

Featuring
"Blue Ocean
Leadership" and
"Red Ocean
Traps"

THE ICONIC ARTICLES BY
THE BESTSELLING AUTHORS OF
BLUE OCEAN STRATEGY

the w. chan kim &
renée mauborgne
blue ocean
strategy
reader

**Harvard
Business
Review**

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Blue Ocean Strategy is one of the most influential business ideas of our time. The award-winning anonymous book by W. Chan Kim and Renée Mauborgne, first published in 2005 and revised in its expanded edition in 2015, has become a global phenomenon, selling over 10 million copies worldwide and available in forty-four languages. The idea resonates in companies across the globe because it addresses the one challenge that is independent of geography: How do you, as a manager, win in a crowded market space?

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But what if you're not a manager? What if you're a student, a teacher, a parent, a friend, or a colleague? What if you're just someone who's interested in business and wants to learn more about the world of strategy? Well, now you can. The Blue Ocean Strategy Reader is a collection of articles that explore the ideas of the book in more depth, and provide a variety of perspectives on the concepts and strategies discussed in the book. The articles are written by leading experts in the field, and are designed to be accessible and engaging for anyone who's interested in business. The Reader is a great resource for anyone who wants to learn more about the world of strategy, and is a must-read for anyone who's interested in business.

This volume brings together some of the best articles from the Harvard Business Review, MIT Sloan Management Review, and other leading business journals, which extend the ideas of Blue Ocean Strategy further. The articles explore the implications of the book's ideas, and provide a variety of perspectives on the concepts and strategies discussed in the book. The Reader is a great resource for anyone who wants to learn more about the world of strategy, and is a must-read for anyone who's interested in business.

Introduction

BLUE OCEAN STRATEGY is one of the most influential business ideas of our time. The award-winning eponymous book by W. Chan Kim and Renée Mauborgne, first published in 2005 and reissued in an expanded edition in 2015, has become a global phenomenon—selling over 3.6 million copies worldwide and available in forty-four languages. The idea is popular in companies across the globe because it addresses the one challenge that, irrespective of geography or industry, all managers eventually face: how to create new market space.

But what most managers may not know is that Kim and Mauborgne's theory, frameworks, and tools for creating new market space were first published in the pages of *Harvard Business Review* as groundbreaking articles that redefined how managers should think about and execute strategy. Defying the conventional wisdom, these articles challenged the notion of competition as the focus of strategy. Instead, they argued, head-to-head competition leads to imitation strategies and shrinks the profit pool. To grow profitably, companies should break free from competition with rivals by staking out fundamentally new market space. These articles also rejected the widely accepted idea that strategy is essentially a choice between differentiation and low cost. One of the central tenets of the blue ocean concept is the simultaneous pursuit of both differentiation and low cost—that a company's actions can favorably affect both cost structure *and* its value proposition to buyers instead of trading off between them. Taken all together, these articles formed the basis for what eventually became known as *blue ocean strategy*.

This volume finally brings those pieces together—along with the *Harvard Business Review* articles Kim and Mauborgne published after the book's debut, which extend the ideas of blue ocean strategy further. With this book, readers now have the quintessential blue ocean strategy concepts and tools in their most fundamental form. Presented in the order in which they were originally published, the articles in this volume provide an unprecedented view into how the ideas and tools evolved and offer managers a new way to work with the ideas—starting with the first critical step of changing how your

company thinks about strategy to ultimately ensuring that your blue ocean strategy is a success. Whether or not you're already familiar with *Blue Ocean Strategy*, this collection of articles will give you another perspective on these widely accepted theory, frameworks, and tools—and help you implement them in your organization.

Piece by piece, these articles delve into the unconventional strategic mindset that defines a blue ocean strategy and explain the systematic process for changing your company's strategic focus, identifying new opportunities, creating a new value curve, building a profitable business model, and overcoming organizational hurdles. The articles also introduce the analytic tools—the Value Curve and the Strategy Canvas, the Six Paths Framework, the Four Actions Framework, the Pioneer-Migrator-Settler Map, the Buyer Utility Map, the Price Corridor of the Mass, and the Business Model Guide—that companies the world over use to formulate and execute a blue ocean strategy. Understanding the concepts, processes, and tools in these articles is critical for strategy teams, organizational leaders, and anyone who is charged with implementing strategy.

Challenge your strategic logic: The first article in the collection introduces the concept that became the cornerstone of blue ocean strategy. In “**Value Innovation: The Strategic Logic of High Growth,**” Kim and Mauborgne find that what separates high-growth companies from the rest of the pack is how they think about strategy—what questions managers ask, what opportunities they see and pursue, and how they understand risk. Managers in most companies focus on matching or beating rivals (the conventional logic of strategy), whereas managers in high-growth companies seek to create products or services for which there are no direct competitors. Because the latter group succeeds by creating *leaps in value* for customers instead of by benchmarking against the competition, the authors coined the term *value innovation* to describe this fundamentally different strategic logic. With examples such as Accor and Virgin Atlantic, this article introduces two tools for changing the strategic logic of your team: the Value Curve, which charts a company's relative performance across its industry's key success factors, and the

Pioneer-Migrator-Settler Map, which assesses a company's portfolio of businesses for growth opportunities.

Use a fair process: Distrust and lack of engagement often result when managers launch major change efforts without inviting employees' input. But evidence shows that most people will accept outcomes not wholly in their favor, *if* they believe the process for arriving at those outcomes was fair. **“Fair Process: Managing in the Knowledge Economy”** shows how a poor process can ruin the outcome of even a good decision and offers three principles—engagement, explanation, and expectation clarity—that together lead to judgments of fair process and help companies channel people's energy and creativity toward organizational goals.

Find uncontested markets: Creating new market space requires a different pattern of strategic thinking, but managers often don't know where to start. In **“Creating New Market Space,”** Kim and Mauborgne offer a practical way to pursue value innovation by systematically looking across the conventionally defined boundaries of competition: across substitute industries, strategic groups, buyer groups, complementary product and service offerings, the functional-emotional orientation of an industry—and even across time. Introducing the tool now known as the Six Paths Framework (referring to these six ways for thinking beyond accepted boundaries), this article shows how to create new market space by reconstructing market boundaries, using examples such as Home Depot, Intuit, Polo Ralph Lauren, Bloomberg, and Starbucks. The article also applies the Value Curve tool to chart the way a company or an industry configures its offerings to customers, and introduces the Eliminate, Reduce, Raise, Create tool (what has come to be known as the Four Actions Framework) for creating a new value curve.

Identify which idea has real commercial potential: Once a company has identified potential new market spaces, the challenge for executives is knowing which ones to pursue. Three tools—the Buyer Utility Map, the Price Corridor of the Mass, and the Business Model Guide—together offer a systematic way to reduce uncertainty. **“Knowing a Winning Business Idea When You See One”** explains

how each tool works and illustrates them through several company examples such as Schwab, Southwest Airlines, and Swatch.

Visualize your new strategy: Introducing the iconic Strategy Canvas tool, an analytic framework that is central to value innovation and the creation of blue oceans, **“Charting Your Company’s Future”** shows how to draw a visual picture of your strategy that’s easy to understand and communicate and engages people across the organization. The authors demonstrate how to draw a strategy canvas, using a structured process they call the Four Steps of Visualizing Strategy—visual awakening, visual exploration, visual strategy fair, and visual communication—and use in-depth examples of the short-haul airline industry and a European financial services company to illustrate the process.

Overcome the organizational hurdles: With any shift in strategy, especially toward blue oceans that represent a departure from the status quo, leaders face a number of hurdles: cognitive, resource-related, motivational, and political (a framework the authors call the Four Hurdles to Execution). **“Tipping Point Leadership”** shows how to overcome them all and bring about rapid, dramatic change—at low cost and while winning employees’ backing.

Put it all together: In **“Blue Ocean Strategy,”** the first article to unveil the idea and coin the term, Kim and Mauborgne reveal their Red Ocean vs. Blue Ocean Strategy framework. Bringing together the research findings, underlying concepts, and unique logic that forms the basis of their theory, Kim and Mauborgne explain what is and what isn’t a blue ocean strategy and show how to apply blue ocean strategic moves.

Shape your business environment: Building on the underlying differences between red oceans and blue oceans, this article explains that there are fundamentally two types of strategy: *structuralist* strategies that assume the operating environment is a given (a common red ocean assumption) and *reconstructionist* strategies that seek to shape the environment (such as a blue ocean strategy). While the structuralist approach is valuable and relevant (red oceans will always exist), the reconstructionist approach is more appropriate in certain economic and industry settings. **“How Strategy Shapes**

Structure” explains how to choose the right approach and, for whichever strategy you choose, how to align three strategy propositions: a value proposition that attracts buyers, a profit proposition that enables the company to make money out of the value proposition, and a people proposition that motivates those working for or with the company to execute the strategy.

Unleash your organization’s talent: A main cause of employee disengagement is poor leadership. Yet no manager sets out to be a poor leader. The problem is that many managers lack a clear understanding of what it would take to bring out the best in everyone and achieve high impact. Leaders can gain this understanding through an approach Kim and Mauborgne call *blue ocean leadership*. The article “**Blue Ocean Leadership**” uses the core concepts and tools of blue ocean strategy—such as the Leadership Canvas (an adaptation of the Strategy Canvas) and the Eliminate, Reduce, Raise, Create Grid—to look at what leaders actually do and at which acts and activities they could do differently to boost both people’s motivation and business results. Designed to be used at all levels—top, middle, and frontline—the tools in this article extend the leadership capabilities and unleash previously unexploited talent and energy in organizations.

Ensure that your market-creating strategy is a success: After analyzing blue ocean successes and failures for more than a decade, Kim and Mauborgne identified a common factor that seems to consistently undermine the execution of market-creating strategies—the mental models of the managers involved in them. In their research, the authors encountered six especially salient assumptions built into managers’ mental models that effectively keep them anchored in red oceans and prevent them from entering blue oceans of uncontested market space. “**Red Ocean Traps**” looks at each trap in detail and helps managers avoid getting caught in them.

Blue ocean strategy is among the rarest of business ideas in that its significant global impact reaches not only to the everyday world of managers grappling with how to transform their companies, but also to the academic world, where it is taught at over eighteen hundred universities worldwide. Because it is grounded in data, systematic

in its approach, and supported by a number of analytical tools and frameworks, it's easy to see why academics as well as managers are drawn to it. Yet as powerful as these systematic ideas and tools are, formulating a blue ocean strategy is ultimately a creative act. It's about seeing your world differently and unleashing the creativity of the people in your organization. What could be more invigorating and rewarding?

—The Editors