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Extending boundaries of Blue Ocean Strategy

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‘Blue Ocean Strategy’, one of the best seller books has received tremendous attention amongst scholars and practitioners. This paper first critically analyzes the conjectures presented in the book. Second, we investigate if means suggested by authors to create a blue ocean are applicable in emerging markets. Article further proposes that blue oceans can be created via radical innovation, disruptive innovation, frugal innovation, and purely differentiation strategy and focused differentiation strategy rather than only value innovation. Furthermore, we suggest that strategy canvas is applicable not only for value innovation but all types of innovation. We, thus extend the boundaries of sources of blue oceans. Lastly, we explore if sustainable competitive advantage or blue oceans ae better sources of profitability.

Keywords: Blue Ocean Strategy; strategic move; value innovation; non-customers; strategy Canvas

Introduction

The best seller book written by Kim and Mauborgne (2005) on ‘Blue ocean’ creation (i.e., capturing uncontested market space), has grasped the utmost attention amongst academic scholars and managers. While on one hand where scholars are struggling to find the sources of sustainable competitive advantage (Barney, 1991; Porter, 1996), the idea of thinking beyond the competition is indeed a new way of exploring business opportunities and sustaining superior performance. Kim and Mauborgne (2005) define Blue Ocean as all those industries which are not in existence today. They propose that to earn abnormal rents, firms should always keep floating ahead in Blue Ocean. This concept of Blue Ocean defined in terms of nonexistent industry is appreciable.

The objective of this article is to analyze the propositions given by the authors in the light of past literature and evidences from emerging markets like India. For example, as suggested by Kim and Mauborgne (2005) focusing on non-customers could be vital to create blue oceans in developed markets, but there are ample evidences from emerging markets where Blue Ocean has been created successfully by focusing and targeting current customers rather than non-customers. Similarly, though value innovation according to authors is a new way of looking at strategy, but the definition they propose for value innovation has already been suggested by Bowman and Faulkner (1996) as hybrid strategy. Under the light of extant strategy literature, it is vital to analyze how ‘blue’ are the ideas and techniques given in the concept of ‘Blue Ocean Strategy’ and whether they are universalistic in nature i.e., are they equally applicable in both developed and emerging markets.

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We begin with the critical analysis of the conjectures presented in the book, and further explain route maps through which blue oceans have been created in emerging markets, which contradict with the propositions given by the authors.

**Critical analysis**

According to Kim and Mauborgne (2005) ‘those that seek to create blue oceans pursue differentiation and low cost simultaneously’ (p. 13). This they define as *value innovation* and further claim ‘Value Innovation is the new way of thinking about, and executing, strategy that results in the creation of a blue ocean and a break from the competition’ (p. 13)

Unfortunately, value innovation is *not* a new way of thinking about strategy. The philosophy of value innovation has been in existence with Bowman and Faulkner (1996) idea of *hybrid strategy*, which he defined as simultaneous achievement of differentiation and low price.

For example, in the furniture industry, classy designs were affordable by high-end segment of the society only. At the low end of the market only traditional furniture was available. Ikea, a Sweden company provided classy design furniture to mass buyers by eliminating expensive and unnecessary elements of high end furniture providers such as free home delivery and hence reducing the cost. Thus, they asked customers to transport the disassembled furniture on their own from retail outlets. Further, consumers were encouraged to select the design of the furniture on their own without the help of sales representative. Thus, the cost saved in transportation and staff was transferred as a low price benefit to customers.

Thus, hybrid strategy or value innovation was implemented by Ikea (Walters & Lancaster, 2000). Both the terms from the managerial implications perspective means the same.

Similarly, Formulae 1 hotels have been categorized as the case of both hybrid strategy and value innovation. This is because they pursued both low cost and differentiation simultaneously (hybrid strategy) by providing cleaner and more peaceful rooms to travelers (thus more utility and differentiation) at a low price by reducing unnecessary cost of decorated corridors, big room size and 24 h reception (thus pursuing low cost and target costing strategies).

However, the framework suggested by Kim and Mauborgne (2005) to implement value innovation or hybrid strategy, i.e., strategy canvas, can help managers pursue this strategy and represents a naïve/ blue ocean idea. Managers can understand the working of the industry with the help of this canvas and remove unnecessary elements from the attributes of product and service provided, and thus reduces the cost and passes on the benefits of reduced cost to customers by providing more benefits to customers.

Overall, value-cost trade-off in terms of value innovation was first proposed by Bowman and Faulkner (1996) as a hybrid strategy. Thus, the concept of value innovation is not naïve, but, the strategy canvas framework can help managers in searching for opportunities of value-cost trade-off.

Furthermore, the authors claim that industry boundaries are extended by *driving costs down and raising the value* (Kim & Mauborgne, 2004a, 2004b). Though this may happen sometimes, but blue oceans are also created by raising the overall cost and also driving up the value.

Let us take the case of the courier industry. Express courier services like federal express have been claimed to be blue oceans (Kim and Mauborgne, 2005, p. 186). Courier industry
provided faster service but at a much higher price, compared to post office. For example, the traditional postal services took 3–4 days for parcel delivery, whereas courier service providers did the same overnight. Also, the chances of damage of the parcel were much less in courier service, and they also provided door to door pick-up and delivery facility.

In this case, cost structure of courier firms was nowhere lesser than that of Postal services, as a consequence of which prices charged were also much higher. Thus, the value was driven up for a particular segment of buyer mainly corporate customers, but, not at lower cost. In other words, the value was raised but it was accompanied by raise in cost and price, in the case of the courier industry. Industry boundaries hence were extended by driving up both value and associated cost, and not lower cost and more value as suggested by authors.

Yet, another proposition made by Kim and Mauborgne (2005) was

It is this whole-system approach that makes the creation of blue oceans a sustainable strategy. Blue Ocean Strategy integrates the range of a firm’s functional and operational activities. In this sense, Blue Ocean Strategy is more than innovation. It is about a strategy that embraces the entire system of a company’s activities. (p. 19)

Again this concept has been well laid down by Porter (1985) in his activity system map’s concept, where strategy is made sustainable and competitive advantage is rendered inimitable by virtue of tight integration of activities of a firm, from functional and operational front. So there is nothing unique about ‘whole system fit’ approach in Blue Ocean Strategy. Firms like South-West airlines are able to retain their competitive position only because of this fit approach. Thus, idea of embracing the entire system of firms’ activities is again not naïve.

Furthermore, Kim and Mauborgne (2005, p. 211) suggested Reconstructionist view of strategy.

In the Reconstructionist view, there is scarcely any attractive or unattractive industry per se, because the level of industry attractiveness can be altered through companies’ conscientious efforts of reconstruction.

This Reconstructionist view has already been suggested by Porter (1998) in his five forces model of industry analysis. According to Porter, firms need to mold unattractive forces in their favor so as to make the overall industry structure favorable. For example, if competition is intense, then a firm should try to raise entry barriers by huge capital investment, or economies of scale. Nucor steel, made the structure of the unattractive steel industry attractive by altering industry forces. In Beverage industry where Coke and Pepsi are dominant players, keep entry barrier so high that hardly any new incumbent survives. Similarly, Boeing and Airbus are able to maintain their duopoly and Microsoft and DeBeers are sustaining the profits with their monopoly position in the industry by virtue of managing industry barriers. Shree Renuka sugars in India also made unattractive sugar industry profitable by virtue of bringing process innovation, thus reducing their cost and raising profit margins.¹

In other words, the Reconstructionist view of strategy is not naïve. This has been suggested by Porter (1996), and many firms are able to sustain the level of competition by managing these forces. Thus, even in the red ocean of already existing industry, some players are reaping abnormal rents since ages.

Further, in their book Kim and Mauborgne (2005) describe that to create blue oceans, a firm should focus on ‘noncustomers of the industry.’ (p. 28)

Let us consider the case of the well-known herbal cosmetic entrepreneur of India, Shahnaz Hussain.
In 1980s, the cosmetic industry in India was saturated with many players in premium segment who offered expensive and chemical ingredients based products. She created a blue ocean by targeting the same segment of customers, but providing them a completely different regime of products which were herbal in nature and did not have any side effects, unlike chemical based cosmetics. Since, herbal therapy is an expensive therapy; prices were kept higher to cover the costs. In other words, Shahnaz Hussain did provide better utilities to the same niche segment of buyer groups who were earlier using expensive chemical based cosmetic products. Thus, Blue Ocean was created as there were no competitors in the premium segment offering herbal based products, but by targeting only customers and not ‘non-customers.’ Her products were recognized and awarded not only in India but in developed nations as well.  

Furthermore, the authors explain that there are three tiers of non-customers. 

The first tier of non-customers is buyers who nominally purchase an industry offering out of necessity. The second type of non-customers is people who refuse to use the industry’s offerings. The third type of non-customers is far from the market. They are non-customers who have never thought of the market’s offerings as an option. (pp. 103–108)

This proposition sounds true but again, need not be the driving force of creating Blue Ocean at least in emerging markets like India as explained below.

Dr. Batra’s Homeopathic Clinic:

The healthcare industry can be segregated into three categories, viz. Homeopathy, Allopathy, and Naturopathy. Each of them has their own followers. There are few patients who prefer to take a combination of two therapies.

If we have to analyze non consumers of Homeopathy, then in the first tier it would be customers who prefer allopathy, but because of family constraints or age issues are taking homeopathy. The second and third category would be completely non followers i.e., patients who prefer only Allopathy or Naturopathy or both but not homeopathy.

The Homeopathic market in India was highly fragmented. Practitioners owned their private clinics or rented a space in medical shops. No hospital or chain of hospital unlike in case of Allopathy existed. The fragmented market suffered from many problems. Gradually, with liberalization and globalization, the scenario changed. Number of registered homeopathic doctors increased four folds from 1980s to 2010 (Times of India, 2012).

To tap this growing demand from both customers and only one segment of non-customers, Dr. Batra in India started chain of homeopathy clinics named as Dr. Batra’s Positive Health clinic.

Dr. Batras’ health clinic concept can be called as Blue Ocean Strategy, because they offered more professional services and were the pioneer in creation of organized market in the fragmented Indian Homeopathy industry. However, in terms of customers, previous hardcore customers and only the first segment of non-customers could be targeted. Customers who did not believe in the philosophy of homeopathy never opted for it, regardless of how much better patient treating service Dr. Batras’ clinic may provide. Thus, the concept that Blue Ocean Strategy should focus on non-customers does not hold good in this case. Focusing on hard core customers can also lead to creation of Blue Ocean.

Let us consider the case of Tanishq branded jewelry retailer in India.

Customers in the jewelry market can be divided as: First tier non customers consisting of those who buy gold due to social pressure for wedding ceremonies etc. Second tier: customers, who because of their personal liking are more favorable towards diamond, platinum, and other stones. Third tier of non-customers are those who cannot afford to buy jewelry, and hence purchase only artificial and imitation jewelry.
Tanishq focused on those women who bought jewelry as an element of fashion, were passionate about jewelry and loved to buy them, i.e., they focused on hard core current customers. Before Tanishq, in India, 18 karat gold jewelry was very prominent. However, Tanishq raised the bar to 22 karat gold and targeted those women who were very fashion conscious and wanted to buy jewelry for fashion purposes. Moreover tier one segment, non-customers, relied more on traditional family linked jewelers rather than commercial retailers like Tanishq. In other words, Tanishqs’ prime target market was those affluent women who buy jewelry as a symbol of status and fashion. Tanishq is a highly successful retail jewelry showroom in India and is acclaimed to implement Blue Ocean Strategy by virtue of being offering 22 karat gold, with guarantee of purity, and also offering sleek designs where other players offered 18 karat gold and traditional heavy designs.

In a nutshell, we find evidence from emerging markets like India where blue oceans have been created by targeting mainly customers and not the entire gamut of non-customers.

Furthermore, Kim and Mauborgne (2005) claimed that not all innovation leads to the blue ocean. To create a sustainable blue ocean, according to them, it is vital to invest in value innovation and acclaim it to be ‘a cornerstone of Blue Ocean Strategy.’ This is because through value innovation a firm can focus on ‘mass of buyers’ (p. 12).

We propose that firms can create blue oceans even outside the purview of value innovation. Diffusion of innovation theory (Rogers, 1995) suggests that innovation flows from an educated affluent segment of society (Innovators) to traditional, lower socio-economic status society (late majority), and rate of diffusion depends upon perceived benefits of the product and its price.

Many radical innovations like automobiles, electronics, airways, TV, home videos, mobile phones, minicomputers etc. were first targeted towards the affluent segment and then with technological advancement and process innovation, value innovation was pursued as a result of which, price was reduced and utility for a new segment of customers was enhanced. Thus, the first version of these radically new products (which commanded formation of blue ocean) because of heavy investment in research and development were expensive; affordable by high end consumers only.

Even in the service industry, first came the concept of five star hotels and then budget hotels and motels. Similarly, first full service airlines were launched and only later came low cost airlines. Thus, new industries so established, were first targeted towards affluent segments of society and then later boundaries were extended to target mass market through process innovation and value innovation.

Thus, the classic blue ocean industry established by virtue of radical innovation follows diffusion of innovation theory. So by keeping value innovation as cornerstone, are we saying unless the innovation does not hit mass segment of society blue oceans are not created?

And if this is the fact, then the very basic principle of blue ocean as defined by authors ‘all those industries which are not in existence today’ (Kim and Mauborgne, 2005) stands null and void.

Similarly, it is also possible that firm operating in a fragmented industry creates a niche for itself by catering to the needs of a specific segment of people, generally, upper income class society. Thus, instead of focusing on ‘mass of buyers,’ firms can shift their focus to ‘class or niche segment of buyers.’ By doing so, they may occupy white spaces in the strategic groups of fragmented industries (Hunt, 1972), and yet, represent a Blue Ocean
Strategy. Let us consider a few cases from India where created blue oceans were created by pursuing purely differentiation and focused differentiation strategy (Porter, 1980).

GoIndiaorganic.com

This is the only online ‘organic food’ manufacturer and retailer in India. Food retailing sector in India is fragmented. Though, with the increase in globalization, organized retailing has started, but their focus is not on organic food. As organic food is free from chemical fertilizers and is grown using natural manure, it is more environmental and health friendly. However, because of high cost of organic manure, post harvesting handling cost and high labor cost compared to chemical fertilizer, their prices are also high and as a consequence, the only affluent segment of society is able to afford it.

If Blue Ocean is about those strategic spaces where competition does not exist, then GoIndiaorganic is surely a case of Blue Ocean by virtue of occupying white space of organized, organic food retailing, in the food retailing sector of India. But, its positioning is not based on value innovation but differentiation.

Kaya Skincare Clinic the beauty salon industry in India again has been largely fragmented, with many small, local saloons providing beauty treatment services in every street and corners of Indian market. Kaya Skin clinic occupied the white space in the strategic groups of fragmented salon industry, and offered differentiated services compared to what local saloons provided. Some of their beauty treatments were very advanced and were premium priced. Kaya skin clinic value proposition was to provide the customer with holistic and customized result oriented, beauty and skin treatment services. The beauticians in normal, traditional saloons are generally candidates with 6 months of diploma in beautician courses. But for Kaya, candidates were not beauticians but medically trained dermatologists, who were then additionally trained for 500 h, before they could actually provide a beauty treatment solution to clients. Apart from dermatologists, even the other working staff was properly trained. Each clinic operated like a mini office, with receptionists, helpers, and office boys performing their professional duties. All these aspects gave completely different positioning of Kaya compared to local parlors. Thus, Kaya incurred much more cost to provide quality beauty treatment solutions and followed much of a differentiation strategy.

Thus, again blue ocean was created but not by virtue of strategy of value innovation (hybrid strategy), but that of differentiation positioning.

Calorie Care: Calorie friendly meal service provider in India.

Calorie care a small startup firm entered this sector, but targeted a niche segment of the working population, consuming low calorie meals. As health consciousness was growing in country, it provided an apt business opportunity to fulfill this demand. Thus, calorie care started working on a calorie friendly menu, hired a sport nutritionist to analyze and create calorie friendly menu, and provided customized service to the working population by hiring dieticians, who then after the proper checkup of a customer, charted the diet plan for him/her. It provided 3 times a meal service for the working population that incorporates breakfast, lunch, and dinner. All this was quality conscious but costly proposition; as a consequence they targeted only senior working executives in the company. Calorie care has been very successful in India. Thus, calorie care also successfully created Blue Ocean, yet again by following differentiation strategy, suited for an affluent segment of society.

Hence, firms have carved white spaces in the already existing strategic groups of an industry, where these white spaces catered to a niche segment of society and were also based on the competitive positioning of differentiation, rather than value innovation.
Disruptive innovation

Similarly, disruptive innovation is also a source of creation of Blue Ocean Strategy. When canon launched more user friendly and less expensive photocopy machine, it created leap in value for the mass segment of customers and hence Blue Ocean. However, the principle of disruptive innovation is different from that of value innovation. In disruptive innovation, though new utility is created for consumers, but the core performance of the product is just ‘good enough’ and not comparable to mainstream product (Christensen, 1997). Canon though was more user friendly, but its printing quality was nowhere near to that of Xerox. This is not the case when firm simultaneously pursues low cost and differentiation, yet represents a valuable Blue Ocean Strategy.

Frugal innovation

Tata Nano, worlds’ cheapest car was possible because Tata Motors invested in frugal engineering and hence frugal innovation (Schumpeter, 2012). It implies creating innovation from less available resources, or creating more value from lesser resources and lesser resources here also includes financial resources. When firm utilizes meager resources it automatically drives the cost down to create value for customers. In order to suffice needs of consumers, Indian firms are constantly investing in frugal innovation and have been successful to a large extent. Tata swatch, GE pacemaker are other examples of such frugal innovation. Frugal innovation is also based on the principle of ‘good enough’ performance, but unlike disruptive innovation, frugal goods are not readily accepted by an upper middle income segment of society. This does not limit frugal innovation from being categorized as a blue ocean move.

Broadly, we see evidences wherein successful blue oceans are created via radical innovation, disruptive innovation, frugal innovation, and purely differentiation strategy. All these sources jointly reflect the potential of creating blue oceans. Thus, claiming value innovation (or simultaneous persuasion of low cost and differentiation/hybrid strategy) as a cornerstone of Blue Ocean Strategy would not be appropriate.

ERRC curve and strategy canvas, source of all innovation and not only value innovation

The authors have given a model of strategy canvas, popularly known as ERRC curve, which can be used to create blue oceans by virtue of value innovation. The model explains that low cost can be pursued by eliminating and reducing some of the taken for granted assumptions in the industry, and differentiation can be pursued simultaneously by raising and creating certain dimensions not being provided by players earlier.

It is proposed that this model should be treated as generic model, which can be used to perform other types of innovation also like disruptive or frugal innovation.

Canon, a well-known case of disruptive innovation for example, eliminated the need for technician to operate the machine, reduced the printing quality to ‘good enough’ level which also helped them in reducing the price, raised the user friendliness of the machine by making it more portable, and created features which were operable by layman working in corporate. Thus, strategy canvas can help in introducing disruptive innovation as well rather than only value innovation.

Similarly, radical innovation like mobile phones can be explained with the help of this canvas. Over a period of time, cell phone manufacturing firms eliminated the need of the heavy bulky designed handset, landline networks, caller ID requirements, created screens
where viewers could view the number, created the facility of texting and messaging, raised the portability of phones, and reduced the traceability of the calls.

Overall, strategy canvas is a blue ocean search framework which can be used to pursue any type of innovation rather than only value innovation.

Another proposition of the authors is that ‘Blue Ocean builds brands.’ This according to authors happens by virtue of gaining first mover advantage. However, many latecomers enjoy the advantage of Blue Ocean Strategists as explained below.

Microsoft, which now commands a monopoly in the software industry, was not the pioneer in software industry. It was Digital Research Company that actually developed worlds’ first desktop operating system for its major client IBM. It was at that time known as CP/M. But later, Microsoft took over the first mover advantage of Digital Research Company. Similarly, Microsoft did not even pioneered the DOS i.e., disk operating system. It actually purchased it from Seattle computer works. Bill Gates used his geniuses more in the marketing of the product developed by other pioneers, than in the development of the product. Today as per three Interbrand, 2012 survey, it is the fifth most powerful brand, which was not created by virtue of catering to ‘untapped market space,’ but on the principles of late mover advantage in the newly created industry/ blue ocean.

Similarly, Prodigy communications was the first company to venture into online connections, and thus carving the blue ocean back in 1984. It focused on electronic shopping, but probably was ahead of its time and that is why it failed. Consumers at that point of time, were more interested in chat rooms, e-mail rather than web surfing. Dumont also created a blue ocean in television industry, but did not benefit much as a first mover and very soon lost the competition to latecomers like RCA. Chux, the Blue Ocean Strategists in baby diapers product category lost the battle to Pampers, the baby diapers product of Procter and Gamble. If we compare the success rate of blue ocean creators versus late movers in the blue ocean industry, we would find that in many cases, late movers benefited from the mistakes of the pioneers and as a consequence could serve the market in a better way. Thus, Blue Ocean Strategy and its advantages by virtue of first mover is debatable and may not be always true.

Managers should seek Blue Ocean or sustainable competitive advantage?

One of the main aspects of the Blue Ocean Strategic move is that firm which pursues Blue Ocean Strategy report higher profitability compared to firms in red oceans. But blue ocean only, is not the superior means of earning profits, as the authors themselves claims that even blue oceans are not sustainable in the long run if firms do not constantly innovate.

From the managerial perspective, it is important to analyze if they would be better off by searching for blue oceans or by searching for sustainable competitive advantage. Because when firm attains sustainable competitive advantage by virtue of having valuable, rare, inimitable, and non-substitutable resources (Barney, 1991) then also they earn abnormal rents for a longer period of time. Moreover, if firms have a sustainable competitive advantage, it will automatically exhibit Blue Ocean as competition would become irrelevant for them. For example, many diamond explorers were present in the market when DeBeers entered the diamond market. Yet, by virtue of its strong foothold in technology and customer orientation it quickly displaced players from the market. Its expertise in exploring, mining and finishing of diamonds provided it sustainable competitive advantage due to which it still earns abnormal profits and enjoyed a major market share. So, it is difficult to conclude if the blue ocean move is a good strategic move rather than search for sustainable competitive advantage. Blue ocean is hidden in firms’
competitive advantage because when its capabilities becomes inimitable, competition especially “me too” type of competition becomes irrelevant for the firm.

**Conclusion**

This article aimed at critically analyzing the concept of Blue Ocean Strategy, which means uncaptured and new market space, where competition does not exist. Though we find that authors have thrown a light on an uncaptured stream of business strategy, wherein most models focused on analyzing competitive scenarios, however many of the ideas to reach Blue Ocean, which authors claim to be naïve like the concept of value innovation, we find that in one way or another, they have been in existence. It was further found that at least in emerging markets like India, value innovation may not be the only means of carving out blue oceans from already existing red oceans. Similarly, even the philosophy of targeting non-customers to create Blue Ocean may also not be applicable in emerging markets. However, some models suggested by authors to create blue oceans like strategy canvas, are a useful tool which can help firms not only to look for value innovation but other types of innovation as well like disruptive, radical or frugal innovation.

**Disclosure statement**

No potential conflict of interest was reported by the author.

**Notes**


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