

Blue Ocean Strategy

Resources, competencies, dynamic capabilities & competitive advantage

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Recapping this morning – Internal Environment

1. Competitive Positioning

- ▶ tool: **generic strategies** – differentiation, low-cost, focus
- ▶ understanding how these can lead to competitive advantage
- ▶ understanding the trade-offs and “stuck in the middle”



2. Resource analysis

- ▶ understand what resources are & what is required for them to be a source of **sustainable competitive advantage**
- ▶ tool: **value chain** (to detect sources of value)
- ▶ tool: **VRIN** framework: “V” & “R” are required for *competitive advantage*; “I” and “N” make it *sustainable*



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This Afternoon

We Consider Blue Ocean Strategy

And we will explore a tool to help us to achieve differentiation *and* low cost at the same time.

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Recall how red and blue oceans differ . . .

Red Ocean Existing competitive arena	Blue Ocean Untapped market space
 <ul style="list-style-type: none"> • Market boundaries are given and will not be challenged • Focus on competition (outperform) 	 <ul style="list-style-type: none"> • Market boundaries not set • Focus on customers
Compete in existing market space	Create uncontested market space
Need to beat the competition	Make the competition irrelevant
Need to exploit existing demand	Create and capture new demand
Need to trade-off adding value with reducing cost	Break the trade-off that forces the choice: 'increase value or reduce cost'
Need to align the whole system of a firm's activities with its strategic choice of 'differentiation' or 'reduce cost'	Align the whole system of a firm's activities in pursuit of differentiation and reduce cost

Avoid 'red oceans' (i.e., competition) if at all possible

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Key Dimensions on which Traditional Circus' Compete . . .

- Variety of arts
- Dangers and thrills
- Animals
- Stars
- Brand
- Clowns and interactivity
- Location

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IS THE CIRCUS INDUSTRY ATTRACTIVE?



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Big League
Circuses

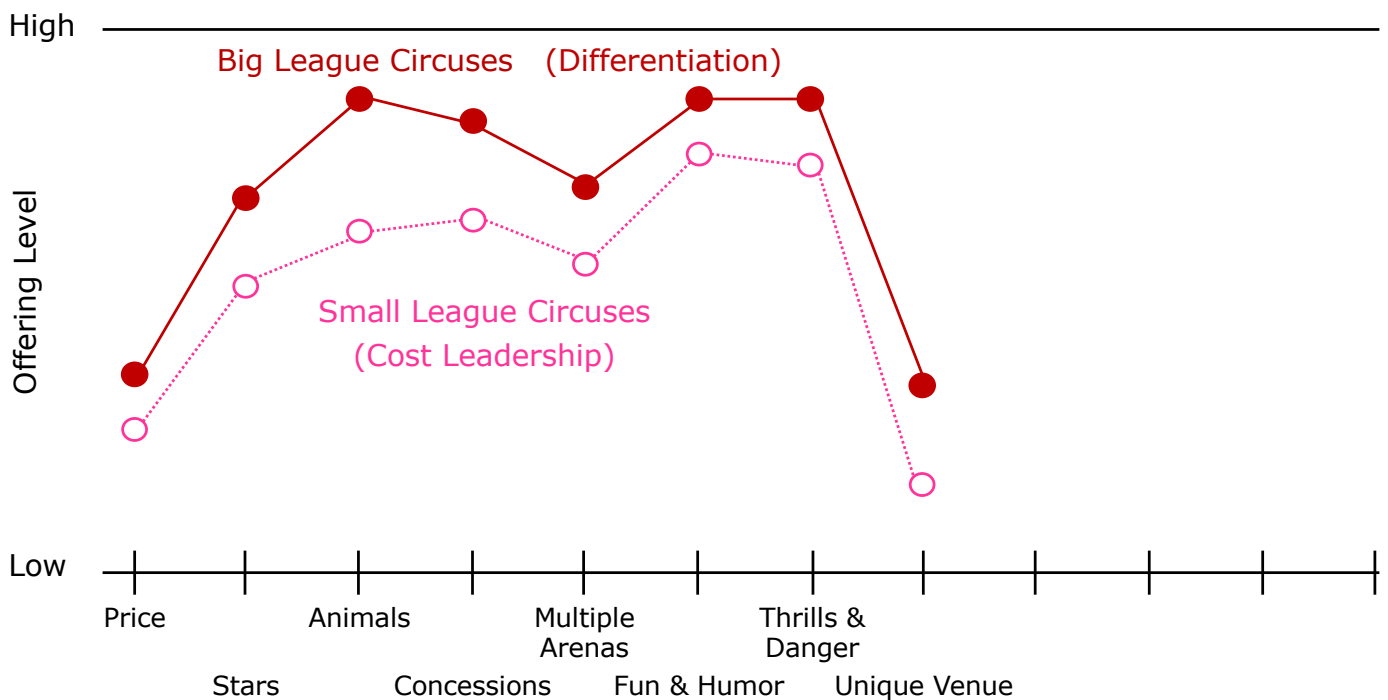


Small League
Circuses



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HOW DOES THE CIRCUS INDUSTRY COMPETE?



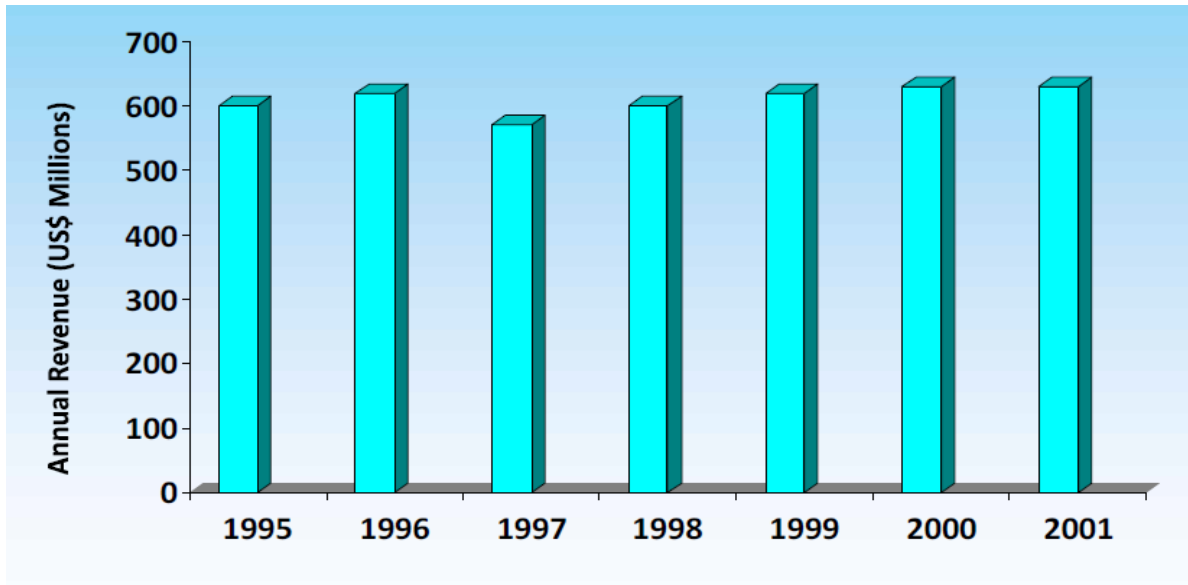
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IS THE CIRCUS INDUSTRY ATTRACTIVE?



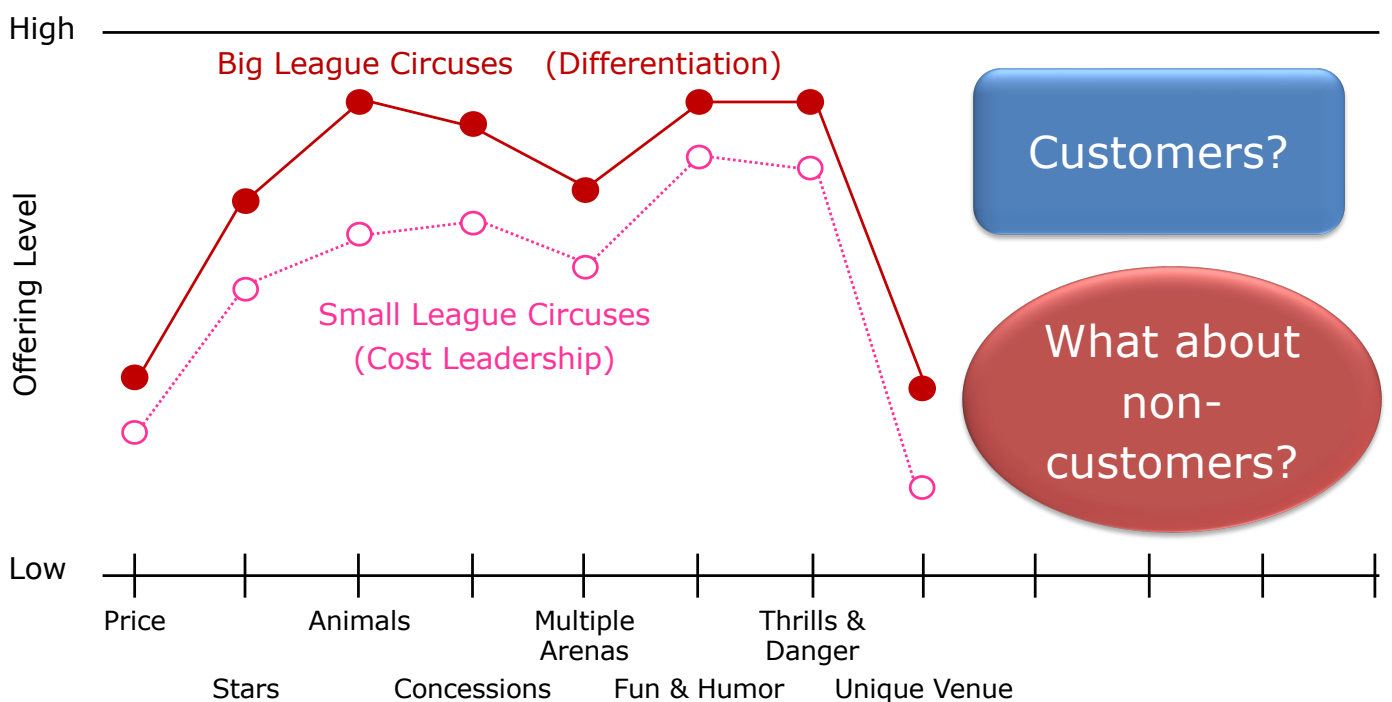
5 Forces	Big League	Small League
Threat of New Entrants	Very Low	High
Threat of Substitutes	High	Moderate
Buyer Power	High	High
Supplier Power	High	Low
Competitive Rivalry	Moderate-High	Moderate-High
Overall Attractiveness	Low	Low-Moderate

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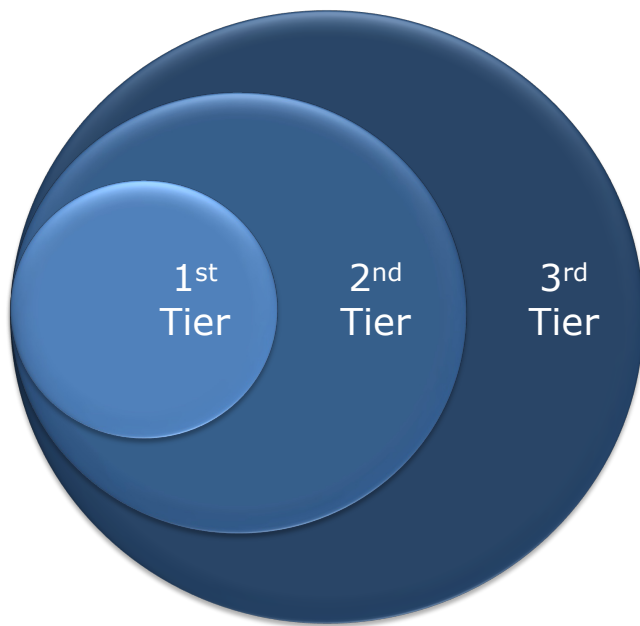
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HOW DOES THE CIRCUS INDUSTRY COMPETE?



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3 TIERS OF NON-CUSTOMERS



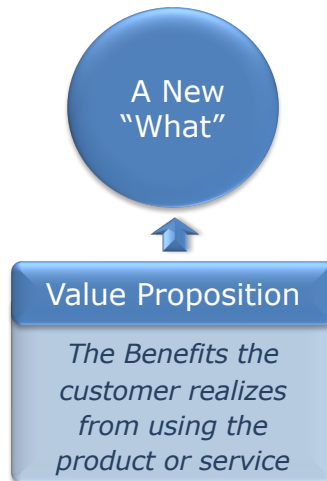
1st Tier: "Soon to be" – on the edge of your market; ready to buy

2nd Tier: "Refusing" – consciously choose against your market

3rd Tier: "Unexplored" – in markets distant from yours

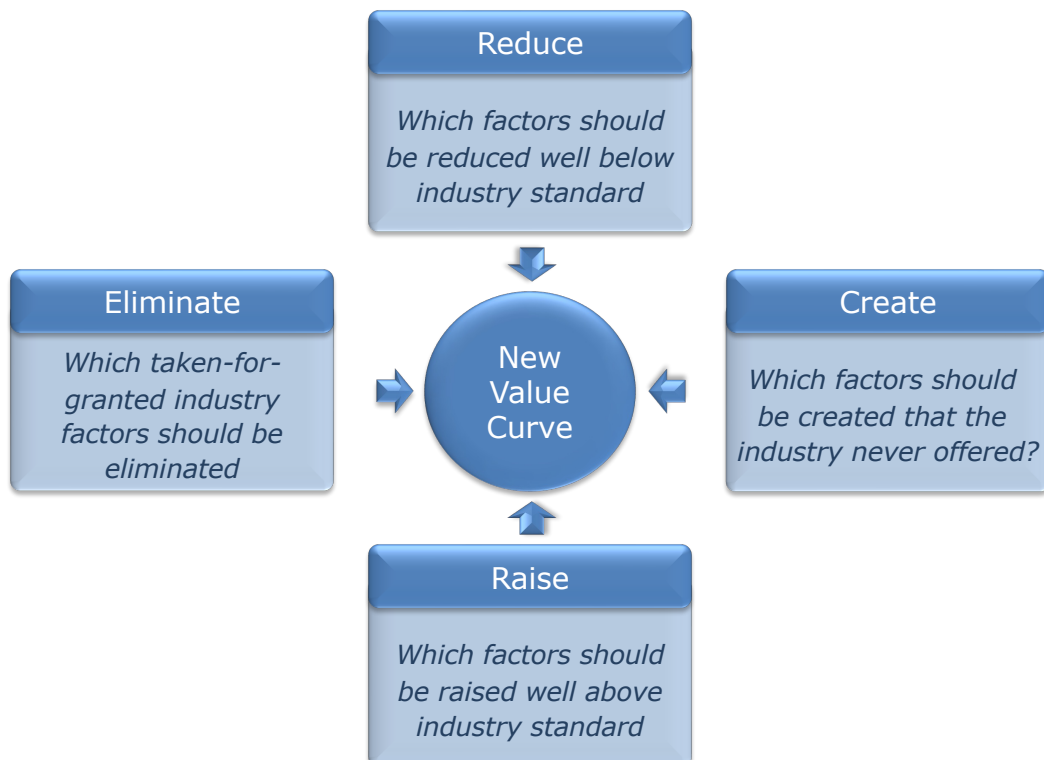
What Value
Does the Customer Realize?

THE FOCUS OF BLUE OCEAN STRATEGY



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BLUE OCEAN STRATEGY ACTION FRAMEWORK



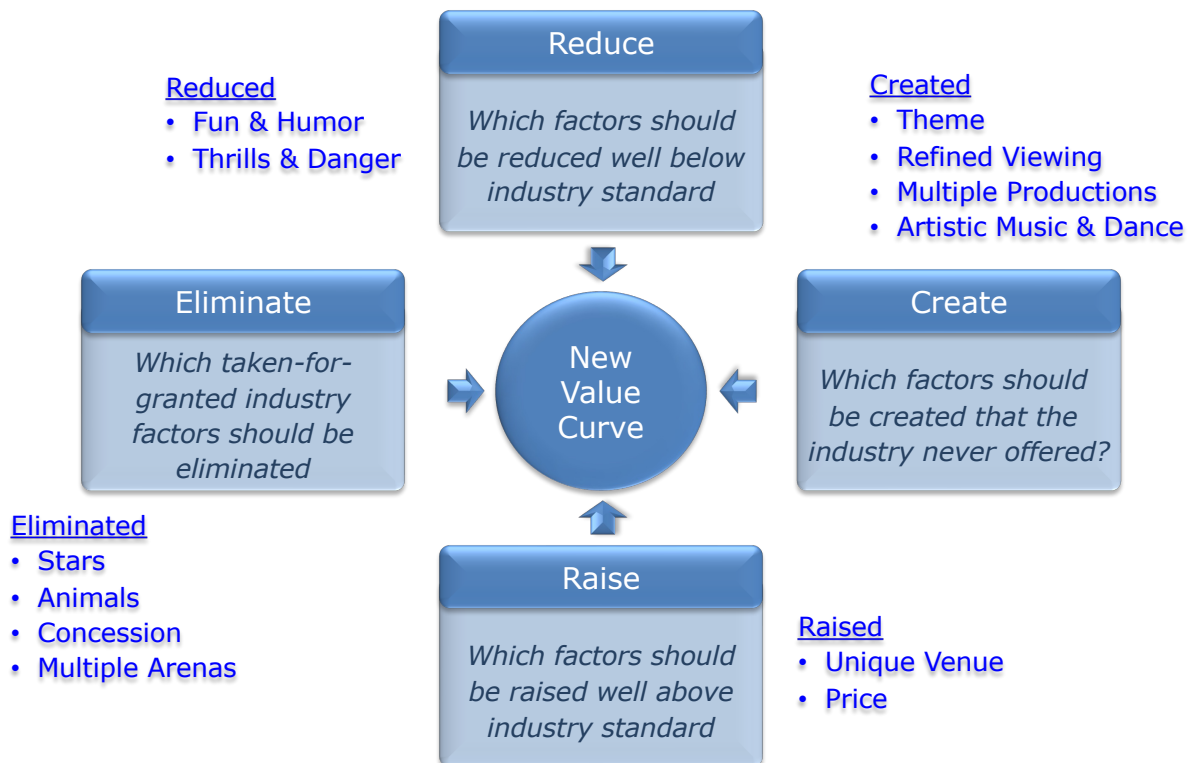
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CIRQUE DU SOLEIL.



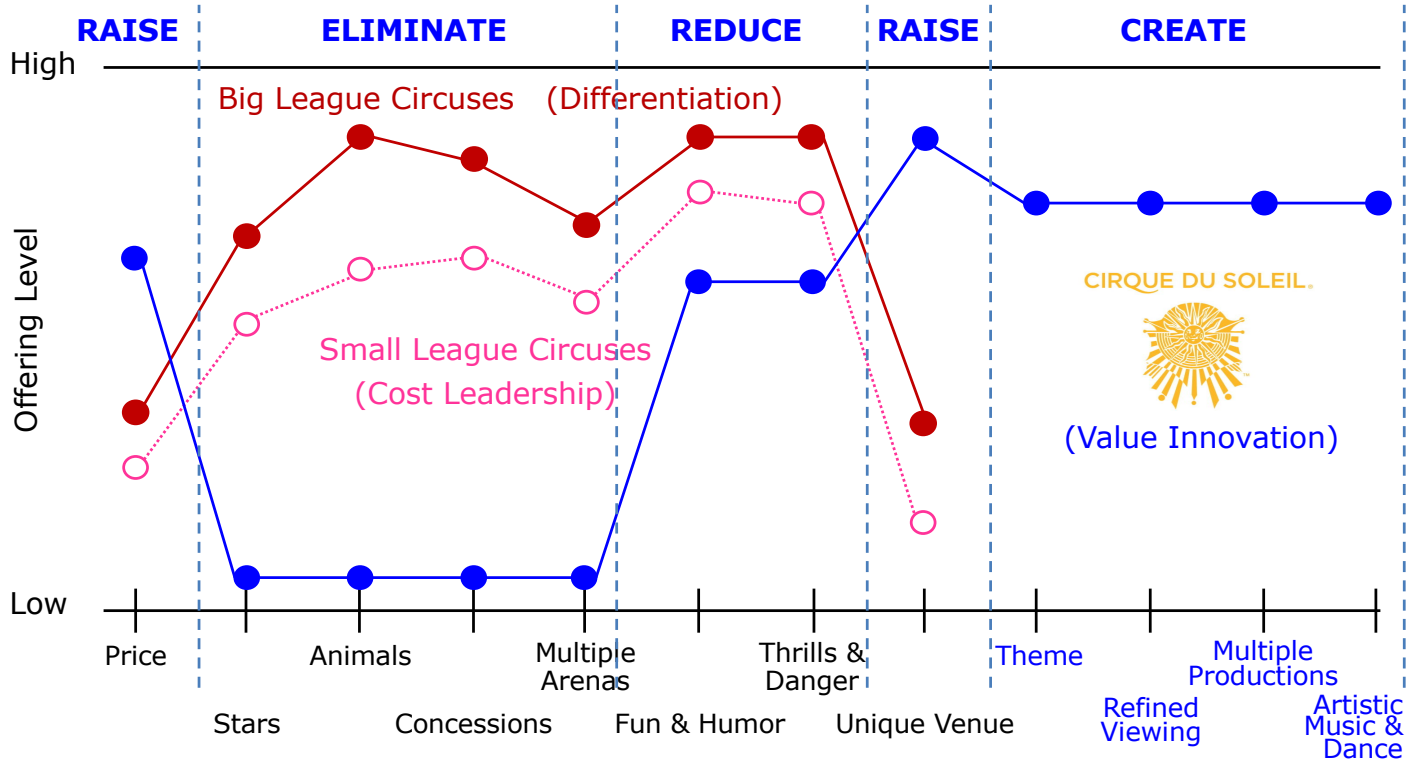
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CIRQUE DU SOLEIL'S BLUE OCEAN STRATEGY



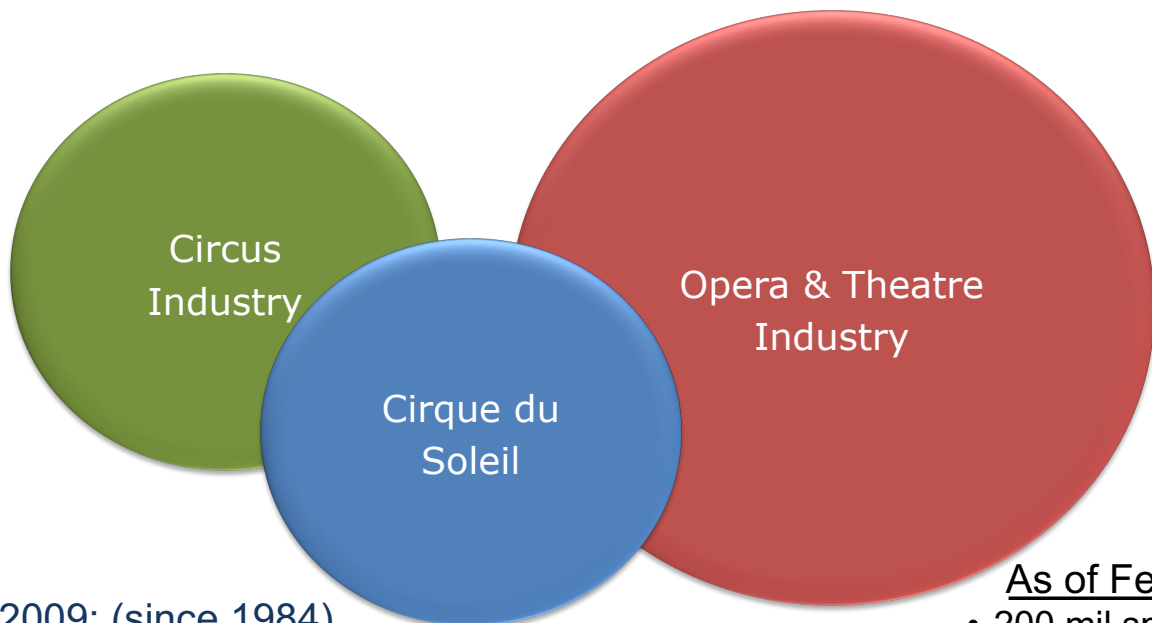
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CIRQUE DU SOLEIL'S BLUE OCEAN STRATEGY



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RECONSTRUCTING INDUSTRY BOUNDARIES



By 2009: (since 1984)

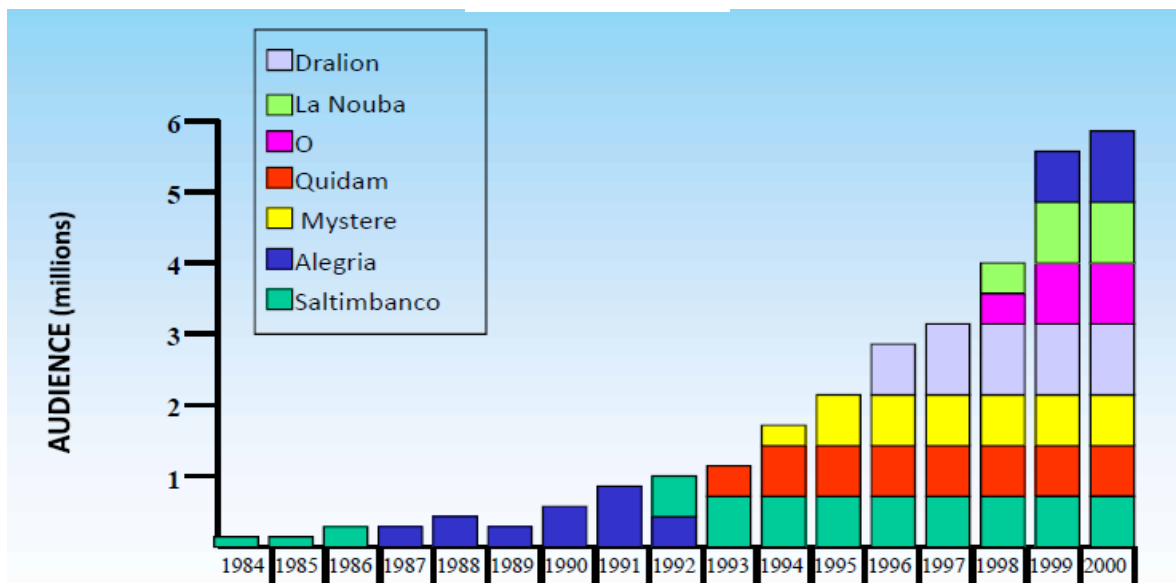
- 90 mil spectators
- Visited over 200 cities
- 19 different shows worldwide

As of Feb 2024:

- 200 mil spectators
- Visited over 450 cities
- over 60 countries on six continents
- 51 shows worldwide (20 active)

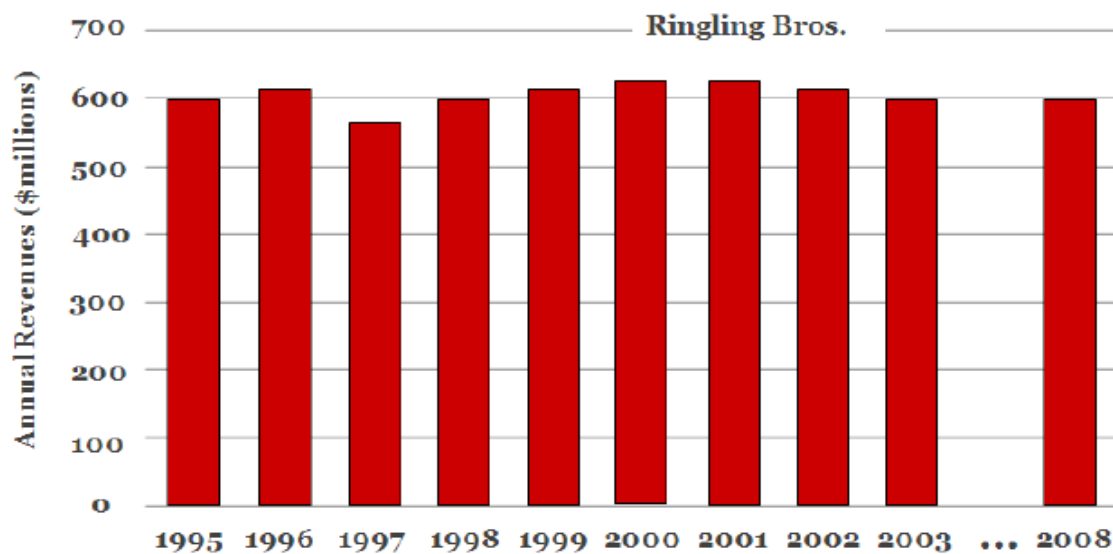
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CIRQUE DU SOLEIL.



Estimates based on available company information

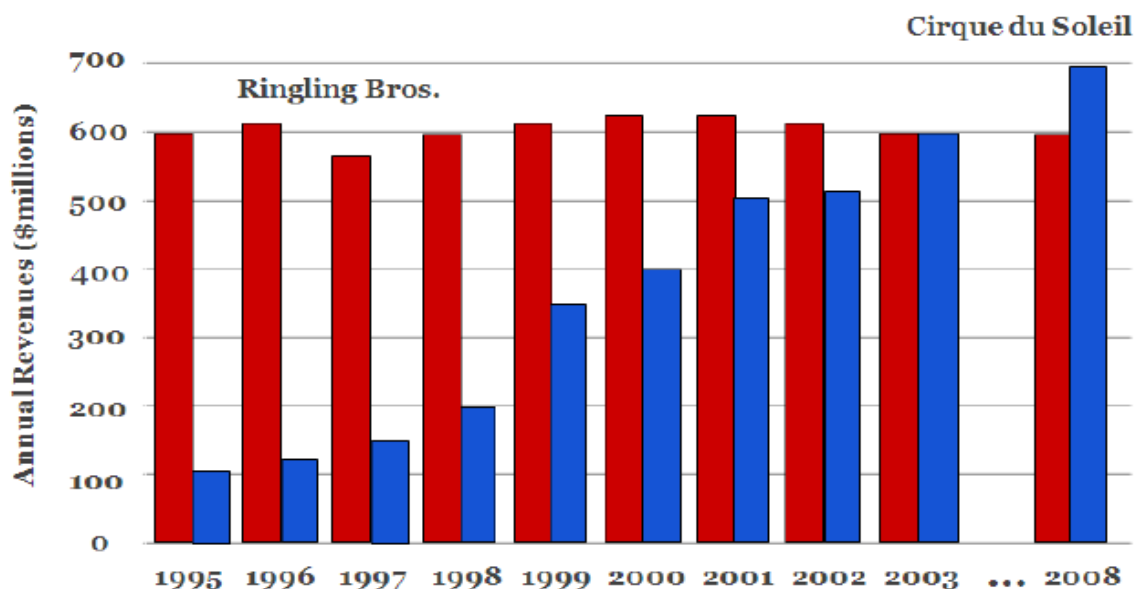
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CIRQUE DU SOLEIL.



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Guy Laliberte

64, self-made (25 when founded CDS)

Source: Cirque du Soleil; Forbes

Net Worth: US\$ 1.2 billion (as of February 5th, 2024)

Country of citizenship: **Canada**

Residence: **Montreal, Canada**

Industry: **Media/Entertainment**

Family Status: **5 children**



Accordion-playing, fire-breather turned circus icon, Laliberte founded Cirque du Soleil in 1984 with a gang of street performing friends. Initially funded by the Canadian government, the Montreal-based circus, which has no animals, no speaking and no star performers, became a for-profit group in 1985. Laliberte eventually bought out his majority partner in 2000. Hit the jackpot in 1991 when Steve Wynn brought Cirque to Las Vegas. By 2008 the \$700 million (revenues) group had three permanent shows in Sin City (Mystere, O, Zumanity), with a fourth on its way, and produced a total of nine shows. Other revenues derived from CD, DVD sales and television licenses. Known for lavish parties, Laliberte, became the 1st Canadian space tourist in 2009. Until 2015 he owned 90% of the company and donated 1% of sales to charity. In 2017, Guy Laliberte founded Lune Rouge project in arts, technology and entertainment.

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CASE UPDATE – Is the ocean turning Red?

Cirque Éloize brings Cirkopolis to China

A grand tour of 19 cities and 40 shows

Montreal, Wednesday, March 2, 2016 – Cirque Éloize announced its first major foray into China with its show *Cirkopolis* – an agreement between Cirque Éloize and Shanghai Fresh Vogur.

"China is still an under-exploited market in search of quality international productions. We want to introduce our brand, to move people with our creativity, and to establish a continuous presence in theaters through our touring shows over the next few years. **China could become an important market for Cirque Éloize** in collaboration with Shanghai Fresh Vogur," said Cirque Éloize President and Artistic Director, Jeannot Painchaud.



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CASE UPDATE – A Message from Kenneth Feld

On Sunday, May 21, 2017 **Ringling Bros. and Barnum & Bailey®** said its final farewell to a sold-out crowd of incredibly enthusiastic fans. The response they gave to everyone who made the show possible – performers, staff and crew – was heartwarming. Though it was difficult to say goodbye, my family and I were heartened to send off *The Greatest Show On Earth®* in the celebratory and positive fashion that this American treasure deserves.

We want to thank all of our fans for supporting *Ringling Bros.* over the years. In the fifty years that my family has been producing *Ringling Bros.*, more than one quarter of a billion people have come to see the show, and we've been privileged to have been able to share the joy of *Ringling Bros.* with you.

We hope you enjoy this video, which captures the spirit of the performers, the excitement of the crowd, and the passion and emotion of the entire event. We believe it shows what made *Ringling Bros. and Barnum & Bailey* truly *The Greatest Show On Earth®*.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth Feld".

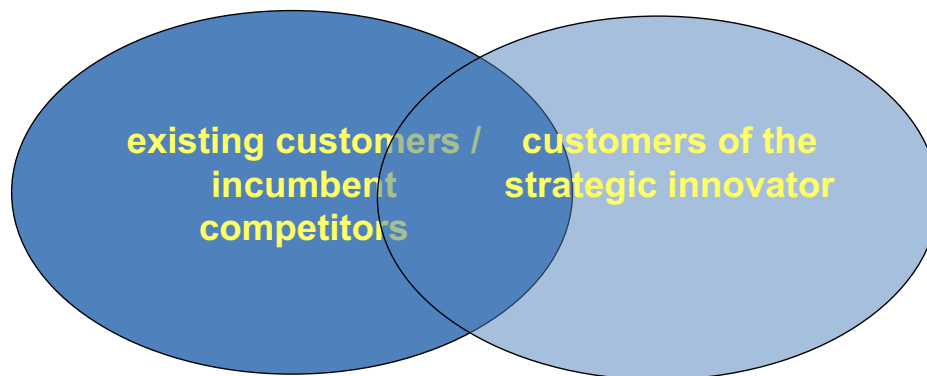
<https://youtu.be/h3s5elty854>

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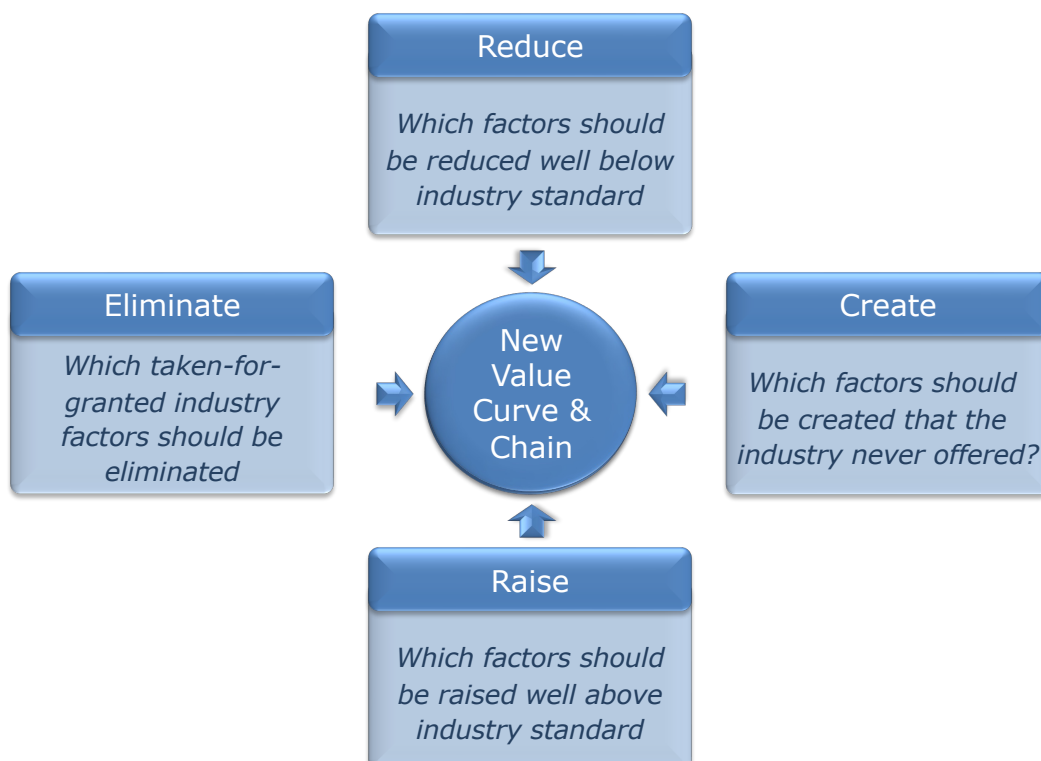
Value Curves

“Blue Ocean Strategy” (Kim & Mauborgne) or “Strategic Innovation” (Markides)

1. targets specific – often unfulfilled – customer needs
2. *and* increases market space



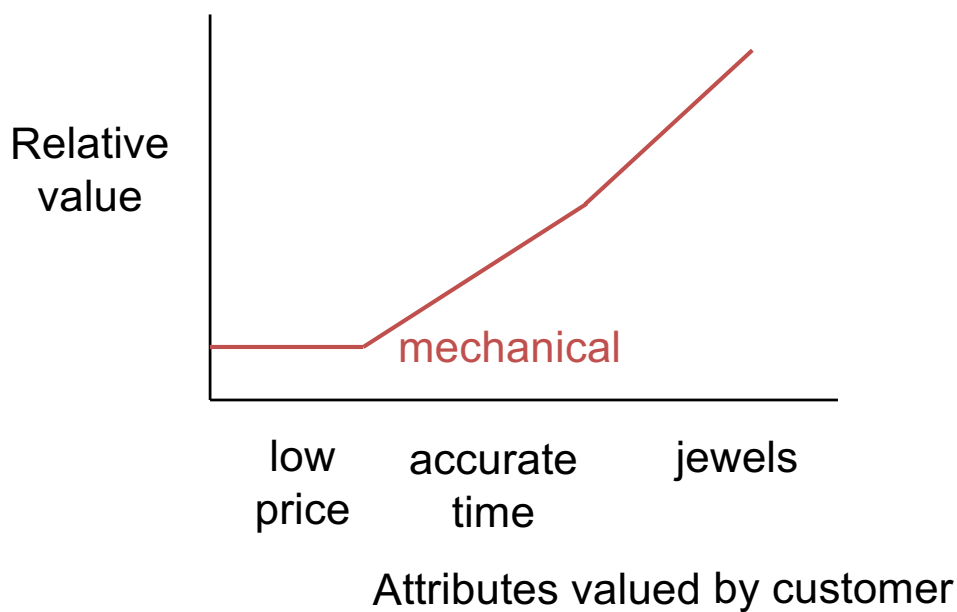
BLUE OCEAN STRATEGY ACTION FRAMEWORK



Consider the wristwatch

Value Curves

Example: *Watches*



Value Curves

Example: *Watches*



The internal machinery for a watch by Patek Philippe

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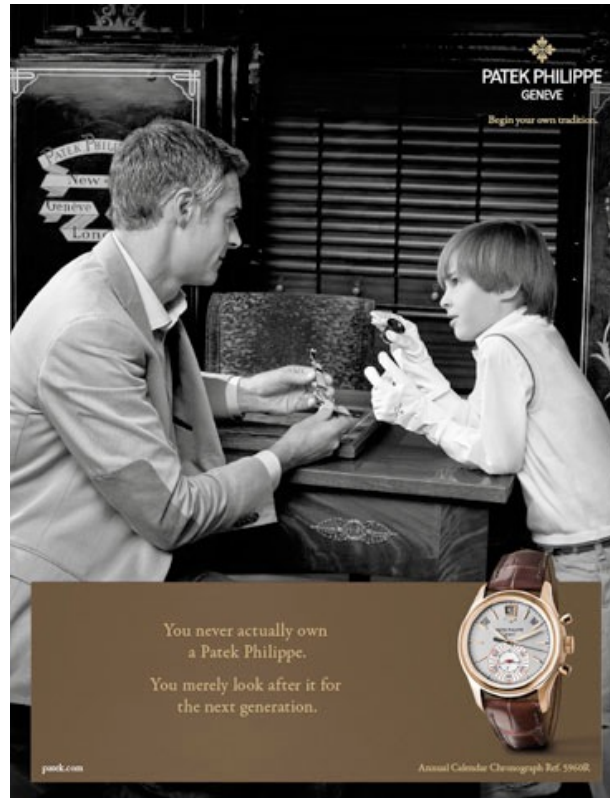
Value Curves

Example: *Watches*



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“You never actually own a Patek Philippe . . .”

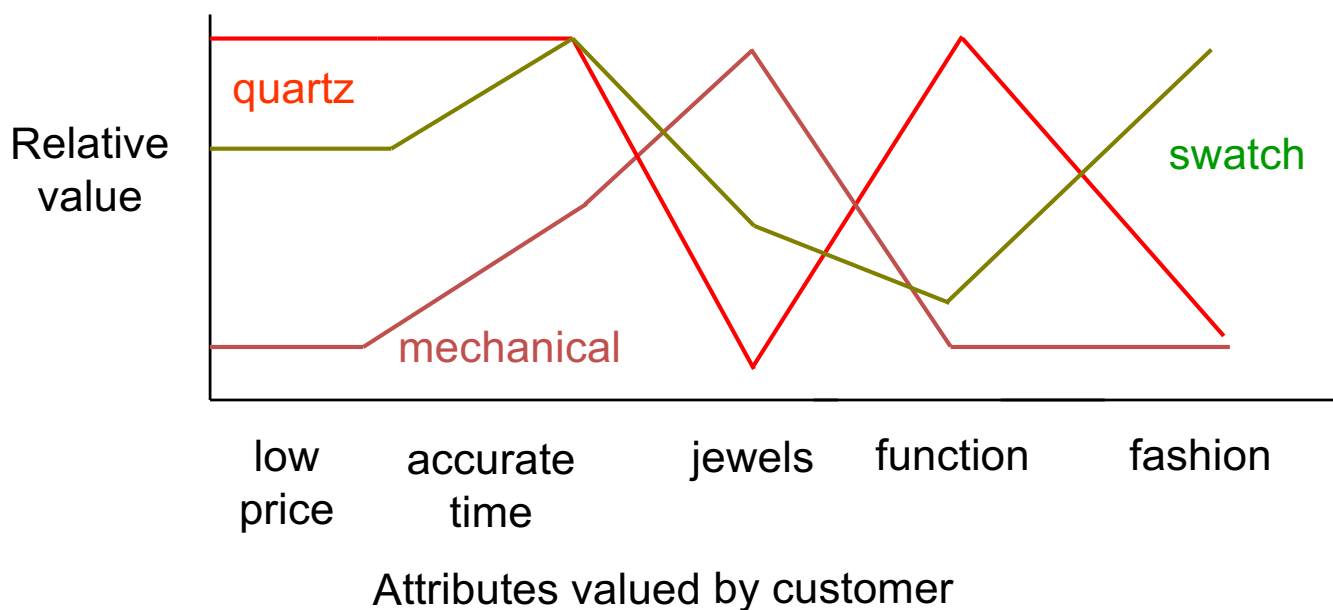


“You merely look after it for the next generation.”

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Value Curves

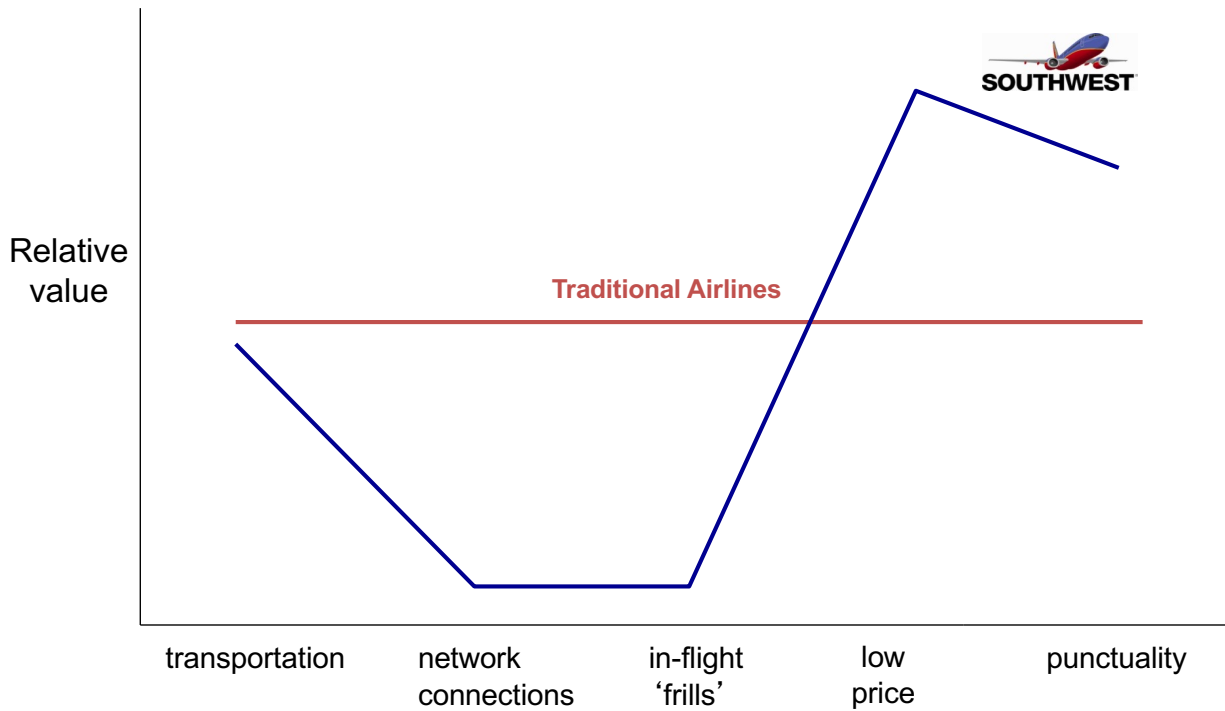
Example: *Watches*



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Value Curves

Example: Airlines



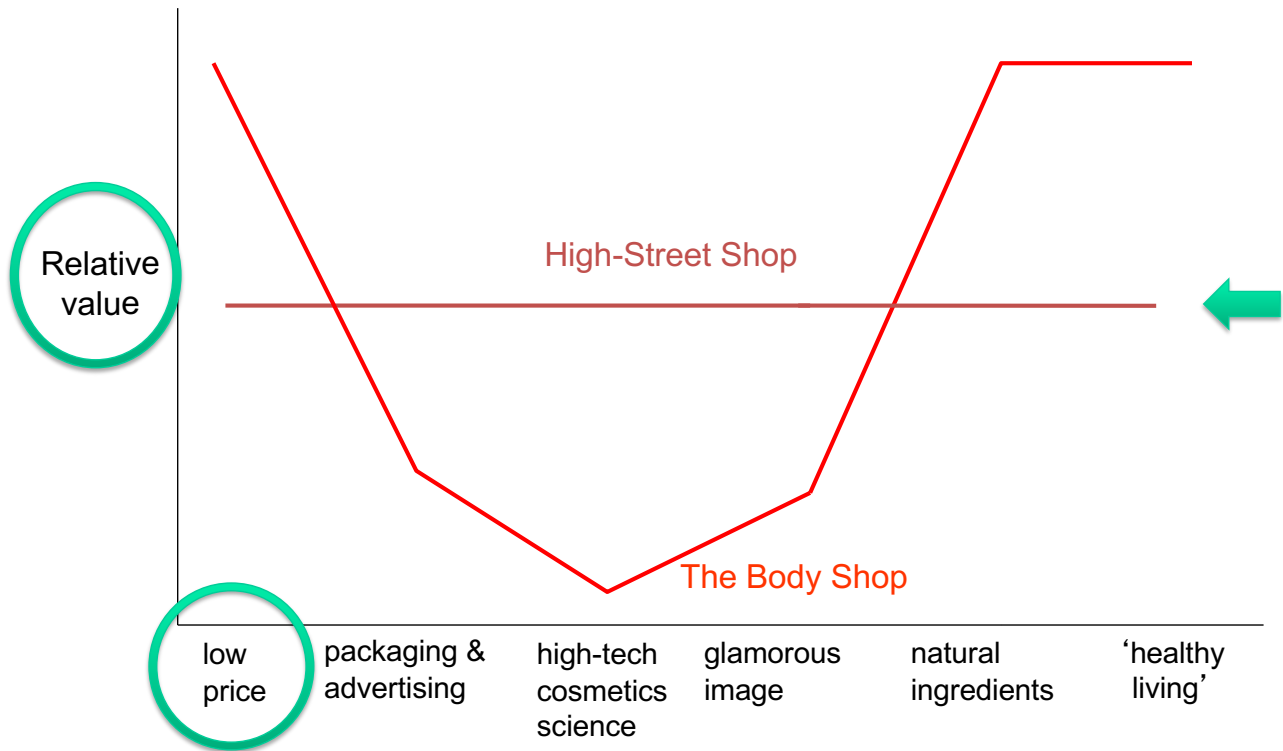
Value Curves

Example: Cosmetics



Value Curves

Example: Cosmetics



CRAFTING WINNING STRATEGIES IN THE WINE INDUSTRY



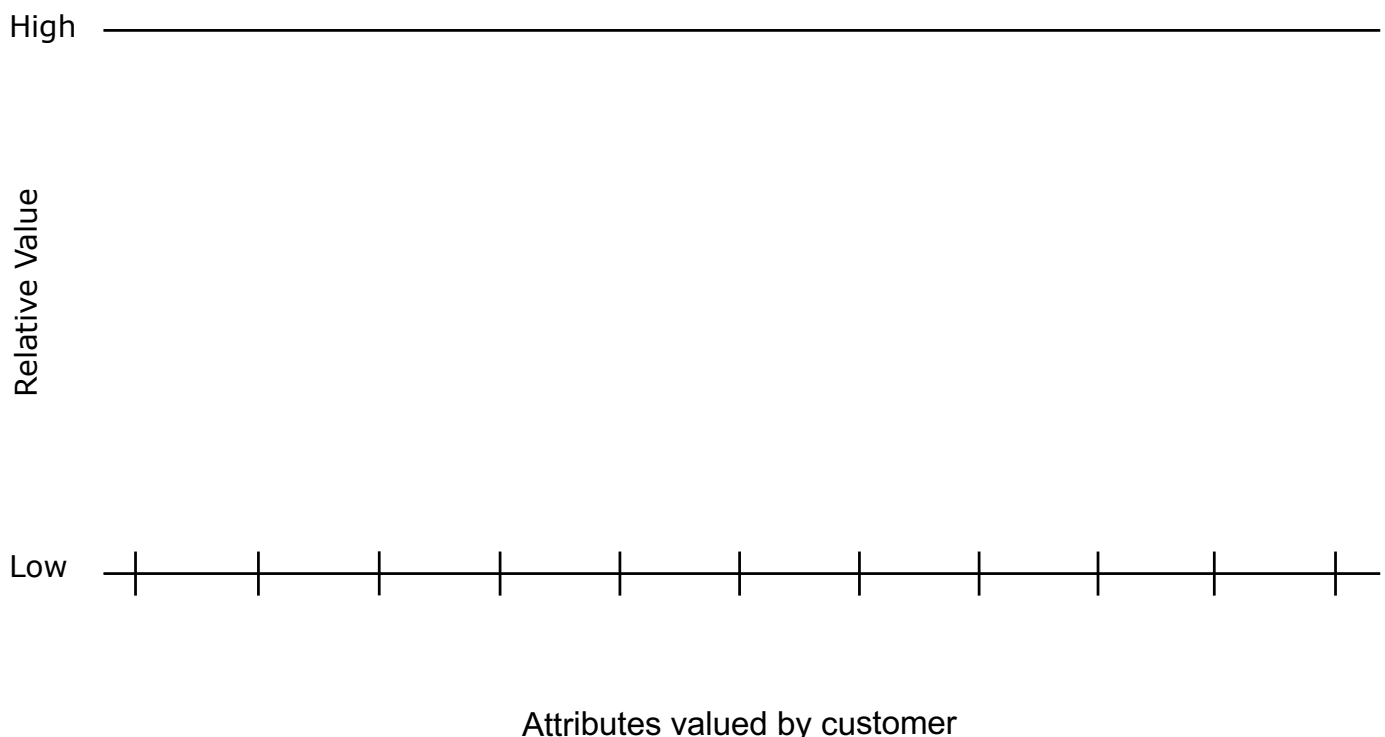
EXERCISE (in groups): Crafting a blue ocean strategy

Craft a winning strategy for competing in the wine industry.

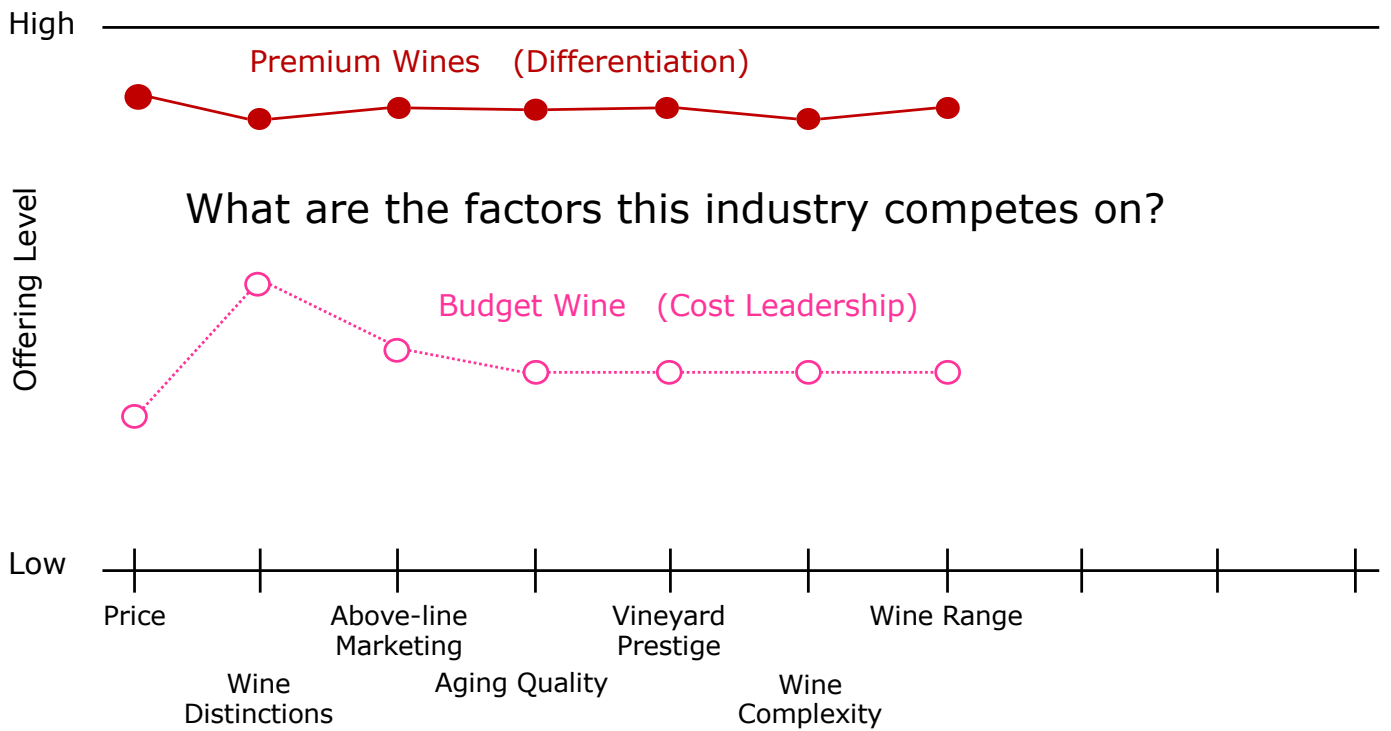
1. List the factors (that customers value) on which wine producer-marketers compete.
2. What are the pain points that wine purchasers experience?
3. Craft a Blue Ocean Strategy for this industry (address a & b).
 - a. Use the BOS 4-actions framework to choose what to *eliminate*, *reduce*, *raise* or *create*
 - b. Draw two contrasting value curves (on the same slide) that compare the value propositions of
 - a **traditional wine producer-marketer** vs
 - **your strategy for entering this market**

THE WINE INDUSTRY

What are the factors on which this industry competes?



THE WINE INDUSTRY



Valued Attributes
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What are the pain points that a would be wine purchaser may experience?

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Pain Points of Would be Wine Purchaser

- Too many choices making selection difficult
- Complex label and terminology
- Age and quality often uncorrelated
- Large price difference
- Hard to discover new wines
- “Elite” image marketing (e.g. labels feature awards and medals, often using enological terminology)

Unapproachable for mass buyer; little attention paid to this segment

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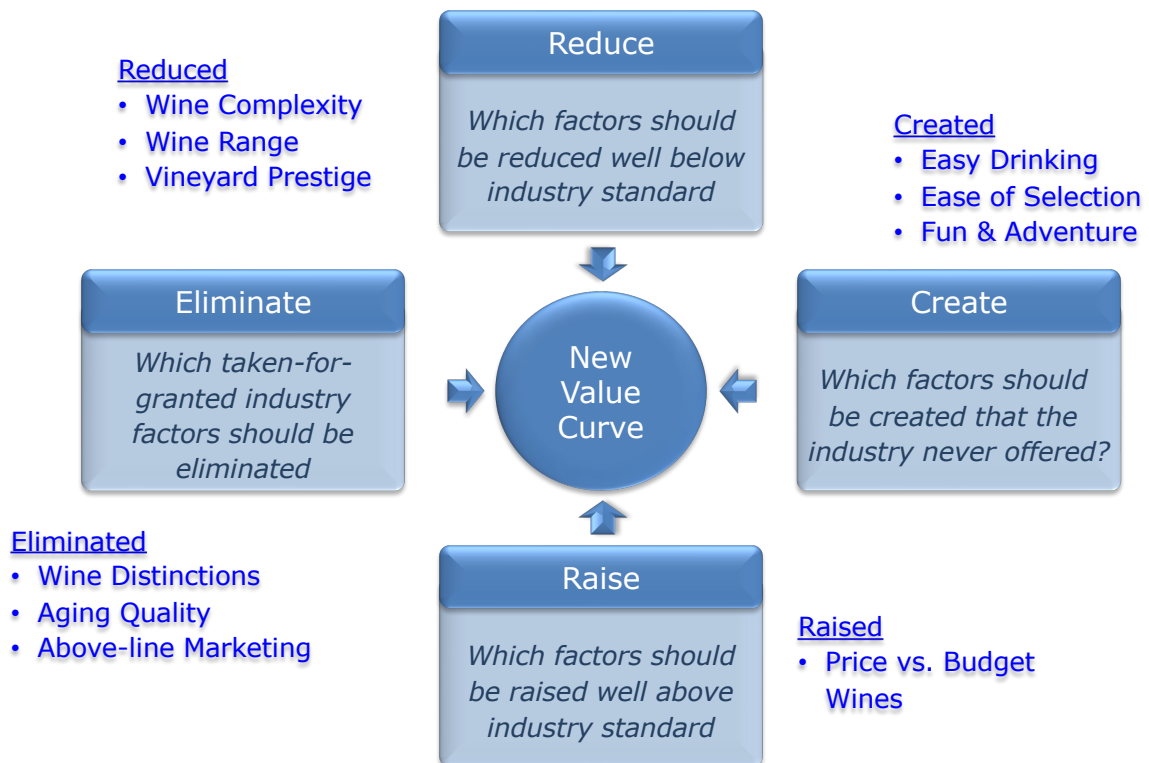
Your Blue Ocean Strategies



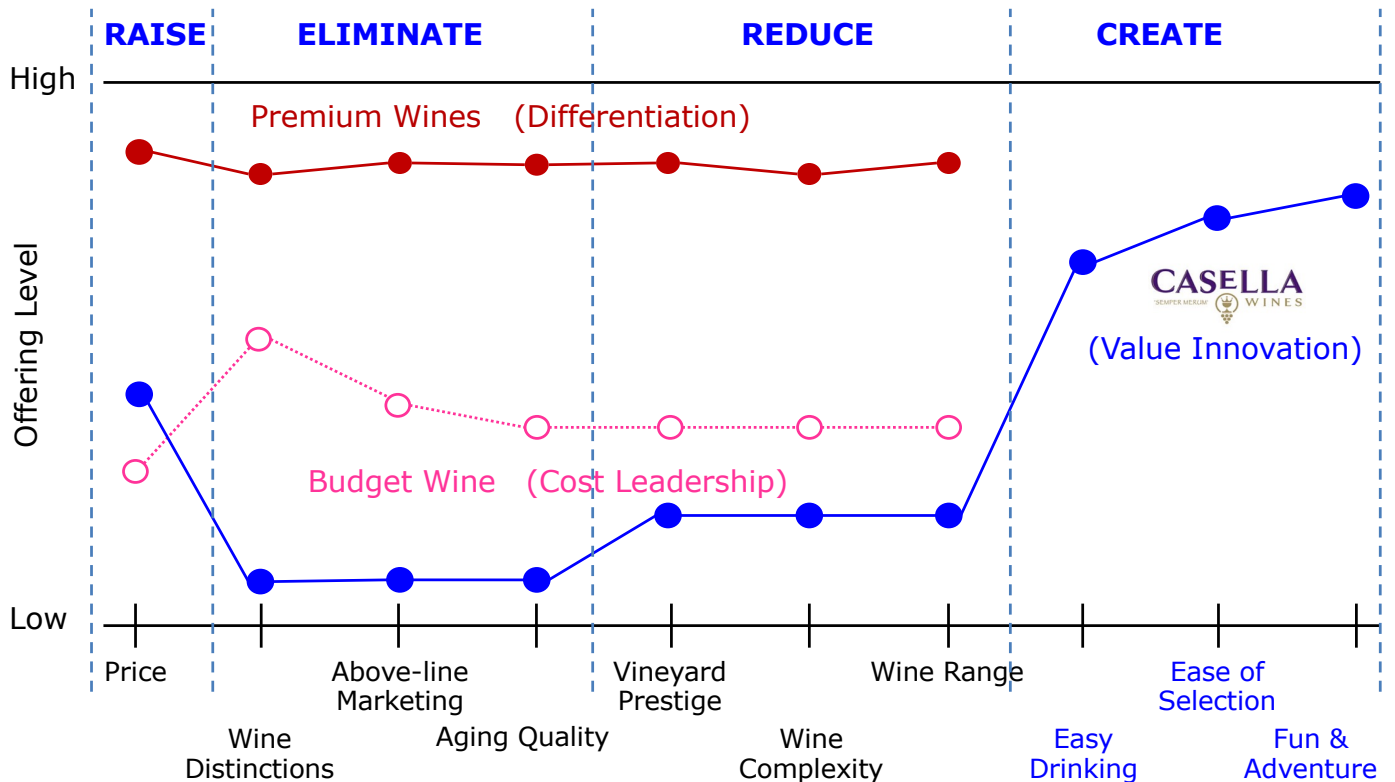
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CASELLA WINES BLUE OCEAN STRATEGY



What was Casella Wines BOS action framework?



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CASE UPDATES

Yellow Tail's Results:

- 1st Yr: > 500,000 cases (target 25,000); 2nd Yr: 4.5 mil;
- Today: 7.5 mil in US and 13.5 mil worldwide. Australia's biggest wine brand; US' largest imported brand, but now mature. Growth in Asia = 20% annually; and China has been Yellow Tail's biggest growth market, until recently!

Competitor Responses:

- Marketing: product imitation (animal labels); increase above-line marketing
- Overlooked Casella's activity system that delivered high customer utility at reasonable price, and at a relatively low cost.

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CASE UPDATES

Casella's Prior Failure:

- 1999: Launched Carramar Estate @ \$9.99.
- Emphasized established strategic profile: premium price; aging qualities, wine complexity; vineyard prestige; distinctions.
- 1st year: 20,000 cases; withdrawn after 2 years.
→ *This failure drove Casella to challenge the underlying assumptions of the US wine industry.*

SUMMARY

Value curves can help us explore the value tradeoffs firms impose on their customers

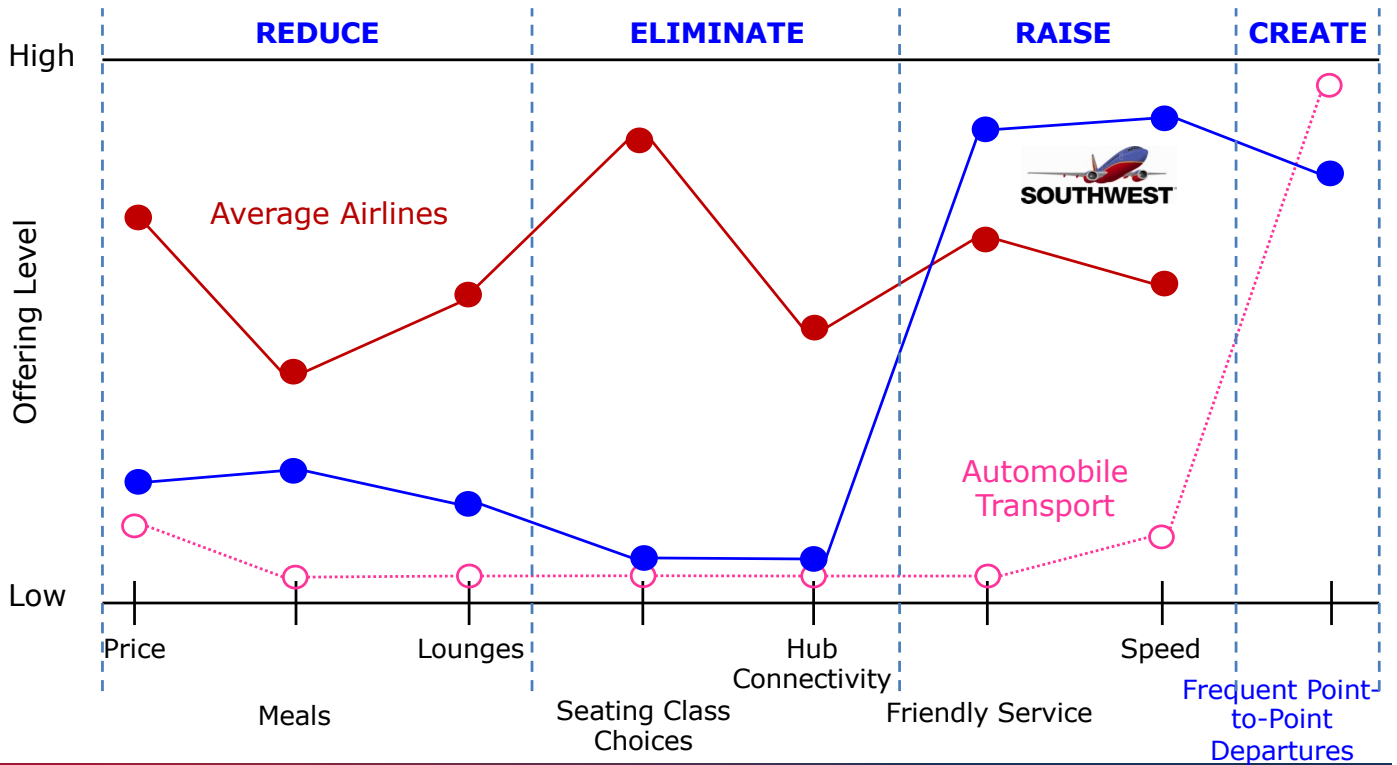
- The value proposition is defined by a set of key attributes that specify the benefit to the customer.
- Dramatic increases in this value typically leads to discontinuous changes and . . .
 - an expansion in the total size of a market
 - obsolescence of existing business models (especially the *hows*).
 - makes incumbents especially vulnerable, their *how* becomes increasingly obsolete.

Competing on Value Innovation (Blue Ocean Strategy)

6 PATHS TO BLUE OCEAN STRATEGY

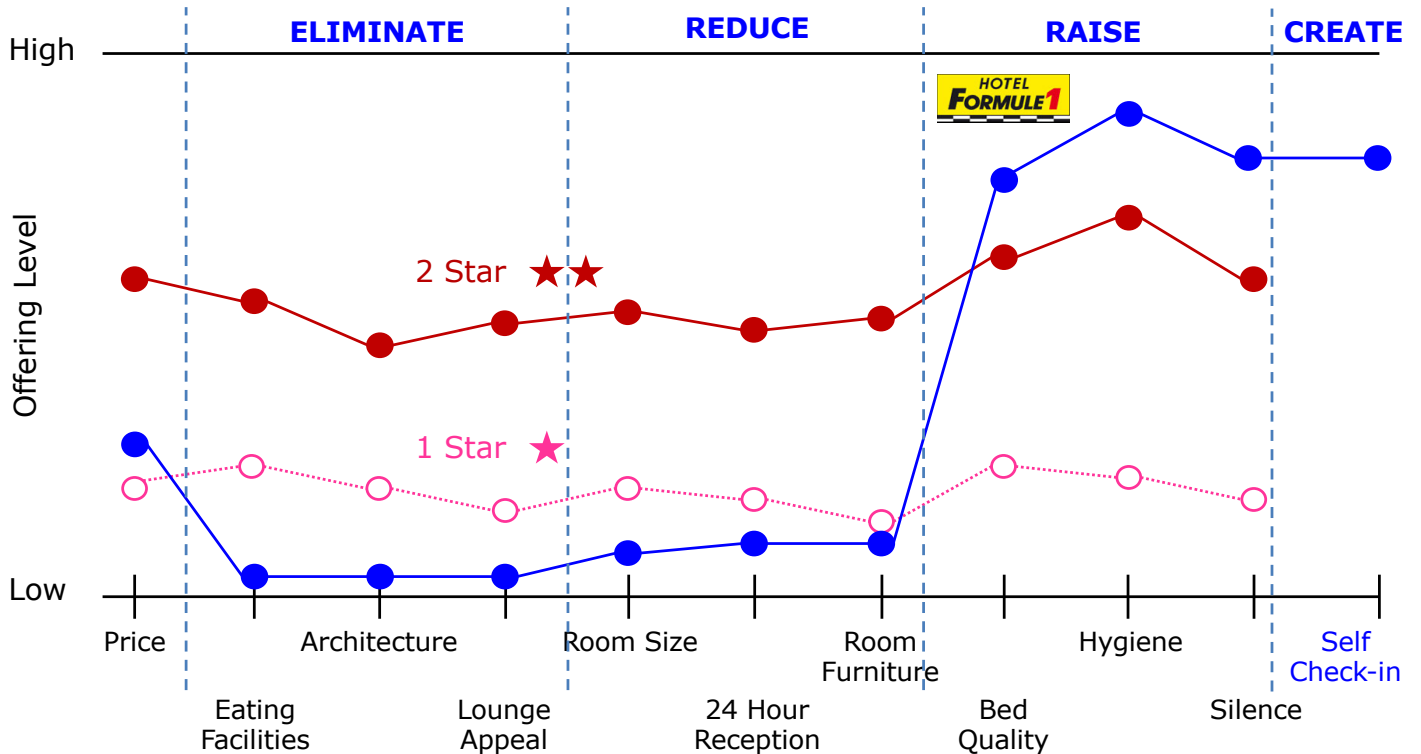


ACROSS ALTERNATE INDUSTRIES



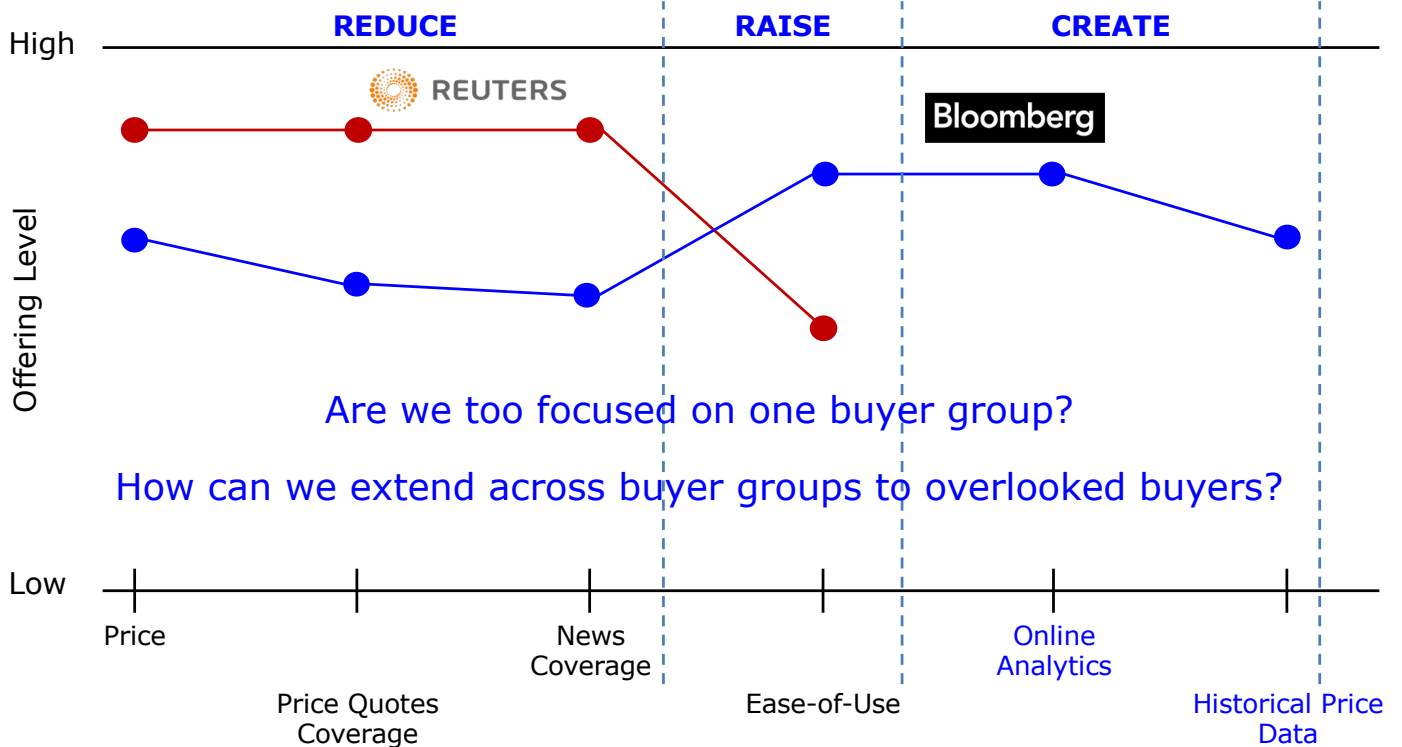
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ACROSS STRATEGIC GROUPS



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ACROSS BUYER GROUPS



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ACROSS PRODUCTS / SERVICE OFFERINGS

- What are the important complements to my offering?

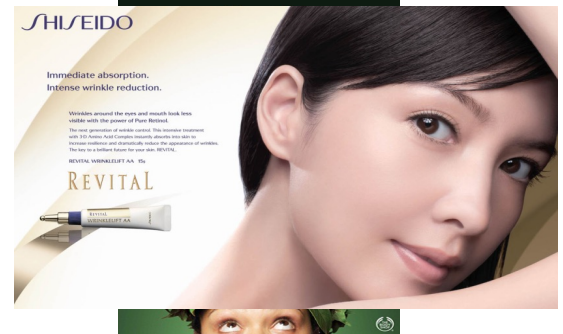


IKEA looked across complementary service offerings to provide childcare and restaurants in its stores.

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ACROSS FUNCTIONAL / EMOTIONAL APPEAL

- Can we add emotion to stimulate new demand in a functionally-oriented industry?



- Can we strip away emotionally-oriented industry offers to create a fundamentally simpler, lower-priced, lower-cost business model that buyers would welcome?

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ACROSS TIME

CNN created the first real-time 24-hour global news network based on the rising tide of globalization.



Key principles for assessing time trends

- Trends that are critical to your business—irreversible & with clear trajectory.
- Instead of trying to predict a trend, the key is to start with what is observable today, identify the trend, and participate in shaping the trend.



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SHIFTING THE STRATEGIC FOCUS

6 Paths	Red Ocean Strategy	Blue Ocean Strategy
Industry	Focus on rivals within industry	Look across industries
Strategic Group	Focus on competitive position within strategic group	Look across strategic groups within industry
Buyer Group	Focus on serving the buyer group better	Redefine the industry buyer group
Scope of Product / Service Offering	Focus on maximizing value of product and service offerings within its industry	Look across to complementary product and service offerings
Functional-Emotional Orientation	Focus on improving price-performance within the functional-emotional orientation of its industry	Rethink functional-emotional orientation of its industry
Time	Focus on adapting to external trends as they occur	Participate in shaping the external trends over time