Insights from *Blue Ocean Strategy* by W. Chan Kim and Renee Mauborgne

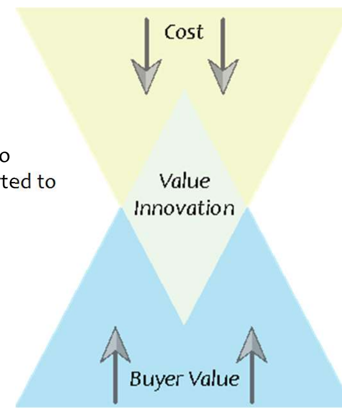
"The only way to beat the competition is to stop trying to beat the competition." *– Blue Ocean Strategy*

If you want to launch a successful business, don't waste time competing for market share. Instead, focus on creating new value and expanding the current market. If you create new value, you will find yourself in a highly profitable Blue Ocean, where the competition is irrelevant.

Professors W. Chan Kim and Renee Mauborgne studied the launch of 108 businesses across 30 industries over the span of several decades. Their study revealed that when a new business tried to compete with an established business and steal market share, they were substantially less profitable than a new business that avoided competition. Of the 108 businesses, 16 businesses adopted a Blue Ocean strategy by creating a new product category that made the competition irrelevant. Those 16 Blue Ocean businesses took home 61% of the combined profits of all 108 businesses! What's more, those 16 Blue Ocean businesses went on to dominate their market category for 10-15 years!

"The companies caught in the red ocean followed a conventional approach, racing to beat the competition by building a defensible position within the existing industry order. The creators of blue oceans, surprisingly, didn't use the competition as their benchmark. Instead, they followed a different strategic logic that we call value innovation." *– Blue Ocean Strategy*

WHAT IS VALUE INNOVATION?



Value Innovation is the act of producing an innovative new product at a remarkably low price.

The first step of value innovation is selecting your target audience. Instead of focusing on regular customers within your desired market (existing customers everyone is competing for), focus on the customers on the edge of your market (infrequent customers) and customers in adjacent markets, who either avoid your market or have never heard of your market. In the example below, Casella wines started to process of developing a new wine by focusing on the needs of beer and cocktail consumers.

The next step of value innovation is to look at the typical business model in your market and ask four questions:

- What processes can we ELIMINATE?
- What standards can we REDUCE?
- What standards can be RAISE?
- What standards or processes can we incorporate from adjacent industries to CREATE a new experience?

"Our research has found that rarely do managers systematically set out to eliminate and reduce their investments in factors that an industry competes on. The result is mounting cost structures and complex business models.

The second two factors (raise and create), by contrast, provide you with insight into how to lift buyer value and create new demand. Collectively, they allow you to systematically explore how you can reconstruct buyer value elements across alternative industries to offer buyers an entirely new experience, while simultaneously keeping your cost structure low."*- Blue Ocean Strategy*

HOW CASELLA WINES ACHIEVED VALUE INNOVATION:

Casella Wines started by asking non-wine drinkers [beer and cocktail drinkers] why they avoid wine. They discovered that most non-wine drinkers thought wine was intimidating and pretentious. These non-wine drinkers said the complexity of wine's taste was a turnoff. Casella Wines aimed to address the frustrations of these 'noncustomers' by creating a wine that was fun, unintimidating, and easy to drink. To achieve this, they implemented the four value innovation action framework:

- They ELIMINATED the wine aging process. Aging wine resulted in a taste that was too complex for non-wine drinkers. By eliminating the aging process they saved money on oak barrels and storage costs.
- They REDUCED their inventory to just two wines, a white Chardonnay and a red Shiraz. By reducing their inventory two wines they had far fewer wines than most wine businesses, and this was a good thing because it made the wine selection process less intimidating for non-wine drinkers.
- They RAISED the freshness and drinkability of the wine by raising their grape selection standards. Raising the drinkability of the wine made it fun to drink for beer and cocktail drinkers.
- They incorporated a few standards from the beer industry to CREATE a new wine experience for non-wine drinkers. They created a wine label that simple and inviting, like most beer bottle labels. It didn't have the age of the wine and it didn't have fancy language describing the vineyard or the winemaking process. It had an image of a kangaroo, the name of their wine company, and the origin country of the wine: 'Australia.' This simple label made their wine seem less pretentious, and more fun and adventurous.

"Casella Wines created [yellow tail], a wine whose strategic profile broke from the competition and created a blue ocean. Instead of offering wine as wine, Casella created a social drink accessible to everyone: beer drinkers, cocktail drinkers, and other drinkers of non-wine beverages. In the space of two years, the fun, social drink [yellow tail] emerged as the fastest growing brand in the histories of both the Australian and the U.S. wine industries and the number one imported wine into the United States, surpassing the wines of France and Italy. By August 2003 it was the number one red wine in a 750-ml bottle sold in the United States, outstripping California labels." – Blue Ocean Strategy

Nathan Lozeron, @nlozeron
www.ProductivityGame.com