



Red Ocean vs Blue Ocean Strategies

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1. INTRODUCTION

This paper is about the strategies that a company can adopt in order to get a competitive advantage over its rivals, and thus be successful (**Red Ocean Strategies**). We also tried to explain what actually entrepreneurship is, to be able to understand why the corporate strategies are formed as they do, and why companies are choosing to follow them.

The following project is a part of our master thesis that we will present for the University of Piraeus for the MBA-TQM master department. The thesis' goal is to present the Red and Blue Ocean Strategies and give an answer to whether innovation as a tool of Blue Ocean Strategy can help the companies to exit the current economical crisis. We will introduce the aspects of Red Ocean Strategies that most of the companies use around the world, and then we will compare the advantages and disadvantages of using Blue Ocean Strategies.

The concept of **Blue Ocean Strategies** is new in the business world as it was first published in 2005 in the book/manual '*blue ocean strategy*, by W. Chan Kim and Renee Mauborgne. By that we can see that there is a lot of interest by the business people and academics around the world about that subject. Blue ocean theory could help enterprises focus in another philosophy on how to attract market share from their competitors, as the current competition strategies are partly responsible for the prevailing economical crisis. Blue ocean strategy could be a way out of the crisis and a way to achieve economical and social benefit.

Today we bare witness of one of the greatest **global economical crises** in the resent years. This crisis affects the people, societies, economies of every country in the planet. This economical crisis is not just a financial or monetary crisis caused by the banks as many believe. The source of this crisis is based in the lack of demand which leads to supply surplus. The banks around the world (primarily in the U.S.A.) for many years have been providing companies and individuals with loans without worrying so much whether they can afford them. The money from the loans increased the purchasing power of the customers, which made companies to increase their production and so the markets supply. The economical crisis started when the loan takers couldn't pay their dept to the banks. Banks started to get unwilling to offer loans in the fear on not getting paid from the loan takers. That bank unwillingness to

offer loans made the customer's purchasing power decrease and so demand for goods decreased. The decrease of demand made the supply decrease on its turn, and for that many employees weren't needed any more so they got fired. The fired employee's didn't have money to spend on the market and so the demand was decreased more, creating a vicious cycle of depression.

Many people (politicians, economists, businessmen) are searching for a way to overcome this crisis and suggest many (often conflicting) solutions. This is what we will try to do through that project. **We will try to find out whether turning from Red Ocean Strategies to Blue Ocean Strategies can really help an enterprise or an economy to overcome the great depression and create the basis for a healthier competition.**

In the first part of this paper we will try to approach the various theories on entrepreneurship as a theoretical foundation in order to explain the Red and Blue Ocean Strategies and weight their advantages and disadvantages. We think that in order to talk about competitive strategies of a corporation, we should first clarify what is entrepreneurship, who is an entrepreneur and what he does?

2. THE ENTREPRENEURSHIP

2.1 DEFINITIONS OF ENTREPRENEURSHIP

It's very hard to give a specific and complete definition for what Entrepreneurship really is after all. Some of the most accurate definitions are:

- “Every attempt to establish a new enterprise or a new way of working, a new corporation or an enlargement of an already established corporation from an individual person, or an individual group or from a group of existing corporations” (Stevenson 1983, 1985, 1990)¹
- “Entrepreneurship can be spotted and recognized in a corporation which has strategic goals and aims to continuously development of innovation”².
- “Entrepreneurship is to find out how, by whom and by which opportunities, future products or services, can be produced”.^{3,4}

Entrepreneurship has two dimensions:

- Economical Innovation
- Organization Development

References

¹ Stevenson H., (1983), “A Perspective On Entrepreneurship”, Harvard Business School , Working Paper and Stevenson HH., Gumpert DE, (1985), “The Heart of Entrepreneurship”, Harvard Business and Stevenson HH, JC Jarillo (1990), “A new entrepreneurial paradigm”, *Strategic Management Journal*.

² Carland, J.W., Hoy, F., Boulton, W.R. & Carland, J.C., (1984), Differentiating entrepreneurs from small business owners: A conceptualization. *Academy of Management Review*, 9(2): 354-359

³ Shane,S. & Venkataraman, S., (2000),”The promise of entrepreneurship as a field of research”. *Academy of Management Review*, Vol 26.No1,pp.8-20.

⁴ Hornaday, R. W. (1992). Thinking about entrepreneurship: A fuzzy approach, *Journal of Small Business Management*, Vol.30.

1. Stevenson H., (1983), "A Perspective On Entrepreneurship", *Harvard Business School*, Working Paper and Stevenson HH., Gumpert DE, (1985), "The Heart of Entrepreneurship", *Harvard Business* and Stevenson HH, JC Jarillo (1990), "A new entrepreneurial paradigm", *Strategic Management Journal*.
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2.2 DIFFERENTIATION BETWEEN ENTREPRENEURSHIP AND ENTREPRENEURIAL OPPORTUNITIES

According to the motives of a business activity, entrepreneurship can be divided into entrepreneurship of need and entrepreneurship of opportunity. At entrepreneurship of need the entrepreneur chooses an activity and tries to develop it into a profitable activity as opposed to entrepreneurship of opportunity where the entrepreneur develops an idea based on an opportunity spotted in the market. Now we have to present Carland's⁵ distinction between the entrepreneur and the owner of a small company, because he believes that those terms are different. He claims that what makes an entrepreneur are his objectives and goals, also his perceptions, his personality and finally his management practices. On the other hand, Gartner⁶ disagrees on what an entrepreneur is. In his point of view he mentioned some criteria on how to value entrepreneurship:

- We should not focus on intentionality but to the personal development
- We are searching for the act of entrepreneurship and not who takes part on that

The main differences between the last two theories are that Gartner is fruitless of trait research, but Carland saw the need of improving methodology before giving up.

⁵ Carland, J.W., Hoy, F., Boulton, W.R. & Carland, J.C. (1984), Differentiating entrepreneurs from small business owners: A conceptualization. *Academy of Management Review*, 9(2): 354-359

⁶ Gartner W. B., (1985), A framework for describing and classifying the phenomenon of new venture creation, *Academy of Management Review*.

We can say that Gartner and Carland⁷ disagree on many points, but if we go deeper into these theories, we can see that there are not that different after all. Both of them claim that:

- Definitions are rare and inconsistent
- Samples are neither homogenous nor comparable
- Entrepreneurial profiles are inconsistent and often non significant different from the general population.

Venkataraman(2000)⁸ believes that entrepreneurship should focus on the discovering and exploitation the effective opportunities. He also believes in documenting the characteristics that make someone become an entrepreneur, and try to develop those theoretical and observational facts. This will help us to:

- define the domain of the field,
- explain why we should study entrepreneurship,
- describe why entrepreneurial opportunities exist and why some people discover and exploit them while others don't,
- consider the different methods of exploitation of those opportunities,
- conclude with brief reflections on the potential value of the framework presented above.

According to Venkataraman⁹ the difficulty to make a certain definition on entrepreneurship has an excuse. We are trying to define entrepreneurship on two questions:

- who is an entrepreneur,
- what does he do.

He believes that there are two more questions that should be added to those above:

- are there any profitable opportunities,

⁷ William B. Gartner (1988), "Who Is an Entrepreneur?" *Is the Wrong Question?*, University of Baltimore, Educational Foundation.

⁸ Shane, S., & Venkataraman, S., (2000), The promise of entrepreneurship as a field of research. *Academy of Management Review*, vol. 7.

⁹ Shane, S., & Venkataraman, S., (2000), The promise of entrepreneurship as a field of research. *Academy of Management Review*, vol. 7.

- are there any entrepreneur individuals.

The former effort to define entrepreneurship led to poor definitions such as: Entrepreneur is the individual that establishes a new enterprise. But what about of the variation in the quality of opportunities that different people identify?

According to Venkataraman we are not focusing in entrepreneurship in vain. Why should we study in entrepreneurship?

1. Much technical information is ultimately embodied to products and services (Arrow 1962)¹⁰ and entrepreneurship is the mechanism by which society converts technical information into these product or services.
2. Entrepreneurship is a mechanism by which society converts technical and spatial inefficiencies in an economy, these are discovered and mitigated.¹¹
3. The different sources of change in a capitalist society¹² isolated entrepreneurially driven innovation in products and processes as the crucial engine driving the change process.

From the above it is clear that in order to get to entrepreneurship we should first spot an entrepreneurial opportunity. Entrepreneurial opportunity is the opportunity by which new products, services, raw materials and organizational methods can be implemented and be sold in a higher prize from the production cost¹³

¹⁰ Arrow, K. J., (1962), "*Economic welfare and allocation of resources for invention*", Volume Publisher: UMI, ISBN: 0-87014-304-2 URL: <http://www.nber.org/books/univ62-1>.

¹¹ Kirzner, I., (1997), Entrepreneurial discovery and the competitive market process: an Austrian approach, *Journal of Economic Literature*, Vol. xxxv, pp.60-85.

¹² Sciumprer. J. A., (1934), *The theory of economic development*. Translated by R. Opie.

¹³ Casson, M., (1982), "*The Entrepreneur*", Barnes and Noble Books, Totowa, NJ.

Kirzner¹⁴ is arguing with Casson¹⁵. He considers that entrepreneurial opportunities exist because the members of a society have different beliefs according to the value of the resources due to lucky hunch, superior intuition or exclusive information.

A very important question is how and who can discover an entrepreneurial opportunity?

Hayek¹⁶ suggests that an entrepreneurial opportunity has a chance to be profitable only if an individual will recognize the possibility and give it value.

Kirzner¹⁷ suggests that at any time only small group of the population can identify an entrepreneurial opportunity. For him there are two major factors that help them to identify it:

- Having the right information,
- Having the cognitive properties that are necessary to value it.

¹⁴Kirzner, I., (1997), Entrepreneurial discovery and the competitive market process: an Austrian approach, *Journal of Economic Literature*, Vol. xxxv, pp.60-85.

¹⁵ Casson, M., (1982), *The Entrepreneur*, Barnes and Noble Books, Totowa, NJ.

¹⁶ Hayek, F., (1945), *The use of knowledge in society*, Am. Econ. Rev.

¹⁷Kirzner, I., (1997), Entrepreneurial discovery and the competitive market process: an Austrian approach, *Journal of Economic Literature*, Vol. xxxv, pp.60-85.

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9. Hayek, F., (1945), "The use of knowledge in society", *Am. Econ. Rev.*

2.3. THE ENTREPRENEUR IDEA

According to Shane and Venkataraman (2000)¹⁸ the entrepreneur ideas are defined, as cases in which the new goods, the services, raw material and the methods of organization can be imported and sold in bigger price than that their cost of production. So by definition the enterprising ideas should be profitable. But what about the internet companies that has made their founders millionaires and in many cases they are not generating profits? These enterprises are not entrepreneurs according to the researchers. On the contrary Timmons¹⁹ considers an entrepreneur idea when it is attractive, authentic, lasts in time and is supported by a product or a service or gives additional value to the final consumer. But for the upper definition there should be

- a formed market,
- a successful enterprise.

But what about an entrepreneur idea at its early stage? What turns a good idea into entrepreneurship?

From the above we can understand that the definitions of an entrepreneur idea are problematic, because they don't study an entrepreneur idea from its development but only after the establishment of an enterprise based on that idea. This is because the definitions describe characteristics such as (success, profitability, recourse control), which are an established enterprise's characteristics. We should not assess an idea based only on business plan facts.

It is very important to ask ourselves whether a business failure could be an entrepreneurship idea that failed due to the entrepreneur's misjudgment. Those, according to Shane and Venkataraman are not entrepreneur ideas because they don't generate profit. But what if the same ideas were brainchild's from another

¹⁸ Shane, S. & Venkataraman, S. (2000), The promise of entrepreneurship as a field of research. *Academy of Management Review*, vol. 7.

¹⁹ Timmons, J., (1979), Careful self-analysis and team assessment an aid entrepreneurs, *Harvard Business Review*.

entrepreneur and ended up successful? Then they would be entrepreneur ideas because they would generate profit! So there are gaps to the definitions of Shane and Venkataraman!

The successive phases that an entrepreneur idea undergoes until it reaches its goal are²⁰:

- Having an business idea
 - Effect from familial and friendly environment
 - Inspiration and creativity
 - Education and former experience
- Finding the business opportunity
 - Effect from consuming tendencies
 - Take risks and confront the enterprising failure
- Prepare the product to enter into the market
 - Research of the market
 - Control of technical feasibility
 - Finding collaborators
- Products entrance into the market
 - Choose the right time and way to launch the product into the market
- Growth of the enterprise
 - Develop transfer (logistics) and customer support systems
 - Make the product reliable

To come up with a good and successful idea, is a combination of creativity and choosing effective enterprising methods. Never the less, the procedure of developing an idea should follow a well organized path that will ensure the long life of the new product/ service. The factors that influence an enterprise idea are:

- Former experience
- Proposals, recommendations and suggestions from family and friendly environment

²⁰ Gartner, WB., (1990), What are we talking about when we talk about entrepreneurship? *Journal of Business Venturing*, 5(1), 15–28.

- Information from the market and other business enterprises.
- Entrepreneur's personality (tendency to create, taking risks...).
- Instinct

ПАМ'ЯТКА ПЕРША

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2.4. SOCIAL ENTREPRENEURSHIP

The social entrepreneurship includes the identification, judgment and exploitation of the opportunities that lead to social benefit (Austin, Stevenson, Wei – Skillern²¹).

These researchers divide social entrepreneurship in two types:

- Commercial Enterprise: That includes the identification, evaluation and the exploitation of the opportunities in order to make profit.
- Social Enterprise: That refers to evaluation, determination, and exploitation of opportunities that lead in social value.

From the above, as Peredo and McLean²² and Shaw and Carter²³ claim, social entrepreneurs have a sharp understanding of the social needs and they cover them by establishing an organization.

Austin²⁴ claims that there are three ways to distinguish social from commercial entrepreneurship:

- The commercial and social enterprises have different mission statements.
- Have differences on record measurement (commercial – on standard economic terms, social – less standardized records but more specific).
- They differ on the mobilization of the resources.

²¹ Austin, J., Stevenson, H., Wei-Skillern, J., (2006), Social and Commercial Entrepreneurship: Same, Different or Both? *Entrepreneurship Theory and Practice*, Volume 30, Issue 1, pp. 1-22.

²² Peredo, A., and Mclean, M., (2006), Social entrepreneurship: A critical review of the concept, *Journal of World Business*, Vol. 41, Issue 1, pp.56-65.

²³ Shaw, E., Carter, S., (2004), *Social Entrepreneurship: Theoretical antecedents and empirical analysis of entrepreneurial processes and outcomes*, Frontiers of Entrepreneurship Research.

²⁴ Austin, J., Stevenson, H., Wei-Skillern, J., (2006), “Social and Commercial Entrepreneurship: Same, Different or Both? *Entrepreneurship Theory and Practice* “30[1], 1-22.

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3. Shaw, E., Carter, S., (2004), Social Entrepreneurship: Theoretical antecedents and empirical analysis of entrepreneurial processes and outcomes, *Frontiers of Entrepreneurship Research*.

2.5. FINDING AN OPPORTUNITY FOR ENTREPRENEURSHIP

The cause of the entrepreneur idea is not very important, but it is important to see that as an enterprise opportunity that aims to get profit and market share.

The success of that idea depends on many factors that have to do with the economical and social environment. The environment should be ready to embrace that innovative idea. .As always there will be the risk of failure. The possibility of failure should not discourage the entrepreneur but it should make him work harder, letting his former experience help him in the future. This is the only way to reach the top of the market.

Other factors that have to do with the environment, is the level of prosperity in the society that might grow the buying demand. Also, the advance of the technology may lead to the development of many new products and services. Furthermore, the social and demographic changes help to the development of products that has to do with people with special needs or elder people.²⁵

Generally, the aim of an entrepreneur idea is to develop a product that either is not available into the market or is the best among the others in the same market.²⁶ Specifically, the new product should contain new characteristics or be produced by new technology. It should have the lowest prize, the best reliability and be more easy to use. Also, it has to be addressed to those that want it more. Finally, the enterprise should have a transfer system and a customer support system to provide better communication with the customers, even if they are far

From the above, we can say that, in order for the new entrepreneur to get from having the idea, to find a business opportunity, he has to do some preparation which will lead to steady and stable growth in the market.

²⁵ Storey, T.G., (2000), "*Small business: critical perspectives on business and management.*" Vol. 4 Taylor & Francis, Inc.

²⁶Rumelt, R., (2005) ,"*Handbook of Entrepreneurship Research: Theory, Strategy, and Entrepreneurship*" Vol.2, pp. 11-32.

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1. Storey, T.G., (2000), "Small business: critical perspectives on business and management." Vol. 4 *Taylor & Francis, Inc.*
2. Rumelt, R., (2005) ,"Handbook of Entrepreneurship Research: *Theory, Strategy, and Entrepreneurship*" Vol.2, pp. 11-32

2.6. Conclusion

In our opinion there should not be many definitions for entrepreneurship. If there are many definitions, and in some circumstances very different from each other, there will be a misunderstanding. Definitions are made so that everybody will understand the same thing about a term. So we think that there should be one and clear definition about what is entrepreneurship. Our definition for entrepreneurship is narrow and very specific. “Entrepreneurship is the development of an achievable idea, into an innovative product or service, by an individual or a group of people, who will establish an enterprise that aims to make profit by creating a competitive advantage”.

The biggest problem with the existing definitions is that there is no way to describe whether an idea is entrepreneur before it becomes an enterprise (and a successful one). In our opinion entrepreneur idea is an innovative idea that seeks profit. It might seem a crazy idea to some people but no one could be sure whether it can be successful in time (everything changes in economies in time) or by a different individuals (not all minds are the same). (Ex FedEx)

There is an argument whether there can be a social entrepreneurship. We actually question the fact that there can be a social entrepreneurship. According to our definition of entrepreneurship, and of those of other researches (Shane and Venkataraman, Stevenson, Carland ..) there is the fact of seeking profit (revenue – cost) and there is no such thing as social profit in the literature. Even in cases in the literature about social entrepreneurship, always someone makes profit (he is the entrepreneur) and some nonprofit organization buys the idea or the product or the service from him for social purposes.

3. RED OCEAN STRATEGIES: WHAT IS STRATEGIC MANAGEMENT AND WHAT ARE IT'S BENEFITS TO AN ORGANIZATION?

The term '*strategic*' comes from the Greek word '*stratigeia*' and means leading an army. It refers to the designing and staffing capability of an army leader to coordinate and do the necessary actions for reaching the final goal. This word connotes the art and science of directing military forces. The Webster's Third New International Dictionary defines strategic as of "*great or vital importance within an organizational whole*"²⁷. This suggests that strategic matters may extend far down into an organization, although they are probably concentrated at the top senior management level. The ancient Greeks knew that the optimal strategy to win a war is more important than just winning a battle. Successful generals should know when they have to avoid a battle in order to win a war. They should ensure that the army has the resources needed at any time, that the state is always protected from any intruders, that there is good relationship among the army, and between the army and the political leaders or the people. So the success or the failure of an enterprise can be compared with a war that no one knows the winner. During the growth of an enterprise there can be some mistakes (lost battles) but if there is a proper strategic management the chances to win the war (successful enterprise) are many.²⁸

Researchers have revealed that organizations that use strategic management generally outperform those who do not. When an organization succeeds on matching its environment with strategy, structure and processes, has many positive effects on its general performance. Surveys have shown that the top three benefits of an organization from proper strategic management are:

- Cleaner sense of strategic vision of the firm
- Sharper focus on what is strategically important

²⁷ Webster's third new international dictionary of the English language, (1995).

²⁸ Kenyon A., Mathur SS., (1993), The 'designed' versus 'emergent' dispute", "*European Management Journal: The meaning of 'strategy'*: Vol. 11, Issue 3, Pages 357-360.

- Improved understanding of rapidly changing environment²⁹

Strategic management is not necessarily something complex that very few top corporate should use. Actually is the answer to the following questions that all companies should answer at a time.

- Where is the organization now? (Not where we hope it is)
- If no changes are made, where will the organization be in 1, 2, 5 years? Are the answers acceptable?
- If the answers are not acceptable, what specific actions should management undertake? What are the risks and playoffs involved?³⁰



The Arrow Diagram for Improving Competitive Performance

Figure 1: The arrow diagram for improving competitive performance

Source: Program, Professor's N. Georgopoulos notes on Strategic Quality Management), University of Piraeus, Business department, MBA- TQM

So now we should give a definition on strategic management:

A strategy is a unified, comprehensive, and integrated plan that relates the strategic

²⁹ Wilson I.,(1994), "Strategic planning isn't dead- It changed, *Long range planning*" Vol. 27, Issue 4, Pages 12-24.

³⁰ Thomas L., Wheelen & J.David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition.

advantages of the firm to the challenges of the environment, and one that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.³¹

The strategic management was developed in order to find a way to deal with the uncertain environments of the companies. It refers to the company as a whole and tries to explain why some companies are growing while others are being stable or dying. It focuses on analyzing the problems and the opportunities that the higher management meets. The strategic decisions have to do with the long term planning of an enterprise, are rare and demand good judgment and intuition.

Before we can go on with the corporate strategic management, it's important to determine the meaning of strategy at the enterprise world. The corporate strategy gives long term directions and goals of an enterprise, in order to cover the businessman's needs and expectations (profit, growth) but the same of the consumers (quality, prize). To be able to meet these expectations, there should be an optimal and effective use of the corporate resources (funds, human resource, know how, equipment), with constant control of the correct course in the framework of strategy that were selected. It is very important that these are consistent, in time and valid information for the facts that might influence the corporation and have to do with its external environment (economical, legal, political...).^{32, 33}

A strategy is a way to get to formulate the correct objective. An outcome of a serious analysis, and can change as the environment changes. Actually, strategy is the connection between the corporation (strengths and weaknesses) and the actual or future environment (opportunities and threats).³⁴

³¹ Glueck, WF., Jauch LR., (1984), "*Business Policy and Strategic Management*", 4th ed., McGraw-Hill, New York.

³² Callahan C.V., and Pasternack B.A., (1999), "Corporate strategy in the digital age," *Strategy and business*. vol. 14, 1999.

³³ Teece, DJ., Pisano G., A. Shuen (1997), "Dynamic capabilities and strategic management: *Strategic management journal*", Vol. 18:7, pp.509-533

³⁴ Porter, M.E., (1998), "*Competitive Advantage: Creating and Sustaining Superior Performance*", 2nd ed, Free Press, New York.

Now we have to clarify the difference between a Strategy and the Strategic Management. A Strategy is a comprehensive plan to achieve the organizational aims. Strategic Management is a comprehensive and continuous management procedure that aims in the configuration and concretization of effective strategies. A way for approaching enterprising opportunities and challenges.³⁵

³⁵ Gluek, (1989), *“Business Policy and Strategic Management”*, 5th ed. (New York: McGraw Hill Book Company).

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1. Webster's third new international dictionary of the English language, (1995).
2. Kenyon A., Mathur SS., (1993),The 'designed' versus 'emergent' dispute", *European Management Journal: The meaning of 'strategy'*: Vol. 11, Issue 3, Pages 357-360.
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3.1. THE ELEMENTS OF STRATEGIC MANAGEMENT

Strategic Management consists of four basic elements / parts.

- Environmental scanning
- Strategy formulation
- Strategy implementation
- Evaluation and control

The elements are not columned randomly. The elements are closely connected with each other, and every part is crucial for the successful strategy management, and so for the organizations future.

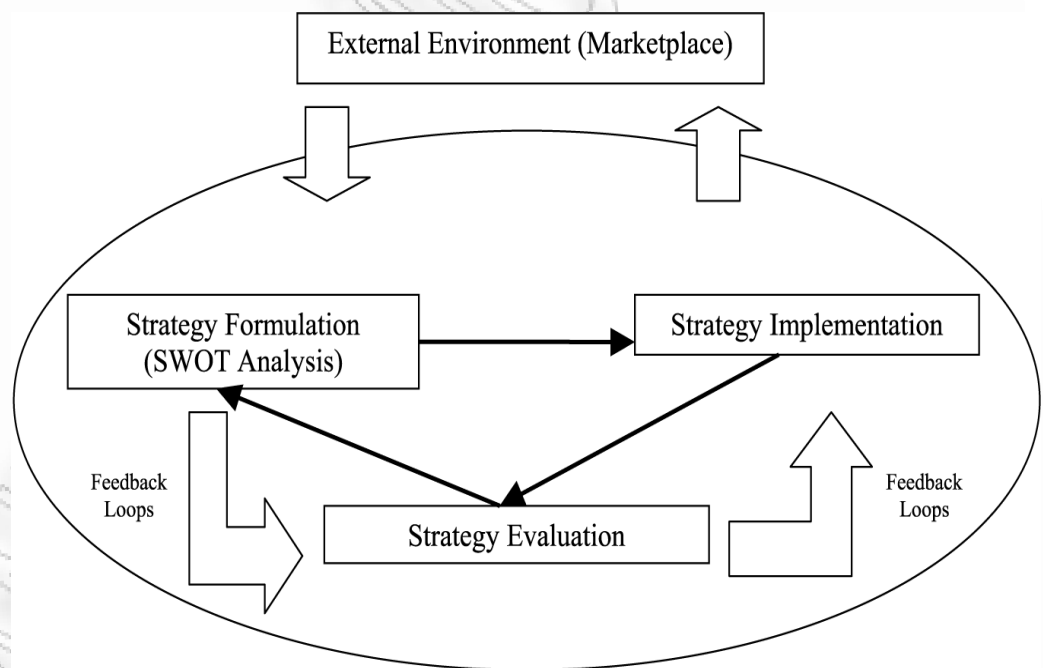


Figure 2: The elements of competitive strategies

Source: www.cba.neu.edu/~mzack/articles/kstrat.jpg

3.2. ENVIRONMENTAL SCANNING

In this part managers should monitor, evaluate and disseminate information from both the external and internal environment of the organization. They should identify strategic factors (external or internal) that will step on to drive the organization to success. The most useful tool for that scanning is the **SWOT analysis** (Strengths, Weaknesses, Opportunities, Threats).³⁶

The first two letters (SW) are referring to the internal environment of the organization. The company should identify its structural and functional **strengths** and **weaknesses** compared to its competitors. These can be structural (hierarchy, communication, productivity), cultural (beliefs, expectations, values, corporate culture) or resources (hr, managing abilities, funds, buildings and know how). These elements can be controlled by the management in short term. These could be initial capital, the degree of her technological growth, experience, machinery, market relations, human factor quality. It should try to eliminate its weaknesses and use its strengths to create a **competitive advantage** and get a larger market share. The company has to promote these strengths (**core competencies**) that will allow it to acquire a sustainable distinctive competitive advantage. To be able to have a sustainable competitive advantage, your core competency should be durable (protect it from becoming depreciated or obsolete ex. New technology threat) and protected against imitation (duplication by competitors ex initial right patents). The core competency should not be transparent, transferable and replicable.

The second two letters (OT) are referring to the external environment of the company. The company should be able to identify any **opportunities** or **threats** from its external environment and try to avoid threats and follow the opportunities. These two elements can not be controlled by the corporation management but only in very few situations. Opportunities can be new markets, low cost or high quality human resources available, investing laws, tax laws... Threats can be a lack of potent human

36 Hambrick DC., (2006), "Environmental scanning and organizational strategy: *Strategic Management Journal*," Volume 3 Issue 2, Pages 159 – 174.

resources, laws that limit the corporation's growth, possible changes of the tax law...³⁷

The external corporate environment is divided in two main parts. The **societal**, and the **task** environment.

The societal environment describes the forces that do not immediately affect the corporation but they do on the long term. These forces can be analyzed by the PEST analysis (Political, Economical, Socio-cultural, Technological). **Political - legal forces** affect the corporation actions by laws and regulations (Antitrust regulations, Environmental protecting laws etc). **Economic forces** can be exchange of material, money, energy and information issues (Interest rates, money supply etc). **Socio-cultural forces** describe social values, customs and ethics. (Lifestyle changes, consumer activism etc) **Technological forces** than generate problem solving inventions. (Patent protection, new products etc)³⁸



Figure 3: The corporate environment

Source: www.marketingteacher.com

³⁷ Houben G, Lenie, K Vanhoof K., (1999), "A knowledge-based SWOT-analysis system as an instrument for strategic planning in small and medium sized enterprises: *Decision Support Systems*," Volume 26 , Issue 2 (August 1999) Pages: 125 – 135.

³⁸ S Sharma, H Vredenburg (1998) "Proactive corporate environmental strategy and the development of competitively valuable organizational capabilities: *Strategic Management Journal*," Vol. 65 pp.15 - 28

The **task** environment describes the elements or forces that are directly affecting the corporation and are affected by it. It can simply be described as the industry in which the corporation operates. Its elements are governments, local communities, suppliers, competitors, customers, creditors, employees and their unions, special interest groups and trade associations. A task or industry analysis can be done by using Porter's five forces framework.³⁹

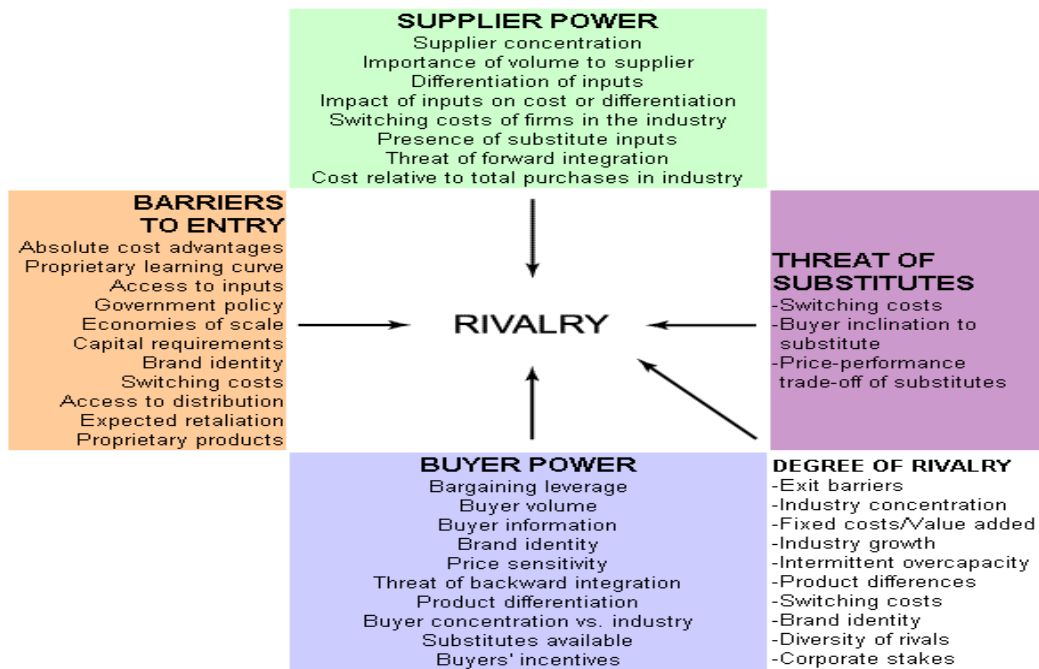


Figure 4: Porter's five forces framework

Source: www.clickok.co.uk

Porter's (1980)⁴⁰ framework includes five forces that can threaten a company. These forces are: new entrants, buyers, substitutes, suppliers, market competitors. So this framework can give vital information to the company by giving an answer to the following questions:

³⁹ Thomas L. Wheelen & J. David Hunger (2006), "Strategic Management and business Policy". Tenth edition

⁴⁰ Porter ME., (1980), "Competitive strategy" New York: The Free Press

- **Suppliers bargaining power:** Are the suppliers united (powerful)? Is there any substitute source of supplying? Are the supplier goods differentiated? Is the supplier change costly? Are the supplier's customers important to him?
- **Threat by new entrants:** Are there any entry barriers (economies of scale) not allowing new companies to enter into the market? Do you need high initial funds to enter? Can you access any distribution channels? Are there any governmental laws preventing new companies to enter?
- **Customer bargaining power:** Are the customers united (powerful)? Is the product important to them or not? Is their cost of moving high? Do they have low profits? Is there sufficient information?
- **Treat by substitutes:** Can they completely substitute your product? Can they keep your profits low?
- **Competition in the market:** Is there a large number of competitors? Is the markets growing rate low? Are there any high exit barriers? Is there a large functional cost?

Actually we believe that there is a sixth force that the company should check and that is **the relative power of other stakeholders**. This group includes stakeholder groups from the corporate task environment that are not mentioned by other forces and can be governments, local communities, creditors, trade associations, special interest groups, unions, shareholders etc.

In order for a corporation to find where it belongs inside the competition, it is very important that the management forms strategic groups. Strategic groups are all the corporations in the industry that focus on similar strategies with similar resources. It gives a massive help to the management to understand the competitive environment. By making strategic groups and mapping them in four categories, the strategic manager can monitor the

effectiveness of certain strategic orientation and develop scenarios of future industry developments.⁴¹

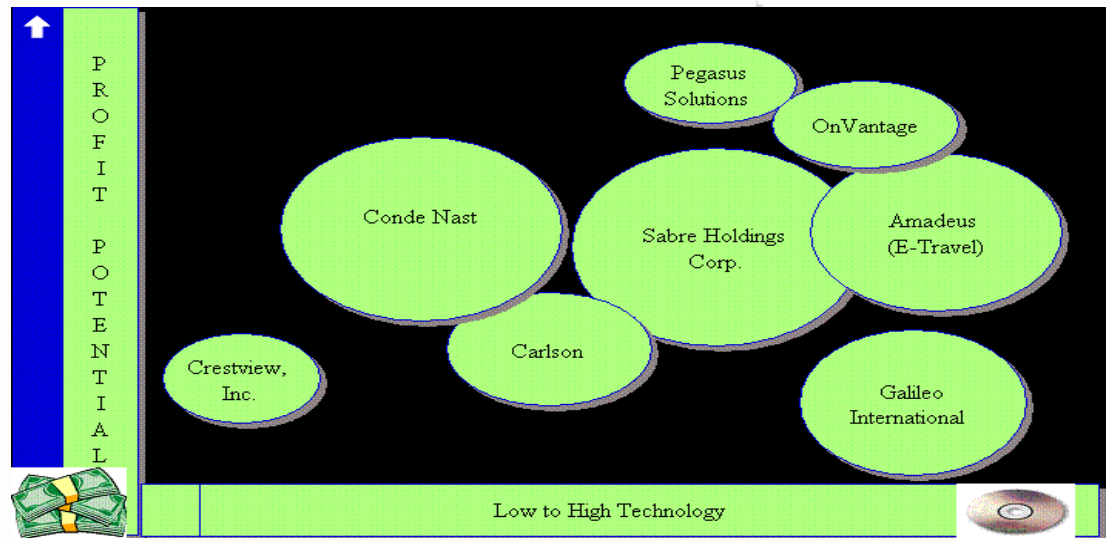


Figure 5: Example of strategic group mapping
Source: www.bus.ucf.edu/agresock/strategicgroup-files.gif

Mapping strategic groups:

1. Choose two strategic variables that differentiate the corporations in an industry and form the diagram.
2. Impress graphically these two characteristics for each enterprise of the industry
3. Circle the corporations that are very close. The circle size shows the share of this strategic group in the industry.

After mapping the strategic groups it is easy for the management to put the competitors in these groups and monitor them.

- **Defenders** (companies that due to their limited product lines, focus on improving the efficiency of their existing operations.)
- **Prospectors** (high level companies with broad product lines that focus on innovation and market opportunities)

⁴¹ Hatten K.J. & Hatten M.L, (1987), "Strategic Groups, Asymmetrical Mobility Barriers and Contestability," *Strategic Management Journal* (July – August).

- **Analyzers** (corporations operating in at least two different market areas, one stable – efficiency emphasized- and one variable – innovation emphasized-)
- **Reactors** (corporations that lack a stable strategy – structure – culture relationship).⁴²

⁴² Miles, R.E., Snow, C.C., Meyer, A.D., Coleman, H.J., (1978), “Organizational strategy, structure, and process, Academy of Management, *The Academy of Management Review*” 3(3), pp. 546-562.

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3.3. STRATEGY FORMULATION

In this part the company management has already spotted its strengths and weaknesses, and the market opportunities and threats and now is time to decide which strategy should choose to follow according to its earlier findings. **Strategy formulation** is a long range planning for managing the external environment opportunities and threats, counting on its own strengths and weaknesses. It includes all the necessary processes for creating or deciding the organizations strategies. In order to do that the management should clearly define the corporate **mission, vision, objectives, strategies and policies.**⁴³

The **vision** statement answers the question on what the company wants to become. Ex. (low emissive surface bag company) *Our main vision is to produce high quality low emissive surface bags that meet any costumers' expectation in low prizes that makes it affordable by everyone, and through that we are hoping that we will reach the success lever that the name of our company should describe any product that covers the same need, and our product will eventually be a product of great need by every individual.*⁴⁴ The **mission** statement describes the reason or purpose of the company's existence.⁴⁵ It states the company's actions and purpose. It answers the question on who are we and what are we doing. It may contain the company's values and business philosophy and also the company's vision. One mission statement could be broad or narrow. A broad mission statement usually keeps the company from restricting itself to one field or product, but it can be very general. (Ex. Serve the best interests of shareholders, customers and employees). A narrow mission statement is more specific and clear on what does the company actually do, but it limits the company's activities scope. The advantages of having a clear mission statement are several, but some of them are: allows all the managers to have a common and clear vision on the company's long term direction and philosophy, gives information on

⁴³ Henry Mintzberg, (1994), *"The rise and fall of strategic planning"* (Prentice Hall, Englewood Cliffs, NJ, USA)

⁴⁴ Authors project for LIU *"Academic Views for Entrepreneurship"* (2009)

⁴⁵ Thomas L. Wheelen & J.David Hunger (2006), *"Strategic Management and business Policy"*. Tenth edition

identifying and verifying market and product **implicit**. The explicit strategy is the official declared strategy of a company. The implicit strategy is the strategy of an company that is not officially admitted by the management but is known orally inside the management groups. A way to identify an implicit strategy is to compare the explicit strategy with the company's actions.⁴⁶

Also, **Objectives** are the end results of the planned activities, **Strategy** is a comprehensive master plan that states how the corporation will achieve its mission and objectives and **Policies** are broad guidelines for decision making that links the formulation of a strategy with its implementation.⁴⁷

There are three types of strategy in an organization. The **functional strategy**, the **business strategy** and the **corporate strategy** (only big organizations have that strategy).



Figure 6: Levels of competitive strategies

Source: www.1000ventures.com/.../business_strategy.html

⁴⁶ Fombrun C. and Van Riel, C., (1997) ,“The reputational landscape”, *Corporate reputation review* , Vol. 1 No.1/2, pp.5-13.

⁴⁷ Thomas L., Wheelen & J.David Hunger, (2006), “*Strategic Management and business Policy*”. Tenth edition

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3. Thomas L. Wheelen & J.David Hunger (2006), "*Strategic Management and business Policy*". Tenth edition
4. Fombrun C. and Van Riel, C., (1997) ,"*The reputational landscape*", *Corporate reputation review* , Vol. 1 No.1/2, pp.5-13.

3.3.1. BUSINESS STRATEGIES

The **business strategy** focuses on how the company competes with the others in a specific market or market segment. Its main focus is on how the company will improve its competitive position (market share) in the market and how to create a sustainable competitive advantage. The business strategy aims on two things, to increase the profit for the products or services that the company produces and to combine the means to fulfill its objectives. This strategy can be either competitive, fighting with competitors for market share, or cooperative, trying to beat your competitors by grouping alliances. The business strategy should give answers to the following questions: How are we competing in this market today? How will we compete in this market in the future?⁴⁸

Porter (1980) introduces the three types of business strategies as the **cost leadership strategy**, the **differentiation strategy** and the **cost or differentiation focus strategy**.⁴⁹

	STRENGTHS - S List strengths	WEAKNESSES - W List weaknesses
OPPORTUNITIES - O List opportunities	SO STRATEGIES Use strengths to take advantage of opportunities	WO STRATEGIES Overcome weaknesses by taking advantage of opportunities
THREATS - T List threats	ST STRATEGIES Use strengths to avoid threats	WT STRATEGIES Minimize weaknesses and avoid threats

⁴⁸ Thomas L. Wheelen & J.David Hunger, (2006), “*Strategic Management and business Policy*”, Tenth edition

⁴⁹ ME Porter (1980), “*Competitive strategy*” New York: The Free Press

Figure 7: TOWS Matrix

Source: www.msit.mut.ac.th/newweb/phpfile/showwebboard.php

In a **cost leadership strategy**, the company aims on being the lower cost product or service supplier in the industry. There can be only one low cost leader company in a specific market. For a company to succeed on that it has to address in a mass market, provide a needed product or service by the customers. It should have high initial investments being able to create economies of scale in the production. Its main cause should be to reduce cost in any means such as cost reduction on R&D, service, sales force, advertising (it will be its low price), so its products will be offered in the lowest price in the industry. And finally the produced product or service should be considered to have equal quality with those of the competitors. Automatically when being a low cost leader in the market, you get defenses against your rivals and the other Porter's threats. Low cost leaders can still earn profits during heavy competition, have high bargaining power towards their suppliers because of their high market share and the large quantity buys from them and they create entry barriers for newcomers because of their economy of scale production.⁵⁰

In a **Differentiation strategy**, the company aims to develop a product or service that creates its consumer perception of being unique. Customers should believe that this product or service is different / superior from its competitive products in the industry/ market, and if succeed in that the company differentiates from the competition. It should be addressed in a broad mass market, and the customers should be able and willing to pay a price higher than its differentiating costs.

The product specialty can be associated with design, brand image, technology, features, dealer's network or customer service. It is not necessary that the product should be unique or better than the others. The customer perception of being superior is enough. So in many situations a clever advertising campaign can be a tool for acquiring this competitive advantage. Actually, Total Quality Management is a way to succeed in creating a differentiation strategy.⁵¹

⁵⁰ Porter ME., (1980), "*Competitive strategy*" New York: The Free Press

⁵¹ Porter ME., (1980), "*Competitive strategy*" New York: The Free Press

In that strategy the company should invest in R&D, customer service and marketing, but if succeed, the company can usually pass the high costs to the buyers. This strategy generates above average returns because it creates loyal customers, and through that high entry barriers in the industry. Compared to low cost leadership, this strategy can generate higher profits because it creates better entry barriers, but it usually generates lower market shares.

The **focusing** (cost or differentiation) **strategy**, aims for a cost or differentiation advantage in a particular buyer group, product line segment or geographic market, and not in the entire industry / market. These strategies do not attempt to address in an entire market but only on its segment. In most of the times these strategies are chosen by small companies that can not compete with the other in their terms and sizes. Some times these companies are cooperating with their competitors by supplying them or with outsourcing. The success on these strategies has to do with the size of the market segment that the company addresses, and from the company's capability to overcome the focus costs. In cost focus strategy the company should match the quality of its well known competitors, but keeps cost low the marketing expenses. In differentiation focus strategy, the company tries to serve the specific market segment customer needs better that its competitors (ex. Local ethnic grocery stores).⁵²

⁵² Porter ME., (1980), "*Competitive strategy*" New York: The Free Press



Figure 8: Porter's Generic Strategies

Source: www.marketingteacher.com/lessons/lessongenericstrategies.htm

No one can ensure the company that the successful implementation of a specific Porter's strategy will guarantee company's success. All of the three existing strategies can fail because there are a lot of strategic **risks**. A company's cost leadership strategy can fail because its competitors achieved on having lower costs (imitation), the technology changes without quick response from the company, other bases of cost leadership erodes, the proximity in differentiation may be lost or cost focusers may achieve lower cost in their segments.

A company's differentiation strategy may fail because it loses its differentiation by competitor's imitation, the differentiation provided may become less important for the buyers, the cost proximity may be lost or the differentiation focusers may achieve greater differentiation in their segments. Focus strategies may fail because the competitors may imitate the focus strategy in the same segment, the company's target segment may become unattractive because of structure erodes or lack of demand or when the broadly targeted competitors overwhelms the segment because of the segment may get closer to other segments (lost uniqueness) or the advantages of broad line increases, and finally it might be new focusers that sub-segment the industry.

Porter⁵³ suggests that a company should only focus in one strategy and not try to combine them. He claims that a company that follows more than one competitive strategy is facing the danger to be **stacked in the middle** of the competitive marketplace, without having a competitive advantage, and be doomed to underachieve or even worst eventually die. Actually, there are cases of companies that followed both low cost and high differentiation strategies and become and continue to be very successful. Some of these (few) companies are Honda and Toyota, and succeeded on doing that by implementing in their entire company structure the principles of Total Quality Management. The industry structure is a very important fact that that companies should check before choosing their competitive strategy. In fragmented industries (competition between small or medium companies) focus strategies will be effective. When the markets get consolidated (dominated by few large companies) the companies try to get low cost or differentiation advantages.

A crucial management decision for the company's future success is not only which competitive strategy to use but the way to use it. There are two **tactic** elements that the management should focus on, tactics that have to do with when to compete (**time tactics**) and where to compete (**market location tactics**).⁵⁴

According to time tactics the company should decide whether it should be a **first mover**⁵⁵ in the industry gaining advantages like company reputation, easy to acquire cost leadership position, high profit rates, or **late mover** with advantages like easy technological imitation (low R&D), low market risks and segmentation advantages.⁵⁶

According to market location tactics, the company should decide where to compete. There are two types of market location tactics the **offensive** and the

⁵³ Porter ME., (1980), "*Competitive strategy*" New York: The Free Press

⁵⁴ Thomas L. Wheelen & J.David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

⁵⁵ Lee, H Smith, K. G., Grimm C.M and A.Schomburg, (2000), "Timing, Order and Durability of a new product advantages with imitation:", *Strategic Management Journal* , Vol. 21-1, 2000, pp. 23-30.

⁵⁶ Cho D. S., Kim D.J. and Rhee, D.K. (2004), "Latecomer Strategies: Evidence from the semiconductor industry in Japan and Korea," *Organization Science* 9, 4: 489-505.

defensive tactics. A company usually uses offensive tactics when it wants to attack an established competitor's market location. On the contrary a company uses defensive tactics when it wants to defend its current market position by competitors. Some offensive tactics are: frontal **assault** (head to head battle), **bypass attack** (attack on weak side), **encirclement** (change the market and kill the competitor) and **guerrilla warfare** (hit and run). On the other hand some defensive tactics are: **Raise structural barriers** (prevent possible future attacks by competitors), **increase expected retaliation**, **lower the inducement for attack** (the future challenger will not make much profits).⁵⁷

As mentioned before an enterprise can compete alone or with allies. So there are some competitive strategies that a company could choose when it decides to form partnerships with other companies. These strategies are called **cooperative strategies**. A company can choose between a number of possible cooperative strategies according to its goals, expectations, means and market situation.

Collusion: is the cooperation between companies in the same industry / market that aims to reduce output and for that raise the prices of the products (supply and demand law). There are two kinds of collusion, the explicit where companies communicate directly with an open negotiation channel, or tacit where companies communicate indirectly through signals that they can understand. Any collusion strategy adulterates the free competition and gives a strong advantage to the suppliers towards the buyers. For that any type of collusion is forbidden by law in most of the countries and trade associations such as EU.⁵⁸

Strategic Alliances: are partnerships between companies that are aiming to achieve mutual beneficial goals or objectives. In modern economies strategic alliances are very popular and in fact the most successful companies around the world are alliances or came from alliances. The alliance can be for a short time (until the objectives are achieved) or longer. In the most of the time alliances increase company profitability, because the companies take advantage of the others strengths and

⁵⁷ Porter ME., (1980), "*Competitive strategy*" New York: The Free Press

⁵⁸ Thomas L. ,Wheelen & J.David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

minimizes its weaknesses or vice versa. Some reasons why a company may form strategic alliance are: to obtain technology or manufacturing capabilities or just for experience (benchmarking), to access in specific markets, to reduce financial or political risks (especially in tough economic periods).⁵⁹

Mutual Service Consortia: is a partnership between companies that produce similar products in the same market and are willing to gain benefits that are impossible to gain by themselves (ex. Access advanced technology). This kind of alliance is weak because it lacks communication between the allies, because they are unwilling to share their core competencies with each other.⁶⁰

Joint venture: is an entity formed between two or more companies to undertake economic activity together. The parties agree to create a new entity by mutually contributing and they then share the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship such as the Fuji Xerox joint venture. This is in contrast to a strategic alliance, which involves no equity stake by the participants, and is a much less rigid arrangement. The phrase generally refers to the purpose of the entity and not to a type of entity. Therefore, a joint venture may be a corporation, limited liability company, partnership or other legal structure, depending on a number of considerations such as tax and tort liability. Joint ventures are the most popular forms of alliance. Some of this cooperative strategy's disadvantages are: loss of control, lower profits, probability of partner conflicts.⁶¹

Licensing Arrangement: is an agreement in which a successful company grants rights to another company in another country or market to produce or sell its product. The other company will have to pay compensation to the licensing company in a return of technical expertise. It is a very useful strategy for companies that want

⁵⁹ Ireland R.D., Hitt M.A and. Vaidyanath D, (2002), "Alliance Management as a Source of,Competitive Advantage" *Journal of Management Vol.28 No3*.

⁶⁰ Thomas L. Wheelen & J.David Hunger (2006), "*Strategic Management and business Policy*". Tenth edition

⁶¹ Lynch, R.P., (1989), "*The practical guide to joint ventures and corporate alliances*" ,John Wiley & Sons.

to extend in new market but they lack the funds or there are laws preventing them. The main danger for the licensing company is that the other company might develop competence and eventually become a competitor of the first one. For that reason a license company should never share its competitive advantage.⁶²

Value chain Partnership: is a strong and long term alliance in which a company forms with its key supplier or distributor that gives mutual advantages. This strategy is very useful when the company can not afford to vertically expand by purchasing the supplier or the distributor company.⁶³

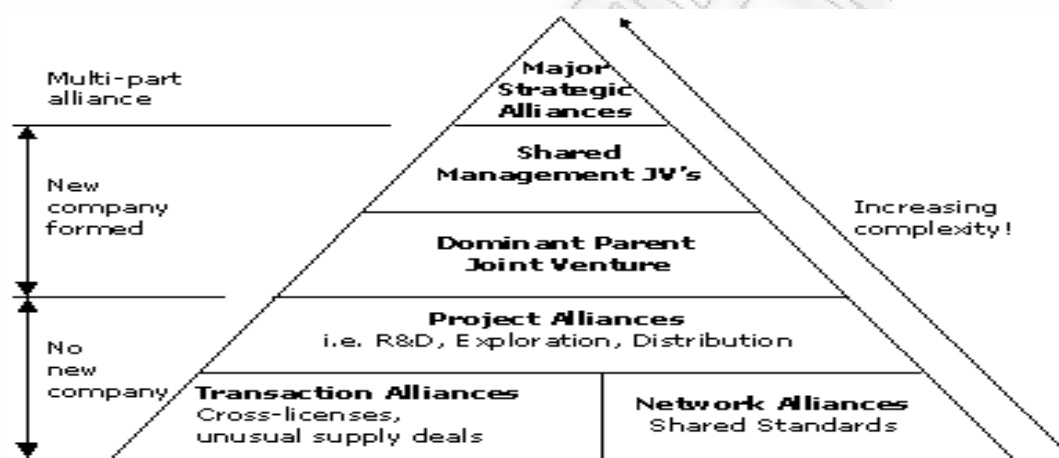
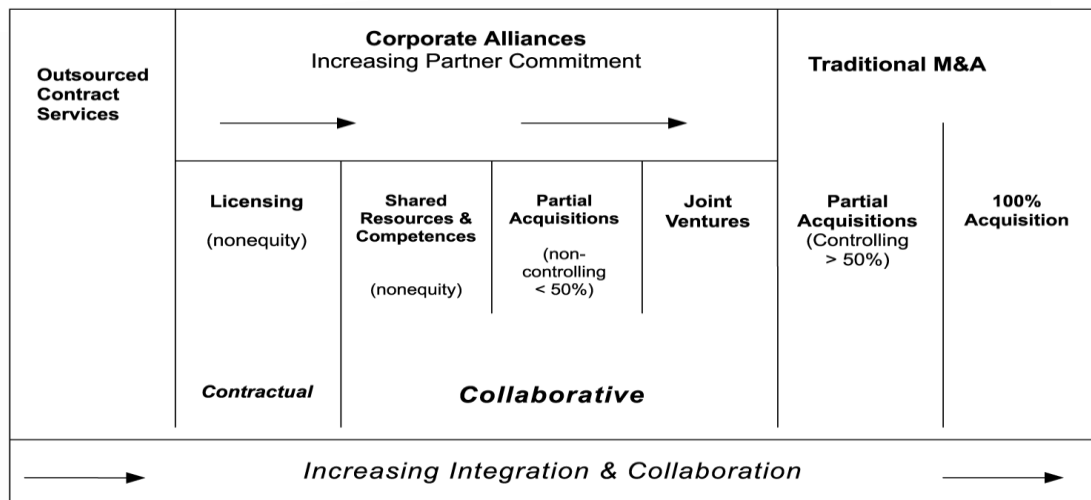


Figure 9: Corporate alliances Pyramid

Source: www.hohler.ch/news/KH_news_31-01-02.htm

⁶² Thomas L., Wheelen & J.David Hunger, (2006), “Strategic Management and business Policy”. Tenth edition

⁶³ Thomas L. Wheelen & J.David Hunger, (2006), “Strategic Management and business Policy”. Tenth edition



Source: Peter Pekár Jr., “The Value of Strategic Alliances,” presentation at the Association for Strategic Planning’s first annual conference, *New Strategies for a Rapidly Changing World*, 2001

Figure 10: Corporate partnership choices

Actually all forms of strategic alliances involves great danger for the companies. In the following table we are proposing some of the most important **strategic alliance success factors**:

- Have a clear strategic purpose. Integrate the alliance with each partner’s strategy. Ensure that mutual value is created for all partners.
- Find fitting partner with compatible goals and complementary capabilities.
- Identify likely partnering risks and deal with them when the alliance is formed.
- Create incentives for cooperation to minimize differences in corporate culture or organization fit.
- Minimize conflicts among the partners by clarifying objectives and avoiding direct competition on the marketplace.
- In an international alliance, ensure that those managing it have comprehensive cross cultural knowledge.
- Exchange human resources to maintain communication and trust. Do not allow individual egos to dominate
- Operate with long term time horizons. The expectation of future gains can minimize short term conflicts.

- Develop multiple joint projects so that any failures are counter balanced by successes.
- Agree on monitoring process. Share information to built trust and keep projects on target. Monitor customer responses and service complaints.
- Be flexible in terms on willingness to renegotiate the relationship in terms of environmental changes and new opportunities.
- Agree on an exit strategy for when the partners' objectives are achieved or the alliance is judged a failure.⁶⁴

⁶⁴ Gomes B.– Casseres, (1998), “Do you really have an alliance strategy?” and “ Strategic alliances for the 21st century” *Strategy and Leadership* (September/ October).

Inkpen A. C. and K-Q Li, (1999), “Joint venture formation: Planning and knowledge gathering for success,” *Organizational dynamics* Vol. 27 No.4, pp.33-47

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3.3.2. CORPORATE STRATEGIES

The **corporate strategy** describes the corporations' growth choices, the management of its activities and production lines, the activities that the corporation choose to focus, the cash and mean flow to the corporations' management divisions, the corporations' connection with other social groups, interests and environment and the possible ways for the corporation to raise its investments' turn over. Not every company is interested on corporate strategies. Only big and successful companies might have a corporate strategy. The corporate strategy should give answers to the following questions: In which markets or market segments are we competing today? In which markets or market segments we want to compete in the future? How can we ensure the company's competitively now and in the future? The three elements of the corporate strategy are: the **directional strategy**, the **portfolio strategy** and the **parenting strategy**.⁶⁵

The **directional strategy** describes the corporations' overall orientation towards growth, stability or retrenchment. It answers crucial questions such us: Should we expand, cut back or stay as we are? Should we stay on our current industry or try to enter on new ones? Should we stay nationally or go globally? In which way can we go globally?

Every company's goal is to maximize its profits. In order to do that the company should grow. Companies that exist in expanding industries or markets should grow to survive. So the most widely pursued corporation's strategy is the **growth strategy**. A corporation can grow either by **concentration** or by **diversification**.

Concentration includes the **vertical** and the **horizontal growth**. These strategies are used when the target is to expand the corporations' size.

A **vertical growth** can be achieved when a corporation takes over its previous suppliers' or distributors' activity. This may be decided in order to reduce cost,

⁶⁵ Rumelt R.P., Schendel D.E, and Teece D.J., (1994), "*Fundamental issues in strategy*" A research agenda (Harvard Business Press)

control a scarce resource or guarantee raw material quality. Vertical growth can be achieved either internally (the company expands its operations forward or backward on its industry's value chain) or externally (through acquisitions). So if a corporation chooses to control the function previously controlled by its supplier is called **backward integration**, and if it chooses to control a function previously controlled by its distributor is called **forward integration**. Vertical growth strategy is useful to corporations that have a strong competitive position in a highly attractive industry and a growing market. Actually the corporation can decide to turn on vertical growth between **full integration** (100% control of supplies and distributors), **taper integration** (produce less than half supplies needed yourself and buy the rest), **quasi integration** (purchase all key supplies from outside suppliers under your partial control), **long term contract** (get supplies from partner suppliers that are providing these supplies only to you by contract).⁶⁶

A **horizontal growth** can be achieved when a corporation decides to expand **in new markets or to increase the range of products that provides its current market**. So the **horizontal integration** describes the degree to which the corporation operates in multiple geographic markets at the same point of industry's value chain.⁶⁷

When a corporation exists in a mature market, the choices of growing are two: To expand internationally (horizontal integration) or to diversify into different industries that are not mature yet. The diversification may be into a related industry where the corporation can gain by using its strengths and its already formed core competencies to the new industry (**related diversification**) or to diversify into an unrelated industry (**unrelated diversification**).

Corporations that have strong competitive positions in their current industry should try the related diversification because their chances of success are higher than their competitors. This is because they can implement their successful experience from their current industry to the related one and dominate there to. On the other hand

⁶⁶ Thomas L., Wheelen & J.David Hunger, (2006), “ *Strategic Management and business Policy*”. Tenth edition

⁶⁷ Thomas L. Wheelen & J.David Hunger, (2006), “ *Strategic Management and business Policy*”. Tenth edition

corporations that lack outstanding abilities and skills should try the unrelated diversification and gain from economic risk reduction by splitting the risk in multiple industries (hedging) and also chase any economic opportunity in both industries but mainly in the new one.

The other choice that a corporation has, when wants to grow but it operates in a mature – unattractive market, is to **expand internationally**. There several ways to do that according to the corporations' or the markets – country's characteristics. These choices for international expansion are: **exporting** (shipping goods produced in the corporations' home country to other countries for marketing), **licensing** (grant rights to another firm in a host country to produce and sell a product), **franchising** (grant rights to another company, potentially in another country, to open a retail store using your name and operating system), **joint ventures** (cooperate with a company in another country), **acquisitions** (purchase another company that operates in an other country), **green field development** (buy a company in another country but build your own manufacturing plant and distribution system), **production sharing** (combine high labor skills and technology from one country with low labor cost and taxes from another one), **turnkey operations** (contracts for the construction of operating facilities for a fee), **BOT concept** (build an operation in another country, work it until you earn some profits and then pass it to the government).⁶⁸

Not all the corporations always seek to grow. In some cases, corporations, are aiming to have a break in growth for a while. For that reason they use the **stability strategies**. By using these strategies the corporation seeks no significant change of its current activities. They use it when they are satisfied with their size and profitability, but should for a short term because there is great danger of being left behind if it is followed for a long time. There are three stability strategies: **Pause or proceed with caution, no change** and **profit** strategy.⁶⁹

⁶⁸ Thomas L., Wheelen & J.David Hunger, (2006), “ *Strategic Management and business Policy*”. Tenth edition

⁶⁹Inkpen A., and Choudhury N., (1995), “The seeking of strategy where it is not: towards a theory of strategy absence,” *Strategic management journal* 16: 313-323.

With **pause or proceed with caution strategy** the corporation just takes a timeout from growth to focus on its next steps or regroup. Some times the external environment does not allow the company to grow further (lack of opportunities, plenty of threats). So in this situation is better for the company to adopt a stability strategy for a while, until it's external environment becomes more friendly for growth.

In a **no change** strategy the corporation decides not to change its current operations and policies for the immediate future. A corporation should turn to no change strategy when it has a modest competitive position in a slow or no growing industry or market, with no opportunities or threats, while not having any significant strengths or weaknesses. The company should make only small adjustments needed to reach its sale or profit objectives.

Finally, there is the **profit strategy**. This strategy is used by corporations in a bad financial situation, when the managements think that this situation is temporary. The management secretly hides the actual company's poor positions from the investors, and 'blames' the external corporate environment. So by doing that they have freedom to take rapid actions to cut expenses (R&D, Marketing, sell production lines). These actions will maximize the company's cash flow and that will allow the company to optimize its poor position.

Things are not always going very well for the corporations. Some times the corporations have to take one (or more) steps back. If or when that time comes the corporation should turn in **retrenchment strategies**. With these strategies the corporation tries to eliminate its weaknesses that generate loses instead of profits. There are several retrenchment strategies for companies to follow: **turn around, captive company, sellout and bankruptcy/ liquidation strategy**.⁷⁰

Turn around strategy should be followed by companies that are underachieving but are not in immediate danger. It's a strategy that emphasizes to improve the companies performance by eliminating its pervasive problems. In this attempt there should be a cost reduction some times by selling company assets. There are two phases in this strategy. First the company should quickly find the bleeding

⁷⁰ Thomas L. Wheelen & J.David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

causes and stop them (according to Peter Flack, *many of the problems that weigh down companies rarely have anything to do with the quality of staff or management, but that they have everything to do with leadership*).⁷¹

This phase is called **Contraction**. At the second phase (**consolidation**), the company develops plans to reduce unnecessary costs and make and sustain a profitable organization in the future. Crucial and tough decisions have to be made in this phase for the company's well being. These decisions include cost reduction and some times firing employees and managers, so there will be conflicts in the company and not everybody will accept the changes. For that Peter Flack insists that *the decisions need to be taken democratically but implemented dictatorially*.⁷²

In cases that a company can not afford a turnaround strategy, because the investors are not willing to help due to the unattractive industry that it operates, the company turns for **captive company strategy**. In that strategy the company gives up its independency to seek security. This can be done by signing a long time contract with one of its larger customers, and in that way it ensures its existence in the industry. By doing that, functions like marketing can be terminated and so reduce costs.

When a weak competitive position company can not implement the two above strategies to optimize its performance, then it has no choice but to sell out. A **selling out strategy** is followed only when there are willing to companies buy in a price that will satisfy the shareholders. When there is not a complete sell out but only for a division of the company, then it is called **divestment**.

For a company, existing in an unattractive industry with no competitive advantages, and no company willing to buy it, there is no other option than **bankruptcy or liquidation strategy**. In bankruptcy the management of the company is taken by the court in exchange of some settlement of the company's obligations to others. After the company's obligation settlement the company gets lighter and more powerful to compete. Another solution is liquidation, which is used when the management does not think that the company could survive even after a bankruptcy,

⁷¹ George B, Bennis W., (2008), "*Authentic leadership: Rediscovering the secrets to creating lasting value*" (J-B Warren Bennis Series)

⁷² George B., Bennis W., (2008), "*Authentic leadership: Rediscovering the secrets to creating lasting value*" (J-B Warren Bennis Series)

and they decide to terminate it. The management converts any company's assets to cash that divides to the shareholders after all obligations are paid.⁷³

The second element of corporate strategies is the **Portfolio Analysis**. In this strategy the corporation management is analyzing elements of a firm's product mix to determine the optimum allocation of its resources. Two most common measures used in a portfolio analysis are market growth rate and relative market share. The product lines and/ or the business units form a portfolio of company's investments should be managed to gain maximum return for the company. The most popular portfolio tools are the **BCG Growth – Share Matrix** and the **GE Business screen**.⁷⁴

		Business Strategies		
		<u>Competitive position</u>		
		Strong	Medium	Weak
Industry Attractiveness	High	Growth Vertically	Growth Horizontally	Retrenchment Turnaround
	Medium	Stability Pause/ Proceed with caution	Growth Horizontally Stability No change	Retrenchment Captive company or Sellout
	Low	Growth Concentric Diversification	Growth Conglomerate Diversification	Retrenchment Bankruptcy or Liquidation

Figure 12: Business strategies

Source: Professor's N. Georgopoulos notes on Strategic Quality Management (2007), University of Piraeus, Business department, MBA- TQM Program,

⁷³ Thomas L. Wheelen & J.David Hunger (2006), "Strategic Management and business Policy". Tenth edition

⁷⁴ Hedley, B., (1977), "Strategy and the business portfolio," *Long range planning February 1977*, Vol. 10, No. 1, pp. 9–15

Below is the BCG (Boston Consulting Group) Growth Share Matrix:

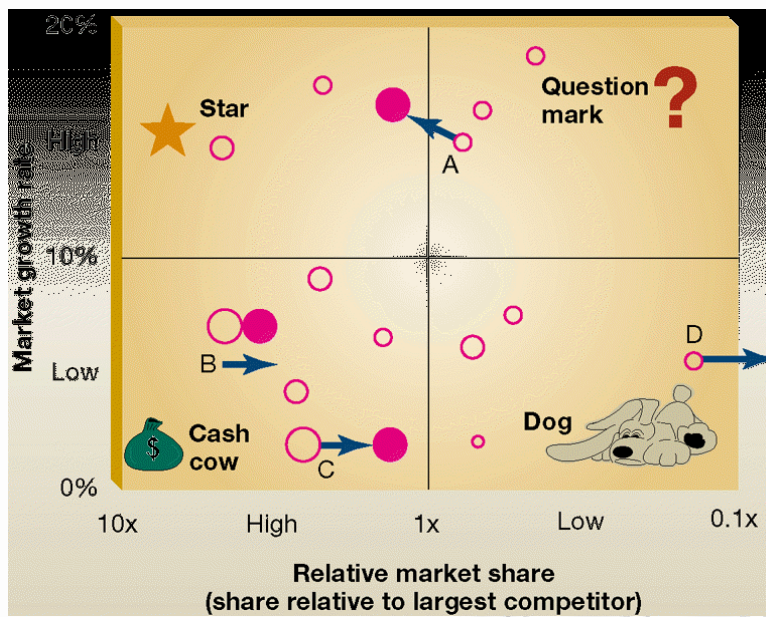


Figure 13: BCG Growth Share Matrix

Source: www.rohan.sdsu.edu/~renglish/370/notes/chapt2/index.html

- **Question Marks:** are new products with the potential for success, but they need a lot of cash for development. If such a product is to gain enough market share to become a market leader and thus a star, money must be taken from more mature products and spent on the question mark.
- **Stars:** are market leaders that are typically on the peak of their product life cycle and are usually able to generate enough cash to maintain their high share of the market. When their market growth rate slows, stars become cash cows.
- **Cash Cows:** typically bring in far more money than is needed to maintain their market share. In this declining stage of their life cycle, these products are 'milked' for cash that will be invested in new question marks.
- **Dogs:** have low market share and do not have the potential (because they are in an unattractive industry) to bring in much cash. Dogs

should either be sold off or managed carefully for the small amount of cash they can generate.⁷⁵

Below there is a **GE (General Electric) Business Screen**:

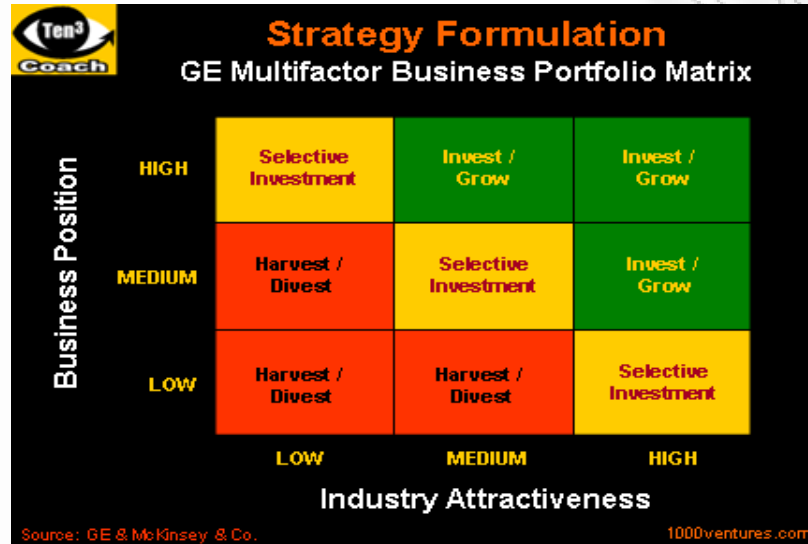


Figure 14: GE Multifactor Business Portfolio Matrix

Source: www.1000ventures.com

The nine cells GE Business Screen is an improvement over BCG Growth Share Matrix. The GE Business Screen considers many more variables and does not lead to such simplistic conclusions. It recognizes, for example, that the attractiveness of an industry can be assessed in many different ways (other than using growth rate), and it thus allows users to select whatever criteria feel are most appropriate to their situation.

The third and last element of the corporate strategy is the **Corporate Parenting**. The corporate parenting covers the parts that portfolio analysis leaves blank. Portfolio analysis does not provide information on which industries the corporation should enter, and how it will attain synergy among its product lines and business units. Also portfolio analysis treats these matters as financial independent investments and not as a hole. One the other hand corporate parenting, views the corporation as a pool of recourses and capabilities that can be combined to create business value and also generate synergies across business

⁷⁵ B. Hedley, (Feb 1977), "Strategy and the business portfolio," *Long range planning February 1977*, Vol. 10, No. 1, pp. 9–15

units. The corporate parenting focuses on its parent corporation core competencies, but also for the value that can be created from the good relationship between parent and businesses. As in every parent – son relationships, in corporate parenting the headquarters have great power on the businesses. The aim of the parent is to create value by fitting its own skills and recourses with the business unit's needs and opportunities. The amount of the created value has strait connection with the level of the upper element matching. There are three steps to create a corporate parenting strategy:⁷⁶

The first step is to **examine each business unit's strategic factors**. Every business unit, when it is created, the first action of its management is to generate its strategic factors. So the parent can create some **centers of excellence** embodied with the some important capabilities of the corporation, which the business units should follow.

The second step is to **examine the business unit's areas for improvement**. These areas for improvements are the parenting opportunities. The parent corporation has the experience to spot these opportunities and the stuff to improve them.

The third step is to **analyze the level of the parent corporation and business unit fitting**. This describes the level of similar characteristics and strategic objectives between the parent corporation and its business units.⁷⁷

⁷⁶ Campbell A., Goold M. and Alexander M. (1995), "Corporate Strategy : The quest of parenting advantage," *Harvard business review* (March April).

⁷⁷ Campbell A., Goold M. and Alexander M., (1995), "Corporate Strategy : The quest of parenting advantage," *Harvard business review* (March April)

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3.3.3. FUNCTIONAL STRATEGIES

The main aim of the **functional strategy** is to maximize the productivity of any company's resources. To do that, functional strategy is trying to organize the company's business units in a way that they will provide the company with competitive advantage. Every business unit in the corporation has its own business strategy, and every department of the business unit its own functional strategy. Through the functional strategy, every part of the company tries to coordinate its actions in order to maximize its efficiency. The functional strategy of a corporation is developing according to its corporate and business strategies. While a business strategy's scope is the business as a whole, a functional strategy's scope is each of the functional units of the business: IT, finance, marketing, engineering, manufacturing, etc. A functional strategy describes how that business function will deliver on its responsibilities within the business strategy. Included are: what must the function be able to do? How will it do that, especially in light of what the other functions of the business are doing? Or of what the same functions in competitive businesses are doing?⁷⁸

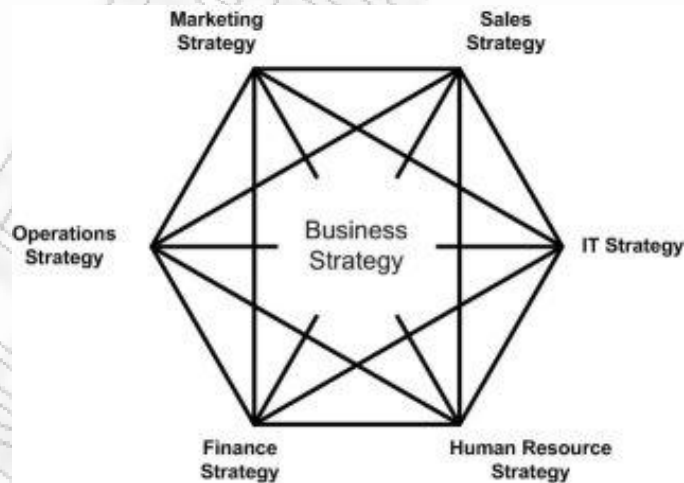


Figure 15 : The functional strategies

Source: www.sbsinternationalltd.com/.../integstat.htm

⁷⁸ Slater, S.F., Olson E.M, (2001), «Marketing's contribution to the implementation of business strategy: A empirical analysis,” *Strategic management journal*, No. 22. 9. (November)

Thomas L. Wheelen & J.David Hunger, (2006), "Strategic Management and business Policy". Tenth edition

According to the size and the type of the corporation, its functional strategy may contain: marketing strategy, financial strategy, R&D strategy, operations' strategy, purchasing strategy, logistics strategy, HRM strategy and information technology strategy.

The **Marketing strategies** have to do with the price, the selling and the distribution of a product. Its main aim is to offer to the company larger market share in an existing market, or develop new markets and dominate in them (Blue ocean strategy). It contains the product **development strategy**, which aims also aims on developing new products for existing or not existing markets. According to advertising and promotion strategies, the companies can choose between **pull strategy**, which pulls the products through the distribution channels (makes customers asking your products from the distributors) or push strategy, which pushes the products through the distribution system (makes the customers buy your products because they are available to them through the distributors). Finally, there are three pricing strategies as said before. The **skimming pricing strategy**, when pricing a new product with a high price to get fast returns, the **penetration pricing strategy**, when pricing a new product with low price to gain market share, and the **dynamic pricing strategy**, mostly used on internet sales, when the prices differ according the demand, the market segment or the product availability.⁷⁹

The **financial strategies**, examine the corporation's financial strategic options available, and aims to identify the best financial course action for the corporation. A corporation can get a competitive advantage from an optional financial strategy, as it could provide low cost of funds. Its purpose is to maximize the corporation's financial value. There are many financial strategies, but the most popular are: the **leveraged payout** (the company is acquired by a transaction financed largely by debt, by a third party), the **reverse stock splits** (2 for 1

⁷⁹ Cavusgil ST., Zou S., (1994), "Marketing strategy–performance relationship: An investigation of the empirical link in export market ventures: *The Journal of Marketing*, Vol. 58, No. 1. pp. 1-21.

Subhash C. Jain (1999), "*Marketing Planning and Strategy*" sixth edition South-Western Educational Publishing

investor stock split) and **the tracking stock** (stocks tied to one portion of the corporation's business).⁸⁰

Research and development strategies, have to do with product or process innovation or improvement, and also on how the corporate technology will be developed. There many choices that the corporation will have to decide. It can either develop technology internally, or with its supplier's and ally's (open innovation) help externally. To be able to choose between the upper options the corporation will have to decide weather it will be a **technological leader**, who has to pioneer an innovation (high profits and market share but also high expenses on R&D) or a technological follower, who will imitate competitor's technology (lower profits and market share but also lower R&D expenses).⁸¹

The **operations strategy**, should give answer on how and where the company's product will be manufactured, describe the production process, the resources needed, the supplier's relationship and the needed level of technology. There are many manufacturing strategies that have to do with the product's life cycle and so its production volume. On low production volume companies focus on **job shop** (one kind of production using skilled labor) and **connected line batch flow strategies** (components are standardized). On high production volume companies tend to use **flexible manufacturing systems** (wide variety of mass produced items) or **dedicated transfer lines strategy** (high automated production lines – one mass produced product). A mass production strategy creates economies of scale in the company and thus, low cost production. But with mass production often quality is low. So for that the TQM was born in Japan. Through

⁸⁰ Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition,

Sandberg C. M., Lewellen, W. G. Stanley K. L (1987), "Financial strategy: Planning and managing the corporate leverage position" *Strategic Management Journal* Vol.8, pp. 15-24.

⁸¹ Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition,

Greene J., Carey J., Arndt, M. Port O., (2003), "Reinventing Corporate R&D," *Business Week* 22: 74-76.

TQM the company can continue the mass production but now delivering more quality products.⁸²

The **purchasing strategy** has to do with the acquiring of the needed raw materials, parts and supplies for the operations function. It is very important for a company's success to have a successful purchasing strategy because it is estimated that company's supplies comprise the 50% of its manufacturing costs⁸³. The most popular purchasing strategy is considered the **multiple sourcing**, where the company orders a particular part that it needs from many suppliers. This strategy, creates competition among the suppliers and thus low purchasing costs for the company, and also provides the company with the safety of supply delivery. This strategy is suitable for companies that are aiming to reduce costs. The most suitable strategy for companies that seek quality is the **sole sourcing**. In this strategy the company uses only one supplier for a particular part. With this strategy the company reduces transaction costs and ensures quality because it builds a partner relationship with the supplier. The most effective sole strategy for companies that produces many part products is the **parallel sourcing**, where two or more suppliers of two or more different parts, and provide safety by covering the needs of the company by providing the parts that a supplier failed.⁸⁴

The **logistics strategy** has to do with the flow of products in and out the manufacturing process. There are three choices available according to the company's goals and characteristics. **Centralization** gains for the company, business unit synergy, by centralizing logistics in the company's headquarters. **Outsourcing** logistics, on the other hand reduces costs for the company and

⁸² Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition,

Aston A. and Arndt M., (2003) "The Flexible Factory," *Business Week*, pages 90-91.

⁸³ Tayles M., Drury C., (2001), "Moving from make/buy to strategic sourcing: The outsource decision process," *Long Range Planning*, Volume 34, Issue 5, Pages 605-622

⁸⁴ Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

improves the delivery time. Finally, some companies choose to use **internet** to get a more simple and low cost logistical system.⁸⁵

The **human recourse management** strategy, has to do with stuffing the company, train the staff, motivate it and control it. One of the most important choice that the company has to decide in this strategy, is weather it should hire many low skilled employees for the job need to be done (low paid, low quality, high turnover) or hire few skilled employees (high paid, high quality, and self motivated and controlled).⁸⁶

Finally, many companies these days choose to use **information technology strategies**. It is a way to provide every company's business units with a competitive advantage. The information technology strategies can be implemented either by developing a sophisticated **intranet system** for its employee's convenient and control, or by developing an **extranet system** that will help the company to have better relationship with its customers and suppliers.⁸⁷

In the below figure we present the complete function of corporate strategies (**Red ocean strategies**). In this paper we have presented the first two stages of the strategic management model, which are the environmental scanning and the strategy formulation. The following two stages, strategy implementation and evaluation and control, will be presented with detail on the master thesis that we will present in the University Of Piraeus for the MBA – TQM program. But in order to provide the reader with a complete view of the competitive strategies we feel obligated to slightly refer on these two stages.

The **strategy implementation** included the actions and choices that have to be taken by the company's management, in order to execute the formerly constructed strategic plan. Is the procedure that the company's objectives, strategies and policies

⁸⁵ Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

⁸⁶ Georgopoulos N., Professor's notes on Strategic Quality Management University of Piraeus, Business department, MBA- TQM Program.

⁸⁷ Thomas L., Wheelen & J. David Hunger, (2006), "*Strategic Management and business Policy*". Tenth edition

are starting to get from words to actions, by developing programs, budgets and procedures for that reasons.

In the **evaluation and control** stage the company uses all the statistic tools, it can possess, to evaluate the company's conformance to its formerly selected strategies, and the objectives that have been covered with these selected strategies. Then the management should take those actions to correct any problems from the above action and those actions to sustain or optimize the company's performance if there are no problems

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4. Subhash C. Jain (1999), “*Marketing Planning and Strategy*” sixth edition South-Western Educational Publishing
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Strategic Management Model

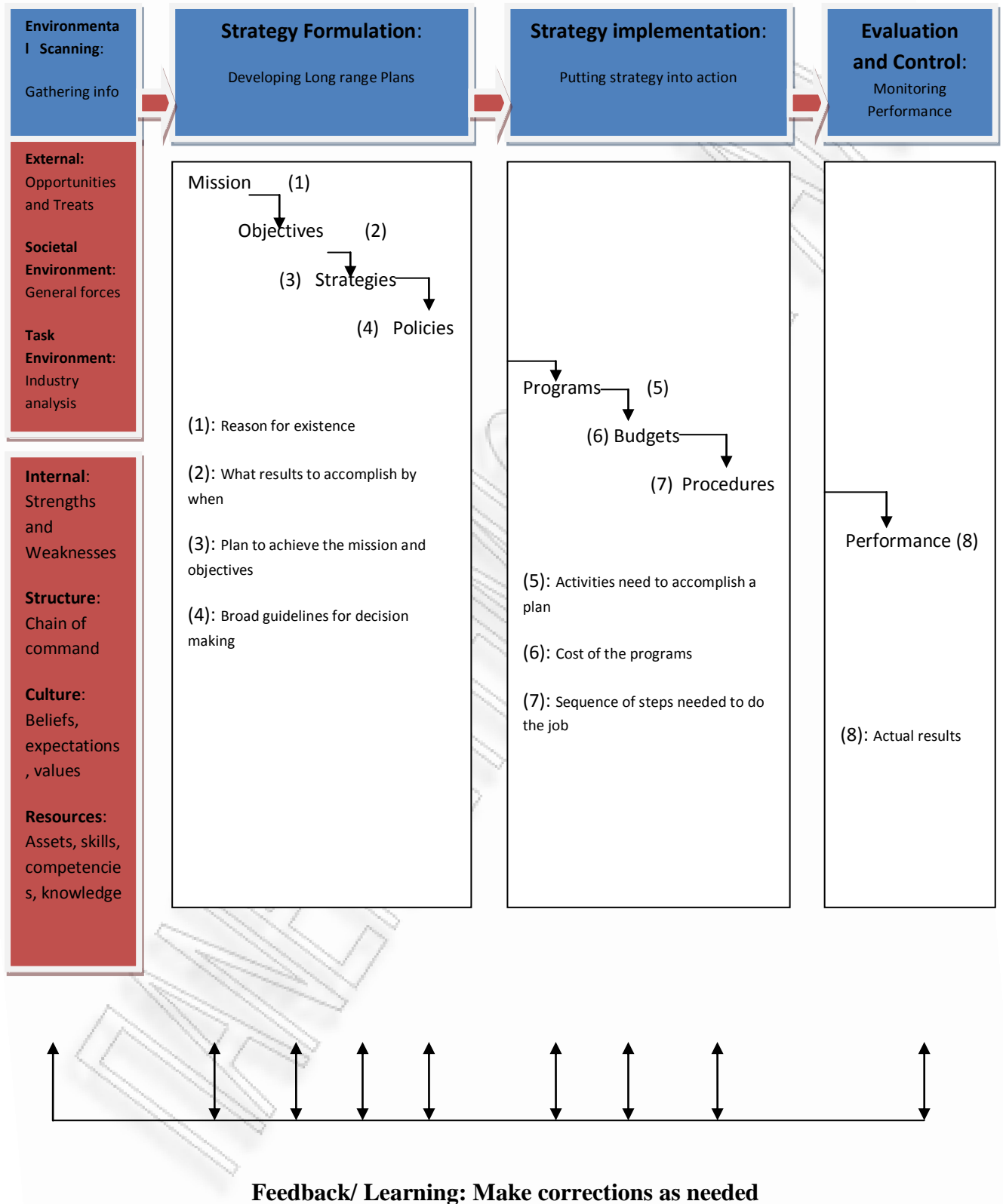


Figure 16: Strategic Management Model Thomas

Source: L., Wheelen & J. David Hunger, (2006), “Strategic Management and business Policy”. Tenth edition.

3.4. CONCLUSION

From all the above mentioned, it is easy to understand that in order for a corporation to be successful, all three strategy levels of that corporation (if he has a corporate strategy level), should fully cooperate with each other. The creation of a good synergy between the company's strategies is crucial for its future. The strategy levels should be connected with each other and every strategy level should be considered when the management is deciding about the next strategy level. For example, the strategies, policies etc. that are decided on the business and corporate strategy level, can be the external environment of the company's functional strategy level. The procedure of the strategic management should have to do and implemented to every level of the management.

We are living in a time of co-competition between the companies, where companies should cooperate but in the same time compete in the market. Companies now days have realized that a price war between them is reducing their profits and does not add value to their customers. So the solution to that problem is that the companies should cooperate with others (especially those that provide additional goods) in order to add value. The companies are getting and dividing the value that they are competing for. Strategies are not like a chess game where only one player wins and the rules are standard. In the market, many players can win and the rules can be changed. A successful strategy is the strategy that succeeds to change the 'game' (market) rules. This is what the **blue ocean strategy** tries to do.

The strategies that are counting on the competition, suggest that the market structure is standard and the companies should have to compete in that. On the other hand, blue ocean strategy suggests that the limits of the market and the market structure are not standard, but in the contrary they can be recreated by a company's action. A company through the Blue Ocean strategy, is seeking to create a very powerful and sustainable competitive advantage, by stopping to attempt to beat its competitors in an existing market and by finding a new market or market segment that does not interest its competitors. This attempt will allow the company to create and capture the whole new demanding for itself.

4. The Blue Ocean Theory

In order to get familiar with the meaning of the Blue Ocean Theory, we should take a glimpse of the usual corporate situation today. We are living in times of market globalization, multinational companies and high levels of demand. In these high competitive markets, corporations are striving to reach or exceed their competitors.

The vast majority of the corporations today compete in mature market segments with standard market share. In mature markets it is not very possible to enlarge the demand and so the corporations focus on gaining their competitors market share. Gaining some of the competitor's market share is very costly for the corporation as it can be a result of either prize war or costly promotion campaigns. The most usual promotion tool the corporations are using is the advertisement. Through this tool the corporations are trying to convince the consumers that their product is different or superior than their competitor's. All the known techniques that create a perception of product superiority from the competitors demand a great amount of the corporation's resources, which could be used in a more creative way.⁸⁸

The situation that we have just described is the most common market form today, and it is called a Red Ocean due to the bloody competition between the corporations. In Red Oceans, the market segment borders are limited and the competition rules known to every competitor. The aim of the 'game' is to get larger market share. As the competitors multiply, the expected income, profit and growth for the corporation decrease. Corporations on Red Oceans witness slight income due their commodity products and the lack of loyal customers. These factors force the corporations to increase their efficiency by decreasing their functional costs and by increasing their marketing expenses. These techniques of renewing of value are not very effective for the corporation because usually its competitors will imitate its strategy.⁸⁹

⁸⁸ Norman T. Sheehan, Ganesh Vaidyanathan, (2009) *"Using a value creation compass to discover "Blue Oceans""*, *Strategy & Leadership*, Vol. 37 Iss: 2, pp.13 – 20

⁸⁹ W. Han Kim – Renee Mauborgne, *Blue Ocean strategy*, 2006, p29 - 32

In the previous chapters we described the ways that a corporation can compete with each other to gain larger market share using its competitive advantage. The competition rules suggest that there are two ways to achieve a competitive advantage. A corporation can either follow the cost leadership strategy (providing products at the lowest price in the market), or follow the product differentiation strategy (by convincing the consumers that its product is better or different than the others in the market). The Red Ocean Strategies suggest that there is no way that a corporation can achieve both kind of competitive advantages. But is it true? This is where the Blue Ocean Strategies came to suggest that there is a way to combine both competitive advantages.

The Blue Ocean Strategy encourage a corporation to acquire a new way of thinking, different that its competitors. By doing that the corporation can get away from a highly competitive market (a Red Ocean), and create a new area of demand (a Blue Ocean). Think of the market as an ocean and the competing corporations as sharks fighting each other and striving to prevail. The bloodshed makes the ocean turn red. That is why we call them the Red Ocean Strategies. When a corporation succeeds on creating a new market with no competitors there is a clear Blue Ocean for that corporation. According to the Blue Ocean Strategy, a corporation should focus not on prevailing in an existing competition, but to make the competition irrelevant by creating value to its customers in a new market. This different way of thinking is called “value innovation” that focuses on innovation and creation of value.

A Blue Ocean strategy is more suited for a corporation that its products are on mature or on a declining level of their life cycle inside a Red Ocean market.⁹⁰ The circumstances on that level of product maturity in a Red Ocean can be described as low or decreasing growth rate of the market, decreasing profits, decreasing demand, decreasing competitiveness due to low interest of the market and a fully homogeneous product. Despite the product is very familiar to the consumers, they avoid it because they presume that it does not fully cover their needs. One the contrary, Blue Oceans

⁹⁰ Norman T. Sheehan, Ganesh Vaidyanathan, (2009) *Using a value creation compass to discover “Blue Oceans”*, *Strategy & Leadership*, Vol. 37 Iss: 2, pp.13 – 20

can be described as a virgin market offering a unique product and with high profit opportunities. Blue Oceans can be created out of the current market limits, but most of them are created through a Red Ocean by expanding its market limits. In a Blue Ocean the competition for a while is irrelevant because no one has set up the market rules yet. So the entrepreneur corporation that has succeeded on creating a Blue Ocean has many sustainable advantages. These first mover advantages can be: economies of scale, fame, loyalty of clients, but most important the time and means opportunity to invest on the discovery of another Blue Ocean.

Until today all the scientific efforts have been focused on the Red Oceans especially on prevailing in the competition. Blue Oceans are not a today's fact. Blue Oceans existed in the past and they will exist in the future. This is because market sectors are like living organizations. Some sectors in the past died and others have been born having their own demand. The market sectors cannot be stable, on the contrary they develop constantly. The production means are developing, markets are expanding, new corporations are being established or leave the market. History shows that people have the ability of creating new market sectors or recreate old ones. This specific ability is the base of the Blue Ocean creation.

The effects of the creation of a Blue Ocean from a corporation according its revenue and profits can be shown from the results of the following research. The research indicate that the 86% of the products that are provided are an extension of the product line, which means, improvement of the existing product in the Red Ocean market segment. Those improvements are responsible for the 62% of the total revenue and only 39% of the total profits. The other 14% of the products, that are provided, aim to create a Blue Ocean. This 14% is responsible of the 38% of the total revenue and 61% of the total profits. Through the diagram 17 above someone can clarify the positive effects of a Blue Ocean in a corporation.⁹¹

⁹¹ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p7 - 8

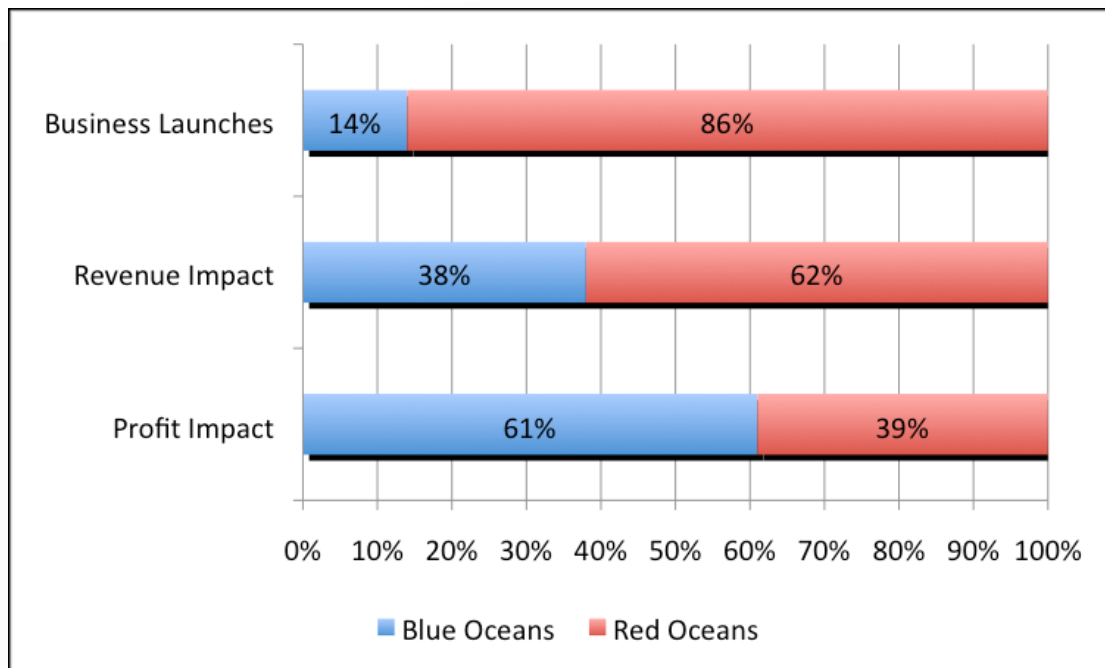


Figure 17: The effect of Blue Ocean on a corporation's profit and revenue

Source: www.whitespacestrategy.com

There are several forces that lead a corporation to focus on creating a Blue Ocean. One of those forces is the continuously improving technology, which allows the producers to provide the market with a higher quantity and variety of products and services. By doing that continuously, the market reaches its limits and in some point the supply will exceed the need in that market. Globalization worsens that situation. This is because the suppliers are getting multiplied, the information is getting better and there is not prove that there is an increase in demand in a globalized economy. As a result, the supplied products and services are getting commodities much quicker than before, which leads in a prize war between the corporations, decreasing greatly their profits. By the time, in a globalized economy the commercial brads are getting more similar with each other, and the consumers are focusing in the product prize. In global markets the differentiation between brands is getting lower and does not get affected by the economical cycle.

All the above suggest, that the commercial environment in which, the former strategies are being born, is constantly changing and minimized. As the Red Oceans are getting more “blood thirsty” the corporations are forced to focus more on creating Blue Oceans than the majority of them did in the past. They need to change in order to

avoid a high level of competition, low prizes and profits. Now days, future lays on Blue Oceans where competition is irrelevant and the market is still virgin.

What diverse the “winners” from “losers” in the creation of Blue Oceans is the choice of the proper strategy. The corporations in a Red Ocean, use a conventional defensive strategy choosing as their main issue the competition inside the market. The Blue Oceans creators, on the other hand do not use the competition as their main issue. On the contrary they followed a different perspective of strategy called “Value Innovation”.

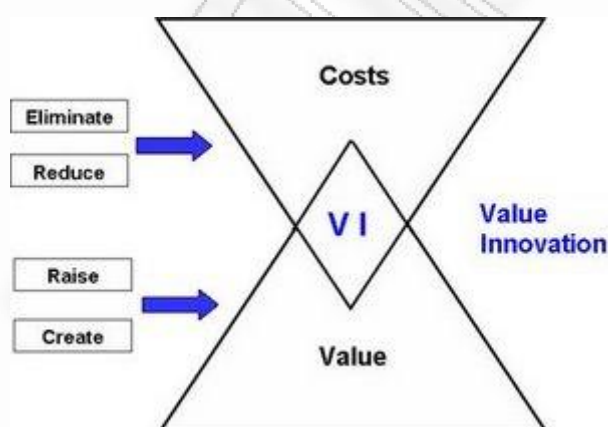
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4.1. Value Innovation

Value Innovation is the main factor that corporations use to create Blue Oceans. In Red Oceans corporations are trying to prevail in the competition by gaining a competitive advantage. This is not what Value Innovation is aiming for. Through Value Innovation corporations are trying to find a way to make the competition irrelevant by creating value to the consumers and by that establishing a new market share for it to claim. Value Innovation is as important in Blue Oceans, as the Competitive Advantage is for the Red ones.⁹²

Value Innovation focuses on both value and innovation. Focusing only in value may provide profit to the corporation in short term but without innovation it will not provide a strong position to the corporation in the market in long term. On the other hand, innovation without value may be caused by technology or market innovation but it may focus over the limits that the consumers are interested to pay. So it is important to clarify the difference between Value Innovation, technological innovation and market innovation. It is very rare for corporations to create Blue Oceans through cutting edge technology or right timing entrance in the market. Value Innovation is created only when corporations succeed on combining innovation with usefulness, prize and cost positions. If a corporation fail to combine innovation with value in such way, the technologically and market innovated are usually stay behind.



⁹² Stan Abraham *Strategy & Leadership* (vol. 34, no. 5, 2006, p. 52-57); 2005 Conference

Figure 18: Value Innovation

Source: www.12112t.blogspot.com

It is generally believed that a corporation can either create greater customer value with higher cost, or create a standard value with lower cost. This theory is based on Red Ocean rules, and especially on choosing between the low cost and differentiation strategies. On the contrary Blue Ocean strategy suggests that a corporation should combine low cost and differentiation strategies at the same time. Value Innovation, the main tool of Blue Ocean strategy, can change the way the corporations are used to think and provide a competition timeout to whom he choose to use it.

The creation of Blue Oceans means, to reduce of costs by the corporation, but in the same time the growth of customer value. By this it can achieved a change of value for both corporations and its customers. The market value comes from the combination between the offering prize and the customer's utility. Also the corporation value comes from the prize and the cost structure. So the Value Innovation can be achieved only when the hole corporation utility system, prize, cost are combined with the proper way. These are the factors that make the creation of a Blue Ocean a sustainable strategy. The Blue Ocean strategy includes the corporation and the functional activities in a corporation.

Innovation on itself is not necessarily a way to a Blue Ocean. For example, a production innovation can be achieved at a subsystem lever, without having an impact on the general business strategy. Such an innovation can decrease the productivity costs, and through that, can enforce the corporation's cost leadership strategy, but it will not change the product's utility. That kind of innovations can strengthen the corporation's status in the current market structure, but it is highly unlikely to create a Blue Ocean.

So we can assume that Value Innovation is something more than innovation itself. It has to do with the strategy that is followed by the hole corporation's operational system. The Value Innovation demands for the corporations to combine their hole system's efforts to achieve a value growth not only for itself but also for its customers. If such an effort is not followed by the hole corporation's

system, then that innovation will not be a part of the core corporation’s strategy. In the following table we provide the main factors of a Blue and a Red Ocean strategy.

Red Ocean Strategy Focus on current customers	Blue Ocean Strategy Focus on noncustomers
• Compete in existing markets	• Create uncontested markets to serve
• Beat the competition	• Make the competition irrelevant
• Exploit existing demand	• Create and capture new demand
• Make the value-cost trade-off	• Break the value-cost trade-off
• Align the whole system of a firm's activities with its strategic choice of differentiation <u>OR</u> low cost	• Align the whole system of a firm's activities in pursuit of differentiation <u>AND</u> low cost

Figure 19: Differences between Red and Blue Oceans

Source: www.designforit.blogspot.com

The Red Ocean strategy is based on competition and takes the market structure conditions standard and unchangeable. It suggests that all the corporations are forced to compete under those standard conditions. These conditions and view point are named by researchers as “structuralism view” or “environmental determinism”. On the contrary, Value Innovation is based on the belief that the market boundaries and structure are not standard, and can be recreated by its competitor’s actions and beliefs. This view is called by researchers as “deconstructionists view”.

At the Red Oceans, the differentiation is costly because all the players compete under the same rules of “best tactics”. The available strategic paths are either differentiation or low cost strategies. But in a world that people believe in reconstruction chance, the strategic goal is the creation of new “best tactics” rules. They do not accept the main view, which suggests that there should be balance between value and cost. These people can create a Blue Ocean.⁹³

⁹³ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 40- 48

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1. Stan Abraham *Strategy & Leadership* (vol. 34, no. 5, 2006, p. 52-57); 2005 Conference
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4.2. Structuralism and Determinism

Structuralism or structural point of view, is an approach to human sciences which attempt to analyze a particular field as a complex system of connectable parts. It was first applied from Ferdinand de Saussure (1857-1913) in linguistic science, but over the years that model got improved and had been used to other fields such as anthropology, sociology, philosophy and psychoanalysis. The structuralism has been applied by many philosophers such as Michel Foucault and Jacques Lacan, and despite it has been accused for strictness, it continues to make an influence up today.

According to Alison Assiter⁹⁴, there are four main views that structure the structuralism. Firstly, the structure is what defines every element in a system. Structuralists believe that every system has a structure, and they are more interested for structural laws that affect the element coexistence rather than the changes in it. They also believe that structure is the reality that lay beneath the surface or the epiphenomenon of the meaning.⁹⁵

According to the structuralistic theory in social anthropology, the meaning comes out and regenerates in a culture through different practices, phenomena and activities that are useful as manifests. Human activities, such as religion rituals, suggest the deep structure from which the meanings generate and regenerate in a society. The structures that form the base of a society come from the mind and function subconsciously.⁹⁶

Determinism or Etiocracy, is a philosophical proposition that every fact, including human behavior and knowledge, decision and action, is defined reasonably from a constant chain of previous incidents.⁹⁷ The determinists believe that the level of influence that humans can have for their future, depends on their present and past. The

⁹⁴ Assiter A., Althusser and Structuralism, *The British Journal of Sociology*, Vol.xxxv, No.2, June, 1984, p.272 - 296

⁹⁵ Joe S. Bain, *Industrial organization (Economic theory)*, 1959 New York, Greenwood Press

⁹⁶ Levi – Strauss Claude, *Structural Anthropology*, Allen Lane, The Penguin Press., 1958, p.208

⁹⁷ Van Inwagen Peter, *An Essay on Free Will*. Oxford: Clarendon Press., 1983, p.63

reasonable determinism connects and depends on the ideas of materialism and casualty.

The **Environmental Determinism**, also known as climatologically determinism or geographical determinism, is the view that the natural environment, despite the social conditions, defines the civilization. The followers of that view believe that the humans are defined strictly from the stimulation – respond system (environment – behavior) and it would be impossible to derogate from that.⁹⁸

The environmental determinist fundamental argument was that the natural geography, and especially the climate, influenced the psychological mentality of humans, which defined the behavior and the civilization of the society those humans developed.

The **social reconstruction view** suggests, that the systems have to change in order to face oppression phenomena and to improve the peoples way of life. In our case scenario, the view of market reconstruction refers to the needed change in order to find a way to overcome the constant and bloody competition that takes place in a Red Ocean.⁹⁹

The Blue Ocean follower's opinion, is to reconstruct the market environment in which all corporations used to function. They suggest the reconstruction of the Red Oceans, in order to change the foundations of the markets and turn them to Blue Oceans. According to structuralists the limits and the structure of the markets are standard, but they can be reconstructed from the beginning.

The followers of the structuralism, but also those of environmental determinism, believe that the market has a standard structure, externally defined, that cannot be changed by any action. By those assumptions, they believe that the best strategy that a corporation, which functions in a Red Ocean, can have is, to accept the situation and try to survive under those circumstances.

⁹⁸ Andrew, Sluyter (2003), "*Neo-Environmental Determinism, Intellectual Damage Control, and Nature/Society Science*", *Antipode* 4 (35): 813–817,

⁹⁹ KM Zeichner, *Action research: Personal renewal and social reconstruction*- Educational Action Research, 1993 - Routledge

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6. KM Zeichner ,*Action research: Personal renewal and social reconstruction- Educational Action Research*, 1993 - Routledge

4.3. Tools and study frames

Over the last years, there have been made a lot of studies in order to help corporations to compete in Red Oceans. One of the invented tools is the Porter's five forces frame, which analyses the current market situations. There are also the three basic strategies of competition. But there is nothing said on how a corporation can excel in a Blue Ocean.

An effective Blue Ocean strategy should minimize the risk and discourage the choice of taking risky choices. In order to do that, it uses the proper tools and study frame, which will minimize the risks for a corporation which aims to create a Blue Ocean.

The question which has to be answered is, on how a corporation can get out of a bloody Red Ocean creating a Blue Ocean where the competition will be irrelevant, but also on how to create and sustain an undisputed market share. The answer to the upper question is given by an analytical reference frame called strategic canvas, which is very important for creating Value Innovation and Blue Oceans.

4.3.1. Strategic Canvas

The strategic canvas is not only a diagnostic tool, but it is also an action frame to create a Blue Ocean. It has a dual action. Firstly, it reveals current status of the familiar market share. That allows the corporation to clarify where its competitors spend their resources and its customer's perception about the current competitive offers of the market.

The strategic canvas is using two dimensions which are counted in two axis's. On the horizontal axis, there are shown all the factors by which the market competes and spend resources, and on the vertical axis is shown the level of supply that the buyers accept for every of the for mentioned factors. A high score on one of the for mentioned factors, means that the corporation supplies more that it needed to to its customers, and for that it invests more resources on that particular factor.

The factors rating graphic presentation on the strategic canvas is called Value Curve of a corporation, representing its strategic profile. The Value Curve, is a part of the strategic canvas and it graphically percentages the relative performance of the corporation compared with the competition factors of its industry.

The strategic canvas is successively used to outline the competitiveness field of the Red Ocean. In order for a corporation, that functions in a Red Ocean, to get to a better and more profitable path, it has to do more than copying its competitors and constantly compete with them. Such a strategy may raise the sells in short term, but it will have few chances to provide an indispeakable market share. Even a continuous market search is not the path to a Blue Ocean. It is known that consumers will not show the way to a Blue Ocean. They usually ask for more products on lower prize, and they are referring to a familiar product on a known market.

The radical change of the industry's strategic canvas in a corporation, should start by redefine its strategy focus from the competitive to the alternative products, and from the customers to the non customers of an industry. The corporation should search for value and cost, avoiding the former competition based strategy, and the choice between differentiation or cost leadership strategies. As the

strategy focuses, instead of the current competition, on alternative functional scenarios and on non customers, the corporation gets more intuitive. It redefines the industry problems, reconstructing the elements that add value to the customer and are over the industry limits. On the contrary, conventional strategies lead the corporation on a cycle of constant efforts to exceed its competitors, by giving better solutions to the current market problems.¹⁰⁰

¹⁰⁰ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 57- 60

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4.3.2. The Four Forces Frame

The second basic analysis tool to create a Blue Ocean, is known as Four Forces Frame.

The four forces frame is used to redefine the elements that add value to the customers by creating a new value curve, as it is shown to the following diagram. In order for the corporation to stop the standard strategy choice (cost leadership – differentiation), and to create a new value curve, there are four key questions that have to be answered:

- 1) Which of the factors that the industry takes for granted, have to be eliminated?
- 2) Which of these factors have to be greatly reduced according to the industry's model?
- 3) Which of these factors have to be greatly increased according to the industry's model?
- 4) Which factors that the industry has never provided, will have to be created?

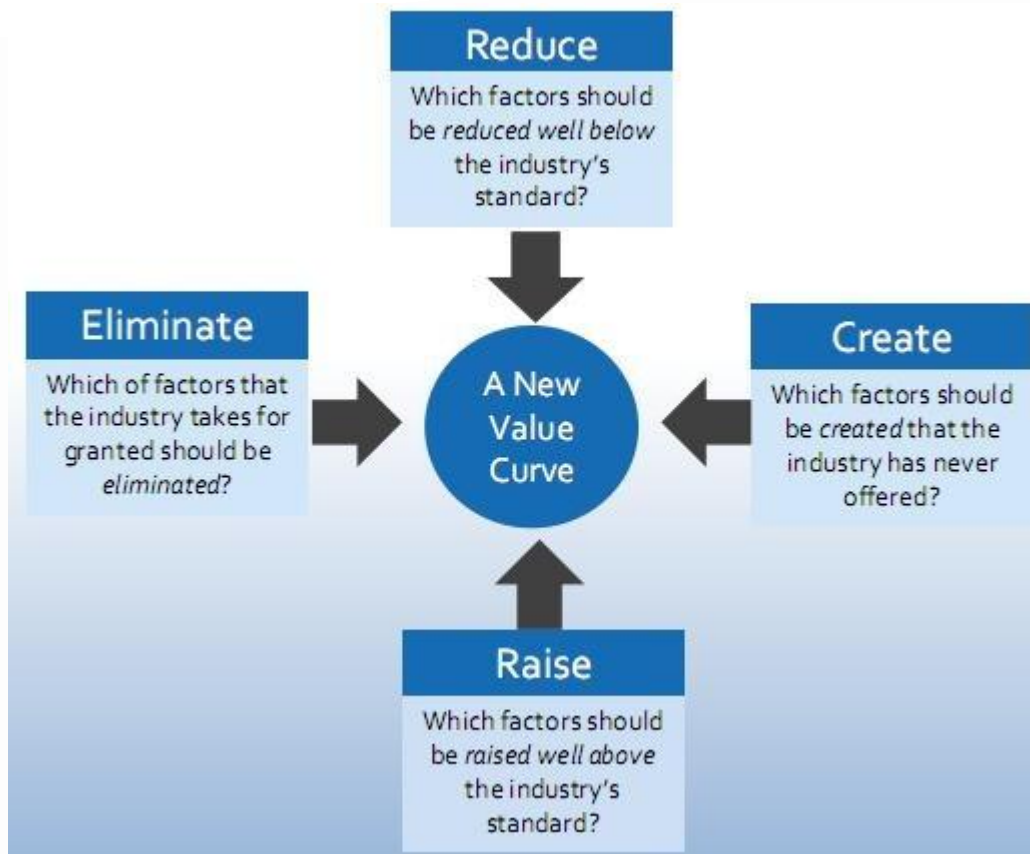


Figure 20: The Four Action Frame

Source : www.designforit.blogspot.com

The first question, suggests that a corporation should find out how to eliminate those factors that the corporations are competing for, in the industry. Usually, those factors are taken for granted, even if they don't add value anymore or even take away value. Sometimes, the value that the customers understand gets utterly changed, but the corporations, being so occupied competing with each other, do not realize this change.

The second question, urges the company to defy whether its products and services have been overdeveloped in their struggle to reach and exceed the competition. Some corporations offer way too many services to their customers, which multiply their costs without offering real value to them.

The third question, urges the corporation to discover and eliminate those compromises that the industry makes the customers to do.

The fourth question, helps the corporations to discover hole new sources of value for it's customers, to create new demand and to change the pricing strategy of the industry.

If a corporation follows the first two questions, that suggest the elimination and the decrease of some factors, it can succeed on decreasing its costs comparing with its competitors. On the other hand, the next two questions, suggest the creation and increase of some factors, which will increase the market value of the corporation's product, and create new demand. All those questions, allows a corporation to find a way to reconstruct the elements of market value on alternative industries, offering its customers a hole new experience, but also keeping the costs low.

The acts of creating and eliminating, that urges the corporations to maximize their value over the limits of the existing competition are very important. In that way, deleting some factors and creating new corporations to change by themselves the market conditions, can make the existing rules irrelevant. By applying the four forces frame on an industry's strategic canvas, a corporation can achieve a revealing new consideration about the old deserved market values. The key lies on the innovative view of the existing situation, through the challenge of widely accepted truths.¹⁰¹

¹⁰¹ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 61 - 67

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1. W. Han Kim – Renee Mauborgne, *Blue Ocean strategy*, 2006

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4.3.3. The Elimination – Reduction – Improvement – Creation Net

There is a third key – tool on creating Blue Oceans. It is an additional analysis on the four force Framework, which is called Elimination – Reduction – Improvement – Creation Net. This net urges the corporations not only to get familiar with the four questions of the framework, but also to act accordingly, in order to create a new value curve. The corporations are led to complete the net not only with some factor elimination and reduction acts, but also with some factor creation and improvement acts, acquiring the corporations with four immediate advantages.

- It leads the corporations to the simultaneous search, not only for the diversification, but also for the low cost, in order to stop the cost – value substitution.
- It can alert the corporations that are focused only on the improvement and creation of new factors, and for that they increase their costs, while usually overinvest on the development of their products and services.
- It is a very clear model and creates a great commitment on its application.
- Because of the demanding work that is needed to complete the net, the corporations get more familiar with every competition factor.

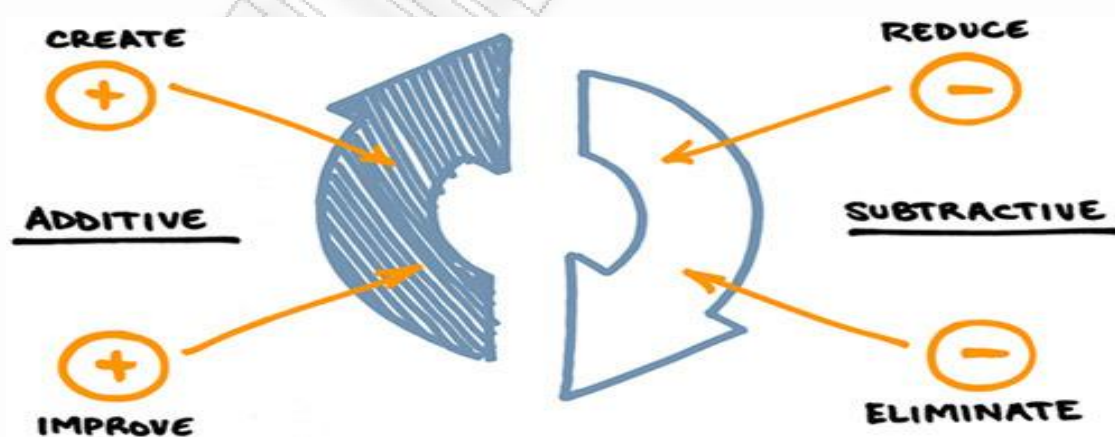


Figure 21: The Elimination – Reduction – Improvement – Creation Net

Source: www.game-changer.net

4.4. The three characteristics of a successful strategy

A successful Blue Ocean strategy, when it comes from a value curve, has three supplementary properties: focus, differentiation and an exciting slogan. Without these properties, a corporation's strategy will probably be confusing, non-differentiated and difficult to communicate, also having a high cost. The actions, from the four forces net which will create a new value curve, will have to be driven correctly to a procedure of creating a strategic corporate profile with those characteristics. Those three characteristics can be used as a pretest of the financial potential of the Blue Ocean ideas.

- Focus

Every substantial strategy is focused and the strategic profile of the corporation or a value curve, should indicate that clearly.

- Differentiation

When a corporate strategy is formed as a competition reaction, then it automatically lacks of uniqueness. On the contrary, the value curves of the Blue Ocean corporations are always unique. By using the Elimination – Reduction – Improvement – Creation Net, they differentiate their profile from the average of the competition.

- Exciting Slogan

A successful strategy is followed by a clear and exciting slogan. A good slogan has, not only to communicate a clear message, but also to advertise a product with honesty, or else the customers will eventually lose their trust and interest to the product.

The upper three factors lead the corporations on a substantial value growth, so to its customers as to the ideas.¹⁰²

¹⁰² W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 70 - 74

4.5. Interpretation of Value Curves

The strategic canvas makes possible for the corporations to have a look on their future in present. To achieve that, the corporations will have to find the way to interpret the Value Curves. Inside the Value Curves of an industry is hidden very important strategic knowledge according to current corporation status and its future.

- A Blue Ocean Strategy

The first question that the value curves answer is whether a corporation is able to be a winner. When the value curve of a corporation or those of its competitors, include the three characteristics that define a successful Blue Ocean strategy, the corporation is on the right course. These three criteria check the financial viability to create a Blue Ocean.

On the other hand, when the value curve of a corporation lacks focus, its cost tends to be high and the corporational model complicated to implement and execute. When it lacks on differentiation, the corporational strategy is a copy, having no reason to get over the competition. Finally, when it lacks of an exciting slogan that “speaks” to its customers, then it is possible to deal with an innovation just to innovate, without great potential to commercialize and of course with low chances of success.

- A corporation trapped in a Red Ocean

When the value curve of a corporation is similar with those of its competitors, it shows that this corporation is trapped in a Red Ocean. This means that the corporations strategy is focused in an attempt to overcome the competition by decreasing its costs or increasing quality. That means low growth, unless, the corporation gets lucky and get advantage of being in a growing market and being able to follow. Never the less, this will be a result of luck and not of a successful strategy.

- Oversupply without return

When a value curve on the strategic canvas shows that it has high level returns on many factors, the question that has to be answered is whether the corporation’s market share and efficiency reflect its investments. If not, the strategic canvas

shows that the corporation offers too many services to its customers, and so more elements from those that add value to them. In order for the corporation to innovate on value, it has to decide which elements will have to eliminate or decrease and create a new value curve.

- An Incoherent strategy

When the corporational value curve looks like a zik zak without meaning and essence, and the supply is described from incoherent ups and downs, that means that we are dealing with a corporation with incoherent strategy. A strategy is usually based on independent sub strategies. Those sub strategies might have a meaning independently, they may help the corporational function or keep the human resources occupied, but as a hole, they don't help the corporation to get over the competition or acquire a clear strategic vision.

- Contradictions in Strategy

When there is a contradiction in strategy, what usually happens is that the corporation offers a high level on a single competitive factor, but ignores all the other factors that support it. The contradictions in strategy may be created between the level of supply and prize.

- Inner Corporate Guidance

When a corporation designs its strategic canvas, it has to choose its competitive factors. Those factors have to be expressed with terms that the consumers would be able to value and understand. The language which will be used to create the strategic canvas shows, whether the corporation's strategic vision is built with an external perspective (demand driven), or an internal perspective (internal function driven). By analyzing the language that is used in the strategic canvas, a corporation succeeds on understanding the distance between the corporations current status, and the demand creation in the market.¹⁰³

¹⁰³ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 74 - 77

4.6. The six Blue Ocean Principles

The six Blue Ocean Principles, are divided on the principles during the strategy formation procedure, and on those during the strategy implementation procedure. Every one of these principles includes one risk factor that represents each and every one of them.

The **principles during the strategy formation procedure** are:

- Recreate the market limits
- Focus on the general view, and not on numbers
- Overcome the current market demand
- Successful change of strategies

The upper principles during the strategy formation procedure have their corresponding risks. These corresponding risks are:

- Search risk
- Planning risk
- Scale risk
- Business model risk

The **principles during the strategy execution procedure** are:

- Overcome every organizational barrier you face
- Include the implementation on strategy

The risk factors which have to do with the upper principles are:

- Organizational risk
- Management risk

The understanding of those six principles and their included risks, and the right use of the former stated tools and techniques, might allow the corporation to overcome the bloody competition and create an undisputed market share.

Formulation	Risk Factor Attenuated
Reconstruct market boundaries	Search risk
Focus on big picture, not numbers	Planning risk
Reach Beyond existing demand	Scale risk
Get the strategy sequence right	Business model risk
Execution	
Surpass organizational barriers	Organizational risk
Build execution into strategy	Management risk

Figure 22: The six Blue Ocean principles and the Attenuated Risk Factors

Source: globalentrepreneurship.wordpress.com

4.7. The Formation and Implementation of the Blue Ocean

In the next chapter there will be an analysis of every one of the six Blue Ocean strategy principles during the formation and Implementation of a Blue Ocean.

4.7.1. Recreation of the market limits

The first principle of the Blue Ocean strategy is the recreation of the current market limits, in order for the corporation to overcome the existing competition and to create Blue Oceans. This principle is an answer to the research danger which many corporations are facing. The real challenge for a corporation, is to succeed on spotting those opportunities that can be used to create a Blue Ocean.

There are six basic approaches according to the recreation of the market limits. Those approaches have a general use in various areas of the industry and can lead the way to a Blue Ocean strategy. Those approaches argue with some basic assumptions that lay behind the strategy of the most corporations and bind them to compete in a Red Ocean. The false assumptions that the corporations are used to make are:

- They define their corporation as same kind with others in the industry and focus on the way that the corporation will exceed them
- They believe that their corporation is a part of a generally accepted strategic group and strive to exceed on that strategic group they belong.
- They focus on the target group which they are buyers, or users or have an influence on.
- They define the variety of products and services they offer, with the same view as their competitors.
- They accept the functional or sentimental view of the market
- They focus on the same time spot on their strategy formation.

If the corporations do not change this standard way of thinking, according to the way they compete in the market, they will get more similar with each other.

To get away from a Red Ocean, the corporations will have to escape from the standard limits that define the form of the competition. Instead of functioning inside those limits, the managing staff should systemically search for Blue Oceans, outside those limits. They should seek for alternative industries and strategic groups, consumer groups, complement products and services that can be able to offer, beyond the functional –emotional market limits and in time relevance. This incitement can help the corporations to re estimate some de facto of the market, and in the end, to create Blue Oceans.

So, the six approaches to achieve a recreation of the market limits are:

1) Search of new Industries

A corporation does not compete only with other corporations in its own industry, but also with those that function in different industries and produce alternative products and services. The alternative products are even more than the complement ones. Products or services that are different with each other but offer the same utility, are often substitute with each other. On the contrary, the alternative products are different with each other also on their offering utility, but they can serve the same mean.

The buyers, for every buying decision they make, they balance their alternative choices, often subconsciously. The procedure is instinctive for every buyer individually, but also it works the same way with corporation's buyers. It is rare for the sellers to consider consciously the way that the customers change the markets between different industries. Usually, the moves and reactions of the industries which provide alternative products come unnoticed. It should be noticed, that the space between the alternative industries, often provides opportunities for value innovation.

Therefore, a corporation should consider finding the alternatives in its industry, but also the reason why the consumers change markets between those industries and its own. The focus on those factors that lead the consumers in such

behavior and the reduce or elimination of those factors, may finally lead the corporation to create a Blue Ocean of new market share.

2) Search of new Strategic Groups

As a Blue Ocean can be created by searching alternative industries, so it can be created by searching alternative strategic groups in the same industry. A strategic group is considered, a group of corporations that follow a similar strategy using similar resources. Usually, the strategic differences between competitors are gathered in a small number of strategic groups.

The strategic groups can generally be classified hierarchically, based on two dimensions: the prize and the performance. Every increase of the prize tends to get an increase in performance. Most of the corporations are striving to improve their status in their own strategic group, without caring about the other strategic groups. The key to create a Blue Ocean in an alternative strategic group is the understanding of the factors that define the customer's choices to turn in a different industry to cover their needs.

3) Search for new buyers

Actually, in every industry, there is a chain of buyers that directly or indirectly affect the buying decision. Those that buy the product may differ from the actual users of the product, but there can be other equally important individuals that affect the buying decision. In spite of between the groups can be a cover up, those usually differ from each other, giving by their turn different meanings of value.

Every corporation in an industry, aims in different customer segments, but an industry actually aims for a specific buyer group. Usually, there is a powerful economical logic that justifies this focus, but more often, there is the result of business practices that cannot be questioned. To question this conventional focus for some buying group by a corporation, may lead to the discovery of a Blue Ocean. In this way, the corporation can acquire knowledge for redesigning its value curve, so it can focus to a buyers group that it was ignored previously.

4) Search of new complement products and services

There are not many products that can be completely used by their own. Usually, other products and services affect their value. But, in most of the industries, the rivals tend to offer familiar products and services.

In the competent products and services is usually hiding an unused value, which has to be discovered by the corporations. The key, is the understanding of a total solution that the buyers seek when they have to choose a product or service, An easy way to do this, is to find out what happens before, by the time and after the use of the product or service.

5) Search of a new functional or emotional effect to the buyer

The competitors in an industry tend to converge, not only to a commonly accepted belief for the variety of the offered products, but also on a way (among two) to attract buyers. Some industries compete mainly on prize and functionality, affecting the buyer's sense, but some compete on emotion, affecting by their turn the buyers.

This product affection to the consumers is rarely come from the products themselves, on the contrary, it usually come from the way the corporations were competing in the past, something that has subconsciously affected the consumer's future expectations. The corporate behavior affects the consumer's expectations further. In time, the functionality focused corporations reinforce that focus, so do the emotion focused ones.

When the corporations are willing to question this emotional – functionality orientation, they usually find new market shares. Then there can be found two paths. The emotionally oriented corporations offer more added features by their product, increasing the prize without improving functionality. If they take out those added features, they can create a more simple and less costly business model which the customers would be happy to accept. On the contrary, the functionality oriented corporations may usually give a new life to commodities, by adding emotion they create a new demand.

6) Search in time

All industries react on external trends that affect the corporations which function in them, in time. The proper understanding of those trends by a corporation can lead the way to a Blue Ocean.

Most of the corporations adjust gradually and passively to those trends, whether it is a technological change or an important adjusting change. The key to create a Blue Ocean is not the pursuit of that trend, but on the contrary, the research on how this trend will change the customer value and react on the business model of every corporation. By searching in time, the high management can adjust their future and in time create a Blue Ocean. The search in time, is the hardest of the upper six approaches, but can be approached objectively, as it does not demand from the corporation to foresee the future, but just to read the involvement of actual involving market trends.

In order to determine the trends in time, it is important that these trends are crucial for the industry, non changeable and have a clear route. Many trends is possible to be observed at any time, few of them though have a crucial effect in a corporation. Having spotted the trend with these characteristics, a corporation can search its effects in market on time, and by that, clarify what it has to be changed at present, in order to create a Blue Ocean in the future.¹⁰⁴

As a conclusion, the understanding of a market over the current competition limits, from a corporation, can lead to achieve non conventional strategic moves, which will break the current market limits and create a Blue Oceans. The procedure of searching and creation of Blue Oceans, is a result of a structured procedure of reassessing generally accepted market values, by an innovational way. By recreating the current elements and market limits, a corporation can be freed from the bloods competition of a Red Ocean. Below there is a summary of the six approaches in order to achieve the recreation of the market limits:

¹⁰⁴ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 83 - 115

	Head-to-Head Competition		Blue Ocean Creations
Industry	Focuses on rivals within its industry	→	Looks across alternative industries
Strategic group	Focuses on competitive position within strategic group	→	Looks across strategic groups within industry
Buyer group	Focuses on better serving the buyer group	→	Redefines the industry buyer group
Scope of product or service offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	→	Looks across to complementary product and service offerings
Functional-emotional orientation	Focuses on improving price performance within the functional-emotional orientation of its industry	→	Rethinks the functional-emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	→	Participates in shaping external trends over time

Figure 23: From Head to Head Competition to a Blue Ocean

Source: emeraldinsight.com

Except the upper six approaches frame, there are more tools that the high management can use to search for new markets. For example, the corporations can find new differentiation from the competition aeries, by examining the supplier – buyer chain.¹⁰⁵ The Procter & Gamble C.E.O. , R.G.Lafley, states that through a successful and reliable consumer research, which should often take place by the corporation, is possible for a corporation to get ideas for innovations and new products that the market seems to need. The same opinion has a Harvard researcher Clayton Christensen, who states that this practice is followed by all innovative corporations in a market.¹⁰⁶

As an alternative for these tools, the corporations may use the fundamental practice of creating value, in order to spot the opportunities to create a Blue Ocean. The value creation practice is a unique methodology for discovering Blue Oceans.¹⁰⁷By using

¹⁰⁵ I.C. MacMillan and R. Gunther McGrath, Discovering new points of differentiation. 1997, *Harvard Business Review*, 75(4): p.133-145

¹⁰⁶ A.G. Lafley and Charan, 2008, P &G's Innovation Culture

¹⁰⁷ Norman T. Sheehan, Ganesh Vaidyanathan, (2009) "Using a value creation compass to discover "Blue Oceans"", *Strategy & Leadership*, Vol. 37 Iss: 2, pp.13 - 20

the logic of value creation of Stabell and Fjeldstad, we will assume that there are three types of value, which the corporations can offer to their customers. By combining elements of two or more value types, the high management can create innovational characteristic groups, and design unique offers:

- The effectiveness of the industry logic
- The net services logic
- The knowledge focus logic

The effectiveness of the industry logic, creates value for the customers, by the economies of scale. The effectiveness of the industry logic, creates a new buying value by decreasing the cost and offer lower prizes. There are several tools, which the high management can use, in order to raise the effectiveness of the industry's processes like low production, the six sigma tool, a supply chain management, a total quality management, just in time stocks, lean production, and ERP systems.

The net services logic, creates value for the customers, as it link them with other parts inside the corporation's net. A positive effect of the net comes when there is a large number of people that buy the product and get to the system, and by that upgrading the product value. The corporations can have a direct or an indirect influence to the net with several ways. At first, they can guaranty the after sales service, as so the existence of alternative means. Then the corporation can encourage others to supply with competent products which will add value to its own product. Finally, the corporation can also create actual or visual users groups, and by that increase the buying value to its consumers.

The knowledge focus logic creates value throw the use of experts, in order to adjust the supplied products to the existing customer's needs. Many corporations use a data base to strengthen its customer's relations. The customer relationship management, allows the corporation to serve its customers better, before, by the time and after the sale.

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4.7.2. Focus on the general performance, not on numbers

Many corporation's strategic formation process, leads them to compete in the borders of an actual market share, and keep them imprisoned on a Red Ocean. This is a result of a formality way of thinking about the strategic formation, from the high management. They only bring forward numerical data and facts, instead of using their time to think innovatively on how their corporation will manage to get over its competitors. This usually brings an unclear strategy for all the employees.

So, it is easy to understand that there are few strategic plans that lead to a Blue Ocean or the use of drastic measures from the corporation. Here comes the second principle of the six, which will have to be considered on the Blue Ocean strategy formation, which is to focus on the general performance and not in numbers. This principle is the key, in order for a corporation to decrease the risk of spending much time and effort and despite that, end in a Red Ocean. This approach creates strategies that allow a large number of employees in the organization to use their creativity and make some Blue Oceans visible from the corporation, and so be easy and understandable by everyone.

The use of the strategic canvas tool, by the corporation, may help, not only to present its current strategic position, but to picture its future strategy. By using the strategic canvas to the preparation of the strategic planning, the high management's attention is driven to the corporation's general performance and not in numbers. As mentioned before, the strategic canvas underlines the corporation's strategic profile by presenting the factors that influence the competition. It also shows the strategic profile of its future competitors and on the factors they will be focused.

A strategic profile of a corporation, in order to have chances to lead to a Blue Ocean, will have to contain three characteristics: focus, differentiation and an exciting slogan. Without those characteristics, the strategic profile of a corporation may be confusing and difficult to understand.

By the strategy application to create a Blue Ocean, there are four stages that the employees will have to follow, in order for the corporation to succeed: the awakening, the search, the strategical proposition and its communication.

Another tool that a corporation could use is the pioneer – migrator- settler map (PMS), in which there is an image of the corporation's current and future portfolio. As pioneer is described a corporation which follows a Blue Ocean strategy, as settler a corporation whose value curve follows the same route of the majority in an industry. Migrator is labeled a corporation that is between the upper two situations. Migrators offer added value but not value innovation and by that they are between a Blue and a Red Ocean.

If the current and the future product portfolio of the corporation is mainly parted from settlers, that corporation is caged in a Red Ocean and will have to create value innovation. On the contrary, if the current and future product portfolio is parted from a lot of migrators, the corporation may have a logic growth but not that growth it can have potentially. In this situation a corporation is in danger from others that have value innovation. With many settlers in the industry, there is a larger opportunity for a corporation to create a Blue Ocean.

As a result, the use of factors like income, profit, market share and customer satisfaction helps the corporation to estimate its current position, but cannot help in its future evolution. The solution is the use of value and innovation as main factors for the portfolio management.¹⁰⁸

¹⁰⁸ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 117 - 140

4.7.3. Approach the market beyond the existing Demand

Every corporation seeks to maximize the size of its created Blue Ocean. Based to the third of the six Blue Ocean strategy principles, the corporations seek to expand their market over the current one's limits. This is a crucial principle to create value innovation, because, by achieving greater demand for the supplied product, the new market entrance risk is lower.

In order to do so, the corporations should defy two conventional strategic practices: the trend to focus on the existing customers, and the trend to wider clustering of its customers. The corporations in their attempt to fully satisfy its customers, they tend to create smaller market targets, something that includes a great risk. To maximize the size of their Blue Oceans, the corporations should follow an opposite course. They should focus on non customers, and instead of focusing on customer's differences, they should focus on the common elements that add value to them. In such way the corporations discover a new number of customers that previously did not exist.

In order to turn the latency demand to a real one, the corporations should understand better the non customers and hope to acquire them. There are three classes of non customers that can be transformed to customers, based on their distance from the market:

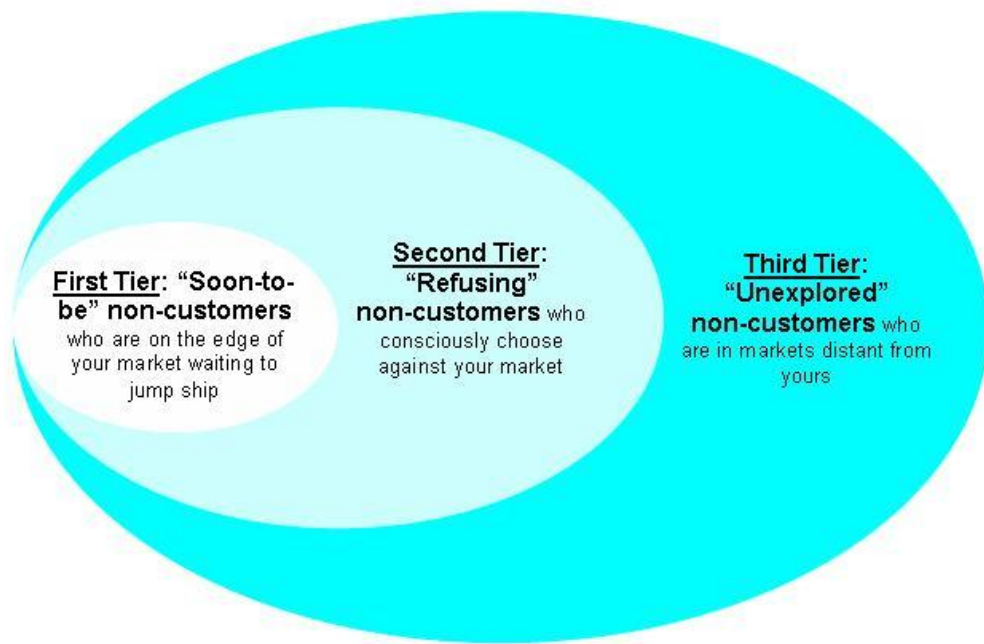


Figure 24: The Non-Customer Classes

Source: <http://busn3021-rmd-blueoceanstrategy.wikispaces.com/3f++The+Three+Tiers>

The first class of non customers is the closest to the market. They are customers of a market by need, and that makes them non customers. They will abandon the market by the first chance. But, if there is a change in value, not only they will stay to the market, but they will be willing to increase the frequency of buying greatly. When their size increases, the market will have growth problems.

The second class of non customer is individuals that are not willing to use the supplied products in the market. These individuals are well informed about those products, they acknowledge that these products can cover some of their needs, but they are unwilling to buy. They either don't have the means to buy the products or they just don't want to. Their needs are covered by other products or they just left uncovered. In these non customers is hidden an unexploited Blue Ocean that can be exploited.

The third non customer class is the one that is more far from the market. It has to do with noncustomers that have never thought of buying a market product. This class has never been targeted by any marketing action, because they haven't been targeted by any market corporation. This is because they thought that this classes

needs are to be covered by another market. But this class of non customers can provide a corporation with many opportunities to make a lot of profit, if their special needs will be fully covered.

By understanding the common key elements between customers and noncustomers a corporation may find a way to draw them to its market. The class of noncustomers that a corporation should focus is up to it, because the class that will create a Blue Ocean differs between industries and time. The corporations should focus on classes that will bring the most profits at a specific time.¹⁰⁹

¹⁰⁹ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 141 - 158

4.7.4. Right change of strategies

The next challenge for the corporation is to create a business model in order to be sure to be profitable. So we lead to the fourth of the six principles, which underlines the importance of right strategy change.

The Blue Ocean strategy of the corporations should be based on the links of buying utility, prizing, cost and idea adoption.

At first, the product should include a special utility and characteristics that make it unique to the buyers. If there is a lack of those characteristics, there cannot be a Blue Ocean opportunity.

A tool for the high management to measure the product's utility is the buyer's utility map, which shows a cycle of six stages, from the buy to the disposal of the product. Every stage contains a large variety of experience from the customer, and valuable information to the corporation. These stages are: the buy, the delivery, the use, the competent, the sustenance and the disposal. Between those stages there are the utility levers, which shows, the ways a corporation can provide higher utility to its customers.

The Sequence of Blue Ocean Strategy

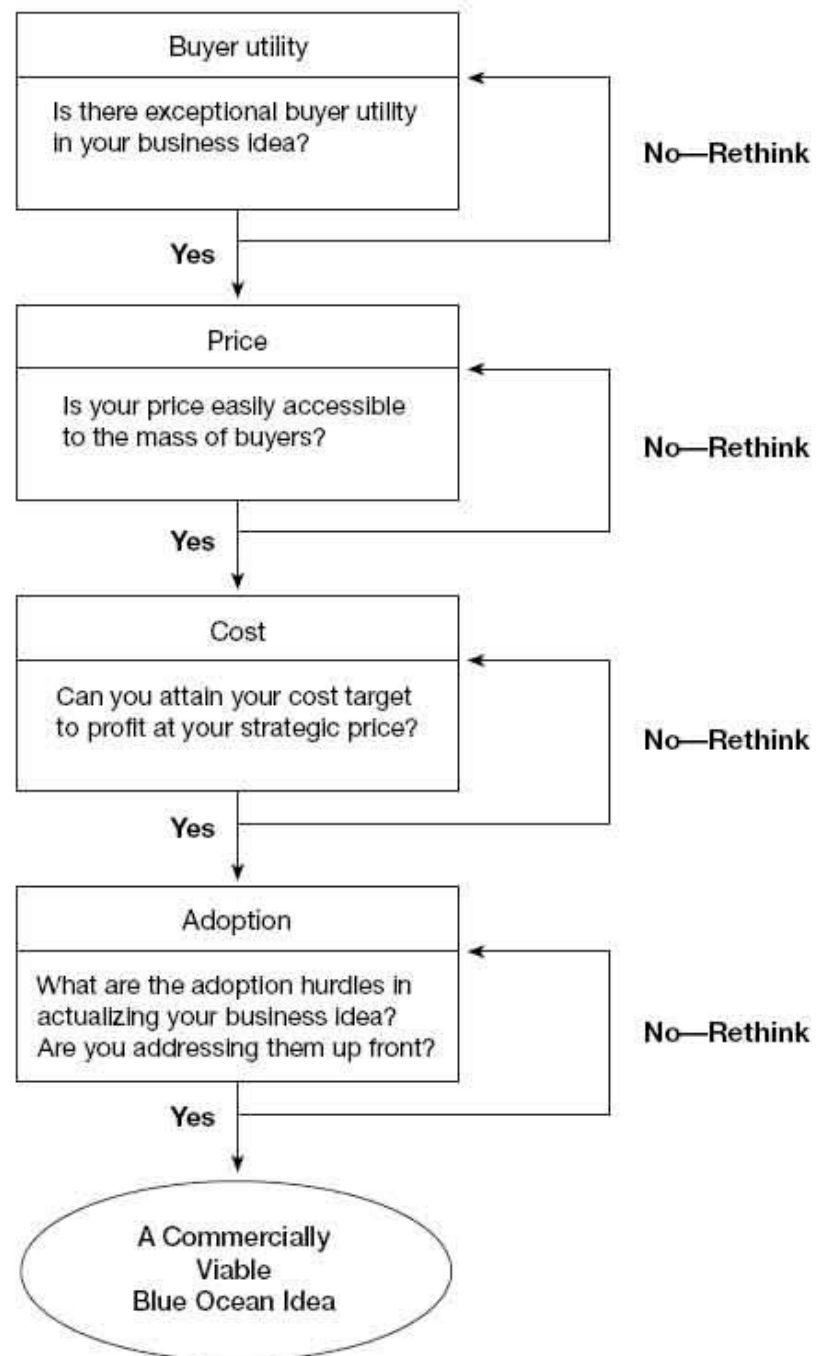


Figure 25: The Sequence of Blue Ocean Strategy

Source: <http://stratstars.pbworks.com/w/page/18598753/BO-Implementing>

The second stage is the pricing strategy. The product should be prized in such way, in order to get the targeted buyers, who will have the capability to pay for it. The prizing should be made in such way to allow the customers to turn to the products also

in the future. When a great utility is combined with a great pricing strategy, then the imitation from others gets extremely difficult.

The third step is costing, that will have to cover the production costs and also provide the corporation with an adequate profit. The corporate expenses should not direct the prizes, and also the corporation should be able to make profit despite the product's low prize, in order to be accessible to a large buyer target group. The corporation should avoid decreasing the offered product's utility in order to decrease the products costs. The combination of special utility, strategic pricing and target costing that allows a corporation to achieve value innovation which adds value to the customers and itself.

There are three ways to achieve target costing without decreasing the utility or increasing the product's prize. The first includes the modernization of the corporation's functions and the costing innovations from the production stage to the delivery stage. Another way is to cooperate with other corporations, which can be a quick and effective way to decrease the cost. And a third way is to change the pricing model, and by that it will contain a desirable cost limit without having to adjust the product's prize.

The last of the four steps is the adaptation of the new strategy. It has to do with the barriers of the strategy acceptance that a corporation has to overcome at an early stage, in order to have a successful implementation. The leap from a Red to a Blue Ocean has always some resistance from inside the corporation, even in those with excellent business models. To overcome this resistance the high management should keep the balance between the interested parties that are the employees, the business partners and the public.

During the training of those three parties, the real challenge is to communicate the advantages of this new idea to the whole corporation and to them. The high management should make them feel safe for their future. There are great profits waiting for those corporations that will spend time to communicate with those parties.¹¹⁰

¹¹⁰ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 159 - 190

4.7.5. Overcoming every organizational hurdle

The fifth of the six stages to reach a Blue Ocean is the implementation. The implementation of the strategy from the high management meets a lot of hurdles some of those are described above:

The **Cognitive hurdle**: to let the employees know the need for a strategical change. The employees tend to get comfortable in Red Oceans and so get against to any high management attempts for change. Without their support the changes are damned to fail.

The **Resource hurdle**: usually, the biggest the strategical change, the more resources they need. So, there are a lot of examples that corporations cannot afford a needed strategical change.

The **Motivational hurdle**: to give motivation to key persons in order to get away from the standard situations, something that might need a lot of time.

The **Political hurdle**: the resistance that the current political leadership may have against the strategical change that the corporation attempts.

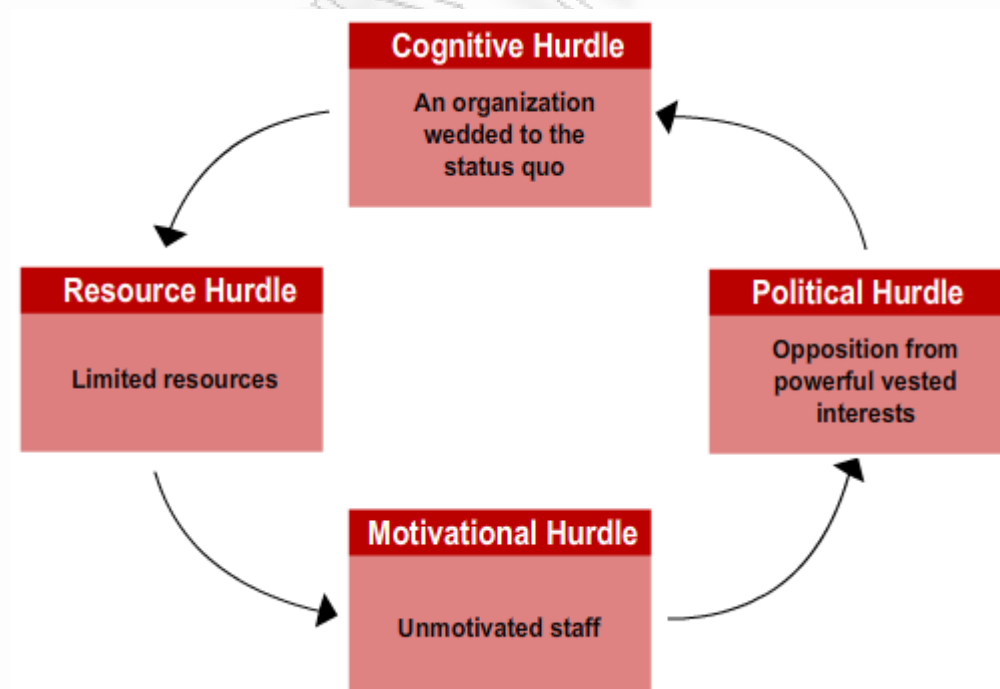


Figure 26: The business Hurdles during the Implementation of a Blue Ocean

Source: <http://www.psclipper.com/BlueOceanDetail.asp>

In order for a corporation to overcome these hurdles and succeed in making the strategical change, the high management should forget the current theory for radical changes. The current change theory suggests that the wider the change is needed, the more expensive in resources and time it gets. On the contrary, Blue Ocean suggests that there is a tipping point leadership that allows overcoming those four hurdles fast and with low cost, if the employees supports this change.

The tipping point leadership is based on the fact that in any corporation, radical changes may happen when every person inside it supports the same idea. In a corporation there are persons, actions and believes which have a disproportionate effect on performance. So, a radical change has to do more with saving time and resources through the spotting and influence of the factors that have the greatest impact in the corporation.

To overcome the **Cognitive hurdle** is one of the most difficult battles, which a tipping point leader has to win. It is very important, that the leader should make the other employees to understand the need of change and its consequences. The best way to achieve that is by personal experience. The tipping point leaders should have witnessed a strategic change before, and thus, knowing how the others may fail about it.

The **Resource hurdle** may incommode the corporation's way for a strategical change, even if it already has overcome the Cognitive hurdle. What the higher management usually does is to focus on making cuts to their change ambitions or to start a hard and longing battle in order to save resources. The key for the tipping point leader is that, instead of trying to find resources, they should try to add value to the current resources they already have in hand. On low resources situations, there are three factors of disproportionate effect which may be used from the management, in order to free resources but also to multiply the value of the current ones. These factors are the hot spots, the cold spots and the exchange. The hot spots are functions with low resource income, but high profit prospects. The cold spots are functions with high resource income but low profit prospects. In every corporation hot and cold spots coexist. The exchange, on the other hand, is to cover the resource need of one

function inside a corporation from another that has spare resources. By this way a corporation can overcome the resource hurdle.

The **Political hurdle** may be a problem to every corporation, even if it has already reached the implementation of the strategy point. The resistances that it may face, can harm or worst cancel the implementation of the strategy. In order to overcome the political pressures, the tipping point leaders should focus on three different influence factors. These factors are the influence through persons who support the change, the suppression of the opposing resistance, and the acquisition of a trustworthy person in the high management, as an advisor. Usually the supporters are persons that will gain from the change, and on the contrary, the opposition, are persons who will be harmed from it. The advisor should be very well informed of the political situation, be widely respected, and be well informed from the beginning on who will support and who will not, the change.¹¹¹

¹¹¹ W. Han Kim – Renee Mauborgne, Blue Ocean strategy, 2006, p. 193 - 220

4.7.6. The implementation of the execution on the strategy

The last of the six Blue Ocean strategy principles, urges the corporation to include the execution on strategy from the beginning. This will be achieved by the high management, by influence the employees, create trust, and encourage them to commit themselves to work on this change with all their hearts. By doing that the high management will minimize the business risk, which can be a lack of thrust or cooperation between the employees, or even butting barriers to the change. The higher the change, the higher the businesses risk.

Researchers imply that, what divers a successful Blue Ocean strategy from an unsuccessful is the implementation of a fair process. A fair process allows the employees to gain trust on the change, as can also inspire them to committing that goal. This commitment can reach the level where employees have personal interest in the success of that change.

How Fair Process Affects People's Attitudes and Behavior

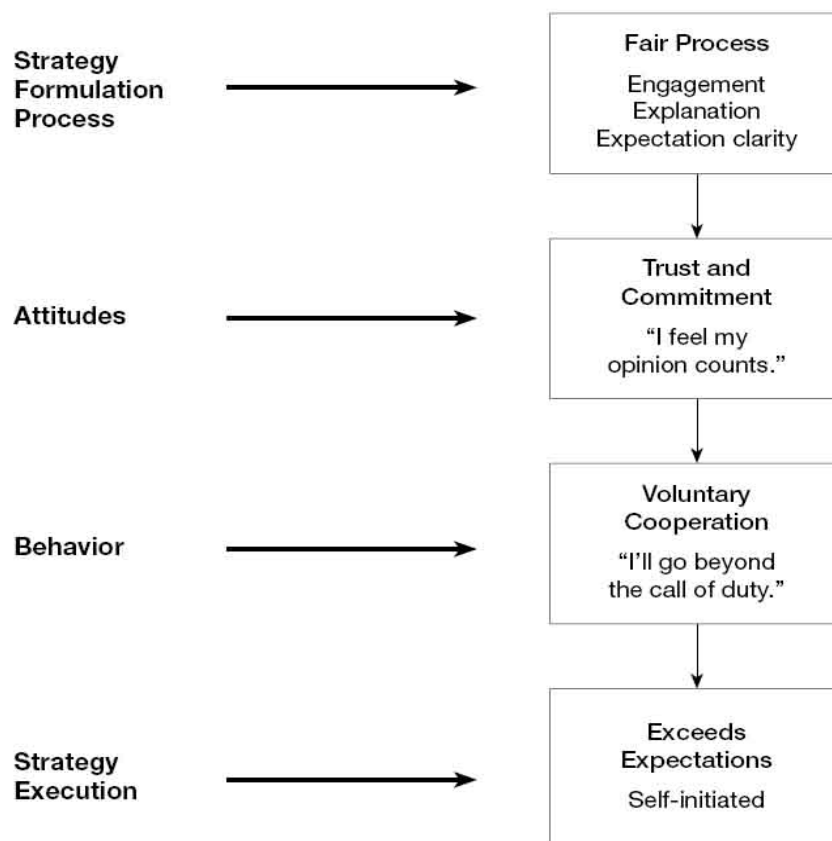


Figure 28: How Fair Process Affects People's Attitudes and Behavior

There are three elements which can strengthen and defy a fair process: the **participation**, the **justification** and the **expectation clarity**.

The participation element suggests that there is involvement to the strategic decisions, by the persons that these may affect. This can be achieved by a better communication of their ideas to the high management. The element of participation shows the high management to respect every person and its ideas, and also encourages and updates the common effort. The participation results on better strategical decisions and a wider commitment on the execution of those decisions.

On the other hand, the **justification** element, suggest that all the involved persons who are affected by the change, should understand the reason that makes this change important for the corporation. The explanation of that reason to those persons makes them feel that their voice is heard and the change is just for the corporation's advantage. Also a high management explanation makes the persons feel more safe and trusting to the high management.

Finally the **expectation clarity**, demands that after the choice of strategy, the high management should defy the new game rules. The employees should know from the beginning the criteria by which they will be evaluated and the consequences of their possible failure.

When all those three elements are applied, the corporation can be led to a fair procedure.

The Execution Consequences of the Presence and Absence of Fair Process in Strategy Making

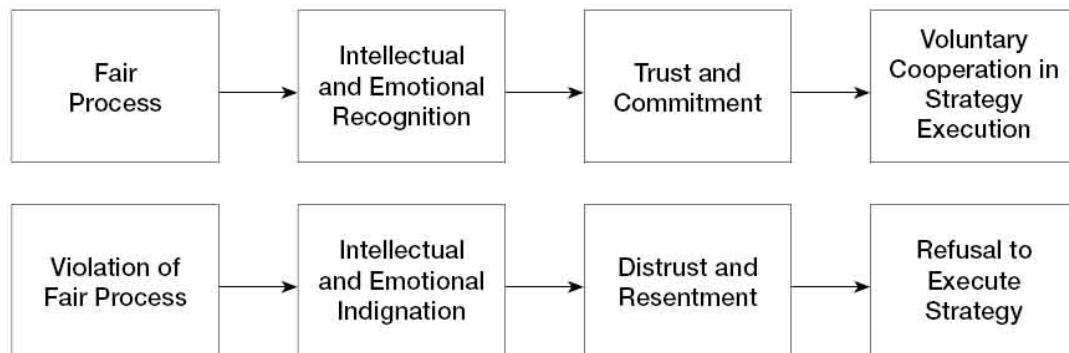


Figure 29: The Execution Consequences of the Presence and Absence of Fair Process in Strategy Making

Source: <http://stratstars.pbworks.com/w/page/18598753/BO-Implementing>

The recognition, the trust and the voluntary cooperation are not only attitudes and behaviors, it is an capital without essence for the corporation. When there is trust between people, they have more faith on their intentions and actions of each other, and when there is recognition, they are willing even to defy their personal interest for the sake of the corporation's. The recognition, trust and voluntary cooperation, allow the corporation to exceed on speed, quality and consistency on the execution and implementation of strategic changes with low cost.

4.8. Conclusion

As we were researching on Blue Ocean theories, we understood that there are a lot of similarities between the Blue Ocean theory and the Total Quality Management, such as the focus on customer needs and expectations, the whole organizations commitment need, the adding value element, the innovation and others. These similarities made us wonder the same thing we faced during our studies on TQM. Both theories give names on strategies that were already existed before the birth of both TQM and Blue Ocean, which are relatively new. What was happening before?

What the author thought was that these two theories gave a catchy name to already existed ones and made them famous. Something like a trend. The book “The Blue Ocean Strategy” by W.Chan Kim and Renee Mauborgne became a huge best seller book on 2005. But what was happening before? The Blue / Red Ocean analogy is a powerful and easy to remember metaphor, which many believe that is successful. But many ideas which the Blue Ocean contain are not new (competition factors, consumer’s cycle, the non-customers etc). Many of those tools are used in the six sigma model¹¹², or they have been mentions by other management researchers.

Many of the principles that are used by the Blue Ocean strategy, have already been mentioned previously by other researchers like Jonas Ridderstrale and Kjell Nordstrom¹¹³. For instance, the “competition factors” on Blue Ocean strategy are similar with the definition they give for the “measurable and immeasurable dimensions” on their book. Also, the acknowledgment of failure for a corporation that exists in a Red Ocean, connects to their reference of “the competitive strategy which leads to nowhere”.

The authors suggest that the corporations should create “impressive strategies”, as the Blue Ocean does. An impressive strategy means that the corporation chooses to change the game’s rules, by creating “casual monopolies”. Casual monopolies can also be described as Blue Oceans. It is clearly the same idea expressed differently.

¹¹² De Feo, Joseph A.; Barnard, William (2005). *JURAN Institute's Six Sigma Breakthrough and Beyond - Quality Performance Breakthrough Methods*. Tata McGraw-Hill Publishing Company Limited

¹¹³ Jonas Ridderstrale, Kjell Nordstrom,(1999), “*Funky business*” ft com; 1 edition

As for our opinion about Blue Ocean, we believe that Blue Ocean strategy is more of a part from the Red Ocean strategy, than a new alternative. The adding value element is more of a marketing goal for every Red Ocean corporation. We see the Blue Ocean theory as another mean to create the differentiation perspective by the corporation.

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