

Elementy przedsiębiorczości

Dr Maciej Kalkowski

Wt. 11:30-12:30, Wt. 12:30-13:30

Plan:

1. Blue Ocean.
2. Zarządzanie projektami (krótko) i procesami (ITIL, LEAN)
3. Teoria Ograniczeń.
4. Budowanie Strategii firmy.
5. Marketing.
6. Dane ogólne na temat rynku i firm (formy działalności, księgowość, prawo - kodeksy,)
7. Pozostałe ważne aspekty prowadzenia działalności.

Zaliczenie:

Sprawdziany na wejściu na każdy wykład.

1.

Blue ocean vs Red ocean

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Two different stories in IT (2001-2014)

Microsoft:

1. 2001-2014 - capitalization increased by 3%
2. 2014: 80% of the revenue from „old products”



Apple:

1. 2001 – revenue 5x smaller than Microsoft
2. 2014 – revenue 2x greater than Microsoft
3. Capitalization growth – 75x



Why the growth of these two companies is that much different?

The presentation is about:

Red
oceans

Blue
oceans

How can we differ our product or service?

Question for the participants.

Tell me, what can we do to differ our offer?

1. Example 1 (low prices)
2. Example 2 (offer more efficient components)
3. Example 3 (improve communication)
4. Example 4 (improve parameters)
5.

What are the consequences of this steps?



Red ocean represents existing industries

Red Ocean

Characteristics:

- ▶ Industry boundaries are defined and known
- ▶ Industry boundaries are accepted!!
- ▶ Competition exists
- ▶ Companies fight for market share
- ▶ Products become commodities
- ▶ Cutthroat competition

Cutthroat competition colors the oceans with red.

Don't we say – we're fighting with competitors? Is it a war?

Red Ocean is our comfort zone!!



**Blue ocean represents industries not in
existence today**

Blue ocean

Characteristics:

- ▶ Untapped market space
- ▶ Demand creation with highly profitable growth
- ▶ Competition is irrelevant

Blue oceans are seldom created well beyond existing industries.

Most are created from within the Red Ocean by expanding industries boundaries

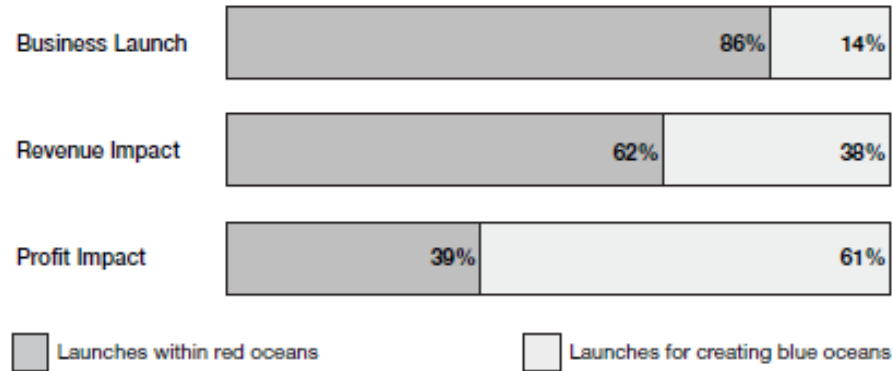
Working and surviving in **Red Oceans** stay important.



What's the outcome of the Blue vs Red Oceans sailing?

FIGURE 1-1

The Profit and Growth Consequences of Creating Blue Oceans



W. Chan Kim, René Maborgne, Blue Ocean Strategy
Harvard Business School Press, 2005

What do we focus on in our industries

Everyday life in our organizations:

- ▷ We use strategic methodologies focused on Red Oceans
- ▷ We use military terminology (CEO – Officer,, „headquarters”)
- ▷ Make military actions (steal/win customer, we conquer)

But...

over the last 100 year – most of the industries didn't even exists

and

over the last 30 - most of profitable markets were not known.

Why we rarely break market constraints? (next slide)

Strategic move matters

Because:

- ▶ Outperforming market doesn't mean we're doing good.
- ▶ Outperforming competition within industry is more relevant.
- ▶ The question is do we sail in the Blue Ocean direction.

Strategic move – a move towards the Blue Ocean
(regardless the type – products or services).

It's a parameter of companies performance measured:

- ▶ managerial decisions
- ▶ managerial actions

Examples of companies and their Strategic Moves

Perpetually excellent companies don't exist.

Some companies make Strategic Move, other don't.

Examples:

- ▷ 1908 Ford, Model T,
- ▷ 1924 GM, cars styled to appeal to the emotions,
- ▷ 1980 CNN, real-time news 24/7,
- ▷ 2007 Dropbox, file sharing,

Other examples?

Value innovation focuses on creating a leap in value for buyers and your company, making the competition irrelevant.



Value innovation is the right move

Value innovation puts equal emphasis on value and innovations.

Bad:

- ▶ Value without innovation means creating incremental growth.
- ▶ Innovation without value means pioneering markets, shooting beyond what buyers are ready to accept (Segway?).

We need to align innovation with utility, price and cost positions.

Value innovations break value cost trade-off:

- ▶ Create greater value with higher cost?
- ▶ Create reasonable value with lower cost?

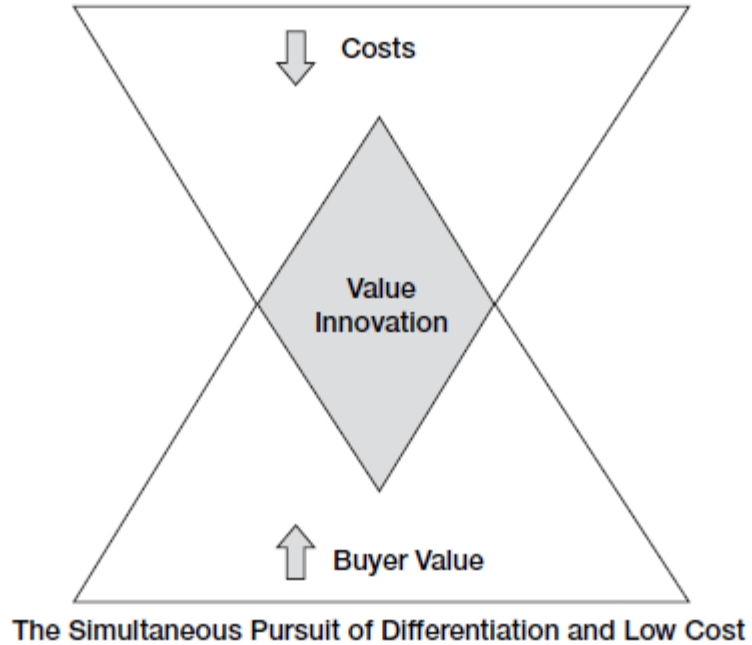
Cirque du Soleil

Circus market was hard to enter and hard to grow.

What they did:

- ▷ A combination best of both theatre and circus
- ▷ Eliminating animal shows (reducing cost, more viewers)
- ▷ Challenging ticket prices against theatre (increased revenue)
- ▷ Introduced a story line and theme
- ▷ Giving an intellectual richness
- ▷ Multiple productions (you can watch two different shows)
- ▷ TV presence

Value innovation



Value innovations - characteristics

What we do:

- ▷ Drive cost down
- ▷ Increase the value for buyers
- ▷ At the same time increase value for the company
- ▷ Go beyond the constraints (beyond the map, beyond the structures, beyond existing customers)

It's not innovation:

- ▷ Innovations in productions processes keep you in Red Oceans

Is wine industry a potential origin for new market?

A study by:
W. Chan Kim
Reneé Maborgne
Blue Ocean Strategy
Harvard Business School Press
2005



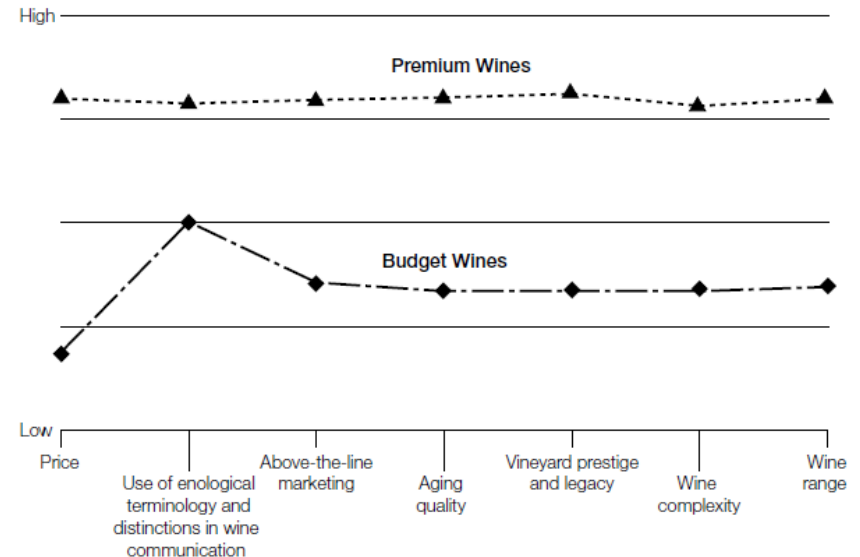
Strategy Canvas of Wine Industry in late 1990s

Horizontal axis:
factors industry competed and
invested.

Vertical axis:
the offering level that buyers receive.
(Higher score means company invests more in the factor)

There were approx. 1600 wineries.
Top 8 produced 75% of the wine in US.

The Strategy Canvas of the U.S. Wine Industry in the Late 1990s



Which of the factors that industry takes for granted should be *eliminated*?

Which factors should be *raised well above* the industry's standard?

▶ Which factors should be *reduced well below* the industry's standard?

Which factors should be *created* that the industry has never offered?

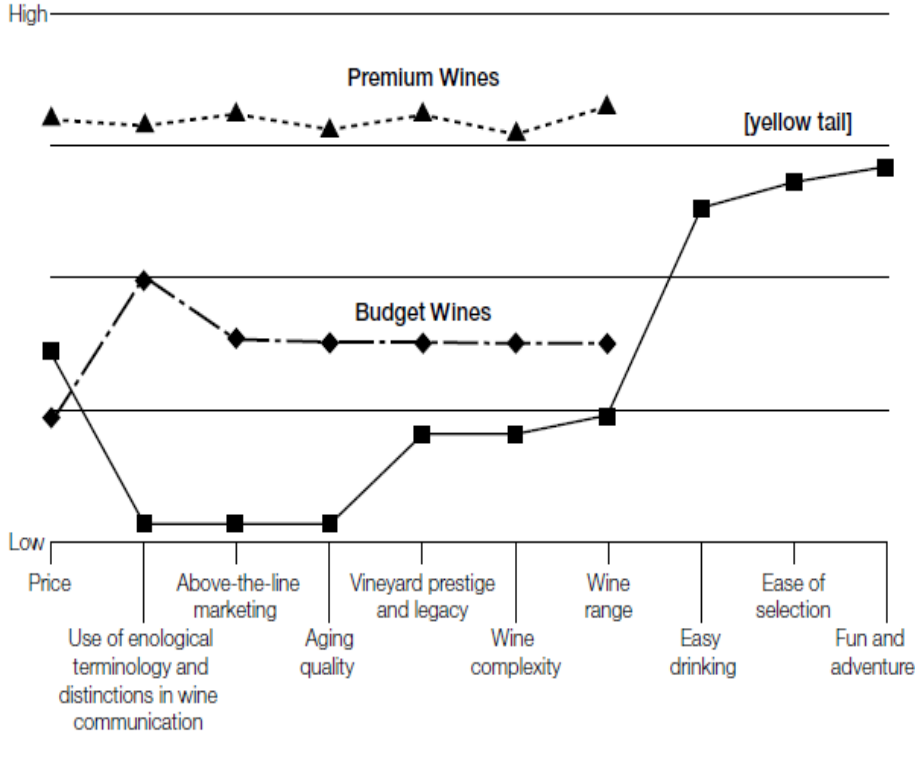
[yellow tail] – Australian company entered the US market

Americans rejected wines because it was complicated.

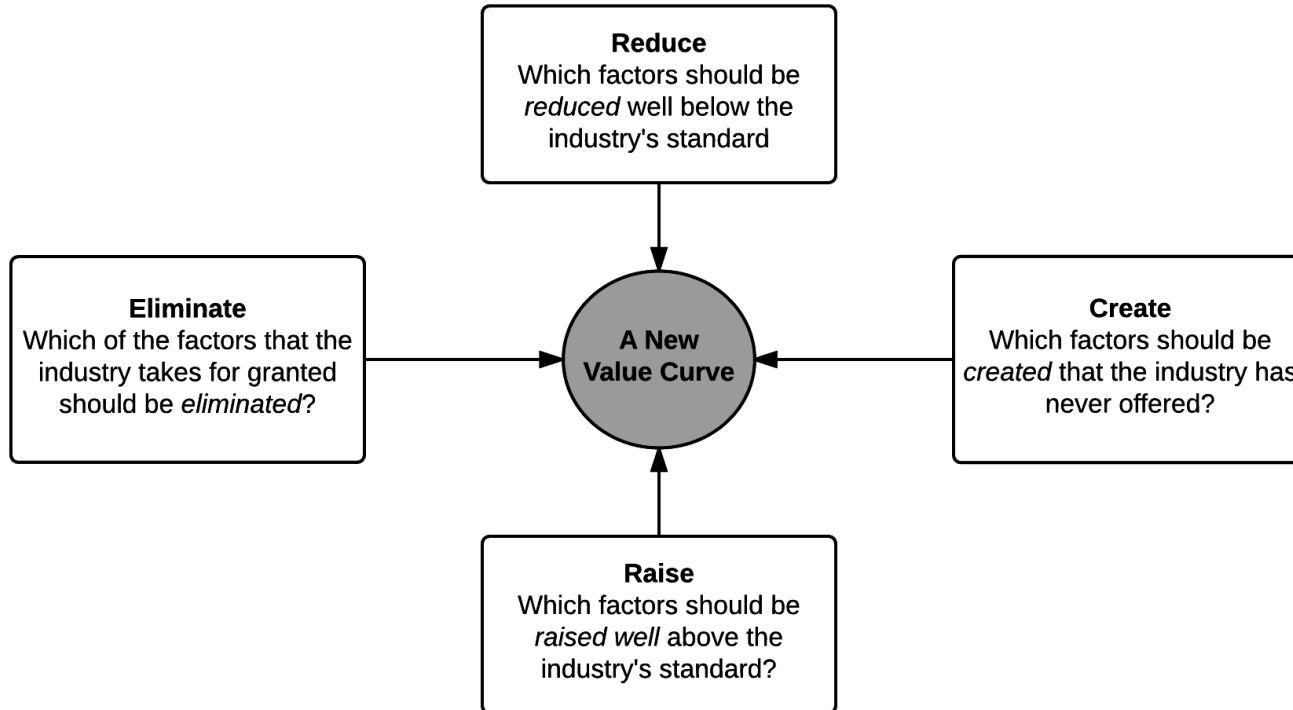
[yellow tail]:

- Aging and complexity was eliminated in crafting new wine. No tradition in the product.
- The price was a little higher.
- New factors introduced - wine soft in taste and approachable like ready to drink cocktails and beers.

Nonwine drinkers converted. Didn't steal drinkers from wine industry.



The four actions framework - summary



Eliminate-Reduce-Raise-Create Grid

<p>Eliminate</p> <p>Enological terminology and distinctions</p> <p>Aging qualities</p> <p>Above-the-line marketing</p>	<p>Raise</p> <p>Price versus budget wines</p> <p>Retail store involvement</p>
<p>Reduce</p> <p>Wine complexity</p> <p>Wine range</p> <p>Vineyard prestige</p>	<p>Create</p> <p>Easy drinking</p> <p>Ease of selection</p> <p>Fun and adventure</p>

Eliminate-Reduce-Raise-Create Grid

Eliminate-Reduce-Raise-Create Grid is a tool that corresponds with The Four Actions Framework.

The goal of the grid is to remind that:

- We should both differentiate and lower the cost
- We need to fill all the grid elements
- Not only raise and Create is important
- The key is reducing and eliminating.

Good strategy?

Three characteristics of a Good Strategy

Focus

Our strategic profile (or value curve) needs to be focused.

Divergence

Value curves need to stay apart from our market and industry.

Compelling tagline

Even if we don't have any compelling it must exist in our strategy.

Like „the speed of a plane at the price of a car” for airlines.

Three characteristics of a Good Strategy

If value curves lacks:

- **Focus** – it's cost structure will tend to be high, business model complex and hard to execute
- **Divergence** – it's a „me too” strategy
- **Compelling tagline** – it's either internally driven or innovation for innovation

If value curve:

- is convergent to competitors – it's Red Ocean
- deliver high on all factors – we oversupply, we offer too much
- is incoherent – (like a spaghetti) – it's not distinguishing enough from the best competitor
- internally driven (usually using Jargon or technical vocabulary) – it lacks focus on customer
- includes contradictions – offer high level on one factor, while ignoring others that support that factor

Summary Red Ocean vs Blue Ocean Strategy

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space.	Create uncontested market space.
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 or low cost.	Align the whole system of a firm's activities in pursuit of differentiation <i>and</i> low cost.

Summary

Blue ocean:

- ▷ Strategy doesn't focus on existing customers.
- ▷ It doesn't have to be a niche (segmentation is important, but not the only factor for Blue Ocean search)
- ▷ Value innovation matters (innovation itself doesn't fit)
- ▷ Don't differ. Create new market.
- ▷ Lowering the cost itself is not a Blue Ocean Strategy.

We've learned what is:

- ▷ Strategy Canvas
- ▷ The Four Actions Framework
- ▷ Three characteristics of a good strategy
- ▷ Eliminate-Reduce-Raise-Create Grid

See the constraints.

Reconstructing market boundaries: Six Paths Framework

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How to find a way out of Red Ocean strategies?

Our plan.

We will look across:

1. alternative industries
2. strategic groups within industries
3. the chain of buyers
4. complementary products and service offerings
5. functional and emotional appeal to buyers
6. time

Look across: Alternative industries

Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Going to the Cinema

Substitute:

- watching Netflix

Alternative:

- go to the restaurant

Substitute:

- different form,
- the same function,
- the same objective,

Alternative:

- different form,
- different function,
- the same objective,

Real life example. NetJets:



Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Corporate flights:

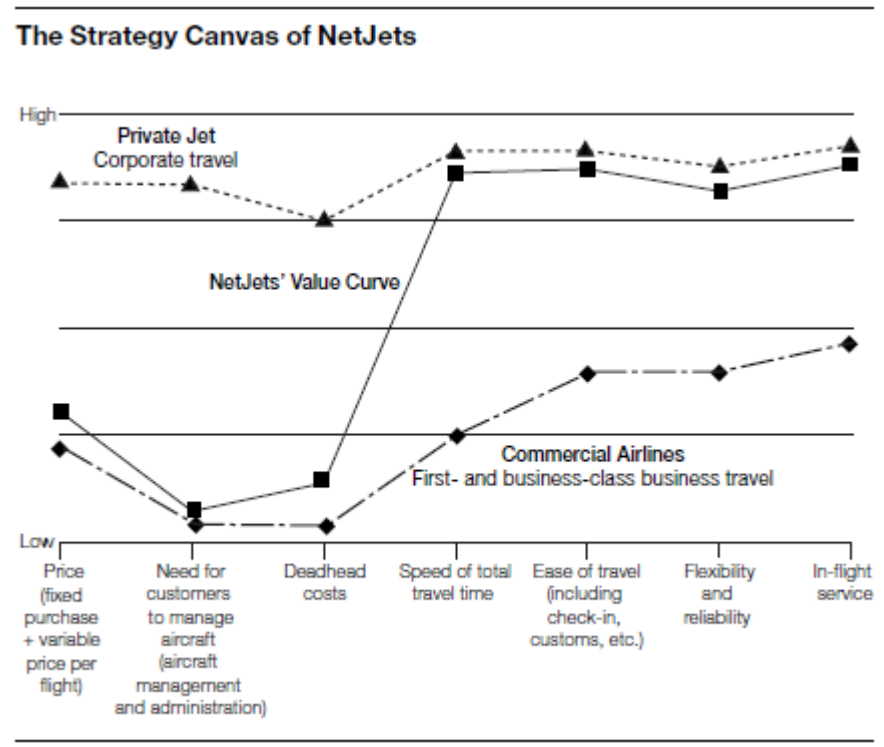
- Business class
- Buying a plane

NetJets alternative:

- Sharing 1/16 of a plane
- Available in 4 hours
- 50 hours flight time/y
- From \$375k/year

Example:

- Alternative industries
- Strategic groups within industry
- Chain of buyers
- Complementary products and services
- Functional or emotional appeal
- Time



Look across: Strategic groups within industry

Alternative industries

Strategic groups within industry

Chain of buyers

Complementary products and services

Functional or emotional appeal

Time

Strategic groups are group of companies that have the same business model or similar combinations of strategies.

Usually two factors define strategic groups:

- Price
- Performance



Real life example.

Curves:



Afternoon workout:

- Trendy facilities
- DIY programs 😊

Curves alternative:

- Only women
- Machines arranged in circles
- Machines simple
- Accessible venues
- Cheaper

Tagline:

for the price of a cup of coffee a day you can obtain the gift of health through proper exercise

Alternative industries

Strategic groups
within industry

Chain of buyers

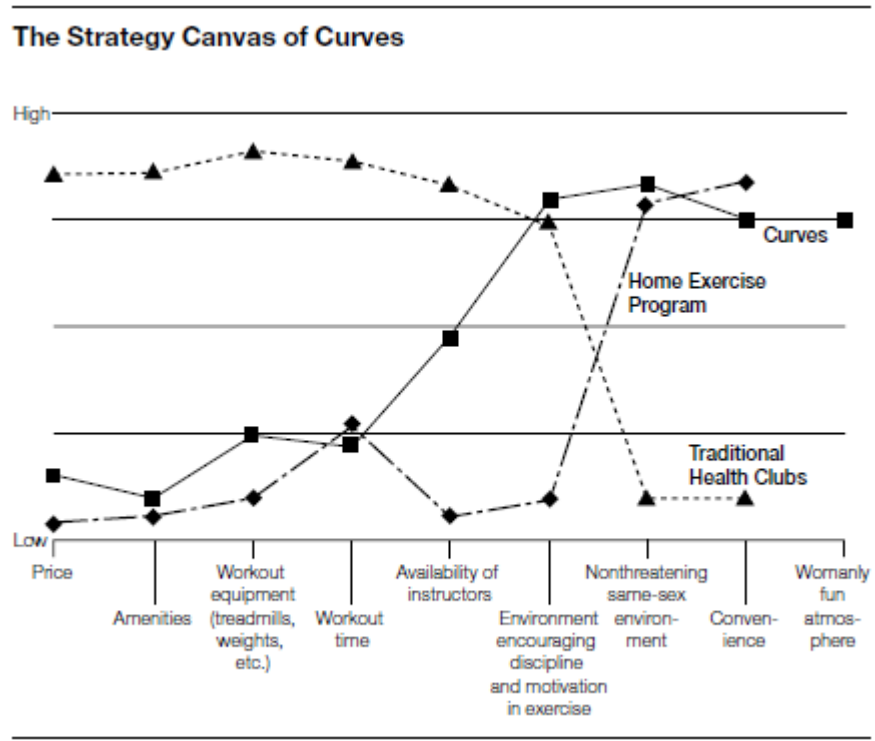
Complementary
products and services

Functional or
emotional appeal

Time

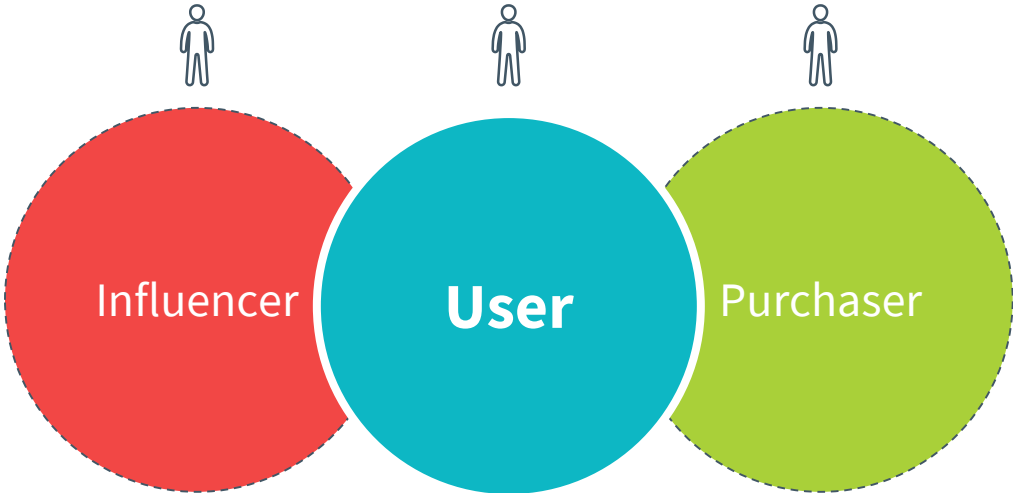
- Alternative industries
- Strategic groups within industry
- Chain of buyers
- Complementary products and services
- Functional or emotional appeal
- Time

Curves example:



Look across: Chain of buyers

- Alternative industries
- Strategic groups within industry
- Chain of buyers
- Complementary products and services
- Functional or emotional appeal
- Time



Real life example. Bloomberg:

Alternative industries

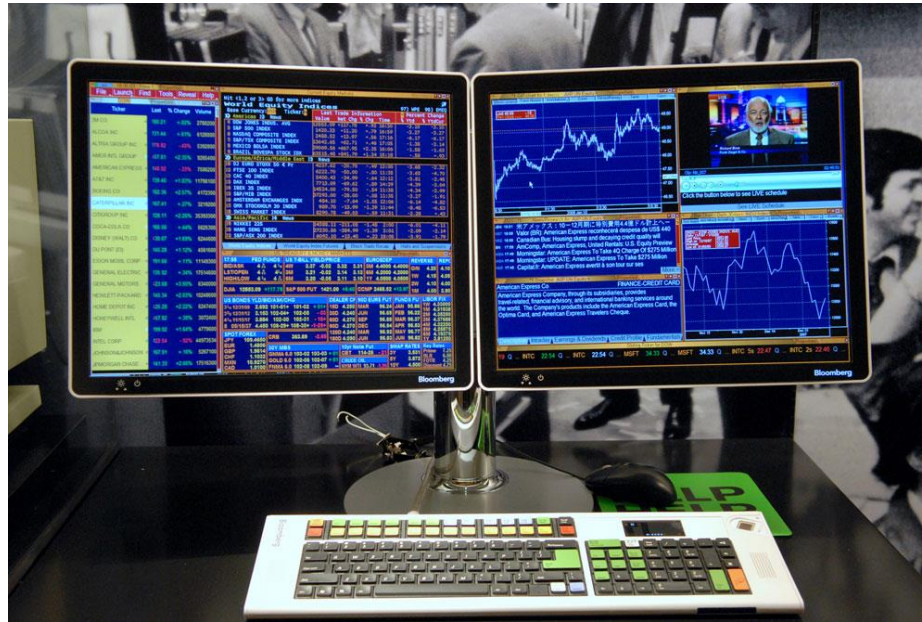
Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time



Traders:

- Reuters, Telerate + pencils
- Bought by IT departments

Bloomberg:

- Easy terminals
- Redesigned keyboards
- What-if scenarios
- Improved analytics (before act)

Look across: Complementary products or services

Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

What is complementary product:



Babysitter:



Parking a car:



Real life example.

Nabi:



Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Transportation competition:

- Lowest purchase price

Nabi alternative:

- Higher initial prices
- Much lower TCO
- (fuel consumption, cheaper fiberglass parts, lower corrosion)
- Nice design
- Customer and environmental friendly

Look across: Emotional or functional appeal

How are these two services different:



Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Real life example.

QB House:



Another example:
 Patrimonio Hoy – building materials. Cemetery.
 One dollar shave club.

Alternative industries

Strategic groups
 within industry

Chain of buyers

Complementary
 products and services

Functional or
 emotional appeal

Time

Asian haircut industry:

- 1 hour emotional experience

QB House alternative:

- Less time
- Less money

Look across: Time

Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Project the future 😊

In which direction technology will evolve?

How it will be adopted?

Will it be scalable?

How the trend will change the value to customers?

Alternative industries

Strategic groups
within industry

Chain of buyers

Complementary
products and services

Functional or
emotional appeal

Time

Real life example. iTunes:



Another example:
iPhone

MP3 industry:

- Many hardware vendors
- Many illegal mp3 resource

iTunes alternative:

- Legal music made easy
- No security threats
- One song option

Implementation

Strategic Planning Process of Blue Ocean

Strategic planning process

Can each and every employee describe a strategy in a few words?

Can you do that?

(or can a managers, marketing, C-levels do that?)

Is there a **focus, divergence** and **compelling tagline**?

We usually see within our scope of responsibility.

(i.e. catering company sees the airline industry in a scope of refreshments)

Strategic planning process – 4 steps

We'll introduce four steps:

1. Visual Awakening
2. Visual Exploration
3. Visual Strategy Fair
4. Visual Communication

We need to **focus on the big picture** and draw strategy canvas:

- it reveals the strategic profile of an industry, by depicting very clearly the factors,
- it shows strategic profile of current and potential competitors
- it shows our company strategic profile

Drawing canvas is never easy, and never finally done.

4 steps – Visual Awakening

Visual Awakening:

- compare your company (as is) to competitors
- see where you need to change

ToDo:

- Gather people (managers, c-levels, owners)
- Draw your company as is
- If company is large enough and present in many industries (do this for each one)
- 90 minutes time (if there's a clear strategy – it's enough)
- Do the presentations

4 steps – Visual Exploration

Visual exploration:

- you need to meet your clients, your competitors clients, non customers
- talk to them - do it yourself! (managers, in SMB c-levels) -
- don't outsource this!
- check the six paths for creating blue ocean
- see what factors need to be eliminated, changed and removed

Real life examples (kinopolis + childcare, bloomberg)

4 steps – Visual Strategy Fair

Visual Strategy Fair

- work on your potential canvases (in separate groups)
- draw all of them
- present to audience – clients, competitors clients, managers, non consumers)

Voting:

- Audience gets sticky notes (i.e. 5 for 12 presentations) and votes with them
- Audience explains voting and not voting for each particular presentations.

Use this feedback, improve the canvas and draw your future canvases!

4 steps – Visual Communication

Visual Communication:

1. distribute your before and after strategic profile (one pager, easy comparison)
2. support only those projects and operational moves that allow your company to close the gaps to actualize the new strategy

3 tiers of noncustomers

3 tiers of noncustomers

Your market is usually the place of red ocean.

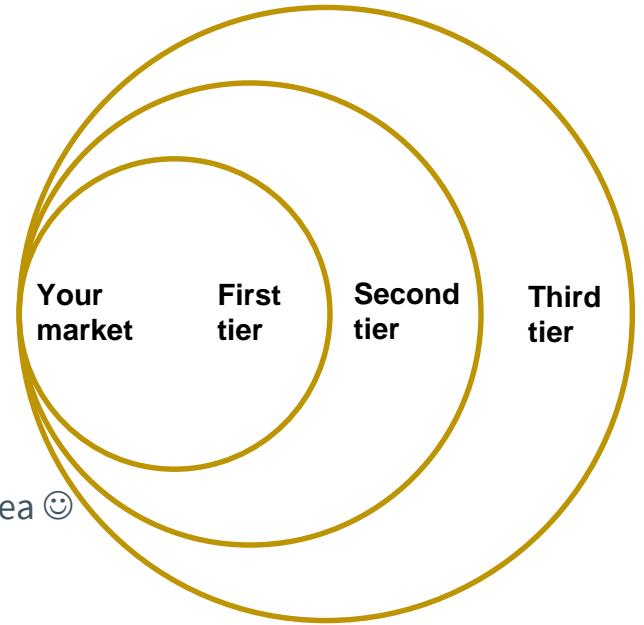
Companies look for finer segmentation and offer more customized products.

Addressing smaller market with higher costs? - not the best idea 😊

We'll seek over three tiers of noncustomers:

- *First tier* – „soon to be” noncustomers
- *Second tier* – „refusing” noncustomers
- *Third tier* – „unexplored” noncustomers

Let's take a look at them.



1st tier
„soon to be”

2nd tier
„refusing”

3rd tier
„unexplored”

„Soon to be”

Key characteristics:

- Sit on the Edge of the market
- Minimally buy, but mentally stay noncustomer
- They're waiting to jump ship and leave the industry, they search of better solution

Ask them why to they want to leave the industry and look for commonalities across 1st tier noncustomer responses.

If offered a leap in value they'll buy frequently

Real life example:

„Pret A Manger” - offer between unhealthy fast-food and time consuming restaurants.

1st tier
„soon to be”

2nd tier
„refusing”

3rd tier
„unexplored”

„Refusing”

Key characteristics:

- They know the offering that fulfill their need, but refused it.
- They do not use it or can't afford it.

Market constraints are sometimes taken for granted here.

Again – ask and look for commonalities – why they're not using the market offer.

Real life example:

„JCDecaux” - municipal furniture as an outdoor advertisement
(before – people didn't spend enough time on watching the ad, hence longer exposure and acceptable cost)

1st tier
„soon to be”

2nd tier
„refusing”

3rd tier
„unexplored”

„Unexplored”

Key characteristics:

- They have never thought of your market offering as an option.
- They haven't been targeted or thought of as a potential customer.
- Business opportunities associated with them have been assumed to belong to other markets.

Real life example:

Long held assumption – tooth whitening a service provided only by dentists not by oral care consumer-products.

Which tier is best?

Search for the biggest catchment!

Execute!

```
ceo@business $> ./run_strategy.sh
```

Execution is crucial – find it in a book 😊

Overcome organizational hurdles:

- **Cognitive**
- **Political**
- **Motivational**
- **Resource**

A company is not the management level – it's each and every one employed.
Engage people.

How to renew a Blue Ocean Strategy.

Summary Red Ocean vs Blue Ocean Strategy

	Head to Head Competition	Blue Ocean
Industry	Focus on rivals	Look across alternative industries
Strategic Group	Focus on competitive position	Look across groups
Buyer Group	Focus on better serving	Redefine the buyer
Scope of product or service offering	Focus on maximizing the value of product within the bounds of industry	Look across complementary products
Functional-emotional appeal	Focus on improving price performance	Rethink functional-emotional orientation
Time	Adapt to trends	Shape the trends