Market Opportunities Understanding The Blue Ocean Versus the Red Oceans Strategies

Blue ocean strategy is about making competition irrelevant. It is a corporate strategy that aims to tap unclaimed markets making competition irrelevant. It is a business strategy about capturing uncontested market space, thereby making competition irrelevant. It will always seem ridiculous to the entrenched market competitors. Blue ocean strategy is all about creating and capturing net new demand by ignoring boundaries defined by traditional competitors.

Blue ocean strategy is designed to help a company create divergence in its offerings or manner of doing business. It is about breaking through structures that primarily exist in how you perceive your company and the market. Blue ocean strategy was created by professors W. Chan Kim and Renee Mauborgne. It has sold more than two million copies, and has been published in a record-breaking 42 languages. Blue ocean strategy is clear and obvious when analyzed in hindsight.

Blue ocean strategy has two important tools, the strategy canvas and the 4 actions framework. It is also used to verify the effectiveness of TRIZ principles (see Wikipedia). It is compelling for both established corporations and younger companies with high growth aspirations. It is an excellent tool to illuminate new opportunities.

Blue ocean strategy will be tightly focused – and everyone will understand on what factors the company is competing. It has become even more imperative in this financial crisis.

Red Ocean strategy is where the rules are understood, and competitors try to outperform each other.. Red ocean strategy describes the standard method of doing business, in which everyone is battling for the same piece of the pie. Red oceans make it difficult for customers part of a red ocean market to switch between vendors (customer poaching).

Red ocean describes more traditional kinds of markets where competitors are used to competing head-to-head with each other, and customers have gotten used to their products, and there's very little opportunity to differentiate. Red oceans are all the industries in existence today; they are increasingly characterized by intense competition (Kim and Mauborgne, 2005 and 2004).

Red ocean strategists fight the bloody battle of today to ensure their blue ocean counterparts have the funding for tomorrow. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are well understood. Here, companies try to outperform their rivals in order to grab a greater share of existing demand. As the space gets more and more crowded, prospects for profits and growth are reduced. Products turn into commodities, and increasing competition turns the water bloody.

Unlike "red oceans," which are well explored and crowded with competitors, "blue oceans" represent "untapped market space" and the "opportunity for highly profitable growth. Both blue and red oceans have always existed and will continue to do so. To break out of red oceans, companies must break out of the accepted boundaries that define how they compete. Typically, companies in the red ocean pursue incremental improvements for customers through either low cost or differentiation.

The companies caught in the red ocean followed a conventional approach, racing to beat the competition by building a defensible position within the existing industry order. The creators of blue oceans, surprisingly, didn’t use the competition as their benchmark. Instead, they followed a different strategic logic that is called value innovation.

The book's conclusion about red ocean markets is that they are a result of focusing on competition for existing customers, or existing types of customer. While many companies rely on red ocean strategies to drive growth, it's becoming harder and harder to realize any significant profit, as the world shrinks and products and services are commoditized to the point that price is the great differentiator. They focus on dividing up the red ocean, where growth is increasingly limited. Such strategic thinking leads firms to divide industries into attractive and unattractive ones and to decide accordingly whether or not to enter.

Business is still competing for share of the consumer's wallet with a wide variety of other products. It is just as complicated and difficult to absorb as law, math, and Shakespeare. Companies that achieve value innovation pursue differentiation and low cost simultaneously. Those that have used this strategy successfully include Southwest Airlines, Yellow Tail wines, and Cirque du Soleil. A good example of the two is Red Ocean is Ringling Bros. and Barnum & Bailey. The Blue Ocean is Cirque de Soleil. Competition isn't made irrelevant by blue ocean strategy. It is intense and as it increases the waters turn bloody, thus the term red ocean. It is the biggest rationale why businesses use different marketing strategies.

The tools of strategy creation have traditionally been the SWOT analysis, "throw ideas on the wall and see what sticks" method of brainstorming and financial histories. One of the major tools introduced in Blue Ocean Strategy is the Strategy Canvas. It is basically a means of comparing key factors of competition across competing companies, and allows a business to contemplate what factors might be raised, reduced, and eliminated- as well as which new factors should be added to the canvas. Blue Ocean Strategy Tools, Frameworks and Methodologies by Kim & Mauborgne covering Blue Ocean Strategy Tools, Frameworks and Methodologies can be found at http://www.blueoceanstrategy.com/index.php . To aide you in this journey call or email us at 619 550 1198 or michael@santafeadvisoryservices.com.