UDC 004.738.5:339.1
Original scientific paper

Zoran JANEVSKI*)

BLUE OCEAN STRATEGY IN E-COMMERCE BUSINESSES

Abstract

Blue Ocean Strategy is the systematic pursuit of new market and new demand creation through the simultaneous pursuit of differentiation and lower cost (value innovation). In this paper the blue ocean strategy is deployed on the online industry, especially on e-commerce. The six paths framework and four action models are used in creation of many successful e-commerce businesses such as Yahoo!, Amazon.com, etc. Those blue oceans make their competitors irrelevant, but to keep them with sustainable competitive advantage the companies must constantly look across their environment and trying innovate the value of its products and services.

Key words: E-Commerce, Blue ocean strategy, value innovation, six paths framework, four action model, entrepreneurship, competitive advantage.

JEL Classification: D23, L26, L81

Introduction

The basic competitive strategies imposed by Michael Porter mainly focus on the traditional way of competitiveness and they imply: 1) a particular industry and 2) clearly defined competitors within that industry. Then, the key company's performances are measured relative to those of other competitors (to be different from the other competitors, to produce and offer products with lower costs than the competition, etc.). Thus, competitive advantage, according to this concept, comes down to incremental improvements, that are a small increase in the product/service value propo-

*) Zoran Janevski, Asst. Prof. Ph.D., Institute of Economics - Skopje, Ss. Cyril and Methodius University - Skopje, E-mail:zoran.janevski@ek-inst.ukim.edu.mk.

sition or reducing of its manufacturing cost.[1] This approach causes relentless fight between the existing and potential competitors, a struggle that causes creation of a whole "Red Ocean of blood from the defeated" by which sail all that are implementing one of the generic strategies.

There is a completely different approach to establishing and implementing a business strategy that is not targeted where is the focus of existing industry as such, but its priority is finding or creating new market spaces through a wider range of other industries. This strategy is called *Blue Ocean Strategy*.

The purpose of this paper is to examine the role and impact of Blue Ocean Strategy implementation in businesses that are part of the e-commerce industry, and enterprises in which e-commerce plays important role in realizing their business goals and activities.

1 THE NEW MARKET SPACE AND E-COMMERCE: VALUE INNOVATION

In "Red Oceans" boundaries between industries are clearly defined and the rules of the competitive struggle are accepted from all participants. There are companies trying to beat its rivals to seize for themselves most of the existing demand. But because the market space, in the end, always becomes too narrow for all interested companies, the chances for profit and growth are reduced for everyone. Products slowly becoming commodities and "bloody" struggle become more and more ruthless. In contrast, the "Blue Ocean" is characterized with an unmarked space market, with creating products/services demand and opening opportunities for high, profitable growth. For an enterprise that implements this strategy competition becomes irrelevant, it moves away from it in a new noncompetitive market space.[2]

In essence of Blue Ocean creation or creation of new market space is systematic approach to value innovation. Companies that are trapped in the "Red Ocean" stick to the conventional battle with the competitors in their particular industries. Here the industry boundaries are defined and accepted and the competitive rules of the game are known.[3] On the other hand, the Blue Ocean creators, do not measure their success in comparison to its competitors, but they follow a different strategic logic

---

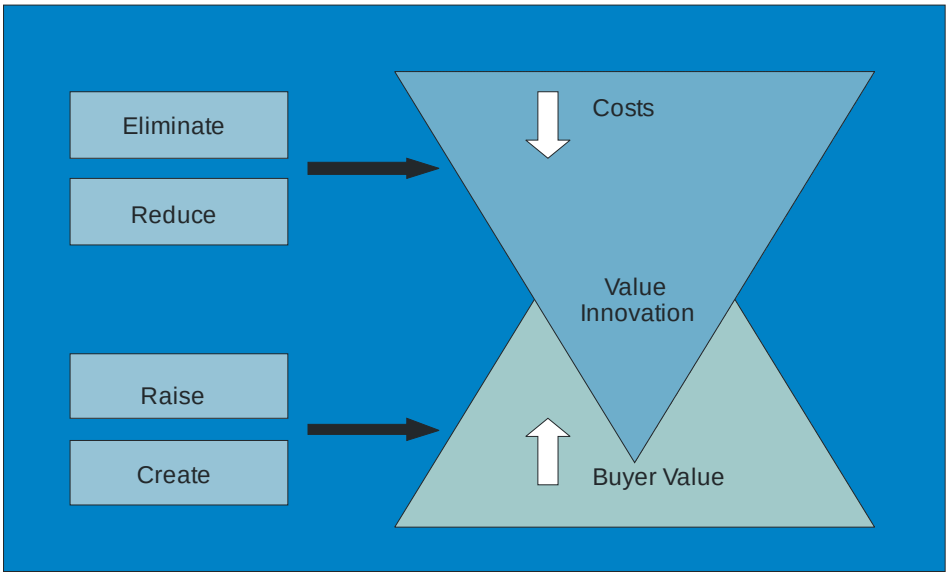
1) Porter, Michael E., "Competitive Advantage", the Free Press, New York, 1985.

2) Kim, V. Cen and Rene Moborni, "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant", Harvard Business Scholl Publishing, Boston, USA, 2005, pp. 16-17.

3) Porac, Joseph F. and Jose Antonio Rosa, "Rivalry, Industry Models and Cognitive Embeddedness of the Comparable Firm", in *Advances in Strategic Management*, 13, 363-388, 1996.

Figure 1-1

VALUE INNOVATION



Adapted from*: Kim, V. Cen and Rene Moborni, "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant", Harvard Business Scholl Publishing, Boston, USA, 2005, p. 16.*

called *value innovation* (Figure 1-1). Instead of trying to beat their competition, with a breakthrough of value for the customers and themselves they make it not important themselves they make it not important for their future.

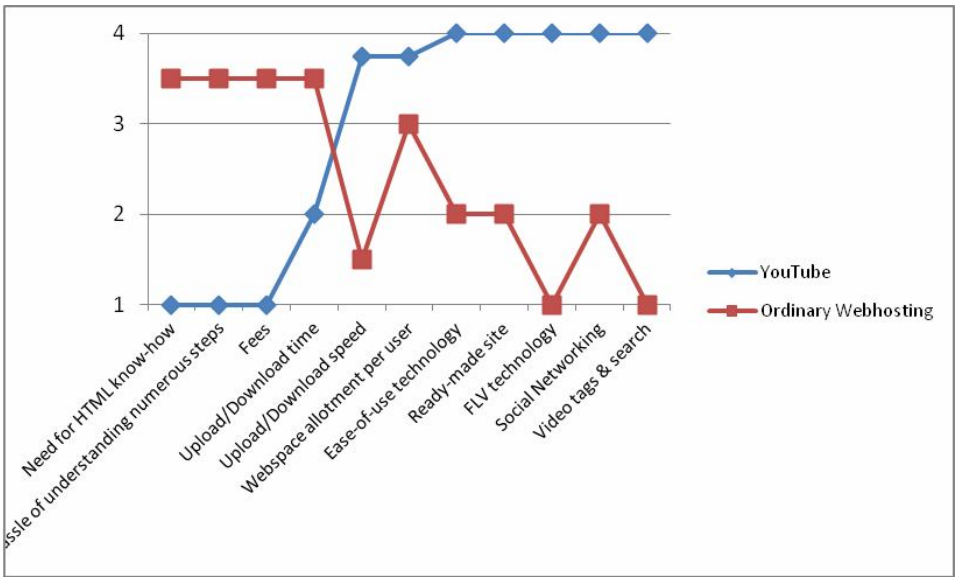
The creation of blue oceans is done by cost reduction, while the buyer value increases. Value innovation is created in areas where the company's activities have positive influence on its cost structure, and on the value it offers to its customers. The cost savings are made through *elimination* or *reduction* of certain factors which the company use to competes in the market, while the value for customers increases by *raising* or *creating* elements that the industry had not offered before. Thus a value leap is achieved for both enterprise and for its customers.

The concept of value innovation of YouTube can be seen on Figure 1-2. It shows how YouTube redefines its competition through different dimensions of value that it offers to its users.

Various aspects of the value in the webhosting industry for storage and video playback over the Internet are: the need for HTML know-how, the problems due to complex procedures (many steps), expenses, time for upload/download, upload and download speed, web space size available per user, the easy to use technology, ready-

Figure 1-2

VALUE INNOVATION FOR YOUTUBE – STRATEGY CANVAS



Adapted from*: Castillo, Anne, "YouTube's Blue Ocean Strategy", Hub Pages, 2006. Available online on: http://hubpages.com/hub/On-YouTubes-Blue-Ocean-Strategy. Accessed on 25.07.2010.*

made site to use, FLV technology (Flash Video), social networking and video tags and search. It is obvious that in these value aspects provided to the consumers, YouTube offer different levels of benefit compared to the other companies offering ordinary webhosting. The vertical axis value "4" means the "highest value", while the value "1" means the "lowest".

Drawing the value curves of different companies on the same graph allows understanding what encourages value creation and how companies relates to key elements (factors) that determine the value provided to the customers. When the value curve of a company is compared with the value curves of other companies or with the industry average, than this graph is also called *strategic canvas*.[4)]

Strategic canvas is a diagnostic tool of the blue ocean strategy that provides a basis for thinking about some new forms of value curves in the future that can help to make a step forward in the company's existing offer provided through their current strategies and business models.

[4)] Kim, V. Cen and Rene Moborni, op. cit., pp. 36-40.

2 SIX PATHS FRAMEWORK MODEL IN E-COMMERCE

To innovate value for its customers the company that wants to introduce electronic commerce in their business or entrepreneur who wants to start a new, fully online business venture, they should start with a broader view of things outside of standard business practices in their existing industries. For example, an entrepreneur who wants to start online book sales should reject the business practice of physical bookstores and seek inspiration elsewhere. This way they can discover new, uncovered market space that is somewhere between the existing industries. For this kind of rearrangement of the boundaries of the industries and the markets six basic approaches exist also called a *six paths framework model*. According to this model, the company that wants to build its own blue ocean strategy should follow the following principles:[5)]

1. *Looking across alternative industries instead of focusing on competing within an industry*. This helps to understand how the consumer makes trade-offs between different products or services that are substitutes. The goal is to understand how the consumer is determined to buy and use one product, not the other, and all criteria under which he is wearing his decision to purchase. In traditional industries choices made by consumers are between products that does not comes from within the industry. For example, they chose to use cash or credit card, to drive a car or traveling by public transportation, going to the cinema or to the restaurant. On the other hand, in the world of online business, the buyer makes a trade-off between buying online or going to physical stores, using online banking or waiting right in front of bank counters. Products and services may have a different shape and perform a different function and still serve the same purpose. Thus, buyers making a decision to purchase something, and often unconsciously, consider different options and make compromises between alternative industries. The company needs to find alternative industries to that in which it operates or intends to start a business venture. That way it could identify the key factors that drive customers to change across alternative industries and by eliminating and reducing all other elements it can create a blue ocean under the new market space.
2. *Looking across strategic groups within industries instead of a company confining itself to established strategic groups.* Strategic groups consist of companies that offer the same type of products to a certain target markets,

5) Jelassi, Tawfik and Albrecht Enders, "Strategies for e-Business: creating value through electronic and mobile commerce: concepts and cases", Second Edition, Pearson Education Limited, 2008, pp. 135-139.

such as clothing, sports equipment, soft drinks. So, companies usually compare with competitors that are positioned in the same strategic group that includes themselves. But thus they cannot gain the opportunity for a radical value innovation, because companies that are in the same strategic groups tend to offer similar products and services. Looking across other strategic groups gives insight into what companies that offers the same product but for different market segments are doing, and thus they have the opportunity to find potential new innovative way to create value. For example, after www.kupibrend.mk analyzed the market for branded clothing, they developed their own online business for selling branded clothes at prices that are competitive with non-branded clothing offered in traditional physical stores.

3. *Looking across the chain of buyers instead of focusing on the same buyer group as the rest of the industry.* The key for this principles is the fact that the one who is responsible for buying (purchasing) is not always the one who will use (consume) the product or service. The buyer (if is not also a user) will be primarily interested for the price and ease buying process.

   On the other hand, the user has a different idea of the value of what is purchased and more will be focused, for example, on ease of use of the purchased product. If an online business previously treated only one of these two different interested parties (buyer or user), then taking into account the perspective of another group can come to creating new value. For example, in the early '80s of the 20th century, the dominant position in the industry of providing online financial information had the Reuters and Telerate which provided real-time news and prices for brokers and investors. But, their systems were standard IT systems and they were appreciated by IT managers only, because the standard systems were easy to maintain. However, the brokers and financial analysts require customized systems that will enable immediate decision making. Then Bloomberg appeared and offered a special system with easy terminal access, keyboards marked with well-known financial terms and with two monitors that offer users the opportunity to seeing all the information they need without opening and closing too many windows on the computer screen. Bloomberg quickly became the largest and most profitable provider of business information in the world.

4. *Looking across complementary products and services instead of a company limiting itself to the scope of an industry's products and services.* Very often the products are not used as such, but in combination with other complementary products. Thus, in order to operate, computer hardware needs some software. Understanding the effect of complementary products Amazon.com has launched a service to its customers which allows personalized book recommendations to readers based on their previous purchase history. To use the power of complementary products, the company

engaged in e-commerce should try to find a context in which its products and services are used, as well as what happens before, during and after the use. This would provide opportunity to identify possible obstacles, as well as ways how to overcome them offering some complementary products or services.

5. *Looking across functional or emotional appeal to buyers instead of accepting an industry's functional or emotional orientation.* Some companies compete in price and functionality of their products and services. They communicate to their customers pointing out the rational elements in decision-making process of buying. Others, mainly compete on the basis of feelings (customer care, brand, etc.), and their address to consumers is more emotional. If a company is ready to bring into question the functional-emotional orientation of the industry where it belongs, then it can find a new market space. Then, industries that had previously functional orientation, with the blue ocean get emotional aspect and vice versa, those who had previously purely emotional orientation in the new market space receive purely functional orientation.
6. *Looking across time instead of focusing on the same point in time as the rest of the industry*. With the skill to assess the impact of future changes in their environment on their business operations, the companies make favorable opportunities for creating blue oceans, i.e. they can adapt their strategies to create value in terms of expected changes. These changes can come with developing new technology, changes of the regulations or because of many other reasons. In all cases, entrepreneurs need to focus on these changes, including on the questions which will be the future trends, how these trends will change the benefit for customers and how they affect the company business model. Apple, for example, has felt the trend brought by new technology for online music download. Buyers often do not want to pay for the entire album or CD, only because they like one song from the disc. This trend in digital music had forced Apple to make agreements with the five major record labels in the world and open online music store called iTune. Now the customers can buy a particular song from an album for 99 cents, instead of buy the entire album with that song for $20.

The comparison indicates that the creation of blue oceans is not a simple prediction of future industry trends, nor introduction of the bravest business ideas that are the result of the creative process of entrepreneurs. Instead of relying on their intuition, entrepreneurs in the creation of blue oceans are oriented towards structured process of remodeling market reality on a totally new way. Thus, by restructuring the existing market elements they can manage to get rid of merciless competition that reigns in red oceans.

Table 2-1 summarizes the six paths framework in direct competition (red ocean) and in creation of blue ocean strategy.

Table 2-1

COMPARISON BETWEEN DIRECT COMPETITION (RED OCEAN) AND CREATING A BLUE OCEAN

Six paths framework	Direct Competition	Blue Ocean Creation
Industry	Focuses on rivals within its industry	Looks across alternative industries
Strategic group	Focuses on competitive position within strategic group	Looks across strategic groups within industry
Buyer group	Focuses on better serving the buyer group	Redefine the industry buyer group
Scope of product or service offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings
Functional-emotional orientation	Focuses on improving price performance within the functional-emotional orientation	Rethinks the functional-emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	Participates in shaping external trends over time

Source: Kim, V. Cen and Rene Moborni, "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant", Harvard Business Scholl Publishing, Boston, USA, 2005, str. 79.

3 FOUR ACTIONS FRAMEWORK AND ITS ELEMENTS

After a six paths framework analysis will be done, through which the company can create new market space, it needs to reconstruct the value elements to customers combining them into a new value curve. For this purpose, the company uses the *method of four actions*, which puts focus on four different issues (Figure 3-1):[6)]

- *Eliminate*. Does the company really offer value to its customers? If not, then the question is which factors (elements of the product or service) it can eliminate that the industry has long competed on?
- *Reduce*. Which factors should be reduced well below the industry's standard? What cost the company too much money, yet does not create at all, or create just small benefit?
- *Raise*. Which factors should be increased well above the industry's standard? What is it that the companies can emphasis more, and will cause an increase of the customer's benefit?
- *Create*. Which factors should be created that the industry has never offer? What should be done but has been never done before?

Utilizing the previously undiscovered market space, company creates an opportunity not only to win a bigger market share by taking some market share from its competitors, but also to extend the total market size. Amazon.com, for example, has developed its own strategy with focus on taking over the customers from the physical book stores, but in addition, focusing on a wide range of specific services offered by

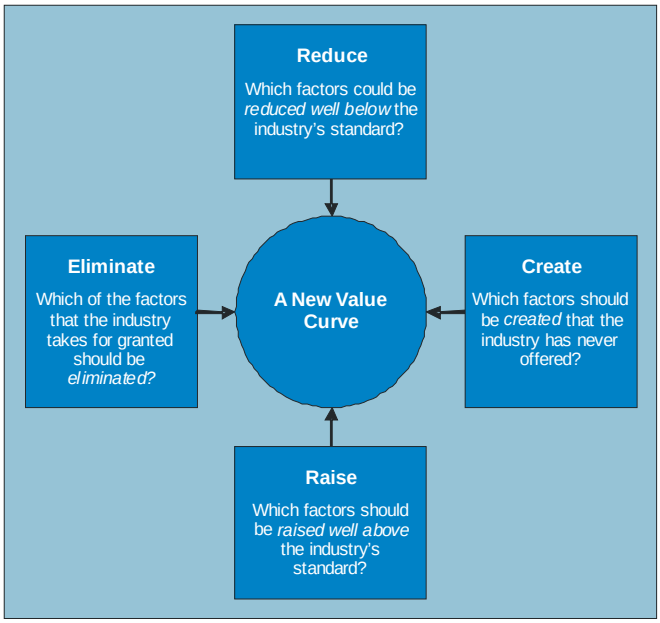
6) Osterwalder, Alexander & Yves Pigneur, "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers", John Wiley & Sons, Inc., Hoboken, Ney Jersey, p. 231.

physical bookstores, as well as books reviews and personalization possible only in online digital environment. The result of this was even those who previously had not bought a single book turned them into passionate book lovers and buyers.

In case of YouTube, based on a six paths framework it remake a market boundary of the webhosting industry. Its four action framework consists of:

Figure 3-2

FOUR ACTION FRAMEWORK



Adapted from*: Ferrel, O. C. and Michael D. Hartline, "Marketing Strategy", fifth edition, South-Western Cengage Learning, USA, 2011, p. 142.*

- Eliminate:
  - Need for HTML Know-how
  - Hassle of undergoing numerous steps just to upload/display a video in a website
  - Fees for having a huge web space
- Raise:
  - Upload and Download speed
  - Amount of web space allotted for each user
  - Reduce:
  - Time spent by users uploading or downloading videos

- Create:
  - Ease of use technology for uploading and sharing/displaying video files
  - The use of FLV technology to stream videos
  - A ready-made website for each user
  - Venue for social networking through various features (i.e. comments, subscribe, mail, etc.)
  - Video tags and Search function

However, creating new market space and overcome the importance of competition does not last forever, only until other competitors enter this new market. As with the basic strategies of Porter, competitors will begin to apply the same patterns and practices that they believe are promising attractive return on their investments, thus gradually reducing the profitability of all players in that market space. And here, the long term sustainability depends on how value innovation is a unique, distinctive, exclusive and difficult to imitate.

CONCLUDING DISCUSSION

Online businesses, whether they apply some basic strategies for competitive advantage (differentiation or cost leader) or business creates new market space through value innovation, it is very difficult to make competitive position viable on long term. For e-commerce it is particularly difficult because there are very few sources of competitive advantage that can remain stable over time. Moreover, transparency and easy access to information that brings Internet technology and e-commerce further hinder online businesses to protect their success from imitators and other followers. There is a far known case of Netscape Navigator, the most successful web browser in the 90s of the twentieth century that was defeated by his imitator Internet Explorer developed by Microsoft Corporation.

However, to imitate a successful online business is not an easy task at all. First, potentially successful imitator must be able to identify its competitive superiority. Those who are already successful in the market are protecting themselves from this threat keeping the information about the profit, return on investment, and other long term success indicators confidential. Second, those who want to enter into a market at least must be prepared to imitate the successful business model (if not able to innovate new, a superior one). But those who defend themselves from imitators may apply measures of intimidation that should deter potential new companies from entering the industry. For example, if a company wants to enter a market with a cost leader strategy, existing competitors may reduce their prices that will void its advantage and its entry into the market will become questionable. Third, the potential new market entrants must be able to understand well the sources of competitive advantage. One of the best protections from potential imitators is to build competitive advantage based on knowledge and practices that are develop in-house, and not provided from out-

sourcing. Fourth, the potential imitator must also be able to create or provide the necessary resources and skills necessary to be able to replicate the business model that has a dominant market position. Best defense of existing market players from these imitators is to build their own competitive advantage on the resources that are scarce, specialized or who are protected by a contract.

But, protection from potential imitators is only one way of keeping company's competitive advantage. The second way is to constantly upgrade own skills and knowledge through continuous innovation, thus making imitation irrelevant. However, the most successful way of preserving a sustainable competitive advantage over competition is to make that same competition irrelevant, and to overcome the struggle with it by creating new market space implementing blue ocean strategy.

References

1. Castillo, Anne, "YouTube's Blue Ocean Strategy", Hub Pages, 2006. Available at http://hubpages.com/hub/On-YouTubes-Blue-Ocean-Strategy.
2. Ferrel, O. C. and Michael D. Hartline, "Marketing Strategy", fifth edition, South-Western Cengage Learning, Mason OH, USA, 2011.
3. Jelassi, Tawfik and Albrecht Enders, "Strategies for e-Business: creating value through electronic and mobile commerce: concepts and cases", Second Edition, Pearson Education Limited, 2008.
4. Kim, V. Cen and Rene Moborni, "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant", Harvard Business Scholl Publishing, Boston, USA, 2005.
5. Osterwalder, Alexander & Yves Pigneur, "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers", John Wiley & Sons, Inc., Hoboken, Ney Jersey, 2010.
6. Porter, Michael E., "Competitive Advantage", the Free Press, New York, 1985.