

Kim, W. Chan & Mauborgne, Renée – Blue Ocean Strategy

Harvard Business School Press, 2005, [Business] Grade ★★★★★

During the summer InvestingByTheBooks will review some older books that we never got around to writing about although we think they are important. With their innovative and fresh perspective on strategy the two INSEAD Professors Chan Kim and Renée Mauborgne has created a modern classic with their *Blue Ocean Strategy*. When it comes to corporate strategy most academic models focus on how to gain an advantage over competition in a given market. The blue ocean strategy instead aims to break away from competition by developing new value propositions and, through this, new markets.

In studying companies and their fates the authors came to the conclusion that neither the companies nor the industries accurately described the roots of differences in performance – instead it was down to the so called strategic moves, i.e. managerial actions creating a new business offering and a new market. In a study they researched the strategic moves of over 150 companies in 30 industries trying to unveil the common factors that lead to some companies developing value innovations that opened up unexploited markets, making previous competition irrelevant.

Despite a history that has shown constant changes in the business environment and the success of companies, most managers are mentally locked into the current industry structure focusing on how to beat their competitors. The authors symbolize this environment with the metaphor of a red ocean, an ocean where companies fight each other and where the water is colored red by the bitter combatants' blood. If you instead take the view that the world is in constant change and innovative companies often create new markets the question becomes how to execute this creation of a new blue ocean where a company – at least temporary - can swim alone without competition.

In the key second chapter the authors present a set of analytical tools to help companies to come up with value innovations to reshape their business.

The main two are the Strategy Canvas mapping the various factors that the industry is currently competing on and the Four Actions Framework asking 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? and 4) Which factors should be created that industry never has offered?”. Building on this foundation the rest of the chapters expand on the task by showing how to find a blue ocean of sufficient size, how to build a viable business model around it and how to overcome the inevitable external and internal obstacles.

Rereading the book I must admit that not all of the text is entirely original and although it’s nice that *The Blue Ocean* is an easy read, the book frankly lacks depth. I would argue that apart from “strategic moves”, industry dynamics and economy also matter hugely. If you are selling commodities like iron ore or oil, finding blue oceans becomes fairly tricky.

Nevertheless, it’s a book that has become an integral part of the strategy literature canon and in Michael Porter-terms, the authors undoubtedly found an underserved niche in the strategy literature industry with their focus on the creation of brand new markets. The book is quite practical and gives the appropriate weight to strategy execution and not only strategy formulation. The core models are perhaps just two, but they are useful as they make the reader start thinking in new directions and in this respect *The Blue Ocean* fulfills its purpose. I also quite like the approach of writing a book for the brave, for those who want to make a big difference instead of doing marginal improvements within given limits. This doesn’t mean breaking away, making competition irrelevant, is an easy thing to do just because you try. But if you don’t try you’ll never succeed.

We recommend the book for inspiration rather than a mass of new insight.

Mats Larsson, July 16, 2015