UDC 005.591.6:005.332.4

THE «BLUE OCEAN» CONCEPT: INNOVATIONS AGAINST COMPETITION

Dzenis Oleksiy Oleksandrovich – Ph.D. in economics, associate professor of international economy and management of international economic activity department
E-mail: oleksiy.dzenis@hneu.net
Voronovych Kateryna Olegivna – candidate for master's degree of international economy activity department
E-mail: ekateryna.voronovych@gmail.com
Simon Kuznets Kharkiv National University of Economics

The concept of «blue» and «red» oceans was formulated by Chan Kim and Renee Moborn in their book «Blue Ocean Strategy» in 2005. According to it companies are generating productive business ideas, reach the rapid growth and high profit by creating previously not existing demand on the new market («blue ocean») instead of competing with a great number of competitors on low-profit markets [3].

In other words red oceans represent all the industries in existence today – the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody; hence, the term «red oceans» [4].

Blue oceans, in contrast, denote all the industries not in existence today – the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored [4].

According to the concept in question, to discover an elusive blue ocean, companies should consider «Four Actions Framework» [1]. This is used to reconstruct buyer value elements in crafting a new value curve. To break the trade-off between differentiation and low cost, and to create a new value curve, the framework poses four key questions:

- Raise: What factors should be raised well above the industry's standard?
- Eliminate: Which factors that the industry has long competed on should be eliminated?
- Reduce: Which factors should be reduced well below the industry's standard?
- Create: Which factors should be created that the industry has never offered?

This forces companies to scrutinize every factor of competition, helping leaders discover the range of assumptions they unconsciously make while competing. This exercise also pushes leaders to simultaneously pursue differentiation and low cost in order to break the value-cost trade-off. The questions also spotlight companies that are focused only on raising and creating, in the process lifting the cost structure and often over-engineering products and services [1].

The theory opposes a well-known Porter's five forces model. The last looks at five specific factors that help determine whether or not a business can be profitable, based on other businesses that are already in the industry. At the same time Alan Murray, the author of «Wall Street Essential Guide to Management», states that the rapid pace of innovation and change in recent years has led to a search for a strategy that is more dynamic than Porter's five forces. Blue ocean strategy encourages companies to focus less on their competitors and more on alternatives, while at the same time focusing less on their current customers and more on potential new customers [1].

Today the strategy of blue ocean is becoming more and more popular amongst the companies from different industries. A great example of its implementation is Cirque du Soleil. From the very beginning they decided not to compete with other traditional circuses but to create a new market free of competitors. This circus was aimed at the very new group of the customers: adults, who are ready to pay several times more than for the ticket in the ordinary circuses, to see a totally new picture, which does not have analogs.

To create a new blue ocean one should distinctly ideate the scale of customer values and the location of each competitor.

Once the key values are established, they can be divided into scales (high/average/low) and the results of competitors can be pictured on the chart (fig. 1) [2].

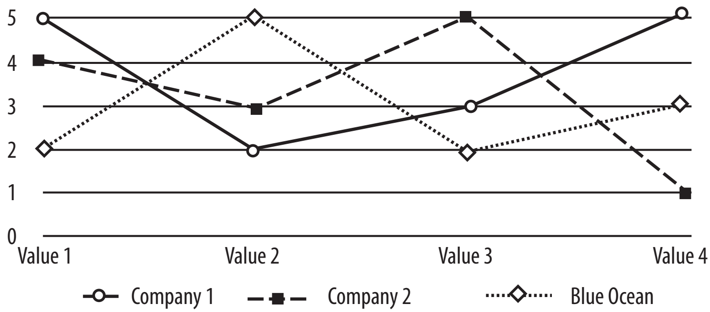

Fig. 1. Competitors' value curves comparison

A black line on the figure 1 represents a blue ocean for the company. Thus, to step into it, the one should decrease the indicators of product characteristics, which match value 1, value 3, value 4 and increase value 1. This will let the company create a new demand and attract a totally new group of customers.

Creation of blue oceans is not a one-time achievement, but a dynamic process. When creating a blue ocean, companies should be ready that at a certain moment imitators will appear on the horizon.

The company should estimate the current state of ex-competitors from the red ocean and how much time do they need to step into its blue one. Based on this the company should be ready to create a new blue ocean, when the existing one will become red. For this the one should constantly monitor the value curve. Once its value curve begins merging with the competitor's one, this is a sign of the necessity to create a new blue ocean.

Thus to say, the strategy of blue ocean is aimed at offering the customer something new, demanded by the target audience, which differs from the offer, existing on the highly competitive market. Existence of such products helps to avoid a direct confrontation with the competitors and concentrate on the work with consumers.

Literature

1. Arline K. Blue Ocean Strategy: Creating Your Own Market. Business News Daily Contributor April 1, 2015.

2. Kushnerov Yu. «Strategy fundamentals and example of blue ocean search [Electronic resource]. http://marketnotes.ru/about_marketing/blue-ocean/

3. Slobodyanuk M. «Do not sink in a blue ocean. 4 rules for super competitive markets» [Electronic resource]. http://slon.ru/biz/1037919/

4. Starmer Je. Blue Ocean Strategy. SlideShare. p. 4. Retrieved 20 November 2012 [Electronic resource]. http://www.slideshare.net/jessestarmer/blue-ocean-strategy-summary-61974