



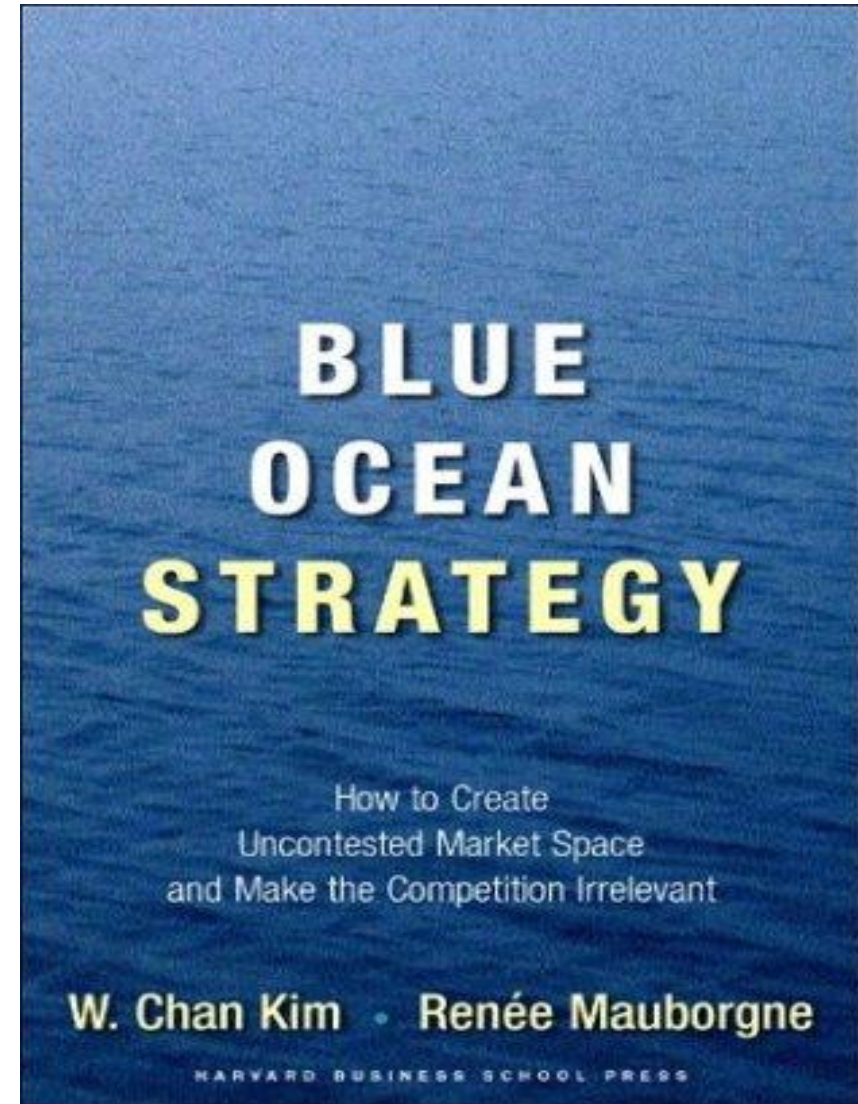
# Innovation and Blue Oceans: What is the Link?

Norwegian Design Council  
Business and Innovation  
Conference 2008

presented by:

Lauren Mathys

Bluecrest Consulting





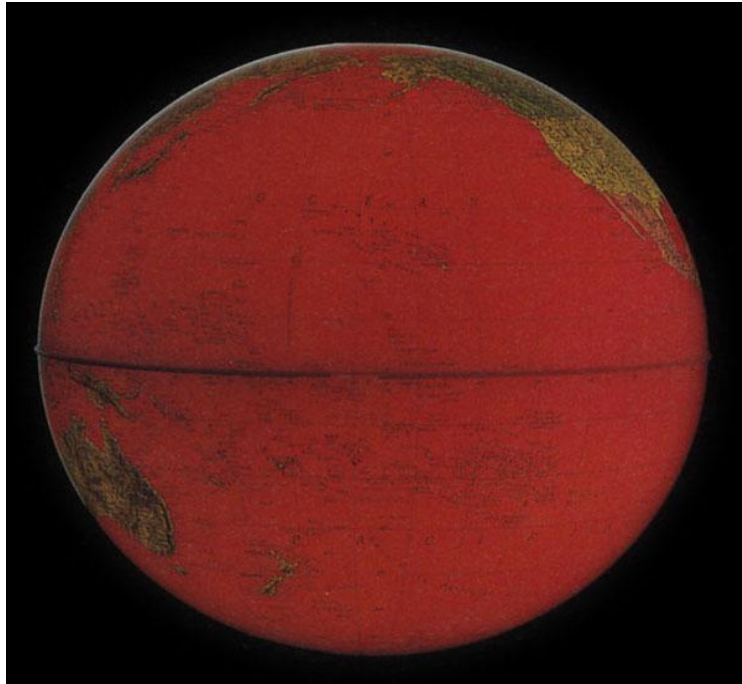
# An Introduction to Blue Ocean Strategy

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- **What is Blue Ocean Strategy thinking?**
- **How does BOS differ from traditional, competitive-based strategy frameworks?**
- **What are some of the key tools to apply BOS thinking?**
- **How does design contribute to creating a Blue Ocean?**



# What Do We Mean by 'Red Ocean'?



- Are you facing increased competition from domestic and international rivals?
- Do your sales reps increasingly argue they need to offer deeper and deeper price discounts to make sales?
- Do you try to outperform your competitors on similar activities, only to find it is getting more and more expensive to gain market share?
- Do you blame slow growth on the market?
- Are mergers and acquisitions the principle means your company sees to grow?
- Is it easier to get funding to match a strategic move made by your competitor than it is to get internal funding to support a strategic move that allows you to break away from the competition?

**If you answered yes to several of these questions, then you are operating in a red ocean mode**



# Blue Ocean represents the unknown market space

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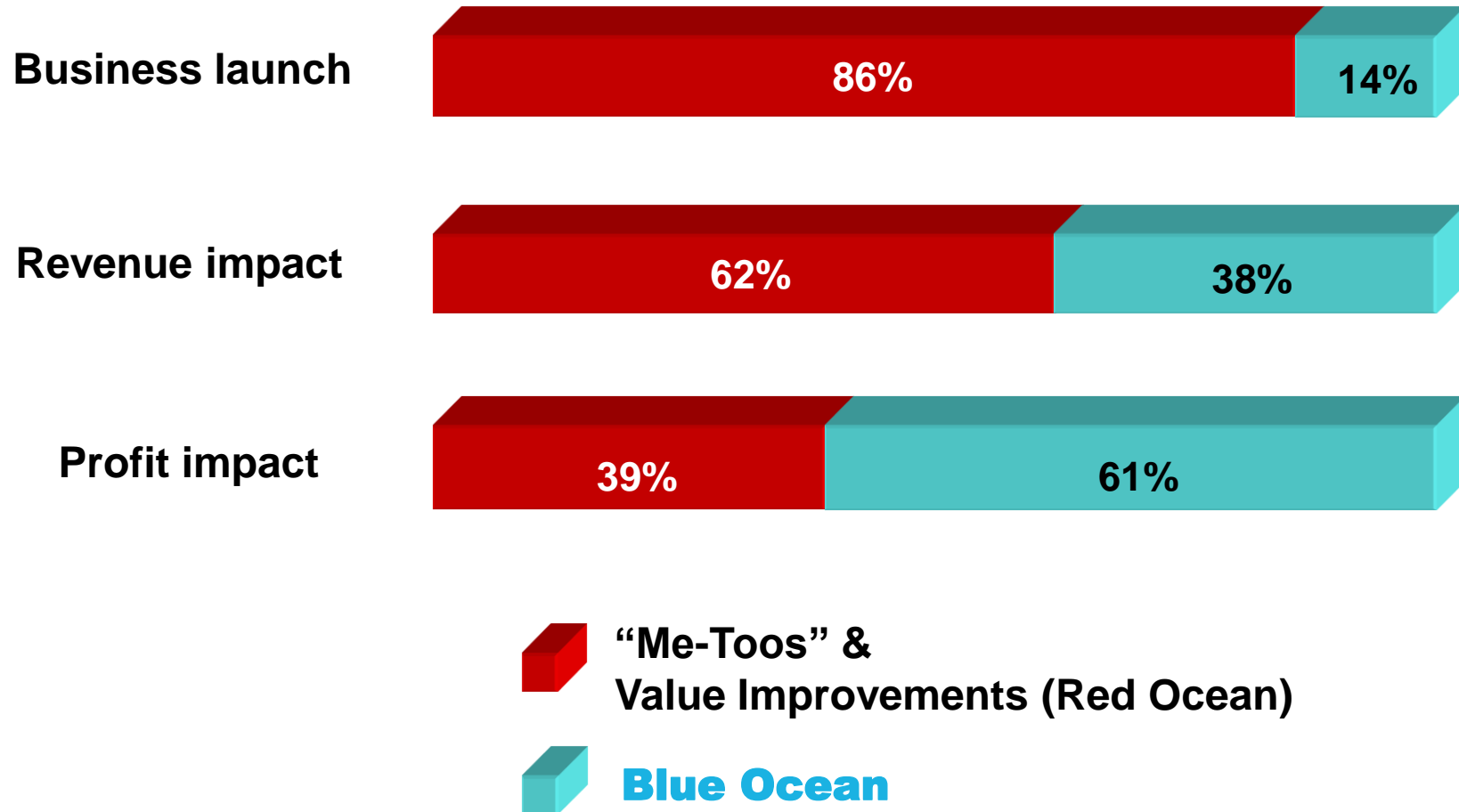
- Rules of the game are waiting to be set
- Demand is created rather than fought over
- Opportunity for rapid and profitable growth



**But How???**



# Sources of profitable growth



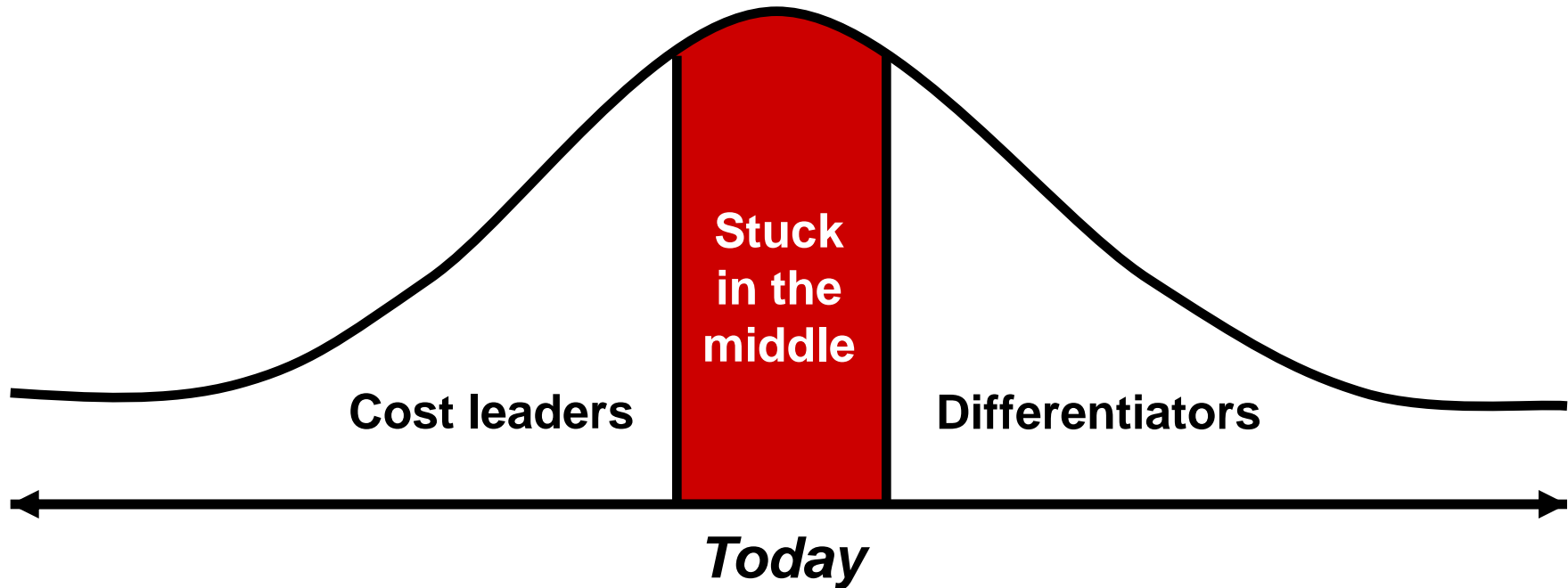


# .....So, What Is Blue Ocean Strategy?

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- **BOS is the result of a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years**
- **The aim of BOS is not to outperform the competition in the existing industry, but to create new market space**
- **BOS offers reproducible methodologies and tools in pursuit of innovation**
- **BOS frameworks and tools are designed to be visual in order to not only effectively build the collective wisdom of the company but also to effectively execute through easy communication**
- **BOS covers both strategy formulation and strategy execution**
- **BOS is the simultaneous pursuit of differentiation and low cost**

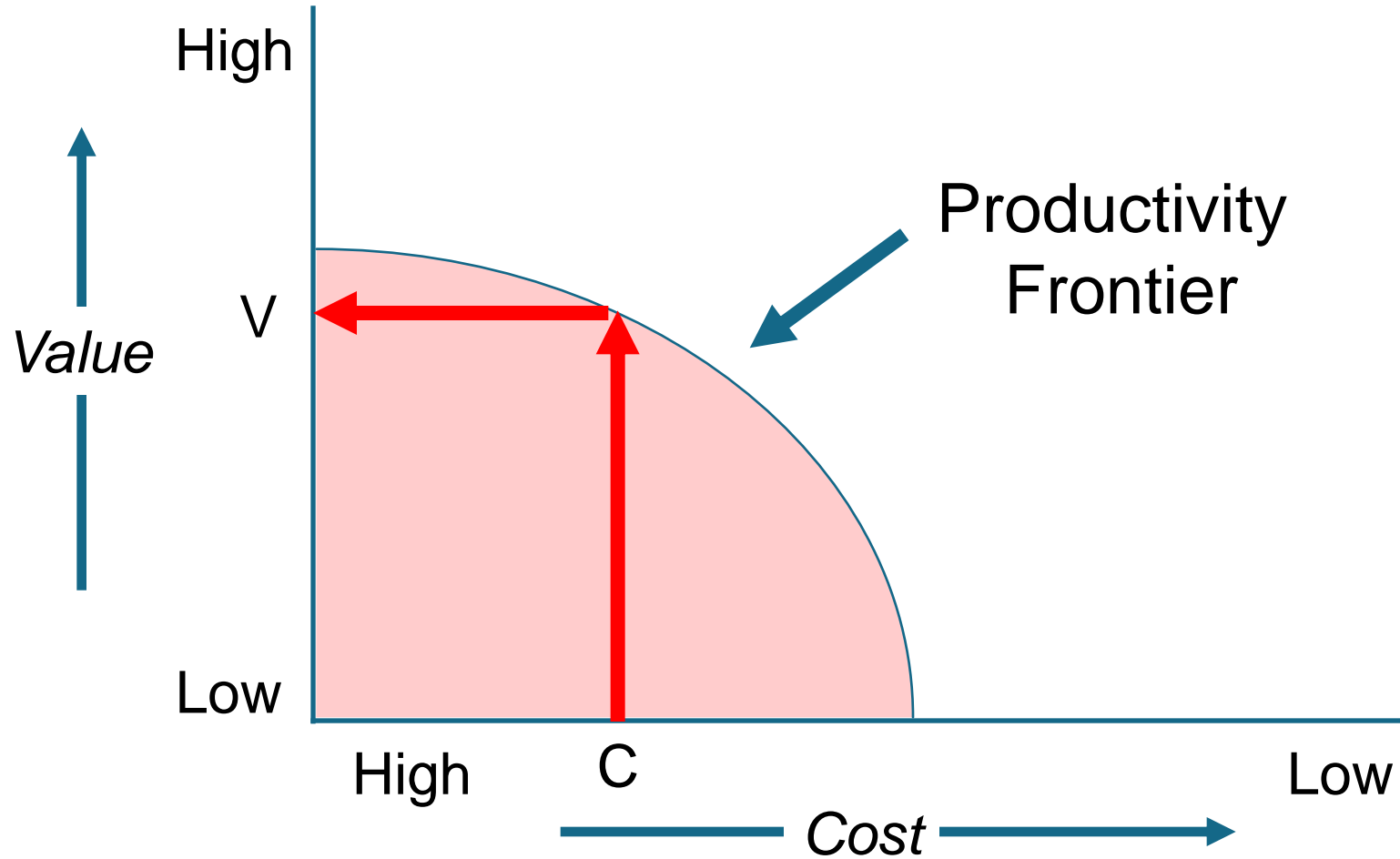
# Today's Competition-based Strategy: the Value-Cost Trade-off



Source: C. Kim, R. Mauborgne

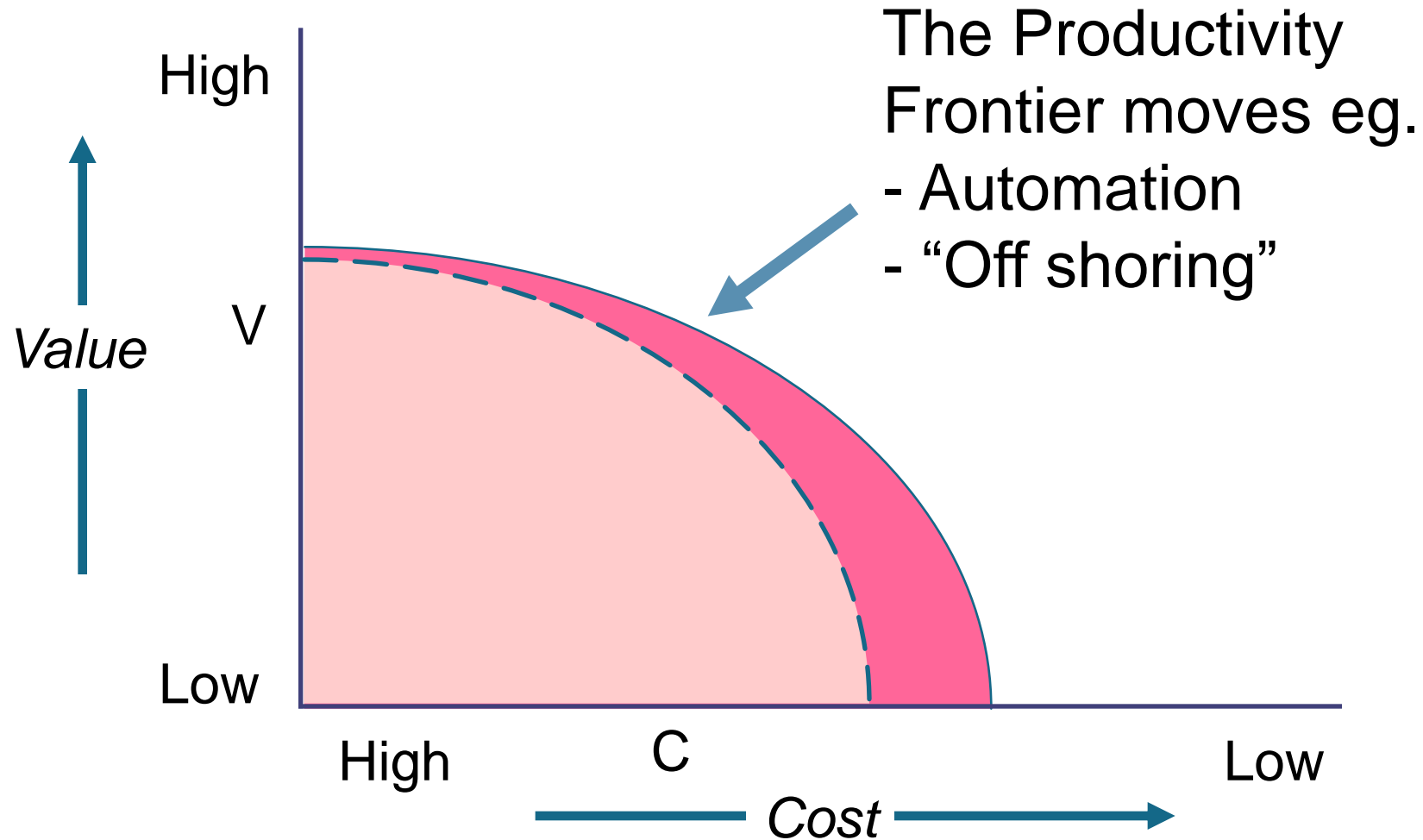


# Value/Cost Curve of an Industry



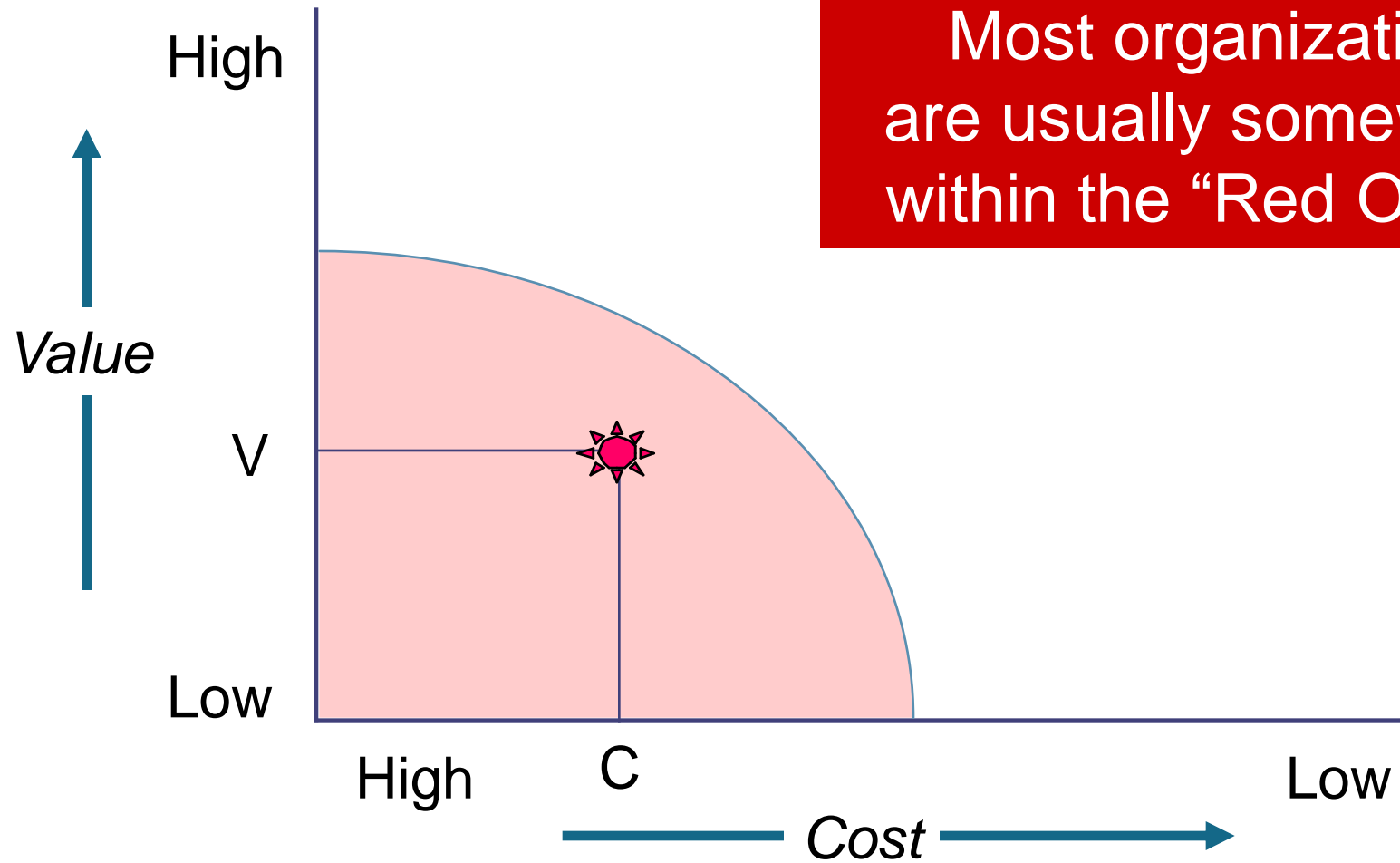


# Value/Cost Curve of an Industry





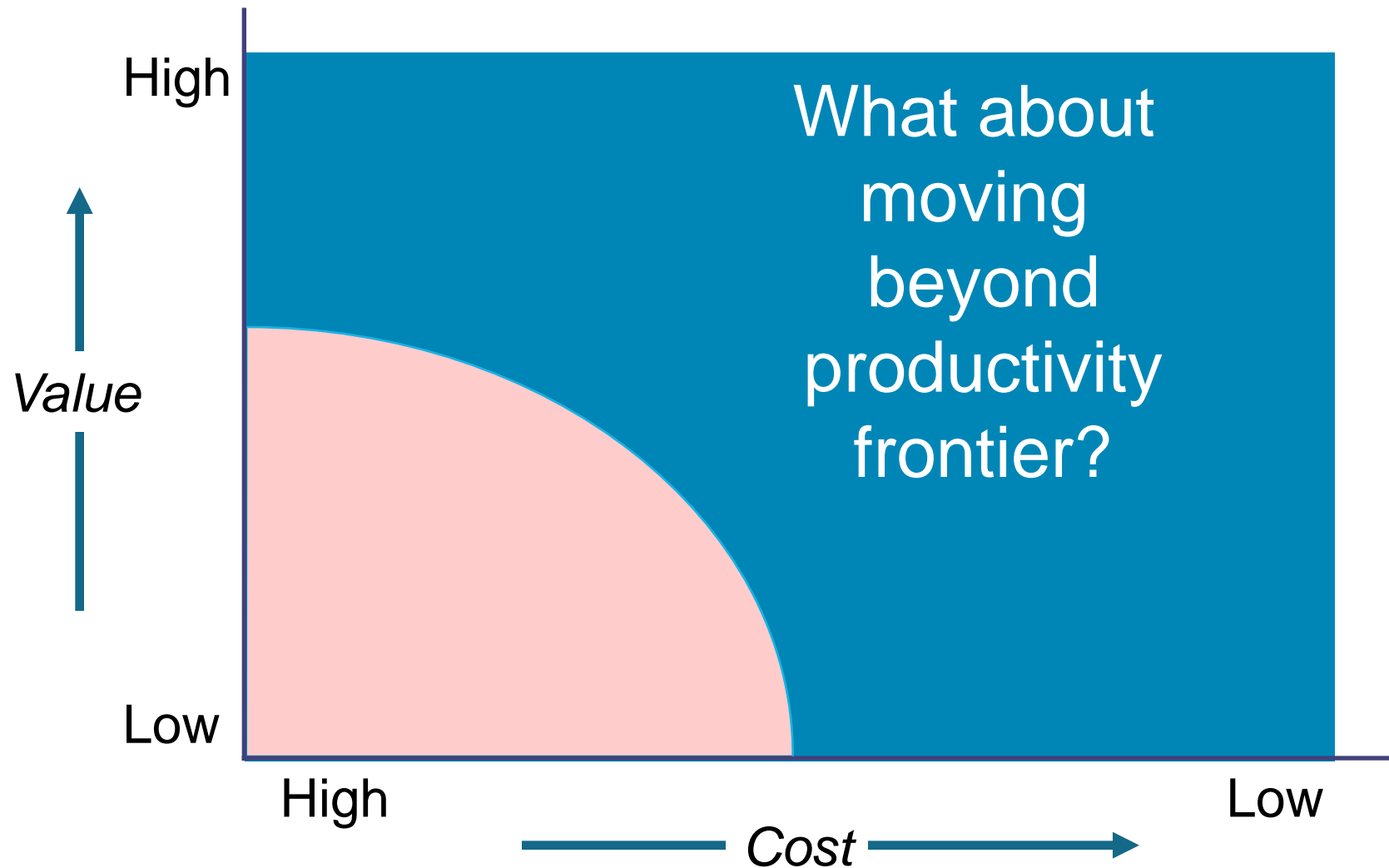
# Value/Cost Curve



Most organizations are usually somewhere within the “Red Ocean”

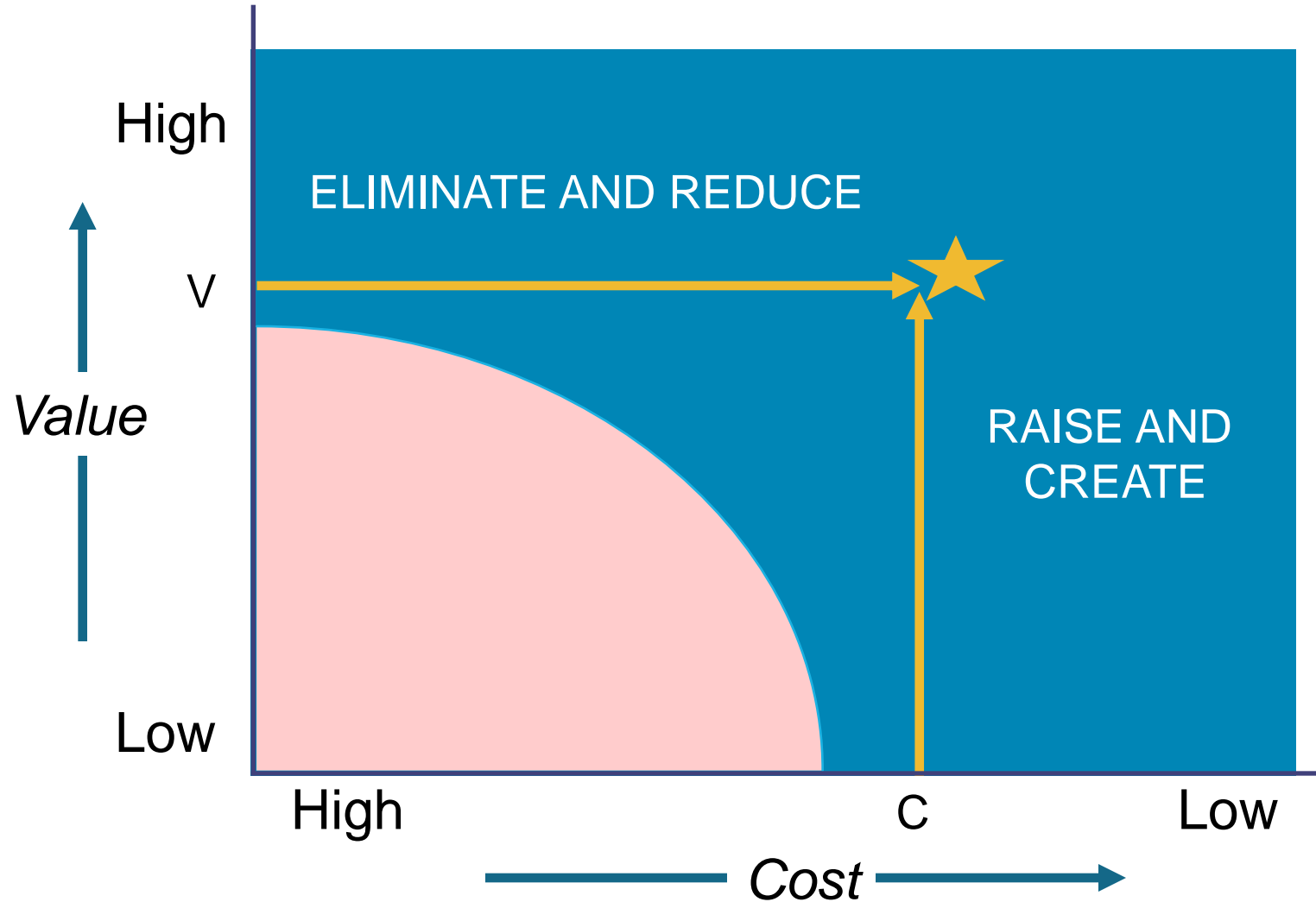


# Value/Cost Curve





# Value/Cost Curve





# Who is this man??

Productivity is not all explained by capital and labor...



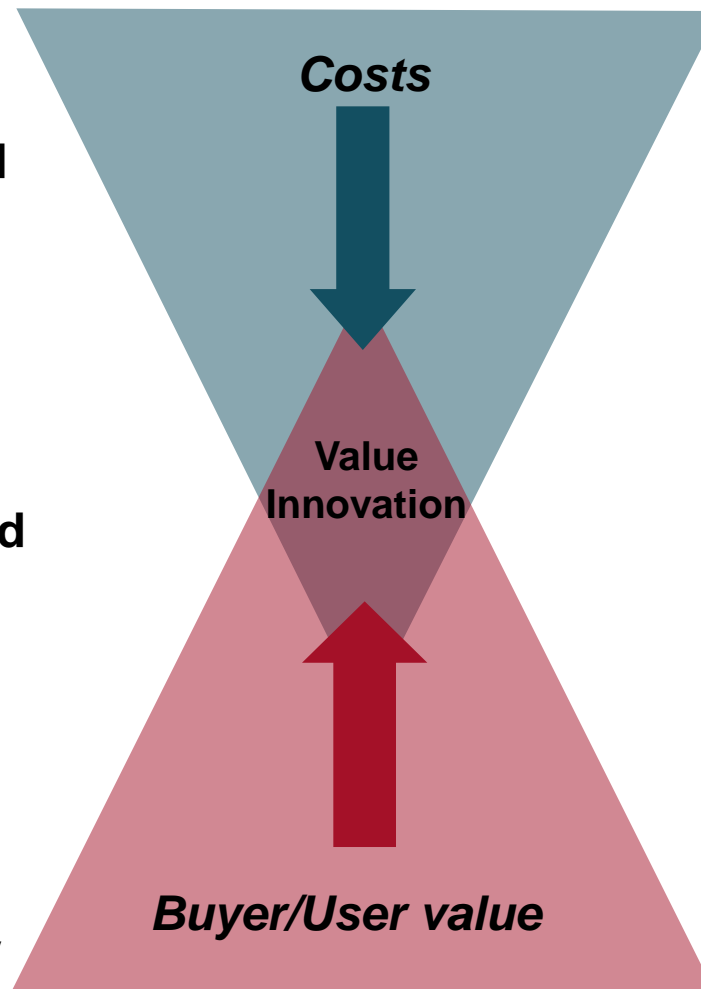
...Innovation and technological change comes from the 'Unternehmergeist'

**Joseph Schumpeter**  
**1883-1950**

# VALUE Innovation: The Cornerstone of Blue Ocean Strategy



- Based on the strategy concepts and frameworks developed by INSEAD Professors Chan W. Kim and Renée Mauborgne
- A different strategic logic: instead of focusing on beating the competition, focus on creating leaps in value which open up new and uncontested market space, thus making the competition irrelevant
- Value Innovation results in creation of Blue Oceans which pursue differentiation and low cost simultaneously



What can be *eliminated* that the industry has taken for granted?

What can be *reduced well below* what the industry offers?

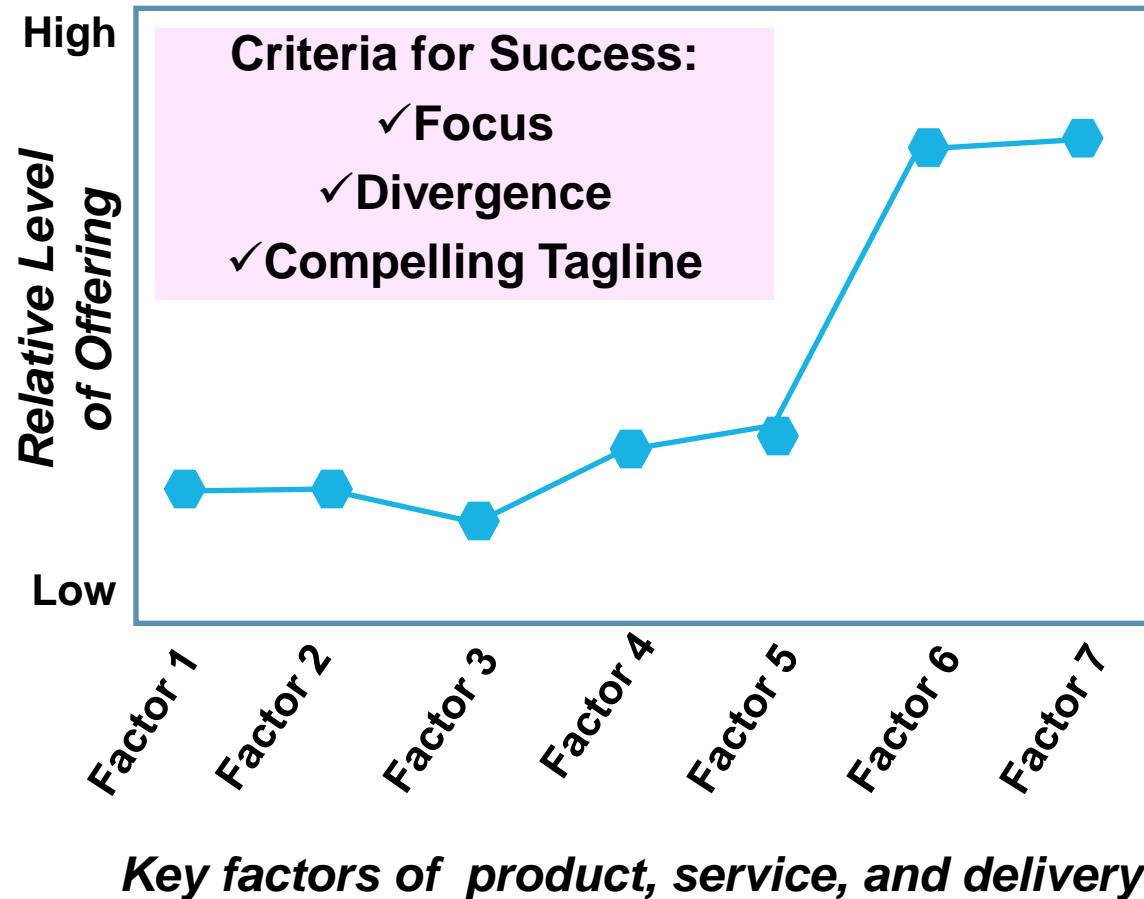
What factors should be *raised well above* what we normally expect from the industry?

What factors should be *created* that the industry has never offered before?



# Visualize your Strategy with the Strategy Canvas

- Both a diagnostic and an action framework for building a compelling blue ocean strategy
- Captures key factors the industry currently competes on and invests in, as well as the offering level that buyers receive across these key competing factors
- A value curve is a graphic depiction of one company's relative performance across its industry's factors of competition



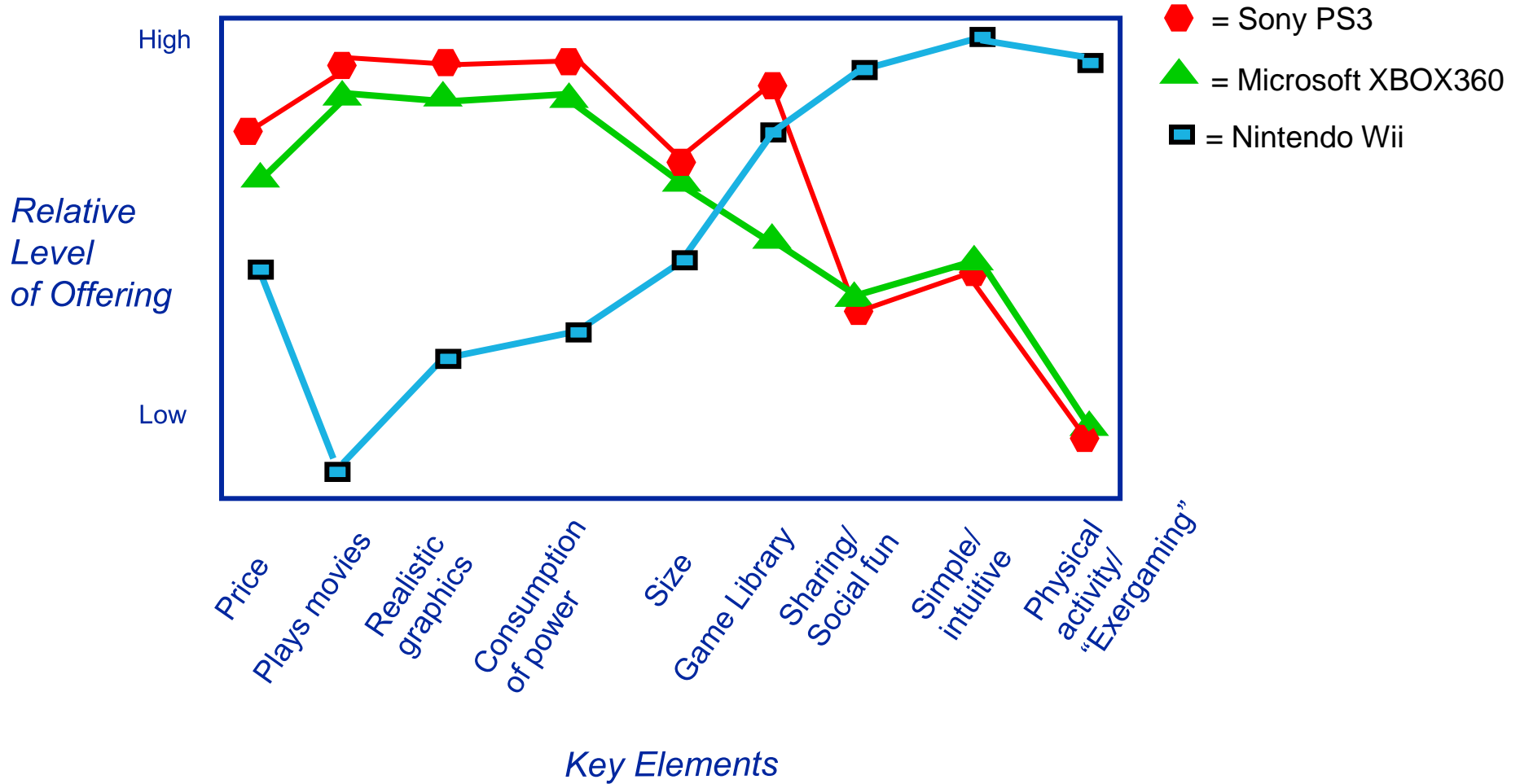
## Gaming consoles a few years ago....

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- **Key players were Sony with PS2/PS2 Slimline (2000 & 2004 launches, respectively), Microsoft with XBox360 (launched 2005) and Nintendo with Game Cube (launched in 2001, with mediocre sales). Nintendo was in a distant 3rd place.....**
- **Sony and Microsoft announced their next generation consoles would essentially be supercomputers: amazing graphics, physics chips that mimicked real-life, ability to read high resolution DVDs...**

*The traditional response would be: “Well, we’re going to make an even BETTER supercomputer, using all the great semiconductor technology we have, even more bells and whistles, etc.....”*

# Value Curves in the Gaming Consoles industry



*Illustrative example*

# Wii challenged the industry assumptions

<p>What can be <i>eliminated</i> that the industry has taken for granted?</p>	<p><b>Eliminate</b></p> <p>Plays Movies</p>	<p><b>Raise</b></p> <p>Game Library Sharing/SocialFun Simple/Intuitive</p>	<p>What factors should be <i>raised well above</i> what we normally expect from the industry?</p>
<p>What can be <i>reduced well below</i> what the industry offers?</p>	<p><b>Reduce</b></p> <p>Price Realistic Graphics Consumption of Power Size</p>	<p><b>Create</b></p> <p>Physical Movement/ « Exergaming »</p>	<p>What factors should be <i>created</i> that the industry has never offered before?</p>

# Results

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## *Buyer's perspective:*

- **“I can afford this!”**
- **“I’ll wait in line to get this!”**
- **“This is a fun experience that I can share with family and friends!”**
- **“I’ll let my kids do it because it gets them off the couch!”**

## *Nintendo's perspective:*

- **Priced to increase accessibility, thanks to reduction in graphics and power/processing requirements**
- **Designed to attract non-gamers**
- **Profit made on consoles themselves (not only software sales)**
- **Game developers can make games at lower cost (\$5million instead of \$20million) – and Nintendo gets a licensing fee for every game sold**
- **Best-selling seventh generation gaming console today**

## Lesson learned?

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- Challenge the assumptions in your industry...

...to avoid swimming among competitors in the red ocean



# The Six Paths Framework helps you look across the conventional boundaries of competition to reconstruct market assumptions

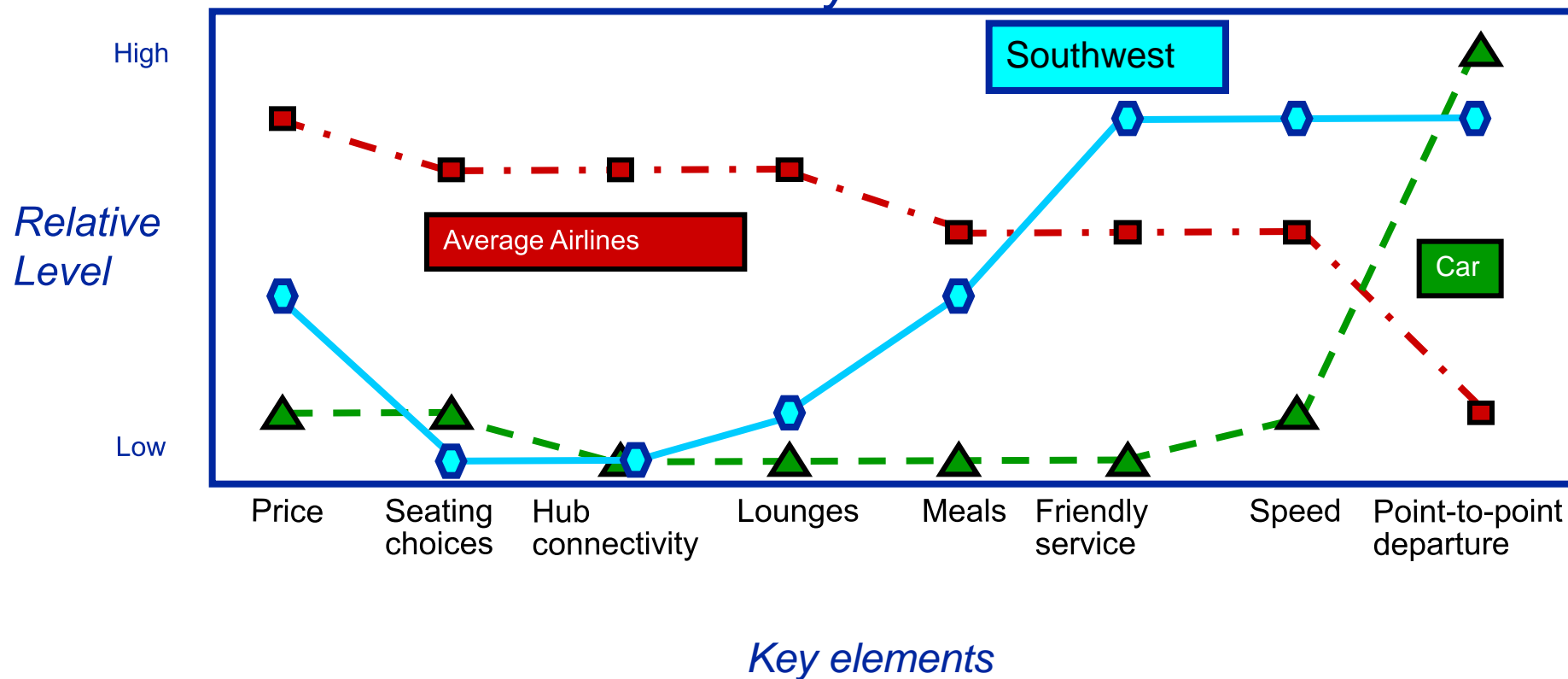




# Alternative Industries

## Southwest Airlines -

*“The Price of a Car Trip with the Speed of an Airline –  
Whenever you Need It”*

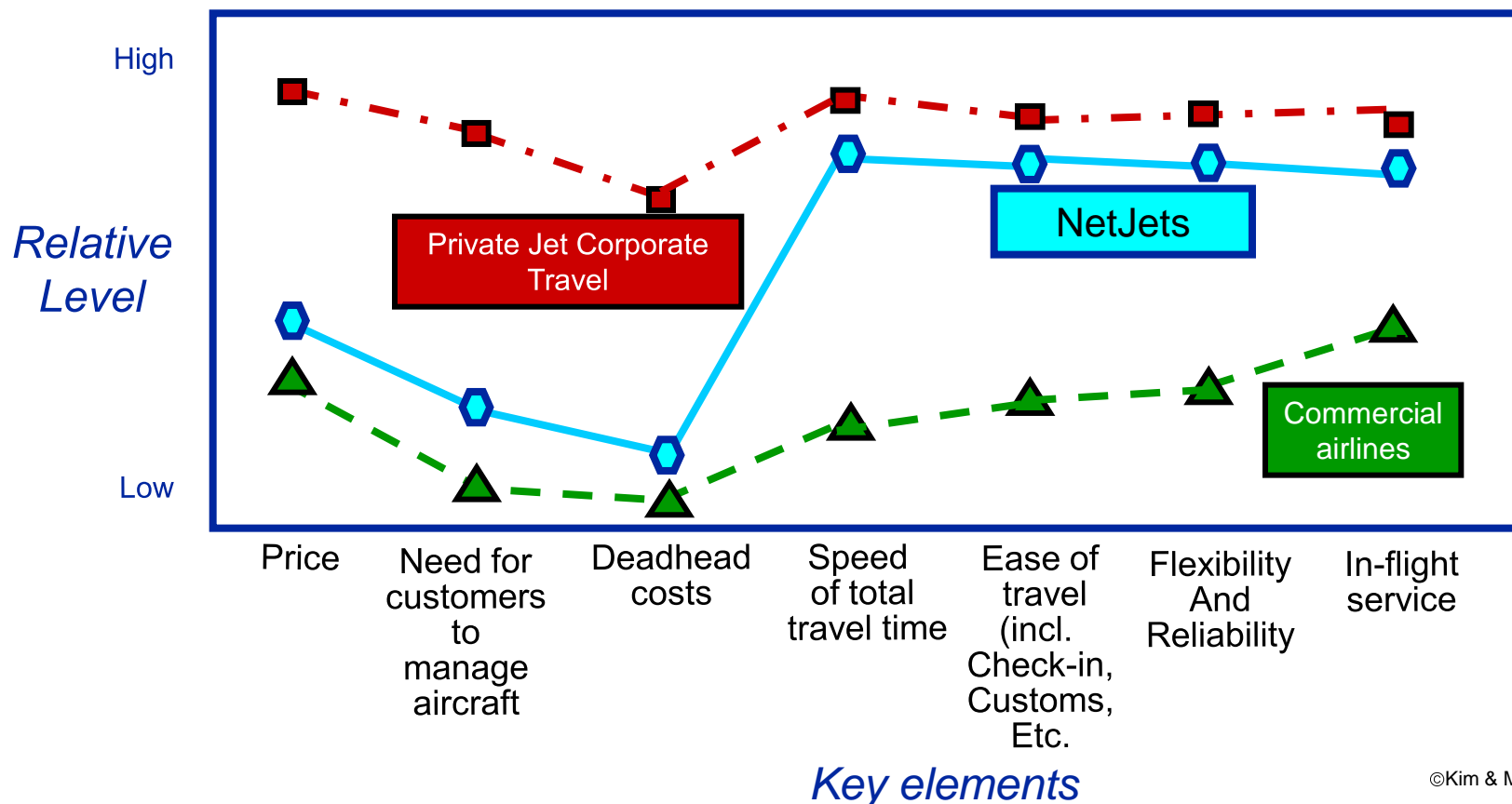




# Strategic Groups

## NetJets -

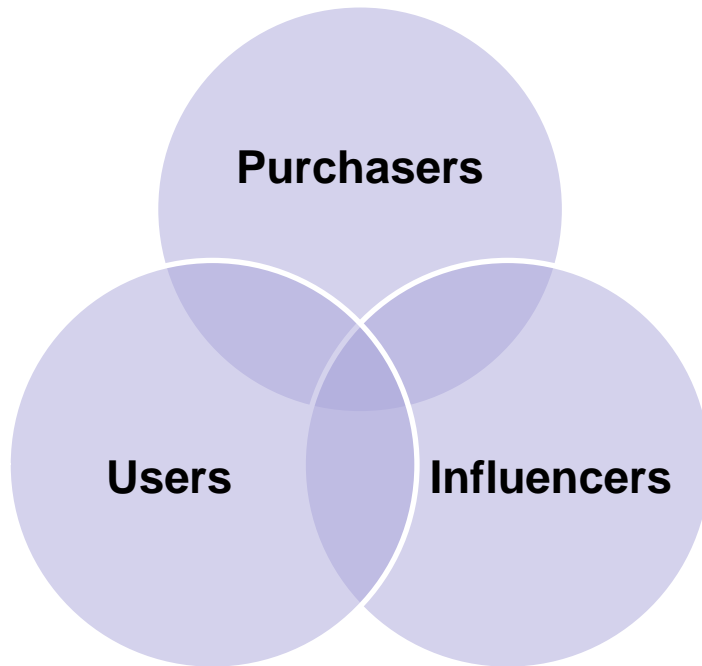
*“Convenience of a Private Jet at the Cost of a Commercial Ticket”*



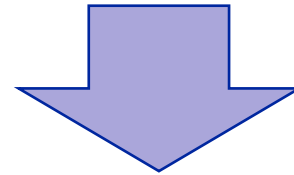
©Kim & Mauborgne



# Chain of Buyers/Users



- Do these groups overlap?
- Do these groups share the same definition of value?
- Which buyer group does the industry focus on typically?



**CHALLENGE CONVENTIONAL  
WISDOM TO GAIN NEW INSIGHTS**



# The case of Novo Nordisk

**From:**



- Hard to administer
- Unpleasant to handle
- Social stigmatism
- Accidental needle pricks

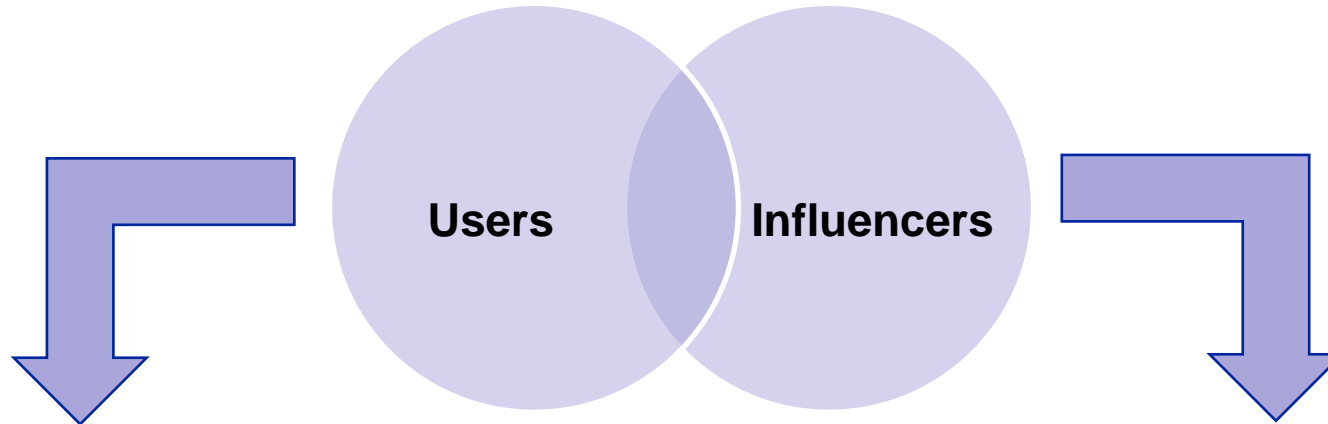
**To:**



- First user-friendly insulin delivery solution
- Resembled a fountain pen
- No more hassle and easy to carry
- convenient



# Novo Nordisk Unlocked Value for Patients AND Doctors

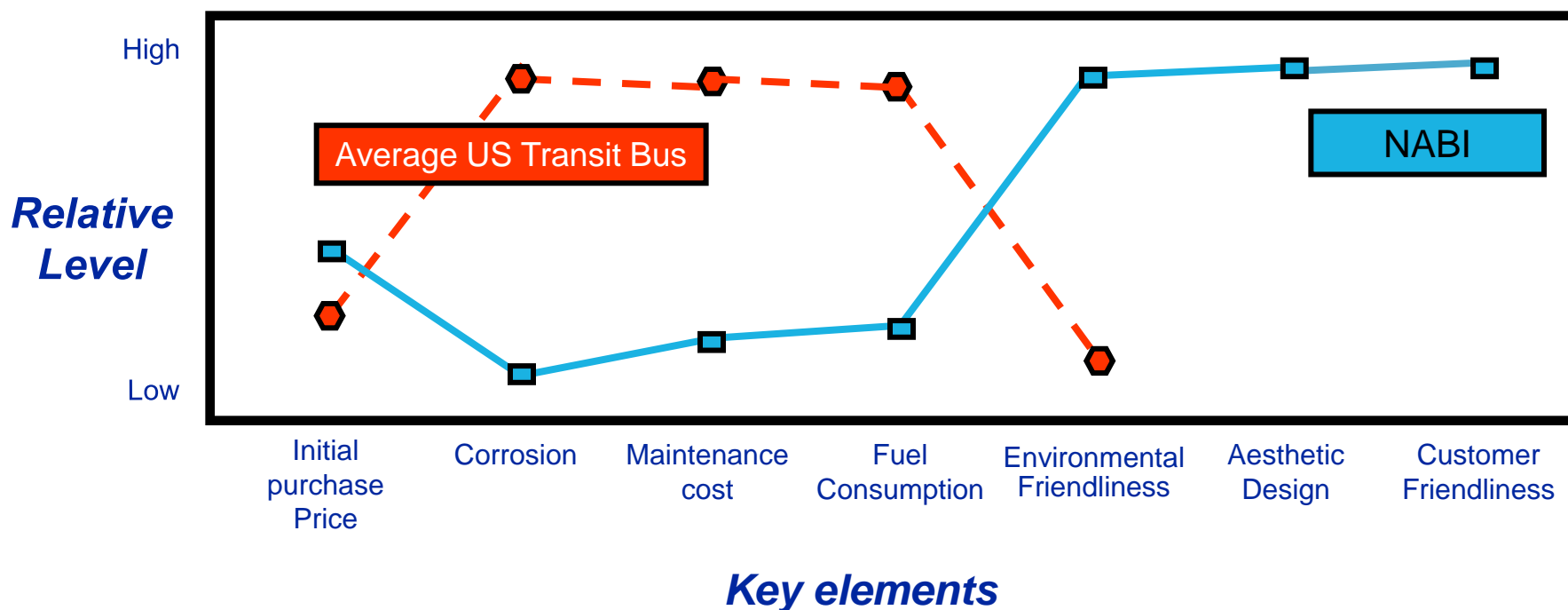


- Novo Nordisk **REDUCED** the inconvenience caused by traditional vial-syringe injections
- Novo Nordisk **CREATED** a state-of-the-art, innovative injection system to provide increased comfort and ease-of-use
- The easy-to-use injection system **REDUCED** the time it took for doctors and their staff to teach patients how to inject themselves



# Complementary Products and Services

## North American Bus Industries, Inc.





# Functional-emotional appeal

Typically, certain industries compete on a rational appeal and are functionally oriented, while others compete largely on feelings and are emotionally oriented. Challenging this orientation can result in new market space.....





# Time/Trends

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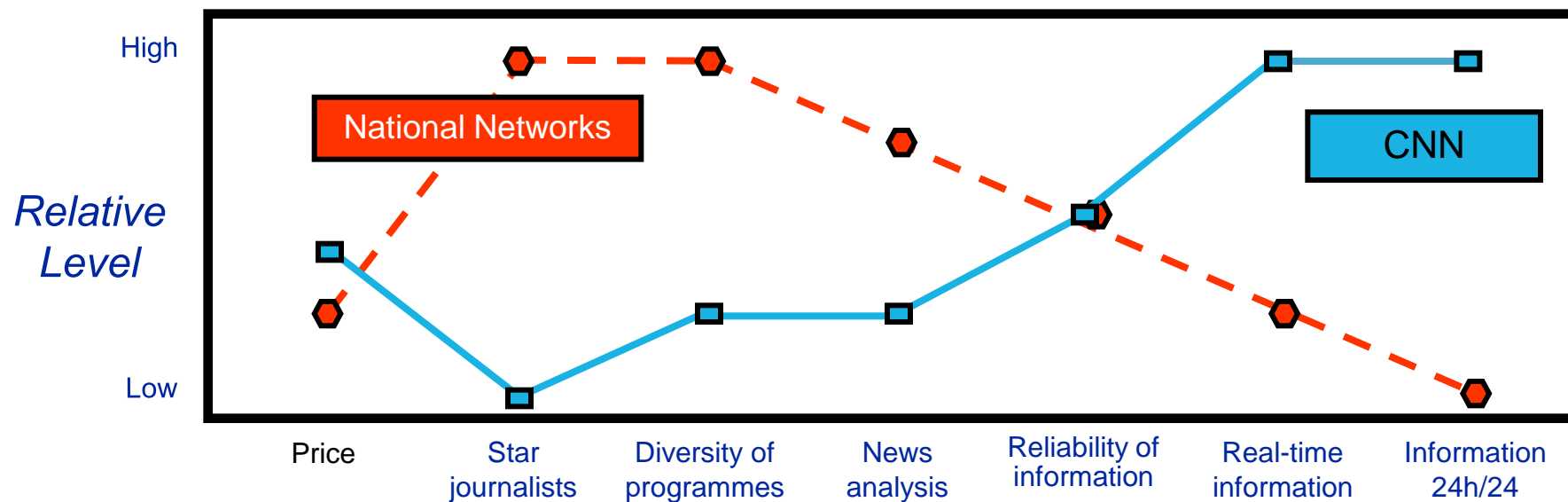
To form the basis of a potential blue ocean, three principles are critical:

- decisive to your business
- Irreversible
- Clear trajectory



# Time/Trends

## CNN bringing the World to the World





**...But how do I know if I have a Blue Ocean idea??**

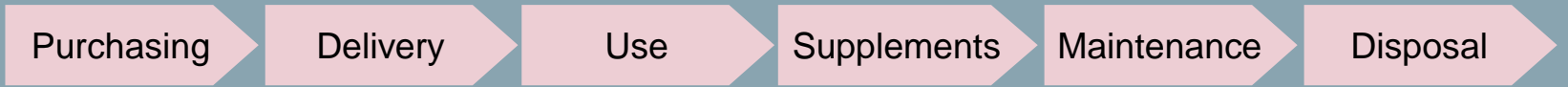
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**Blue Ocean Strategy thinking  
defines INNOVATION  
in terms of  
VALUE TO THE CUSTOMER**



# Where is the VALUE to the CUSTOMER?

## *The Generic Buyer/User Experience Cycle*



### LEVERS

Productivity



**Helping a customer do things faster or better (time/money!)**

Simplicity



**No physical or intellectual difficulty**

Convenience



**Easy to obtain, use, or dispose of**

Risk



**Reduce financial, physical or credibility risks**

Fun/Image



**Provide a fun experience or particular image for the customer**

Environment

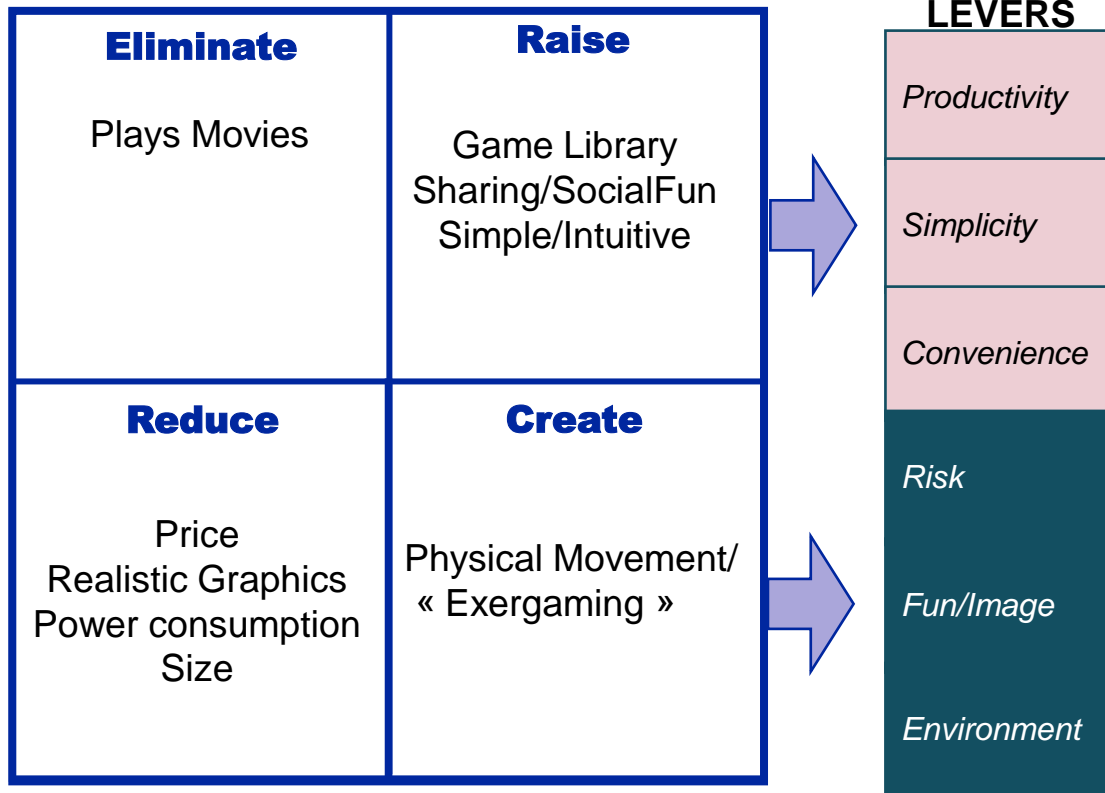


**Contribute to improving the environment**



# Design played a significant role in Wii's success

In Blue Ocean Strategy thinking, innovation in design must also be defined in terms that drive utility and value to the end user...



- ✓ 'no clutter around the TV' – not a toy
- ✓ Interior design piece – not AV equipment
- ✓ Simplify: reduce number of buttons
- ✓ Remote (vs controller) feel
- ✓ Easy to handle
- ✓ Universal appeal – inviting, friendly
- ✓ Small (meant smaller chip too...)



# What are the 3 key building blocks of Blue Ocean Strategy?

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## *Value Innovation*

- Thinking in new ways to create high profit growth

## *Tipping Point Leadership*

- Accelerating change of any type, including wide-spread transformation

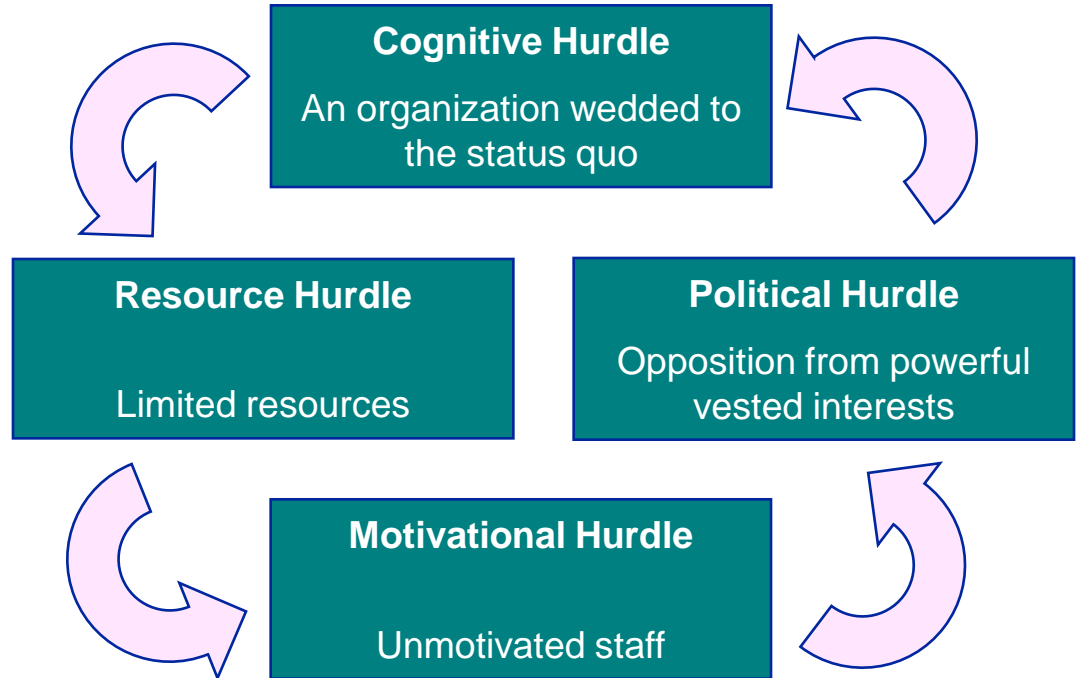
## *Fair Process*

- Building a robust organization based on commitment, harmony and trust



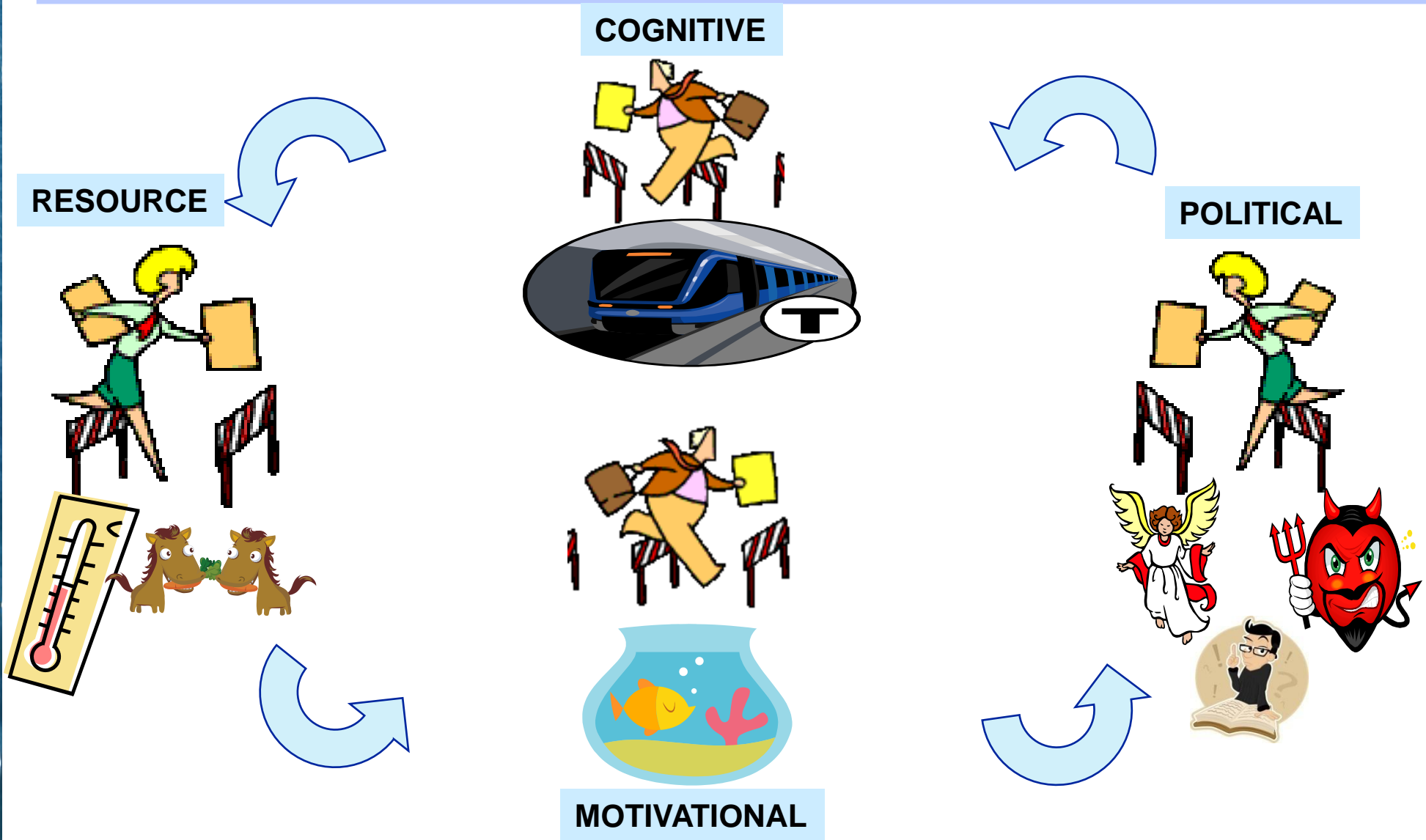
# Tipping Point Leadership

- In order to execute Blue Ocean Strategy, companies must overcome 4 organizational hurdles
- The principle is different from conventional thinking in that rather than focusing on transforming the masses, it focuses on the people, acts and activities that exercise a disproportionate influence on performance





# Tips and Tools of Tipping Point Leadership





# Fair Process: the Three E Principles

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## Engagement

- Involving individuals in the strategic decisions that affect them by asking for their input and allowing them to refute the merits of one another's ideas and assumptions
- Communicates management's respect for individuals and their ideas

## Explanation

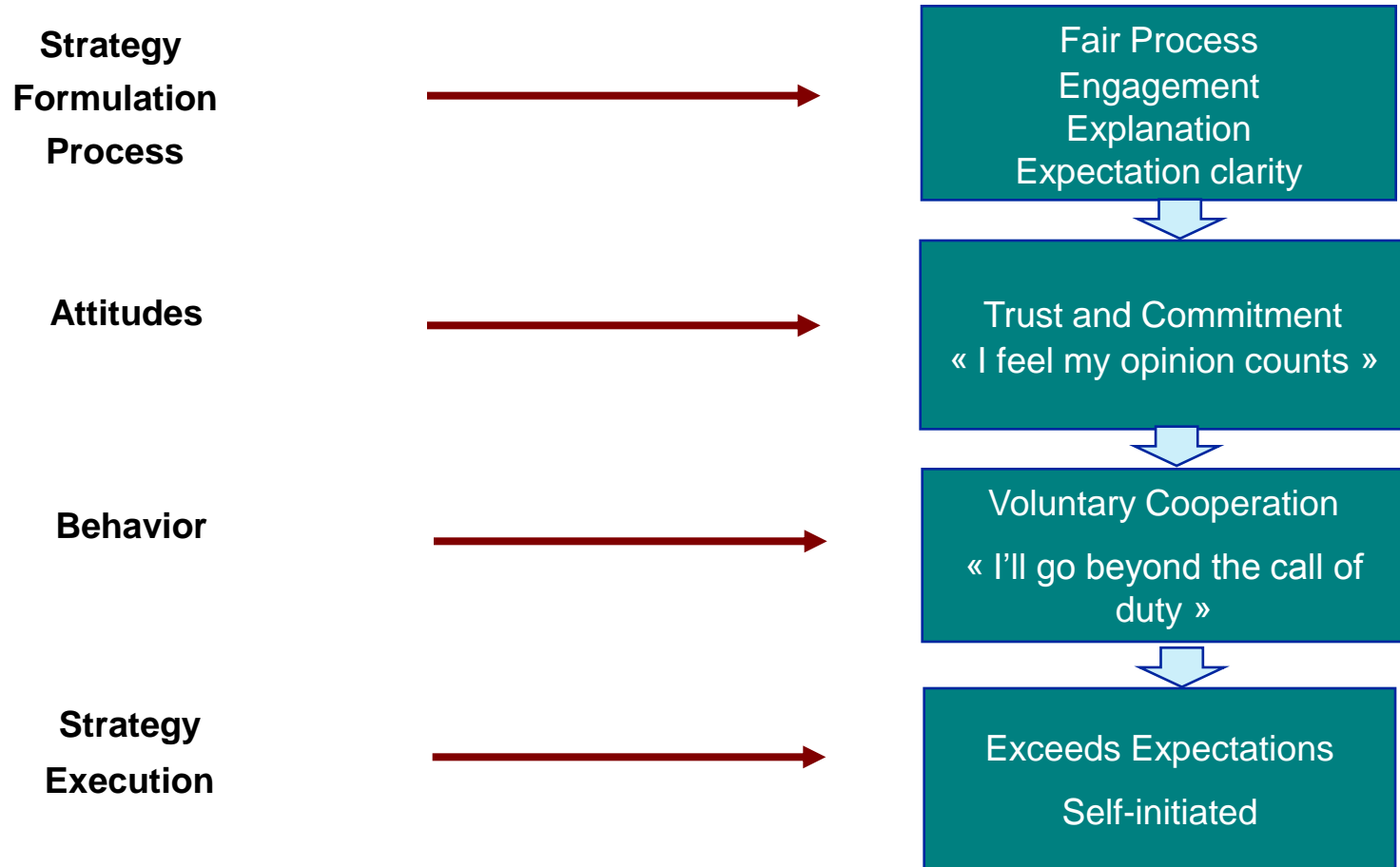
- Everyone involved and affected understands why the final strategic decisions are made as they are
- Develops trust between employees and managers

## Expectation Clarity

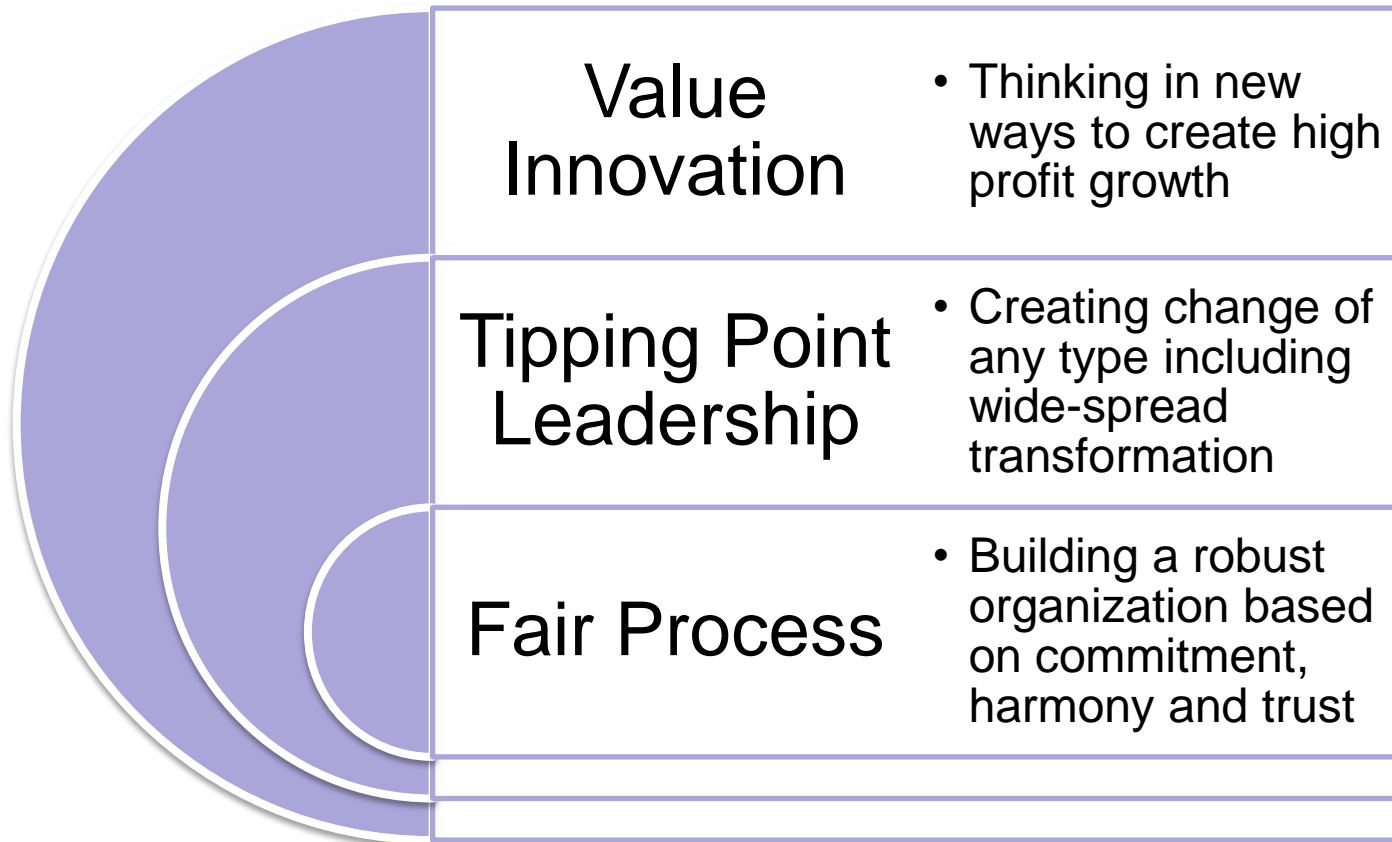
- Clear statement of the new rules of the game
- Clarifies standards by which employees will be judged as well as penalties for failure



# How Fair Process Affects Attitudes and Behavior



# The Three Elements of Blue Ocean Strategy Work Together





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# Wrap-Up



# # 1 Take Home Message

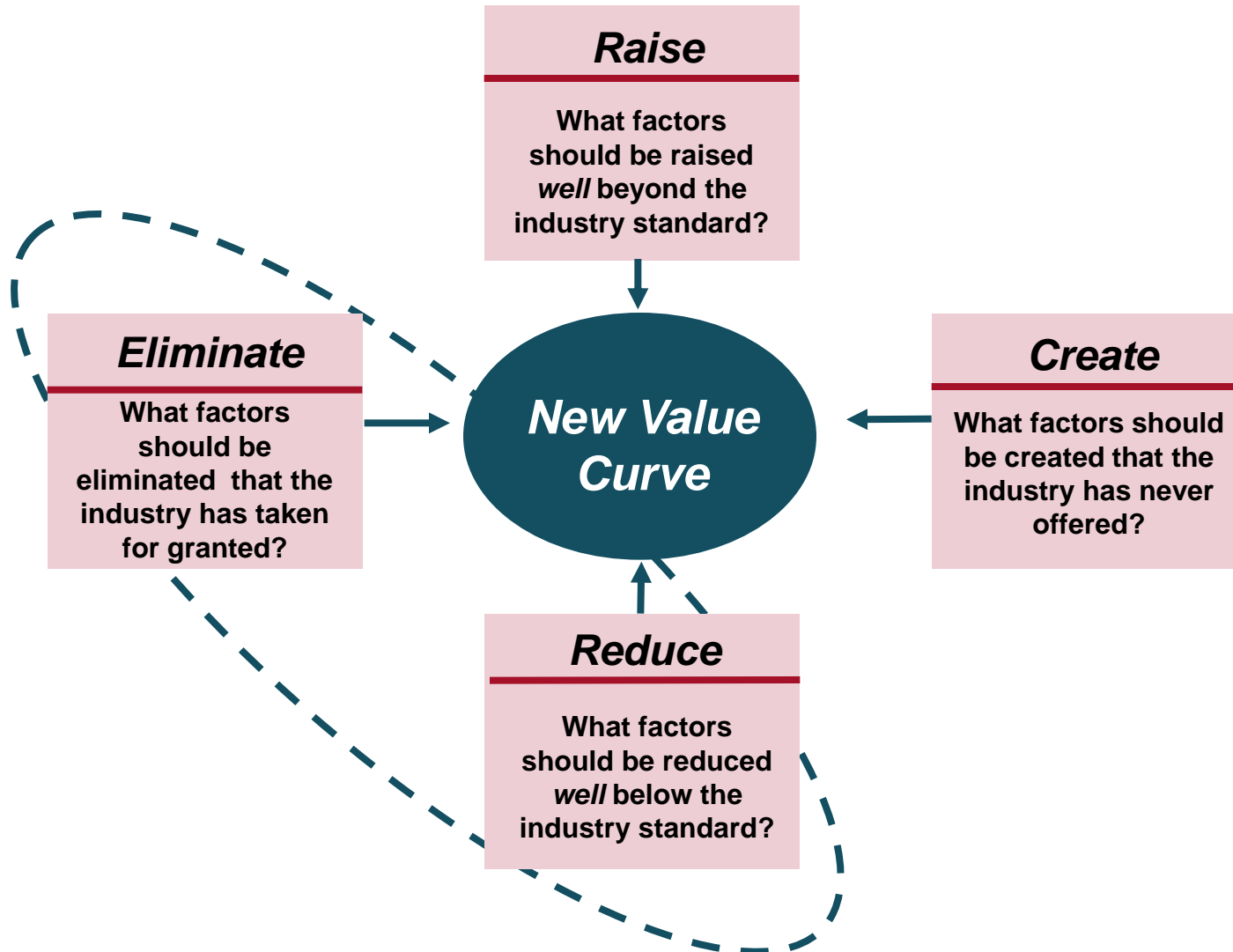
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***Blue Ocean Strategy*** is as much about:  
Pushing for a quantum leap in buyer value

*as it is about:*  
Pushing for a sharp drop in the industry's  
cost structure



# Eliminate, Reduce, Raise, Create!





# Find Inspiration By Applying the Six Paths





**...But how do I know if I have a Blue Ocean idea??**

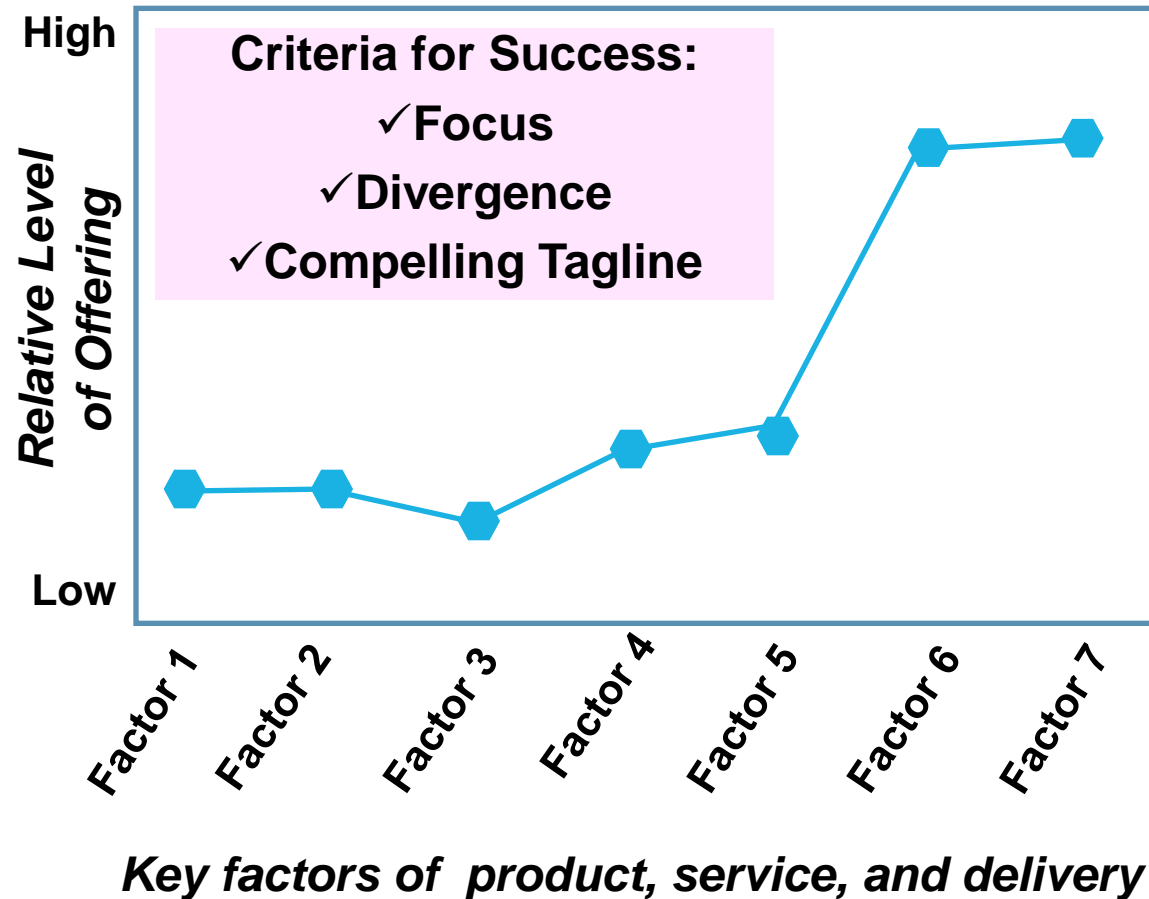
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**Blue Ocean Strategy thinking  
defines INNOVATION  
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# Visualize your Strategy with the Strategy Canvas

- Both a diagnostic and an action framework for building a compelling blue ocean strategy
- Captures key factors the industry currently competes on and invests in, as well as the offering level that buyers receive across these key competing factors
- A value curve is a graphic depiction of one company's relative performance across its industry's factors of competition





# The difference between Red and Blue Oceans

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## ***Red Ocean Strategy***

**Compete in existing market space**

**Beat the competition**

**Exploit existing demand**

**Make the value-cost trade-off**

**Align the whole system of a firm's activities with its strategic choice of differentiation *or* low cost**

## ***Blue Ocean Strategy***

**Create uncontested market space**

**Make the competition irrelevant**

**Create and capture new demand**

**Break the value-cost trade-off**

**Align the whole system of a firm's activities in pursuit of differentiation *and* low cost**



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**THANK YOU  
for your attention!**



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