

FROM THE AUTHORS OF THE INTERNATIONAL BESTSELLER
BLUE OCEAN STRATEGY

BLUE OCEAN SHIFT

BEYOND COMPETING

**PROVEN STEPS TO INSPIRE CONFIDENCE
AND SEIZE NEW GROWTH**

W. CHAN KIM | RENÉE MAUBORGNE

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To strive, to seek, to find, and not to yield.

–Alfred Lord Tennyson

Preface

In the poem “O Me! O Life!” Walt Whitman, the American poet and essayist, reflects on the trials and tribulations that define the human experience. “What good amid these, O me! O life?” he asks. His answer—that all of us, individually and collectively, may contribute a verse to the powerful play that is life—has never left us.

Life has its challenges and tribulations, no doubt. But it is not beyond our ability to shape. By our very existence, we all are able to contribute a verse and, in doing so, influence life’s course, and maybe even its beauty, if only by an inch.

What will your verse be? What will ours? We have never stopped asking ourselves this question. What do we want to stand for? What narrative arc do we want to focus our efforts on in the hopes of adding a small verse to the powerful play that is life that can help our world to advance?

For us, as business scholars, the world we aspired to help advance wasn’t one defined by competing and dividing up markets or the globe, where one’s gain comes at the expense of others. Competition exists, and win-lose scenarios abound, but they weren’t what captured our imaginations, nor what we believed our world needed more of. What we admired, what inspired us, were the organizations and individuals that went beyond competing to create new frontiers of opportunity, growth, and jobs, where success was not about dividing up an existing, often shrinking pie, but about creating a larger economic pie for all—what we refer to as *blue oceans*. Blue oceans are less about disruption and more about *nondisruptive* creation, where one’s gain doesn’t have to come at the expense of others.

But how do you translate aspiration into action, intention into reality?

We need a road map that can shift our perspective and free our imaginations, allowing us to suspend belief in the limits of today so we can see and create the possibilities of tomorrow. And for that we need to inspire confidence in

ourselves and in our people because, although we all are replete with creative energy and resilience, at our core, most of us are also incredibly tender and vulnerable. Without the confidence to act, few will venture down a new path, no matter how clear the road map. We aspire to make a difference, yet at the same time fear we cannot. Confidence is that magical quality that allows us to transcend the quiet self-doubts that tug at us. It shows us the emotional way forward by allowing us to believe in ourselves and trust the process.

The book you are holding in your hands is our answer to this challenge. It is based on our nearly 30-year research journey to the blue ocean in which we studied organizations large and small, for-profit, nonprofit, and governments that moved beyond competing in existing crowded markets—what we think of as red oceans—to new heights of confidence, market creation, and growth. What we learned in studying those who succeeded in making this shift as well as those who failed is that for any process to work, it must acknowledge our doubts and build our confidence as much as unlock people’s requisite creativity with proven steps.

In *Blue Ocean Shift*, people and our human spirit are put on an equal plane with a tested process and market-creating tools to move you, your team, and your organization from red to blue oceans in a way that people own and drive the process to succeed. It provides a step-by-step guide anyone can follow with battle-tested lessons learned from the field on what works, what doesn’t, and how to avoid potential pitfalls along the way.

We made our choice of what verse we want to bring to the world. We firmly believe that we all are capable of creating new frontiers and verses of our own. As Nelson Mandela once noted, “It always seems impossible until it’s done.” We hope that this book can help you make yours.

PART ONE

Blue Ocean Shift

Reach Beyond the Best

“WHEN I PLAY MUSIC, I feel like I’m in a beautiful world that is endless.”

In 2008, amid the devastation that is Iraq—a country of religious and ethnic divisions, hardship, and war—Zuhal Sultan had a dream. The 17-year-old Iraqi pianist wanted to create her country’s first national youth orchestra and travel with it abroad. Iraq, however, had few formally trained musicians or music teachers, and few quality instruments to speak of, not to mention cultural chasms dating back centuries that divided Iraqi youth.

Where to begin? Using the Internet, Zuhal reached out to find a conductor. Paul MacAlindin, a Scottish conductor and classically trained musician, responded and signed on to lead the National Youth Orchestra of Iraq (NYOI).

It didn’t take Paul long to see that he would need to be a strategist as well as a musician, since the orchestra would have no chance if it competed on the same terms as other national youth orchestras. The industry was intensely competitive, dominated by venerable European youth orchestras from countries such as France, Italy, Spain, and the UK. Comprised of highly trained young musicians with great technical skills, these orchestras engaged world-class guest soloists and conductors, and featured polished performances of classical masterpieces by composers such as Brahms, Beethoven, and Mahler. To stand apart, while keeping costs low, Paul realized that NYOI would have to break with industry tradition and redefine what it meant to be a national youth orchestra.

Rather than focus on technical excellence and musical sophistication, NYOI would focus on the power of music to heal, bridge the deepest divides, and showcase the hidden glory of Iraq’s rich heritage. To this end, Paul reduced the

orchestra's reliance on musical excellence and a sophisticated European repertoire, and eliminated renowned guest soloists and guest conductors, which dramatically dropped its cost structure.

In its place, Paul and Zuhail assembled a group of youthful musicians who would play original Iraqi music of both Kurdish and Arab origin and put it on an equal footing with the likes of Haydn, Beethoven, and Schubert, which they also played. Much to the disbelief of many, NYOI brought together young men and women musicians who were Sunni and Shia, Arab and Kurdish. In this way, Paul and Zuhail built an orchestra that demonstrated the young Iraqis' hope and commitment to building a brighter future together out of the destruction of war. As NYOI member Mohammed Adnan Abdallah put it, "Music is the language of peace, and it makes people love each other. When musicians sit and play together, they communicate that."¹

The result: NYOI became known as the "Bravest Orchestra in the World," a title first bestowed on it by the British broadcaster Sky News. It might not be the most technically accomplished group of young musicians. But it was, perhaps, the most inspired. It broke away from other national youth orchestras, winning accolades, standing ovations, and attention across the globe. It attracted new audiences who had never gone to classical music concerts before and enjoyed one of the largest social media followings of any youth orchestra. More than that, it showed young Iraqi people they could create a different narrative for their country other than one of destruction, hate, and war—one of peace, hope, and solidarity.²

Paul MacAlindin is smart and a fine conductor. He is hardworking, strives to do his best, and has a passion for making a difference. He will be the first to admit, though, that he is not a genius or your typical entrepreneur. In many ways, Paul is just like most of us. Yet, despite organizational constraints, ranging from scant resources to limited top talent, Paul and his young orchestra members developed a strategy that was both creative and low cost, allowing the orchestra to stand apart from fierce, entrenched competition.

Paul and NYOI's youthful musicians are not alone.

From Orchestras to French Fry Makers

Take Groupe SEB, the French multinational founded in 1857. Like most large, well-established multinationals, Groupe SEB is run by professional managers,

many of whom have been with the company for years, with an established culture and its share of bureaucracy and internal politics. Like most small appliance makers at the time, its businesses were facing increasingly intense competition and margin pressure. In particular, its electric French fry makers, struggling to stand apart in a market that was shrinking 10 percent a year in value, were a case in point.

Recognizing the need to break out of this intense competition, Christian Grob, the head of electric cooking at the time, and his team set out to turn the situation around. The professional managers of Groupe SEB were somewhat skeptical. After all, what could you do with a French fry maker when price was the only thing that seemed to drive sales?

Christian and his team reasoned differently. What if all the players in the industry were operating under the same set of assumptions, but those assumptions limited the attractiveness of and the demand for their products? What would happen if those assumptions were rethought? Christian and his team set about to do just that—to identify and challenge the industry’s most basic assumptions. When they did, they had a revelation.

Christian’s team discovered that there were two facts that everyone accepted without question—two facts that in essence defined the industry. The first was that making fresh French fries required frying. The second was that frying required a lot of oil.

Obvious? Yes. However, these unexamined assumptions drove the industry to overlook a host of problems. The 2.5 liters of cooking oil that were required were expensive. Once hot, the oil makes fryers dangerous. When the fries are done, it’s hard to dispose of the cooking oil, making cleanup difficult. To top it off, all that oil makes fries both unhealthy and incredibly fattening.

Challenging this accepted wisdom led the team to redefine the problem from the one the industry focused on—how to make a best-in-class fryer—to how to make mouthwatering, healthy, fresh fries without frying. The result was ActiFry—a whole new type of French fry maker, first launched in France in 2006 and since rolled out globally. ActiFry requires no frying, and uses only one tablespoon of oil to make two pounds of fries, with roughly 40 percent fewer calories and 80 percent less fat than the same size serving of traditional fries. What’s more, the appliance is easy to clean and has no safety or oil disposal issues. The fries are great, too—crunchy on the outside and soft on the inside. The winning combination of healthy, lower-calorie, yet yummy fries inspired Oprah Winfrey to tweet about how much she loves her ActiFry. “This

machine... actifry has changed my life,” she tweeted, “And they’re not paying me to say it.”³ Not only did demand outstrip supply across Europe, but after Oprah’s comments, Groupe SEB’s stock price jumped 5 percent based on this one product. It took competitors five years to dive into the market, and even so they didn’t succeed in capturing a significant share, since they couldn’t match what ActiFry offered, thanks to the patents Groupe SEB secured. To this day, more than ten years out, ActiFry remains the global market leader. With the launch of ActiFry, the industry also grew by nearly 40 percent in value, pulling into the market brand-new customers who had never bought an electric fry maker before.

The industries of national youth orchestras and French fry makers are clearly worlds apart. They deliver different offerings, compete in different ways, and have completely different sets of players. The two organizations are also different. The National Youth Orchestra of Iraq is a new nonprofit, essentially a start-up. Groupe SEB is a for-profit multinational with over 150 years of history behind it.

As different as these two organizations and their industry settings are, however, they succeeded in the same way. Both shifted from competing in crowded existing markets to creating new market space. And while both faced organizational hurdles—as all organizations do—they overcame them by winning people’s confidence and cooperation. This is what we call **blue ocean shift**. Blue ocean shift is a systematic process to move your organization from cutthroat markets with bloody competition—what we think of as red oceans full of sharks—to wide-open blue oceans, or new markets devoid of competition, in a way that brings your people along.

To deepen our understanding of blue ocean shift, let’s look at another example, this one launched by government, arguably one of the most bureaucratic, resistant-to-change entities, and one that few would describe as creative or innovative.

The Gift of a Second Chance

Many countries today face rising crime, overcrowded prisons, and high recidivism rates. The implications of this situation are huge. It is costly to taxpayers. It threatens the security of citizens. It is debilitating to people who have turned to crime and can’t break out of its vicious cycle. It is also

heartbreaking for their families.

Most governments deal with overcrowded prisons in conventional ways: by building more of them, or maximizing utilization by mixing petty criminals in with harder-core inmates. Neither option works very well. Building more prisons is expensive and time-consuming, and mixing petty and harder-core criminals turns prisons into crime schools.

Either way, the focus is mainly on incarceration and providing a strict security environment, not on rehabilitation. California, for instance, has built 22 prisons since 1980. Its annual prison budget is now some US\$9 billion. Yet its prisons remain massively overcrowded, and its recidivism rate hovers at a whopping 65 percent. In short, the existing strategies for managing prisons may succeed at punishment, but they fail at what society needs most—rehabilitating inmates to become productive members of the community.

When the government of Malaysia faced this precise challenge in 2010, it recognized that only a shift in strategy and organizational focus could break the vicious cycle of incarceration and reduce crime. To that end, the government turned to the National Blue Ocean Strategy (NBOS) Summit. The government had created the NBOS Summit in 2009 to pioneer innovative strategies and new practices that could achieve high social impact at low cost. Each month the NBOS Summit brings together national leaders like the prime minister, the deputy prime minister, and other top ministers, as well as the highest-level civil servants, including those from the nation's security forces. Depending on the issue, Summit participants vary and relevant private sector leaders are also involved.

In seeking a creative solution to the prison problem, the Summit stopped using global best practices as the benchmark. Instead, as Paul MacAlindin did at NYOI and Christian Grob did at Groupe SEB, it sought to identify and challenge the industry's fundamental assumptions. Chief among these was the long-held assumption that all criminals need to be put in prisons. Was there an alternative to very costly, high-security prisons, which could have high impact at far lower cost?

As the Summit explored these questions, it saw an opportunity that the ministers and security professionals had never previously recognized. Many military bases around the country had idle land. These bases had a robust security infrastructure, meant to keep trespassers out. But it was equally well suited to keeping prisoners in. For petty criminals, who were the largest inmate population, this idle land could be converted into an effective, low-cost security

environment.

Summit participants also surfaced a second long-held practice that was keeping the government from recognizing rehabilitation opportunities; that is, the key expertise to rehabilitate prisoners lay outside the domain of the ministry in charge of prisons. Traditionally, prison officials were put in charge of rehabilitation, but their expertise was in confinement and high security—not in education, training, employment, and family needs. These were the keys to rehabilitation, and they could be much better provided by other ministries.

As the Summit challenged and overturned these long-held assumptions, it made a blue ocean shift, and the Community Rehabilitation Program (CRP) was born. Instead of building more expensive prisons, the Summit created CRP centers for petty criminals on the military bases' idle land, a first in the world. CRP offered a solution to overcrowding that could be delivered quickly and cheaply, and it ensured that petty criminals would be separated from, and not influenced by, hardened criminals. That was just the start.

At the CRP centers, the Ministries of Agriculture and Higher Education were brought in to provide high-value vocational training in cultivating fish and growing high-yield crops, which are then sold in open markets. The inmates earn and save money through the sale of the products they produce. Such training not only teaches valuable skills, but also shows these minor offenders a financial alternative to crime. CRP also reaches out, via the human rights commissioner, to inmates' family members, encouraging more regular contact and even providing housing facilities nearby to allow visiting families to stay longer.

Visitation at conventional prisons normally occurs behind a glass window for 30 minutes. By contrast, at the CRP centers, inmates and their spouses and children are allowed to not only hug and hold each other but also play together. This heals wounds and reminds inmates how much they are loved and how important their rehabilitation is. Upon release, the Ministry of Human Resources provides departing prisoners with job-matching services, and loans are available from the Ministry of Women, Family and Community Development, should they wish to start their own business.

The result: CRP delivered a leap in value to prisoners, their families, and society while keeping costs to the government low. Here are the facts: Since the CRP centers started in 2011, the recidivism rate for petty criminals has dropped around 90 percent and stands at some 0.6 percent of California prisons. Their families are thrilled. Society is safer. As for cost, compared with a conventional prison, a CRP center is 85 percent cheaper to build and 58 percent cheaper to

run. Based on the current rehabilitation level, CRP is expected to deliver over US\$1 billion in reduced costs and benefits to society in its first decade.

Perhaps the greatest gift, however, is how CRP transforms the lives of former inmates, giving them hope, dignity, and the tools to restart their lives and become productive members of society. As one former CRP inmate put it, “I really feel like I’ve been given a second chance. I’ve learned new skills and have been able to set up my own motorcycle repair business with the funds I made at CRP. I now see a new future for myself.”

From Market Competing to Market Creating

Organizational leaders often accept and act on two fundamental assumptions. One is that market boundaries and industry conditions are given. You cannot change them. You have to build your strategy based on them.⁴ The other is that, to succeed within these environmental constraints, an organization must make a strategic choice between differentiation and low cost. Either it can deliver greater value to customers at a greater cost and hence a higher price, or it can deliver reasonable value at a lower cost. But it can’t do both. Hence, the essence of strategy is seen as making a value-cost trade-off.⁵

Is it, though? Can’t organizations shape the market boundaries and industry conditions they face? Can’t organizations create strategies that break the value-cost trade-off in pursuit of differentiation and low cost?⁶

Think about CRP. Did the NBOS Summit accept the industry or environmental conditions of escalating prison costs, high recidivism rates, and rising crime as givens? No. It redefined the boundaries of what it means to incarcerate and rehabilitate criminals. It looked across prisons, police, military, and other ministries, and made a strategic and organizational shift that changed and reshaped these environmental conditions.

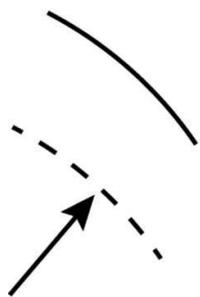
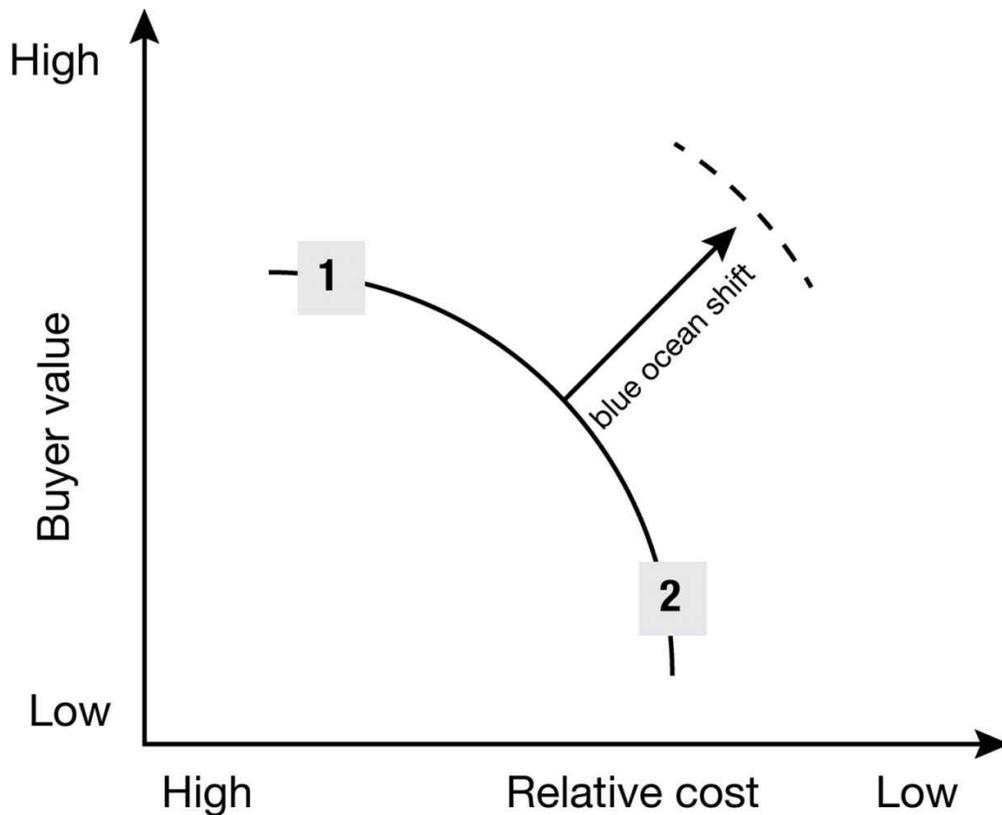
As for differentiation and low cost, CRP didn’t make the value-cost trade-off. It broke it. It created a leap in value for petty criminals, families, and society at low cost to the government. By not benchmarking and following the existing global best practices, CRP made a blue ocean shift beyond what the prison industry had ever known while winning the confidence and support of all members of the relevant ministries.

[Figure 1-1](#) captures this dynamic visually. The solid curve shows the productivity frontier depicted by Michael Porter, which defines the existing

boundary of an industry, the sum total of all its best practices.⁷ The curve represents the highest levels of value and the corresponding costs an organization can achieve, given currently available technology and business best practices. As such, the frontier is the edge at which strategy in an existing market space, or red ocean, takes place. On this edge, all industry players have equal productivity—the ratio of value to cost. Hence changes in buyer value and cost are positively related: More of one necessarily means more of the other. What this means is that for a market-competing or red ocean strategy to succeed, an organization has to make a value-cost trade-off: It can stand out either in value, which is called differentiation (position 1), or in low cost (position 2). But it cannot stand out in both.⁸ If an organization's offering is positioned behind its industry's productivity frontier it will inevitably be outperformed by its competitors positioned on the frontier. Hence, the strategic focus is on how to compete and win in existing market space.

Figure 1-1

From Market Competing to Market Creating



In pursuit of differentiation *or* low cost to compete on the existing productivity frontier of an industry as depicted by Michael Porter

In pursuit of differentiation *and* low cost to open up a new value-cost frontier

This strategic logic doesn't stand, however, when we consider CRP. In business terms, CRP did not take the existing industry boundary as a given and stake a claim on the productivity frontier of existing prison best practices. Instead, it made a blue ocean shift that broke the value-cost trade-off. It pioneered a new strategy that opened up a new value-cost frontier through a step change in the *kind* and *degree* of value offered. This is how new market space is created. The dashed curve in [figure 1-1](#) captures this alternate dynamic. Here strategy is in pursuit of both differentiation and low cost. By opening up a new value-cost frontier that is a leap beyond the existing industry productivity curve,

a blue ocean is created and competition on the existing frontier is made irrelevant.⁹

While achieving a blue ocean shift may seem like magic, it is not. There is actually a systematic process that is accessible to everyone, whether you see yourself as particularly creative or not. The process not only maps out the path from red to blue oceans, but does so in a way that inspires people's confidence and brings them along from the beginning, so that they understand it and feel invested in the shift. Groupe SEB's ActiFry, the National Youth Orchestra of Iraq, and the Malaysian government's Community Rehabilitation Program are just a few of the blue ocean shifts made by organizations across the globe that have been applying this process, either in whole or in part.

Our Journey to the Blue Ocean

Our understanding of blue ocean shift and the process to achieve it did not come overnight. It is the result of a nearly 30-year research journey that we ventured together, often against all odds. Three decades ago we witnessed a disconcerting phenomenon that captured our minds and hearts and set us on this path. Back in the mid-1980s, global competition was heating up as never before, and, for the first time in history, American companies were fast losing ground in industry after industry. From motorcycles to cars, from earthmoving equipment to consumer electronics, they were being overtaken by a new set of competitors—Japanese corporations.

As researchers based in Ann Arbor, Michigan, at the time, we not only read about this, we witnessed it firsthand. The auto capital of America, just next door in Detroit, was devastated. The Big Three—General Motors, Ford, and Chrysler—were hemorrhaging jobs. Businesses were shutting down. People were scared. In Michigan, some had even taken to vandalizing Japanese cars on the street out of fear and anxiety over the onslaught of the new, strong competitors. Never was this more apparent to us than when we drove into Detroit. Street after street felt like a ghost town, slowly falling to ruin. We were both broke at the time, driving beat-up old cars. The city felt beat up, too—both its spirit and its economy.

Essentially, the economy of the developed world was easing into a new phase that posed a new challenge. It was shifting from a situation of demand outstripping supply following World War II to a tougher game of supply outstripping demand, which meant ever-greater competition. American

companies may have been the first to feel the brunt of this emerging challenge, but we were convinced it was only a matter of time before companies throughout the developed world would face it too—including the Japanese. Unless prepared, they would fall like once-powerful Detroit.

With this perspective, and disheartened by what we saw, we set out to understand not how to cope with or slow this emerging reality, but what it would take to thrive, not merely survive, as competition heated up across the globe. With growing clarity and focus, our research questions emerged. Specifically, how can a company break out of this red ocean of bloody competition and generate strong, profitable growth? What does it take to reach beyond the best, to create new market space and make the competition irrelevant?

The initial results of our research were a series of articles on strategy and management published in *Harvard Business Review* as well as academic journals.¹⁰ They culminated in our first book, *Blue Ocean Strategy*. Originally published in 2005, and updated and expanded in 2015, *Blue Ocean Strategy* was translated into 44 languages and became a bestseller across five continents. Long years of dogged focus, struggle, and persistence are the true story behind this “overnight” global bestseller.

In a nutshell, *Blue Ocean Strategy* articulated a view of the market universe as composed of two types of oceans—red oceans and blue oceans. Red oceans are all the industries in existence today that most organizations fight over. Blue oceans are all the industries yet to be created, where profit and growth increasingly come from. Based on our study of 150 strategic moves, spanning more than 100 years and 30 industries, the book laid out the conceptual differences and underlying patterns that separate **market-competing moves**—what we call **red ocean strategy**—from **market-creating moves**—what we call **blue ocean strategy**. It provided analytic tools to create blue oceans and highlighted why red ocean strategy is a theory of market competition and blue ocean strategy is a theory of market creation that makes competition irrelevant. The terms *red oceans*, *blue oceans*, and *blue ocean strategy* soon entered the business vernacular.

With a speed we hadn’t expected, a tidal wave of interest grew as individuals, governments, companies, and nonprofits around the globe started to look at their world through the lens of red and blue oceans. Established organizations saw themselves as in a red ocean, with a call to action to get out and create blue oceans. Entrepreneurs argued for the need to seek blue ocean opportunities and avoid red oceans altogether. The focus of interest and discussion moved to a

whole new level: from “What is blue ocean strategy?” to “How do we actually apply its theory and tools to shift from red to blue oceans?”

Entrepreneurs and start-ups were looking for concrete steps and a systematic process they could follow to create and capture blue oceans at minimal risk. Established companies stuck in the red ocean sought to understand how to move to open water. Their reasoning went like this: Our culture is bureaucratic and resistant to change. Where do we start this process? And how do we get people to buy into the idea and bring them along, when all they know and are comfortable with is how to compete within established industry rules? Past experience had taught them that however creative their ideas and change efforts, no shift would happen unless the human element was addressed. To ensure a successful shift, they wanted to know how to win their people’s confidence and cooperation, despite facing organizational hurdles.

To meet this new research challenge, we set out to study those who had applied our theory and methodology to their organizations to create and capture blue oceans. They included individuals and organizations like Paul MacAlindin and the National Youth Orchestra of Iraq, Christian Grob and his team at Groupe SEB, and the Malaysian government’s NBOS Summit, which has created and implemented more than 100 blue ocean national projects since its commencement in 2009.¹¹ We analyzed the patterns of their successes and failures and drew lessons from their experiences to understand what worked, what didn’t work, and how to avoid potential pitfalls.

Many of these individuals and organizations came to us or to members of our blue ocean global network for guidance. They wanted to know how and where to start the journey, how to apply the tools to new opportunities, how to scope a meaningful blue ocean initiative, and how to put the right team together to make it happen. They also wanted to know how to build people’s trust and confidence in the process, because only with these could they create the will and commitment to make the needed shift. As you will see later, one of them is Kimberly-Clark Brazil, a consumer-goods company that swam out of the bloody red ocean of the hypercompetitive US\$1.5 billion-plus Brazilian toilet tissue industry and set the new industry standard with its blue ocean “Compacto” format.

Others applied our blue ocean theory and methodology on their own. We came to know them through word of mouth, correspondence, or reading about their experiences in the press, and reached out to them. CitizenM Hotels, the affordable luxury chain, is one of these. It is currently expanding globally from

its home base in Amsterdam and enjoys among the highest guest satisfaction ratings in the field of hospitality while having the lowest costs. HealthMedia, is another—a struggling company in 2006, with a mere US\$6 million in sales—which, under Ted Dacko’s leadership, created the new market space of digital health coaching and in two short years was sold to Johnson & Johnson for US\$185 million. And then there’s Wawa, the American convenience/food/gas chain, the 36th largest private company in America, which achieved explosive growth under its former CEO and current vice chairman Howard Stoeckel using the tools and ideas of a blue ocean approach. With its blue ocean offering, Wawa continues to grow under the leadership of its current CEO Chris Gheysens.

Overall, our analysis encompassed cases from Business to Customer (B2C) and Business to Business (B2B) as well as the public and nonprofit sectors. Through these field applications and our follow-up studies, we learned not only the common factors leading to a successful blue ocean shift but also the pitfalls and hurdles that got in the way.

To assess the validity and general applicability of our findings on a larger scale, we also analyzed and compared the patterns behind the strategic moves of other organizations that made the shift from red to blue oceans, based on their own processes. The aim here was to continue to broaden and deepen our understanding of how to escape cutthroat competition and create new markets. Studying both organizations that made the shift explicitly using our tools and ideas and those that did not is key to grasping a more complete picture of the pattern and dynamic process of market creation.

So, after over a decade of new study and analysis, we have arrived at a deeper understanding of what it takes to succeed in the blue ocean shift process. It comes down to three key components.

The Three Key Components of a Successful Blue Ocean Shift

The first component is adopting a blue ocean perspective, so that you expand your horizons and shift your understanding of where opportunity resides.

Organizations that open up new value-cost frontiers think differently. That is, they think about different things than those that are focused only on competing in their current markets. They raise fundamentally different sets of questions that enable them to see and understand opportunities and risk in fresh and innovative ways. This allows them to conceive of different *kinds* and *degrees* of value to

offer customers that others either can't see at all or dismiss as impossible or irrelevant. With an expanded field of vision, they can, for instance, imagine creating a national youth orchestra worthy of global praise, even though it lacks highly trained musicians or quality instruments, by reconceiving it as a showcase for bridging cultural divides and promoting peace. They can imagine building rehabilitation centers on military bases for petty criminals, even though that defies the historical separation of the military, police, and prison administrations. They can imagine creating a new kind of home French fry maker that produces fresh, tasty, and healthier fries without frying.

Too many organizations are wedded to industry best practices even as they strive to break away from them. Adopting the perspective of a blue ocean strategist opens your mind to what could be, instead of limiting it to what is. It expands your horizons and ensures that you are looking in the right direction. Without expanding and reorienting your perspective, striving to open up a new value-cost frontier is like running west looking for the sunrise. No matter how fast you run, you're not going to find it.

While the right perspective is critical, for most of us it is not sufficient to actually conceive of and open up a new value-cost frontier. This is one of the greatest challenges organizations face. They want to get out of the red ocean. They want to make a blue ocean shift. They may even have a blue ocean perspective. However, they lack market-creating tools and guidance to turn their blue ocean perspective into reality.

The second component, therefore, is having practical tools for market creation with proper guidance on how to apply them to translate a blue ocean perspective into a commercially compelling new offering that creates new market space.

If the right perspective is a matter of shifting one's strategic thinking by asking different questions, market-creating tools and guidance enable you to ask the right questions at the right point in the process and to see the significance of the answers. Taken together, they build people's creative competence and provide the structure and parameters within which to organize your thinking so you can conceive and discover what others don't see, and avoid the potential pitfalls that trip up most organizations. Step-by-step, they guide you through the central questions for opening up a breakthrough value-cost frontier: How do you challenge the explicit and implicit assumptions you hold regarding your business and your marketplace? How do you go about identifying the ocean of

noncustomers to create new demand? How can you systematically redefine market boundaries to open up a new value-cost frontier that makes the competition irrelevant? How can you create offerings that stand apart while simultaneously achieving lower costs? And how do you go about building a supporting business model that your organization will follow to profitably bring your strategic vision to market?

What makes these tools and frameworks so powerful is that they are visual, which renders them easy to understand and apply, no matter what an individual's level of education or creativity. By showing in a single-page graphic or diagram how the critical factors relate to one another, each tool enables everyone to see the answer to each question emerge, thus keeping everyone, well, on the same page.

Our book *Blue Ocean Strategy* introduced these tools, but the devil, as they say, is in the operational details. Here we delve deeply into those details: We show you how to put the right team together, set up the process, and systematically apply each tool, in what sequence, to produce results and avoid and overcome potential stumbling blocks along the way. We are not talking about offering lessons from a 30,000-foot perch. Instead, what we do here is empower managers with practical, hands-on guidance at every step of the journey from the red ocean to the blue.

Making a blue ocean shift is a transformational journey. It requires more than a clear idea and strategy to open up a new value-cost frontier. To move toward the new frontier, you have to bring people along. Without people's voluntary cooperation, you will be stopped dead in your tracks, as every professional of a certain age knows. While most strategy work does not delve into the human side of organizations, yours should.

Accordingly, the third component is having a humanistic process, something we have come to call "humanness" in the process, which inspires and builds people's confidence to own and drive the process for effective execution.

Most organizations face internal hurdles to change. This might be a cognitive hurdle, because people are wedded to the status quo. Or a political hurdle created by deep divisions or structural silos that breed internal tensions and infighting. Or a motivational hurdle, because people focus on doing what it takes to get by, but lack the energy, passion, and drive to make a real difference. Paul MacAlindin and the National Youth Orchestra of Iraq, for example, faced the daunting hurdle of bringing people who had been divided by years of fratricidal

war together as a team. In Groupe SEB, ingrained ways of doing things and skepticism presented tough organizational hurdles to get over. The Malaysian government faced the classic hurdles stifling most governments today—ministerial silos and cross-ministerial tensions, not to mention the motivational hurdle of a bureaucratic, civil servant mentality.

Ironically, our research shows that the two most common practices organizations rely on for execution are also the reason most transformative efforts fail. First, most organizations treat strategy creation and execution as separate and sequential activities. One group of people devises a strategy and then hands it off to another to execute. For the most part, academic research on strategy and innovation reinforces this bifurcation and sequence. Second, when it comes to execution, most of the time and attention get focused on making structural changes and using carrot and stick approaches, such as changing spans of control, aligning incentives, setting up key performance indicators, and the like.

While carrots, sticks, and structural shifts have their roles to play, they do little to inspire and build people’s confidence, which is critical to creating transformative change. To do that, organizations should essentially do the opposite of what they commonly do.

Instead of treating execution as something that happens after the strategy has been set, it needs to be built into the strategy from the start or people won’t own it. Also, you need to focus on the emotions and psychology of your people, instead of putting most of your energy into manipulating the mechanistic levers of structure, punishments, and rewards. If you can move people by inspiring and building their confidence to own and drive your new strategy, they will be committed to seeing change through and overcoming the organizational constraints you confront.

How can you capture people’s hearts and minds and align them with your new strategy? Change, after all, is threatening, and asking people to make a blue ocean shift does just that by asking them to move away from what they know to a new frontier. Yet surprisingly, as we studied organizations that had made successful blue ocean shifts, we saw that people became more creative and more energized, and that execution wasn’t questioned—precisely what you want to achieve, but what’s typically so elusive. Why would that be? The longer we thought, the more clearly we could see that there was something about the process that recognized people, acknowledging their fears, their insecurities, their need to be treated with dignity, their desire to matter. We struggled to figure

out what word could capture this something and best describe it. The closest we could get was what we came to term *humanness*.

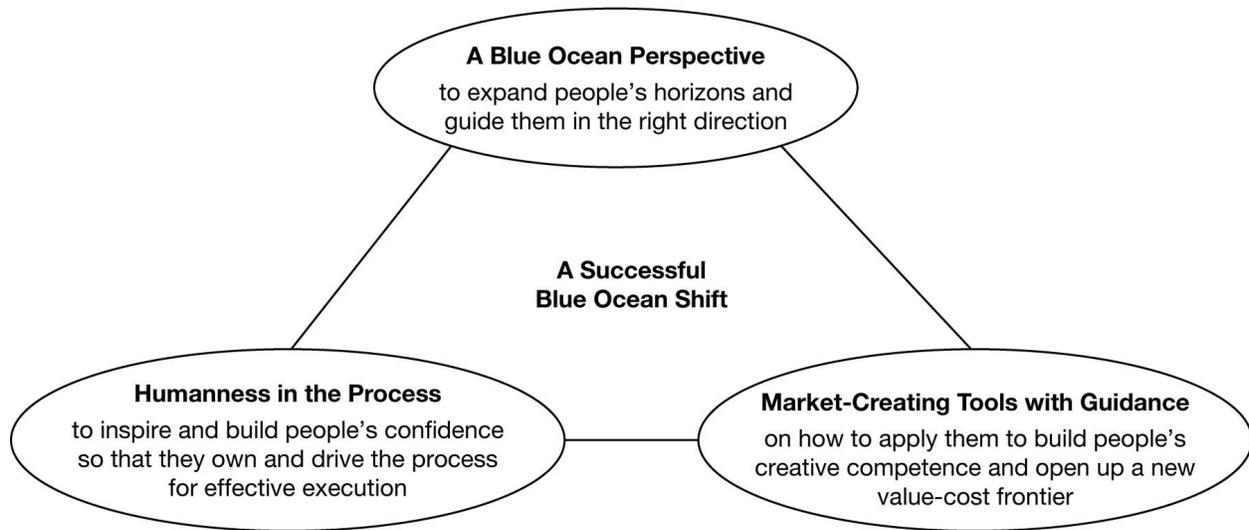
What we came to understand is this: At its core, a successful blue ocean shift is fundamentally a humanistic process. It does not deny but instead embraces our humanness in such a way that it makes us more competent and confident than we ever imagined. Humanness inspires us to inch along. It recognizes our skepticism and vulnerabilities, our fear that we can't do it, our doubts over whether there even are blue oceans, our need for intellectual and emotional recognition to make us feel valued. By building humanness into the process, an organization can shift its team's psychology and create an emotional landscape for change, whether you have 5 people or 10,000.

The blue ocean shift process accomplishes this not by demanding that anyone change but by easing people's fears and building their confidence at every step of the way. It does this by weaving atomization, firsthand discovery, and fair process into the entire journey. These elements are key to humanness, our research found, because they touch people at a fundamental level. The good news, as you will learn later, is that they are reproducible in any organization.

[Figure 1-2](#) captures the essence of making a successful blue ocean shift in one picture. The three components shown in the figure are complementary and work together to produce a shift. Make no mistake, however. We were able to identify the three key components of a successful blue ocean shift—a blue ocean perspective, practical tools for market creation with proper guidance on how to apply them, and humanness in the process—not because we got the components right every time. In fact, organizations often faced frustrations and troubles as we got them wrong. We learned from lots of mistakes, most of which caused us to place even greater emphasis on the need to reinforce all three key components throughout the process.

Figure 1-2

The Three Key Components of a Successful Blue Ocean Shift



Shifting an organization from a red to a blue ocean does not happen in one day or after one off-site. But it also doesn't take years. While the final market launch of Groupe SEB's ActiFry took over two years, because of the time required to secure complex patents, the blue ocean shifts of the National Youth Orchestra of Iraq and even the Malaysian government's large-scale Community Rehabilitation Program were made in a year or so. As organizations start to see tangible evidence of opportunities to open up breakthrough value-cost frontiers, energy climbs and momentum to move from the red to the blue ocean is unlocked in a powerful way.

Why Blue Ocean Shift Should Matter to You

There is no doubt that many, many industries are in need of new value-cost frontiers. The health-care industry, for one. Energy, for another. Public education in the United States, although not traditionally viewed as an industry per se, needs to be rethought. Its performance is unacceptably low, while costs have risen steeply. The auto industry, while currently not in free fall, clearly needs new ways to tackle environmental concerns that are not cost-prohibitive. Banking and other financial institutions beg for new strategies to achieve sustainable high performance.

UN scenarios suggest that, if current population and consumption trends continue, we will need the equivalent of two earths by the 2030s to generate sufficient resources and fresh air for all of us.¹² We need to open up new value-cost frontiers in areas as basic and diverse as the production and supply of

municipal water, electricity access and use, and the way our cities are designed and run to avert what many see as otherwise unavoidable crises.

Pick any existing industry you can think of and ask if it isn't in need of a blue ocean shift. How does its demand pair against its supply? Today tighter profit margins, rising costs, stagnant or declining sales, and market share battles are hitting industries across the board, from construction to hair salons, advertising to law firms, paper mills to publishing. Even in public and nonprofit sector industries, like post offices, museums, libraries, charities, and classical orchestras, demand is down, costs and competition are up, and organizations are struggling financially.

In short, we are all paying for the red oceans around us. To turn things around, we need to produce more creative strategies that can unlock new value-cost frontiers and with them profitable new growth horizons. We need blue ocean shifts.

How about you?

Perhaps you are like Paul MacAlindin and the National Youth Orchestra of Iraq. You run or are part of a young organization, essentially a start-up, or a small Main Street business. You know you need to break out of the red ocean of head-to-head competition to grow profitably, but you don't know how. Or maybe you are part of a large, established organization with ingrained routines, culture, and its share of typical bureaucracy, as Christian Grob and his team had faced at Groupe SEB. Your organization is stuck in a red ocean of bloody competition but you doubt how, or if, it can shift away from the commoditization and price competition that is haunting it. People's mindsets seem locked in old ways of thinking, yet you know that to seize the future a strategic shift is necessary. Or you may be part of a government department, or ministry, or other public sector organization whose policies and practices are no longer cutting it. You know fundamental shifts are needed to deliver a leap in value at lower costs, but you can't even begin to imagine pulling that off.

If you can relate to any one of these situations, blue ocean shift is right for you.

What to Expect

Before diving into how to make a blue ocean shift happen, [chapter 2](#) spells out the core concepts and mechanisms you need to know about market creation. It

clarifies the existing confusion over what market-creating strategy *really* is and how it works. Here we address key issues, such as why focusing on creative destruction and disruptive innovation is limiting and captures only a partial picture of how new markets are created. How there's a whole other universe of market-creating opportunities that are often overlooked, but shouldn't be, based on *nondisruptive* creation. And why the innovations that economists applaud and promote are not always synonymous with what it takes to create commercially compelling new markets that open up new value-cost frontiers, and why you need to understand what differentiates the two.

[Chapters 3](#) and [4](#) then lay the foundations of blue ocean shift. [Chapter 3](#) delineates the mindset of blue ocean strategists and their distinctive ways of thinking, so you can embrace the mental framing required to make a blue ocean shift. [Chapter 4](#) outlines how the blue ocean shift process works. It expounds on the important concept of humanness and how it inspires and builds people's confidence in the process so that they own and drive the process and results. It also shows how the process builds people's creative competence along the journey.

Subsequent chapters then discuss the five steps involved in making a blue ocean shift. In each step, we introduce a new tool or tools that will provide structure and analytic guidance as your organization moves step-by-step to the blue ocean. We walk you through how to apply the tool to your situation, explain how to interpret the results, highlight the potential pitfalls in working with it, and discuss how to overcome those pitfalls to ensure your success. At the same time, you will learn how to build humanness naturally into each step, so your team will have the confidence to explore new possibilities and own the process and its results as it unfolds. In this way, execution is built into the process, so people are willing to drive the blue ocean shift as it is set in motion.

Specifically, the first step shows you how to get started by setting the right scope for your blue ocean initiative and constructing the right team. The second step addresses how to get a clear picture of the current state of play in your industry and align everyone around the need to make the shift. Here people learn how to get out of their functional and hierarchical silos and see the big picture. In the third step, the process pivots from what is to what could be, so a compelling future can be built. Here you learn how to uncover the hidden pain points buyers suffer and the points of intimidation limiting the size of your industry—both of which you can overturn. You also learn how to identify the landscape of noncustomers waiting to be unlocked. At this step, a blue ocean

becomes more than a metaphor or an abstract concept. It becomes something you can see and feel—something whose potential you can define.

This brings us to the fourth step, where you learn how to go into the field and apply six systematic paths to create new market space. This step shows you how to reconstruct market boundaries and create new demand. In this step the process also drills down into how to convert the field insights you've gained into concrete blue ocean opportunities that both stand apart and deliver low cost. This brings us to the fifth and final step of the process. Here, we show you how to select your blue ocean move, conduct rapid market tests, and finalize, launch, and roll out your move to ensure that your value proposition and business model are delivering both differentiation and low cost. Here you learn how to choose and make your move in a way that creates a win for buyers and for yourself.

In the epilogue we pull everything together. We take you on a deep dive into a bureaucratic, conventional, and change-resistant organization—a national government—on its blue ocean shift journey. We show you how even in such an organization, characterized by formidable silos, a blue ocean shift is possible, transforming the way work is done and resulting in billions saved. In fact, today a common verb applied to emerging challenges is to *blue-ocean* it. Through the shift process, the government has augmented its ability not only to achieve high impact at low cost, but also to bring out the creativity and energy of the people who execute it. Through it, they are discovering the thrill of creating and capturing blue oceans of economic and social opportunity as they open up new value-cost frontiers. And if they can do it, we assure you, so can you.

Now, join us to learn step-by-step how to break away from the tired red ocean and seize your own blue ocean of new growth opportunities.

The Fundamentals of Market-Creating Strategy

BEFORE SHOWING YOU HOW to make a blue ocean shift—how to move your organization from market competing to market creating—we first need to clarify what market-creating strategy really is and how it works.

We've seen a lot of confusion on this through the years, as some people have difficulty understanding how various perspectives on market creation fit together. Some equate market creation with creative destruction or disruption. They think you need to destroy or disrupt an existing market in order to create a new one. Others regard market creation as a matter of innovation, and often see technology as the key to unlocking new markets. Still others view market creation as synonymous with entrepreneurship and believe it to be the domain of entrepreneurs.

All these views are partly right. But they are also partly wrong, because each offers an incomplete picture of how markets are created. Without having a complete picture, efforts to make a blue ocean shift will miss many opportunities and may even be misdirected. So here we build a holistic model of market-creating strategy that shows not only the available strategic options and how they produce blue ocean shifts, but also their corresponding growth consequences. Using this model, we can understand how these existing partial views fit together in the big picture.