For most of the last quarter century since the publication of Michael Porter’s landmark book *Competitive Strategy*, the central focus of the strategy field has been on searching for sustainable competitive advantage. Nowadays, however, leading gurus exhort would-be winners to put customers ahead of competition and try to develop compelling new value propositions capable of transforming existing market spaces and creating new ones. As yet, there are few practical guidelines as to how to go about this challenge.

W. Chan Kim and Renée Mauborgne have been in the vanguard of this new value innovation emphasis from its earliest days, and the ideas and tools developed in *Blue Ocean Strategy* (Harvard Business School Press, 2005) are the product of a successful twenty-year research and consultancy partnership. The book offers a comprehensive approach to the formulation and execution of strategies aimed at the creation of new market spaces – the blue oceans of the title. Professor Kim is The Bruce D. Henderson Professor of Strategy and International Management at INSEAD and Professor Mauborgne the INSEAD distinguished fellow and a professor of strategy and management at the same institution.

The book introduces its central ideas and metaphor with the example of the Montreal-based enterprise, Cirque du Soleil, started by a group of street performers in 1984 and now one of Canada’s largest cultural exports. This company created an entirely new market opportunity by reinventing the circus as a theatrical experience, transcending traditional market boundaries. According to the authors, the example of Cirque du Soleil demonstrates the best way to beat the competition – in this case, leading players like Barnum & Bailey and Ringling Bros, vying with very similar strategies in a declining industry. The trick is to “stop trying to beat the competition” and focus instead on developing a compelling new value proposition that can create uncontested market space.

**Blue ocean strategy – the main ideas and their impact on executives**

*Strategy & Leadership*: You describe blue ocean strategy as a radical departure from conventional ideas on strategy. When and how did you first come to realize that something very different was needed?

*Kim and Mauborgne*: Competition-based strategies have been the dominant focus of academics and corporations for most of the past 25 years. Companies strive to capture the

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“*In Blue Ocean Strategy value and innovation are inseparable. Value innovation places equal emphasis on value and innovation.*”
greatest share of existing demand by building a defensible position against the competition within the industry. So strategy is usually seen as making a choice between value and cost. Market structure, determined by supply and demand conditions, shapes sellers’ and buyers’ conduct. The result of all this experience has been a rich understanding of how to compete skillfully in existing market space by dividing up existing demand. By focusing on outpacing each other, companies battle in what we call the red ocean of bloody competition.

We saw, however, that the business world is composed not only of red oceans, but also of what we call blue oceans of new market space. Look back only 30 years and you quickly find that many multi-billion dollar industries that exist today did not exist then. Think of discount retail, the minivan, gas-fired electricity plants, biotechnology, men’s cosmetics, the internet, and cell phones to name just a few. Companies that took existing industry conditions for granted did not create these new markets. So the current strategy paradigm failed to explain how to create and capture these more lucrative and growing markets – the blue oceans.

We were inspired to seek an explanation. The overriding question we had was whether there was a pattern to blue ocean creation. And indeed, research covering more than 30 industries, and 150 blue ocean creations, revealed clear patterns across companies, industries, and time. We found that those who seek to create blue oceans did not follow conventional strategic logic; instead they sought a goal that we call value innovation: the simultaneous pursuit of differentiation and low cost.

Strategy & Leadership: You present the concept of “value innovation” as the cornerstone of your new perspective, and you are careful to lay the stress on both “value” and “innovation”. Can you explain what you mean by value innovation and why it represents a new logic for strategy development?

Kim and Mauborgne: In our research we have found that those who seek to create blue oceans – totally new markets – do not benchmark against the competition. Instead, they attempt what we call value innovation. A value innovation strategy focuses on creating a leap in value for both buyers and the company, thereby opening up new and uncontested market space. Value innovation can occur anywhere in the entire range of a firm’s activities – product, service, delivery, costs, pricing, and the business model.

Our point is that value and innovation are inseparable. Value innovation places equal emphasis on value and innovation. Value without innovation tends to produce incremental value that is not sufficient to stand out in the marketplace. Innovation without a strong enough emphasis on value too often leads to development of new product or service functionalities that exceed what buyers are ready to accept and pay for.

Value innovation is a new way of thinking about and executing strategy that defies one of the most commonly accepted dogmas of competition-based strategy – the value-cost tradeoff. The conventional belief is that companies can either create greater value for customers at a higher cost or create acceptable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those that attempt to create blue oceans seek differentiation and low cost simultaneously.

Strategy & Leadership: You say that a blue ocean strategy may or may not involve a leading edge technology, but always involves an innovative way to reconfigure value that will shift radically the current value/cost frontier. Can you give an example of what you mean?

Kim and Mauborgne: Leading edge technology was not a common denominator across companies that created blue oceans. In our research we have found that sometimes leading edge technology was present, but often it was not the defining feature of blue oceans. Look at the computer industry – an industry that from its start seems to be entirely dependent on technology innovation. Consider the tabulating machine in 1924 that led to the creation of IBM, or the IBM 650, the first business computer in 1953, the Apple II computer in 1978, or Compaq’s PC servers and Dell’s PCs in the 1990s. Each of these blue ocean markets were created through the imaginative leveraging of existing technologies, which companies simplified and made easy to use, bringing unprecedented utility to the mass of buyers, with a
compelling strategic price. To create blue oceans, the central issue is not innovating in terms of technology or science, but bringing innovation to bear on the value deliverable to the mass of buyers.

**Strategy & Leadership:** In your experience in working with business executives, what do they tend to find most challenging about your new ideas when they first encounter them?

**Kim and Mauborgne:** The central irony that strikes most executives is that the more companies focus on benchmarking the competition, and striving to match and beat their advantages, the more they tend to end up looking like their competitors and letting others set their strategic agenda. In contrast, blue ocean strategy not only reframes the strategic challenge from competing to making the competition irrelevant, but also it provides a series of tools and frameworks to act on this insight in an opportunity-maximizing, risk-minimizing way.

**Strategy & Leadership:** How durable is the advantage associated with a blue ocean strategy and what is the process for defending it?

**Kim and Mauborgne:** Once a company successfully creates a blue ocean, sooner or later imitators appear on the horizon. However, a blue ocean strategy brings with it considerable barriers to imitation.

The first barrier is often cognitive. Competitors are often blocked from imitating because of brand image conflicts, or the blue ocean strategy just does not fit conventional strategic logic. For example, established players in the telecom industry initially mocked CNN by calling it “chicken noodle news.”

The second barrier is organizational. Because imitation often requires companies to make substantial changes to their existing business practices, politics often kick in, delaying for years a company’s commitment to imitate a blue ocean strategy.

The third barrier arises from the economic forces of blue oceans. The high volume generated by a value innovation leads to rapidly increasing economies, placing potential imitators at an ongoing cost disadvantage.

Once a company has created a blue ocean, the key is to sail as far as possible in it by lengthening, widening, and deepening the revenue and profit streams via geographic expansion, operational improvements, and refining your offering. This further makes imitation difficult.

Overall, our research indicates that a blue ocean strategy will more typically go without credible challenge for ten to fifteen years. Eventually, as other companies’ strategies converge with your own, history shows you need to create new market space again and break away. Examples of companies that have created repeated blue oceans include IBM in the computer industry and AMC in the cinema industry.

**Strategy formulation analytics and principles**

**Strategy & Leadership:** You offer two main analytics to help in the practical development of blue ocean strategies, the strategy canvas and the four actions framework. Can you explain briefly what these are and how they work?
Kim and Mauborgne: The strategy canvas is the central diagnostic and action framework in blue ocean strategy (see Figure 1). The strategy canvas is unique because it does three things in one picture. First, it shows the strategic profile of an industry by depicting very clearly the factors that affect competition among industry players, as well as those that might one day be key to the creation of new market space. Second, it shows the strategic profile of current and potential competitors, and identifies which factors they invest in strategically. Finally, it draws the company’s strategic profile – or value curve – showing how it invests in the factors of competition and how it might invest in them in the future.

In the early stages of the strategy formulation process, a period we call Visual Awakening, the strategy canvas is used as a diagnostic tool. The four actions framework (see Figure 2),
used in concert with the strategy canvas drives companies to pursue differentiation and low cost in redefining their strategy. It asks 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? (See Figure 3).

The first question forces managers to consider eliminating factors that companies in your industry have long competed on. Often those factors are taken for granted, even long after they have ceased to add value and in many cases have even begun to erode it. The second question drives managers to assess where they are over-serving customers, increasing their cost structure for no gain. The third question pushes managers to uncover and eliminate the compromises your industry forces customers to make. The fourth question helps managers to discover entirely new sources of value for buyers and to create new demand and shift the strategic pricing of the industry. It is by pursuing the first two questions (of eliminating and reducing) that managers gain insight into how to drop cost structure vis-à-vis competitors.

The second two questions, by contrast, provide managers with insight into how to lift buyer value and create new demand. Collectively, they allow managers to systematically explore how to reconstruct buyer value elements across alternative industries to offer buyers an entirely new experience, while simultaneously keeping cost structure low.

Following the Four Actions Framework, we return to the strategy canvas where it is used as an action framework for building, and later communicating, a compelling blue ocean strategy.

Companies can also make use of other important analytics we offer, such as the Six Paths framework, the buyer experience cycle, and the buyer utility map in developing blue ocean strategies.

**Strategy & Leadership:** You offer a number of formulation principles to guide business leaders in crafting their own blue ocean strategies. The first concerns reconstructing market boundaries. Can you explain what you mean by this and how a business leader might go about it?

Kim and Mauborgne: Blue ocean strategies reconstruct market boundaries, thereby freeing companies from head-to-head competition and instead opening new market space to achieve a leap in value for both buyers and for themselves. Identifying a potentially successful strategic move does not require any special capacities, vision or foresight about the future. All new insights come through looking at familiar data from a new perspective.

**Figure 3** Eliminate-reduce-raise-create grid: the case of yellow tail

<table>
<thead>
<tr>
<th>Eliminate</th>
<th>Raise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enological terminology and distinctions</td>
<td>Price versus budget wines</td>
</tr>
<tr>
<td>Aging qualities</td>
<td>Retail store involvement</td>
</tr>
<tr>
<td>Above-the-line marketing</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reduce</th>
<th>Create</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine complexity</td>
<td>Easy drinking</td>
</tr>
<tr>
<td>Wine range</td>
<td>Ease of selection</td>
</tr>
<tr>
<td>Vineyard prestige</td>
<td>Fun and adventure</td>
</tr>
</tbody>
</table>
How is this undertaken? To break out of red oceans, companies must breach the accepted boundaries that define how they compete. Instead of looking within these boundaries, managers need to look systematically across them to create blue oceans. We have found that most managers bind their strategic vision within six boundaries of competition. These are: industry, strategic group, buyer group, complementary product and service offerings, the functional-emotional orientation of their industry, and within a given period of time. Yet, we’ve found if they switch their focus from looking within to looking across these six boundaries of competition, they gain keen insight into how to reconstruct market realities to open up blue oceans. In the book we introduce a tool called the Six Paths Framework to help in systematically reconstructing market realities across the six boundaries of competition (see Figure 4).

**Strategy & Leadership:** You also advise those attempting to formulate a blue ocean strategy to focus on the big picture, not the numbers. Can you explain what you mean and how it improves the development of blue ocean strategies in practice?

**Kim and Mauborgne:** Traditional numbers-driven strategic planning processes usually involve the preparation of large, complicated spreadsheet documents. A closer look reveals that most of these “strategic” plans don’t contain a strategy at all but rather amount to a loose collection of tactics that individually make sense, but lack a compelling collective logic. Taken as a whole, they don’t provide a unified, clear, distinctive direction that sets a company apart from its rivals – let alone makes the competition irrelevant.

We have developed an alternative approach to the existing strategic planning process that is based not on preparing a spreadsheet document but on drawing a strategy canvas. This approach consistently produces strategies that unlock the creativity of a wide range of people within an organization, open companies’ eyes to blue oceans, and are easy to understand and communicate for effective execution.

**Strategy & Leadership:** How easy is it, in your experience, to wean experienced executives away from a strong focus on the numbers in the manner that you have described and how do you go about persuading them?

**Kim and Mauborgne:** We are not suggesting executives should not consider numbers. They should. Having the validation and security quantitative analysis provides is essential to executing a blue ocean strategy. But we do believe that the details will fall into place more easily if managers start with the big picture of how to break away from the competition, then move to the numbers behind their idea. The methods of visualizing strategy through the tools

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**Figure 4 | Six paths framework: from head-to-head competition to blue ocean creation**

<table>
<thead>
<tr>
<th>Head-to-Head Competition</th>
<th>Blue Ocean Creations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td>Focuses on rivals within its industry</td>
</tr>
<tr>
<td><strong>Strategic group</strong></td>
<td>Focuses on competitive position within strategic group</td>
</tr>
<tr>
<td><strong>Buyer group</strong></td>
<td>Focuses on better serving the buyer group</td>
</tr>
<tr>
<td><strong>Scope of product or service offering</strong></td>
<td>Focuses on maximizing the value of product and service offerings within the bounds of its industry</td>
</tr>
<tr>
<td><strong>Functional-emotional orientation</strong></td>
<td>Focuses on improving price performance within the functional-emotional orientation of its industry</td>
</tr>
<tr>
<td><strong>Time</strong></td>
<td>Focuses on adapting to external trends as they occur</td>
</tr>
</tbody>
</table>
and frameworks outlined in Blue Ocean Strategy, we believe, will greatly improve managers’ chances of creating blue oceans.

**Strategy & Leadership:** Two of the most counter-intuitive elements in the blue ocean approach to strategy development involve the approach to customers and segmentation. You advise strategists to focus more on non-customers and also less on finer and finer segmentation. Can you elaborate?

**Kim and Mauborgne:** The natural strategic orientation of many companies is toward retaining existing customers and seeking further segmentation opportunities. This often leads to finer segmentation and greater tailoring of offerings to better meet customer preferences. The more intense the competition is, the greater the resulting customization of offerings. Although this might be a good way to gain a focused competitive advantage and increase share of the existing market space, it is not likely to produce a blue ocean that expands the market and creates new demand.

To create and capture blue oceans, companies need to take a reverse course. Instead of concentrating on customers, they need to look to non-customers. And instead of focusing on customer differences, they need to build on powerful commonalities in what buyers value. This allows companies to reach beyond existing demand to unlock a new mass of customers that did not exist before.

Although the universe of non-customers typically offers substantial blue ocean opportunities, few companies have keen insight into who non-customers are and how to unlock them. To convert this huge latent demand into real demand in the form of thriving new customers, companies need to deepen their understanding of the universe of non-customers. The book identifies three tiers of non-customers to further guide this process. Once identified, companies should look to the commonalities across non-customers. If you focus on these, and not on the differences between them, you will glean insight into how to desegment buyers and unleash enormous latent untapped demand.

**Strategy execution principles**

**Strategy & Leadership:** You say that executives trying to lead their companies through blue ocean strategy development, particularly for the first time, typically encounter a number of major organizational hurdles. Can you explain what these are, and how a manager can overcome them?

**Kim and Mauborgne:** As blue ocean strategy represents a significant departure from the status quo, we have found that managers typically face four hurdles to execution. The first hurdle is cognitive: waking employees up to the need for a strategic shift. Red oceans may not be the paths to future profitable growth, but they feel comfortable to people and may have even served an organization well. This leads managers to ask, why shake things up? The second hurdle is limited resources. The greater the shift in strategy, the greater the resources believed to be needed to execute it. Third is motivation. How do you inspire key players to move fast and tenaciously to carry out a break from the status quo? The final hurdle is organizational politics. Leaders must identify and effectively deal with internal opponents to change.

The book outlines how to get over these four key hurdles and manage strategic change effectively in a timely fashion, within existing resource constraints, using a technique we call tipping point leadership.

“Although the universe of non-customers typically offers substantial blue ocean opportunities, few companies have keen insight into who non-customers are and how to unlock them.”
Strategy & Leadership: You also say that in the shift to blue ocean strategy development, managers need to build effective execution in from the start. Can you elaborate on what you mean and explain how managers can best go about doing this?

Kim and Mauborgne: It is only when all the members of an organization are aligned around a strategy and support it that a company stands apart as a great and consistent executor. Overcoming the organizational hurdles to strategy execution is an important step toward that end.

From day one execution effectiveness is built into blue ocean strategy development using the principle of fair process. Fair process builds trust and commitment, trust and commitment produce voluntary cooperation, and voluntary cooperation drives performance, leading people to go beyond the call of duty in executing strategy and in sharing their knowledge and applying their creativity.

There are three mutually reinforcing elements that define fair process: engagement, explanation, and expectation clarity. We call them “the three E principles” of fair process. Engagement means involving individuals in the strategic decisions that affect them by asking for their input and allowing them to challenge one another’s ideas and assumptions. Explanation means that everyone involved and affected should understand why final strategic decisions are made as they are. Expectation clarity requires that after a strategy is set, managers state clearly the new rules of the game. By addressing strategy content and execution simultaneously, fair process builds execution into strategy making.

The blue ocean strategy formulation process, which is built on the principles of fair process, involves participants from a functional, hierarchical, and geographical cross-section of the company. One of the key learning points of the process is the creation of a shared strategic mindset. The process builds a collective strategic mindset across and up and down the organization. This is important in the formulation process, but additionally, when it is time to execute the strategy, there will be champions of the new strategy throughout the organization who are able to explain, motivate, and lead their units through execution.

Application to different market contexts

Strategy & Leadership: Many of the examples that you offer in the book relate to consumer products (entertainment, wine, personal communications, fitness clubs). Do the principles of blue ocean strategy apply with similar impact in business-to-business markets and can you give some examples?

Kim and Mauborgne: Blue ocean strategy is applicable across all types of industries from typical consumer product goods to b2b. For example, companies such as SAP, NetJets, EFS, Cisco, JCDecaux, Philips, and IBM all created blue oceans in b2b markets. Our research further suggests two interesting findings about businesses that are several steps removed from the final consumer. First, companies in these industries tend to view their businesses as commodity businesses with little room to offer innovative value. This has effectively created a self-fulfilling prophecy – the more these companies view their businesses as commodities, the more they treat their businesses as such. Secondly, we observed that the more removed that companies are from the final customer, the more levers there are to unlock innovative value because every company in that chain can be viewed as a customer. If a company can’t see an opportunity to unlock innovative value for the next direct customer in that chain, there are still opportunities to unlock innovative value for that customer’s customers.

Moreover, the principles of blue ocean strategy also have applicability to the national market context. A good example of this is the Value Innovation Action Tank (VIAT) of Singapore established in March 2004. VIAT is a non-profit organization with 15 Singaporean government ministries and agencies as founding partners. Its objective is to apply the ideas, frameworks, tools, and processes of value innovation and blue ocean strategy to the country’s private, public and people sectors to enable Singapore to transit to the knowledge economy in an action-driven manner. More information on VIAT can be found at www.blueoceanstrategy.com