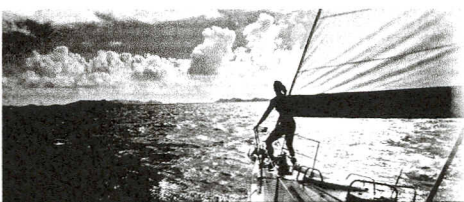


# WAYPOINTS



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BUSINESS EDUCATION FOR SAIL AMERICA MEMBERS

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## Cover Story Interview

by Wanda Kenton Smith

# Sail for New Horizons Utilizing the Inspiring Blue Ocean Strategy



*Few business books have enjoyed the worldwide acclaim as Blue Ocean Strategy. Authors W. Chan Kim and Renée Mauborgne have sold over one million copies of this book globally, and the reviews have been nothing short of phenomenal. It has earned enviable "bestseller status" from the Wall Street Journal and BusinessWeek, was named the #1 Strategy Book of 2005, plus was ranked among the Top Ten Best Business Books by Amazon.com.*

*Kim, the Boston Consulting Group Bruce D. Henderson Chair Professor of Strategy and International Management at INSEAD, and Mauborgne, the INSEAD Distinguished Fellow and professor of Strategy and Management, took time to answer questions posed by Waypoints Editor Wanda Kenton Smith, addressing some specific sailing industry concerns. Their "systematic approach to making the competition irrelevant" provides insightful commentary on opportunities for individual businesses and the sailing industry at large.*

*If you're tired of competing in shark-infested waters, hoist the sail and read on!*

**F**irst of all—as the sailing industry, we absolutely love the title of your book and the image it conjures! What led you to name your best-selling book *Blue Ocean Strategy*... and how do you characterize "blue ocean opportunities?"

**Professor Kim:** We use the terms red and blue oceans to describe the market universe. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored. Like the "blue" ocean, it is vast, deep and powerful, in terms of profitable growth. *Blue Ocean Strategy* presents a systematic approach to creating uncontested market space. It is about making the competition irrelevant by creating a leap in value for both the company and its buyers by breaking the differentiation-low cost trade-off. Blue Ocean Opportunities are characterized by the infinite possibilities for profitable growth just as the image that the vast blue ocean conveys.

**By contrast, what are red oceans and how should companies view and approach the "bloody competition" therein?**

**Professor Mauborgne:** Red oceans are all the industries in existence today – the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded and filled with sharks, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody. Hence, the term "red" oceans.

Red Ocean strategic thinking leads firms to divide industries into attractive and unattractive ones and to decide accordingly whether or not to enter. After it is in an industry, a firm chooses a distinctive cost or differentiation position.

Here, cost and value are seen as trade-offs. Because the total profit level of the industry is also determined exogenously by structural factors, firms principally seek to capture and redistribute wealth instead of creating wealth. They focus on dividing up the red ocean, where growth is increasingly limited.

**Blue ocean strategy applies perfectly to the sailing industry. In any industry, no matter how competitive it is, a company can create a blue ocean of uncontested market space.**

– Professor Mauborgne

Under blue ocean strategy, however, the strategic challenge can be approached very differently. Recognizing that structure and market boundaries exist only in managers' minds, practitioners who hold this view do not let existing market structures limit their thinking. To them, extra demand is out there, largely untapped. The crux of the problem is how to create it. This, in turn, requires a shift of attention from supply to demand, from a focus on competing to a focus on value innovation – that is, the creation of innovative value to unlock new demand. This is achieved via the simultaneous pursuit of differentiation and low-cost.

**Your underlying premise and "first principle of blue ocean strategy" requires strategists to reconstruct market boundaries in order that a company can break away from the competition and create blue oceans. What is the recommended pathway to success in approaching this concept?**

**Professor Kim:** In our book we lay out six principles behind the successful creation and capturing of blue oceans. The principles show how to create blue oceans in an opportunity-maximizing, risk-minimizing way. The first blue ocean principle – reconstruct market boundaries – addresses the search risk of how to successfully identify, out of the haystack of possibilities that exist, commercially compelling blue ocean opportunities.

In our research we asked, are there identifiable paths to new market space creation? And do they apply across all types of industry sectors? The results of our research revealed six basic approaches to creating new market space. We have found that managers bind their strategic vision within six boundaries of competition. These are: industry, strategic group, buyer group, complementary product and service offerings, the functional-emotional orientation of their industry, and within a given period of time. Yet, we've found if they switch their focus from looking within to looking across these six boundaries of competition, they gain keen insight into how to reconstruct market realities to open up blue oceans. In the book we introduce the Six Paths Framework, the analytical tool we've developed to systematically reconstruct market realities across the six boundaries of competition. To get started, we would recommend that the sailing industry begin to apply the Six Paths Framework to the industry.

**You claim that the only way to beat the competition is to stop trying to beat the competition. You also write that "For strategists, the critical question is: How do you break out of this red ocean of bloody competition to make the competition irrelevant? How do you open up and capture a blue ocean of uncontested market space?" In our highly competitive North American sailing industry with flat to declining sales and a shrinking and graying marketplace, how does the blue ocean and red ocean strategy concepts apply?**

**Professor Mauborgne:** Blue ocean strategy applies perfectly to the sailing industry. In any industry, no matter how competitive it is, a company can create a blue ocean of uncontested market space. There is one common challenge all managers face today regardless of their industry or geographical location. That is the accelerated commoditization of products and services due to excess supply, increasing cost pressures, and shrinking profit margins. To meet these fundamental challenges, business leaders in the sailing industry in North America, like everywhere else on the globe, must break out of the red ocean of bloody competition to generate strong profitable growth in the future. In our book, we document how companies in numerous stagnant or declining industries from the circus industry to the coffee industry pre-Starbucks to the golf industry, were able to create a blue ocean of new market space that created strong profitable growth and all new demand. So the sailing industry should take heart.

To achieve this, our first advice is to stop focusing on beating the competition. Benchmarking and a focus on beating the competition leads to imitative, not innovative, approaches to the market, often resulting in price pressure and further commoditization.

(continued on page 4)

For More Great Information About the Authors and Their Book  
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