



Red Ocean & Blue Ocean strategy

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Difference Between **Red Ocean** and Blue Ocean Strategy

Red Ocean Strategy



Many Companies Compete with Each Other in The Same Market

Blue Ocean Strategy



One Company Dominates the New Market



Tendency of the situation in global business and global market

- - Severe competition
 - - More and more companies enter the global market
 - - Most of the global companies imitate each other
 - - Competing in exiting global market is growing less profitable
 - - Less and less profit in the long term
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Red Ocean Strategy

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Red Ocean Strategy

- Red Ocean Strategy refers to the traditional marketing strategy to compete with the competitors.
- - Many companies compete to achieve competitive advantage
- - Many companies contest in the same market place
- - Aims to provide better service to customers
- - The focus is on existing customers, not creating new customers
- Example: Air Asia Airlines follow the red ocean strategy to beat their competitors

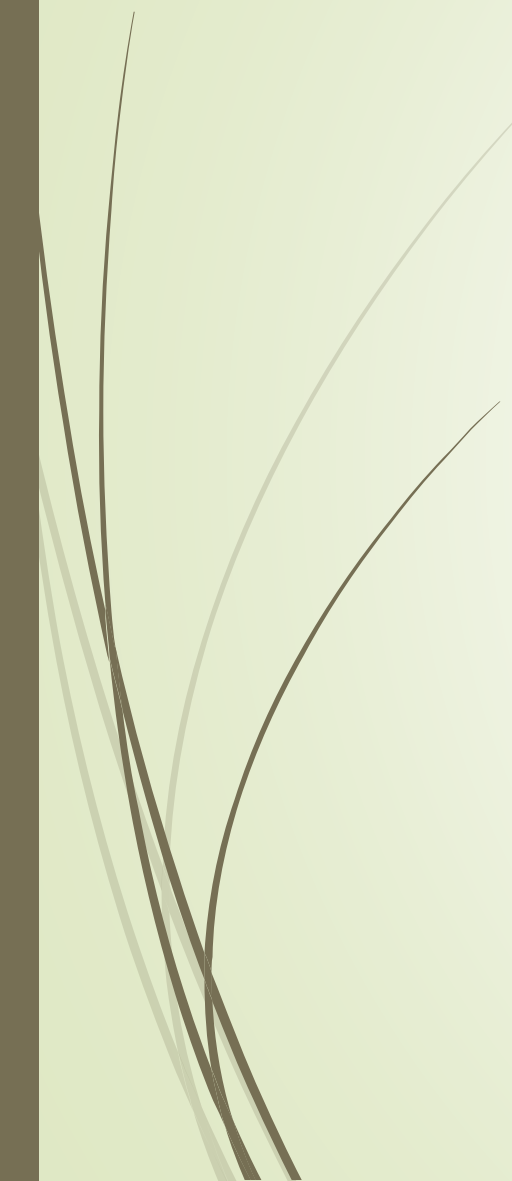


The Analogy of Red Ocean

- ▶ When many giant global companies competing each other in the same old market place, these companies are like sharks fight with each other in the same ocean. The ocean gets bloody or red due to the fierce fight of sharks.

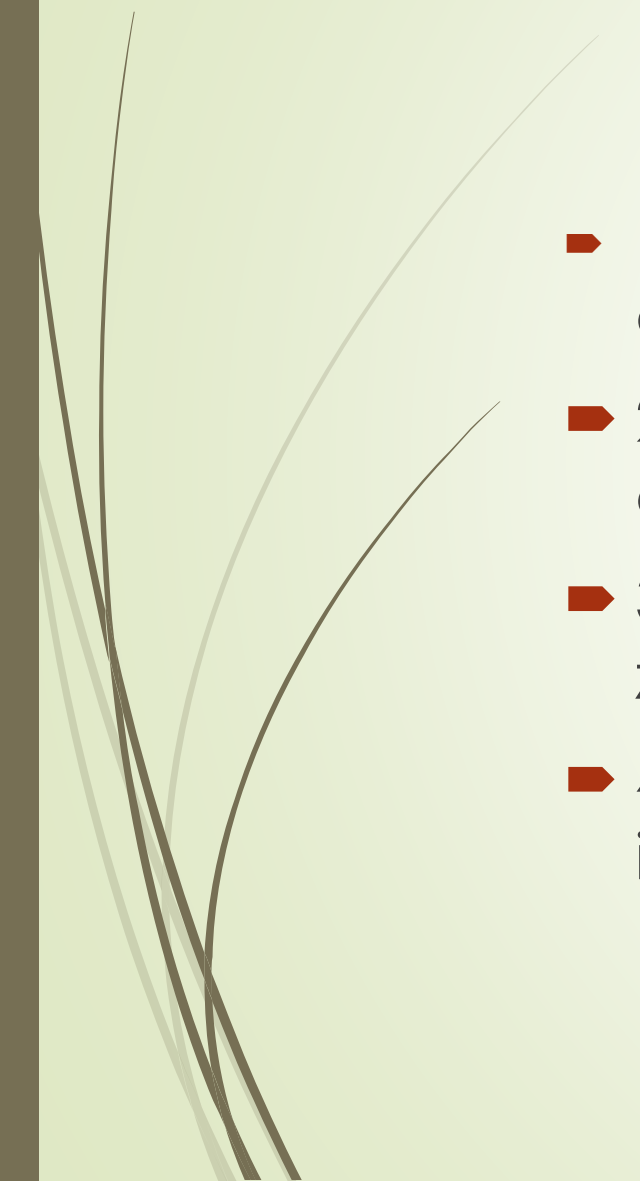


Advantages of Rea Ocean Market

- 1. Market has already existed, so not need to create a new marketplace.
 - 2. There is a demand for certain products and services, so new companies can enter the market and meet the demand.
 - 3. There are available information and experiences about the existing market.
 - 4. New companies can find ways to improve existing products and services.
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Disadvantages of Real Ocean Market

- 1. Many old companies are experienced in this market and hard to beat them.
 - 2. Most of strategies would be either a low cost strategy or differentiated / focus strategy.
 - 3. The severe competitions often results in low profit and zero profit.
 - 4. Most of new ideas of products and services are easily imitated by competitors.
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Blue Ocean Strategy

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Blue Ocean Strategy

- Blue Ocean Strategy refers the uncontested marketing policy that focus more on the innovation to reinvent the business than the head to head competition.
 - - It is a simultaneous process of opening new business
 - - It is a way to create new demand
 - - Therefore, competition is irrelevant at the beginning process.
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- Example: Netflix, Uber, Amazon are the best example of global companies who can create a new business in new demand in blue market.



The Analogy of Blue Ocean

- ▶ There is only one shark in the ocean. Therefore, there is no need to fight and there is no blood. Ocean is clear, fresh, and blue. The analogy is the blue ocean strategy is where only one company controls the market place.
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Red Ocean Strategy

- The contest in the same market
- Many companies compete with each other in the existing market.
- Best strategy is to beat competitors
- The companies pursue either cost or differentiation strategy.
- Adding value means adding costs

Blue Ocean Strategy

- Create an uncontested new market
- One company dominates the new market
- Best strategy is to expand demand.
- The company pursues innovation and quality strategy
- Adding value means adding satisfaction in each target group



Red Ocean strategy

- Exploit existing demand in old market
- Focus on competing with rivals within its industry
- Intend to provide better services to existing customers
- Focus on current customers
- Market is already established

Blue Ocean Strategy

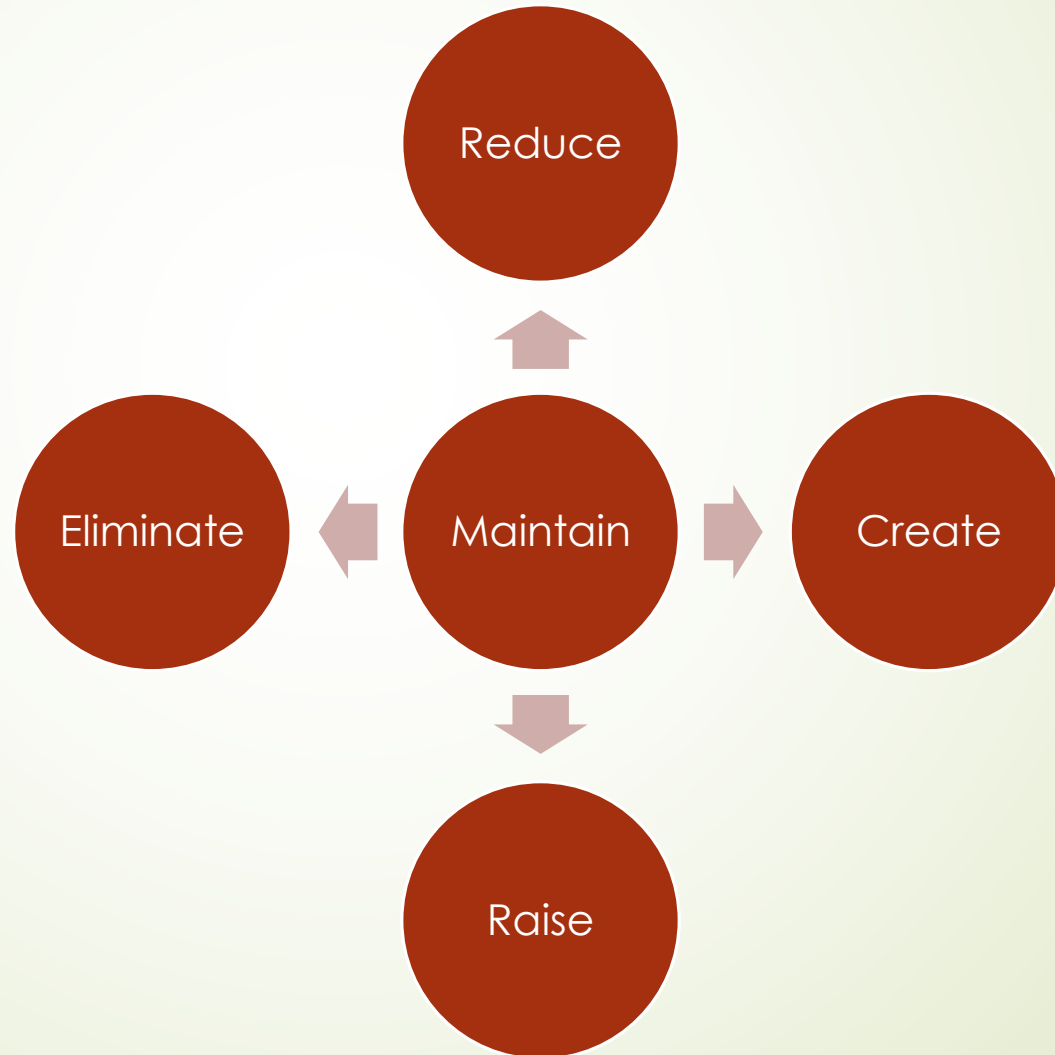
- Capture new demand in new market
- Focus on the customers' need and wants
- Intend to provide new services to new customers
- Focus on new customers
- Need to understand a new market



Five Actions Model

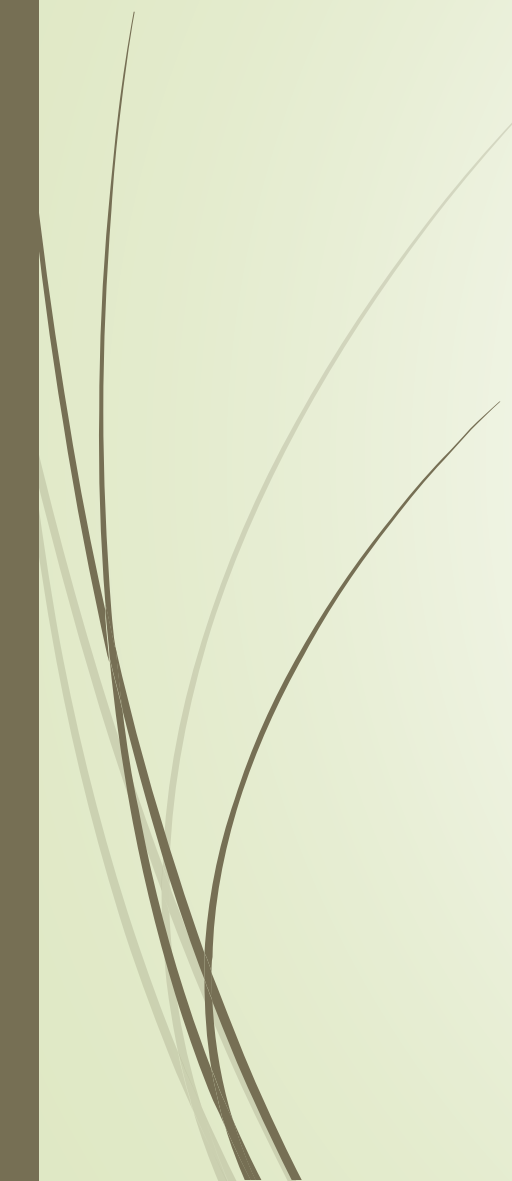
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Five actions model for blue ocean framework





1. Eliminate

- Which of the factors that the industry takes for granted should be eliminated?
 - What acts and activities should be eliminated?
 - E.g. Amazon eliminates all showrooms, but online buying and selling only.
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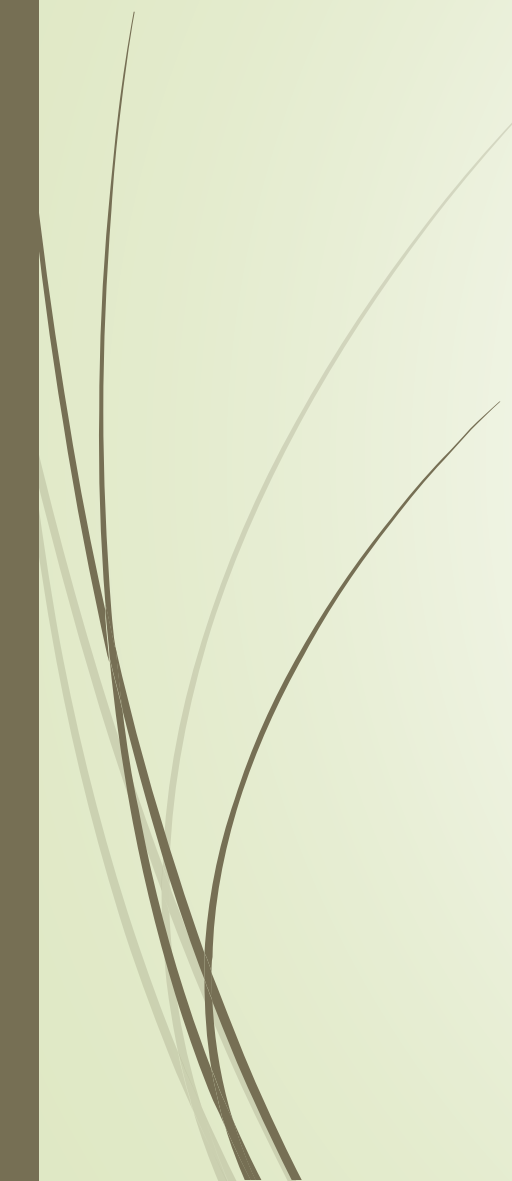


2. Reduce

- Which factors should be reduced well below the industry standard?
- What acts and activities should be reduced?
- E.g. Netflix reduces the application process to be simple, easy, and fast.

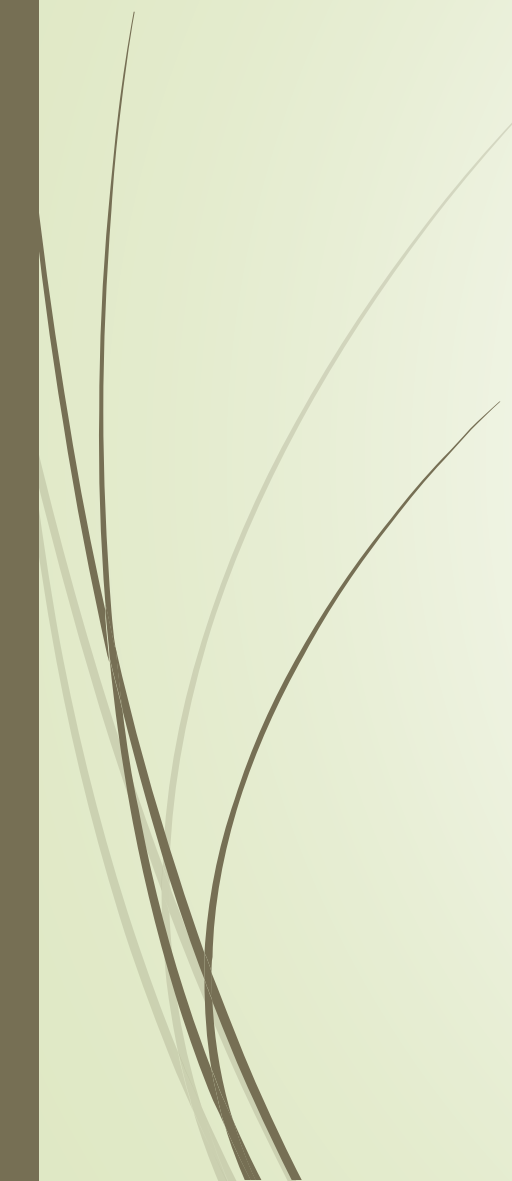


3. Raise

- Which factors should be raised well above the industry standard?
 - What acts and activities should be raised?
 - E.g. Starbucks raises the quality of coffee and coffee experiences.
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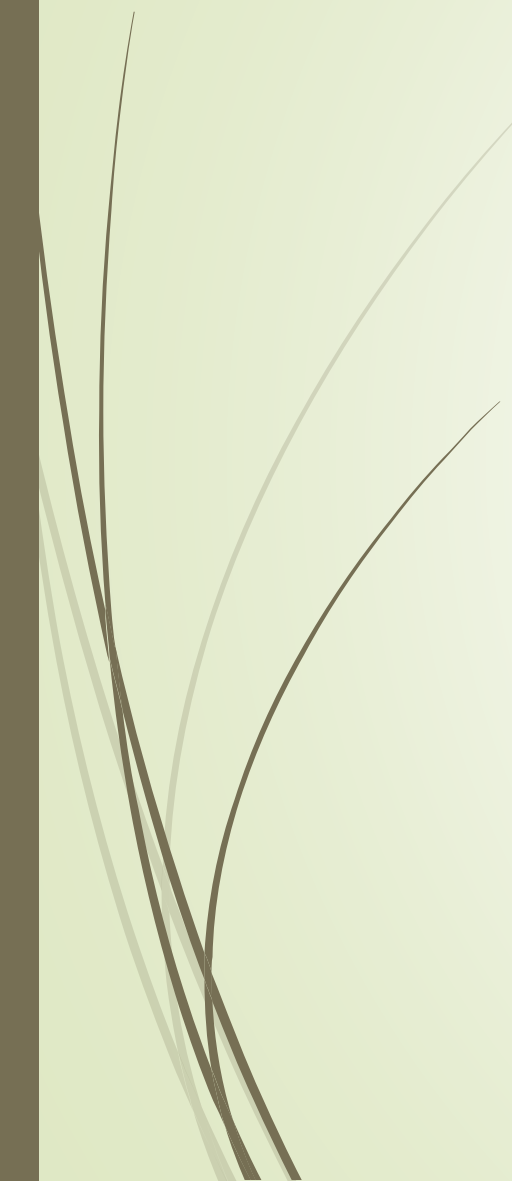



4. Create

- Which factors should be created that the industry has never offered?
 - What acts and activities should be created?
 - E.g. I-phone creates a touch screen.
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5. Maintain

- ▶ Which factors should be maintained within the industry standard?
 - ▶ What acts and activities should be maintained at current level?
 - ▶ E.g. Toyota maintains its high service quality and guaranteed.
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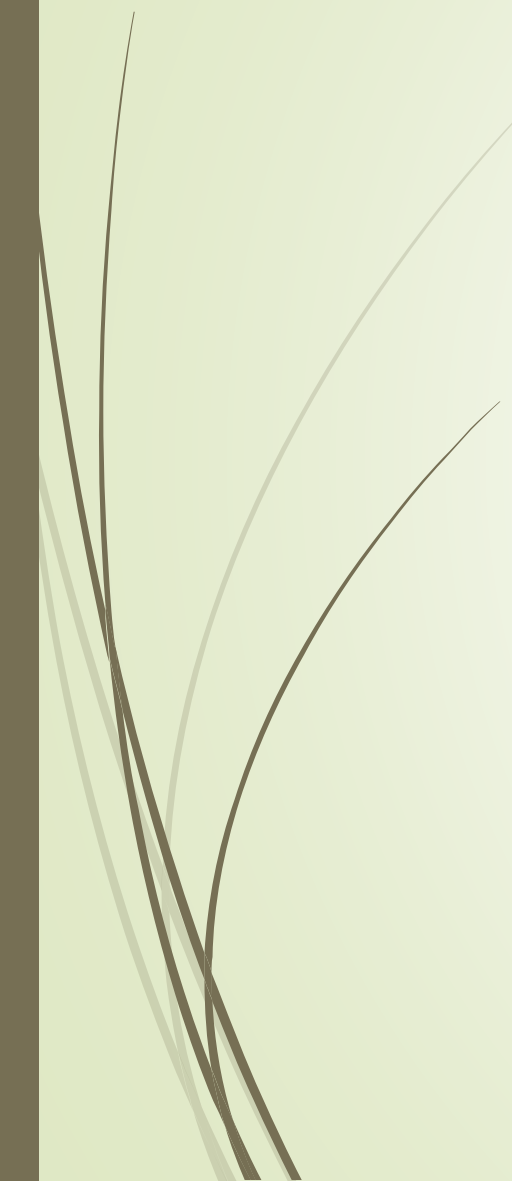


Another way to look at five
actions for blue ocean
framework.

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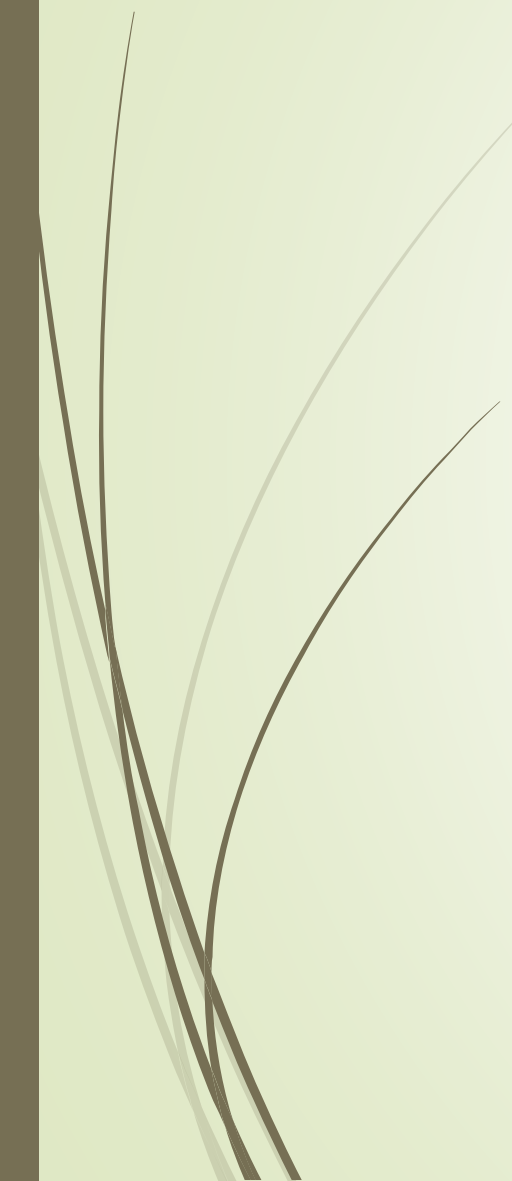


1. Eliminate

- To eliminate what customers used to want in the past and no longer need this product or services. It is useless to keep it because time changes and consumer behaviors change.
 - E.g. typewriter, Black & White Television, VDO tape
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2. Reduce

- To reduce some items or standard that customers do not care. Try to achieve high standard of some products or service that customers do not care very much is useless.
 - E.g. Public telephone, Home and office phone, Music on CD
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3. Raise

- ▶ 3. To increase the more items or standard of service to be higher than any company in the whole industry. This means focus on our core competency which is our strength. We want to keep it higher standard than any other companies.
- ▶ E.g. Internet hi-speed, Online Services

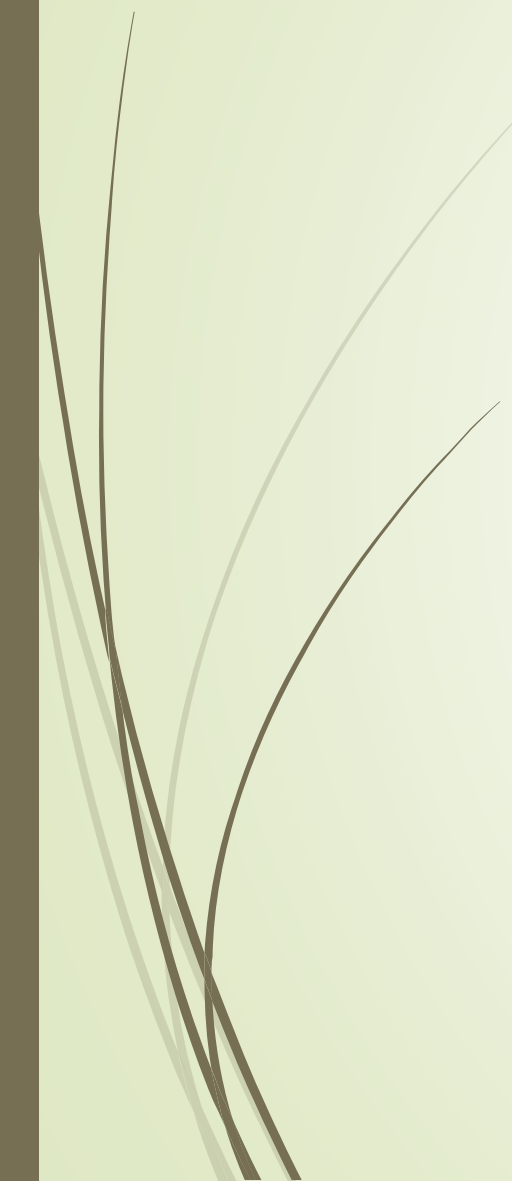


4. Create

- ▶ To create new product and service that customers value or think it is important.
 - ▶ This has to do with new ideas, new services, new products.
 - ▶ E.g. the new menu must be in our buffet line of Oishi Japanese restaurant every three months.
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5. Maintain

- To maintain whatever customers are already happy or what we have satisfied customers and believe that this products and service will be needed in the near future.
 - E.g. hybrid car
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Southwest Airline

(The first low cost airline)

- A transforming from a normal airline into the first low cost airline in the world by using five actions model.
- 1. eliminate – meals and drinks on airplane
- 2. reduce - connecting fights, lounge, price
- 3. raise – more direct fights and short fights
- 4. create – booking and buying on internet.
- 5. Maintain – speed, fast travel



What are the
strategies for locating
production facilities?

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What are the strategies for locating Production Facilities?

Two basic strategies:

1. Centralized location
2. Decentralized location



Strategy for Centralized Location

- This means to locate all production facilities in one specific region or one country and serving the global market from there.
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Strategy for Centralized Location

- Why do we want to centralize location of production?
- 1. Your production process has a high fixed cost. You need to build one mega manufacturing facility and distribute all over the world.
- 2. It requires to produce a very large quantity to reduce cost or achieve economies of scale.



Strategy for Centralized Location

- Why do we want to centralize location of production?
- 3. Your product serves universal needs such as cold medicine, covid19 vaccines.
- 4. Your product is a light weight and has a low cost of transportation such as pharmaceutical products.




Strategy for Centralized Location

- ▶ Why do we want to centralize location of production?
- ▶ 5. Your product faces with low import tax, low barriers, and stable exchange rate.
- ▶ 6. Your manufacturing technology is a super secret or confidential.



Strategy for Decentralized Location

- This means to locate your production facilities in many countries or many regions all over the world. Each production area will mainly serve each local market.
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Strategy for Decentralized Location

- Why do we want to decentralize location of production?
- 1. Your production process has a low fixed cost. You can build many small or medium size of manufacturing facilities all over the world.
- 2. It does not require to produce a very large quantity to reduce the cost.



Strategy for Decentralized Location

- ▶ Why do we want to decentralize location of production?
- ▶ 3. Your product needs to make an adjustment to local culture and taste such as food products.
- ▶ 4. Your product is heavy and has high transportation cost such as Coke, Pepsi, Beer.



Strategy for Decentralized Location

- ▶ Why do we want to decentralize location of production?
- ▶ 5. Your product faces with local high imported taxes, high barriers, and unstable exchange rate.
- ▶ 6. Your manufacturing technology is not a super secret or confidential.



Assignment # 6

- 1. Define the word “Red Ocean and Blue Ocean” by using the analogy with your own examples.
- 2. List and explain ten differences between Red Ocean and Blue Ocean.
- 3. Draw a chart and explain five actions model with your own examples.
- 4. Use five actions model to transform a luxury hotel in Beijing, China into a low cost hotel. (see Southwest example)
- 5. Assume that you are making a strategic decision to sell new brand of Chinese beers in Thailand. Explain five reasons for your decision to use strategy for centralize **or** decentralize location of production.