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Review of

Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant

By W. Chan Kim and Renée Mauborgne
Harvard Business School Press, 2005

Blue Ocean Strategy has been one of the most successful business books in recent years. According to its website, as of September 2006 it had been translated into 30 languages and had sold more than a million copies, a truly impressive record.

It's not hard to see why *Blue Ocean Strategy* has been so popular. The title is aspirational. Why should companies continue to fight in tough competitive markets—waters that are red with blood—when they can find new waters that are free of competition—the "blue ocean" of the title? Why struggle against rivals when it's possible to make them irrelevant? These are hugely attractive notions. What company wouldn't want to find uncontested market space and leave its competitors behind?

There are a number of things to like about *Blue Ocean Strategy*. I appreciate the way the book begins, recognizing the fundamentally risky nature of strategic choice. Unlike many best-sellers, *Blue Ocean Strategy* doesn't claim to have gathered vast quantities of data, or to have conducted deeper and more thorough analyses than previous studies. Nor does it claim to have uncovered a formula that will always leads to great results. All of this is to the good. Furthermore, *Blue Ocean Strategy* does a good job of offering a systematic way of posing valuable questions regarding what it calls "value innovation." The framework on p.29 is clear, simple, and practical. It allows managers to pose four important questions: Are there things we should stop doing? Do less of? Raise the standard? Create new steps? These useful questions and ought to be asked, not just once, but on a continual basis.

But the question has to be asked: *Does the book deliver on its promises?* Will a company that follows the guidelines set forth in *Blue Ocean Strategy* make its competition irrelevant? Regrettably, the answer is *probably not*. Because for all its aspirational imagery, Kim and Mauborgne's *Blue Ocean Strategy* is badly flawed. In fact, it suffers from some of the delusions that I write about in *The Halo Effect*—errors of logic that undercut its attractive claims.

The Major Flaw: *Grabbing the Wrong End of the Stick*

The fundamental problem in *Blue Ocean Strategy*—and the one that ultimately undermines its claims—is that it suffers from a survivor bias. Yes, we can find companies that seem to have broken the mold and went on to become very successful. No doubt these companies include some of the ones featured in the book—Southwest Airlines, Swatch, Cirque du Soleil, Blockbuster, and more. If we then look backwards, we can try to explain what they did to become so successful. It's irresistible then to take one more step, and suggest that other companies who do these same things will enjoy the same success. But the logic is incomplete—and even dangerous.

I refer to this error as the *Delusion of the Wrong End of the Stick*. It's a common mistake, and has plagued business writers ranging from Bain & Co's Chris Zook in *Profit from the Core,* all the way to Jim Collins in *Good to Great*. It's easy—and tempting—to select a handful of companies that turned out to be successful, then look backwards to see what they did. But unless we examine the entire population of companies from the beginning, we don't know if these actions predictably lead to success or not, because we've omitted companies that tried to do the same things but failed. What is missing is any ability to compare the rate of success of companies that seek entirely new waters, versus those that seek to improve their competitive position where they are.

Interestingly, Kim and Mauborgne admit early on that they don't know the probabilities of success from these various courses of action. On pp.7-8 of *Blue Ocean Strategy*, they write: "Although we don't have data on the hit rate of success of red and blue ocean initiatives, the global performance difference between them are marked." This is a puzzling phrase, because if the differences *are* "marked," then presumably they have the data and ought to report them. On the other hand, if they don't have such data, there's little basis on which to conclude there is a marked difference. The authors can't play both sides of the argument.

In fact, to assess properly the prospects of a blue ocean strategy, we would need to fill in the data in all four quadrants of a two-by-two matrix that depicts red and blue water strategies on one axis, and success and failure on the other axis. Kim and Mauborgne provide wonderful stories of companies that shifted from one quadrant—*red water failures* in the lower left—to the opposite quadrant—*blue water successes* in the upper right. But to have a full picture, we should also know how many companies ventured into blue waters and failed (the lower right), and how many stayed in their present market space but—through superior execution, better asset management, smarter talent management, or some other steps—were successful (the upper left). It's essential to fill in all four quadrants. It's just not enough to compare a few that succeeded in blue waters with some that stayed in red waters and failed.

This sort of matrix depicts precisely the dilemma that many companies face: *What should I do when previously comfortable position comes under pressure.* Or to phrase it differently, *What should I do when my blue waters begin to turn pink?* Is it wiser to try to improve my performance where I presently compete, or am I better off swimming to new waters. What are the relative risks and prospects of success for each? In retrospect, of course, the answer may seem clear—and easy to write about. But at the time, it's a very difficult dilemma. (There is, after all, a reason why some waters are deep blue—which is that can't support any life!)

Unfortunately, there's little evidence that the authors of *Blue Ocean Strategy* recognize the thorny nature of this problem, which managers face on a daily basis. In their zeal to argue for a blue ocean approach, they leave managers—who have to contend with these choices in the here-and-now, not in retrospect—paddling on their own. *Blue Ocean Strategy* offers tales that are entertaining and inspiring, but without a sense of the relative prospects for success from these different courses of action, they remain little more than good stories. They don't provide the basis on which managers can make thoughtful judgments.

Two Other Problems

Two other problems in *Blue Ocean Strategy* are worth mentioning. First is the potential circularity of the authors' argument. Should all examples of "value innovations" be considered as "blue ocean strategies"? Surely not—there must be some initiatives that can improve performance, but that fall short of being considered a move into blue waters. Of course, ex-post, any successful initiative can be said to have created uncontested market space, and can therefore be deemed to have been a blue ocean move. But that's after the fact. What's missing is a way to classify the strategic initiative at the time of decision. Kim and Mauborgne don't offer a clear definition, but instead classify whether a value innovation was a blue ocean strategy or not on the basis of outcome, which runs the risk of dangerous circularity.

A final critique is that *Blue Ocean Strategy* is too quick in its dismissal of other approaches to strategy. Its characterization of Michael Porter's work makes it out to be something of a straw man, a simple target that should be rejected in favor of the authors' more nuanced view. But in fact, Porter's Five Forces model *is* able to show why competition in a given industry is difficult, and *can* be used to point out how a company can take steps to improve its performance in a competitive setting. It is more dynamic, and lends itself to more complex thinking, than is given credit for here. (*Blue Ocean Strategy* is hardly alone in its narrow treatment of Porter. It seems that Michael Porter's contributions to the field of strategy have been so great and so influential that anyone coming after him feels the need to show how their approach is somehow different and better. The result is a tendency to caricature Porter's framework as less flexible and robust than it is.)

Overall, despite its several appeals, *Blue Ocean Strategy* offers a rather simplistic way of thinking about a complex issue. The authors have identified a handful of successful companies and made a series of unfounded recommendations. The stories may be entertaining and even inspiring, but without a more complete analysis, they offer little basis on which managers can make informed decisions.