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Making the Competition Irrelevant - The Blue Ocean Strategy

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CORNHUSKER ECONOMICS

Making the Competition Irrelevant - The Blue Ocean Strategy

Market Report	Yr Ago	4 Wks Ago	12/8/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$91.27	\$85.30	\$86.35
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	131.82	107.61	114.74
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	118.05	99.06	105.31
Choice Boxed Beef, 600-750 lb. Carcass	155.80	144.90	142.53
Western Corn Belt Base Hog Price Carcass, Negotiated	61.64	60.04	60.91
Feeder Pigs, National Direct 45 lbs, FOB	60.35	56.75	54.81
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	67.44	65.75	65.83
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	85.00	*	*
National Carcass Lamb Cutout, FOB	246.30	251.11	254.27
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	*	4.62	4.48
Corn, No. 2, Yellow Omaha, bu	1.81	3.15	3.33
Soybeans, No. 1, Yellow Omaha, bu	5.45	6.34	6.23
Grain Sorghum, No. 2, Yellow Columbus, cwt	2.41	5.11	5.30
Oats, No. 2, Heavy Minneapolis, MN , bu	2.22	2.64	2.73
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	117.50	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton	65.00	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	52.50	87.50	82.50
* No market.			

What if you were involved in a business where all the market trends were showing a decline, indicating limited potential for growth? Here is the reality - your primary customer no longer sees your product or service as important. Other products and services have simply pushed you out. Technology and globalization are making it increasingly difficult to compete. Your realistic assessment tells you that the cost cutting strategies you have been implementing can only take the business so far. In essence, the business appears to be going nowhere.

What if you looked at the situation in another way....the only way to beat the competition is to stop beating the competition?

That is the premise behind the book *Blue Ocean Strategy* by Kim and Mauborgne (2005). Based on 15 years of research and data stretching back over 100 years, the authors identified principles used by business owners and managers that helped set in motion a series of actions and decisions that opened up market creating space. This new space allowed the businesses to thrive without the constraints of high pressure competition and to also dominate the market.

So you might be wondering, why the title *Blue Ocean*? Think of the market universe as two types of oceans: red oceans and blue oceans. Red oceans are symbolic of all the industries and known market space we have in existence today. Here companies try to outperform rivals to obtain market share, with products often becoming commodities and fierce competition turning the red ocean bloody. In contrast the blue oceans represent all the industries, products and services that are



not in existence today - the unknown market space. It is the blue oceans, defined by untapped demand, that offer the greatest potential for highly profitable growth. But there can be a downside to the blue ocean as well - it is largely uncharted ground that often has a significant element of risk.

Kim and Mauborgne would argue that much of the work historically within business organizations has focused on red ocean competition-based strategies, with little discussion on how to create new market-space, or blue oceans. Why? The authors presume it has to do with focus on competition and the risk factors. The result is that good ideas and new market space are pushed back and left untapped, because people may be so focused on competition that they may not see the new opportunities. Then when they do see them, they do not have the right tools and skills to manage the associated risk.

Just because some industries seem to be in this pattern does not mean that all of them function this way. We do have industries that have found blue oceans. Who would have thought 20 years ago that we would be using a communication system like the Internet in so many ways, hooking up to it in coffee shops via wireless connections, or that we would be lost without cell phones, PDAs, GPS units in our vehicles and our \$4.50 cups of coffee? These blue ocean markets are there for those who can both see them and become comfortable in managing the risk.

So why do some organizations seem to find open market space while others do not? The answer to this question was one of the key findings of the book: organizations who were more likely to find blue ocean

market space appear to follow six principles in developing and executing their strategy. In addition, these principles have a profound impact in reducing many associated business, leadership and management risks.

How do these principles work in the real world? The authors share many examples where the principles have been translated into action and have lead to new trajectories of strong profitable growth, regardless of whether the industry is in the transportation, computer or entertainment business.

One can't help but ask the question, if these principles are universal, how do they translate into the agricultural industry? Is the agricultural industry currently doing a good job of using the principles to mobilize value-added agricultural opportunities? Is it the inability to manage risk that holds many ideas back? Does agriculture look at market space in a new way... the only way to beat the competition is to stop beating the competition?

Does it look for the blue ocean?

Reference:

Kim, W. C. and R. Mauborgne. (2005). *Blue Ocean Strategy*. Boston, MA: Harvard Business School Publishing.

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Six Principles of Blue Ocean Strategy

<u>Principles in Planning:</u>	<u>Impact on Risk:</u>
<ul style="list-style-type: none"> ✓ Reconstruct Market Boundaries- look across alternative industries, strategic groups, buyer groups, complementary products and services, functional/emotional connections and time ✓ Focus on the Big Picture ✓ Reach Beyond Existing Demand ✓ Get the Business Sequence Right - usefulness, price, cost and adoption 	<ul style="list-style-type: none"> ↓ Search Risk ↓ Planning Risk ↓ Scale Risk ↓ Business Model Risk
<p><u>Principles in Implementing:</u></p> <ul style="list-style-type: none"> ✓ Overcome Key Organizational Hurdles ✓ Build Execution into the Strategy - mobilize cooperation 	<ul style="list-style-type: none"> ↓ Organizational Risk ↓ Management Risk