

TEACHING MODULE OUTLINE FOR INSTRUCTORS***How strategy shapes structure***

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For use in Strategy/Strategic Management Courses

I. Teaching Module Overview:

This teaching module fills an important void in the field of strategy. For the last thirty years, the field of strategy has been dominated by I/O Economics' structuralist approach to strategy where the central paradigm has rested on the structure-strategy/conduct-performance framework. Here structure determines strategy, which leads to performance consequences. Because the structure of an industry is taken as given the aim of strategy becomes how to best position a company against the competition to win a greater share of a given economic pie. This environmental deterministic view of strategy casts strategy as a zero-sum game where one company's gain comes at another company's loss.

This view of strategy was made prevalent and is best represented by competitive strategy. Under competitive strategy firms are taught to analyze existing industry conditions and to best position themselves against the competition. Here the strategic choices for firms are to pursue either differentiation or low cost. Hence, strategy is seen as making the value-cost trade-off.

While understanding how to compete in existing market space is important, this view of strategy leaves unaddressed the critical challenge of how to redefine industry boundaries and create new market space. To learn how strategy shapes structure to create new market space, this strategy module focuses on how to reconstruct industry boundaries, how to reach beyond existing demand, how to pursue differentiation and low cost simultaneously, and how to build profitable business models to succeed in new market spaces.

Here, strategy is seen as breaking the existing value-cost trade-off and thereby creating a blue ocean of uncontested market space. This shifts the focus of strategy from a zero-sum towards a non-zero-sum paradigm. Under this theory of strategy, strategy determines structure that leads to performance consequences. Here, even an unattractive industry can be made attractive by reconstructing market boundaries through companies' conscious efforts.

II. Pedagogical Approach:

This module introduces high impact pre-tested teaching materials to fill this void in the field of strategy. Specifically, of the five sessions in this module, three use short cases with engaging DVD theory-based movies that take advantage of the latest advances in multimedia production, and one uses an interactive case, allowing professors/instructors to use

conceptually rich live action settings in the classroom. Both the DVD movies and the interactive case focus on fascinating corporate settings, and are accompanied by thorough Teaching Notes that show professors/instructors how to effectively lead high-impact class discussions. The concrete benefits to professors/students of these pedagogical materials include:

1. The DVD theory-based movies that come with short paper cases and the interactive case that comes with a complete PowerPoint presentation and photographic visuals allow students/executives to not only read about a strategic setting, but to actually see the setting as an executive would. The result is a leap in fun for both professors and students, a richer understanding of the dynamics of a strategic setting, and a far more memorable and engaging learning experience. Students and executives alike have registered their delight that this pedagogical method eliminates the need for extensive pre-reading at night, yet provides deep learning.
2. The DVD theory-based movies and the interactive case are carefully constructed to allow for important conceptual discussions and contrasts to be made such as structuralism versus reconstructionism, demand creation versus demand exploitation, desegmentation versus segmentation, competing versus creating, strategic pricing, technology innovation versus value innovation. In this way, the teaching materials are not only practical but also theoretically rich.
3. The accompanying Teaching Notes provide class questions, handouts, robust answers to each question and a list of additional questions/comments that students/executives could raise in the classroom and how these can be effectively addressed. The Teaching Notes also include the wrap up the key conceptual learning points that can be drawn from each. In this way, professor's/ instructor's of every level are able to achieve strong class/teaching results from the start.

The settings of the above teaching materials are the US wine industry in the beginning years of 2000, the strategic move of Cirque du Soleil, and a historical case/DVD movie which looks at three representative industries across time – the auto industry, the computer industry, and the cinema industry – to explore the macro defining patterns behind market-creating strategic moves. The interactive case is on Gillette's strategic move to create a blue ocean in the shaving industry.

While this teaching module embraces five distinct complementary sessions, instructors can also choose to use a sub-set of these five when less class time is available. This can also be very effective.

III. Overview of Module Content:

Session 1 - From a structuralist to a reconstructionist view of strategy

Case:

Title:	Crafting Winning Strategies in a Mature Market: The US Wine Industry in 2001
Author(s):	Kim, W. C.; Mauborgne, R; Hunter, J; Marks, B; Mortensen, W
HBSP Reference:	BOS 018
ecch Reference:	309-186-1
Publication year	2009

Accompanying DVD Movie: [Creating a Blue Ocean in the U.S. Wine Industry](#). Free download available at www.blueoceanstrategy.com (for professors and instructors only).

Teaching Note:

Title:	Crafting Winning Strategies in a Mature Market: The US Wine Industry in 2001
Authors:	Kim, W. C.; Mauborgne, R; Hunter, J; Marks, B; Mortensen, W
HBSP Reference:	BOS 019
ecch Reference:	309-186-8
Publication year	2007

Reading:

Title	How Strategy Shapes Structure
Authors	Kim, W. C.; Mauborgne, R
Product type	Harvard Business Review Article
Product no.	R0909H-PDF-ENG
Publication date	Sep 01, 2009

[“Value Innovation, a reconstructionist view of strategy”](#), Appendix B, pp. 209-212, in “*Blue Ocean Strategy*”, W. Chan KIM and Renée MAUBORGNE, Harvard Business School Press, 2005

Questions: *To be distributed in class*

For the Case and Part A of the video movie:

From the viewpoint of competitive strategy:

1. How attractive is this industry?
2. As an existing player in the industry, what should your strategy be to achieve profitable growth?
3. If you are not in this marketplace should you enter?
4. If yes, what should your strategy be?

For Part B of the video movie:

1. In this industry, how did Casella's [yellow tail] make the competition irrelevant and create new demand?
2. Did Casella's [yellow tail] segment or desegment the market?
3. Did the company focus on the competition or on alternatives?

Session 2 - Paths to creating new market space

Case:

Title: [EVEN A CLOWN CAN DO IT: LE CIRQUE RECREATES LIVE ENTERTAINMENT A & B](#)

Author(s): Kim, W. C; Mauborgne, R; Bensaou, B; Williamson, M

HBSP Reference: BOS 007; BOS 008

ecch Reference: 302-057-1; 302-058-1

Publication year: 2002, updated 2008

Accompanying DVD Movie: [Cirque du Soleil](#) . Free download available at www.blueoceanstrategy.com (for professors and instructors only)

Teaching Note:

Title: [EVEN A CLOWN CAN DO IT: LE CIRQUE RECREATES LIVE ENTERTAINMENT A & B](#)

Author(s): Kim, W. C; Mauborgne, R; Bensaou, B; Williamson, M

HBSP Reference: BOS 009

ecch Reference: 302-057-8

Publication year: 2007

Reading:

“[Reconstruct Market Boundaries](#)”, Chapter 3, pp. 47-80, in “*Blue Ocean Strategy*”, W. Chan KIM and Renée MAUBORGNE, Harvard Business School Press, 2005

Questions: *To be distributed in class*

1. Compared to Ringling Brothers and Barnum and Bailey Circus, what factors has Cirque du Soleil eliminated, reduced, raised and created?
2. What are the profitable growth consequences of these four actions?
3. When comparing the strategic profile of this offering to that of existing traditional circuses, is there evidence of focus and divergence? Can a compelling tagline be formulated?
4. What noncustomers have been drawn into this new market space?
5. Did Cirque du Soleil position along the existing productivity frontier of the circus industry? Or, did it shift the productivity frontier outwards based on a reconstruction of market elements? What was the name of Cirque du Soleil’s first circus?

Session 3 - Noncustomers: reach beyond existing demand

Case:

Title: [How a US Consumer Products Company Unlocked the Three Tiers of Noncustomers](#)

Author(s): Kim, W. C.; Mauborgne, R.; Henry O.

HBSP Reference: BOS 016

ecch Reference: 309-204-1

Publication year: 2009

Accompanying Interactive Exercise: [Blue Ocean Strategy Noncustomer Exercise: The Case of Gillette](#). Free download available at www.blueoceanstrategy.com (for professors and instructors only).

Teaching Note:

Title: [How a US Consumer Products Company Unlocked the Three Tiers of Noncustomers](#)

Author(s): Kim, W. C.; Mauborgne, R ; Henry, O.

HBSP Reference: BOS 017

ecch Reference: 309-204-8

Publication year: 2008

Reading:

“[Reach Beyond Existing Demand](#),” Chapter 5, pp. 101-115, “*Blue Ocean Strategy*”, W. Chan KIM and Renee MAUBORGNE, Harvard Business School Press, 2005.

Questions: *To be distributed in class*

1. Who were the existing customers of the shaving industry at the beginning of the 20th Century? And who were the noncustomers?
2. What factors kept people from shaving?
3. What factors did Gillette eliminate, reduce, increase and create based on its understanding of noncustomers to create and capture new demand by breaking the value-cost tradeoff?
4. How did Gillette increase the size of its blue ocean?

Session 4 - Building profitable business models for value innovation

Case:

Title: [NTT DOCOMO I-MODE: VALUE INNOVATION AT DOCOMO](#)

Author(s): Kim, W. C; Mauborgne, R; Bensaou, B; Shiina, Y

HBSP Reference: BOS 005

ecch Reference: 303-043-1

Publication year: 2003

Teaching Note:

Title: [NTT DOCOMO I-MODE: VALUE INNOVATION AT DOCOMO](#)

Author(s): Kim, W. C; Mauborgne, R; Bensaou, B; Shiina, Y

HBSP Reference: BOS 017

ecch Reference: 303-043-8

Publication year: 2003

Reading:

Title: [Knowing a Winning Business Idea When You See One](#)

Authors	Kim, W. C; Mauborgne, R.
Product type	Harvard Business Review Article
Product no.	R00510
Publication date	September 01, 2000

Questions:

1. How did DoCoMo create differentiation at low cost?
2. How did it reconstruct the market boundaries of the mobile phone and the PC-Internet? How did the strategic profile of DoCoMo's i-mode differ from those of the mobile phone and the PC-Internet?
3. What is i-mode's business model?
4. How did DoCoMo make profits out of its i-mode services? How did it set its strategic price to unlock the mass of buyers?

Session 5 - The strategic patterns behind the creation of new market spaces

Case:

Title:	Lessons from Breakthrough Strategic Moves Over the Last Century
Author(s):	Kim, W. C.; Mauborgne, R. ; Hunter, J.
HBSP Reference:	BOS 010
ecch Reference:	309-196-1
Publication year:	2009

Accompanying DVD Movie: [A History of Blue Ocean Strategic Moves: Is There a Pattern?](#)

Available for free download at www.blueoceanstrategy.com (for professors and instructors only)

Teaching Note:

Title:	Lessons from Breakthrough Strategic Moves Over the Last Century
Authors:	Kim, W. C.; Mauborgne, R; Hunter, J.
HBSP Reference:	BOS 011
ecch Reference:	309-196-8
Publication Year:	2007

Reading:

[“Strategy, Value Innovation, and the Knowledge Economy,”](#) in *Sloan Management Review*, Spring 1999, by W. Chan KIM and Renée MAUBORGNE, pp 41-46.

Questions:

1. Were these demand-creating strategic moves driven by technology pioneering or value pioneering?
2. Was the blue ocean of new market space created by a new entrant or by an incumbent?
3. Were these strategic moves executed during economic upturns, downturns, or both? Was the industry attractive or unattractive?
4. Did these strategic moves target a specific segment of the market, or did they shift the traditional industry focus to a wider catchment?

IV. Rationale for Selecting and Sequencing the Items in this Module:

The first session, “**From a structuralist to a reconstructionist view of strategy,**” is designed as a strong and compelling transition from how to compete in existing markets or industries (a dominant focus of most strategy curriculums to date), to how to redefine market boundaries and create new market spaces. This session focuses on how the two different strategic paradigms, structuralism or red ocean strategy versus reconstructionism or blue ocean strategy, unveil different strategic opportunities and lead to different profitable growth trajectories. To achieve this, the case and two-part DVD movie on the US wine industry in the early to mid-2000s is used.

The case and its accompanying Part A of the DVD movie, *Creating a Blue Ocean in the US Wine Industry*, provides an in-depth overview of the US wine industry. It reviews the history of winemaking, the industry’s competitive forces, key players and potential for future growth. Here, students see the dynamics of the wine industry first-hand. The instructor then leads a discussion to assess, from a competitive strategy viewpoint, the attractiveness of the US wine industry and the strategic recommendations for both an incumbent and an upstart based on competitive strategy logic. Part A of the teaching note is designed to guide the instructor through this assessment. Students find a highly competitive industry with limited opportunities for profitable growth when assessed from a competitive strategy lens.

Part B of the DVD movie then documents how one firm, Casella Wines, created a blue ocean of new market space within this highly competitive US wine industry with its introduction of [yellow tail]. It shows how by applying a *reconstructionist* view of strategy, the firm gained insight into how market and industry boundaries can be reconstructed by the actions and beliefs of industry players. Part B of the video case illustrates how Casella wines shifted its

strategic focus from competitors to alternatives, and from customers to noncustomers. In so doing, it reconstructed the industry boundaries to unlock new demand, not by simply stealing current sales from competitors, but by bringing non-wine drinkers into the wine market. The session shows how a strategic move can reach beyond existing demand in an overcrowded and highly competitive industry to create new market space. Here the analytic tools of the strategy canvas and four actions framework of blue ocean strategy are introduced.

Having appreciated the conceptual distinction between a structuralist and reconstructionist view of strategy, the second session, “**Paths to creating new market space,**” explores in depth the logic of creating new market spaces. Using the fascinating case and accompanying DVD movie of *Cirque du Soleil*, the professor/instructor explores the specific paths to the creation of blue oceans of new market spaces, and how the creation of new market spaces allows a company to shift the productivity frontier outwards thereby creating all new demand and breaking the value-cost tradeoff to simultaneously achieve differentiation and low cost. The six paths framework is introduced and explored.

The third session, “**Noncustomers: reach beyond existing demand**” guides students/executives through the interactive case of Gillette to deepen their understanding of how to reach beyond existing demand that is essential to blue ocean creation. Here instructors introduce the three tiers of noncustomers framework and guide students/executives to challenge two conventional strategy practices. One is the focus on existing customers. The other is the drive for finer segmentation to accommodate customer differences. Here instead of focusing on existing customers and their differences, students/executives are challenged to look to noncustomers and to understand the powerful commonalities in what buyers’ value. The interactive case on Gillette complete with PowerPoint presentation and photographic visuals is used to lead a stimulating class discussion.

The fourth session, “**Building profitable business models for value innovation,**” shifts the focus from how to create new market spaces to how to build profitable business models whereby companies as well as buyers receive a leap in value. Here professors/instructors explore the important issue of how to create system alignment between the company’s profit proposition and its value proposition including strategic pricing, strategy as sequence, partnering, and overcoming adoption hurdles. Here the case of NTT DoCoMo’s I-mode is used, “*NTT DoCoMo i-mode: Value Innovation at DoCoMo,*” allowing the professor/instructor to address a technology intensive industry in the early 2000’s. Here the price corridor of the mass and profit model of blue ocean strategy are introduced. Again, a detailed Teaching Note is available.

The last session, “**The strategic patterns behind the creation of new market spaces,**” looks back at the last 100-plus years of business history. The case and accompanying DVD movie used in this session, “*A History of Blue Ocean Strategic Moves: Is There a Pattern?*” examines three representative industries that touch peoples’ everyday lives: **autos** – how people get to work; **computers** – what people use at work; and **movie theaters** – where people go after work for entertainment. The aim is limited to identifying the key strategic

moves, what we call *blue ocean creations*, which shaped each of these industries, and to assessing whether consistent strategic patterns can be identified across them.

Students/executives will find that, contrary to conventional strategic thought, patterns do exist across blue ocean strategic moves both within and across industries. Specifically, professors/instructors can draw out the following key learning points:

- Blue oceans are not about technology innovation per se. Leading-edge technology is sometimes involved in the creation of blue oceans, but is not a defining feature of them, even in industries that are technology intensive. Across all three industries represented in the case, blue oceans were seldom the result of technological innovation per se; the underlying technology was often already in existence. Rather, the key defining feature of blue oceans is value innovation – innovation that was linked to what buyers value.
- Blue oceans are created by both industry incumbents and new entrants, contrary to the assumption that start-ups have natural advantages over established companies in creating new market space. Moreover, the blue oceans created by incumbents are usually within their core businesses. Indeed most blue oceans are created from within, not beyond, red oceans of existing boundaries, creating profitable growth for start-ups and incumbents alike.
- Company and industry are the wrong units of analysis. Companies can be brilliant at one time and wrongheaded at another. Companies tend to rise and fall over time. Likewise, an industry's relative attractiveness is driven largely by the strategic actions companies take, and even unattractive industries can be made attractive by the creation of blue oceans from within.
- The most appropriate unit of analysis for explaining the creation of new market spaces is the strategic move – the set of managerial actions and decisions involved in making a major market-creating business offering. Lasting excellence is scarcely achievable for any company; to date, no company was able to lead journeys into blue oceans continuously over the long run. However, companies with powerful names are often those that have been capable of reinventing themselves by repeatedly creating new market space.
- The creation of blue oceans of new market space is a key catalyst in setting an industry on an upward growth and profit trajectory. It is pivotal in determining not only a company's rise but its fall, when another company takes the lead by creating a new blue ocean.
- Creating blue oceans builds brands. The creation of blue oceans does more than contribute to profitable growth; it exercises a strong, positive effect on establishing a company's standing brand name in buyers' minds. As the case illustrates, many blue ocean strategic moves have created brand equity that lasted for decades. Almost all of the companies in the case are remembered in no small part for the blue oceans they pioneered long ago.