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BLUE OCEAN STRATEGY

How to Create
Uncontested Market Space
and Make the Competition Irrelevant

W. Chan Kim • Renée Mauborgne

HARVARD BUSINESS SCHOOL PRESS

TLFeBOOK

Blue Ocean Strategy

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Make the Competition Irrelevant*

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*To friendship and to our families,
who make our worlds
more meaningful*



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Preface

THIS IS A BOOK about friendship, about loyalty, about believing in one another. It was because of that friendship, and that belief, that we set out on the journey to explore the ideas in this book and eventually came to write it.

We met twenty years ago in a classroom—one the professor, the other the student. And we have worked together ever since, often seeing ourselves along the journey as two wet rats in a drain. This book is not the victory of an idea but of a friendship that we have found more meaningful than any idea in the world of business. It has made our lives rich and our worlds more beautiful. We were not alone.

No journey is easy; no friendship is filled only with laughter. But we were excited every day of that journey because we were on a mission to learn and improve. We believe passionately in the ideas in this book. These ideas are not for those whose ambition in life is to get by or merely to survive. That was never an interest of ours. If you can be satisfied with that, do not read on. But if you want to make a difference, to create a company that builds a future where customers, employees, shareholders, and society win, read on. We are not saying it is easy, but it is worthwhile.

Our research confirms that there are no permanently excellent companies, just as there are no permanently excellent industries. As we have found on our own tumbling road, we all, like corporations, do smart things and less-than-smart things. To improve the quality of our success we need to study what we did that made a positive difference and understand how to replicate it systematically. That is what we call making smart strategic moves, and we have found that the strategic move that matters centrally is to create blue oceans.

Blue ocean strategy challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant. Instead of dividing up existing—and often shrinking—demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition. This book not only challenges companies but also shows them how to achieve this. We first introduce a set of analytical tools and frameworks that show you how to systematically act on this challenge, and, second, we elaborate the principles that define and separate blue ocean strategy from competition-based strategic thought.

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

The contents of this book are based on more than fifteen years of research, data stretching back more than a hundred years, and a series of *Harvard Business Review* articles as well as academic articles on various dimensions of this topic. The ideas, tools, and frameworks presented here have been further tested and refined over the years in corporate practice in Europe, the United States, and Asia. This book builds on and extends this work by providing a narrative arc that draws these ideas together to offer a unified

framework. This framework addresses not only the analytic aspects behind the creation of blue ocean strategy but also the all-important human aspects of how to bring an organization and its people on this journey with a willingness to execute these ideas in action. Here, understanding how to build trust and commitment, as well as an understanding of the importance of intellectual and emotional recognition, are highlighted and brought to the core of strategy.

Blue ocean opportunities have been out there. As they have been explored, the market universe has been expanding. This expansion, we believe, is the root of growth. Yet poor understanding exists both in theory and in practice as to how to systematically create and capture blue oceans. We invite you to read this book to learn how you can be a driver of this expansion in the future.



Acknowledgments

WE HAVE HAD SIGNIFICANT HELP in actualizing this book. INSEAD has provided a unique environment in which to conduct our research. We have benefited greatly from the crossover between theory and practice that exists at INSEAD, and from the truly global composition of our faculty, student, and executive education populations. Deans Antonio Borges, Gabriel Hawawini, and Ludo Van der Heyden provided encouragement and institutional support from the start and allowed us to closely intertwine our research and teaching. PricewaterhouseCoopers (PwC) and the Boston Consulting Group (BCG) have extended the financial support for our research; in particular, Frank Brown and Richard Baird at PwC, and René Abate, John Clarkeson, George Stalk, and Olivier Tardy of BCG have been valued partners.

While we had help from a highly talented group of researchers over the years, our two dedicated research associates, Jason Hunter and Ji Mi, who have worked with us for the last several years, deserve special mention. Their commitment, persistent research support, and drive for perfection, were essential in realizing this book. We feel blessed by their presence.

Our colleagues at the school have contributed to the ideas in the book. INSEAD faculty members, particularly Subramanian Rangan and Ludo Van der Heyden, helped us to reflect upon our ideas and offered valuable comments and support. Many of INSEAD's faculty have taught the ideas and frameworks in this book to executive and M.B.A. audiences, providing valuable feedback that sharpened our thinking. Others have provided intellectual encouragement and the energy of kindness. We thank here, among others, Ron Adner, Jean-Louis Barsoux, Ben Bensaou, Henri-Claude de Bettignies, Mike Brimm, Laurence Capron, Marco Ceccagnoli, Karel Cool, Arnoud De Meyer, Ingemar Dierickx, Gareth Dyas, George Eapen, Paul Evans, Charlie Galunic, Annabelle Gawer, Javier Gimeno, Dominique Héau, Neil Jones, Philippe Lasserre, Jean-François Manzoni, Jens Meyer, Claude Michaud, Deigan Morris, Quy Nguyen-Huy, Subramanian Rangan, Jonathan Story, Heinz Thanheiser, Ludo Van der Heyden, David Young, Peter Zemsky, and Ming Zeng.

We have been fortunate to have a network of practitioners and case writers across the globe. They have contributed greatly in showing how the ideas in this book apply in action and helping to develop case material for our research. Among many people, one deserves special mention: Marc Beauvois-Coladon, who has worked with us from the start and made a major contribution to chapter 4 based on his field experiences practicing our ideas in companies. Among the wealth of others, we would like to thank Francis Gouillart and his associates; Gavin Fraser and his associates; Wayne Mortensen; Brian Marks; Kenneth Lau; Yasushi Shiina; Jonathan Landrey and his associates; Junan Jiang; Ralph Trombetta and his associates; Gabor Burt and his associates; Shantaram Venkatesh; Miki Kawawa and her associates; Atul Sinha and his associates; Arnold Izsak and his associates; Volker Westermann and his associates; Matt Williamson; and Caroline Edwards and her associates. We also appreciate the emerging cooperation with Accenture as kicked off with Mark Spelman, Omar Abbosh, Jim Sayles, and their team. Thanks are also due to Lucent Technologies for their support.

During the course of our research, we have met with corporate executives and public officers around the world who generously gave us their time and insight, greatly shaping the ideas in this book. We are grateful to them. Among many private and public initiatives for putting our ideas into practice, the Value Innovation Program (VIP) Center at Samsung Electronics and the Value Innovation Action Tank (VIAT) in Singapore for the country's government and private sectors have been major sources of inspiration and learning. In particular, Jong-Yong Yun at Samsung Electronics and all the Permanent Secretaries of Singapore Government have been valued partners. Warm thanks also to the members of the Value Innovation Network (VIN), a global community of practice on the Value Innovation family of concepts—especially to those we were unable to mention here.

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PART ONE



Blue Ocean Strategy

Creating Blue Oceans

A ONE TIME ACCORDION PLAYER, stilt-walker, and fire-eater, Guy Laliberté is now CEO of Cirque du Soleil, one of Canada's largest cultural exports. Created in 1984 by a group of street performers, Cirque's productions have been seen by almost forty million people in ninety cities around the world. In less than twenty years Cirque du Soleil has achieved a level of revenues that took Ringling Bros. and Barnum & Bailey—the global champion of the circus industry—more than one hundred years to attain.

What makes this rapid growth all the more remarkable is that it was not achieved in an attractive industry but rather in a declining industry in which traditional strategic analysis pointed to limited potential for growth. Supplier power on the part of star performers was strong. So was buyer power. Alternative forms of entertainment—ranging from various kinds of urban live entertainment to sporting events to home entertainment—cast an increasingly long shadow. Children cried out for PlayStations rather than a visit to the traveling circus. Partially as a result, the industry was suffering from steadily decreasing audiences and, in turn, declining revenue and profits. There was also increasing sentiment against the