Blue Ocean Strategy

Entrepreneurs encounter an ocean of innovation

In 2002, Peter de Groot, managing director of the Hungarian arm of the Netherlands-based global paint manufacturer Akzo Nobel, faced a dilemma.

Akzo sat firmly in second place in the Magyar market, and it seemed nothing could change the company's fortunes. Then de Groot was contacted by a consultancy that advocated a cutting-edge business strategy that Akzo's manager had first studied at the INSEAD business school in France.

In 2003, de Groot and his staff used this theory, now known as the Blue Ocean Strategy (BOS). With it, Akzo mapped out a business plan that was focused not on beating its competition, but on creating new market space that made the competition "irrelevant."

De Groot made a controversial and prescient decision that was classic Blue Ocean. "We decided we would not focus on the professional market," he recalls. At face value, the decision was reckless – professional painters are the industry's main customer base.

But de Groot and his adviser Gábor Burt, the central European director of the Blue Ocean Strategy Network, saw that Hungary's home-improvement industry was changing. More and more people were doing their own renovating, and even those homeowners who hired professional painters usually went to the paint store themselves to pick out colors and buy the products.

"So we targeted the actual customer or end user," says de Groot.

The results were better than de Groot ever imagined. By reducing brands, simplifying the product, honing the message to appeal to do-it-yourselfers, and promoting environmentally friendly water-based paints, Akzo Nobel appealed to its new customer base and rose to record sales levels and a commanding number one position in the woodcare market. As a result of this turnaround, de Groot was promoted to lead the corporation's international marketing arm.

Hungarian innovation

De Groot's trajectory raises the question: Is bold innovation like this a rarity among Hungarian firms, or are the young market economies of eastern Europe more prone to embrace, implement, and profit from new ideas?

"This is a region that traditionally has been very innovative," says Burt, who was born in Hungary but moved to the US with his family as a child. "All the Hungarian Nobel Prize winners are a case in point. Innovation has always been a characteristic of Hungary and its people. But recently, this sense of innovation was stifled due to communism."

Now that Hungary and its neighboring economies have matured, Burt is gambling that the region will be receptive to the Blue Ocean Strategy.

The strategy's authors coined the term Blue Ocean as a symbol of a space in which any business can find uncontested market space, opportunity, and growth. This contrasts with the concept of Red Ocean, where most businesses reside: a highly contested market where companies struggle incrementally and painfully for market share and profits through bloody, cutthroat competition.

According to Burt, the US airline industry is a good example of a blood-filled Red Ocean, where carriers like Delta and American have battled viciously for customers through marginal reductions in fares and minor perks in economy class. Recent bankruptcy declarations by Delta and Northwest underscore just how limited and unprofitable this competition can be.

Peter de Groot > Photo: Akzo Nobel

Creating new markets

Businesses can escape this fate by changing the rules, Burt believes, introducing "Value Innovation" that costs nothing, and indeed often reduces services to the customer, while improving the product and changing it enough so a new, uncontested market is created.

The first cut-rate air carriers were classic Blue Ocean. Instead of battling British Airways and Lufthansa with slightly lower fares and slightly enhanced services, carriers like Ryan Air and EasyJet eliminated frills, first-class seats, free drinks and meals, and landings at space-age airports.

In return, they gave customers unheard-of bargain-basement airfares, cheaper than train tickets in some instances, and forged a brand new market by not only luring away price-conscious travelers from the major airlines, but creating new customers among folks who didn't normally fly.

The plethora of Brit bachelor parties in Budapest and Prague each weekend represents just a small fraction of the new market generated by discount carriers. That EasyJet, Wizz Air, and their peers have turned your average Liverpool lad into a jetsetter able to party in Budapest represents another key element in the Blue Ocean formula: Value Innovation must reflect a lifestyle change.

Catching on

Currently, Budapest Bank is a Blue Ocean client, and a Blue Ocean Network seminar hosted by Burt and the Budapest-based consultancy Flow Csoport in August was attended by a corporate *Who's Who*, including leaders from Volvo Hungary, Ernst & Young, Microsoft Hungary and the Ministry of Finance among the 18 participants. Questions and discussions at the seminar probed both the potential and limitations of Value Innovation in Hungary.

The ministry's interest underscored how the strategy can apply to public as well as business administration. Burt notes that the governments of Denmark and Singapore have officially adopted Blue Ocean to improve their services, image, and administration.

Microsoft's participation, meanwhile, raises questions about how much autonomy a local office can have in implementing change that isn't sanctioned from above. De Groot admits that the flexibility he enjoyed at Akzo Nobel to define local strategy might not be possible in a more centralized corporate culture.

"Blue Ocean is a unique strategy because it can be applied to any market or industry," says de Groot. Still, it hasn't resulted in a single silver-bullet innovation that would place Akzo in a commanding position globally, "We haven't found the Holy Grail yet," he says. "But we've made Value Innovation an ongoing part of the way we do business."

> John Nadler

	Conventional: Red Ocean	**Value Innovation: Blue Ocean**
Industry assumption	• Industry conditions are given.	• Industry conditions can be shaped.
Strategic focus	• Build competitive advantages to beat the competition.	• Create a quantum leap in buyer value to dominate the market.
Customer	• Retain and expand the customer base through further segmentation and customization. Think in terms of embracing customer differences.	• Go for the mass of buyers. Think in terms of embracing key customer value commonalities.
Assets & capabilities	• Think in terms of a company's existing assets and capabilities. Build on what we have.	• Think free from a company's existing assets and capabilities. • Ask, what if we start anew?
Product/service offerings	• Think in terms of products/services offered by the industry. Seek to maximize the value of these offerings.	• Think in terms of buyers' solution, even if that transcends the industry.

Gábor Burt > Photo: John Nadler

> What is Blue Ocean?

INSEAD professors W. Chan Kim and Renee Mauborgne asked why some ventures succeeded and others failed. Their research uncovered troubling facts – such as that 60% of Fortune 500 from 1975 had disappeared from the list by 1995. The pair began looking at strategic business decisions, instead of companies or even industries, says the BOS Network's central European director, Gábor Burt. This allowed them to focus on Value Innovation, improving a product's value while cutting costs.

Value Innovation aims to transport a company from punishing Red Ocean competition (where fast-food franchises battle for customers with ever-expanding burgers) to the Blue Ocean, where a small innovation (such as Starbuck's import of European coffee culture to North America) can open up a new and utterly empty market niche. Kim and Mauborgne's book, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, has been translated into 27 languages.