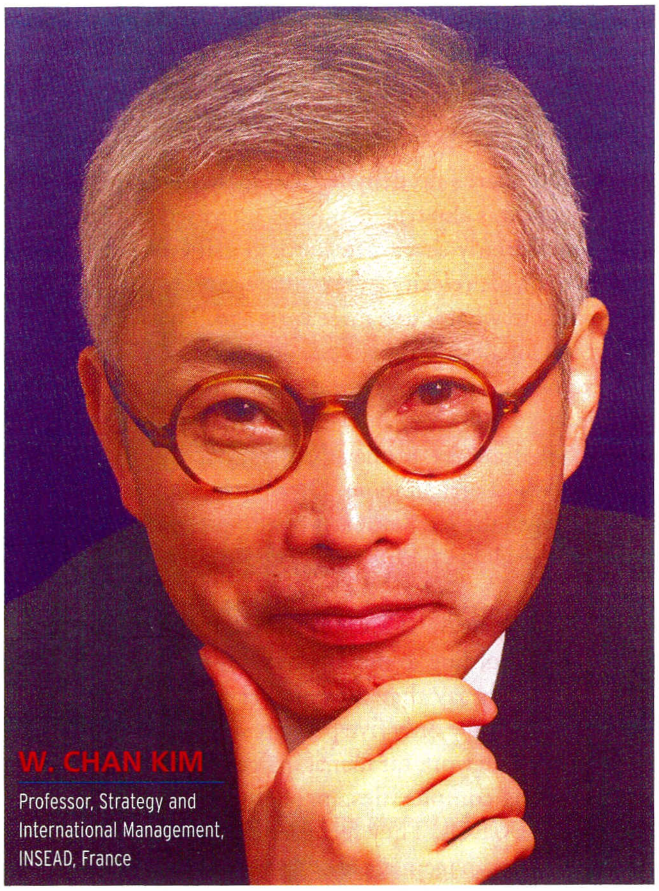
Surviving the Oceans

W. Chan Kim is a professor of strategy and international management at INSEAD, France, and author of numerous articles on practicing strategy. His international bestseller, *The Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant,* which he co-authored with INSEAD colleague Renee Mauborgne, talks about pursuing differentiation. *Global Services*' Executive Editors, Shyamanuja Das and Juhi Bhambal, interviewed Kim



W. CHAN KIM
Professor, Strategy and International Management, INSEAD, France

Photography by John Abbott

What are red and blue oceans?

We use the terms red and blue oceans to denote the market universe. 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, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody. Hence, the term red oceans.

Blue oceans, in contrast, denote all the industries not in existence today — the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is unexplored. Like the blue ocean, it is vast, deep, powerful and infinite in terms of profitable growth.

The blue-ocean concept should be even more relevant today when outsourcing has added to the existing pressures of price and commodity competition. What do you say?

Prospects in most established market spaces — red oceans — are shrinking steadily. Technological advances have permitted suppliers to produce an unprecedented array of products and services. And as trade barriers fall and information on products and prices becomes instantly and globally available, niche markets and monopoly havens are disappearing. At the same time, there is little evidence of any increase in demand, at least in the developed markets. The result is that in more and more industries, supply is overtaking demand. This situation has hastened the commoditization of products and services, stoked price wars and shrunk profit margins, resulting in companies being driven to compete principally on cost. These issues make blue-ocean strategy a rising imperative for CEOs.

Body Shop, Starbucks, eBay, Cirque du Soleil, IKEA have been called blue-ocean companies. Would you call India and China blue-ocean countries?

Companies in India have made their reputation as providers of cheap products, but "Made in India" should not represent low-quality goods for the future economy. With the fast-growing economy, India has seen its wages gradually increasing. So Indians have to create blue oceans where their products are differentiated at low cost.

Is blue ocean another term for innovation?

The goal of the firm is to create value innovation — a leap in value for buyers and company alike. This comes from the simultaneous pursuit of differentiation and low cost, which is the basis of the blue-ocean strategy.

How did you come up with the idea for this book?

There were two motivating factors. One, when we looked at the history from 1880-2000, we found that some of the industries that have become multibillion-dollar industries, such as the mobile phone and mutual funds industries, did not exist till just a few years back. Our questions were — who created these industries and who made money on them.

Second, when the economy is doing badly, theory says that everybody should lose. But we found that despite the bad economy, some companies always did a fantastic job, which made us realize that there was something surely beyond the economy. The industry is not something that is given for a blue-ocean company. ■