

Does your
Big Idea look
Red or **Blue**?



Articles

In this article Angela Cluff, =mc Director, looks at one of the most exciting strategic ideas in the last 10 years.



Red Ocean/Blue Ocean

What's the Big Idea?

Blue Ocean Strategy is a radical approach to strategy captured in a book written by W. Chan Kim and Renée Mauborgne - professors based at INSEAD, the leading European business school.

The book summarises the thesis that organisations face two key choices: creating new customer demand in an uncontested market space - "Blue Ocean" - or competing head-to-head with other organisations for established customers in an existing industry - "Red Ocean." Each approach requires different competencies - but only Blue Ocean can offer high returns. The model is widely used in the commercial sector and =mc is spearheading its introduction in the charity and INGO sector.

A business example of Blue Ocean would be Apple's introduction of the tablet pc or Cirque du Soleil's re-imagining of the circus performance. Both were category-changing transformational interventions in their time . (Though of course, the competition has since caught up.) A charity Blue Ocean example might be the NSPCC's famous Full Stop campaign or even the invention of micro-loan site Kiva.

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Red Ocean in the business sector could be the fight for market share among commodity energy suppliers. And a not-for-profit one could be the challenge of differentiating ‘child adoption’ fundraising mechanics among INGOs like Plan, Action Aid, WorldVision, and SoS Children’s Villages.

At =mc we spend a lot of time in our strategy work helping organisations decide which strategic approach they need. (If you’re keen to know how to be most effective in Red Ocean another of the =mc Big Idea cards focuses on Michael Porter’s **Five Forces** model. This model is ideal for exploiting how to deal with intense competition.)

To contrast the two approaches see the table below.

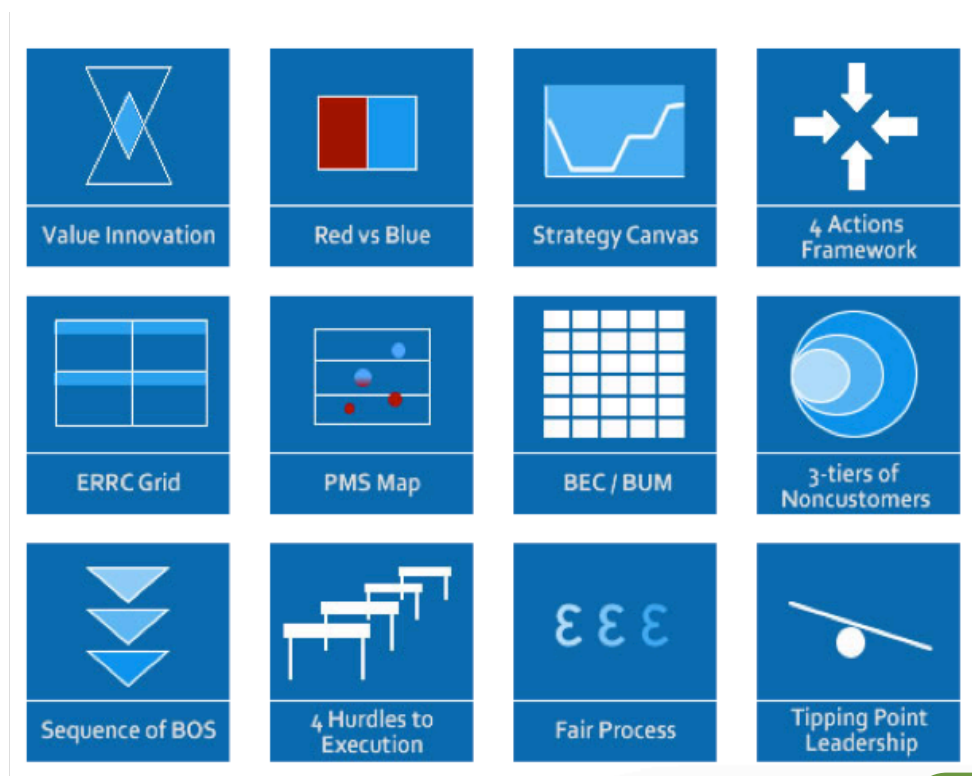
	Red Ocean	Blue Ocean
Market Context	<p>The category of existing and understood markets you operate in</p> <p>- for example environmental charities competing for the support of young social activists in developed nations</p>	<p>The category of markets you don’t operate in or are underdeveloped</p> <p>- for example environmental charities competing for the support of oil and gas companies to save the planet</p>
Strategy	<ul style="list-style-type: none"> • Compete by trading off value and cost - be cheaper/better value! • Watch the competition closely - counter any move they make • Understand the ‘rules of the game’ - seek to work within them efficiently • Work to maximise your market share - accept RoI may weaken and growth will slow <p>- so for example if you’re an international development agency running an ‘adopt a child’ mechanic make sure your cost per month is comparable to others</p>	<ul style="list-style-type: none"> • Be unique so that you can provide value and maximise returns • Make the idea of competition irrelevant - be unique in a category • Change the ‘rules of the game’ - or seek to disrupt them • Create a new market - look for new customers or develop demand where it has not existed before <p>- so for example an ‘elitist’ university - Oxford? - specifically targeting non-alumni and even non-graduates for campaign support</p>

Risks	<ul style="list-style-type: none"> • Competition becomes unbearable and risk of failure is great - too low margins, mean you have to exit • A larger competitor simply forces you from the market. They drive down prices and use capital to sustain themselves. <p>- so for example the big cancer charity in the country dominates the women's breast cancer run 'market' - so makes it hard for others to set up</p>	<ul style="list-style-type: none"> • No one cares about your brilliant new idea - "there's a gap in the market, but no market in the gap." • You run out of funds before you have the chance to hit blue ocean. The good idea needs a massive investment to reach critical mass. <p>- so for example an international development charity wants to set up a rival to Kiva. But it will cost £000,000s. So they can't afford to develop it.</p>
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So how do you create a Blue Ocean advantage?

There are 12 key concepts in the portfolio that help you develop a Blue Ocean Strategy (BOS). Some of the concepts are essentially ideas that help you reframe challenges. Some are tools or frameworks that allow you to analyse, and some of them are implementation aids designed to overcome change.

Each of the generally agreed concepts is shown in the grid below. We've included a brief explanation of each one underneath. And then a longer exploration of four key ones exceptionally useful in fundraising.



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Value Innovation: at the heart of Blue Ocean are two seemingly irreconcilable ideas- reducing cost and increasing value at the same time. So you have to eliminate or reduce costs which are regarded as 'standard' in your industry. (Say RoI on DM or the need to have paid teams of F2F fundraisers.) And at the same time you need to understand that buyers — we'd normally call them donors or supporters — will look for, and expect added value. Central to Blue Ocean is the idea that you can do both at once.



Red v Blue Six Paths: six paths represent the key areas distinguishing Blue Ocean and Red Ocean approaches. The paths are by group, by offering, by function, by promotional orientation, and time. So you need to decide where your Blue Ocean advantage is likely to emerge. (So in group do you compete against similar or dissimilar rivals? For example, is the competition other environmental NGOs or a political party asking donors to transfer affection and fund their election campaign so they can enact climate legislation?)



The Strategy Canvas: the strategy canvas is the key diagnostic framework in Blue Ocean. It plots two factors. On the horizontal axis you define the key success factors that you and rivals compete on- price, value, speed etc. The other axis outlines the extent to which you deliver these. So how good are you, for example, at demonstrating how the faith basis of your work, if important, aligns with supporters' religious values? How does World Vision do v. Christian Aid in terms of appeal to religious donors?



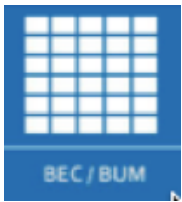
The Four Actions Framework: This framework is used to reconstruct higher value buyer/donor/supporter advantage. The four actions are used to craft what's called a new value curve. (The assumption is that supporters have a number of interests that can be shaped into a curve.). The framework poses four key questions, shown in a diagram, to challenge an industry's strategic assumptions. Here we might ask questions about the importance of certain stewardship approaches - do they actually add as much value as we believe?



Eliminate-Reduce-Raise-Create Grid: ERRC complements the Four Actions and asks you to consider what is important to supporters and how you can go about raising standards/factors, creating standards/factors, reducing standards/factors or finally eliminating standards/factors. You do this in order to identify where value can be added for your key supporters. You then link it to the Actions Framework above.



Pioneer-Migrator-Settler (PMS) Map: this map compares the offering portfolio of today with that of tomorrow. The definition means that settlers are 'me too' activities or fundraising programmes, whereas migrators are those which can do slightly better than others, and pioneers are potential breakthrough/Blue Ocean offerings. The argument is that an organisation committed to Blue Ocean would focus on the pioneers to drive the next big thing. By focusing on settlers you are doomed to splash around in red ocean.



Buyer Experience Cycle/ Buyer Utility Map: the BEC/BUM uses a version of the supporter/customer journey, looking at six key utility levels against six stages of buyer experience. The utility levels consist of productivity, simplicity, convenience, risk, fun + image and environmental friendliness. The buyer / supporter experience selection are less relevant to not for profits and harder to adapt. They need to relate to your donor or supporter journey. Once you've mapped this grid, you can then look at how to improve the experience by improving utility.



Three Tiers of Noncustomers: one of the most common approaches for businesses and not for profit organisations is to focus increasingly on current donors/supporters/customers. While generally good this can lead to finer and finer tailoring of offerings to meet specific customer/donor/supporter preferences. The challenge, then, is that you may end up serving a smaller target market even better. In a Blue Ocean strategy you reverse this trend and instead look at three different classes of donors/supporters/customers who don't currently engage with you and find a way to engage them.



BOS Sequence: a key idea in BOS (Blue Ocean Strategy) is that sequencing is important. This framework is really a checklist exploring how likely your idea is to succeed. So are the buyers/donors/supporters keen on your idea? Can you offer your idea at a price that is acceptable to the mass of buyers? Can you achieve your income or cost-reduction target? Finally can you actually engage internal stakeholders in your idea? Only if you can do all of these steps should you progress.



Four Hurdles to Execution: four hurdles to execution is really about looking at why, even after you have your brilliant idea, it's sometimes very difficult to implement. So it's really a change management framework. The four barriers are cognitive, political, motivational, and resource. Being aware of which of these implementation barriers is greatest, encourages you to identify why these hurdles hold back success and what you can do to overcome them. (There are different tactics for each.)



Fair Process: this is another change management framework in BOS. The argument here is that in order to persuade key stakeholders to take part in Blue Ocean strategy you need to align engagement, explanation, and expectation - the three Es of a fair and transparent process. So people - key internal stakeholders - have to feel communicated with, to understand why choices have been made, and to appreciate what the possible consequences - positive or negative - might be. With this fair process you can create alignment and momentum.



Tipping Point leadership: this is a nice idea which goes against conventional wisdom about change - i.e. you have to influence the great mass of people in your organisation to affect change. This approach suggests that tipping point leadership happens at either end of our normal distribution curve. So to 'tip' you engage the outliers/counterfactual thinkers in your organisation to get them on board with conceiving or delivering the strategy. (They do, however, need to give you enough leverage as well as weird ideas.)

Using the tools

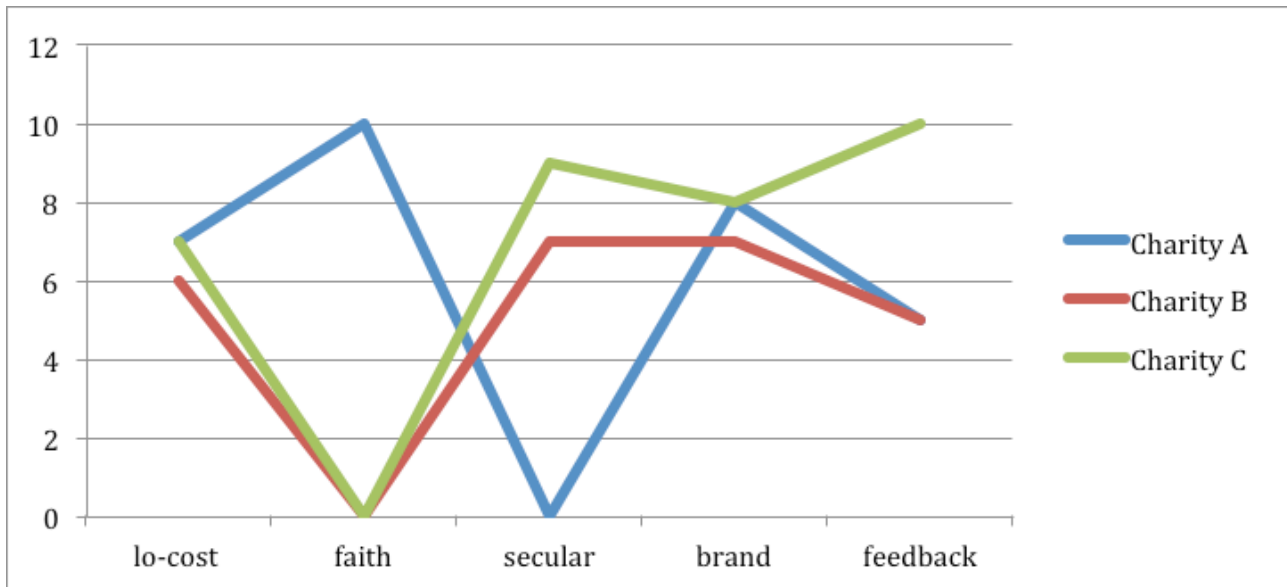
In our experience the most immediately useful ones for fundraisers are the strategy canvas, three tiers of non-customers, the four actions framework, and ERRC.

Below is an example relating to the **Strategy Canvas**. As indicated above this helps you identify the key success factors which help you create the differentiators between yourself and others currently in your category - e.g. breast cancer charities, theatres, or emergency relief agencies.

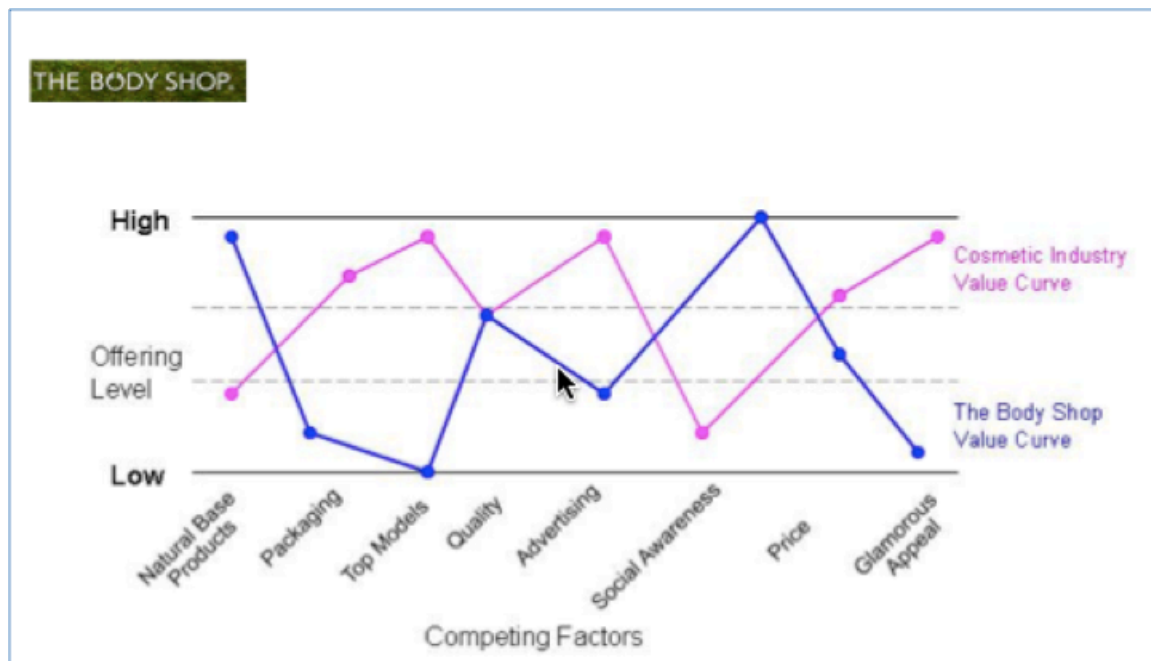
This example shows the contrast between three international development charities who use the 'child adoption' mechanic. Research among donors showed that there were five key factors determining success:

- The 'cost' of a monthly sponsorship - perceived as 'low'
- The extent to which the agency is perceived as having a faith base
- The extent to which the agency is perceived as having a secular base
- The brand awareness of the charity
- The level of feedback they give from the 'adopted' child

These five metrics are scored in terms of importance to donors. And we would then need to compare the relative net income of these three charities to establish which part of their strategy canvases are creating the Blue Ocean



Below is a commercial example from Body Shop showing how its value canvas works against other cosmetics companies.



So The Body Shop wins here on natural products, social awareness and price - the assumptions is that customers value these more than say and association with top models and glamour.

Some critical thoughts on BOS

It's important to say that BOS represents one model of thinking about competition and the nature of markets. There are others. And even if you like BOS there are some important implications built-in to this model and you may want to consider the implications of these.

- **Blue Oceans need Red Oceans:** Red Ocean thinking assumes that there are structural limits built in to some aspects of markets that it's impossible to change - and therefore the only alternative is to develop a Blue Ocean strategy. It also suggests that competition is simply hard to win. There are certainly alternative arguments which say that the rules of competition are not fixed, or that simply by 'hanging in there' or spending more money you might eventually outperform a competitor. So for example, it's possible that a charity prepared to put enough money into direct-mail or face-to-face fundraising could in theory make it difficult for any other charity to survive simply by dominating mind share.
- **Can it predict success?** A second issue is more a critique of the model itself. Some critics argue that the model is simply a way of retrofitting what happened when some companies or agencies did something very clever. The implication is that the tools and Red Ocean Blue Ocean do not provide you with the means to develop a Blue Ocean strategy, they simply explain how you managed to do it once you have done it. In our experience it's fair to say that we more often begin with our Blue Ocean idea — perhaps driven by innovation strategy — and then use the Blue Ocean tools to work out how robust it is.¹

Certainly BOS is an appealing way of thinking but we would urge caution when trying to use in a very simple way.

Want to know more?

=mc consultants have worked with many of the world's leading charities on their strategy or fundraising.

We're proud to be helping or have helped, UNICEF, the World Health Organisation, the Federation of Red Cross and Red Crescent Societies, Greenpeace International, WWF, Concern Worldwide and Amnesty International. In the UK, we've worked with Mencap, Alzheimer's Society, Oxford University, Care, WWF, Science Museum and the National Trust for Scotland.

To find out how we've helped these organisations achieve their big ideas — and how we could help you — call **Angela Cluff**, Director on **+44 (0) 20 7978 1516**. Alternatively you can email us at a.cluff@managementcentre.co.uk or go to our website at www.managementcentre.co.uk/fundraising-consultancy.

And if you'd like access to some other Big Ideas visit www.managementcentre.co.uk/bigideas

¹There is a specific success case study - Nintendo, applied the Blue Ocean framework to create the Nintendo DS handheld game system. This was the first portable gaming system to have touchable dual screen. It was enormously popular. In 2006 Nintendo went further with the development of Wii, which made video games a family and group activity. These first two initiatives, the DS and Wii, were enormously successful. But subsequent products have fallen behind. Blue Ocean is a difficult place to stay ahead.