Business Models and Blue Ocean Strategies

Abstract
For decades, analysts have theorized that the industry that a company competes within dictates its potential for profitability. However, recent research has identified how some companies found ways to outstrip their competition by creating and delivering new configurations of value. This new form of competitive advantage is called Blue Ocean Strategy. Researchers have identified a series of questions that can help organizations develop effective strategies but these questions do not directly lead to the generation of a viable value proposition. This void can be filled with the use of a business model template. The template can be used to generate alternative value propositions that can be compared and presented to potential clients for attractiveness and sustainability.

Background

Strategic planning and the creation of five year plans have historically been perceived as being synonymous. The reason for this perception is related to the approach many companies use to create the plan. From a process perspective, creation of the plan starts with an off-site meeting of senior management where various initiatives are presented along with projections of growth and profitability. After several months of politicking and hand-wringing, a plan is published including various initiatives that were blessed by the CEO and/or Board. Often the plan offers little guidance when actual results fall short of projections; therefore, short term perspective actions are substituted for anything that might resemble strategy.

In 1985, Michael Porter created clarity regarding strategic planning by publishing research and insight relative to competitive strategy. His research suggested that there are three fundamental competitive strategies:

- Niche
- Differentiation
- Low cost provider

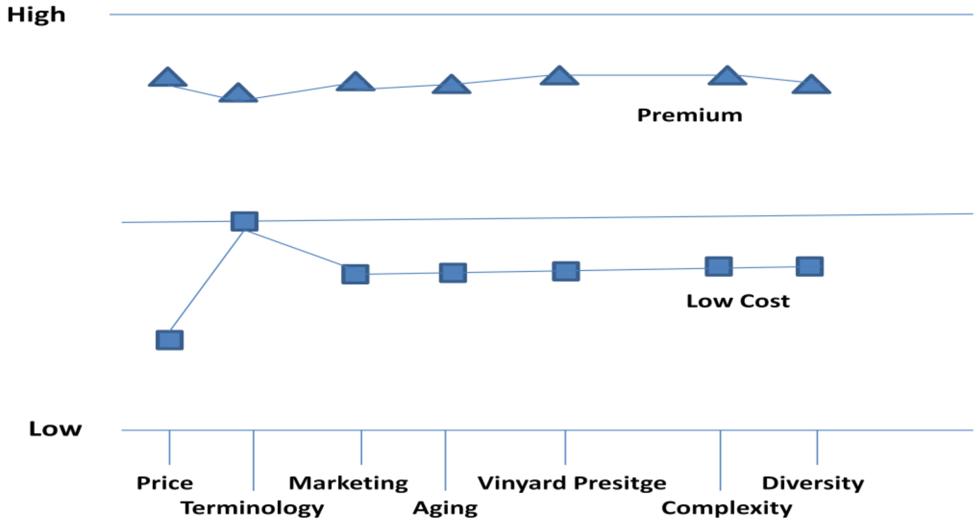
These revelations generated increased recognition of the importance of competitive performance within the strategic plan. Porter's research provided a new taxonomy that could be applied to this process. What is very relevant is that organizations began to think in terms of value and competitive positioning.

Research conducted in 2000, identified companies that outperformed their competition within a given industry. The reason for this competitive advantage was the result of establishing a value proposition that was superior to the competition. Further, these same companies became very efficient at delivering that value thereby distancing them from the competition in a manner that created an effective barrier to imitation. This technique of gaining advantage was labeled as Blue Ocean Strategy because when executed effectively, it creates a market with no relative competition.

Blue Ocean Methodology

Innovative strategies are generated through insight and effective action. Insight could come from another industry, country, or personal experience and used to create a competitive strategy; however, lacking such serendipity, methodology is useful to generate ideas that can then be connected to gain insight.

Blue Ocean methodology starts with the identification of the major factors that define competitive differentiation with the given industry today. This could include price, quality, breadth of product, availability of product etc. These factors are then plotted as a Strategy Canvas. For example, a strategy canvas for wine makers is provided below:



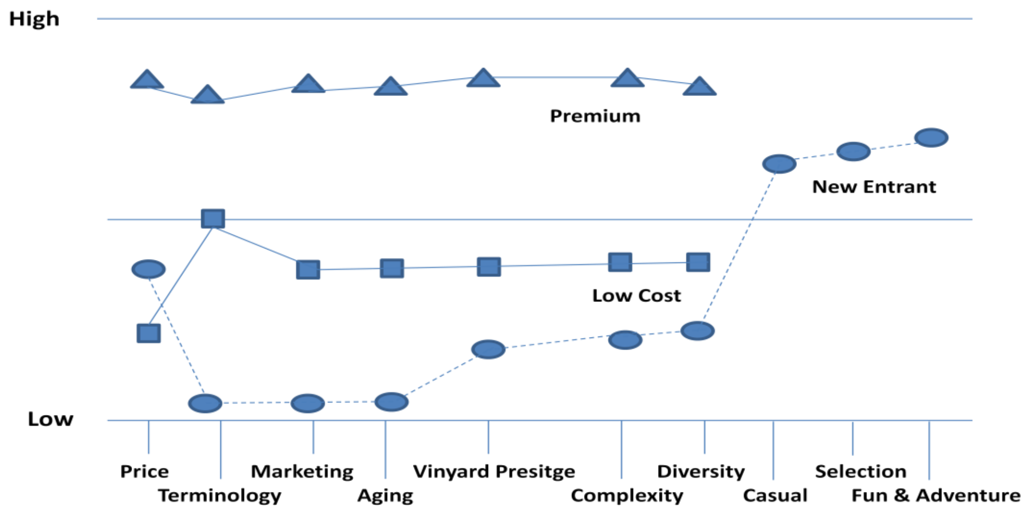
The relevance of the strategy canvas is that it essentially defines the rules of competitive engagement within a given industry or segment thereof. Blue Ocean strategy demands the creation of a value proposition that changes the rules in your favor. There is no formula for doing this but there are some basic questions that are oriented toward generating ideas. These questions boil down to four imperatives:

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

Keep in mind that the objective of this process is to identify a new value projection that can be delivered at a superior price or margin. Using the wine making example, assume that a competitor or new entrant decided to adopt a strategy that included:

1. Moderate price
2. No reference to technical distinctions
3. Point of sale marketing
4. No aging in barrels
5. Modest reference to vineyard legacy
6. Simple wine complexity (easily discernible)
7. One white and red wine label
8. Emphasis on casual situations
9. Ease of selection (red/white)
10. Focus on fun and adventure

This strategy would extend the strategy canvas as follows:



Note that the price point for the New Entrant is positioned higher than the Low Cost competitors even though the New Entrant is competing at a lower level of performance against industry rules of engagement. On the surface, one would not think that promoting a casual life style, ease of selection, and embracing fun and adventure would translate into superior competitive performance within this market. Clearly, something is missing; the strategy canvas does a great job at simplifying an understanding of the rules of engagement but it does not reflect the logic and rationale for this competitive position. In this case, the actual New Entrant quickly dominated this market; how could this be true?

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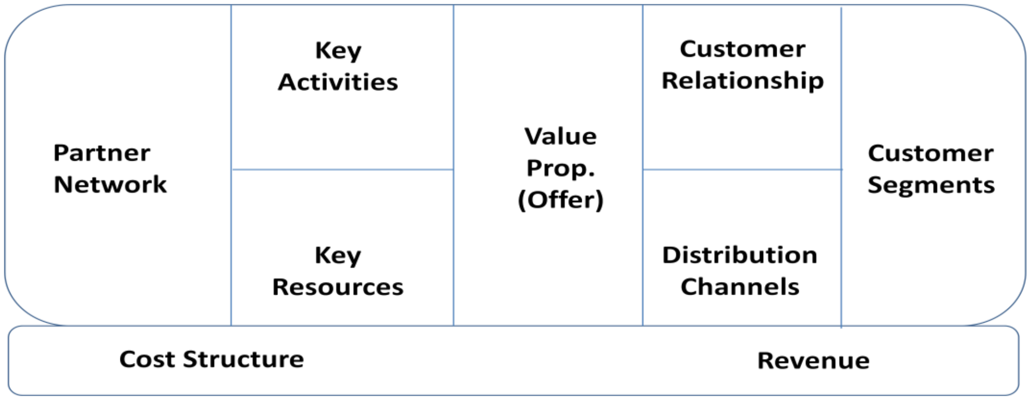
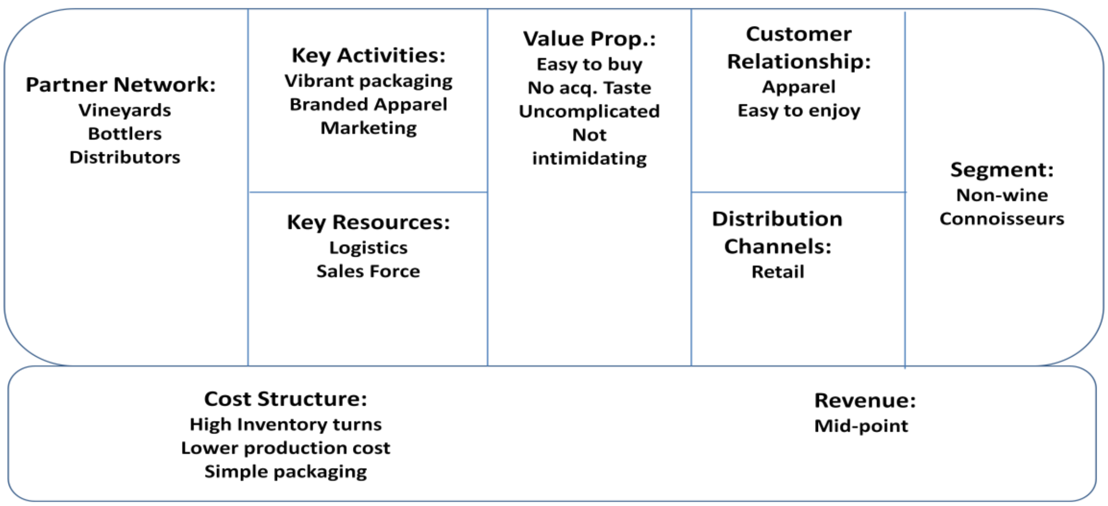
The Strategy Canvas is a tool that provides insight regarding competitive performance. The questions it raises as to competitive rules of engagement are useful in generating ideas however; they do not address issues such as value chain, sustainability, and organizational implications. These voids beg the question of moving from the Strategic Canvas to detailed analysis or using a complementary visual tool to fill the void.

A Planning tool referred to as the Business Model Canvas completes and extends the brain storming capabilities of the Strategy Canvas in a powerful manner. The Business Model Canvas has the following structure:



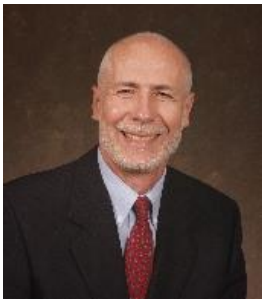
The value of the Business Model Canvas is that it addresses the issues of who and how of the Strategy Canvas. It does so while keeping the discussion at a high enough level so that participants do not become lost in minutia. These two tools complement each other and provide a clear path to action as indicated by the canvas provided below.



The above model is focused on a customer segment that would include consumers of beer and mixed drinks. Note that it is not targeted for wine aficionados. The rationale is that wine enthusiasts are focused on the heritage and complexity of the wine as opposed to wine in the context of having a good time. Therefore, uncomplicated and vibrant packaging along with a laid back branding approach is central to success. From a financial perspective production, bottling, and warehousing costs are reduced due to eliminating aging and producing only two products. A mid-point price, combined with reduced operating costs, generate superior margins.

Also note that distributors are both partners and customers. Therefore, distributors could be the focus of a separate business model canvas. The value proposition in this case would include simplified logistics, increased inventory turns, higher margin, and a product that requires little expertise to sell.

It should be clear that the business model strengths the ability to envision the business strategy and thereby enhance the creation of a Blue Ocean implementation.



About The Author

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader. Mr. Petersen has held senior level management positions with systems integration and end user organizations and is the Managing Director of GSP & Associates LLC, a consulting firm dedicated to helping organizations leverage their competitive capabilities.

Mr. Petersen can be reached at 505-401-0199 or gpetersen@competitiveperformance.com