Leap-Frogging the Competition through Blue Ocean Strategy: A Compelling Case For Small and Medium Enterprises

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Abstract

In today's competitive business landscape, Small and Medium Enterprises SMEs face challenges in standing out and expanding their market reach. Traditional approaches like cost-cutting and price competition may not be sufficient for sustainable growth. To overcome these challenges, SMEs can adopt a Blue Ocean Strategy (BOS) to create uncontested market space and leapfrog the competition. It involves finding and creating a new market space, rather than competing in existing markets, by offering a unique value proposition that attracts new customers. This paper explores the key concepts of the Blue Ocean Strategy and how SMEs can apply them to their businesses. It also presents case studies of successful SMEs that have used the Blue Ocean Strategy to achieve significant growth and profitability. These case studies show how SMEs can find new market spaces and create differentiated value propositions to attract new customers, outcompete and outperform their rivals.

Key words: Blue Ocean Strategy, Small and Medium Enterprises, value proposition, strategy canvas, recreannovationism

J.E.L classification: O3, O31, O32

1. Introduction

Small and Medium Enterprises (SMEs) play a critical role in driving economic growth and job creation, specifically employment generation worldwide. However, SMEs face considerable and significant challenges in competing with larger and more established firms, particularly in highly competitive industries; even among SMEs themselves. To succeed in today's business environment, SMEs need to adopt strategies that enable them to differentiate themselves from their competitors and find new markets or create new ones. One such strategy is the Blue Ocean Strategy (BOS), introduced by W. Chan Kim and Renee Mauborgne in their ground-breaking book "Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant." Blue Ocean Strategy offers a scaffolding template for building a strategy, which emphasizes the creation of new demand and differentiation rather than competing in existing market spaces. It involves finding and creating a new market space by offering a unique value proposition that attracts new customers.

In this paper, we explore the key concepts of BOS and how SMEs can apply them to their businesses. We also present case studies of successful SMEs that have used BOS to achieve significant growth and profitability. The paper concludes that BOS is a powerful tool for SMEs to carve a niche for themselves and thrive in today's challenging business environment and that it can help them achieve sustainable growth and profitability.
2. Literature review

The traditional strategy approach to business and the modern approach have both evolved over time to adapt to changing business environments and emerging trends. The traditional approach focused on setting up and keeping a competitive advantage over rivals. This involved analyzing the industry structure, finding market opportunities, and formulating strategies to differentiate the organization from its competitors, and this is the Structuralist School of thought. This approach is an embodiment of what we call the ‘Red Ocean’ strategy in the field of play in the market space, where boundaries for the competition are set with well-established rules of engagement, usually anchored based on cost trade-off. Each player or participant tries to compete and outdo each other for market share based on the current demand profile; and, based on the competitive advantage each has; in terms of price and other offerings. But over time such ‘shark-infested’ waters (market) get ‘bloody’ and saturated, occasioned by inflated costs and shrinking profit margins leaving most players bloody. Fortuitously, the modern approach to strategy encapsulated by what we called the ‘Blue Ocean Strategy’ based on research has conclusively established that companies can leap-frog out of the fiercely competitive bloody ‘red ocean’ into the ‘blue ocean by creating an unencumbered ‘virgin’ market space that renders such competition inconsequential and unnecessary (Kim and Mauborgne, 2004).

However, the modern approach recognizes the need for agility and flexibility in response to rapid changes in the business environment. It emphasizes the ability to quickly adapt strategies and business models to seize emerging opportunities or address potential threats. This approach embraces innovation and disruptive thinking as essential components of a strategy. It encourages organizations to constantly seek new ways of creating value, challenging existing business models, and using technology to gain a competitive edge. It also laid a strong emphasis on understanding and meeting customer needs and expectations. New strategies have been developed with a deep understanding of target markets, customer insights, and the delivery of exceptional customer experiences. Studies have established that new markets can be created and expanded by employing the ‘Blue Ocean Strategy,’ which emphasizes maximizing opportunities, minimizing risks, and achieving simultaneous cost reduction and value addition. This approach extends frontiers, creates new boundaries, and underscores its pertinence.

Therefore, the Blue Ocean is anchored on the principle of opportunity and risk. I will call the recommonovationism or Recommonovationist school of thought based on the fact that market boundaries are not static but fluid and a firm can leap-frog the ‘red ocean’ and establish a virgin market that is free from the competition through value position to both existing and new customers that can be ‘created’ as a result of value innovation. Recommonovationism is a concept where new markets are created through the crucible of Value Innovation in product or service offerings, new markets can be created and expanded using the 'Blue Ocean Strategy.' This approach maximizes opportunities, minimizes risks, and introduces customers to offerings they never contemplated or imagined existed, thereby extending frontiers and creating new boundaries.

2.1. Blue Ocean Strategy

Blue Ocean Strategy (BOS) is a research-based and tested schema that lays out a systematic approach to creating new market space and making the competition irrelevant. The central premise of BOS is that businesses can achieve high growth and profits by creating a new market space rather than competing in existing market boundaries which can be termed the ‘Red Ocean’. Achieving the creation of a new market can be accomplished by finding and targeting non-customers who have dissimilar needs or preferences than existing customers, creating a differentiated value proposition that meets their expectations/needs, and delivering it at a lower cost or higher value than existing competitors.

The Blue Ocean Strategy framework involves two key concepts: "value innovation" and "strategy canvas." Value innovation refers to the creation of new value for customers while simultaneously reducing costs. The key aim of the blue ocean strategy is to create value innovation—driving costs down while simultaneously driving value up for buyers. Value innovation is the cornerstone of the
blue ocean strategy. Value to buyer = offering utility – offering utility’s price Value of the company = offering’s price – offering’s price’s cost.

The focus should be driven by minimizing inherent risks against taking such risks; and so, maximizing the opportunities available by such a course of action taken. Blue Ocean Strategy is about creating demand, shifting from leap-froging competition to value creation, which is the key to unlocking latent and/or uncreated demands.

2.1.1. Value innovation

Value Innovation is a core Blue Ocean Strategy concept that refers to the creation of new value for customers while simultaneously reducing costs. The term "value" here means the perceived benefit or satisfaction that customers derive from a product or service, and "innovation" refers to the creation of something new or different which can be called ‘recreannovationism’ - a pathway to creating and implementing a successful Blue Ocean Strategy.

According to Kim and Mauborgne (2004), the creators of the Blue Ocean Strategy, value innovation is achieved by pursuing differentiation and low cost simultaneously. This approach enables businesses to create a leap in value for both the company and its customers and to open new market spaces where competition is irrelevant. The concept of value innovation has been applied successfully in many industries, particularly for example, Cirque du Soleil created a new form of entertainment by combining elements of circus and theater—a hybridization of intrinsic value, resulting in a product that was significantly different from traditional circuses and attracted a new customer base. Similarly, Southwest Airlines in the US revolutionized the airline industry by supplying low-cost, no-frills flights to customers who previously could not afford to travel by air.

By focusing on value innovation, companies can differentiate themselves from their competitors and create a unique position in the marketplace. This approach is particularly relevant for small and medium enterprises (SMEs) that may lack the resources to compete on price or marketing, making differentiation critical to their success. The Concept of Value Innovation is depicted in the diagram below. Value innovation has upturned the toga of dogmatism underlying the concept of Value-cost-trade-off inherent in a traditional strategic thing that broke the ‘mold’.

Figure no. 1: Value Innovation: The cornerstone of Blue Ocean Strategy

![Value Innovation Diagram](source: Kim and Mauborgne, 2005)

Conversely, Strategy Canvas on the other hand is a visual tool that helps businesses locate and find their current market position and potential areas for differentiation. By combining these two concepts, businesses can find new market spaces and create innovative value propositions that meet the needs of non-customers.
2.1.2 Strategy canvas

The Strategy Canvas is a key tool in the Blue Ocean Strategy framework, and it supplies a visual representation of a company’s current strategic position vis-à-vis or relative to its competitors. The canvas finds the factors that are most important to customers and the factors that the industry competes on, and it helps businesses to find potential areas of differentiation. It entails what we call **Visual and mental awakening**: This step involves creating a visual representation of the current market space, called the "strategy canvas," to find areas where the business can differentiate itself and create a new market space.

Kim and Mauborgne (2005, p. 25) describe the Strategy Canvas as "capturing the current state of play in the known market space." They note that traditional strategic planning often focuses on benchmarking against competitors, which can lead to a "red ocean" of competition where businesses are all fighting for a share of a limited market space. In contrast, Strategy Canvas helps businesses to look beyond the existing market space and to find new areas of opportunity.

Strategy Canvas is divided into two main axes: the horizontal axis is the key factor of competition in the industry, while the vertical axis is the level of offering that customers receive. By analyzing these factors, businesses can find areas where they can differentiate themselves and create new value for customers. The purpose of the strategy canvas is to capture the field of play briefly within the captive market boundaries and enable the players to shift their attention from competitors to uncharted alternatives and from existing customers to uncreated customers within a given industry. Invariably, this allows the players to see how a valuable innovation through Blue Ocean can help them leap-frog out of the current red ocean.

A well-known case study that successfully uses the strategic Canvas kit is Cirque du Soleil, a Canadian entertainment company that used the Blue Ocean Strategy framework to create a new market space in the circus industry.

By analyzing the traditional factors of competition in the circus industry (such as animal acts and star performers) and the key factors that were important to its customers (such as music, lighting, and storytelling), Cirque du Soleil was able to create a unique entertainment experience that was not offered by any other circus.

Through the delivery of innovative value propositions, SMEs can achieve high growth and profitability never imagined within a ‘Red Ocean’. This is called **Value Innovation**. Value innovation involves creating a new value proposition for customers by simultaneously reducing costs and increasing the perceived value of the product or service being offered.

The Blue Ocean Strategy framework is particularly relevant and appropriate for SMEs that face resource constraints and need to compete in highly competitive industries. With case studies, the Blue Ocean Strategy has been successfully applied by companies such as Roche Bobois, AirAsia, Zipcar, Nespresso, and a host of many other businesses; to create new market spaces and gain a competitive advantage. Through the prism of Strategy Canvas, these companies were able to differentiate themselves and create new value for customers in their respective industries.

As earlier stated, a well-known case of reference that has successfully used the strategic Canvas tool is Cirque du Soleil, a Canadian entertainment company that has proven its practicability in creating a new market space in the circus industry. By analyzing the traditional factors of competition in the circus industry (such as animal acts and star performers) and the key factors that were important to its customers (such as music, lighting, and storytelling), Cirque du Soleil was able to create a unique entertainment experience that was not offered by any other circus. Therefore, through the delivery of innovative Value Propositions, SMEs can achieve high growth and profitability that could never have been imagined within a shark-infested ‘Red Ocean’. While offering customers Value and Innovation companies should be **focused on the Execution** of their proposition. Once a new market space has been identified, the business must focus its efforts on creating and delivering the new value proposition to the target customers, and lastly, is to ensure a **Fair process**, and this entails involving all stakeholders in the strategy development process and ensuring that decisions are made fairly and transparently.
### 2.1.3 Diagnostic paradigm and tools kits for Blue Ocean Strategy

There are some fundamental analytical tools as well as guiding principles in risk mitigation that should guide any organization that wants to create a virgin market in transitioning from the ‘Red Ocean’ to the ‘Blue Ocean’, and these have been expounded by Kim & Mauborgne (2005) in their books. Creating a blue ocean requires a business to think creatively about its boundaries and offerings. Some of the key factors that are germane to its successes are enumerated here.

One of the key factors is to **Identify the Current Industry Boundaries**. This involves finding the current state of the industry and the key players in the market. This can be done using tools such as Porter's Five Forces analysis or SWOT analysis. Understanding the existing boundaries of the industry is critical to finding areas of opportunity that the organization might take and maximize it. This can involve examining the size of the market, the competition, and the customer segments that are being targeted.

The second key factor to consider is **Explore New Customer Groups**. By targeting new customer groups within the industry, a business can create a new market space that is not currently being served. This can involve finding underserved or overlooked customer segments and designing products or services that meet their needs. This can help show areas of differentiation and opportunities for innovation. Another critical key factor is to **Create a Unique Value Proposition**. To stand out from the competition, a business needs to offer a unique value proposition that is different from what is currently available in the market. This can involve finding areas where customers are experiencing pain points, both existing and non-customers in the industry, and developing solutions that address those pain points in a creatively new and innovative way.

The fifth step involves crafting a value proposition that addresses the pain points and unmet needs shown in the earlier steps. This can involve creating a new product or service, improving an existing product or service, or changing the way products or services are delivered. This can be done by conducting market research, surveys, and focus groups. **Finding Potential New Market Spaces** is also an extremely critical step, which is to find potential new market spaces by focusing on the pain points and unmet needs of customers and non-customers. This can be done using tools such as the Buyer Utility Map or the Four Actions Framework.

Redefining a product or service offering can unlock hidden customers. **Redefine the Product or Service Offering**. A business can create a blue ocean by rethinking and tinkering with its product or service offering and adding or subtracting features to make it more attractive to customers, with enhanced utilitarian intrinsic value. This might involve creating a new product category or a new market segment and designing products or services that meet the specific needs of that segment. Organizations can **Consider Alternative Pricing Models**. Pricing can be a key factor in creating a blue ocean, as it can help a business to differentiate itself from competitors. This can involve developing new pricing models that are different from what is currently available in the market, such as a subscription-based model or a pay-per-use model. Offering complementary products or services can help a business to create a more complete solution for its customers and differentiate itself from competitors. This may entail finding products or services that are related to the core offering and bundling them together to create a more comprehensive solution.

Technology can be a powerful tool for creating a blue ocean, as it can help a business to innovate and develop fresh solutions that are not currently available on the market. **Embracing Technology** can be a very ingenious way of creating a Blue Ocean. This can involve using emerging technologies to create new products or services or using technology to improve customer experience or reduce costs. And the final stage is to **Test and Refine the Strategy**. The decisive step is to assess and refine the strategy through prototyping, piloting, and feedback from customers and non-customers. These action frameworks are described in detail in the book "Blue Ocean Strategy" by W. Chan Kim and Renée Mauborgne (2004), which is considered the definitive guide to creating and implementing a Blue Ocean Strategy.
2.2 Small and Medium Enterprises

What constitutes Small and Medium Enterprises (SMEs) varies from nation to nation, but it is defined as businesses with fewer than five hundred employees and less annual revenue than larger firms, and they play a critical role in driving economic growth and job creation worldwide. They are often considered to be more innovative and adaptable than larger firms, and they account for a sizable part of new job creation in many countries. (Ayyagari & Demirguc-Kunt, 2007). The exact definition of SMEs varies by country and industry, but they are smaller than large corporations and larger than micro-enterprises. However, SMEs face significant challenges in competing with larger and more established firms, particularly in highly competitive industries. SMEs often lack the resources and scale to compete on cost or marketing, making differentiation critical to their success.

Research has shown that SMEs that adopt innovative strategies are more likely to achieve sustainable growth and profitability. In a study conducted by Kim and Renee (2005) on businesses of 108 companies, 86% of the companies competing in the ‘Red Ocean’ generated 62% of the total revenue while accounting for only 39% of their profits. The remaining 14% which towed the path of blue ocean creation, surprisingly generated 38% of the overall revenue and yet they accounted for 61% of the profits. It is instructive to note that many SMEs struggle to adopt such strategies due to a lack of resources or knowledge. BOS supplies a framework for SMEs to create new market spaces and differentiate themselves from their competitors, making it a powerful tool for SMEs to compete in today's business environment.

3. Research methodology

The research method for "Leap-Frogging the Competition through Blue Ocean Strategy: A Compelling Case for Small and Medium Enterprises" is a combination of a literature review and a case study analysis. The literature review involved an extensive study of books, blogs, and search in academic databases and relevant journals to find existing research on blue ocean strategy and its application in small and medium enterprises. The purpose of the literature review was to gain a comprehensive understanding of the theoretical underpinnings of the blue ocean strategy and its practical implications for SMEs.

The review was conducted systematically, with an emphasis on showing key themes, concepts, and findings related to the Blue Ocean Strategy and Small and Medium Enterprises.

The case study analysis involved the selection of multiple SMEs that have successfully implemented the blue ocean strategy in their respective industries. The purpose of the case study analysis was to show common patterns and factors that contributed to the success of the Blue Ocean Strategy in Small and Medium Enterprises. The case study analysis was conducted using a qualitative approach, which involved collecting and analyzing data from multiple sources, including interviews with SME owners and managers, company documents, and secondary sources. The data collected from the literature review and case study analysis was analyzed using a thematic analysis approach. The aim of the analysis was to find key themes and patterns that appeared from the data, which were used to develop the arguments and recommendations presented in the paper. Overall, the research method used in this paper is a combination of a systematic literature review and a qualitative case study analysis, which allowed for a comprehensive understanding of the blue ocean strategy and its application in SMEs.

4. Findings

4.1 Case studies

Multiple case studies demonstrate the effectiveness of BOS for SMEs, highlighting its importance and the need for organizations to embrace a Blue Ocean strategy to achieve substantial growth and surpass the competitive ‘red ocean’ market.

Roche Bobois successfully adopted BOS by offering high-end, customizable furniture, differentiating itself from competitors. Collaborating with renowned designers, they created unique furniture collections tailored to customer preferences, capturing a new market space and attracting dissatisfied customers from traditional retailers. (Palan and Helmsing, 2015)
Roche Bobois created an immersive shopping experience by designing stores as living spaces, allowing customers to envision furniture in their homes. They offered personalized advice from interior design experts, differentiating themselves from competitors. These strategies led to significant growth and profitability, establishing Roche Bobois as a leader in the furniture industry. (Lafarge and Leclercq, 2016).

AirAsia disrupted the airline industry by creating a low-cost, no-frills business model, attracting previously underserved customers. By offering affordable flights and reducing costs, AirAsia carved out its own blue ocean in the industry.

AirAsia disrupted the airline industry by offering low-cost air travel with essential services, targeting budget-conscious travelers. By prioritizing operational efficiency and cutting back on frills, AirAsia created a new market space and rendered the competition irrelevant. AirAsia simplified operations and reduced costs by using a single type of plane, the Airbus A320. They optimized turnaround time with a streamlined boarding process, maximizing the number of flights per day. Utilizing technology, AirAsia enhanced the customer experience alongside their low-cost business model. AirAsia pioneered online booking, becoming a leading low-cost carrier, showcasing the power of Blue Ocean Strategy.

Cirque du Soleil: Innovative circus-theater hybrid created new market space, captivating global audiences, and Zipcar: Disruptive car-sharing model revolutionized transport industry, targeting urban dwellers with convenience and affordability. There is also Nespresso: Transformed coffee industry with premium single-serve system, targeting home and office markets with convenience and customization.

Bemerald Drycleaners in Nigeria achieved rapid growth using Blue Ocean Strategy. In 2001, Bemerald Drycleaners Limited was established as a laundry service company in Jos, Plateau State, by my friend Mr. John Onigbinde, who has over 20 years of experience in the laundry business. After running the business successfully in Jos, relocated the company to Lagos.

Bemerald Drycleaners targeted a niche market and received advice on untapped demand, leading to a Blue Ocean. Tiered pricing for mainland-to-Island commuters was suggested, creating a new market. The company established a delivery service three days a week (Mondays, Wednesdays, and Fridays) for convenient pick-up and drop-off of clothes at clients' offices on specific days. Within three months, the customer base grew significantly, leading to the need for a new branch to accommodate the influx of new customers. Bemerald offered value innovation by eliminating and reducing the burden on busy executives, providing customized services that surpassed established dry cleaners' expectations.

Xiaomi: Chinese company, offered affordable smartphones, online sales, user feedback, ecosystem integration. Disrupted smartphone market, gained brand loyalty. SMEs can achieve growth with Blue Ocean Strategy.

4.2. Compelling case for Blue Ocean Strategy

Blue Ocean Strategy revives SMEs, offering higher profit margins and growth. Research shows its effectiveness (Kim & Mauborgne, 2004). Implementing the Blue Ocean Strategy can reduce competition for an organization. By creating new market spaces, companies can render competition irrelevant and minimize industry rivalry. This alleviates the need for price wars and costly competitive strategies. AirAsia successfully reduced competition in the airline industry by targeting budget-conscious travelers who previously couldn't afford air travel (Kim & Mauborgne, 2005).

SMEs benefit from pursuing the blue ocean strategy through increased customer loyalty and retention. By providing unique value to non-customers, companies can foster strong loyalty, reduce customer churn, and build long-term relationships. Cirque du Soleil's success in creating customer loyalty with its innovative circus experience exemplifies the power of the blue ocean strategy (Kim & Mauborgne, 2004).

The Blue Ocean Strategy offers SMEs a way to minimize risk and maximize opportunities. By creating new market spaces, companies can reduce reliance on saturated or declining markets, mitigating the risks associated with a specific product or market. Nintendo's success with the Wii console, targeting casual gamers, illustrates how the blue ocean strategy can reduce risk (Kim & Mauborgne, 2005).
In conclusion, based on extensive research and case studies, I highly recommend SMEs to adopt the Blue Ocean strategy and consider the following key factors for achieving significant growth and profitability:

1. **Embrace Value Innovation**: Embrace Value Innovation: Prioritize value innovation by pursuing differentiation and low cost simultaneously. Challenge industry norms, identify unmet customer needs, and deliver exceptional value through innovation

2. **Find Untapped Market Spaces**: Find Untapped Market Spaces: Actively search for untapped market spaces with limited competition. Conduct market research, analyze customer segments, and explore different industries or buyer groups to create unique market opportunities

3. **Focus on Niche Segments**: Focus on Niche Segments: Target niche segments or underserved customer groups. Understand their specific needs and preferences, tailor offerings accordingly, and build strong customer loyalty while creating barriers to entry for competitors

4. **Foster a Culture of Innovation**: Foster a Culture of Innovation: Cultivate an environment that encourages innovation and creativity. Empower employees to generate ideas, promote cross-functional collaboration, and embrace experimentation and learning from failures.

5. **Conclusion**

Although the term 'Blue Ocean' as introduced and popularized by Kim & Renee is relatively new, the underlying concept of creating uncontested market spaces has always been a fundamental and distinguishing aspect of business, both historically and in the present day. Kim and Renee codified Blue Ocean Strategy for SMEs' growth by focusing on value innovation, uncontested markets, and leadership. Implementation requires mindset shift, risk-taking, and adaptability. Effective change management, continuous evaluation, and innovation culture are crucial for differentiation and success. Blue Ocean Strategy empowers SMEs to thrive and find new markets.

6. **References**


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