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A new dimension

Over the past few decades, most strategists and corporate executives have been using a global classification of generic strategies to describe their competitive business strategies, namely, "focus strategy," "cost leadership strategy" or "differentiation strategy." The choice of generic strategies was mainly driven by the market, industry structure, characteristics of rivals and buyers, regulations, available resources and other factors. Each strategy is, fundamentally, a different approach to creating and sustaining competitive advantage. The common theme of all these generic strategies is how to compete in the same contested space, or what is called, "Red Ocean Strategy."

Much of the literature previously suggested that following a mix of generic strategies could be very difficult or could compromise a firm's competitive position. For instance, the benefits of optimizing the firm's strategy for a particular target segment (focus) could not be gained if a firm were simultaneously serving a broad range of segments (cost leadership and differentiation.) Furthermore, achieving cost leadership and differentiation is, usually, also inconsistent, because differentiation is usually costly. Similarly, a firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle": it possesses no competitive advantage.

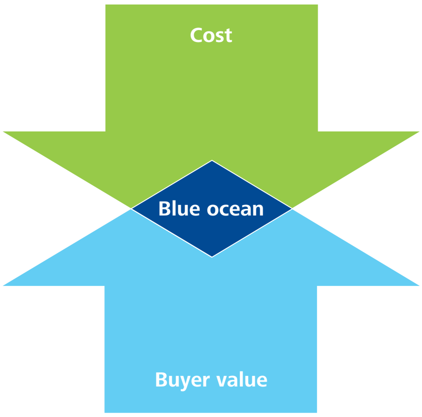
With the increasing level of globalization, rapid evolution of technology and telecommunication, increasing customer awareness and shifts in the buyer power and the fact that industries never stand still, competing in red oceans may prove to be very difficult and will yield low returns. Many studies conducted since 2001 suggest that competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create blue oceans or in other words – uncontested market spaces – and to stop competing in overcrowded industries. Analysis of blue ocean strategies reveals that the focus is mainly on value innovation, based on increasing buyer value and reducing cost, which is a slightly different approach to the conventional generic strategies described above. The introduction of a new approach toward the development of a competitive strategy made many strategists classify their strategies as either blue or red. It also added a new dimension to the old classifications of known generic strategies.

The creators of blue oceans, in sharp contrast to companies playing by traditional rules, never use the competition as a benchmark. Instead they make it irrelevant by creating a leap in value for both buyers and the company itself.

The simultaneous pursuit of differentiation and low cost

A blue ocean is created where a company's actions favorably affect both its cost structure and value proposition to buyers. Savings are made from eliminating and reducing the factors an industry competes in.

Buyer value is increased by raising and creating elements the industry has never offered. Over time, costs are reduced further as the scale of economies kick in, due to the high sales volumes.



So what is it all about?

In a nutshell, under blue oceans, demand is created rather than fought over. The research shows several common characteristics across strategic moves that create blue oceans. The creators of blue oceans, in sharp contrast to companies playing by traditional rules, never use the competition as a benchmark. Instead they make it irrelevant by creating a leap in value for both buyers and the company itself.

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value/cost trade-off	Break the value/cost trade-off
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost.

The above analysis should not imply that we should ignore competition. Competition matters of course, but by focusing on competition, scholars, companies and consultants have ignored two very important and far more lucrative aspects of strategy: one is to develop markets where there is little or no competition – blue oceans – and the other is to exploit and protect these blue oceans. These challenges are very different from those to which strategists have devoted most of their attention to date.

The logic behind blue ocean strategy can be illustrated as follows:

It is not about technological innovation. Blue oceans seldom result from technological innovation. Often, the underlying technology already exists and blue ocean creators link it to what buyers value. Compaq, for example, used existing technologies to create its ProSignia server that gave buyers twice the file and print capability of the mini-computer at one-third the price. Another example is the Japanese fuel-efficient automobiles, where Japanese automakers created a blue ocean in the mid-1970s with small, reliable lines of cars.

Companies don't have to venture into distant waters to create blue oceans. Most blue oceans are created from within, not beyond, the red oceans of existing industries. Consider the case of the Minivan launched in 1984 and which was a new class of automobile that was as easy to use as a car but with the space of a van. One could also consider the case of Ryanair, the budget airline which was founded within an already mature airline industry.

What is the impact?

To quantify the impact of creating blue oceans on a company's growth in revenues and profits, a study of 108 companies indicated that 86% of the launches were line extensions that were incremental improvements within the red ocean of existing market space. Yet, they accounted for 62% of total revenues and a mere 39% of total profits. The remaining 14% of the launches were aimed at creating blue oceans, which generated 38% of total revenues and 61% of total profits.

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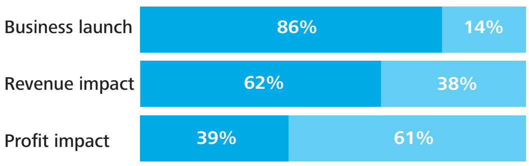

A closer look at most of the companies in the Middle East region also indicate that almost all businesses are focused, to a larger degree, on red oceans, while very little effort is made to consider new competitive strategies. The dramatic imbalance in favor of red oceans can be attributed to several reasons, such as:

1. Corporate strategy is heavily influenced by its roots in military strategy: the language of strategy is deeply imbued with military references – "executive officers" in headquarters with the "troops" on the "front lines."
2. Over-reliance on the conventional market barriers e.g. structural barriers, brand equity, etc. and overlooking the fact that most monopoly and duopoly businesses will eventually shift toward oligopoly or perfect competition.

3. The greater Penrose effect* on businesses in emerging markets.
4. Lack of resources and focus to manage research and development (R&D) and innovations by most of the domestic companies.
5. Management's focus on short-term results rather than long-term objectives and sustaining a competitive edge.

A high level profitability comparison between low-cost carriers launched in the past decade in the Middle East region and Ryanair in Europe could be a good indicator about the success of blue ocean strategies. The historical returns of the latter were by far higher than its peers, while similar businesses could not survive the competition. The understanding and proper implementation of blue ocean strategy, cost leadership, scale and effectiveness of the operating strategy, which led to redefining industry expectations, were critical factors that contributed to its healthy returns, which some domestic carriers could not achieve.

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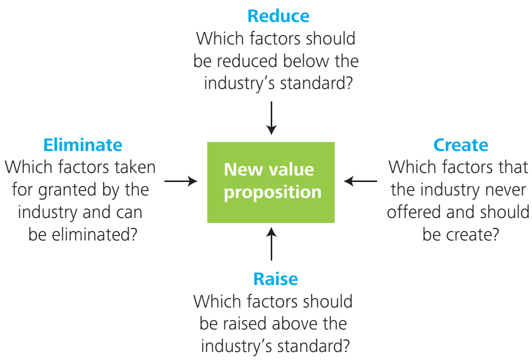
The strategy canvas and actions framework

The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy. It captures the current state of play in the known market space and allows for the mapping of the competition's position, the factors that the industry competes on and what customers receive currently from other rivals. Further, it allows for the mapping of the key items that influence cost and buyer values.

To reconstruct buyer value elements in crafting a new value curve, strategists can use a 'four actions' framework to break the trade-off between differentiation and low-cost and to create a new value curve. Typically there are four questions that challenge an industry's strategic logic:

- Which of the factors that the industry takes for granted should be eliminated?
- Which factors should be reduced well below the industry's standard?
- Which factors should be raised well above the industry's standard?
- Which factors should be created that the industry never offered?



* Penrose's theory stipulates that a firm will be unable to manage growth after a certain period due to the inelasticity of its management team to handle the increased complexity resulting from growth of demand.

Key challenges

As indicated earlier, the challenges with blue oceans are very different from those to which strategists have devoted most of their attention. Some of the specific challenges include:

1. Developing a new strategy canvas carefully to balance the cost and value drivers rightly. Failure to balance the two dimensions – considering the buyers' needs and preferences – may land the company in a "stuck-in-the-middle" situation.

2. The compelling need to attract customers in large volumes immediately to generate economies of scale rapidly and putting the would-be imitators at an immediate and continuing cost disadvantage. This may pose a major challenge to finance large investment and deal with higher marketability risks.

3. Getting the strategic sequence right, which starts by assessing the buyer utility, followed by price and cost review and finally the adoption process and delivering a commercially viable blue ocean idea.

4. Overcoming the organizational hurdles, which should be viewed in the context of typical issues associated with strategy implementation such as understanding the industry and market, scarcity of resources, clarity of objectives, communication gaps, etc.

Conclusion

Industries never stand still and will always experience different growth and decline cycles. Furthermore, the increasing level of globalization, fading of structural barriers and shareholders' need to sustain acceptable returns will eventually induce strategists at domestic companies to think of new and creative approaches and focus more on developing blue ocean strategies. In the future, executives may even describe their competitive strategies using color coding: blue, red or purple!

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by **Firas Eid**, Consulting partner, Deloitte in the Middle East