CHAPTER 9

Conclusion: The Sustainability and Renewal of Blue Ocean Strategy

CREATING BLUE OCEANS is not a static achievement but a dynamic process. Once a company creates a blue ocean and its powerful performance consequences are known, sooner or later imitators appear on the horizon. The question is, How soon or late will they come? Put differently, how easy or difficult is blue ocean strategy to imitate?

As the company and its early imitators succeed and expand the blue ocean, more companies eventually jump in. This raises a related question: When should a company reach out to create another blue ocean? In this concluding chapter, we address the issues of the sustainability and renewal of blue ocean strategy.

Barriers to Imitation

A blue ocean strategy brings with it considerable barriers to imitation. Some of these are operational, and others are cognitive. More often than not, a blue ocean strategy will go without credible challenges for ten to fifteen years, as was the case with Cirque du Soleil, Southwest Airlines, Federal Express, The Home Depot, Bloomberg, and CNN, for starters. This sustainability can be traced to the following imitation barriers rooted in blue ocean strategy:

- A value innovation move does not make sense based on conventional strategic logic. When CNN was introduced, for example, NBC, CBS, and ABC ridiculed the idea of twenty-four-hour, seven-day, real-time news without star broadcasters. CNN was referred to as Chicken Noodle News by the industry. Ridicule does not inspire rapid imitation.
- Brand image conflict prevents companies from imitating a blue ocean strategy. The blue ocean strategy of The Body Shop, for example—which shunned beautiful models, promises of eternal beauty and youth, and expensive packaging— left major cosmetic houses the world over actionless for years because imitation would signal an invalidation of their current business models.
- Natural monopoly blocks imitation when the size of a market cannot support another player. For example, the Belgian cinema company Kinepolis created the first megaplex in Europe in the city of Brussels and has not been imitated in more than fifteen years despite its enormous success. The reason is that the size of Brussels could not support a second megaplex, which would cause both Kinepolis and its imitator to suffer.
- Patents or legal permits block imitation.
- The high volume generated by a value innovation leads to rapid cost advantages, placing potential imitators at an ongoing cost disadvantage. The huge economies of scale in purchasing enjoyed by Wal-Mart, for example, have significantly discouraged other companies from imitating its blue ocean strategy.
- Network externalities also block companies from easily and credibly imitating a blue ocean strategy, much as eBay enjoys in the online auction market. In short, the more customers eBay has online, the more attractive the auction site becomes for both sellers and buyers of wares, creating scant incentive for buyers to switch to a potential imitator.
- Because imitation often requires companies to make substantial changes to their existing business practices, politics often kick in, delaying for years a company's commitment to imitate a blue ocean strategy. When Southwest Airlines, for example, created a service that offered the speed of air travel with the cost and flexibility of driving, imitating this blue ocean strategy would have meant major revisions in routing planes, retraining staff, and changing marketing and pricing, not to mention culture—significant changes that the politics of few companies can bear in the short term.
- When a company offers a leap in value, it rapidly earns brand buzz and a loyal following in the marketplace. Even large advertising budgets by an aggressive imitator rarely have the strength to overtake the brand buzz earned by the value innovator. Microsoft, for example, has been trying for years to dislodge Intuit's value innovation, Quicken. More than ten years out, despite all its efforts and investment, it has not been able to do so.

Figure 9-1 provides a snapshot of these barriers to imitation. As the figure shows, the barriers are high. This is why we have

Copyright © 2005. Harvard Business Review Press. All rights reserved. May not be reproduced in any form without permission from the publisher, except fair uses permitted under U.S. or applicable copyright law.

EBSCO Publishing : eBook Collection (EBSCOhost) - printed on 8/9/2017 4:43 AM via KAPLAN HIGHER ED (IA)
AN: 129668 ; Kim, W. Chan, Mauborgne, Renée.; Blue Ocean Strategy : How to Create Uncontested Market Space and Make the Competition Irrelevant
Account: ns019078

seldom observed rapid imitation of blue ocean strategy. In addition, blue ocean strategy is a systems approach that requires not only getting each strategic element right but also aligning them in an integral system to deliver value innovation. Imitating such a system is not an easy feat.

FIGURE 9-1

Imitation Barriers to Blue Ocean Strategy

- Value innovation does not make sense to a company's conventional logic.
- Blue ocean strategy may conflict with other companies' brand image.
- Natural monopoly: The market often cannot support a second player.
- Patents or legal permits block imitation.
- High volume leads to rapid cost advantage for the value innovator, discouraging followers from entering the market.
- Network externalities discourage imitation.
- Imitation often requires significant political, operational, and cultural changes.
- Companies that value-innovate earn brand buzz and a loyal customer following that tends to shun imitators.

When to Value-Innovate Again

Eventually, however, almost every blue ocean strategy will be imitated. As imitators try to grab a share of your blue ocean, you typically launch offenses to defend your hard-earned customer base. But imitators often persist. Obsessed with hanging on to market share, you may fall into the trap of competing, racing to beat the new competition. Over time, the competition, and not the buyer, may come to occupy the center of your strategic thought and actions. If you stay on this course, the basic shape of your value curve will begin to converge with those of the competition.

To avoid the trap of competing, you need to monitor value curves on the strategy canvas. Monitoring value curves signals when to value-innovate and when not to. It alerts you to reach out for another blue ocean when your value curve begins to converge with those of the competition.

It also keeps you from pursuing another blue ocean when there is still a huge profit stream to be collected from your current offering. When the company's value curve still has focus, divergence, and a compelling tagline, you should resist the temptation to value-innovate again and instead should focus on lengthening, widening, and deepening your rent stream through operational improvements and geographical expansion to achieve maximum economies of scale and market coverage. You should swim as far as possible in the blue ocean, making yourself a moving target, distancing yourself from your early imitators, and discouraging them in the process. The aim here is to dominate the blue ocean over your imitators for as long as possible.

As rivalry intensifies and total supply exceeds demand, bloody competition commences and the ocean will turn red. As competitors' value curves converge toward yours, you should begin reaching out for another value innovation to create a new blue ocean. Hence, by charting your value curve on the strategy canvas and intermittently replotting your competitors' value curves versus your own, you will be able to visually see the degree of imitation, and hence of value curve convergence and the extent to which your blue ocean is turning red.

The Body Shop, for example, dominated the blue ocean it had created for more than a decade. The company, however, is now in the middle of a bloody red ocean, with declining performance. It did not reach out for another value innovation when competitors' value curves converged with its own. Similarly, [yellow tail] is swimming in the clear blue waters of new market space. It has made the competition irrelevant and is enjoying strong, profitable growth as a result. However, the test of Casella Wines' long-run profitable growth will be its ability to value-innovate again when imitators compete both aggressively and credibly with converging value curves.

The six principles of blue ocean strategy proposed in this book should serve as essential pointers for every company thinking about its future strategy if it aspires to lead the increasingly overcrowded business world. This is not to suggest that companies will suddenly stop competing or that the competition will suddenly come to a halt. On the contrary, the competition will be more present and will remain a critical factor of the market reality. What we suggest is that to obtain high performance in this overcrowded market, companies should go beyond competing for share to creating blue oceans.

Because blue and red oceans have always coexisted however, practical reality demands that companies succeed in both oceans and master the strategies for both. But because companies already understand how to compete in red oceans, what they need to learn is how to make the competition irrelevant. This book aims to help balance the scales so that formulating and executing blue ocean strategy can become as systematic and actionable as competing in the red oceans of known market space.

Copyright © 2005. Harvard Business Review Press. All rights reserved. May not be reproduced in any form without permission from the publisher, except fair uses permitted under U.S. or applicable copyright law.

EBSCO Publishing : eBook Collection (EBSCOhost) - printed on 8/9/2017 4:43 AM via KAPLAN HIGHER ED (IA)
AN: 129668 ; Kim, W. Chan, Mauborgne, Renée.; Blue Ocean Strategy : How to Create Uncontested Market Space and Make the Competition Irrelevant
Account: ns019078