THE NEW BLUE OCEAN STRATEGY CASEBOOK: 8 SUCCESS STORIES

What do Netflix, the city of Medellin in Colombia and Emmanuel Macron have in common? You may be surprised by the answer: each is an example of a game-changing Blue Ocean Strategy move.

In this white paper, we reveal the strategic secrets behind successful Blue Oceans in a variety of industries, ranging from medical devices and retail to banking. Read on to discover valuable insights that can help your own organization create its next Blue Ocean.

CentrX
EXPERIENTIAL LEARNING

1. WHAT IS BLUE OCEAN STRATEGY?

Blue Ocean Strategy is arguably the strategy book of the century. This ground-breaking methodology showed organizations that they did not have to suffer grueling competition for an ever-shrinking slice of the pie, but could instead open up their own new market spaces, termed *Blue Oceans*.

W. Chan Kim and Renée Mauborgne, the INSEAD professors behind this revolutionary approach, studied 108 innovations marketed by companies and uncovered profound results. Of all the product launches studied, only 14% aimed at creating Blue Oceans (as opposed to incremental innovations) and yet these Blue Ocean launches generated 38% of those companies' revenues and 61% of their profits[1]. The return on Blue Ocean launches was thus *nine times greater* than that of incremental innovations or line extensions. The business case for pursuing Blue Oceans could not be clearer!

The secret to unlocking a Blue Ocean is to offer a clear step change in value for customers, and discard any features that drive cost but do not add value. A Blue Ocean offering will therefore not resemble competitors' wares, instead creating its own market category. Blue Ocean offerings have fans, rather than customers: think of the Apple iPhone, South West Airlines, Cirque du Soleil, Nintendo, and Ikea, for example.

Blue Ocean Strategy in a Nutshell:
A structured methodology for strategic innovation, whereby organizations simultaneously pursue differentiation and low cost to unlock new market spaces and make the competition irrelevant.

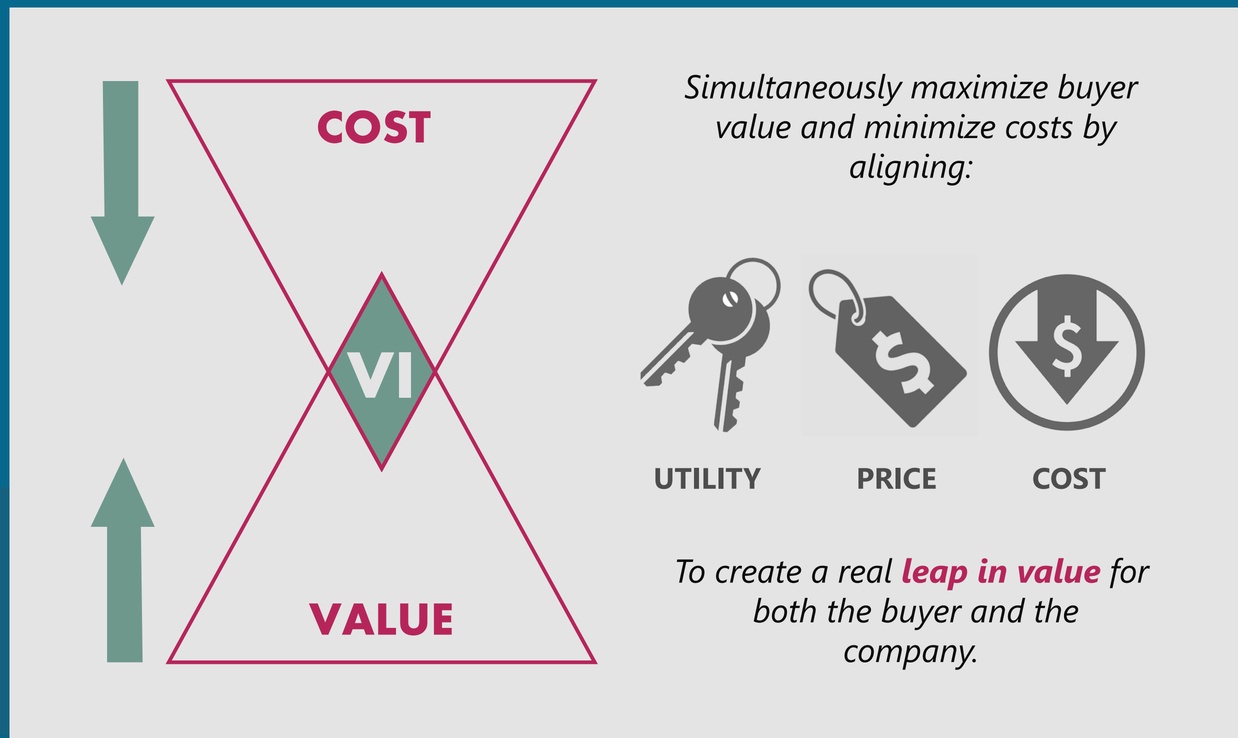
Since the publication of *Blue Ocean Strategy* in 2005, a number of companies have launched game-changing Blue Ocean offerings, with industry giants such as Samsung regularly using the methodology with great results. In this white paper, we present a new set of Blue Ocean Strategy case studies across a range of industries. These enterprises succeeded in highly competitive market spaces that few thought it possible to disrupt. Read on to find out exactly what they did to break through.

1 Blue Ocean Strategy, Kim and Mauborgne, Harvard Business School Publishing (2005)

2. BLUE OCEAN STRATEGY REFRESHER: MAJOR CONCEPTS AND TOOLS

VALUE INNOVATION

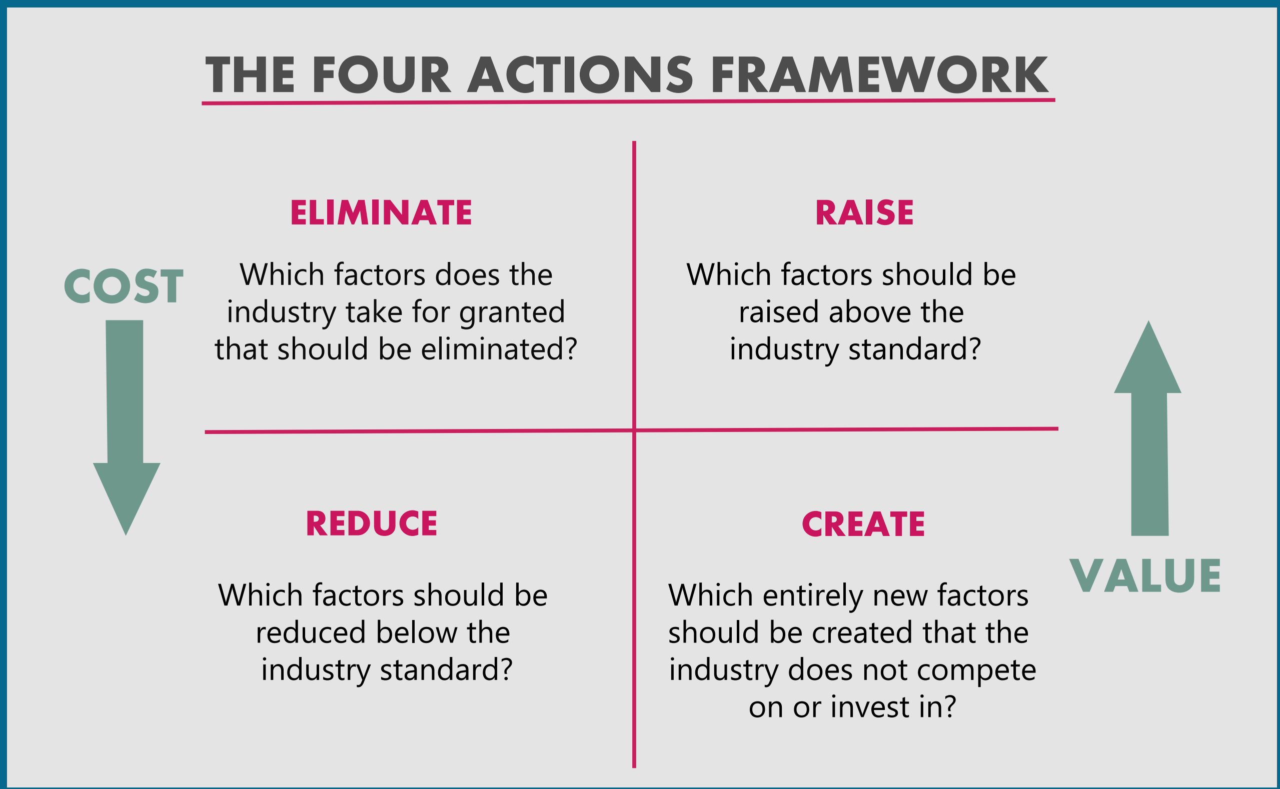
The essential idea behind Blue Ocean Strategy. This involves creating a simultaneous *increase* in customer value and *decrease* in price (on the customer side) and cost (on the organizational side). This does not mean that the offering must necessarily be low-cost, rather, that there are no unnecessary cost drivers added by factors of competition that bring little value to customers.



ERRC GRID

The Eliminate-Reduce-Raise-Create (ERRC) grid is one of the main tools of Blue Ocean Strategy, helping companies decide how to adjust factors of competition to create a Blue Ocean offering. A factor of competition is something that the industry currently offers to customers and heavily competes on. For the personal computer industry, for example, this could include features such as processing power, memory storage and portability. Price is always a competing factor.

In the Eliminate and Reduce portions of the grid, organizations identify factors that are currently over-served by the industry but bring little additional value to customers. Eliminating or Reducing these factors allows the organization to keep cost and price to a minimum. The Raise and Create parts of the grid identify factors that are currently under-served by the industry or do not yet exist. These new factors are vital in creating the step change in value for the customer that is characteristic of a Blue Ocean Offering.



STRATEGY CANVAS

A visual representation of an industry, consisting of Value Curves for both industry incumbents and any potential Blue Ocean offerings. A Value Curve succinctly shows all the factors that an industry competes on and any new factors created by a Blue Ocean offering, as well as what level of that factor is currently offered to customers. This allows for an easy yet powerful comparison of different competitive offerings. It is also the benchmark by which companies test whether their Blue Ocean offerings are sufficiently divergent from the competition, and whether their value proposition is clearly identifiable and attractive to customers.

SIX PATHS FRAMEWORK

In their research, Kim and Mauborgne identified six basic approaches to reconstructing market boundaries. Each approach compels companies to look at their industry from a different perspective in order to identify potential Blue Ocean opportunities. The Six Paths Framework looks at:

Path 1: Look Across Alternative Industries.
When using this path, companies take inspiration from alternative products and services that have the same final purpose as the offering in question. For example, trains and airplanes are alternative modes of transport, even though they do not directly compete in the same industry category.

Path 2: Look Across Strategic Groups Within Industries.
This involves analyzing why customers prefer one strategic group over another (e.g. luxury vs. lower-end cars) and carving a space in between or across different strategic groups.

Path 3: Look Across the Chain of Buyers.
Whereas many industries typically focus on targeting their efforts towards one type of buyer, this Path encourages companies to look at different types of buyers who may be overlooked. For example, toy makers may target children (the users), but a better strategy may be to focus on parents (the purchasers).

Path 4: Look Across Complementary Product and Service Offerings.
This path looks at other products and services that are typically used alongside the core offering and considering the total solution that the customer needs.

Path 5: Look Across Functional or Emotional Appeal to Buyers.
Some industries aim to appeal to customers by virtue of their offerings' functional attributes, whereas others want to make customers feel good and thus create an emotional type of appeal. By "flipping" the functional or emotional orientation of an industry, companies can uncover hidden value factors.

Path 6: Look Across Time.
Instead of simply reacting to new trends and technologies, companies can discover Blue Ocean opportunities by actively projecting how a clear and irreversible trend will impact sources of customer value.

3. CASE STUDIES

THE COMPANY THAT BROKE TELEVISION

COMPANY: NETFLIX
INDUSTRY: ENTERTAINMENT

Let us begin our exploration of Blue Ocean Strategy with a widely known example of innovation: Netflix's on-demand streaming service. Its success would have been hard to imagine when the company started operating over 20 years ago, as a mail order DVD-rental company. Today, Netflix operates in 190 countries, has an estimated 200 million subscribers and a $20 billion turnover. It has also become a powerhouse for producing original content: it garnered 24 Oscar nominations in 2020, more than any other media company. It successfully disrupted not only rental services like Blockbuster but the television industry as a whole, with paid-TV channels suffering from subscriber loss and rallying to imitate Netflix's offering.

Who would have imagined the downfall of TV dominance just 20 years ago?

Netflix is a fantastic example of Blue Ocean Strategy. It created a new market space for on-demand streaming of films and TV series and successfully transformed the way that we consume media. It introduced huge gains in terms of customer productivity and convenience by allowing viewers to stream content on-demand: the constraint of having to wait till 9pm on Thursday night to see your favorite show simply does not exist anymore. Moreover, the choice of entertainment on the platform is staggering, with new content added regularly.

By partnering with television set makers such as Samsung and Apple, Netflix is now integrated into most TV sets, and with its HD-quality streaming, viewers have a high-quality experience comparable to that of traditional television. Finally, many customer pain points have been eliminated, such as advertising breaks and minimum-duration contracts (viewers can cancel at any time).

It is a great example of several of the 6 Paths that companies can use to create new Blue Ocean offerings:

Path 1: Look Across Alternative Industries.
Netflix did not invent streaming or the concept of on-demand consumption of media. YouTube and iTunes had already demonstrated that streaming music and video on-demand was highly appealing to customers. But Netflix did offer these new factors in the television industry, and thereby created a whole new market space for itself.

Path 6: Look Across Time.
Similarly, the Netflix case is a clear example of a company recognizing the potential of new technologies (for example, faster internet speeds that allow streaming of high-quality content) and a shift in consumer trends and expectations (on-demand and digital consumption). For Netflix, it was clear that these shifts were irreversible and growing in importance, and it capitalized on these before anyone else could.

THIS IS NO ORDINARY BEAUTY BRAND!

COMPANY: THE ORDINARY
INDUSTRY: SKINCARE

Deciem, The Ordinary's parent company, managed to do the impossible: create a disruptive Blue Ocean offering in the highly saturated, extremely competitive skincare market. Before launching The Ordinary in 2016, Deciem founder Brandon Truaxe had grown disillusioned with the beauty industry. He identified a number of pain points for customers: marketing messages were often confusing if not downright deceitful, mark-ups were eye-watering, and effective but commonplace chemical formulations were branded as revolutionary (and thus saddled with a hefty price tag). All in all, the industry over-promised and under-delivered. Unsurprisingly, brand loyalty in the sector was close to zero and competition between brands was extremely fierce.

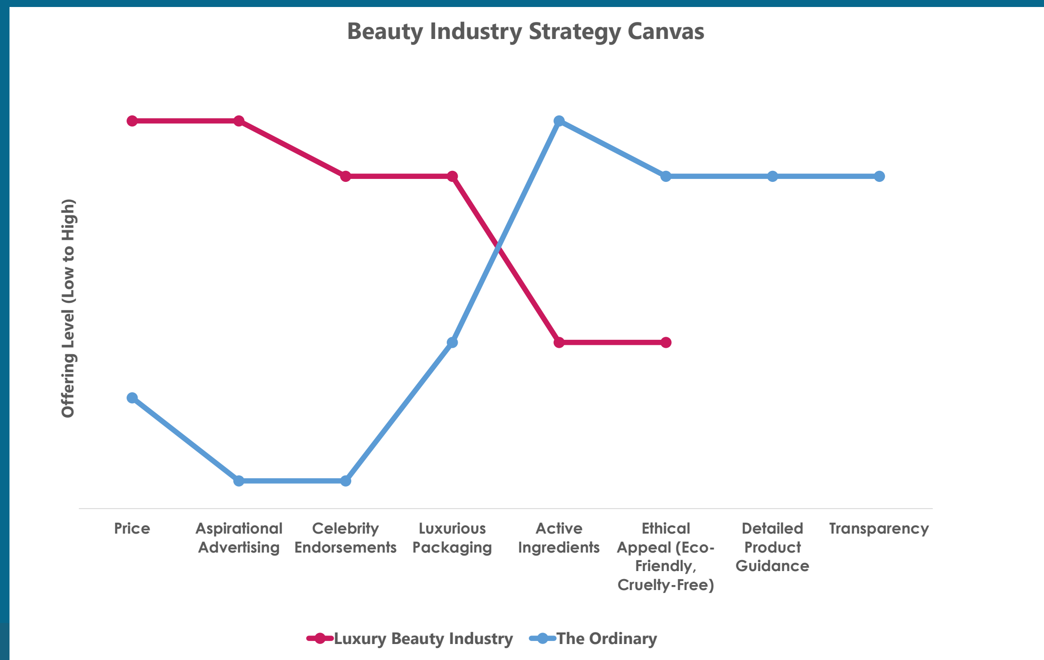
In this uninspiring industry landscape, Deciem did something revolutionary in launching The Ordinary, a range of single-ingredient concentrated products that seem more at home at a dermatologist's office than a retail outlet. Each product targets a specific skin concern and contains active ingredients with much higher concentrations than many luxury skincare products, at a small fraction of the price. Customers unfamiliar with the effects of these formulations (ingredients include niacinamide, azelaic acid and squalene) can find lengthy descriptions, regimens, and guides on The Ordinary's website.

In addition, the sophisticated marketing messages that are typical of the beauty industry, focusing on emotional benefits but often playing on customers' insecurities, have been replaced with simple messaging focusing on the functional benefits of products. The Ordinary's tagline, "Clinical Formulations with Integrity," says it all. Finally, with its own laboratories, manufacturing, marketing, and sales structures all inhouse, Deciem was able to cut out the middleman and offer its products to customers at extremely attractive prices (most products cost under €10).

The Ordinary began its operations online and within weeks had a sky-high waiting list. Now, just a few years after launch, it has 35 of its own stores and has broken into a variety of big retailers all around the world. Demand still outstrips supply. Most impressively of all, it has generated a cult-like following of fans whose rave reviews are found all over social media, which is something that industry incumbents can only dream of.

The Ordinary is a clear example of Value Innovation: it creates superior value for customers with its effective, highly concentrated formulations, at a price that appeals to the vast majority of customers.

It is also a striking example of **Path 5 (Look Across Functional or Emotional Appeal to Buyers):** whereas almost the entire beauty industry had a wholly emotional orientation, evidenced by glitzy ads and elaborate packaging, The Ordinary's approach is based on science, functionality and simplicity.



Comparing The Ordinary's Value Curve to that of the luxury beauty industry, it is clear that The Ordinary easily passes the Blue Ocean litmus test: it is focused on a few factors that deliver the most value to customers, and is clearly divergent from the competition.

THE DISCOUNTER THAT QUIETLY REVOLUTIONIZED RETAIL

COMPANY: ALDI

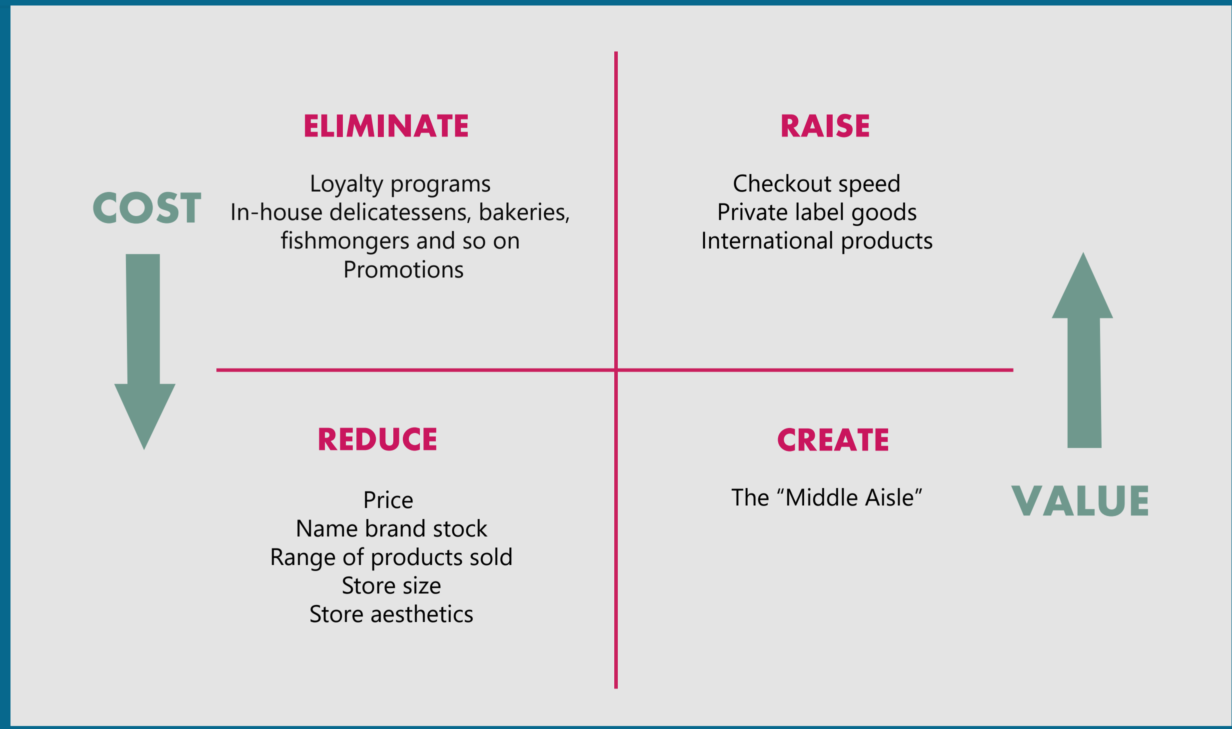
INDUSTRY: RETAIL

Aldi has humble beginnings, born in 1961 as a small, family-run corner shop in Essen, Germany. Today, it is a behemoth, with over 11,000 stores worldwide, of which 2,000 are in the U.S., and an estimated annual turnover of over €50bn[1]. Global triumph did not happen overnight, and in many markets, it took years for the chain to seriously compete with the supermarket giants. Nonetheless, its success is remarkable.

> **The industry label "hard discounter" frequently overlooks the fact that Aldi did a lot more than just offer shockingly low prices.**

Rather than compromising heavily on quality to imitate larger rivals at a lower cost, Aldi engineered innovations that shook up the retail industry and placed well-established competitors on the back foot .

We think it is a great example of a Blue Ocean undertaking in the retail industry. Let us zoom in on Aldi's success in the UK, a particularly tough market where the "Big Four" supermarket giants dominate the sector, have immense power over suppliers and ruthlessly squeeze newcomers. Aldi's ERRC grid is revealing:



There are two principles that drive value innovation: increasing customer value, by raising or creating value factors that customers want more of, and decreasing cost, by reducing or eliminating factors that are typically over-served by the industry. On the cost side, Aldi's strategy is fascinating: it reduced or eliminated many factors that the Big Four spent millions competing on. For example, whereas a Big Four retailer stocks at least 25,000 products (SKUs), Aldi launched with only 600 and today only stocks around 2,000 products. Given that the average consumer buys only around 20 items during their weekly shop, Aldi saw there was no need to offer a huge, and often confusing, choice of products. Of the goods it does stock, over 90% are private labels, made especially for Aldi, allowing it to order huge quantities at a very low unit cost. All in all, its product strategy allows it to keep costs down, with faster stock rotation and less warehouse space, while maintaining product quality.

On the value side, Aldi is famous for its speedy checkout staff, helping customers save time and thus reducing a common retail pain point: long queues. It also introduced the "middle aisle": a rotating collection of goods (from beach balls and lamps to champagne and bicycle pumps), expertly selected by its buyers who eagerly observe and swiftly respond to consumer trends.

Sometimes, when companies try to use Blue Ocean Strategy, they can be quick to raise or create new value factors but are often afraid to reduce or eliminate existing factors of competition that have been industry orthodoxy for a long time. The example of Aldi shows that even the most established and successful organizations, in this case the UK's Big Four supermarkets, can leave themselves vulnerable to disruption by leaving these orthodoxies unchallenged.

1 Combined figures from both Aldi Nord and Aldi Sud.

OTHER EXAMPLES FROM DIFFERENT INDUSTRIES

Paytm:
Launched in 2010, Paytm has grown to be India's largest mobile payment and e-wallet enterprise, allowing customers to easily make cashless transactions and transfers. It was incredibly successful in appealing to non-customers, a clear trait of a Blue Ocean offering, as around 50% of Indians did not previously have a bank account and 95% of transactions were made in cash. Paytm successfully harnessed the potential of emerging trends, such as increasing smartphone and internet penetration, and solved a major pain point for customers without bank accounts. It currently has an active monthly user base of over 140 million.

Emmanuel Macron:
In 2017, Emmanuel Macron was elected President almost out of the blue: he had never served as an elected official and his party was unknown. To succeed, he came up with what resembles a real Blue Ocean Strategy that generated huge momentum within just a few months. The essence of a Blue Ocean offering is to appeal to a mass of buyers, rather than only addressing the needs of a particular segment. This is exactly what Macron did: he did not compete with the left nor the right, and did not position himself as a centrist either ("neither right, nor left"). Instead, Macron presented himself as being both on the right and on the left. How did he do this? In a typical Blue Ocean manner, he capitalized on commonalities across these political "segments," thus boosting the efficiency of the state (combining lower taxes with increased social benefits). He also introduced new value factors, such as embracing globalization and supporting start-ups, to attract "non-customers" such as young voters. Macron's ideas focused on the big picture, not the details, allowing him to appeal to a mass of voters. As to whether he delivered on his Blue Ocean promise in office, that remains to be seen.

Bounce Fitness:
In 2014, UK-based entrepreneur Kimberlee Perry launched Bounce Fitness, a trampoline fitness company whose primary market is new parents. With an initial investment of just £200, Perry has been able to grow a multi-million-pound business by unlocking new demand in the already competitive and seemingly saturated fitness market. Bounce workout classes use mini-trampolines that are low-impact and easy on joints, and the company encourages customers to bring their babies in their prams to classes. This is an excellent example of Path 4 (Look Across Complementary Product and Service Offerings)—customers no longer need to find a separate childcare solution to be able to attend their favorite fitness class.

GE Healthcare:
For years, GE Healthcare had been designing, manufacturing, and selling expensive, high-performance ultrasound machines in developed markets, enjoying strong market positions in all three major segments (obstetrics, cardiology, and general radiology). However, in countries like China and India, those high-performing machines faced sluggish demand. GE responded by empowering local teams to build a new ultrasound machine from scratch to target non-customers in their markets, resulting in a highly successful Blue Ocean offering. The new machine offered reduced, but perfectly acceptable, performance at a fraction of the price of its sophisticated cousin. GE also listened closely to rural doctors, the non-customers it was targeting, to raise and create value factors that did matter: portability and ease-of-use. The resulting lightweight ultrasound machine works with sophisticated software than runs on a standard laptop, allowing doctors to easily transport it to hard-to-reach rural areas. The invention has been such a hit that it has even disrupted developed markets, finding a place in emergency rooms and ambulances across the globe.

Medellin, Colombia:
The Blue Ocean approach is applicable to a vast variety of fields, including urban planning. Medellin, Colombia's second city, has successfully transformed itself from the world's "murder capital" to its most innovative city. In large part, this impressive transformation is thanks to its innovative public transport system, which includes the now famous hillside escalator and metrocable. These systems provide great access even on Medellin's steep hillsides, connecting distant residents to amenities and jobs in the city center. They also draw in tourists from around the world. Medellin's city planners looked across alternative industries (Path 1), drawing inspiration from chairlifts used at ski resorts or escalators found in shopping centers. At a fraction of the cost of traditional railway systems, the metrocable and outdoor escalator systems are a great example of Value Innovation.

4. OUR WORK WITH BLUE OCEAN STRATEGY

At CentrX, we work with organizations across a range of industries to help them harness the power of Blue Ocean Strategy. Leaders learn to challenge industry orthodoxies and mental blocks to innovation, and practice using Blue Ocean Strategy tools and methodologies. Typical learning objectives include:

1. Inspire and equip leaders to drive innovation in their activities
2. Create a true culture of innovation at all levels of the organization
3. Focus on action to ensure that innovation moves from theory to practice

Most of our programs feature the Blue Ocean Strategy Simulation, created in partnership with W. Chan Kim and Renée Mauborgne, which allows leaders to experiment with Blue Ocean Strategy in a risk-free yet realistic business environment. This is complemented by sessions and application workshops that ensure that learnings are properly anchored and that participants feel confident in applying them back on the job.

A example involves a workshop run during the early months of the Covid-19 pandemic. Working closely with our client, we transformed our annual onsite Blue Ocean Strategy workshop into a fully online experience, to engage their top leaders during this challenging period and equip them with the necessary skills to thrive in a disruptive environment. Running over several weeks, the program utilized our **Experience-Learn-Apply approach** to engage participants and create a strong emotional connection to Blue Ocean learnings. In contrast to the top-down approaches that typically characterize remote programs, over half the time participants spent online was made up of active group work. This included applying the Blue Ocean Strategy approach to participants' own business challenges, allowing them to come up with viable innovation projects for their entities. Participant feedback was extremely positive, and they appreciated the opportunity to focus on strategic innovation at this disruptive time.

CentrX works with global organizations to harness the power of Blue Ocean Strategy. If you would like to book a free consultation with one of our consultants, contact us today.

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