CHAPTER 4

Focus on the Big Picture, Not the Numbers

YOU NOW KNOW THE PATHS to creating blue oceans. The next question is, How do you align your strategic planning process to focus on the big picture and apply these ideas in drawing your company's strategy canvas to arrive at a blue ocean strategy? This is no small challenge. Our research reveals that most companies' strategic planning process keeps them wedded to red oceans. The process tends to drive companies to compete within existing market space.

Think of a typical strategic plan. It starts with a lengthy description of current industry conditions and the competitive situation. Next is a discussion of how to increase market share, capture new segments, or cut costs, followed by an outline of numerous goals and initiatives. A full budget is almost invariably attached, as are lavish graphs and a surfeit of spreadsheets. The process usually culminates in the preparation of a large document culled from a mishmash of data provided by people from various parts of the organization who often have conflicting agendas and poor communication. In this process, managers spend the majority of strategic thinking time filling in boxes and running numbers instead of thinking outside the box and developing a clear picture of how to break from the competition. If you ask companies to present their proposed strategies in no more than a few slides, it is not surprising that few clear or compelling strategies are articulated.

It's no wonder that few strategic plans lead to the creation of blue oceans or are translated into action. Executives are paralyzed by the muddle. Few employees deep down in the company even know what the strategy is. And a closer look reveals that most plans don't contain a strategy at all but rather a smorgasbord of tactics that individually make sense but collectively don't add up to a unified, clear direction that sets a company apart—let alone makes the competition irrelevant. Does this sound like the strategic plans in your company?

This brings us to the second principle of blue ocean strategy: Focus on the big picture, not the numbers. This principle is key to mitigating the planning risk of investing lots of effort and lots of time but delivering only tactical red ocean moves. Here we develop an alternative approach to the existing strategic planning process that is based not on preparing a document but on drawing a strategy canvas.[1] This approach consistently produces strategies that unlock the creativity of a wide range of people within an organization, open companies' eyes to blue oceans, and are easy to understand and communicate for effective execution.

Focusing on the Big Picture

In our research and consulting work, we have found that drawing a strategy canvas not only visualizes a company's current strategic position in its marketplace but also helps it chart its future strategy. By building a company's strategic planning process around a strategy canvas, a company and its managers focus their main attention on the big picture rather than becoming immersed in numbers and jargon and getting caught up in operational details.[2]

As previous chapters reveal, drawing a strategy canvas does three things. First, it shows the strategic profile of an industry by depicting very clearly the factors (and the possible future factors) that affect competition among industry players. Second, it shows the strategic profile of current and potential competitors, identifying which factors they invest in strategically. Finally, it shows the company's strategic profile—or value curve—depicting how it invests in the factors of competition and how it might invest in them in the future. As discussed in chapter 2, the strategic profile with high blue ocean potential has three complementary qualities: focus, divergence, and a compelling tagline. If a company's strategic profile does not clearly reveal those qualities, its strategy will likely be muddled, undifferentiated, and hard to communicate. It is also likely to be costly to execute.

Drawing Your Strategy Canvas

Drawing a strategy canvas is never easy. Even identifying the key factors of competition is far from straightforward. As you will see, the final list is usually very different from the first draft.

Assessing to what extent your company and its competitors offer the various competitive factors is equally challenging. Most managers have a strong impression of how they and their competitors fare along one or two dimensions within their own scope of responsibility, but very few can see the overall dynamics of their industry. The catering manager of an airline, for example, will be highly sensitive to how the airline compares in terms of refreshments. But that focus makes consistent measurement difficult; what seems to be a very big difference to the catering manager may not be important to customers, who look at the complete offering. Some managers will define the competitive factors according to internal benefits. For example, a CIO might prize the company's IT infrastructure for its data-mining capacity, a feature lost on most customers, who are more concerned with speed and ease of use.

FIGURE 4-1

The Four Steps of Visualizing Strategy

1. Visual Awakening	2. Visual Exploration	3. Visual Strategy Fair	4. Visual Communication
• Compare your business with your competitors' by drawing your "as is" strategy canvas. • See where your strategy needs to change.	• Go into the field to explore the six paths to creating blue oceans. • Observe the distinctive advantages of alternative products and services. • See which factors you should eliminate, create, or change.	• Draw your "to be" strategy canvas based on insights from field observations. • Get feedback on alternative strategy canvases from customers, competitors' customers, and noncustomers. • Use feedback to build the best "to be" future strategy.	• Distribute your before-and-after strategic profiles on one page for easy comparison. • Support only those projects and operational moves that allow your company to close the gaps to actualize the new strategy.

Over the past ten years, we have developed a structured process for drawing and discussing a strategy canvas that pushes a company's strategy toward a blue ocean. A 150-year-old financial services group that we'll call European Financial Services (EFS) is one of the companies that adopted this process to develop a strategy that breaks away from the competition. The resulting EFS strategy yielded a 30 percent revenue boost in its initial year. The process, which builds on the six paths of creating blue oceans and involves a lot of visual stimulation in order to unlock people's creativity, has four major steps (see figure 4-1).

Step 1: Visual Awakening

A common mistake is to discuss changes in strategy before resolving differences of opinion about the current state of play. Another problem is that executives are often reluctant to accept the need for change; they may have a vested interest in the status quo, or they may feel that time will eventually vindicate their previous choices.

Indeed, when we ask executives what prompts them to seek out blue oceans and introduce change, they usually say that it takes a highly determined leader or a serious crisis.

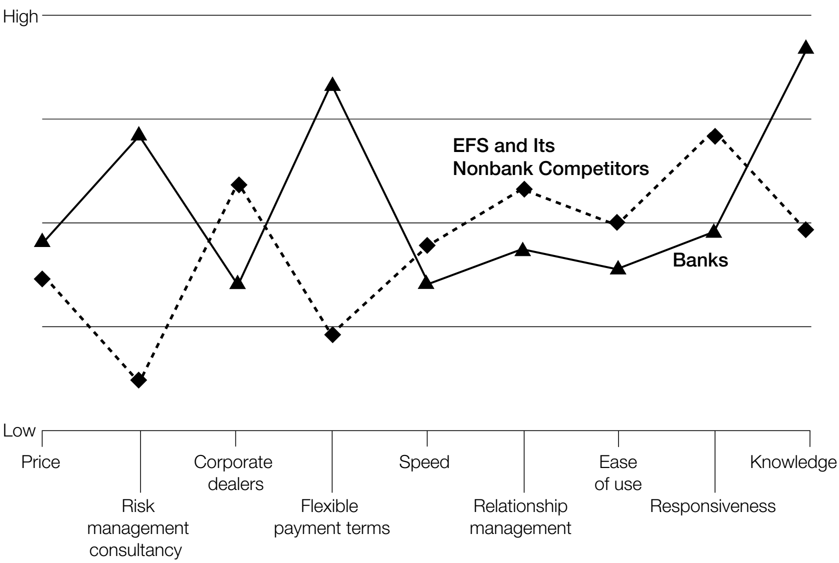
Fortunately, we've found that asking executives to draw the value curve of their company's strategy brings home the need for change. It serves as a forceful wake-up call for companies to challenge their existing strategies. That was the experience at EFS, which had been struggling for a long time with an ill-defined and poorly communicated strategy. The company was also deeply divided. The top executives of EFS's regional subsidiaries bitterly resented what they saw as the arrogance of the corporate executives, whose philosophy, they believed, was essentially "nuts in the field, brains in the center." That conflict made it all the more difficult for EFS to come to grips with its strategic problems. Yet before the firm could chart a new strategy, it was essential that it reach a common understanding of its current position.

EFS began the strategy process by bringing together more than twenty senior managers from subsidiaries in Europe, North America, Asia, and Australia and splitting them into two teams. One team was responsible for producing a value curve depicting EFS's current strategic profile in its traditional corporate foreign exchange business relative to its competitors. The other team was charged with the same task for EFS's emerging online foreign exchange business. They were given ninety minutes, because if EFS had a clear strategy, surely it would emerge quickly.

It was a painful experience. Both teams had heated debates about what constituted a competitive factor and what the factors were. Different factors were important, it seemed, in different regions and even for different customer segments. For example, Europeans argued that in its traditional business, EFS had to offer consulting services on risk management, given the perceived risk-averse nature of its customers. Americans, however, dismissed that as largely irrelevant. They stressed the value of speed and ease of use. Many people had pet ideas of which they were the sole champions. One person in the online team argued, for example, that customers

FIGURE 4-2

The Strategy Canvas of Corporate Foreign Exchange, Offline



would be drawn in by the promise of instant confirmations of their transactions—a service no one else thought necessary.

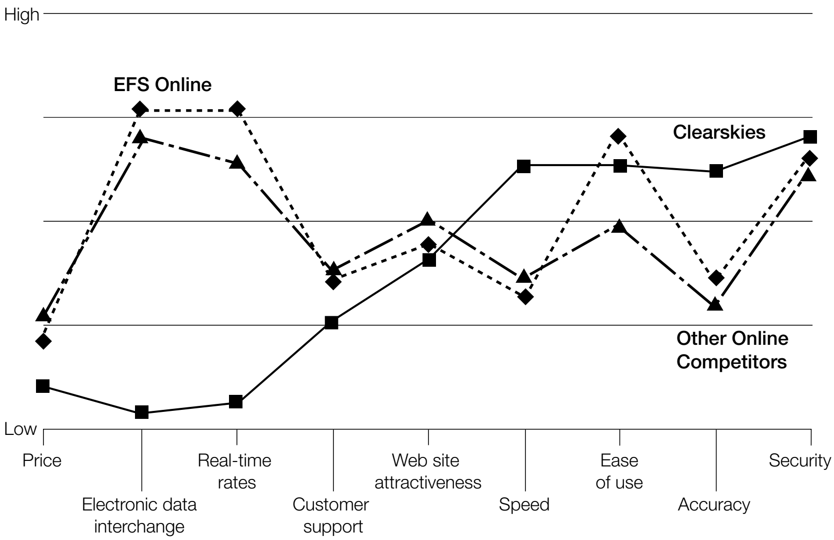
Despite these difficulties, the teams completed their assignments and presented their pictures in a general meeting of all participants. Their results are shown in figures 4-2 and 4-3.

The pictures clearly revealed defects in the company's strategy. EFS's traditional and online value curves both demonstrated a serious lack of focus; the company was investing in diverse and numerous factors in both businesses. What's more, EFS's two curves were very similar to those of competitors. Not surprisingly, neither team could come up with a memorable tagline that was true to the team's value curve.

The pictures also highlighted contradictions. The online business, for example, had invested heavily in making the Web site easy to use—it had even won awards for this—but it became apparent

FIGURE 4-3

The Strategy Canvas of Corporate Foreign Exchange, Online



that speed had been overlooked. EFS had one of the slowest Web sites in the business, and that might explain why such a well-regarded site did a relatively poor job of attracting customers and converting them into sales.

The sharpest shocks, perhaps, came from comparing EFS's strategy with its competitors'. The online group realized that its strongest competitor, which we've called Clearskies, had a focused, original, and easily communicable strategy: "One-click E-Z FX." Clearskies, which was growing rapidly, was swimming away from the red ocean.

Faced with direct evidence of the company's shortcomings, EFS's executives could not defend what they had shown to be a weak, unoriginal, and poorly communicated strategy. Trying to draw the strategy canvases had made a stronger case for change than any argument based on numbers and words could have done. This created a strong desire in top management to seriously re-think the company's current strategy.

Step 2: Visual Exploration

Getting the wake-up call is only the first step. The next step is to send a team into the field, putting managers face-to-face with what they must make sense of: how people use or don't use their products or services. This step may seem obvious, but we have found that managers often outsource this part of the strategy-making process. They rely on reports that other people (often at one or two removes from the world they report on) have put together.

A company should never outsource its eyes. There is simply no substitute for seeing for yourself. Great artists don't paint from other people's descriptions or even from photographs; they like to see the subject for themselves. The same is true for great strategists. Michael Bloomberg, before becoming mayor of New York City, was hailed as a business visionary for his realization that the providers of financial information also needed to provide online analytics to help users make sense of the data. But he would be the first to tell you that the idea should have been obvious to anyone who had ever *watched* traders using Reuters or Dow Jones Telerate. Before Bloomberg, traders used paper, pencil, and handheld calculators to write down price quotes and figure fair market values before making buy and sell decisions, a practice that cost them time and money as well as built-in errors.

Great strategic insights like this are less the product of genius than of getting into the field and challenging the boundaries of competition.[3] In the case of Bloomberg, his insight came by switching the focus of the industry from IT purchasers to users: the traders and analysts. This allowed him to see what was invisible to others.[4]

Obviously, the first port of call should be the customers. But you should not stop there. You should also go after noncustomers.[5] And when the customer is not the same as the user, you need to extend your observations to the users, as Bloomberg did. You should not only talk to these people but also watch them in action. Identifying the array of complementary products and services that are consumed alongside your own may give you insight into bundling opportunities. For example, parents who go to the movies will engage a babysitter for the night. As the European cinema operator Kinepolis discovered, adding on-site childcare services helped fill European cinemas. Finally, you need to look at how customers might find alternative ways of fulfilling the need that your product or service satisfies. For example, driving is an alternative to flying, so you should also examine its distinct advantages and characteristics.

EFS sent its managers into the field for four weeks to explore the six paths to creating blue oceans.[6] In this process, each was to interview and observe ten people involved in corporate foreign exchange, including lost customers, new customers, and the customers of EFS's competitors and alternatives. The managers also reached outside the industry's traditional boundaries to companies that did not yet use corporate foreign exchange services but that might in the future, such as Internet-based companies with a global reach like Amazon.com. They interviewed the end users of corporate foreign exchange services—the accounting and treasury departments of companies. And finally, they looked at ancillary products and services that their customers used—in particular, treasury management and pricing simulations.

The field research overturned many of the conclusions managers had reached in the first step of the strategy creation process. For example, account relationship managers, whom nearly everyone had agreed were a key to success and on whom EFS prided itself, turned out to be the company's Achilles' heel. Customers hated wasting time dealing with relationship managers. To buyers, relationship managers were seen as relationship savers because EFS failed to deliver on its promises.

To everyone's astonishment, the factor customers valued most was getting speedy confirmation of transactions, which only one manager had previously suggested was important. The EFS managers saw that their customers' accounting department personnel spent a lot of time making phone calls to confirm that payments had been made and to check when they would be received. Customers received numerous calls on the same subject, and the time wasted in handling them was compounded by the necessity of making further calls to the foreign exchange provider, namely EFS or a competitor.

EFS's teams were then sent back to the drawing board. This time, though, they had to propose a new strategy. Each team had to draw six new value curves using the six path framework explained in chapter 3. Each new value curve had to depict a strategy that would make the company stand out in its market. By demanding six pictures from each team, we hoped to push managers to create innovative proposals and break the boundaries of their conventional thinking.

For each visual strategy, the teams also had to write a compelling tagline that captured the essence of the strategy and spoke directly to buyers. Suggestions included "Leave It to Us," "Make Me Smarter," and "Transactions in Trust." A strong sense of competition developed between the two teams, making the process fun, imbuing it with energy, and driving the teams to develop blue ocean strategies.

Step 3: Visual Strategy Fair

After two weeks of drawing and redrawing, the teams presented their strategy canvases at what we call a *visual strategy fair*. Attendees included senior corporate executives but consisted mainly of representatives of EFS's external constituencies—the kinds of people the managers had met with during their field trips, including noncustomers, customers of competitors, and some of the most demanding EFS customers. In two hours, the teams presented all twelve curves—six by the online group, and six by the offline group. They were given no more than ten minutes to present each curve, on the theory that any idea that takes more than ten minutes to communicate is probably too complicated to be any good. The pictures were hung on the walls so that the audience could easily see them.

After the twelve strategies were presented, each judge—an invited attendee—was given five sticky notes and told to put them next to his or her favorites. The judges could put all five on a single strategy if they found it that compelling. The transparency and immediacy of this approach freed it from the politics that sometimes seem endemic to the strategic planning process. Managers had to rely on the originality and clarity of their curves and their pitches. One began, for example, with the line, "We've got a strategy so cunning that you won't be our customers, you'll be our fans."

After the notes were posted, the judges were asked to explain their picks, adding another level of feedback to the strategy-making process. Judges were also asked to explain why they did not vote for the other value curves.

As the teams synthesized the judges' common likes and dislikes, they realized that fully one-third of what they had thought were key competitive factors were, in fact, marginal to customers. Another one-third either were not well articulated or had been overlooked in the visual awakening phase. It was clear that the executives needed to reassess some long-held assumptions, such as EFS's separation of its online and traditional businesses.

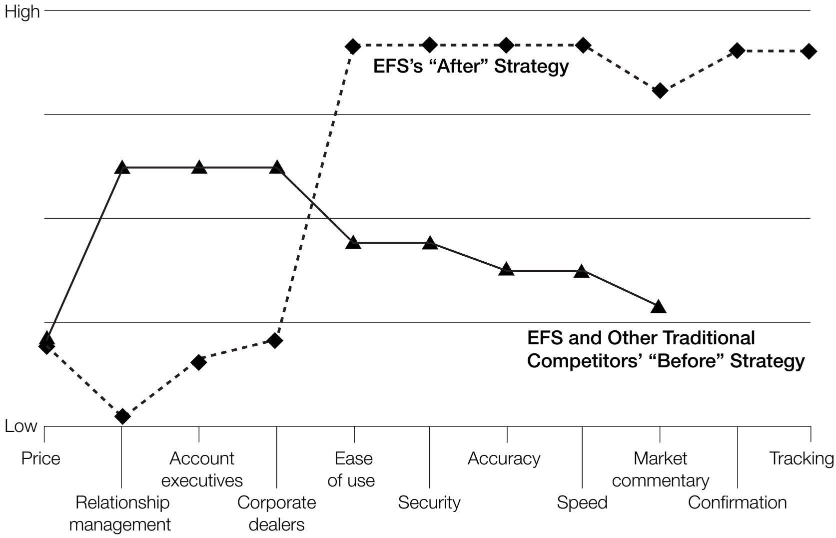
They also learned that buyers from all markets had a basic set of needs and expected similar services. If you met those common needs, customers would happily forgo everything else. Regional differences became significant only when there was a problem with the basics. This was news to many people who had claimed that their regions were unique.

Following the strategy fair, the teams were finally able to complete their mission. They were able to draw a value curve that was a truer likeness of the existing strategic profile than anything they had produced earlier, in part because the new picture ignored the specious distinction that EFS had made between its online and offline businesses. More important, the managers were now in a position to draw a future strategy that would be distinctive as well as speak to a true but hidden need in the marketplace. Figure 4-4 highlights the stark differences between the company's current and future strategies.

As the figure shows, EFS's future strategy eliminated relationship management and reduced investment in account executives,

FIGURE 4-4

EFS: Before and After



who, from this point on, were assigned only to "AAA" accounts. These moves dramatically reduced EFS's costs because relationship managers and account executives were the highest-cost element of its business. EFS's future strategy emphasized ease of use, security, accuracy, and speed. These factors would be delivered through computerization, which would allow customers to input data directly instead of having to send a fax to EFS.

This action would also free up corporate dealers' time, a large portion of which had been spent completing paperwork and correcting errors. Dealers would now be able to provide richer market commentary, a key success factor. Using the Internet, EFS would send automatic confirmations to all customers. And it would offer a payment-tracking service, just as FedEx and UPS do for parcels. The foreign exchange industry had never offered these services before. Figure 4-5 summarizes EFS's four actions to create value innovation, the cornerstone of blue ocean strategy.

FIGURE 4-5

Eliminate-Reduce-Raise-Create Grid: The Case of EFS

Eliminate	Raise
Relationship management	Ease of use Security Accuracy Speed Market commentary
Reduce	**Create**
Account executives Corporate dealers	Confirmation Tracking

The new value curve exhibited the criteria of a successful strategy. It displayed more focus than the previous strategy; investments that were made were given a much stronger commitment than before. It also stood apart from the industry's existing me-too curves and lent itself to a compelling tagline: "The FedEx of corporate foreign exchange: easy, reliable, fast, and trackable." By collapsing its online and traditional businesses into one compelling offering, EFS substantially cut the operational complexity of its business model, making systematic execution far easier.

Step 4: Visual Communication

After the future strategy is set, the last step is to communicate it in a way that can be easily understood by any employee. EFS distributed the one-page picture showing its new and old strategic profiles so that every employee could see where the company stood and where it had to focus its efforts to create a compelling future. The senior managers who participated in developing the strategy held meetings with their direct reports to walk them through the picture, explaining what needed to be eliminated, reduced, raised, and created to pursue a blue ocean. Those people passed the message on to their direct reports. Employees were so motivated by the clear game plan that many pinned up a version of the picture in their cubicles as a reminder of EFS's new priorities and the gaps that needed to be closed.

The new picture became a reference point for all investment decisions. Only those ideas that would help EFS move from the old to the new value curve were given the go-ahead. When, for example, regional offices requested that the IT department add links on the Web site—something that in the past would have been agreed to without debate—IT asked them to explain how the new links helped move EFS toward its new profile. If the regional offices couldn't provide an explanation, the request was denied, thereby promoting clarity and not confusion on the Web site. Similarly, when the IT department pitched a multimillion-dollar back-office system to top management, the system's ability to meet the new value curve's strategic needs was the chief metric by which it was judged.

Visualizing Strategy at the Corporate Level

Visualizing strategy can also greatly inform the dialogue among individual business units and the corporate center in transforming a company from a red ocean to a blue ocean player. When business units present their strategy canvases to one another, they deepen their understanding of the other businesses in the corporate portfolio. Moreover, the process also fosters the transfer of strategic best practices across units.

Using the Strategy Canvas

To see how this works, consider how Samsung Electronics of Korea used strategy canvases at its 2000 corporate conference, which was attended by more than seventy top managers, including the CEO. Unit heads presented their canvases and implementation plans to senior executives and to one another. Discussions were heated, and a number of unit heads argued that the freedom of their units to form future strategies was constrained by the degree of competition they faced. Poor performers felt that they had little choice but to match their competitors' offerings. That hypothesis proved to be false when one of the fastest-growing units—the mobile phone business—presented its strategy canvas. Not only did the unit have a distinctive value curve, but it also faced the most intense competition.

Samsung Electronics has institutionalized the use of the strategy canvas in its key business creation decisions by establishing the Value Innovation Program (VIP) Center in 1998. Core cross-functional team members of its various business units come together in the VIP Center to discuss their strategic projects. These discussions typically focus on strategy canvases.

With the value innovation knowledge it has developed, the center, equipped with twenty project rooms, assists the units in making their product and service offering decisions. In 2003, the center completed more than eighty strategic projects and opened more than ten VIP branches to meet business units' rising demands. For example, the world's leading forty-inch LCD TV, launched in December 2002, is the result of one project team's devoted four-month efforts made at the center. So is the world's bestselling mobile phone, the SGH T-100, which has sold more than ten million units.

Since 1999, Samsung Electronics has established an annual Value Innovation corporate conference presided over by all of its top executives. At this conference, Samsung's hit Value Innovation projects are shared through presentations and exhibitions, and awards are given to the best cases. This is one way that Samsung Electronics establishes a common language system, instilling a corporate culture and strategic norms that drive its corporate business portfolio from red to blue oceans.[7]

Do your business unit heads lack an understanding of the other businesses in your corporate portfolio? Are your strategic best practices poorly communicated across your business units? Are your low-performing units quick to blame their competitive situations for their results? If the answer to any of these questions is yes, try drawing, and then sharing, the strategy canvases of your business units.

Using the Pioneer-Migrator-Settler (PMS) Map

Visualizing strategy can also help managers responsible for corporate strategy predict and plan the company's future growth and profit. All the companies that created blue oceans in our study have been pioneers in their industries, not necessarily in developing new technologies but in pushing the value they offer customers to new frontiers. Extending the pioneer metaphor can provide a useful way of talking about the growth potential of current and future businesses.

A company's *pioneers* are the businesses that offer unprecedented value. These are your blue ocean strategists, and they are the most powerful sources of profitable growth. These businesses have a mass following of customers. Their value curve diverges from the competition on the strategy canvas. At the other extreme are *settlers*—businesses whose value curves conform to the basic shape of the industry's. These are me-too businesses. Settlers will not generally contribute much to a company's future growth. They are stuck within the red ocean.

The potential of *migrators* lies somewhere in between. Such businesses extend the industry's curve by giving customers more for less, but they don't alter its basic shape. These businesses offer improved value, but not innovative value. These are businesses whose strategies fall on the margin between red oceans and blue oceans.

A useful exercise for a corporate management team pursuing profitable growth is to plot the company's current and planned portfolios on a *pioneer-migrator-settler* (PMS) map. For the purpose of the exercise, settlers are defined as me-too businesses, migrators are business offerings better than most in the marketplace, and pioneers are the only ones with a mass following of customers.

If both the current portfolio and the planned offerings consist mainly of settlers, the company has a low growth trajectory, is largely confined to red oceans, and needs to push for value innovation. Although the company might be profitable today as its settlers are still making money, it may well have fallen into the trap of competitive benchmarking, imitation, and intense price competition.

If current and planned offerings consist of a lot of migrators, reasonable growth can be expected. But the company is not exploiting its potential for growth, and it risks being marginalized by a company that value-innovates. In our experience the more an industry is populated by settlers, the greater is the opportunity to value-innovate and create a blue ocean of new market space.

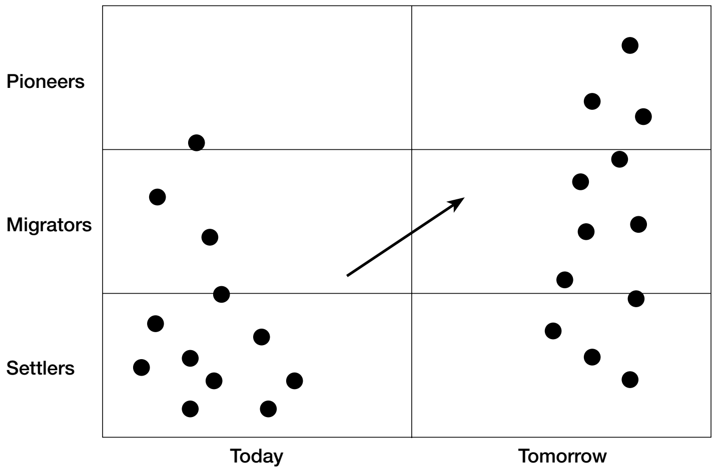
This exercise is especially valuable for managers who want to see beyond today's performance. Revenue, profitability, market share, and customer satisfaction are all measures of a company's current position. Contrary to what conventional strategic thinking suggests, those measures cannot point the way to the future; changes in the environment are too rapid. Today's market share is a reflection of how well a business has performed historically. Think of the strategic reversal and market share upset that occurred when CNN entered the U.S. news market. ABC, CBS, and NBC—all with historically strong market shares—were devastated.

Chief executives should instead use value and innovation as the important parameters for managing their portfolio of businesses. They should use innovation because, without it, companies are stuck in the trap of competitive improvements. They should use value because innovative ideas will be profitable only if they are linked to what buyers are willing to pay for.

Clearly, what senior executives should be doing is getting their organizations to shift the balance of their future portfolio toward pioneers. That is the path to profitable growth. The PMS map shown in figure 4-6 depicts this trajectory, showing the scatter plot of a company's portfolio of businesses, where the gravity of

FIGURE 4-6

Testing the Growth Potential of a Portfolio of Businesses



its current portfolio of twelve businesses, expressed as twelve dots, shifts from a preponderance of settlers to a stronger balance of migrators and pioneers.

In pushing their businesses toward pioneers, however, senior executives should be well aware that even though settlers have marginal growth potential, they are frequently today's cash generators. On the other hand, pioneers have maximum growth potential but often consume cash at the outset as they grow and expand. Evidently, senior managers' goal here should be to manage their portfolio of businesses to wisely balance between profitable growth and cash flow at a given point in time.

Overcoming the Limitations of Strategic Planning

Managers often express discontent, either explicitly or implicitly, with existing strategic planning—the core activity of strategy. To them, strategic planning should be more about collective wisdom building than top-down or bottom-up planning. They think that it should be more conversational than solely documentation-driven, and it should be more about building the big picture than about number-crunching exercises. It should have a creative component instead of being strictly analysis-driven, and it should be more motivational, invoking willing commitment, than bargaining-driven, producing negotiated commitment. Despite this appetite for change, however, scant work exists on building a viable alternative to existing strategic planning, which is the most essential management task in the sense that almost every company in the world not only does it but often takes several grueling months each year to complete the exercise.

Building the process around a picture addresses many of managers' discontents with existing strategic planning and yields much better results. As Aristotle pointed out, "The soul never thinks without an image."

Drawing a strategy canvas and a PMS map is not, of course, the only part of the strategic planning process. At some stage, numbers and documents must be compiled and discussed. But we believe that the details will fall into place more easily if managers start with the big picture of how to break away from the competition. The methods of visualizing strategy proposed here will put strategy back into strategic planning, and they will greatly improve your chances of creating a blue ocean.

How do you maximize the size of the blue ocean you are creating? The following chapter addresses that precise question.