value-cost trade-off by pursuing both differentiation and low cost. Cirque du Soleil exemplifies this by eliminating costly traditional elements of circus performances and introducing theatrical elements to create a unique offering. This approach allowed them to charge premium prices while reducing costs, thus opening up a new and profitable market space.

The chapter concludes by laying out the plan for the book, which aims to provide a systematic methodology and analytical frameworks for creating and executing a blue ocean strategy. The subsequent chapters will delve into

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these tools, principles, and case studies to illustrate how companies can navigate both red and blue oceans successfully, ultimately guiding them towards innovation and sustained growth.

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# Critical Thinking

**Key Point:** Value Innovation

**Critical Interpretation:** Value innovation, a cornerstone of the blue ocean strategy, emphasizes the simultaneous pursuit of differentiation and low cost. It inspires you to break away from the shackles of traditional competitive strategies in your life or business endeavors and instead focuses on creating a unique space where competition becomes irrelevant. By challenging conventional wisdom and stepping beyond established boundaries, you can realign your thinking to embrace creativity and ingenuity. Say as an aspiring entrepreneur or career professional, you leverage value innovation by shedding unnecessary complexities and fostering unexpected combinations. This not only allows you to offer unprecedented value to your audience but also encourages a personal and professional evolution that paves the way for groundbreaking achievements. Embracing value innovation can therefore transform stagnation into excitement and offers a roadmap for unlocking limitless growth potential.

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## Chapter 2 Summary: Analytical Tools and Frameworks

In this chapter, the authors explain their decade-long effort to develop analytical tools and frameworks to systematically create and execute a "blue ocean strategy"—a strategic approach that emphasizes creating new market space free of competition rather than competing in the crowded and competitive "red oceans" of established industries. While traditional strategy tools like Porter's five forces focus on competition within existing markets, there was previously no comprehensive method for strategizing in uncharted territories. The authors aim to fill this void by developing practical methodologies based on studies of companies worldwide, specifically focusing on the US wine industry as a case study.

### ### The US Wine Industry Context

By 2000, the US was the third-largest wine consumer market, dominated by California wines, which competed with both domestic and international wine brands. Despite the industry's large size, demand was stagnant, with the US ranking 31st in per capita wine consumption. Fierce competition led to industry consolidation, with a few large companies controlling a major share and placing downward pressure on prices. This competitive and saturated market environment exemplified a classic red ocean scenario.

### ### Enter the Strategy Canvas

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To navigate out of the red ocean, the authors introduce the strategy canvas, an analytical framework that helps businesses map their position within the industry and identify opportunities for creating a blue ocean strategy. The strategy canvas allows companies to see where they compete on factors like price, quality, and marketing, and to visualize their value curves—a graphical representation of their strategic profile across industry factors.

### ### The Case of [Yellow Tail]

Casella Wines, an Australian winery, used the strategy canvas to rethink their approach in the US wine market. Instead of following traditional winemaking tropes, they focused on simplifying wine's appeal, drawing new customers from beer and cocktail markets by making wine approachable and enjoyable. This led to the creation of [yellow tail], a breakthrough product that resonated with non-wine drinkers by offering an uncomplicated, fun, and accessible drinking experience. Within just two years, [yellow tail] transformed the market, becoming the number-one imported wine in the US, showcasing how divergent thinking could lead to market dominance and the establishment of a blue ocean.

### ### The Four Actions Framework

To systematically alter their strategic position, Casella Wines used the four

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actions framework, which involves asking:

**1. Which industry factors should be eliminated?**

**2. Which factors should be reduced?**

**3. Which factors should be raised?**

**4. Which new factors should be created?**

Applying this framework helped [yellow tail] focus on easy drinking, fun, and ease of selection, while eliminating complex elements that traditional wines emphasized, thus cutting costs and creating a unique market space.

### Additional Tools: The Eliminate-Reduce-Raise-Create Grid

Complementing the four actions framework is the eliminate-reduce-raise-create (ERRC) grid, which guides companies to implement changes across all four dimensions for a new value curve. This grid helps avoid overcomplexity and unnecessary cost increases while compelling businesses to rethink entrenched industry norms.

### Characteristics of a Good Strategy

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Effective blue ocean strategies, as epitomized by [yellow tail], Southwest Airlines, and Cirque du Soleil, share three characteristics:

- **Focus:** They concentrate on few strategic factors.
- **Divergence:** They stand out from industry norms.
- **A Compelling Tagline:** They effectively communicate the strategic offering.

The strategy canvas helps identify whether a company's strategy aligns with these core characteristics, making it a tool for predicting potential success in creating blue oceans.

### ### Conclusion

The analytical frameworks discussed—strategy canvas, four actions framework, and the ERRC grid—allow companies to systematically break away from traditional competition-based approaches and create innovative, uncontested market spaces. As the book progresses, further tools and the principles required to navigate and build blue oceans will be explored, beginning with the principle of reconstructing market boundaries in the upcoming chapter.

Topic	Summary
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Topic	Summary
Development Effort	Authors detail their effort in developing frameworks to create 'blue ocean strategies' that emphasize creating new market spaces free of competition. This contrasts traditional strategies focusing on competition within existing markets.
US Wine Industry Context	Despite being the third-largest market, the US wine industry faced stagnant demand, fierce competition, and consolidation, exemplifying a 'red ocean' scenario.
Strategy Canvas	Introduced to map industry positions and opportunities, allowing companies to identify factors and visualize value curves for a blue ocean strategy.
The Case of [yellow tail]	Casella Wines used the strategy canvas to simplify wine appeal, drawing customers from beer and cocktail markets, creating a non-competing space and becoming the top imported wine in the US.
The Four Actions Framework	Framework of eliminate, reduce, raise, and create actions to systematically advance strategic positions, as employed by Casella Wines.
ERRC Grid	The tool complements the four actions framework to help companies implement strategic changes, avoiding complexities and unnecessary costs.
Characteristics of a Good Strategy	Successful strategies, shown by [yellow tail], Southwest Airlines, and Cirque du Soleil, focus on few strategic factors, show divergence from norms, and have a compelling tagline.
Conclusion	These frameworks enable a systematic shift from traditional competition to innovation. Upcoming chapters will explore further tools and principles for creating blue oceans.





## Chapter 3 Summary: Reconstruct Market Boundaries

In Chapter 3 of "Blue Ocean Strategy," the focus is on the first principle of creating a blue ocean strategy: reconstructing market boundaries. The chapter tackles how to break free from the competition to uncover commercially viable blue ocean opportunities. This strategy is essential for managers who cannot rely solely on intuition or random chance when forming business strategies.

The authors introduce the "six paths framework," which enables companies to see beyond existing industry parameters and unlock blue ocean opportunities applicable across various industries, including consumer goods, finance, telecoms, and more. Each path challenges conventional strategy assumptions that keep companies stuck in "red oceans" of fierce competition.

### Path 1: Look Across Alternative Industries

A company doesn't just compete with those in its industry but also with others offering alternative solutions. Examining these alternatives provides insights into creating a new market space, as demonstrated by NetJets, which transformed private jet ownership by creating a fractional ownership model. Similarly, NTT DoCoMo's i-mode revolutionized telecommunications by integrating the strengths of both mobile phones and the internet, tapping into

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a new market segment.

## **Path 2: Look Across Strategic Groups within Industries**

Industries consist of strategic groups that compete based on price and performance. Creating a blue ocean involves understanding the reasons customers shift between these groups. Curves, the women-only gym, did this by combining affordable, time-efficient workouts with the social environment of traditional gyms, appealing to women previously ignored by the fitness industry. Champion Enterprises applied a similar approach in housing, combining affordability with personalized high-end features typically offered by on-site developers.

## **Path 3: Look Across the Chain of Buyers**

By shifting focus within the chain of buyers, companies can unearth untapped market potential. Novo Nordisk did this by addressing the needs of insulin users rather than just doctors. NovoPen made insulin administration user-friendly, reshaping the market. Likewise, Bloomberg focused on traders' needs over IT managers', introducing innovative financial terminals that transformed the industry.

## **Path 4: Look Across Complementary Product and Service Offerings**

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Identifying and addressing complementary products and services can unlock hidden value. Revisiting how a product is used before, during, and after can illuminate new opportunities. For instance, NABI in the bus industry considered life-cycle costs, leading to the use of fiberglass for lighter, more economical buses. Philips did something similar by adding a filter in teakettles to solve water quality issues, reviving the market.

### **Path 5: Look Across Functional or Emotional Appeal to Buyers**

Industries often focus on either functionality or emotion. Breaking this pattern presents new opportunities. QB House in Japan simplified the haircut process, focusing on efficiency over emotional extras. Meanwhile, Cemex in the cement industry shifted focus by emotionally connecting product purchases to building dreams, substantially boosting market demand.

### **Path 6: Look Across Time**

External trends offer future-oriented blue ocean opportunities. Apple's iTunes anticipated the shift from physical to digital music, aligning with consumer preferences and revolutionizing music sales. Cisco leveraged the rising need for seamless data exchange to deliver valuable networking solutions.

The chapter concludes with a call to use these structured pathways to open



new market spaces rather than rely on speculative or trial-and-error strategies. By shifting perspectives and challenging traditional boundaries, companies can escape fierce competition and create blue oceans. The six-path framework provides a systematic approach to discovering new value propositions and reshaping market realities.

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# Critical Thinking

**Key Point:** Reconstruct Market Boundaries

**Critical Interpretation:** Imagine yourself as an architect of your own life's market boundaries, challenging existing paradigms of what your personal or professional life should entail. The critical lesson here is to actively reconstruct your life's direction by looking at unbounded alternatives, breaking free from set routines, and transcending conventional norms. By applying the principle of reconstruction, you won't merely exist within predefined spaces but will forge unique paths, like pioneers of a new market. This approach encourages you to pivot from competition to creation, opening doors to opportunities that align with your deepest aspirations. In essence, your life becomes a 'blue ocean,' free from self-imposed limitations and thriving on innovative ventures that set you apart.

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## Chapter 4: Focus on the Big Picture, Not the Numbers

The chapter delves into how companies can transition from competing in red oceans—saturated markets full of rivals—to creating blue oceans—uncontested market spaces that foster innovation and growth. The central challenge is aligning the strategic planning process to focus on the big picture and cultivate blue ocean strategies, moving away from the traditional tactical approaches that tend to emphasize competition within existing market spaces.

Typically, strategic planning emphasizes documenting current conditions, analyzing competition, and outlining numerous initiatives, often resulting in large documents populated with complex data. This approach rarely breaks from traditional competition, as the focus is primarily on numbers and detailed tactics rather than innovative thinking. The key to escaping this pattern lies in the second principle of a blue ocean strategy: emphasizing the bigger picture over numbers. This principle is crucial for reducing the risk of investing effort in mere red ocean maneuvers without achieving significant differentiation or growth.

The chapter introduces the concept of the strategy canvas as a powerful alternative to traditional strategic planning. A strategy canvas graphically represents a company's current strategic posture, showing both the industry's competitive factors and how the company performs across these elements



relative to its competitors. By focusing on pivotal qualities such as focus, divergence, and a compelling tagline, firms can shape strategies that stand apart from competitors and craft a distinctive market position.

Drawing a strategy canvas, despite its potential, is challenging. It requires identifying key competitive factors and understanding how companies and their competitors perform across these areas. Yet, for managers accustomed to focusing on specific dimensions of responsibility, seeing the broader industry dynamics can be difficult. The strategy canvas thus serves as a diagnostic tool to reveal where a company might be focusing too broadly or aligning too closely with industry norms.

The chapter outlines a structured, four-step process to use the strategy canvas effectively, exemplified by European Financial Services (EFS), an organization that successfully pivoted towards a blue ocean strategy, realizing substantial revenue growth in the process.

1. **Visual Awakening:** The initial step involves resolving differing opinions about the current strategy. By collectively plotting the value curve of their strategy, companies like EFS are forced to confront the necessity of change, often sparking realization of strategic flaws and inadequacies.
2. **Visual Exploration:** This stage involves field exploration to actively observe how products and services are used, challenging existing





assumptions and revealing customer pain points and unmet needs.

**3. Visual Strategy Fair:** Strategy teams present multiple strategic options, displayed as value curves, to internal and external audiences. Feedback is gathered through voting by attendees, providing unmediated insight into the appeal and effectiveness of various strategies.

**4. Visual Communication:** Finally, the chosen strategy is clearly articulated and disseminated throughout the organization, aligning all levels of operation towards the same strategic vision.

The chapter emphasizes the advantages of visual strategy formulation in simplifying the communication of strategy and empowering organizations to focus efforts on achieving innovative and differentiating objectives. It suggests using this approach at the corporate level, illustrating Samsung Electronics' application of the strategy canvas within its Value Innovation Program (VIP) Center. By facilitating strategic dialogue and best practice sharing, Samsung successfully transformed itself into a leader in consumer electronics while establishing a structured process for continuous strategic innovation.

Additionally, the text introduces the Pioneer-Migrator-Settler (PMS) Map as a tool to visualize the growth potential of business units within a portfolio, encouraging a shift towards pioneering (blue ocean) strategies for profitable



growth.

In sum, the chapter advocates for an overhaul of the traditional strategic planning process, emphasizing visual tools such as the strategy canvas and PMS map to foster creativity, clarity, and strategic focus, thus enhancing a company's potential to develop and sustain blue oceans.

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## Chapter 5 Summary: Reach Beyond Existing Demand

The chapter discusses the strategic approach of creating a "blue ocean"—a term from business strategy that signifies untapped market potential—by reaching beyond existing demand rather than competing in saturated "red oceans." The third principle of the blue ocean strategy focuses on maximizing the size of new markets by targeting noncustomers, rather than solely relying on existing customers or further segmenting the market.

Traditionally, businesses focus on retaining and expanding relationships with existing customers, resulting in finer segmentation of the market to meet diverse customer preferences. However, this practice can sometimes create markets that are too small and overly segmented. Instead, companies should focus on finding commonalities among noncustomers and leveraging these insights to create substantial new demand.

To illustrate this, the chapter provides examples like Callaway Golf and Pret A Manger. Callaway Golf expanded its market by focusing on noncustomers who found golf difficult, resulting in the Big Bertha golf club that was easier to use, appealing to both existing customers and attracting new ones. Similarly, Pret A Manger tapped into the unmet need for quick, fresh, and reasonably priced meals, converting first-tier noncustomers who previously shunned traditional sit-down lunches.

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The concept of noncustomers is further categorized into three tiers based on their proximity to the market:

1. **First-tier noncustomers** are those on the brink of leaving the market due to dissatisfaction but are retained with value innovation, as seen in the Pret A Manger case.
2. **Second-tier noncustomers** are those who consciously reject the market offerings due to perceived inadequacies or prohibitive costs. JCDecaux illustrates this by creating an entirely new market of stationary street furniture for advertising, attracting advertisers who had previously dismissed outdoor advertising as ineffective.
3. **Third-tier noncustomers** are the most distant and typically unexplored markets, like the unexplored potential in the US defense fighter aircraft market highlighted by the Joint Strike Fighter (JSF) program, which merged the needs of different military branches into a single, cost-effective solution.

The chapter suggests that companies explore the largest catchment areas among these noncustomer tiers by focusing on commonalities to unlock new demand. This approach enables companies not only to maximize the scope of their blue ocean strategy but also to ensure sustainable growth by aligning their capabilities with the largest untapped opportunities.



In closing, while focusing on existing customers can offer competitive advantages, the broader growth potential lies in addressing untapped noncustomer opportunities to expand the market and generate new demand. The subsequent chapter promises to provide insights into building a sustainable business model to capitalize on these new opportunities effectively.

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## Critical Thinking

**Key Point:** Targeting Noncustomers for New Market Creation

**Critical Interpretation:** Imagine focusing not just on your tried-and-true approach to challenges but instead reaching beyond your usual comforts and routines into areas you're unfamiliar with. Much like stepping out of your comfort zone can lead to new personal growth, targeting 'noncustomers'—those who have remained untouched or dissatisfied by existing markets—can unveil untapped opportunities. By identifying common threads among these noncustomers, you probe into unexplored territories of life, inviting transformation and growth. Like Callaway Golf revolutionizing their offerings or Pret A Manger redefining meal experiences, you too can find new narratives in your life by addressing areas you haven't considered before. This method champions not repeating the cycle of what's known, but breaking free into innovative, rejuvenating pursuits that hold possibilities for expansive living. Just as businesses can tap into fresh demand and create novel markets, you can redefine your potential and narratives, harnessing the vast and sometimes overlooked arenas of your life. The adventure lies not in the repeat but in discovery.

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## Chapter 6 Summary: Get the Strategic Sequence Right

In this chapter of "Blue Ocean Strategy," the authors delve into the fourth principle: getting the strategic sequence right to ensure the commercial viability of blue ocean ideas. The chapter outlines the necessary steps for building a robust business model that maximizes profits while minimizing risks.

The strategic sequence involves four key steps: buyer utility, strategic pricing, target costing, and overcoming adoption hurdles. Each step is critical in developing a successful blue ocean strategy.

**1. Buyer Utility:** The starting point is to ensure that your offering provides exceptional utility to buyers. The offering must unlock a significant value or advantage that compels a mass of people to purchase it. Without this utility, the blue ocean potential cannot be realized. The buyer utility map is a tool that helps managers identify and remove blocks that prevent exceptional buyer experiences.

**2. Strategic Pricing:** Once exceptional utility is achieved, the next step is to set the right strategic price to attract a wide range of buyers. This phase considers the broader market, identifying competitive pricing across industries or services that may function differently but share the same utility. The "price corridor of the target mass" is a tool that helps find a price point



attractive enough to capture the mass market while discouraging imitation from competitors.

**3. Target Costing** After setting a strategic price, companies must ensure they can produce their offering at a cost that allows for profitability. It's about working backwards from the strategic price to determine production costs, leveraging cost innovations, streamlining, partnering, or restructuring the pricing model when necessary.

**4. Overcoming Adoption Hurdles:** Even with a solid business model, success isn't guaranteed without addressing potential resistance from stakeholders like employees, partners, and the general public. This requires proactive engagement and education to mitigate fears and build support for the new idea, turning potential resistance into collaboration.

The chapter uses examples from companies like Philips and Ford to illustrate how these steps are applied successfully or unsuccessfully. Philips' CD-i and Motorola's Iridium serve as cautionary tales of failing to execute this sequence, while Ford's Model T and NTT DoCoMo's i-mode highlight the potency of an effectively implemented blue ocean strategy.

Finally, the Blue Ocean Idea (BOI) Index is introduced as a tool to evaluate ideas against these key criteria, ensuring all potential gaps are addressed before shifting to execution. Execution is the next focus, specifically



overcoming organizational hurdles, which will be the subject of the next chapter.

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# Chapter 7 Summary: Overcome Key Organizational Hurdles

## Chapter 7 Summary: Overcome Key Organizational Hurdles

In executing a blue ocean strategy—a transformative approach that deviates significantly from traditional, competitive strategies in red ocean markets—companies face four primary organizational hurdles: cognitive barriers, limited resources, motivation, and politics. To adequately address these challenges and ensure successful implementation, organizations must adopt tipping point leadership, a principle that emphasizes rapid, low-cost execution by focusing on factors with disproportionate influence.

1. **Cognitive Hurdle:** The first obstacle is convincing employees of the necessity for a strategic shift. Familiar red oceans may seem comfortable and proven, making change difficult to justify despite its critical need. Instead of relying on numbers, leaders like Bill Bratton, former NYPD police commissioner, used direct and impactful experiences to make the case for change, such as exposing employees to worst-case scenarios that demanded immediate action.
2. **Resource Hurdle:** Contrary to conventional thinking that more resources are required for significant change, tipping point leadership



focuses on maximizing existing resources by identifying "hot spots" (areas of high impact with low input) and "cold spots" (areas of low impact with high input). Bratton strategically redirected resources to high-impact zones, such as focusing policing efforts on crime hot spots in New York City, dramatically reducing crime rates without increasing the budget.

**3. Motivational Hurdle:** To rapidly mobilize employees, the focus should be on key influencers or "kingpins" within the organization. Techniques like "fishbowl management" make leaders' actions visible, and fair process ensures transparency and inclusiveness in strategy execution. In Bratton's NYPD, regular Compstat meetings made performance visible and accountable, motivating precinct commanders to improve and align with new strategic goals.

**4. Political Hurdle:** Navigating organizational politics is crucial to overcoming resistance to change. Bratton leveraged allies ("angels") and silenced detractors ("devils") by forming strategic coalitions, such as with New York City's mayor, to counter opposition from detractors, like the courts worried about increased minor crime cases, demonstrating that the new initiatives were beneficial for long-term gains.

Illustrating this approach, Bratton successfully implemented a blue ocean strategy in a complex and resistant environment, transforming the NYPD into a model of effective policing with sustained low crime rates. The



chapter emphasizes the importance of focusing on elements that can tip the organization's balance, allowing even under-resourced organizations to implement and sustain strategic transformations.

In essence, tipping point leadership challenges conventional wisdom by advocating for targeted, high-impact actions rather than wide and resource-intensive efforts, enabling organizations to execute strategic shifts effectively and efficiently. The next chapter will further explore how to build a culture of trust and voluntary cooperation to support the new strategy.

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## Critical Thinking

**Key Point:** Focusing on Factors with Disproportionate Influence

**Critical Interpretation:** Imagine tapping into a powerful shift where you focus your energy not on doing more, but on doing less with more impact. 'Tipping point leadership,' the heartbeat of Chapter 7, offers this alternative approach. It's about identifying those pivotal elements in your life or work that hold disproportionate sway over outcomes and concentrating your efforts there. By doing so, you can overcome hurdles that seemed insurmountable, without feeling exhausted or overwhelmed. Embrace the idea that real change doesn't demand more resources, but rather strategic redirection. When you see challenges as opportunities to tune your focus sharply on what truly matters, transformation becomes not just possible, but inevitable. This principle can inspire you to streamline your path to personal and professional breakthroughs, allowing you to reach your goals efficiently and effectively, just as New York's crime rates plummeted under tactically precise leadership.

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## Chapter 8: Build Execution into Strategy

The chapter emphasizes the critical role of fair process in the successful execution of strategy, particularly when pursuing a blue ocean strategy, which involves creating untapped market spaces free of competition. A company's success hinges not only on top and middle management but on engaging the entire workforce, from executives to the front-line employees, by synthesizing their attitudes and behaviors into the strategy. For a strategy to be effectively executed, everyone in the organization must be motivated to support it, transitioning from mere compliance to wholehearted cooperation.

The challenge of strategy execution, particularly when delving into blue oceans, is heightened by the discomfort employees feel when stepping outside their comfort zones. Their commitment to a strategy can be undermined by trepidation and distrust, especially if they perceive changes as a threat to their job security. This distrust often arises when strategy is imposed without involving employees in its formulation.

To mitigate these risks, the sixth principle of blue ocean strategy posits that execution must be built into strategy from the beginning. Organizations should transcend typical management tactics of rewards and punishments and focus on ensuring fair process, a concept rooted in procedural justice theory developed by social scientists Thibaut and Walker. Fair process, when



applied, garners trust and encourages voluntary cooperation, going beyond mechanical execution to inspire employees to actively support company strategies.

The chapter illustrates the importance of fair process through the example of "Lubber," a company that failed to engage its sales force in a strategic shift, which led to resistance. In contrast, the example of Elco, an elevator systems manufacturer, further underscores this point. Elco's different approaches at its Chester and High Park plants demonstrated how failing to involve employees or clearly communicate changes (at Chester) led to chaos, while involving them actively and transparently (at High Park) resulted in successful strategy execution.

Fair process involves three key principles: engagement, explanation, and clarity of expectation. Engagement means involving employees in decision-making, allowing them to voice their opinions, which leads to better strategic decisions. Explanation ensures that employees understand the rationale behind decisions, fostering trust even if their ideas aren't adopted. Clarity of expectation means clearly outlining what is expected from employees post-decision, reducing speculation and aligning efforts towards common goals.

Moreover, the chapter highlights the importance of fair process with external stakeholders, illustrated by the F-35 aircraft program. Lack of engagement,



explanation, and clear expectations between Lockheed Martin, the Pentagon, and other stakeholders resulted in cost overruns and delays. It suggests that for strategic initiatives to succeed, companies must apply fair process principles not just internally but also in dealings with external partners.

Ultimately, commitment, trust, and voluntary cooperation—viewed as intangible capital—are essential for the swift and effective execution of any strategy. These elements are cultivated by integrating fair process into strategy development, ensuring that strategic shifts are internalized at every organizational level. As the narrative concludes, it sets the stage for discussing strategy alignment, positing it as a process that synthesizes and reinforces the firm's strategic components to achieve a cohesive and sustainable competitive edge.

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## Chapter 9 Summary: Align Value, Profit, and People Propositions

The chapter explores the core principles underpinning the success of the "blue ocean strategy," a business approach aimed at steering firms away from fierce competition in "red oceans" filled with established rivals. Instead, it encourages them to create "blue oceans," or uncontested market spaces ripe with growth potential. At its core, the blue ocean strategy embodies three interlinked propositions essential for enduring success: the value proposition, profit proposition, and people proposition.

- 1. Value Proposition:** This involves crafting offerings that significantly leap in value for customers, drawing them in beyond the typical confines of the market.
- 2. Profit Proposition:** It's crucial for businesses to devise innovative models that not only support sustainable value creation but do so profitably.
- 3. People Proposition:** This element highlights the necessity of involving and motivating people—both internally (employees) and externally (partners and stakeholders)—to ensure the strategic vision is realized.

The chapter emphasizes the holistic alignment of these propositions as vital for sustaining competitive advantage and achieving lasting success in blue



oceans. Organizations risk failure if they neglect the balance and alignment of these components.

### **Example of Comic Relief:**

The UK charity Comic Relief exemplifies strategic alignment with its unique Red Nose Day, a community-driven, fun-oriented fundraising event. Its value proposition draws donors in with positive experiences and transparency, avoiding heavy reliance on traditional guilt-inducing campaign tactics. With a profit proposition characterized by low operational costs and extensive volunteer engagement, Comic Relief manages to raise funds without the typical overhead of running charity shops or expensive events. Its people proposition engages a wide array of stakeholders, including volunteers, corporate sponsors, and celebrities, who all gain from their association with Comic Relief through free publicity and the joy of positive participation. This synergy of propositions enables sustainability, maintaining the charity's distinct market presence over decades.

### **Case Study of Tata Nano**

While initially successful, Tata Nano, touted as the “people’s car,” failed due to a misaligned people proposition. Despite a compelling value and profit proposition—offering an affordable, safe car to Indian families—Tata’s lack of alignment with local stakeholders in manufacturing locations led to



operational challenges. This example underscores the importance of aligning all strategy propositions, including external stakeholders, to sustain market success.

## **Contrasting Napster and Apple's iTunes**

Both ventures sought to tap into the digital music market, but with different outcomes owing to strategy alignment. Napster, despite its initial traction, failed to align its strategy with music industry partners, leading to its downfall. Apple's iTunes, however, managed a holistic alignment of value, profit, and people propositions, gaining the necessary industry support and dominating the digital music market.

Ultimately, whether a business is targeting a blue ocean or navigating the competitive waters of a red ocean, strategic alignment across these propositions fosters resilience and long-term success. The chapter advises organizations to continually assess and align these components to renew and sustain their strategic advantage in the marketplace.



## Chapter 10 Summary: Renew Blue Oceans

In the chapter titled "Creating a Blue Ocean," the focus is on the dynamic nature of blue ocean strategies and how businesses can sustain their competitive edge while facing imitation. The concept of a blue ocean refers to creating a new market space that is uncontested, unlike the saturated red oceans where competition is fierce. This chapter addresses the challenges of imitation, the barriers protecting blue oceans, and the importance of strategic renewal.

### Barriers to Imitation

A successful blue ocean strategy inherently creates significant barriers that delay imitation and thus sustain competitive advantage. These barriers are categorized into alignment, cognitive, organizational, brand, and economic and legal dimensions.

**Alignment Barrier:** Effective blue ocean strategies align the company's value, profit, and people propositions, creating robust differentiation at low cost, which is challenging for competitors to replicate swiftly.

**Cognitive and Organizational Barrier:** Value innovation often contradicts conventional strategic norms, as seen when CNN revolutionized





news broadcasting with a 24-hour model or Southwest Airlines offered budget air travel. Such groundbreaking moves are often initially met with skepticism, and the organizational changes required to imitate them can be politically difficult to implement rapidly.

**Brand Barrier:** A strong brand image, like that of The Body Shop's ethical stance, can deter imitation as rivals find it hard to shift their existing brand positioning without invalidating their established models.

**Economic and Legal Barrier:** Market conditions like natural monopolies or economies of scale, as seen with Walmart or the cinema giant Kinopolis, can economically block imitators. Legal protections like patents further fortify these defenses.

## **Renewal Process**

Eventually, blue oceans face imitation, necessitating strategic renewal to stay ahead. For single-business firms, monitoring the value curve on the strategy canvas is essential to determine when to pursue a new blue ocean. Firms should not rush to innovate again if significant profit potential remains. Instead, they should focus on maximizing returns through operational improvements and market expansion to prolong their advantage.



## **Renewal in Practice**

Companies like Salesforce.com illustrate effective renewal. Salesforce.com sustained market leadership in the CRM industry by continuously innovating, such as launching Force.com and AppExchange to offer customizable, cost-efficient solutions. These moves distanced Salesforce.com from rivals, maintaining its position in the blue ocean.

### **Corporate Renewal for Multibusiness Firms**

For firms with diverse portfolios, like Apple, ongoing strategic renewal involves maintaining a balance across pioneers (high growth, innovative ventures), migrators (value improvements), and settlers (established, cash-generating businesses) on a dynamic pioneer-migrator-settler (PMS) map. Apple exemplifies this approach through successive blue ocean innovations like the iMac, iPod, iPhone, and iPad, ensuring long-term growth by continuously renewing its portfolio.

In contrast, Microsoft illustrates the pitfalls of not renewing adequately. Despite profitable settlers such as Office and Windows, its stagnation in pioneering new ventures highlights the risks of over-reliance on existing cash-generating products.

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## Conclusion

This chapter underscores the necessity of understanding and applying both red and blue ocean strategies. Companies should leverage the eight principles of blue ocean strategy to master the art of making competition irrelevant in their pursuit of new market spaces, ensuring sustained leadership in an increasingly crowded business environment. This dual approach is crucial for thriving in both conventional and innovative market spaces.

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## Chapter 11 Summary: Avoid Red Ocean Traps

In the expanded edition of the book "Blue Ocean Strategy," the authors delve into the common misconceptions or "red ocean traps" that hinder organizations from successfully executing a blue ocean strategy. Initially, the book aimed to define blue ocean strategy and provide tools and frameworks, such as the strategy canvas, four actions framework, and six paths, to create new market spaces. However, the authors discovered over time that readers often misinterpreted these concepts due to preconceived notions and existing mental models, leading them to remain trapped in competitive red oceans.

The book introduces ten prevalent red ocean traps, offering insights into how they misguide organizations and suggesting ways to overcome these pitfalls to achieve a true blue ocean strategy.

**1. Customer-Oriented Misconception:** Many believe blue ocean strategy focuses on current customers, but it's essential to look at noncustomers to uncover new market opportunities and pain points.

**2. Beyond Core Ventures** Contrary to the belief that blue oceans require branching out from core businesses, examples like Casella Wines and Nintendo show that innovation within existing industries can also create blue oceans.

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**3. Technology Innovation Focus** Blue ocean strategy is not solely about leveraging cutting-edge technology. Successful strategies often make any technology involved seem transparent to users, focusing instead on improving value through simplicity and ease of use.

**4. First to Market Fallacy:** It's a misconception that being first is critical. The priority should be linking innovation to value, as seen with Apple's success despite not being first with many of its products.

**5. Differentiation Synonym:** Blue ocean strategy is not just about differentiation. It pursues a dual strategy of differentiation and low cost, breaking traditional value-cost trade-offs.

**6. Low-Cost Strategy Misunderstanding:** Blue ocean strategy is not merely about low pricing. Instead, it aims for a leap in buyer value through strategic pricing and value reconstruction.

**7. Innovation Equals Blue Ocean:** Innovation must lead to value innovation to create blue oceans, focusing on aligning value, profit, and people propositions for market success.

**8. Marketing Theory Confusion:** While blue ocean frameworks aid in marketing, the strategy involves more, such as aligning internal and external



support and ensuring sustainable success across value, profit, and people.

**9. Competition Misinterpretation:** While competition isn't inherently bad, blue ocean strategy highlights that excessive competition can stifle profitability, advocating for value innovation to transcend competition.

**10. Creative Destruction Limitation:** Unlike disruption strategies that replace existing markets, blue ocean strategy often leads to nondestructive creation, redefining problems and creating new demand without displacing existing offerings.

Understanding these red ocean traps is vital for applying blue ocean strategies effectively, ensuring that organizations align their strategies with the underlying principles rather than falling prey to misconceptions. By clarifying these traps, the authors aim to bridge the gap between theory and practice, guiding readers toward successful implementation in their own contexts.

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