

BLUE OCEAN SHIFT

GLOSSARY

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A

Adoption Hurdles are the forces that can block one from executing a Blue Ocean Strategy. These forces may come from employees, business partners, or even the general public.

Employees may fear how a new strategy will impact their current responsibilities within the company. Business partners may fear being cut out or losing importance in the new strategy. The general public may see the new strategy or offering as challenging established social or political norms.

As the participation of these three parties is vital to the successful execution of a Blue Ocean Strategy, a company must address these fears before implementing a new strategy. This can be done by engaging in open discussion with them, explaining why the new business idea is needed, and how it will be implemented. See Tipping Point Leadership.

Alternative Industries reflect the different choices buyers make across the market universe. Alternative industries embrace substitutes, that is, products and services that have different forms but the same functionality or core utility. Cars and buses, for example, are substitutes because they have the same function: going from one place to another quickly. Alternatives also embrace products and services that have different functions and forms but the same objective. For example, cinemas and restaurants are alternatives because they have neither the same form nor the same function: cinemas provide visual entertainment, while restaurants provide conversational and gastronomical pleasure. However, cinemas and restaurants have the same objective: enjoying a night out.

When trying to reconstruct market boundaries, companies should look across alternative industries. This is because they are competing not only with products or services from the same industry: customers make trade-offs across offerings from alternative industries. By focusing on the key factors that lead buyers to trade across alternative industries and by eliminating or reducing everything else, a company can create a blue ocean of new market space. See Six Paths Framework.

Angels are those within a company who have the most to gain from the execution of a new strategy. They are the ones who will support you in the execution of your Blue Ocean Strategy. You need to identify angels early on, and build a coalition of them around you. Having a coalition of angels around you protects you from your adversaries, because attacking you would mean attacking your coalition. See Political Hurdles.

Atomization is the process of breaking the execution of blue ocean shift into small, concrete steps that move people forward in increments that inspire and build their confidence, instead of intimidate.

Unless employees believe that the new strategic challenge is attainable, they will likely be de-motivated. Therefore, the new strategic vision should be brought down-to-earth in a way that is easy to understand and is atomized into actionable bite-size tasks that can be quickly executed at all levels of the organization. See Motivational Hurdle.

B

Blue Ocean Fair is the moment when the key stakeholders present their to-be strategy canvases to the senior organization's leadership, other executives of the organization, customers and noncustomers. This is when the decision is reached on which blue ocean to pursue. The Blue Ocean Fair results in a clear decision, validated by key stakeholders with a wealth of feedback and insight on how the chosen strategic move can be further refined and potential gaps in execution can be efficiently and effectively closed. After the fair, rapid market tests with the chosen offering's rough prototype are conducted to cross-check market reactions and refine the idea, as needed. See Rapid Market Tests.

Blue Ocean Idea (BOI) Index is a simple yet robust tool to verify if a new business idea meets the criteria of a Blue Ocean Strategy. Often, companies believe that a great idea is enough to generate a commercial success. Of course, great ideas must create a significant leap in buyer utility. But the offering must also be priced so that it is within the reach of the mass of target buyers, while at the same time guaranteeing a handsome profit to the company by reducing its cost structure. Managers must also ensure that before executing the strategy, they have addressed any adoption hurdles – fears and resistance coming from employees, business partners, or the general public in response to the change created by the new business idea.

In this perspective, the Blue Ocean Idea index tests the following four criteria, in that order:

1. Does the new offering provide exceptional utility?
2. Is the price easily accessible to the mass of target buyers?
3. Does the cost structure meet the target cost?
4. Are adoption hurdles addressed up front?

If the answer is no at any step, it is important to return to the previous step until the answer is yes to each question.

Blue Oceans represent the unknown market space, i.e. all the industries not in existence today. Blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. In blue oceans, competition is irrelevant because the rules of the game are not set. Blue oceans can be created beyond existing industry boundaries or by expanding existing industry

boundaries. Blue Ocean Strategy provides the systematic logic, tools and methodologies to create blue oceans.

Blue Ocean Perspective Too many organizations are wedded to industry best practices even as they strive to break away from them. Adopting a blue ocean perspective opens your mind to what could be, instead of limiting it to what it is. It expands your horizons and ensures that you are looking in the right direction. Without expanding and reorienting your perspective, striving to open up a new value-cost frontier is like running west looking for the sunrise. No matter how fast you run, you're not going to find it. See the Mindset of a Blue Ocean Strategist.

Blue Ocean Shift is a systematic process to move you, your team, and your organization from cutthroat markets with bloody competition to wide-open blue oceans, or new markets devoid of competition, in a way that brings your people along. It does this by building people's creative competence and confidence to act at every step of the journey. The Blue Ocean Shift process comprises five systematic steps that minimizes the randomness, trial and error in creating new markets, providing the tools and guidance you need to make a blue ocean shift. See The Five Steps to Make a Blue Ocean Shift.

Blue Ocean Strategy (BOS) is the simultaneous pursuit of differentiation and low-cost to create new market space. Blue Ocean Strategy seeks to make the competition irrelevant by creating a leap in value for both the company and its buyers.

Blue Ocean Strategy aligns the following three propositions:

1. **Value proposition:** The utility buyers receive from the product or service minus the price they pay for it.

Is there a compelling reason for the mass of target buyers (customers and noncustomers) to purchase the new offering? Is the offering priced to attract the mass of target buyers so that they have a compelling ability to pay for it?

2. **Profit proposition:** The price of the offering minus the cost of producing and distributing it.

Achieving lower cost is achieved by eliminating and reducing factors that the industry has either taken for granted (e.g., legacy factors the industry still competes on but add little value); or over delivered on.

3. **People proposition:** The readiness of employees to execute the new strategy with all of their energy, to the best of their abilities, and voluntarily.

Adoption hurdles can block the execution of a Blue Ocean Strategy. These forces may come from the company's employees, business partners, or the general public. One must identify adoption hurdles, and address them up-front before attempting to execute a Blue Ocean Strategy.

Beyond the alignment of these three propositions, six principles drive the successful formulation and implementation of Blue Ocean Strategy. See Principles of Blue Ocean Strategy.

Buyers encompass the totality of customers and noncustomers. Customers are existing industry customers; they are the ones the industry is fighting for. Often, companies focus on their existing customers and ignore noncustomers. Yet, to create new demand, companies need to look outside of their typical customer base.

Instead of focusing on further segmenting customer differences, they need to build on powerful commonalities in what buyers value. This is because buyers are often willing to put their differences aside to gain a dramatic leap in new value. By changing a manager's focus from competitors to alternatives and from customers to noncustomers, they will be able to reach beyond existing demand and unlock a new mass of buyers that did not exist before.

Buyer Utility Map is a tool that helps managers test whether their business or product/service offers a leap in value to buyers. It also helps managers test whether their business or product/service unwittingly blocks buyer utility across the totality of the buyer's experience. A buyers' experience can be broadly broken into a cycle of six stages: Purchase, Delivery, Use, Supplements, Maintenance, and Disposal. At each stage, a company can typically use six levers to unlock exceptional buyer utility: Customer Productivity, Simplicity, Convenience, Risk, Fun & Image, and Environmental Friendliness. The buyer utility map is a two-dimensional matrix that displays the six stages of the buyer experience cycle on one dimension, and the six utility levers on the other.

By applying the buyer utility map, managers: 1) gain initial insights into the unquestioned assumptions that their industry is based on that detract from value and can be reversed; 2) can test the exceptional utility of their offering by checking whether their business or product/service removes the biggest blocks to utility across the experience cycle; 3) can uncover what assumptions increase costs without significantly raising buyer utility.

C

Chain of Buyers refers to the different players involved directly or indirectly in the buying decision. Generally speaking there are three groups: purchasers, users and influencers. Although these three groups may overlap, they often differ. For example, a sick child would be the user of a prescribed medicine, their parent, the purchaser, and the doctor, the influencer.

However, normally an industry converges on a single buyer group. The pharmaceutical industry, for example, focuses overwhelmingly on doctors, the influencers. When reconstructing market boundaries, managers should challenge conventional definitions of who is the target buyer and look across the chain of buyers. This is because different buyer groups often hold different definitions of value. Thus, by shifting the focus to other buyer groups companies can often see new ways to unlock value. See Six Paths Framework.

Cognitive Hurdles are the mental blocks holding back employees from realizing that there is a need for change as is often required by Blue Ocean Strategy. Often to wake employees up to the need for change, companies point to the numbers and insist that the company must achieve better results. This, however, is often too abstract to inspire employees to move. In order to effectively change employees' attitude and behavior, one must make them see and experience the need to change first hand. To overcome the cognitive hurdle employees must be put face-to-face with their worst operational problems and with disgruntled customers. Research in neuroscience and cognitive science shows that people remember and respond most effectively to what they see and experience. See Tipping Point Leadership.

Cold Spots are activities that have high resource input but low performance impact. Taking resources away from cold spots and assigning them to activities that have a high performance impact is a way to execute Blue Ocean Strategy with limited resources. See Resource Hurdle.

Commonalities are shared preferences among buyers. To ensure that a blue ocean is deep and wide enough to guarantee sustainable profitability, managers must aggregate the greatest demand for their offering by challenging two conventional strategic practices: focusing on existing customers and driving for finer segmentation to accommodate buyer differences. By looking to noncustomers and by building on powerful commonalities across them, it is possible to reach beyond existing demand and unlock a new mass of customers that did not exist before.

Complementary Products and Services are products and services that indirectly impact the utility a buyer receives from an offering. Few products and services are used in a vacuum. Yet managers tend to confine their worldview within the bounds of their industry, without asking what happens before, during, and after the use of their product or service.

The key is to define the total solution buyers seek when they choose a product or service. For example, babysitting assistance and parking facilities are two complementary services to movie theaters. By expanding one's attention to the total solution buyers seek when they choose a product or service, and by removing the "pain points" that buyers experience before, during or after the use of their produce or service, a company can create a blue ocean of new market space. See Six Paths Framework.

Consigliere is a politically adept and highly respected insider who can help identify landmines that may lie ahead in executing a Blue Ocean Strategy. A consigliere will, for example, help identify who will fight and who will support the changes a tipping point leader would like to make. While it is important to build a top management team with strong functional skills such as marketing, operations or finance, bringing a Consigliere on board allows a leader to zoom in on identifying the key players and how they will likely play the political game. See Political Hurdles.

Creative Competence is the intellectual understanding of the legwork needed to make a blue ocean shift happen. While humanness builds our confidence to act, market-creating tools and clear guidance on how to apply them build our creative competence. See Humanness.

D

Devils are people who will likely fight the execution of a Blue Ocean Strategy. They are the ones who have the most to lose from the new strategy. Once identified, devils need to be isolated. Tipping point leaders build a coalition of supporters (angels) around them to dissuade the naysayers from attacking them; for attacking the new strategy would mean attacking the mass of supporters. See Political Hurdles.

Disruptive Creation, in the context of new market creation, embraces the two forms of displacement (creative destruction and disruptive innovation) so that the process of new market creation through displacement can be fully, not partially explained.

Divergence refers to the difference between a company's strategic profile and that of its competitors'. Specifically, it refers to the divergence between the key competitive factors and level of investment in these factors of a company's offering relative to its rivals' as visualized on the strategy canvas. In red oceans, companies' strategies tend to converge; they tend to focus on the same key competitive factors with marginal differences in price and offering level across these competing factors. A company practicing blue ocean strategy, in contrast, reconstructs market boundaries to create a divergent offering from the competition. See Strategy Canvas and Six Paths Framework.

E

Eliminate-Reduce-Raise-Create Grid (ERRC Grid) forces managers to systematically pursue differentiation and low cost by answering the following questions based on noncustomers insights gained using the Six Paths Framework:

Eliminate Which of the factors that the industry takes for granted should be eliminated?

Reduce Which factors should be reduced well below the industry's standard?

Raise Which factors should be raised well above the industry's standard?

Create Which factors should be created that the industry has never offered?

Filtering insights through the ERRC grid forces managers to simultaneously pursue differentiation and low costs. It drives one to robustly scrutinize every factor their industry competes on, helping them discover the range of implicit assumptions they make unconsciously in competing. It immediately flags if they are focused only on raising and creating and thereby lifting their cost structure by over-engineering their offering—a common plight in many companies. Finally, because it is easily understandable by managers at any level, the ERRC grid creates a high level of engagement throughout the organization.

Emotional Appeal to Buyers refers to the emotional utility a buyer receives in the consumption or use of a product or service. Competition tends to converge on one of two possible basis of appeal. Some industries focus principally on price and function largely based on calculations of utility; their appeal is functional. Other industries compete largely on feelings; their appeal is emotional. Yet what many companies fail to see is that the appeal of most products or services is rarely intrinsically one or the other. When companies are willing to challenge the functional/emotional orientation of their industry, they often find new noncustomer insights. For example, if one is in an industry that is largely focused on an emotional basis of appeal, ask: “What are the extras we offer that add to the cost of our product without enhancing functionality? What if we eliminated or reduced these factors, can we create a simpler, functional, lower-priced, lower-cost offering that would dramatically raise buyers’ value?” See Six Paths Framework.

Engagement is an element of fair process. Engagement means involving individuals in the strategic decisions that affect them, asking for their input, and allowing them to refute the merit of one another’s ideas and assumptions. Engagement communicates management’s respect for individuals and their ideas. It sharpens everyone’s thinking and builds better collective wisdom. The result is better strategic decisions and greater commitment from the entire organization in executing Blue Ocean Strategy. See Fair Process.

Expectation Clarity is an element of fair process. Expectation clarity requires that after a strategy is set, managers state clearly the new rules of the game and what is expected of employees. Although the expectations of a Blue Ocean Strategy may be demanding, employees should know up front what standards they will be judged by and the penalties for failure. When people clearly understand what is expected of them, political jockeying and favoritism are minimized, and people can focus on executing the strategy rapidly. See Fair Process.

Explanation is an element of fair process. Explanation means that everyone involved and affected should understand why final strategic decisions are made as they are. An explanation of the thinking

behind decisions makes people confident that managers have considered their opinions and have made decisions impartially in the overall interests of the company. An explanation allows employees to trust management's intentions even if their own ideas have been rejected. It also serves as a powerful feedback loop that enhances learning. See Fair Process.

F

Fair Process is the managerial expression of procedural justice in the formulation and execution of strategic decisions. Fair process inspires employees to cooperate voluntarily and to go beyond the call of duty in executing a Blue Ocean Strategy. The implementation of any great strategic vision relies on the support and alignment of all members of an organization. But commitment cannot be commanded: carrots and sticks only bring compulsory cooperation. Fair process inspires employees to use their energy and initiative to execute a strategy to the best of their abilities. There are three mutually reinforcing elements that define fair process:

1. **Engagement.** Engagement means involving individuals in the strategic decisions that affect them, asking for their input, and allowing them to refute the merit of one another's ideas and assumptions. Engagement communicates management's respect for individuals and their ideas. It sharpens everyone's thinking and builds better collective wisdom. The result is better strategic decisions and greater commitment from the entire organization in executing Blue Ocean Strategy.
2. **Explanation.** Explanation means that everyone involved and affected should understand why final strategic decisions are made as they are. An explanation of the thinking behind decisions makes people confident that managers have considered their opinions and have made decisions impartially in the overall interests of the company. An explanation allows employees to trust management's intentions even if their own ideas have been rejected. It also serves as a powerful feedback loop that enhances learning.
3. **Expectation clarity.** Expectation clarity requires that after a strategy is set, managers state clearly the new rules of the game and what is expected of employees. Although the expectations of a Blue Ocean Strategy may be demanding, employees should know up front what standards they will be judged by and the penalties for failure. When people clearly understand what is expected of them, political jockeying and favoritism are minimized, and people can focus on executing the strategy rapidly.

Firsthand Discovery is when people discover for themselves the need to make a blue ocean shift, instead of being told. The Blue Ocean Shift process achieves this in two important ways. First, people are handed no predetermined conclusions. Rather, at each step, people are given tools that allow them to arrive at the answers themselves. Second, the process changes what people see and experience, leading us to open our minds and change our understanding of what we know to be true because we witnessed it ourselves.

Fishbowl Management is the process whereby the activities (action and inaction) of the key influencers of an organization, or kingpins, are made transparent to one another for all to see, as fish in a fishbowl. By placing kingpins in a fishbowl one can greatly raise the stakes of inaction. Light is shined on those who are lagging behind and those who are excelling. Punishment and reward, in turn, are given in a transparent and open way for all to see. For fishbowl management to work, it must be based on transparency, inclusion, and fair process. See Kingpins and Motivational Hurdle.

The Five Steps to Make a Blue Ocean Shift

The Blue Ocean Shift process comprises five systematic steps that minimizes the randomness, trial and error in creating new markets:

STEP 1. Get Started:

- Choosing the right place to start.
- Constructing the right blue ocean team.

STEP 2. Understand Where You Are Now:

- Getting clear about the current state of play.

STEP 3. Imagine Where You Could Be:

- Uncovering the hidden pain points that limit the size of your industry.
- Discovering an ocean of noncustomers.

STEP 4. Find How You Get There:

- Reconstructing market boundaries – systematically.
- Developing alternative blue ocean opportunities

STEP 5. Make Your Move:

- Selecting your blue ocean move and conducting rapid market tests.

Focus is when a business or product/service offering concentrates on a limited number of key competitive factors. Focus signals that an offering pursues low cost by not diluting a company's resources in unnecessary investments. It suggests that a new strategy has a holistic strategic focus, instead of being a conglomerate of independent tactics. Limiting the number of key competitive factors also makes the strategy easier to communicate and execute.

Four Actions Framework is a tool that helps managers reconstruct buyer value elements into a new value curve that breaks the differentiation / low cost trade-off. It forces the organization to ask the following four questions:

1. Which of the factors that the industry takes for granted should be eliminated?
2. Which factors should be reduced well below the industry's standard?
3. Which factors should be raised well above the industry's standard?
4. Which factors should be created that the industry has never offered?

The first question forces managers to consider eliminating factors that may have made sense in the past, but do not add much value to buyers today.

The second question forces them to consider reducing factors that may have been over-designed in the race to beat the competition. Hence those two questions address the low cost side of the equation by helping companies reduce their cost structure.

The third question forces managers to uncover and eliminate the compromises that the industry has forced buyers to make. The fourth question helps managers discover new sources of value for buyers. The last two questions address the differentiation side of the equation.

Functional Appeal to Buyers refers to the functional utility buyers receive from a business or product/service based on basic calculations of utility and price. Competition in an industry tends to converge on one of two possible basis of appeal. Some industries focus principally on price and function based largely on calculations of utility; their appeal is functional. Other industries compete largely on feelings; their appeal is emotional. Yet what many companies fail to see is that the appeal of most products or services is rarely intrinsically one or the other. When companies are willing to challenge the functional/emotional orientation of their industry, they can often discover insights to create new market space. For example, if an industry is largely focused on a functional basis of appeal, ask: “What emotional elements can we raise or create to infuse our commodity products with new life by adding a dose of emotion?” See Six Paths Framework.

H

Humanness is one of the three key components of a successful blue ocean shift. It creates a humanistic process that inspires and builds people’s confidence to own and drive the process for effective strategy execution. Humanness builds our confidence to act by eliciting our emotional engagement. It relaxes us and makes us feel secure enough to reach beyond what we know and explore the as-yet unknown. It inspires us to tap into our curiosity and creativity, which are abundant, powerful and vastly underutilized by our organizations as well as ourselves. This is critical for reshaping and reimagining industry boundaries. Humanness is built into the strategy process in three important ways: through firsthand discovery, through atomization, and through fair process.

Horse Trading is the skillful trading of a given unit’s excess resources that are not needed, for resources belonging to another unit that are needed. It is an important lever companies can use to overcome the resource hurdle in executing Blue Ocean Strategy. See Resource Hurdle.

Hot Spots are activities that have low resource input but high performance impact. Taking resources away from cold spots (activities that have high resource input but low performance input) and

assigning them to hot spots is a way to execute Blue Ocean Strategy with limited resources. See Cold Spots and Resource Hurdle.

K

Kim and Mauborgne's Growth Model of Market-Creating Strategy

There are three basic ways to pursue innovation. Companies can:

- Offer a breakthrough solution to an industry's existing problem.
- Identify and solve a brand-new problem or seize a brand-new opportunity.
- Redefine an existing industry problem and solve the redefined problem.

Kim and Mauborgne's Growth Model of Market-Creating Strategy is a graphic showing how each approach to market-creating innovation strikes a different balance between disruptive and nondisruptive creation to achieve growth. See Nondisruptive Creation.

Kingpins are key influencers in an organization. These are the individuals who are well respected and persuasive, and have an ability to unlock or block access to key resources. To execute Blue Ocean Strategy fast and at lower cost, leaders should concentrate on influencing the kingpins who have significant influence over the mass of employees instead of attempting to tackle everyone in the organization. See Motivational Hurdle.

M

Market-creating strategies pursue both differentiation AND low cost to open a new value-cost frontier. They are built in three basic ways:

- Offer a breakthrough solution for an industry's existing problem.
- Identify and solve a brand-new problem or seize a brand-new opportunity.
- Redefine an industry's existing problem and solve the redefined problem.

See Kim and Mauborgne's Growth Model of Market-Creating Strategies.

The Mind of a Blue Ocean Strategist

Blue Ocean Strategists are able to see opportunities where others only see constraints by shifting their perspective in four important ways. First, they do not take industry conditions as given. Rather they set out to reshape them in their favor. Second, they do not seek to beat the competition. Instead, they aim to make the competition irrelevant. Third, they focus on creating and capturing new demand, not fighting over existing customers. And fourth, they simultaneously pursue differentiation and low cost. They aim to break, not make, the value-cost trade-off. This is the mind of the blue ocean strategist.

Migrators are businesses or products/services that offer improved value over competition, but not innovative value. These offerings give customers more for less, but do not substantially change the strategic profile of their industry. See Pioneer-Migrator-Settler (PMS) Map.

Motivational Hurdles are the blocks to motivating employees in executing a new strategy like Blue Ocean Strategy. Once a company is awakened to the need for change, managers must ensure that their employees act in a direct, meaningful and sustained manner. Too often breakthrough strategies fail because front-line employees fail to execute them properly. This is often the result of business leaders issuing grand strategic visions through massive top-down mobilization initiatives that are often a cumbersome, expensive, and time-consuming process. Particularly given the wide variety of motivational needs in most large companies, these overarching strategic visions often inspire lip service instead of the intended action.

Instead of diffusing change efforts widely, tipping point leaders follow a reverse course and seek mass concentration over mass mobilization to overcome the motivational hurdle. They focus on three factors of disproportionate influence in motivating employees: kingpins, fishbowl management, and atomization. See Kingpins, Fishbowl Management, Atomization and Tipping Point Leadership.

N

New Value-Cost Frontier

To open up a new value-cost frontier, organizations need to apply a step change in the kind and degree of value offered. By pursuing both differentiation and low cost, organizations break the existing value-cost tradeoff, offering a leap in value beyond the existing productivity frontier of an industry and thereby open up a new value-cost frontier. Blue Ocean Shift is the process to open a new value-cost frontier.

Noncustomers are customer groups who are either not served by the current industry's offering, or in the case of first-tier noncustomers, are existing customers who are about to turn away from the current industry's offering. Noncustomers can be grouped into three categories:

1. **First-tier noncustomers** are soon-to-be noncustomers: they use the current industry offering minimally, while searching for better options. They are waiting to jump ship and will leave this market as soon as the opportunity presents itself.
2. **Second-tier noncustomers** refuse the industry's offerings. These are buyers who have seen what the current industry has to offer as an option to fulfill their needs but have chosen against them.

3. **Third-tier noncustomers** have never thought of the current industry's offerings as an option. As such, they do not feel concerned by its offering. They are the farthest from the current market.

Often, companies focus on their existing customers and ignore noncustomers. They believe that their needs are too different from what they can offer or that they belong to other industries. To unlock untapped demand, managers must look outside of their typical customer base. By expanding their worldview beyond their current customers, they can reach beyond existing demand and unlock a new mass of customers that did not exist before.

Nondisruptive Creation is when you create new markets where there once wasn't any. So there is no displacement or disruption of existing businesses or industries. It is a positive sum approach to market-creating strategy, producing both growth and employment, without engendering the short-to medium term painful social adjustment costs that follow disruption.

P

Pioneer-Migrator-Settler (PMS) Map is both a diagnostic and planning tool that helps managers assess and plan their future growth at the portfolio level. The PMS Map is a 3-by-2 matrix where each row represents a business category - pioneers, migrators and settlers. With respect to the two columns, the first represents the business situation today, while the second column represents the business situation in the future. Managers can use the PMS Map to plot either businesses in their portfolio, or the products/services they offer.

Pioneers are businesses or products/services that offer unprecedented value to buyers. Their value curve radically diverges from the competition, and they have a mass following of customers. These businesses are Blue Ocean Strategies; they are the most powerful sources of profitable growth.

Migrators are businesses or products/services that offer improved value over competition, but not innovative value: they give customers more for less, but do not radically change the key factors of competition of their industry.

Settlers are businesses or products/services that offer more or less the same value to buyers as the rest of the industry. These are me-too businesses. Although they are often today's cash cows, settlers will not generally contribute much to a company's future growth because they are stuck within the red ocean of competition.

To assess a company's profitable growth prospects, a company should plot each business or product/service as a circle on the map according to the criteria above.

The size of each dot should reflect the amount of revenue earned from each business or product/service. Hence a business with relatively large revenues would be plotted as a large circle on the map; a business with smaller relative revenues should be plotted as a small circle.

Pioneers are the businesses or products/services that offer unprecedented value to buyers. Their value curve diverges from the competition, and they have a mass following of customers. These are Blue Ocean Strategies; they are the most powerful sources of profitable growth. See Pioneer-Migrator-Settler (PMS) Map.

Political Hurdles are the strong political forces that may arise to block the execution of a new strategy. Even the wisest decisions can be knocked dead by the strong, intangible political forces that exist within any organization. This is why it is critical to address political hurdles up front before executing a Blue Ocean Strategy. To overcome these political forces, managers should focus on three disproportionate influence factors: leveraging angels, silencing devils, and getting a consigliere on their top management team. Angels are those who have the most to gain from the strategic shift. Devils are those who have the most to lose from it. And a consigliere is a politically adept but highly respected insider who knows in advance all the landmines, including who will fight and will support a new strategic initiative. See Angels, Devils, and Consigliere.

Price Corridor of the Mass is a tool managers can use to determine the right price to unlock the mass of target buyers. When setting a strategic price for a business or product/service, managers must evaluate the trade-offs that buyers consider when making their purchasing decision, as well as the level of legal and resource protection that will block other companies from imitating their offerings.

The Price Corridor of the Mass is a two-step process:

1. Identify the price corridor of the mass, i.e. the price range that attracts the mass of target buyers. Key to determining the strategic price is for managers to understand the price sensitivities of buyers who will be comparing the new business or product/service with a host of very different-looking products and services offered outside the group of traditional competitors. For example, buyers can choose between several movie theaters, but they can also decide to go to restaurants and bars. Managers should consider two categories of products/services that are beyond an industry's boundaries in identifying the price corridor of the mass. Those are: products and services that take different forms but perform the same function; and products and services that have different forms and functions but serve the same purpose.
2. Next determine how high or low the strategic price should be set within the corridor without inviting competition from imitation. To do this, a company should consider two sets of factors: 1) the level of legal and resource protection the new offering has to block imitation; and 2) the degree to which the company owns some exclusive asset or core capability, such as an expensive production plant,

that can also block imitation. The higher the level of protection against imitation, the higher the strategic price can be within the price range that still attracts the mass of target buyers. For example, if the product or service has strong patents and hard-to-imitate service capabilities one can use upper-boundary strategic pricing to attract the mass of buyers. On the other hand, if a manager is uncertain about their patent and asset protection they should consider pricing somewhere in the middle to lower end of the corridor.

Principles of Blue Ocean Strategy are the six main principles that guide companies through the formulation and execution of their Blue Ocean Strategy in a systematic risk minimizing and opportunity maximizing manner.

The first four principles address Blue Ocean Strategy formulation:

1. **Reconstruct market boundaries.** This principle identifies the paths by which managers can systematically create uncontested market space across diverse industry domains, hence attenuating search risk. It teaches companies how to make the competition irrelevant by looking across the six conventional boundaries of competition to open up commercially important blue oceans. The six paths focus on looking across alternative industries, across strategic groups, across buyer groups, across complementary product and service offerings, across the functional-emotional orientation of an industry, and even across time.
2. **Focus on the big picture, not the numbers.** Illustrates how to design a company's strategic planning process to go beyond incremental improvements to create value innovations. It presents an alternative to the existing strategic planning process, which is often criticized as a number-crunching exercise that keeps companies locked into making incremental improvements. This principle tackles planning risk. Using a visualizing approach that drives managers to focus on the big picture rather than to be submerged in numbers and jargon, this principle proposes a four-step planning process whereby you can build a strategy that creates and captures blue ocean opportunities.
3. **Reach beyond existing demand.** To create the greatest market of new demand, managers must challenge the conventional practice of aiming for finer segmentation to better meet existing customer preferences. This practice often results in increasingly small target markets. Instead, this principle shows how to aggregate demand, not by focusing on the differences that separate customers but by building on the powerful commonalities across noncustomers to maximize the size of the blue ocean being created and new demand being unlocked, hence minimizing scale risk.
4. **Get the strategic sequence right.** This principle ensures companies not only create a leap in value to the mass of buyers but also to build a viable business model to produce and maintain profitable growth. In ensuring that companies build a business model that profits from the blue ocean they have created, it addresses business model risk. This principle articulates the sequence in which managers

should create a strategy to ensure that both their company and their customers win as they create new business terrain. Such a strategy follows the sequence of utility, price, cost, and adoption.

The remaining two principles address the execution risks of Blue Ocean Strategy.

5. **Overcome key organizational hurdles.** Tipping point leadership shows managers how to mobilize an organization to overcome the key organizational hurdles that block the implementation of a blue ocean strategy. This principle deals with organizational risk. It lays out how leaders and managers alike can surmount the cognitive, resource, motivational, and political hurdles in spite of limited time and resources in executing blue ocean strategy.

6. **Build execution into strategy.** By integrating execution into strategy making, people are motivated to act on and execute a blue ocean strategy in a sustained way deep in an organization. This principle introduces, what Kim & Mauborgne call, fair process. Because a blue ocean strategy performance represents a departure from the status quo, fair process is required to facilitate both strategy making and execution by mobilizing people for the voluntary cooperation needed to execute blue ocean strategy. It deals with management risk associated with people's attitudes and behaviors.

R

Rapid Market-Tests are conducted after the Blue Ocean Fair to cross-check market reactions to the selected blue ocean offering and confirm the strength of the offering. These tests will not only allow you to understand the optimal way to position the offering to buyers and supply chain partners, but also to learn about any additional adjustments you might need to make before launch.

Reconstructionist View recognizes that market boundaries and industry structures are not set and can be cognitively reconstructed in a fundamentally new way. As industry structure and market boundaries exist only in managers' minds, the reconstructionist view asserts that existing market structures should not limit one's thinking. In this worldview, extra demand is out there. The problem is how to create it. Therefore, under the reconstructionist view, attention shifts 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. With this new focus in mind, it is possible to systematically look across established boundaries of competition and reconstruct existing elements in different markets to create all new market space where a higher level of demand is generated.

Red Oceans refer to the known market space, i.e. all the industries in existence today. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Companies try to outperform their rivals to grab a greater share of existing demand usually

through marginal changes in offering level and price. As the market space gets crowded, prospects for profits and growth are reduced.

Products become commodities, and cutthroat competition turns the red ocean bloody.

Red Ocean Traps are salient assumptions built into managers' mental models. They anchor managers in red oceans—crowded market spaces where companies engage in bloody competition for market share—and prevent them from entering blue oceans, previously unknown and uncontested market spaces with ample potential.

The first two traps stem from assumptions about marketing, in particular an emphasis on customer orientation and niches; the next two from economic lessons on technology innovation and creative destruction; and the final two from principles of competitive strategy that regard differentiation and low cost as mutually exclusive choices:

- Trap One: Seeing Market-Creating Strategies as Customer-Oriented Approaches
- Trap Two: Treating Market-Creating Strategies as Niche Strategies
- Trap Three: Confusing Technology Innovation with Market-Creating Strategies
- Trap Four: Equating Creative Destruction with Market Creation
- Trap Five: Equating Market-Creating Strategies with Differentiation
- Trap Six: Equating Market-Creating Strategies with Low-Cost Strategies

Resource Hurdles are the difficulties managers face implementing change with limited resources and time. Traditionally it is believed that the greater the shift in strategy, the greater the resources needed to execute it. Unfortunately, a company rarely has the resources it thinks it needs to achieve a sharp shift in strategy as is often required with Blue Ocean Strategy. Leaders that practice tipping point leadership, however, do not spend their time and energy obtaining more resources. Instead, they identify where the cold spots (activities that have high resource input but low performance impact) and hot spots (activities that have low resource input but high potential performance gains) are in their organization, and redistribute the company's resources from cold spots to hot spots. Understanding that some units within the organization have excess resources while lacking other types of resources, they also engage in horse trading: they trade a given unit's excess resources in one area for another unit's excess resources to fill remaining resource gaps.

S

Settlers are a company's businesses or products/services that offer more or less the same value to buyers as the rest of the industry. These are me-too businesses. Although they are often today's cash cows, settlers will generally not contribute much to a company's future growth because they are stuck within the red ocean of competition. See Pioneer-Migrator-Settler (PMS) Map.

Six Paths Framework is the tool managers use to look across the six conventional boundaries of competition to systematically reconstruct market assumptions to create new market space. These are: looking across alternative industries instead of focusing on competing within an industry; looking across strategic groups within industries instead of a company confining itself to established strategic groups; looking across the chain of buyers instead of focusing on the same buyer group as the rest of the industry; looking across complementary products and services instead of a company limiting itself to the scope of an industry's products and services; looking across functional or emotional appeal to buyers instead of accepting an industry's functional or emotional orientation; looking across time instead of focusing on the same point in time as the rest of the industry. By looking across these conventional boundaries, companies gain insight into what factors they should eliminate, reduce, raise or create in their offering to reconstruct market boundaries to unlock a blue ocean of new market space.

Strategic Groups within Industries are groups of companies within an industry that pursue a similar strategy. Strategic groups can generally be ranked in a rough hierarchical order built on two dimensions, price and performance. For example in the car manufacturing industry, the luxury car segment and the economy car segment are two separate strategic groups. When trying to reconstruct market boundaries, companies should look across strategic groups within their industry as buyers make trade-offs between offerings from different strategic groups and not solely on price. See Six Paths Framework.

Strategic Move is the set of managerial actions and decisions involved in making a major market-creating business offering. The Six Principles of Blue Ocean Strategy reveal the key patterns behind the formulation and execution of strategic moves that create blue oceans. See Principles of Blue Ocean Strategy.

Strategic Pricing is the systematic process of setting a price that attracts the mass of target buyers. It involves looking at the alternatives that buyers have when making their purchasing decisions, as well as at the level of protection that the company's new offering has against imitation. Many companies first test the waters of a new product or service by targeting novelty-seeking, price-insensitive customers. Only over time do they drop price to attract the mass of target buyers. In Blue Ocean Strategy, however, it is critical to take the reverse course by setting a strategic price from the outset that will attract the mass of target buyers. See Price Corridor of the Mass.

Strategic Profile is the graphic depiction of a company's strategy. It captures a company's relative performance across the key competitive factors of an industry including price. This is also called a value curve. The framework used to capture the strategic profile (or value curve) of a company's business or product/service is the Strategy Canvas.

Strategy Canvas is a diagnostic and action framework for building a compelling Blue Ocean Strategy. It quickly captures, in one simple picture, the factors an industry competes on and invests in, the offering level of each factor that buyers receive, and the strategic profile of a company and its competitors across the key competing factors. The “as is” strategy canvas captures where a company stands today in the known market space. The “to be” strategy canvas captures a company’s “to be” strategic profile in its attempt to create a blue ocean.

Substitutes are products and services that have different forms but the same functionality or core utility. Cars and buses, for example, are substitutes because they have the same function: going from one place to another quickly.

T

Tagline is a phrase that captures the essence of the “to be” strategy in a way that speaks forcefully to both a company’s employees and the target mass of buyers. A blue ocean strategy has a clear-cut and compelling tagline. A compelling tagline ensures that the strategy makes sense. It helps customers identify immediately what is offered, and it helps employees identify what they should concentrate on, thereby, bringing focus to the execution of the strategy.

Target Costing is the process of actively searching for ways to minimize an offering’s costs to meet the predetermined strategic price and profit margin. Many companies take the reverse path: looking at their product’s cost, they add their desired margin to create their price. This usually leads to a price that is not attractive to the mass of target buyers. Here, price-minus costing, and not cost-plus pricing, is essential if one is to arrive at a cost structure that is both profitable and hard for potential followers to match. Target costing for companies executing a Blue Ocean Strategy is therefore generally more aggressive, because it forces companies to find innovative ways to reduce their costs. Part of the challenge of meeting the target cost is addressed in building a strategic profile that has focus, i.e. by reducing or eliminating key competitive factors the industry has taken for granted.

The Three Key Components of Blue Ocean Shift

1. Adopting a blue ocean perspective, so that you expand your horizons and shift your understanding of where opportunity resides.
2. Having practical tools for market creation with proper guidance on how to apply them to translate a blue ocean perspective into a commercially compelling new offering that creates new market space.
3. Having a humanistic process, “humanness”, which inspires and builds people’s confidence to own and drive the process for effective execution.

Time, Look Across refers to path six of the Six Paths framework, whereby managers gain noncustomer insights by shaping external trends to unlock breakthrough value. All industries are subject to external trends that affect their business over time. Instead of adapting incrementally and somewhat passively, one can gain insights into how the trend(s) will change value to customers and impact their company's business model. By looking across time—from the value a market delivers today to the value it might deliver tomorrow— managers can actively shape the future and lay claim to a new blue ocean. In order to assess trends across time, three criteria are critical: the trend must be decisive to the business, irreversible and have a clear trajectory. See Six Paths Framework.

Tipping Point Leadership is the set of leadership principles that allow managers to overcome execution hurdles fast and at low cost while winning employees' backing in executing a breakthrough strategy. Tipping point leadership builds on the rarely exploited reality that in every organization, there are people, acts, and activities that exercise a disproportionate influence on performance. Contrary to conventional wisdom, tipping point leadership is focused on conserving resources and cutting time by focusing on identifying and then leveraging the factors of disproportionate influence in an organization.

Tipping Point leaders do so by asking the following key questions: What factors or acts exercise a disproportionately positive influence on breaking the status quo? On getting the maximum bang out of each buck of resources? On motivating key players to aggressively move forward with change? And on knocking down political roadblocks that often trip up even the best strategies? By single-mindedly focusing on points of disproportionate influence, tipping point leaders can topple the four hurdles that limit execution of Blue Ocean Strategy fast and at lower cost.

U

Unit of Analysis is, in the context of management literature, the basic observable entity used to study and explain the success or failure of businesses over time. The unit of analysis commonly used in exploring the roots of high performance is the company or the industry. However, as there is no perpetually high- performing firm or high performing industry – both rise and fall across time -- Blue Ocean Strategy uses the strategic move, and not the company or the industry, as the basic unit of analysis for exploring and explaining the creation of blue oceans. The strategic move is the unit of analysis upon which the logic, tools, and methodologies of blue ocean strategy are derived. See Strategic Move.

V

Value-Cost Trade-off is the conventional belief that companies can either create greater value to customers at a higher cost, or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those who seek to create blue oceans pursue

differentiation and low cost simultaneously. This enables them to create a dramatic leap in value for buyers and the company itself. See Value Innovation.

Value Curve See Strategic Profile.

Value Innovation is the strategic logic underpinning blue ocean strategy. Value innovation is the simultaneous pursuit of differentiation and low cost. Value innovation focuses on making the competition irrelevant by creating a leap of value for buyers and for the company, thereby opening up new and uncontested market space. Because value to buyers comes from the offering's utility minus its price, and because value to the company is generated from the offering's price minus its cost, value innovation is achieved only when the whole system of utility, price and cost is aligned. In the Blue Ocean Strategy methodology, the Four Actions Framework and ERRC grid assist managers in breaking the value-cost trade-off by answering the following questions:

What factors can be eliminated that the industry has taken for granted? What factors can be reduced well below the industry's standard?

What factors can be raised well above the industry's standard? What factors can be created that the industry has never offered?

Visual Awakening/ Visual Exploration / Visual Strategy Fair / Visual Communication is the four step process of the Blue Ocean Strategy methodology.

1. Visual Awakening

The Visual Awakening serves as a wake-up call for companies to challenge their existing strategy. A common mistake is to discuss changes in strategy before resolving differences of opinion about the current state of play. Another problem is that managers are often reluctant to accept the need for change.

In the Visual Awakening stage drawing the PMS Map and "as is" strategy canvas brings home the need for change quickly and forcefully.

2. Visual Exploration

During Visual Exploration, teams of managers go out into the field to explore the Six Paths Framework gathering noncustomer insights. Here they are looking to observe the distinct differences of alternative products and services to see which factors should be eliminated, reduced, raised, or created in the company's offerings.

3. Visual Strategy Fair

The penultimate step is the Visual Strategy Fair. Here teams begin to draw their "to be" strategy canvases based on insights from the Visual Awakening and Visual Exploration stages. The strategy fair

invites senior corporate executives, external constituencies—the kinds of people met during the teams' field work, including noncustomers and customers of competitors. The objective is for each team to present their various alternative strategy canvases and gain feedback to build the best possible “to be” future strategy canvas.

4. **Visual Communication**

After a lot of work perfecting their “to be” strategy canvases, the last step is to communicate it in a way that can be easily understood by all employees. This step is called Visual Communication.

This is executed principally by distributing a one-page picture showing the new and old strategic profiles on the strategy canvas so that every employee can see where the company stood and where it has to focus its efforts to create a compelling future.