Blue Ocean Strategy:
The Four Actions Framework

Jason C. H. Chen, Ph.D.
Professor of MIS
School of Business Administration
Gonzaga University
Spokane, WA 99258 USA
chen@gonzaga.edu

Red Ocean vs. Blue Ocean

• RED OCEAN
  - It represents all the industries in existence today – the known market
  - Industry boundaries are defined and accepted, and the competitive rules of the game are known.
  - Competition-based

• BLUE OCEAN
  - It represents all the industries not in existence today – the unknown market
  - Is defined by untapped market space, demand creation, and the opportunity for highly profitable growth.
  - Innovation-based
  - It is with unlimited business opportunities.

TYPES of COMPETITION

<table>
<thead>
<tr>
<th># OF FIRMS</th>
<th>PRODUCT CHARACTERISTICS</th>
<th>PRICE CONTROL</th>
<th>ENTRY TO INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PURE COMPETITION</td>
<td>MANY, SMALL</td>
<td>SIMILAR</td>
<td>SUPPLY &amp; DEMAND</td>
</tr>
<tr>
<td>2. MONOPOLISTIC COMP.</td>
<td>MANY, LARGE &amp; SMALL</td>
<td>DIFFERENT</td>
<td>SOME</td>
</tr>
<tr>
<td>3. OLIGOPOLY</td>
<td>FEW</td>
<td>SIMILAR OR DIFF.</td>
<td>A LOT</td>
</tr>
<tr>
<td>4. MONOPOLY</td>
<td>ONE</td>
<td>NO SUBSTITUTE</td>
<td>REGULATED</td>
</tr>
</tbody>
</table>

The Profit and Growth Consequences of Creating Blue Oceans

<table>
<thead>
<tr>
<th></th>
<th>Launches within red oceans</th>
<th>Launches for creating blue oceans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business launch</td>
<td>80%</td>
<td>14%</td>
</tr>
<tr>
<td>Revenue Impact</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>Profit Impact</td>
<td>39%</td>
<td>61%</td>
</tr>
</tbody>
</table>

Red Ocean Versus Blue Ocean Strategy

<table>
<thead>
<tr>
<th>Red Ocean Strategy</th>
<th>Blue Ocean Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compete in existing marketing</td>
<td>Create uncontested market space</td>
</tr>
<tr>
<td>Beat the competition</td>
<td>Make the competition irrelevant</td>
</tr>
<tr>
<td>Exploit existing demand</td>
<td>Create and capture new demand</td>
</tr>
<tr>
<td>Make the value-cost trade-off</td>
<td>Break the value-cost trade-off</td>
</tr>
<tr>
<td>Align the whole system of a firm’s activities with its strategic Choice of differentiation or low Cost.</td>
<td>Align the whole system of a firm’s activities in pursuit of differentiation and low cost.</td>
</tr>
</tbody>
</table>

Eliminate-Reduce-Raise>Create Grid

<table>
<thead>
<tr>
<th>Eliminate</th>
<th>Raise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce</td>
<td>Create</td>
</tr>
</tbody>
</table>
The Four Actions Framework

- **Reduce**: Which factors should be reduced, well below the industry's standard?
- **Eliminate**: Which factors should be eliminated, that the industry takes for granted?
- **Create**: Which factors should be created, that the industry has never offered?
- **Raise**: Which factors should be raised, well above the industry's standard?

The Simultaneous Pursuit of **Differentiation** and **Low Cost**.

**Winners vs. Losers**

- What separates winners from losers in creating (ultimate) strategic competitive advantage is neither bleeding-edge technology nor "timing for market entry."
- It is from "value innovation".

**Characteristics of a Good Strategy**

- **Focus**: a firm does not diffuse its efforts across all key factors of competition
- **Diverge**: diverge from the other players’
- **Compelling Tagline**: strategic profile is clear; a fun and simple to follow (enjoy)
Why Information Systems?

“Chaotics”

“Globalization and technology are the two main forces that helped to create a new level of interlocking fragility in the world economy. While global interdependence works in everyone’s favor in good times, it rapidly spreads much pain and damage in bad times.”

by Philip Kotler and John Caslione (AMACOM 2009)

Top-Ten Innovation Mistakes a Company Can Make During a Turbulent Economy

• Fire talent.
• Cut back on technology.
• Reduce risk.
• Stop product development.
• Allow boards to replace growth-oriented CEOs with cost-cutting CEOs.
• Retreat from globalization.
• Allow CEOs to replace innovation as key strategy.
• Change performance metrics.
• Reinforce hierarchy over collaboration.
• Retreat into walled castle.

Homework

• Describe (find) a business example and employ “The Actions Framework” to create/improve value innovation (i.e., strategic competitive advantage).
• Both example description and model are due next class (using Word).