VALUE INNOVATION AND BLUE OCEANS

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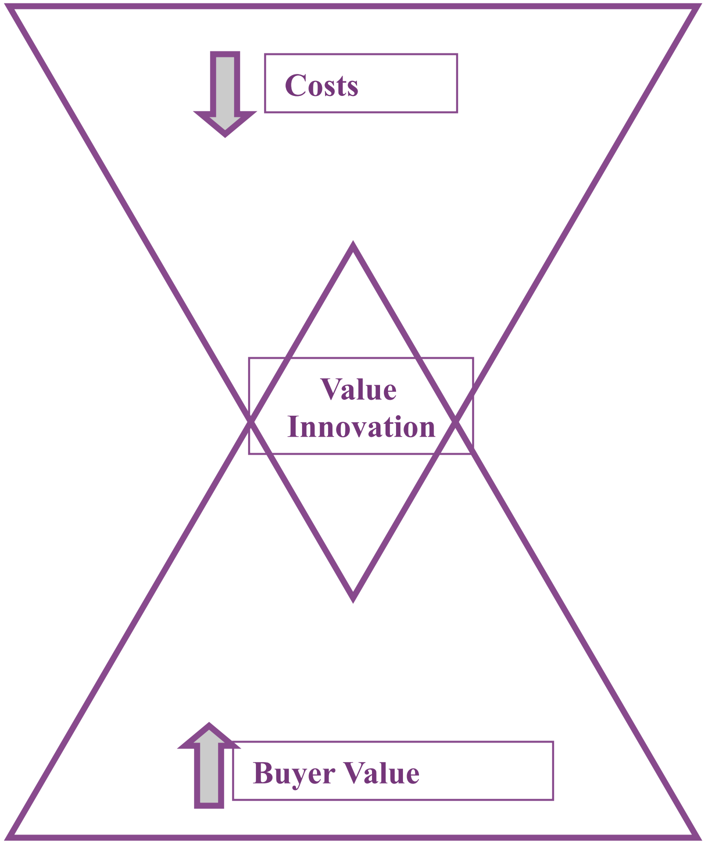
WHAT IS VALUE INNOVATION?

Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers.

Cost savings are made by eliminating and reducing the factors an industry competes on.

Buyer value is lifted by raising and creating elements the industry has never offered.

Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates.



SHIFTING THE FOCUS OF STRATEGY

– From Head-to-Head Competition to Creating New Market Space

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 *and* low cost.

VALUE CURVE (STRATEGY CANVAS)

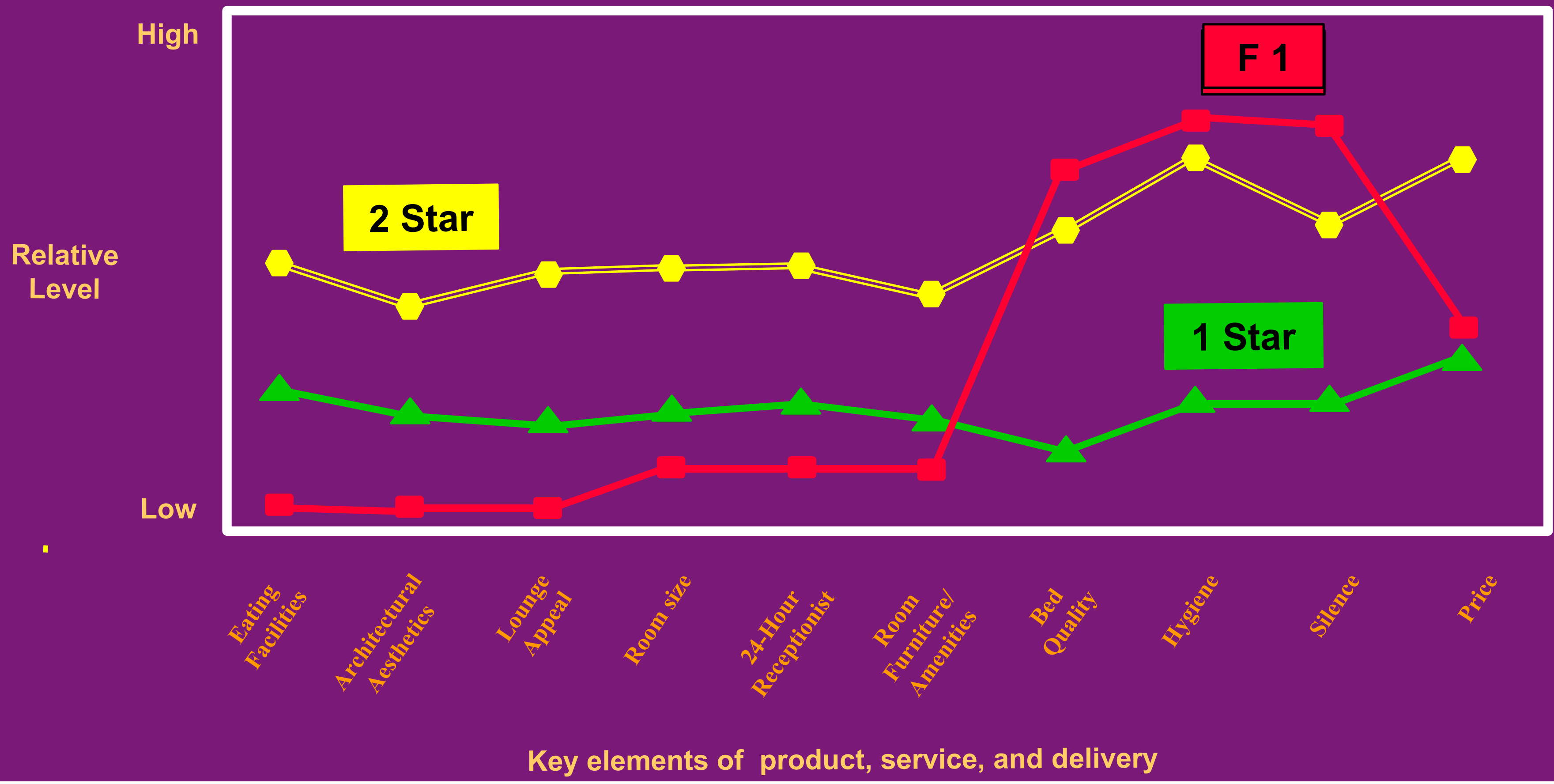
- The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy.
- It captures the current state of play in the known market space. This allows you to understand where the competition is currently investing, the factors the industry currently competes on in products, service, and delivery, and what customers receive from the existing competitive offerings on the market.
- The horizontal axis captures the range of factors the industry competes on an invests in.
- The vertical axis captures the offering level that buyers receive across all these key competing factors.
- The value curve then provides a graphic depiction of a company's relative performance across its industry's factors of competition.

WHAT IS A VALUE CURVE?

- A value curve is a tool used to create a graphical depiction of the market-space occupied by current offerings in the market. The tool is used to discover profitable, unoccupied niches.

- Step#1: Determine the key dimensions of price and performance.
- Step#2: Plot existing offerings.
- Step#3: Make value-adding tradeoffs to match latent demand to unoccupied niches.

VALUE CURVE OF FORMULE1 IN THE HOTEL INDUSTRY



VALUE INNOVATION IMPLEMENTATION STEPS

1. Allocentrism: Think about every aspect of functionality important to the customer.

2. Improving all dimensions is (almost) impossible

3. Don't just identify segments that are under-served, identify segments that are over-served

4. Be creative in defining and benchmarking against substitutes

THE FOUR BASIC QUESTIONS

Eliminate
What factors should be eliminated that the industry has taken for granted?

Reduce
What factors should be reduced well below the industry standard?

Raise
What factors should be raised well beyond the industry standard?

Create
What factors should be created that the industry has never offered?

THREE TIERS OF NONCUSTOMERS

There are three tiers of noncustomers that can be transformed into customers. They differ in their relative distance from your market.

The first tier of customers minimally buy an industry's offering out of necessity.

The second tier of noncustomers refuse to use your industries offerings.

The third tier are noncustomers who have never thought of your market's offerings as an option.