

## Identifying Opportunities for Business Innovation (Value Innovation)

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How do we find ideas that are outside our businesses, that we don't necessarily see and others have not seen? That is where really powerful change will come from – Value Innovation.

According to a recent publication by W Chan Kim and Renée Mauborgne of INSEAD, called *Blue Ocean Strategy*, most strategic thinking is based on beating the competition, but most markets today are saturated, competition is head-to-head and your competitors are just as smart as you. Industries organise into competitive games among competitors – what Kim and Mauborgne call “Red Ocean” competition. In Red Oceans, the game is well understood, it's head-to-head, vicious, price-competitive, there's very little growth and it's saturated. Real innovation, on the other hand, is in “Blue Oceans”, which are outside the Red Oceans. They represent untapped demand, where anything might be possible.

For business, the key is not to compete in the Red Oceans, but to head for Blue Ocean thinking. Players in the Blue Oceans include Formule 1 Accor Hotels in France, Cirque du Soleil, Swatch, Starbucks and so on. These businesses have found completely new services that generate their own demand. They are not in head-to-head competition and therefore generate dramatic growth and profitability. The understand Value Innovation.

Research suggests Blue Ocean businesses tend to ask what elements can be reduced or eliminated from traditional offerings in their industry or arena, and what elements should be created or raised above industry standards. For Cirque du Soleil, this translates as fewer animals and more theatrical performance, for example. Value Innovation involves a carefully targeted reduction in costs for elements that are not important and are going to be eliminated or reduced, and a shifting of that value to elements that are added to the offering and were not there before.

A Blue Ocean business will create a strategy canvas to assess its value curve, highlighting the products and services that make up an offering. In the case of hotels, for example, this includes price, eating facilities, architecture, room size and so on. Based on input from customers, Formule 1 Hotels found it could generate more business by reducing the emphasis on eating facilities, architecture

and room size, among other elements, and improving the bed quality, hygiene and noise levels well above industry standards. It also created a new speedy check-in system – literally using a credit card for access – that appealed to budget hotel users. In effect, Formule 1 Hotels created a value curve that was completely different from its competitors. Its costs were slashed and its profit margins were double that of the industry average, while occupancy rates were also higher. Creating a new value curve is the key to Value Innovation.

Thankfully, it is possible to achieve Blue Ocean thinking, even if you find yourself in a Red Ocean situation. According to Kim and Mauborgne, the six paths to achieving Value Innovation are: compete with alternatives, not with direct competitors (eg Southwest Airlines realised that it's biggest competition was the automobile, not other airlines, and responded accordingly); break the rules of the current competition (eliminate services the customer doesn't value; add others that the customer wants more of, even if they are outside your industry; simplify a market that is too complicated or make a market more complex if it is too simple); sell further downstream to the customer's customer, further upstream to the customer's employer; sell a complete solution, sell results, sell a product/ service bundle; replace functionality with emotion, or vice versa; ride powerful trends.

In order to apply Value Innovation, you must produce the current value curve of your business, working with a broad cross-section of staff, to determine your offering relative to competitors; areas of high performance; areas in need of improvement and distribution of costs. Then you must develop alternative value curves for your Blue Ocean business, using the six paths analysis outlined above as well as customer interviews and secondary research. You then select the best ideas using a workshop/trade show process and finally, test the ideas with customers in a real world setting. Only by exploring your Blue Ocean options will you be able to achieve real Value Innovation for your business.

*Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant by W. Chan Kim and Renée Mauborgne (Harvard Business School Press)*