



## Blue Ocean Strategy Whitepaper Critique<sup>©</sup>

**Ocean Strategy, Red or Blue, belongs in the Dead Sea!**

### TRU Group Summary Comments

- ◎ The book titled “Blue Ocean Strategy” is not helpful to management – don’t buy it and if you already have it dump it
- ◎ Management can and should be visionary in formulating strategy. But, contrary to the approach of Ocean Strategy, should do so by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones you wish to serve
- ◎ Also contrary to Ocean Strategy, production cost reduction is best seen as an operational or resource issue – a barrier to be overcome not an end in itself as a tool of strategy. Resources are easier to acquire than customers. Production methods should match volume to minimize costs
- ◎ In your strategizing do not take advice on strategy [or any other mission critical function] from management who are not qualified to give advice and do not treat strategy formulation as an exercise in management team compromise – contrary to the Ocean Strategy method
- ◎ This book should be at the bottom of the list for reading by strategy professionals for Ocean Strategy, Red or Blue, belongs in the Dead Sea!
- ◎ Harvard University professors should read it, however, for they should wonder what they were thinking allowing Harvard University Press to publish it

TRU prepared this review as a service to our clients after a client came to TRU with what they said was a Blue Ocean Strategy with no competitors. On researching the strategy TRU found the client had more than a dozen competitors and was far behind the curve on customer, product and market development.

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Authors Chan Kim & Renée Mauborgne claim to have a way to capture Blue Oceans in a 2005 book titled 'Blue Ocean Strategy - How to Create Uncontested Market Space and Make the Competition Irrelevant'. "Red Oceans represents all the industries in existence today. Blue



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Oceans denote all the industries not in existence today.” “Value innovation is the cornerstone of Blue Ocean Strategy”<sup>[1]</sup> and it is the “strategic move” that allows a company to create a Blue Ocean. Typically, companies in the red ocean pursue incremental improvements for customers through either low cost or differentiation. Value innovation helps companies make giant leaps in the value provided to customers through the simultaneous pursuit of differentiation and low cost”.

Here is our SWOT [Strengths, Weaknesses, Opportunities, Threat analysis] on the book and the ideas in it based on our North American industry experience • • •

### Ocean Strategy Strengths

- Highlights the importance of strategic planning as a business activity
- Reinforces the need for management to be visionary and think out-side-the box by looking at the broad picture – draw a strategy canvas<sup>[2]</sup> – and make “strategic moves”<sup>[3]</sup>
- Warns management of the dangers of following previous best seller advice [such as In Search of Excellence]<sup>[4]</sup>

### Ocean Strategy Weaknesses

- Makes many assumptions about how companies currently operate which are arguable. Its foundation is so poor that its credibility is in serious question
- Some of the analytical tools have low integrity and the way the Authors interpret results from them seem strange. For example<sup>[5]</sup>, if a company’s value curve looks like a bowl of spaghetti the company may not have a coherent strategy; but by displaying the range of factors in a different order on virtually any of the diagrams one gets a spaghetti look?



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- Authors make underlying claims that companies who differentiate markets somehow do not [simultaneously] aim to do so at low cost. A doubtful assumption at best
- Authors say a typical strategic plan “starts with a lengthy description of current industry conditions”<sup>[6]</sup> : but the source of this questionable assumption is not given. Indeed most of the introduction to Chapter 4 about the planning process is frankly sheer self serving fantasy on how strategic and business planning is done in industry
- The strategic planning process proposed in the book is a mish-mash of corporate, company, operational and project planning rolled into one system and the use of several teams required to be experts in many functions
- In particular, managers are expected to undertake customer interviews and use this as one of the basis for their planning<sup>[7]</sup> – such market analysis would likely be invalid with catastrophic consequences for the company
- Many of the other so called proofs in the book are extremely self serving – such as the argument that Compaq was a success<sup>[8]</sup>
- The book says underlying Cirque du Soleil's success was its focus "on the demand side" rather than the "supply side". Call "demand" "customers" as most American management do and we find that this success factor idea – customer focus - has been around for more than forty years.
- Definitions are weak and confusing – even single products “cell phones”<sup>[9]</sup> are described as a Blue Ocean industry [without competition?]. What is an “excellent industry”<sup>[10]</sup> anyway?
- Blue Oceans challenge “the lore that start-ups have natural advantages over established companies in creating new market space?”<sup>[11]</sup> If this is a lore, how it is challenged by Blue Oceans is not shown how in the book
- It is plainly wrong and without foundation for the authors to claim as a PREMISE for their book that “Ever since the groundbreaking work of Michael Porter (1980, 1985) competition has occupied the center of strategic thinking”<sup>[12]</sup> Must be on a different planet as far as industry is concerned and besides Blue Ocean Strategy is unquestionably also extremely competition centric



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- Surprisingly, Blue Ocean Strategy berates management focus on competition yet authors are engrossed in competitive analysis. Indeed, Blue Ocean Strategy is more about competitive analysis within industries than anything else
- In developing and proving their theory, Appendix 8<sup>[13]</sup>, there is an overuse of economic theories [such as supply, demand, long run average cost curve, utility<sup>[14]</sup>]<sup>[15]</sup> long found to be difficult to associate with the real world of business, rather than well proven marketing concepts
- Distinct lack of customer focus throughout the book – even their fundamental “Four Action Framework”<sup>[16]</sup> for analysis is about industry rather than customers, and it is what customers RECEIVE<sup>[17]</sup> from INDUSTRY which seems to replace what customers really want and need! Perhaps the avoidance of customer focus is so as not to acknowledge that the concept of “customer focus” indeed embodies all their theories, has been around for many years, and is already embedded in current American management strategic thinking

### Ocean Strategy Capability

- Underlying thinking contains little if anything that is new – if you redefine just about everything of course you have to have a new model
- Indeed, the definition of Blue Ocean changes so many times that it is difficult to fathom what is meant by Blue Ocean Strategy. The automotive industry is claimed to be a Blue Ocean Industry in 1908<sup>[18]</sup> when Henry Ford launched the Model T but it was also a Blue Ocean Industry according to the authors in 1926 - yes that is eighteen years later – when GM created a new Blue Ocean by selling cars for “fashion and comfort”. The niche strategy adopted by General Motors “increased overall market share from 20% to 50%”.<sup>[19]</sup> Excuse me, I thought Blue Ocean strategy wasn’t about market share and competition? But wait, there was another Blue Ocean in the seventies according to the authors, when the Japanese [three competitors?] and “created a new blue ocean”. Now I am confused. Apple also created a Blue Ocean in 1978<sup>[20]</sup> but two years later there were twenty competitors<sup>[21]</sup>. I thought Blue Ocean Strategy made competitors irrelevant – now I am really confused!



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- Does not resolve how management should create “uncontested market space” without analyzing the competition the authors say should be avoided? One also has to ask where the industry data is to come from for a Blue Ocean Strategic analysis; Analysis based only on management opinion can be very dangerous
- Claims of new research discoveries that have been made by the authors are not supportable [although hardly any detail of research methodology or analysis is revealed]. “The key defining feature of Blue Oceans was value innovation – innovation that was linked to what buyers value”<sup>[22]</sup> This idea has been around and has been the foundation for marketing for more than forty years
- Ditto the idea of a whole-system approach to strategy and business analysis
- Production cost reduction is best seen as an operational or resource issue – a barrier to be overcome not an end in itself as a tool of strategy. Resources are easier to acquire than customers. Production methods should match volume to minimize costs
- Authors need to brush up on marketing theory and practice especially those of marketing strategy, segmentation and product development. Not a single marketing strategy book is listed in their bibliography<sup>[23]</sup> yet virtually any of the classic marketing strategy texts will describe succinctly how to “reconstruct market boundaries” [Chapter 3]<sup>[24]</sup> as well as “reach beyond existing demand” [Chapter 5]<sup>[25]</sup>
- Almost all the good parameters of Blue Ocean Strategy have been done [better] before by others, while the few new ideas do not add value to best practice strategic planning

### Management Opportunities

- ↳ There are many opportunities available for American management to improve their strategic planning



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### Management Threats

- ⌚ The authors of Blue Ocean Strategy are far out-of-touch with American management methods and practice on strategic planning and the thinking of industry-based strategy professionals. For example, do many companies, as the authors contend, really "...hypnotically build their strategies ..." [26]
- ⌚ Again, changes in strategic planning methods are required but they are not the changes given in this book
- ⌚ The book undermines good strategic planning and could deflect some unsuspecting management as other best sellers have in the past \*
- ⌚ The proposed strategic planning process is heavily dependent on teams with expertise in a wide range of subjects which is quite unrealistic for most companies
- ⌚ The authors advise management to do the data analysis and prepare the business plan "at some stage" [27] but this may be too late with serious consequences for the company

### Management Key Success Factors

- ✌ The book titled "Blue Ocean Strategy" is not helpful to management – don't buy it and if you already have it dump it
- ✌ Management can and should be visionary in formulating strategy but should do so by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones you wish to serve.
- ✌ In your strategizing do not take advice on strategy [or any other mission critical function] from management who are not qualified to give advice and do not treat strategy formulation as an exercise in management team compromise
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[1] Page 16, Fig 1-2

[2] Page 82

[3] Page 10

[4] Page 9

[5] Page 42

[6] Page 81

[7] Page 89

[8] Page 3

[9] Page 6

[10] Page 191

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