Blue Ocean Strategy

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The Idea in Brief

The best way to drive profitable growth? Stop competing in overcrowded industries. In those red oceans, companies try to outperform rivals to grab bigger slices of existing demand. As the space gets increasingly crowded, profit and growth prospects shrink. Products become commoditized. Ever-more-intense competition turns the water bloody.

How to avoid the fray? Kim and Mauborgne recommend creating blue oceans—uncontested market spaces where the competition is irrelevant. In blue oceans, you invent and capture new demand, and you offer customers a leap in value while also streamlining your costs. Results? Handsome profits, speedy growth—and brand equity that lasts for decades while rivals scramble to catch up.

Consider Cirque du Soleil—which invented a new industry that combined elements from traditional circus with elements drawn from sophisticated theater. In just 20 years, Cirque raked in revenues that Ringling Bros. and Barnum & Bailey—the world’s leading circus—needed more than a century to attain.

The Idea in Practice

How to begin creating blue oceans? Kim and Mauborgne offer these suggestions:

Understand the Logic Behind Blue Ocean Strategy

The logic behind blue ocean strategy is counterintuitive:

It’s not about technology innovation. Blue oceans seldom result from technological innovation. Often, the underlying technology already exists—and blue ocean creators link it to what buyers value. Compaq, for example, used existing technologies to create its ProSignia server, which gave buyers twice the file and print capability of the minicomputer at one-third the price.

You don’t have to venture into distant waters to create blue oceans. Most blue oceans are created from within, not beyond, the red oceans of existing industries. Incumbents often create blue oceans within their core businesses. Consider the megaplexes introduced by AMC—an established player in the movie-theater industry. Megaplexes provided movie-goers spectacular viewing experiences in stadium-size theater complexes at lower costs to theater owners.

Apply Blue Ocean Strategic Moves

To apply blue ocean strategic moves:

Never use the competition as a benchmark. Instead, make the competition irrelevant by creating a leap in value for both yourself and your customers. Ford did this with the Model T. Ford could have tried besting the fashionable, customized cars that wealthy people bought for weekend jaunts in the countryside. Instead, it offered a car for everyday use that was far more affordable, durable, and easy to use and fix than rivals’ offerings. Model T sales boomed, and Ford’s market share surged from 9% in 1908 to 61% in 1921.

Reduce your costs while also offering customers more value. Cirque du Soleil omitted costly elements of traditional circus, such as animal acts and aisle concessions. Its reduced cost structure enabled it to provide sophisticated elements from theater that appealed to adult audiences—such as themes, original scores, and enchanting sets, all of which change year to year. The added value lured adults who had not gone to a circus for years and enticed them to come back more frequently—thereby increasing revenues. By offering the best of circus and theater, Cirque created a market space that, as yet, has no name—and no equals.

Leer en español

Ler em português

A onetime accordion player, stilt walker, and fire-eater, Guy Laliberté is now CEO of one of Canada’s largest cultural exports, Cirque du Soleil. Founded in 1984 by a group of street performers, Cirque has staged dozens of productions seen by some 40 million people in 90 cities around the world. In 20 years, Cirque has achieved revenues that Ringling Bros. and Barnum & Bailey—the world’s leading circus—took more than a century to attain.

Cirque’s rapid growth occurred in an unlikely setting. The circus business was (and still is) in long-term decline. Alternative forms of entertainment—sporting events, TV, and video games—were casting a growing shadow. Children, the mainstay of the circus audience, preferred PlayStations to circus acts. There was also rising sentiment, fueled by animal rights groups, against the use of animals, traditionally an integral part of the circus. On the supply side, the star performers that Ringling and the other circuses relied on to draw in the crowds could often name their own terms. As a result, the industry was hit by steadily decreasing audiences and increasing costs. What’s more, any new entrant to this business would be competing against a formidable incumbent that for most of the last century had set the industry standard.

How did Cirque profitably increase revenues by a factor of 22 over the last 10 years in such an unattractive environment? The tagline for one of the first Cirque productions is revealing: “We reinvent the circus.” Cirque did not make its money by competing within the confines of the existing industry or by stealing customers from Ringling and the others. Instead it created uncontested market space that made the competition irrelevant. It pulled in a whole new group of customers who were traditionally noncustomers of the industry—adults and corporate clients who had turned to theater, opera, or ballet and were, therefore, prepared to pay several times more than the price of a conventional circus ticket for an unprecedented entertainment experience.

To understand the nature of Cirque’s achievement, you have to realize that the business universe consists of two distinct kinds of space, which we think of as red and blue oceans. Red oceans represent all the industries in existence today—the known market space. In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are well understood. Here, companies try to outperform their rivals in order to grab a greater share of existing demand. As the space gets more and more crowded, prospects for profits and growth are reduced. Products turn into commodities, and increasing competition turns the water bloody.

Blue oceans 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. There are two ways to create blue oceans. In a few cases, companies can give rise to completely new industries, as eBay did with the online auction industry. But in most cases, a blue ocean is created from within a red ocean when a company alters the boundaries of an existing industry. As will become evident later, this is what Cirque did. In breaking through the boundary traditionally separating circus and theater, it made a new and profitable blue ocean from within the red ocean of the circus industry.

Cirque is just one of more than 150 blue ocean creations that we have studied in over 30 industries, using data stretching back more than 100 years. We analyzed companies that created those blue oceans and their less successful competitors, which were caught in red oceans. In studying these data, we have observed a consistent pattern of strategic thinking behind the creation of new markets and industries, what we call blue ocean strategy. The logic behind blue ocean strategy parts with traditional models focused on competing in existing market space. Indeed, it can be argued that managers’ failure to realize the differences between red and blue ocean strategy lies behind the difficulties many companies encounter as they try to break from the competition.

In this article, we present the concept of blue ocean strategy and describe its defining characteristics. We assess the profit and growth consequences of blue oceans and discuss why their creation is a rising imperative for companies in the future. We believe that an understanding of blue ocean strategy will help today’s companies as they struggle to thrive in an accelerating and expanding business universe.

Blue and Red Oceans

Although the term may be new, blue oceans have always been with us. Look back 100 years and ask yourself which industries known today were then unknown. The answer: Industries as basic as automobiles, music recording, aviation, petrochemicals, pharmaceuticals, and management consulting were unheard-of or had just begun to emerge. Now turn the clock back only 30 years and ask yourself the same question. Again, a plethora of multibillion-dollar industries jump out: mutual funds, cellular telephones, biotechnology, discount retailing, express package delivery, snowboards, coffee bars, and home videos, to name a few. Just three decades ago, none of these industries existed in a meaningful way.

This time, put the clock forward 20 years. Ask yourself: How many industries that are unknown today will exist then? If history is any predictor of the future, the answer is many. Companies have a huge capacity to create new industries and re-create existing ones, a fact that is reflected in the deep changes that have been necessary in the way industries are classified. The half-century-old Standard Industrial Classification (SIC) system was replaced in 1997 by the North American Industry Classification System (NAICS). The new system expanded the 10 SIC industry sectors into 20 to reflect the emerging realities of new industry territories—blue oceans. The services sector under the old system, for example, is now seven sectors ranging from information to health care and social assistance. Given that these classification systems are designed for standardization and continuity, such a replacement shows how significant a source of economic growth the creation of blue oceans has been.

In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid.

Looking forward, it seems clear to us that blue oceans will remain the engine of growth. Prospects in most established market spaces—red oceans—are shrinking steadily. Technological advances have substantially improved industrial productivity, permitting suppliers to produce an unprecedented array of products and services. And as trade barriers between nations and regions fall and information on products and prices becomes instantly and globally available, niche markets and monopoly havens are continuing to disappear. At the same time, there is little evidence of any increase in demand, at least in the developed markets, where recent United Nations statistics even point to declining populations. The result is that in more and more industries, supply is overtaking demand.

This situation has inevitably hastened the commoditization of products and services, stoked price wars, and shrunk profit margins. According to recent studies, major American brands in a variety of product and service categories have become more and more alike. And as brands become more similar, people increasingly base purchase choices on price. People no longer insist, as in the past, that their laundry detergent be Tide. Nor do they necessarily stick to Colgate when there is a special promotion for Crest, and vice versa. In overcrowded industries, differentiating brands becomes harder both in economic upturns and in downturns.

The Paradox of Strategy

Unfortunately, most companies seem becalmed in their red oceans. In a study of business launches in 108 companies, we found that 86% of those new ventures were line extensions—incremental improvements to existing industry offerings—and a mere 14% were aimed at creating new markets or industries. While line extensions did account for 62% of the total revenues, they delivered only 39% of the total profits. By contrast, the 14% invested in creating new markets and industries delivered 38% of total revenues and a startling 61% of total profits.

So why the dramatic imbalance in favor of red oceans? Part of the explanation is that corporate strategy is heavily influenced by its roots in military strategy. The very language of strategy is deeply imbued with military references—chief executive “officers” in “headquarters,” “troops” on the “front lines.” Described this way, strategy is all about red ocean competition. It is about confronting an opponent and driving him off a battlefield of limited territory. Blue ocean strategy, by contrast, is about doing business where there is no competitor. It is about creating new land, not dividing up existing land. Focusing on the red ocean therefore means accepting the key constraining factors of war—limited terrain and the need to beat an enemy to succeed. And it means denying the distinctive strength of the business world—the capacity to create new market space that is uncontested.

The tendency of corporate strategy to focus on winning against rivals was exacerbated by the meteoric rise of Japanese companies in the 1970s and 1980s. For the first time in corporate history, customers were deserting Western companies in droves. As competition mounted in the global marketplace, a slew of red ocean strategies emerged, all arguing that competition was at the core of corporate success and failure. Today, one hardly talks about strategy without using the language of competition. The term that best symbolizes this is “competitive advantage.” In the competitive-advantage worldview, companies are often driven to outperform rivals and capture greater shares of existing market space.

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Of course competition matters. But by focusing on competition, scholars, companies, and consultants have ignored two very important—and, we would argue, far more lucrative—aspects of strategy: One is to find and develop markets where there is little or no competition—blue oceans—and the other is to exploit and protect blue oceans. These challenges are very different from those to which strategists have devoted most of their attention.

Toward Blue Ocean Strategy

What kind of strategic logic is needed to guide the creation of blue oceans? To answer that question, we looked back over 100 years of data on blue ocean creation to see what patterns could be discerned. Some of our data are presented in the exhibit “A Snapshot of Blue Ocean Creation.” It shows an overview of key blue ocean creations in three industries that closely touch people’s lives: autos—how people get to work; computers—what people use at work; and movie theaters—where people go after work for enjoyment.

A Snapshot of Blue Ocean Creation

This table identifies the strategic elements that were common to blue ocean creations in three different industries in different eras. It is not intended to be comprehensive in coverage or exhaustive in content. We chose to show American industries because they represented the largest and least-regulated market during our study period. The pattern of blue ocean creations exemplified by these three industries is consistent with what we observed in the other industries in our study.

Key blue ocean creation Was the blue ocean created by a new entrant or an incumbent? Was it driven by technology pioneering or value pioneering? At the time of the blue ocean creation, was the industry attractive or unattractive?

AUTOMOBILES

AUTOMOBILES

Key blue ocean creation

Ford Model T

Unveiled in 1908, the Model T was the first mass-produced car, priced so that many Americans could afford it.

Was the blue ocean created by a new entrant or an incumbent?

New entrant

Was it driven by technology pioneering or value pioneering?

Value pioneering\* (mostly existing technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

Key blue ocean creation

GM’s “car for every purse and purpose”

GM created a blue ocean in 1924 by injecting fun and fashion into the car.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering (some new technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Attractive

Key blue ocean creation

Japanese fuel-efficient autos

Japanese automakers created a blue ocean in the mid-1970s with small, reliable lines of cars.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering (some new technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

Key blue ocean creation

Chrysler minivan

With its 1984 minivan, Chrysler created a new class of automobile that was as easy to use as a car but had the passenger space of a van.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering (mostly new technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

COMPUTERS

COMPUTERS

Key blue ocean creation

CTR’s tabulating machine

In 1914, CTR created the business machine industry by simplifying, modularizing, and leasing tabulating machines. CTR later changed its name to IBM.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering\* (mostly existing technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

Key blue ocean creation

IBM 650 electronic computer and System/360

In 1952, IBM created the business computer industry by simplifying and reducing the power and price of existing technology. And it exploded the blue ocean created by the 650 when in 1964 it unveiled the System/360, the first modularized computer system.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering (650: mostly existing technologies)

Value and technology pioneering (System/360: new and existing technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

Key blue ocean creation

Apple personal computer

Although it was not the first home computer, the all-in-one, simple-to-use Apple II was a blue ocean creation when it appeared in 1978.

Was the blue ocean created by a new entrant or an incumbent?

New entrant

Was it driven by technology pioneering or value pioneering?

Value pioneering (some new technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

Key blue ocean creation

Compaq PC servers

Compaq created a blue ocean in 1992 with its ProSignia server, which gave buyers twice the file and print capability of the minicomputer at one-third the price.

Was the blue ocean created by a new entrant or an incumbent?

Incumbent

Was it driven by technology pioneering or value pioneering?

Value pioneering (mostly existing technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Nonexistent

Key blue ocean creation

Dell built-to-order computers

In the mid-1990s, Dell created a blue ocean in a highly competitive industry by creating a new purchase and delivery experience for buyers.

Was the blue ocean created by a new entrant or an incumbent?

New entrant

Was it driven by technology pioneering or value pioneering?

Value pioneering (mostly existing technologies)

At the time of the blue ocean creation, was the industry attractive or unattractive?

Unattractive

MOVIE THEATERS

MOVIE THEATERS

Key blue ocean creation

Nickelodeon

The first Nickelodeon opened its doors in 1905, showing short films around-the-clock to working-class audiences for five cents.

Was the blue ocean cre