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Blue Ocean Strategy: Is it specific to radical innovation?

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Abstract— Ina highly competitive environment, where innovation is the key to ensure the sustainability of the company, several underlying and decisive strategies have emerged to respond to this challenging market. "Blue Ocean" strategy has become one of the pillars for effective innovation. The challenges are: When to embrace Blue Ocean strategy and how to adopt it? What are the basic tools for this strategy?Is this strategy positively correlated with only disruptive innovation or also incremental one?

Keywords— **Blue Ocean, strategy, innovation, new launch, disruptive technology.**

I. Introduction

The main challenge of any company today is to evolve in a highly competitive market in an attempt to gain more market share. The company has on one hand to respond constantly to demanding customers, and in the other hand, adapt to a constant shift of paradigm and fit in a market that is changing quickly. The issue is not related merely to the implementation of different strategies, but strategies that are coherent with the competitive environment, which will enable the company to increase its market share.

The question to be asked at this stage: why compete in a market that is highly segmented? Why companies don't focus on new innovative segments that may offer a unique positioning in the marketin regards to other competitors?

For this reason, W. Chan Kim and Renée Mauborgneintroduced "Blue Ocean Strategy". This new methodology may allow the company, regardless of its size or industry, to expand and evolve by creating its own strategic space.
So, when is it possible to integrate this strategy? How to adopt it? What are the tools used and the steps to follow? Is this strategy specific to radical innovation?
This approach will be developed from a theoretical point of view and elucidated by four applicative studies: Nintendo, Meditel, Southwest Airlines & Riot Games.

II. What is a "Blue Ocean" Strategy?

The "Blue Ocean" is the result of a paradigmshiftbased on a business strategy exposed by W. Chan Kim and Renée Mauborgne. This strategy is derived from a deep study that took into consideration the achievements of more than 150 companies in the last 15 years such as Apple, Body Shop, Swatch, E-Bay....

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The concept is simple: to successfully compete in a market, you must stop any direct conflict with the other competitors and create a profitable and sustainable space where the company will be able to flourish without tension, develop an innovative segment, a unique positioning.

From blue oceans perspective, demand is createdbased on customer's need rather than conquered. This analogy is what set apart the blue ocean strategy from the other strategies. Thus, Kim and Maubourgne criticize Michael Porter for his generic strategies that limit the choices of firms to three strategic options: the concentration strategy, cost leadership or differentiation strategy. However, the strategy of "Blue Ocean" has already been stated by IGOR ANSOF in 1965 as determined in the following matrix, but just without calling it "Blue or Red ocean":

Table: Matrix of new market

	Old market	New market
Old product	Red Ocean	Red Ocean
New product	Red Ocean	Blue Ocean

Source: Corporate Strategy published in 1965

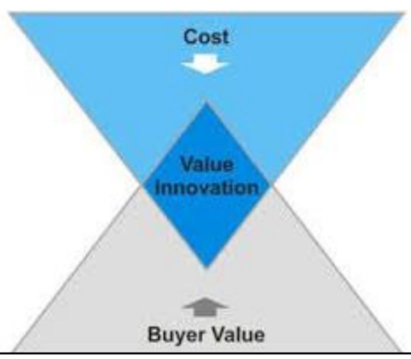
III. How to create a Blue Ocean?

The big advantage of "Blue Ocean Strategy" is that there are steps to follow and will allow the company to innovate for responding exactly to the clients' needs.

The main concept of Blue Ocean strategy encourages innovation and the creation of a combined value for both the customer and the company. Innovation (of a product, service, etc.) should be able to respond to customer needs and create value; meantime, it should reduce or eliminate the characteristics of the product and / or services that have less value to the current or future market.

The Blue Ocean Strategyis focused mainly on two elements: reducing the cost and increasing the value.

Illustration : Value innovation



http://www.oceanbleu.be/ocean-bleu/sob

The author, who adopted a Blue Ocean strategywas not involved in taking risks but rather reducing them. For this, the tools used are the strategic canvas and the ERAC grid.

A. Strategic Canvas

Its aim is to achieve a disruptive offer; it is a tool to be used at different stages of the development of the Blue Ocean strategy. It will allow making a diagnostics and guiding actions.

It defines the key elements of a decision on market via the use of 6P's: Product / Price / Promotion / Distribution / People / Process.

Illustration: Strategic canvas criteria

Product Innovation Fonctions Services	Promotion Social media Brand and positioning	Place (Distribution) Distribution circuit Commercialization mode
Price Sales price Business model Quality/ price	Process Internal information system CRM Administration	Human Resources Training Technical support

When going through a diagnosis, it is easy to identify the major elements that define and determine the key factors about a business, and the major issues that matter to customers. This diagnosis is handled to create a distinguished mix, and a competitive advantage over the market to add value and enhance customer's satisfaction. The aim is to be able also to adapt constantly these elements depending on the customer's need and the market's shift.

Once the analysis is specified, the result is displayed in a graph that is represented by two axes:

X: the list of criteria that have value for customers of the traditional market in which the company currently operates;

Y: the performance of the offer.

Generally, in a competitive market, the actors have a similar strategic profile.

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B. The grid of the four actions or ERAC

A simple and effective French acronym(Exclure, Renforcer, AtténueretCréer) answers the following questions:

- **Exclude:**set to 0 on a strategic variable where competitors are present,
- **Strengthen** : reinforce key variables that are not operated at 100 %,
- **Mitigation** : reduce the elements that have no value perceived by customers,
- **Create**: define innovative new variables on the market that do not exist yet.

The equation will ensure to make choices reinforcing and maintaining a lower cost (and dare divest and exclude).

After responding to these four elements, the company will be able to design an additional value on thestrategic curve framework, while adding new criteria revealed by responses to the question "What to create?"

IV. CASE STUDIES:

RESEARCH METHODOLOGY

The used methodology implies positivism, and the sampling is empirical by convenience for practical reasons of accessibility of information. The chosen companies areMeditel, Southwest Airlines, Nintendo, and Riot Games.

CASE 1: 3G INTERNET MEDITEL

The telecommunication sector in Morocco is composed by three main operators that were introduced into the market as follows:

- Maroc Telecom (IAM): the first and leading operator launched in 1999,
- Meditel: the innovative challenger launched its brand in 1999,
- Inwi: the last but not the leastentrant which was launched in 2007.

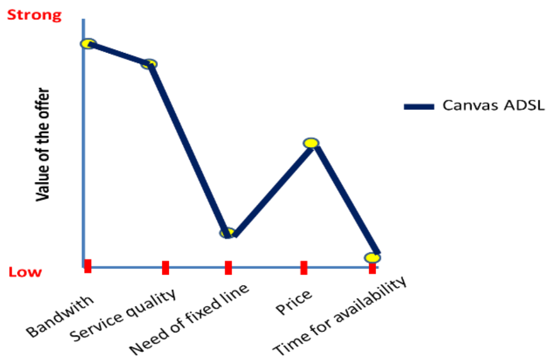
Before 2007, IAM was the only operator to offer internet services in Morocco. The internet offer was based on ADSL technology using fiber optics. As optical fiber was expensive, it couldn't be integrated in all Moroccan infrastructures including railway circuit. Maroc Telecom gained a considerable competitive advantage due to its exclusive offers and the inability of the other operators to compete with it. In addition, ADSL required a fixed device, which enabled the company to propose a bundled offers "Device + ADSL" with an average of 50$ / month.

Result: Maroc Telecom held a monopoly: 98% of internet market share (Source: Reporting ANRT[1] June 2007).

A. DEFINITION OF CRITERIA OF MAROC TELECOM ADSL

According to a 3G launching study realized by Meditel in 2006, the relevant criteria that emerged for internet ADSL are: bandwidth, quality of service, the need for a phone line, the price and availability.

B. STRATEGIC FRAMEWORK ADSL



C. DEFINITION OF "VALUE INNOVATION"

The world is moving towards mobility. In 2007, it was hard to imagine that in Morocco the internet connection was dependent on a landline. The revolution was radical and the result was a total mobility: a simple USB device allowed carrying internet broadband everywhere, all the time. In addition, the Plug & Play characteristic enabled the customer a complete mobility through a simple keyplugged intohis computer.

D. THE MATRIX ERAC

According to the innovation predefined value, the ERAC matrix is:

EXCLUDE -Necessity of fixed line	**STRENGTHEN** - Bandwith - Service quality
MITIGATE - Price - Time to availability	**CREATE** - Mobility - Easy to use

[1]National Agency of telecom reglementation

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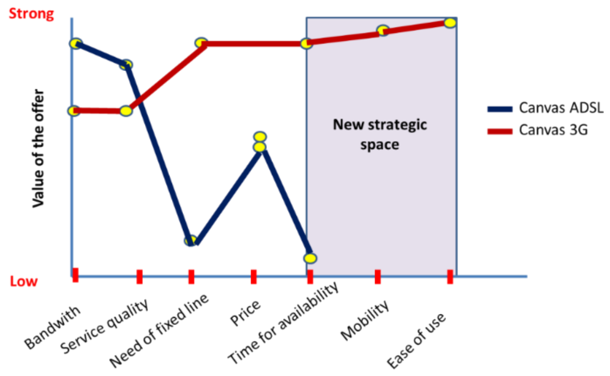
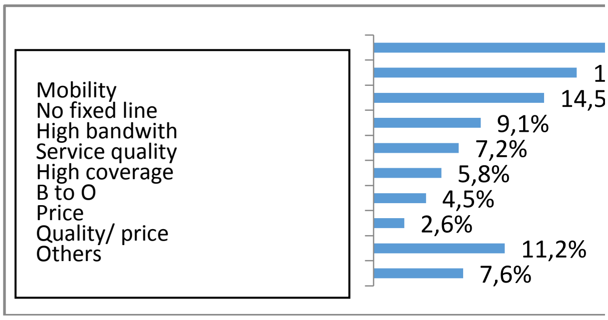
The new strategic canvas is:



E. POST-EVALUATION OF THE LAUNCH

Customer satisfaction barometers were determined on a monthly basis. The objective was to examine the pulse of the market to make adjustments in supply and to best meet customer needs. Results achieved:

Question: What are the criteria used to subscribe to 3G?



The main reasons for subscribing to the service are:mobility not required to have fixed line and broadband. Today, in Morocco, fixed Internet continues to decrease and assign his share to the mobile internet. 3G internet access represents the dominant's share with 85.5 % of the global fleet tracking internet ADSL with only 14.47% (Source: ANRT dashboard December 2013).

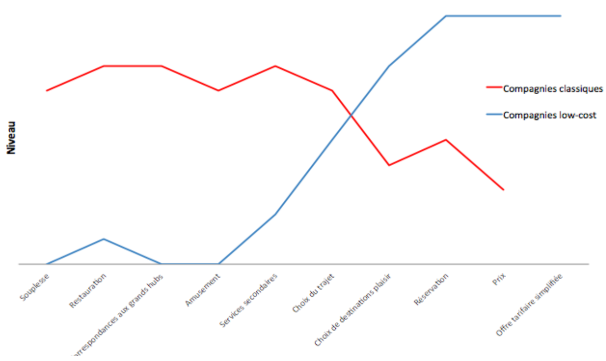
CASE 2: SOUTHWEST AIRLINES

Southwest Airlines is a low cost company, based in Dallas, Texas, with 52 000 employees and nearly 4000 flights a day with a turnover of 21B dollars in 2015. In 1974, the company had gone through a severe liquidity crisis which was followed by the launch of a vast program of increasing productivity, whichwas known as LOW COST.

The application of ERAC allows the following decisions:

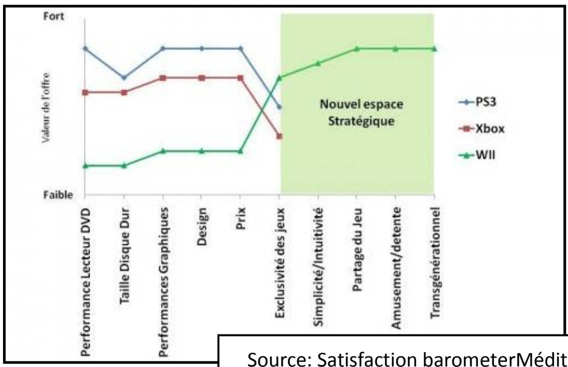
- Exluding place choice.
- Mitigates prices, restauration and seats quality.
- Strengthens the important hubs flight's strategy.
- Creating the « point to point » flights.

PROPOSITION: Frequent departures, flexible schedules and competitive rates: extraordinary value!



CASE 3: NINTENDO

The graphic illustrates the criterias of Sony's, Microsoft's and Nintendo's latest consoles. What does it show? Nintendo is focusing on no- clients; it's intending to bring no gamers back to gaming. The WII want the instaure the concept of fun and trans generational game. The WII is cheaper, does not have hard disk nor DVD but it has the innovative motion control stick. With this feature, the target is completely different.



Source: Satisfaction barometerMéditelJune 2010. Base 235 responses

This is exactly the meaning of "Blue Ocean" strategy because, the strong value innovation is about motion stick and the cost reduction is about eliminating characteristics that are no value added for the costumers (Hard Disk, DVD…). Nintendo created a new blue ocean, while Microsoft and Xbox are fighting in the same market.

CASE 4: RIOT GAMES

The Riot Games is Video games corporation and giant e-sports. It's a Start-up created in 2010 by two classmates, Brandon Beck and Marc Merrill. The company is based in Los Angeles California, with a 1.6B dollars turnover in 2015.

This objective was achieved in only 6 years activity. Riot games owns League of Legends, the most played and viewed game worldwide.

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Riot games has exploited the success of its League of Legends game and ensure its dominance by introducing a system of international tournaments and continental leagues.
The red ocean is the world of the extremely competitive video game such as: Sony, XBOX, Nintendo..., Riot knew to VALORIZE his competitive advantage!
The league of Legends world championship final in October 2016 had 50 million viewers, with 370 million hours of tournament views.
The Riot events were: LOL WORLDS 2014 KOREA, LOL WORLDS 2015 EUROPE (France, Belgium, Germany) and LOL WORLDS 2016 USA (SF, NY, LA).
The game is supported by internet platforms: YouTube, Twitch and television platforms: OGN, ESPN.

To summarize the 4 cases:

	Initial Product	Incremental innovation	Launch product	Disruptive i
Meditel	ADSL	Mobility	3G	New techr
Southwest	Classical companies	Low service	Low Cost	New positi
Nintendo	PS3, Xbox	Familial game	WII	New Trans-Generatio
Riot Games	XBOX, Sony, Nintendo	Competition	International game	New motiv

We admit that we must always start from an existing product to improve it.Butfollowing our studied cases, the impact is disruptive in terms of customer behaviour.

V. CONCLUSION

Internet 3G at Meditel, Southwest Airlines, Nintendo, Riot Games, all embraced blue ocean strategy, but competitors hindered them from maintaining a unique and competitive positioning. Thus, the blue ocean becomes again red and the competition has become difficult to overcome.
At the end, Blue Ocean Strategy is a disruptive strategy that will continue to surprise the market and change the current habits of users by providing them with a new value added proposition. Blue Ocean is not a definite strategy or an approach, but a disruptive philosophy that seeks continuously innovation and creativity.

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