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# RED OCEAN TRAPS



W. Chan Kim and Renée Mauborgne



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*The Mental Models That Undermine  
Market-Creating Strategies*

W. Chan Kim and  
Renée Mauborgne

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**I**n America, corporate performance has been deteriorating for decades. According to Deloitte's landmark study "The Shift Index," the aggregate return on assets of U.S. public companies has fallen below 1%, to about a quarter of its 1965 level. As market power has moved from companies to consumers, and global competition has intensified, managers in almost all industries have come to face steep performance challenges. To turn things

around, they need to be more creative in developing and executing their competitive strategies. But long-term success will not be achieved through competitiveness alone. Increasingly, it will depend on the ability to generate new demand and create and capture new markets.

The payoffs of market creation are huge. Just compare the experiences of Apple and Microsoft. Over the past 15 years, Apple has made a series of successful market-creating moves, introducing the iPod, iTunes, the iPhone, the App Store, and the iPad. From the launch of the iPod in 2001 to the end of its 2014 fiscal year, Apple's market cap surged more than 75-fold as its sales and profits exploded. Over the same period,



Microsoft's market cap crept up by a mere 3% while its revenue went from nearly five times larger than Apple's to nearly half of Apple's. With close to 80% of profits coming from two old businesses—Windows and Office—and no compelling market-creating move, Microsoft has paid a steep price.

Of course, it's not that companies don't recognize the value of new market spaces. To the contrary, their leaders increasingly are committed to creating them and dedicate significant amounts of money to efforts to do so. But despite this, few companies seem to crack the code. What, exactly, is getting in their way?

In the decade since the publication of the first edition of our book, *Blue Ocean*