

Learning Objectives

Introduction to Blue Ocean Strategy


- Three tiers of noncustomers
- Four Actions Framework (ERRC Grid)
- Six Paths Framework

Δ or Δ | Δ or Δ
 Δ or Δ | or Δ

Red. Blue

Judo Strategy ←

Action Based Model of Competition *Red Ocean Strategy.*



1

The story of David vs Goliath

SIEBEL

Largest vendor of CRM

\$1.8 bn revenues

\$2.2 bn cash

\$5.8 bn valuation by Oracle

3.8 mn users

0.05 mn on demand users

cloud subscription.

salesforce

Pioneer in SAAS

\$309 mn revenues


\$100 mn cash

\$4 bn market capitalization

0.4 mn users (majority on demand)

David.

←



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Creating a Blue Ocean in the B2B Space

Traditional CRM software industry

- Product:** Packaged, highly customized software that needs to be installed on the client side
- Customers:** Large businesses that have complex requirements for their organizations and customers
- Players:** Numerous players including large ERP vendors, such as SAP, Oracle, and PeopleSoft
- The market was highly competitive, with players competing on features and price, and subject to changing technology and shifting customer needs

Seibel.

How can a company create a blue ocean in this industry?



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Creating a Blue Ocean in the B2B Space

Three platforms of a business offering

Product platform


Physical product

Service platform

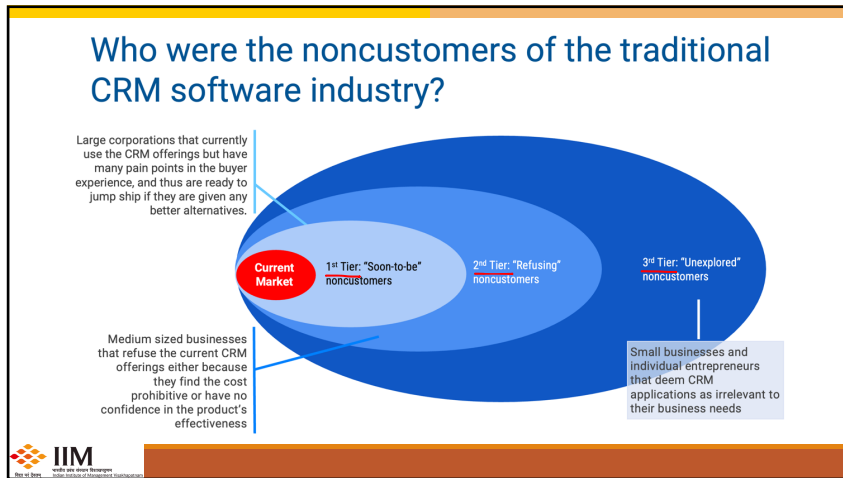
- Maintenance
- Customer service
- Warranties
- Channel training

Delivery platform

- Logistics
- Channels used to deliver the product to customers



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- ### What Noncustomers Reveal
- Many pain points in traditional CRM offerings
- Complicated installation process on the client side
 - Long purchase and implementation cycles (more than 3 months for purchase; 18-24 months for full implementation)
 - High risk (payment without verifying effectiveness, low performance or failure after installation)
 - Difficult to use due to complicated user interface
 - Accessible only from the office
 - Constant need for client-side updates and compatibility check
 - High cost
- IIM**
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How Traditional CRM Offerings Limit Demand for their Industry

Biggest blocks to utility of traditional CRM offerings

The Six Stages of the Buyer Experience Cycle

	Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Customer Productivity		✗	✗			
Simplicity	✗	✗	✗		✗	
Convenience	✗	✗	✗		✗	
Risk Reduction	✗	✗				
Fun & Image						
Environmental Friendliness						

The Six Utility Levers

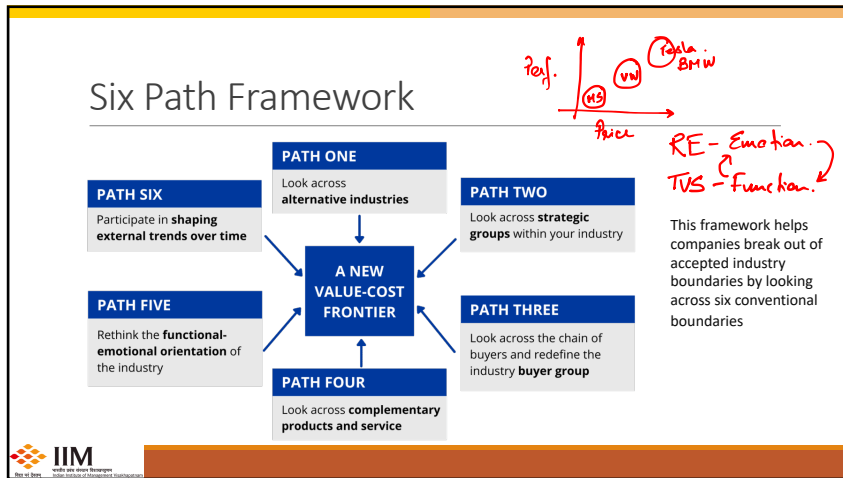
Buyer Utility Analysis of the CRM Software

IIM
INSTITUTE FOR INTEGRATED MARKETING

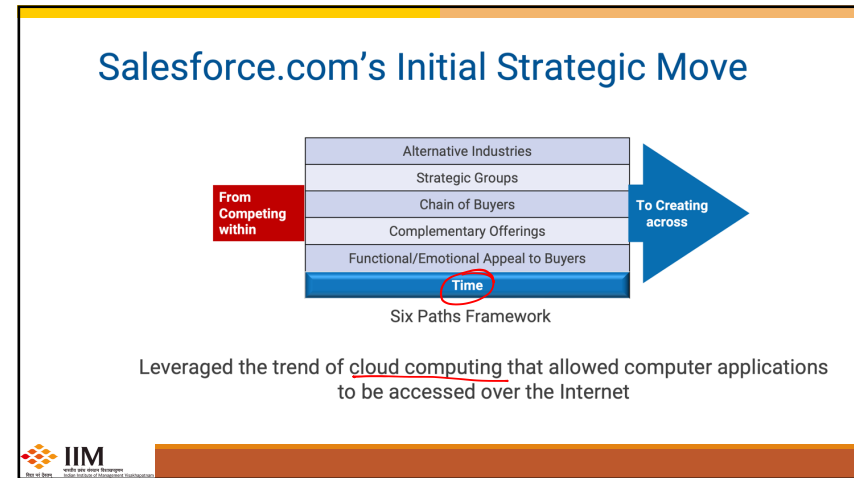
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- ### Salesforce.com's Initial Strategic Move
- Salesforce.com set out to remove the major pain points the industry imposed to grow demand
- No client-side installation needed
 - Shortened and simplified purchase and implementation process (ready to use within a few days of sign-up)
 - Reduced risk (test before purchase, rapid deployment cycle, ease of product demonstration)
 - Easy to use thanks to simple and standardized user interface
 - Accessible from multiple devices
 - Maintenance and upgrades performed centrally by Salesforce.com
- IIM**
INSTITUTE FOR INTEGRATED MARKETING

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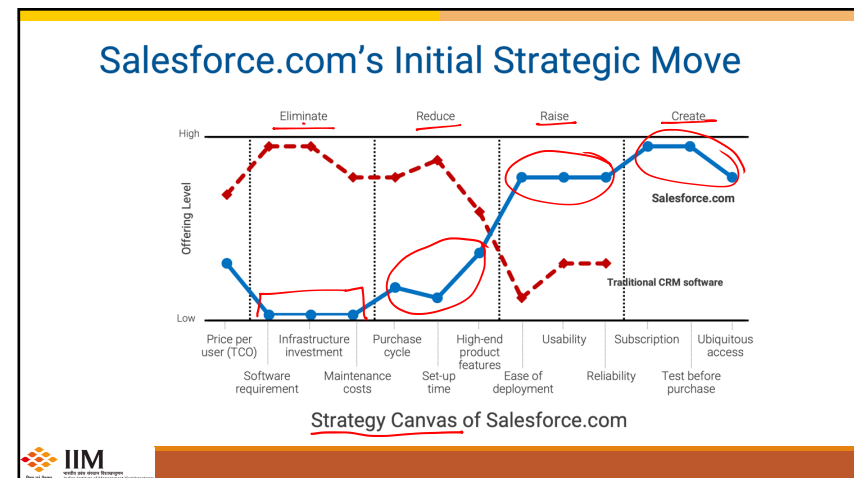
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Salesforce.com's Initial Strategic Move

ERRC

<p>ELIMINATE</p> <ul style="list-style-type: none"> Software requirement Infrastructure investment Maintenance costs 	<p>RAISE</p> <ul style="list-style-type: none"> Ease of deployment Usability Reliability
<p>REDUCE</p> <ul style="list-style-type: none"> Purchase cycle Set-up time High-end product features 	<p>CREATE</p> <ul style="list-style-type: none"> Subscription Test before purchase Ubiquitous access

ERRC of Salesforce.com

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Salesforce.com's Initial Strategic Move

The Result: Removed Key Blocks to Utility

The Six Stages of the Buyer Experience Cycle

	Purchase	Delivery	Use	Supplements	Maintenance	Disposal
Customer Productivity		✗	✗			
Simplicity	✗	✗	✗		✗	
Convenience	✗	✗	✗		✗	
Risk Reduction	✗	✗				
Fun & Image						
Environmental Friendliness						

Buyer Utility Analysis of the CRM Software

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Creating a Blue Ocean in the B2B Space

Does blue ocean strategy apply to the B2B area? *20%*
8%

- Difficulties that B2B managers encounter:
 - Range of customers appears limited.
 - Product is seemingly a commodity.
 - Product appears subject to specific requirements of customers.

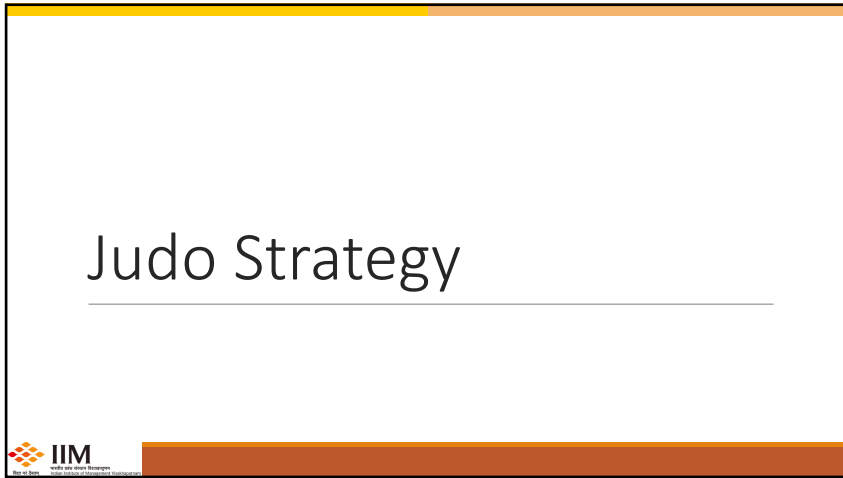
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Creating a Blue Ocean in the B2B Space

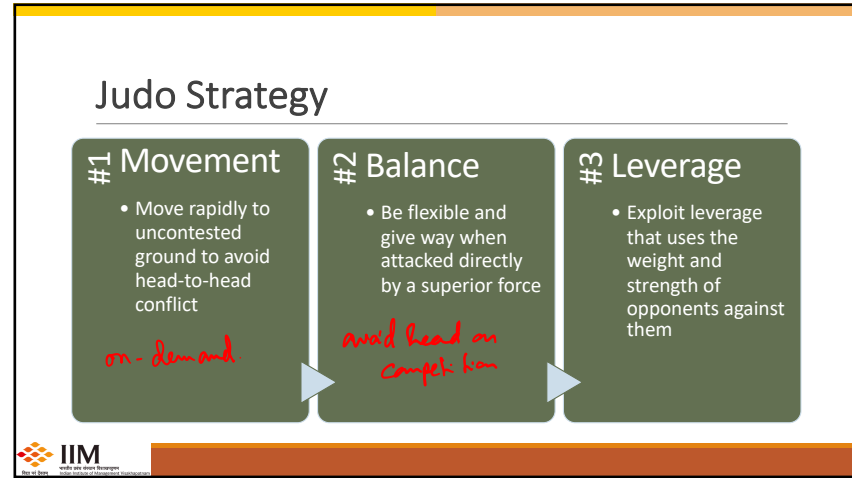
Does blue ocean strategy apply to the B2B area? *Contractors.*

- The logic of value innovation applies to B2B businesses as well.
- The chain of buyers that a B2B player faces often offers more opportunities for value innovation.
- When value innovation opportunities are not apparent on the product platform, think about the service and delivery platforms.

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Red Ocean Strategy.

Action Based Model




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Action Based Model of Competitive Advantage

Firms act, and rivals react, and it is in the context of action and reaction that competitive advantages are created and eroded over time

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graph TD
    Action([Action]) --> Interaction([Competitive Interaction])
    Response([Response]) --> Interaction
    Interaction --> Advantage([Competitive Advantage and Performance])
    
```



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Action Based Model of Competitive Advantage

Organizations as problem solving entities capable of learning and adjusting

- By acting, a firm learns about the success of its actions and the reactions of its rivals, and adjusts future actions based on that information

Competitive actions and responses stem from resources.

- A firm's relative resource position affects the type of action the firm can undertake



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Action Based Model of Competitive Advantage

Firms have choices about action, and decision-makers must choose between alternative actions based on the firm's resources and the expected responses by rivals

- Engage rivals with competitive actions
- Work with rivals through cooperative actions



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Action and Response Framework

The core of the Action-Based Model is the sequence of competitive actions and responses.

Actions are initiatives a firm takes to improve its market position, such as launching a new product, adjusting prices, or entering new markets.

Responses are counter-actions taken by competitors to neutralise or counteract these initiatives.



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Drivers of Actions and Responses

Market Commonality: The extent to which firms compete in the same markets. High market commonality increases the likelihood of competitive actions and responses.

Resource Similarity: The extent to which firms have similar resources and capabilities. Greater similarity often leads to more intense competition.

Awareness, Motivation, and Capability (AMC): A firm must be aware of competitors' actions, be motivated to respond, and have the capability to do so. This AMC framework is crucial in predicting competitive dynamics.



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Competitive Response

A competitive response is a market move taken by a firm to counteract the initial competitive action of a rival

Response lag: The average amount of time in days a firm takes to respond to a competitor's action

- The longer the response time, the greater the advantage to the actor; the greater the response speed, the greater the advantage to the reactor

R&D → New product



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Types of Actions

Actions can be categorised based on various dimensions:

Strategic vs. Tactical: Strategic actions are significant, long-term initiatives like mergers or entering new geographic markets. Tactical actions, such as price changes or promotional campaigns, are more routine and short-term.

Proactive vs. Reactive: Proactive actions are initiated by a firm without any immediate competitive pressure, while reactive actions are in response to competitors' moves.



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Types of Competitive Strategic Actions

A competitive action is a specific and observable competitive move, such as a new product introduction, advertising campaign, or price cut, initiated by a firm to improve or defend its relative competitive position

Actions can be broadly classified as

- 1 ◦ Entrepreneurial
- 2 ◦ Ricardian
- 3 ◦ Deterrent
- 4 ◦ Co-optive



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Entrepreneurial Action

Entrepreneurial actions are ones that implement new combinations of existing resources

- They often involve innovation and first-mover advantages

As most entrepreneurial actions do not require unique resources, rivals often can react to them easily

- Effective entrepreneurial actions delay competitive reaction by exploiting competitive uncertainty and blind spots



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Avoiding Rivals with Entrepreneurial Actions

A firm that has both an internal and external resource disadvantage in relation to a competitor

- An entrepreneurial firm or an established firm in need of a turnaround

Must avoid competition to prevent losing a head-on battle with a more resource-rich rival

- Best option is to discover and seize new opportunities that the rival will not immediately perceive or counter

Competitive response to entrepreneurial actions may be delayed because rivals are either uncertain of the payoffs or unaware that the action has occurred



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2 Ricardian action

Ricardian actions exploit scarce, superior resources that are owned by the firm

- competitive actions that stem from the ownership of unique and strategically relevant resources

Linked to the resource-based view of the firm



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Engaging Rivals with Ricardian Actions

Firm with specific relative resource advantages but lacking the market position to engage rivals

- The resources must be scarce and heterogeneous across firms to produce advantage *VRIO*

Exploit the specific resource by linking it appropriately with a suitable Ricardian action

- The greater the scarcity of the resource, the greater is the delay in competitive response

Rivals may be motivated to imitate but are prevented or blocked from imitation because of their inability to secure in a timely way the resources needed for action



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3 Deterrent action

Deterrent actions evolve from external market power and market leadership

- Actions of dominant firms to defend market position
- Limit pricing—setting a lower price than would otherwise be profitable to inhibit or slow the rate of entry
- Entry-detering actions such as extensive advertising and promotion, investment in excess capacity, the proliferation of new products



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Engaging Rivals with Deterrent Actions

Firm with a strong market position, exploits market power, by undertaking deterrent actions

Deterrent actions delay response through intimidation

- The greater the reputation of the dominant firm for intimidation and market power, the greater is the potential delay in competitive response



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4 Co-optive action

When no one firm in an industry has a decisive resource advantage over the others, firms can achieve higher profit by acting collectively to limit rivalry than by engaging each other with competitive actions and escalating rivalry

Co-optive actions a firm can take to limit price rivalry are signaling advance information on price changes, disclosing price information and other competitive information through regular announcements, and consistently using base-point pricing



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Winning the Peace: Avoiding Warfare with Rivals

No firm has a resource advantage and the market positions of competitors are comparable

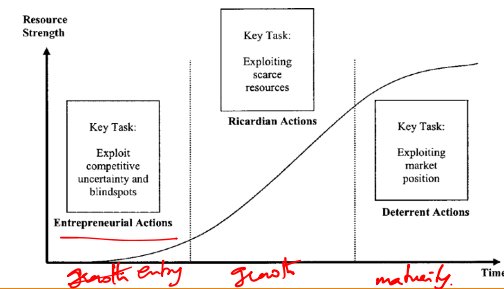
Engage in co-optive activities that stem or limit price competition

- Avoid rivalry through tacit coordination



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Action-Based Model of Organizational Evolution



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Recap

Introduction to Blue Ocean Strategy

- Three tiers of noncustomers
- Four Actions Framework (ERRC Grid)
- Six Paths Framework

Judo Strategy

Action Based Model of Competition

- 1
- 2
- 3
- 4

