

## Adopting Blue Ocean Strategy to break the competition and create value innovation -case study of Sun Circus company-

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### Abstract:

This study attempts to highlight the “Blue Ocean Strategy” as one of the most important modern strategies capable of tackling the dangers of intense competition in the Red Oceans. Indeed, it has been noted that this strategy plays an important role in the creation of Value Innovation through the four dimensions that underlie it (ERRC: Eliminating, Reduction, Raising and Creativity).

Finally, the study presents the experience of "Sun Circus" Company as one of the successful experiences for creating Blue Ocean in already declining and saturated industry. The study concludes with the presentation of relevant results and recommendations that can help companies better adapt to and adopt the Blue Ocean philosophy.

**Keywords:** Blue ocean, Red ocean; Value innovation; Competition; Sun Circus company.

**JEL Classification:** M10; M13; M31

## **Introduction**

In the last decade, the business scenario has become particularly daunting and unpredictable over the last decades. A large of industries have turned into congested sectors, and in order to stand apart in these matured markets, managers are required to be decisive and creative by developing a successful value-oriented strategy.

Faced to fury competition, Kim and Mauborgne proposed an innovative theory, which leads company to a place where competition is irrelevant by creating a new market spaces without rivals, which they called “Blue Ocean”. This term is an analogy to describe the wider potential of market space that is vast, deep, and not yet explored (Kim & Mauborgne, 2005, p. 4). Although the term of blue oceans is new in the business vernacular, their existence is not.

Blue Oceans are a feature of past and present business life. If we look back one hundred years and ask, how many of today’s industries were then known? The answer is that many basic industries as automobiles, aviation, petrochemicals, biotechnology, express package delivery, and management consulting were unheard of or had just begun to emerge at that time. The reality is that industries never stand still, but they continuously evolve. Operations improve, markets expand, and players come and go. History teaches us that we have a hugely underestimated capacity to capture blue oceans by creating new industries and re-creating existing ones (Singh, 2014, pp. 71-72).

In Kim and Mauborgne’s opinion, what consistently separated winners from losers in creating blue oceans was their logic to strategy. The creators of blue oceans, surprisingly, did not use the competition as their benchmark. Instead, they followed a different strategic logic that the authors call “Value Innovation”. Importantly, value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off. It is conventionally believed that companies can either create greater value to customers at a higher cost or create reasonable value at a lower cost. Here, strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create Blue Oceans pursue differentiation and low cost simultaneously (Odera & others, 2017, p. 722)

## **Research Problem**

In today's world, companies need to think about issues beyond the competition and find another way of thinking to seize opportunities for growth and profitability. Value innovation is a new way of thinking about and executing strategy that results in the creation of a new market space and a break from the competition. Thus, Blue Ocean Strategy came under this logic umbrella and it provided many tools to create what we call an Innovation Value. Accordingly, the question that can be raised in this regard is: How can Blue Ocean Strategy drive the company to create an innovation value and making competition irrelevant?

## **Research questions**

From the above question, the research addresses the following questions:

- What is meant by Blue and Red Ocean?
- What is value innovation and how can it be achieved by adopting Blue Ocean Strategy?
- How Did Sun Circus shift from red ocean to create an innovation value?

## **Research importance**

This research derives its significance from its ability to offer managers a new way of competing. In actual fact, Blue Ocean Strategy is a disruptive strategy and represents a revolution in strategic management. In this context, this research paper comes to shed the light on this new approach-Blue Ocean Strategy- and to analyze the case of one of the biggest blue companies-Sun Circus- in order to apprehend how its strategic moves had changed its future as its whole industry aspects.

## **Objectives of the research**

The following are the specific objectives of this research:

- To understand the concept of Blue Ocean Strategy and Value innovation.
- To determine the role of Blue Ocean Strategy dimensions in creating Value innovation.
- To shed the light and analyze Sun Circus company's Blue Ocean Strategy.

## Methodology of the research

The research has adopted the descriptive approach in collecting data and information's for the theoretical part of the study. The analytical approach was also adopted to analyze different concepts and relationships, and to study Sun Circus's Blue Ocean moves.

### 1- Theoretical framework

It is generally known that most of strategy literature is centered around competition. In contrast, Chan Kim and Renée Mauborgne challenge these conventional paradigms and contend that competition should not occupy the center of strategic thinking. Instead strategy should be about creating Value Innovation. This part will summarize the ideas behind it.

#### 1-1- The philosophy of red and blue oceans

To understand the philosophy beyond blue ocean and the concept of colors in this strategy, theorists of blue ocean strategy book, lead us to imagine a market universe composed of two sorts of oceans: (Kim & Mauborgne, 2005, p. 4)

-**Red ocean:** it represents all the industries in existence today, This is the known market space (The center of competition). In the red ocean, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their competitors in order to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities, and cutthroat competition turns the red ocean bloody.

- **Blue ocean:** it denotes all the industries not in existence today. This is the unknown market space where the competition is irrelevant. blue oceans are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. The main differences between red and blue oceans can be shown as follows:

**Table (1): Red ocean Vs Blue ocean**

<b>Red ocean</b>	<b>Blue ocean</b>
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value cost trade-off	Break the value-cost trade-off
Align activities with company's choice of differentiation or low cost	Align the activities in pursuit of differentiation and low cost

**Source : Kim. C, Mauborgne. R, (2005). Blue Ocean Strategy, how to create uncontested market space and make the competition irrelevant, Harvard Business Review Press, Boston, Massachusetts, USA, p18.**

In Table (1), by comparing both blue and red ocean, it is noticed that the latter focuses on competing in the current market space and constantly strives to maintain its shares in the light of two factors (existing demand and highly competitive environment). In contrast to blue ocean which targets undiscovered market areas and creates a new demand, making competition logic out of the question. In terms of costs and value creation, Blue companies simultaneously aim to reduce costs and create value, which means aligning the whole system to apply both differentiation and low cost's Porter strategies, unlike Red companies, which pursue the value-cost-trade-off and adopt only one option of porter's strategies.

### **1-2- Value innovation: The cornerstone of Blue Ocean Strategy**

Kim and Mauborgne explain that value innovation is the cornerstone of blue ocean strategy. It is called value innovation, because instead of companies focusing on beating the competition, they focus on making the competition irrelevant by creating a leap in value for buyers and company, thereby opening up new and uncontested market space (Odera & others, 2017, p. 725)

It should be noted that value innovation places equal emphasis on value and innovation. These two words must be combined together since none of them will effectively work without the other, and it means to be differentiated with low cost: (Rawabdeh & others, 2012, p. 392) (Basri, ghazali, & ismail, 2011, p. 48)

- Value without innovation tends to focus on value creation on an incremental scale, that is something that improves value but is not sufficient to make you stand out in the marketplace.
- Innovation without value tends to be technology-driven, market pioneering, or futuristic, often shooting beyond what buyers are ready to accept and pay for.

As shown in (Fig.1) below, Value innovation is created in the zone where a company's actions favorably affect both its cost structure and its value proposition to buyers. According to Kim and Mauborgne, the creation of value innovation is about driving costs down while simultaneously driving value up for buyers. This is how a leap in value for both the company and its buyers is achieved. Because buyer value comes from the utility and price that the company offers to buyers, and because the value to the company is generated from price and its cost structure, value innovation is achieved only when the whole system of the company's utility, price, and cost activities is properly aligned. (Kim & Mauborgne, 2005, p. 17)

**Figure (1): Value Innovation**



**Source: Basri. J, Ghazali .M, and Ismail. M, (2011). Blue ocean strategy, The application in University Sains Malaysia Library, Seminar proceeding of developing Academic Library Services, Kelantan, Malaysia, 5-7 july, 46-61, p48.**

### **1-3- Blue Ocean Strategy tools to create Value Innovation**

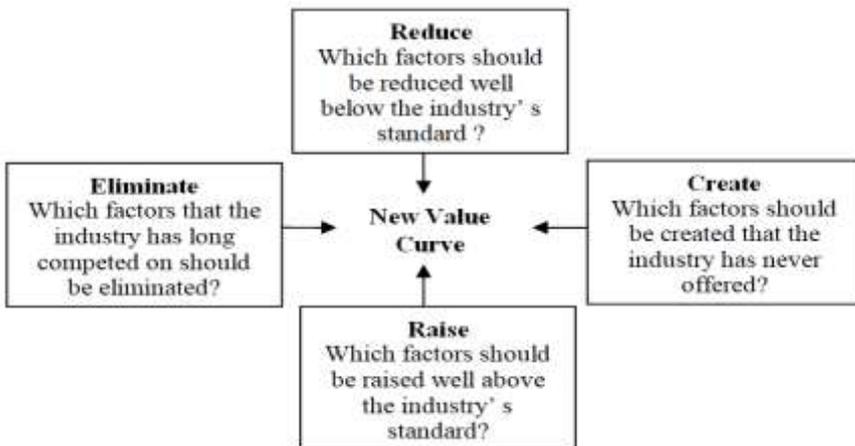
Blue ocean Strategy is more than a theoretical concept. Kim and Mauborgne (2005) had developed analytic tools and executive frameworks, that allow this Strategy to be applied in real business field and help companies to shift seamlessly and certainly from red to blue Ocean, in the framework of

innovation value. The main tools of blue ocean strategy are The Four Actions Framework and The Strategy Canvas

### 1-3-1 The four actions framework

To break the trade-off between differentiation and low cost, and to create an innovation value, Blue ocean strategy offers an analytic tool called the four action framework. This tool tries to answer the four key questions, shown in the Figure (2). Hence, the first two questions address “the cost-cutting side” of the equation, whereas the second two questions address “the differentiation side” of the equation.

**Figure (2): The four actions framework**



**Source: Samsul. A, and Mohammad. T, (2017). Impact of Blue Ocean Strategy on Organizational Performance, A literature review, OSR Journal of Business and Management, 19 (1), 1-19, p10.**

Based on the Figure (2) above, Value innovation requires four dimensional action frameworks: (Samsul & Mohammad, 2017) (Alghamdi, 2016, p. 144)

- **Eliminate:** It includes those factors which are below the industry standard making bound long term unnecessary cost to the company despite having no meaning in profits or value.

- **Reduce:** companies must reduce some of the unjustified work and that can contribute to reducing costs with maintaining the stability of profits and increasing the quality.
- **Raise:** companies have to raise those factors that result in improved quality of the products offered to customers, and that lead to an increased level of the profits size.
- **Create:** those factors to be created which the industry never offered that can create new customer demand for goods.

Brian Leavy argue that “Eliminating” and “Creation” questions are particularly important, because “Reducing” and “Raising” activities on their own don’t change the key factors on which all companies are competing. To make the existing competition irrelevant, new kinds of buyer value need to be offered through the elimination of existing factors and the creation of new ones. Likewise, groups tasked with creating something new are often tempted to give too much attention to the “Raising” and “Creating” activities, and risk ending up conceiving of potentially costly offerings that reflect red ocean differentiation rather than true blue ocean strategic moves. (Brian, 2018, p. 20)

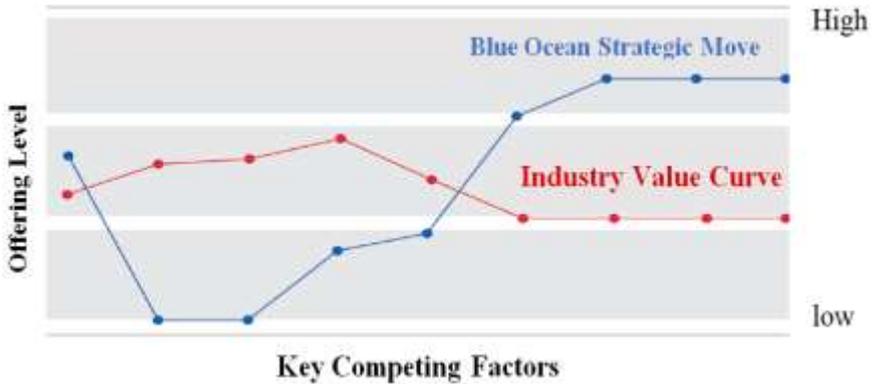
To ensure that this does not happen, Kim and Mauborgne insist on reminding managers that they need to put as much effort into what to eliminate and reduce as well as what to raise and create. In practical terms, that means for each path the team members take, they should aim to show concrete deliberate factors in the eliminate and reduce sides of the four frameworks, as well as in the raise and create ones. (Kim & Mauborgne, 2019, p. 231)

### **1-3-2 The strategy canvas**

The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy. The strategy canvas captures the current state of play in the known market space, hence, it allows the company to see in one simple picture all the factors an industry competes on and invests their funds, products, services, deliveries, what buyers receive from the existing competitive offerings on the market, and what the strategic profiles of the major players are (Desalegn & others, 2020, p. 108). The strategy canvas reveals just how similar the rivals’ strategies look to buyers and

exposes how they drive the industry toward the red ocean. Importantly, the strategic canvas represents a baseline for companies to change their value curves from red oceans to blue ones.

**Figure (3): The strategy canvas**



**Source: khouildat. S, (2018). A conceptual framework on Blue ocean strategy, A study to determine the understanding of banks employees towards practicing blue ocean strategy, Idjtihad for legal and economic studies, 7 (1), 22-43, p32.**

As shown in Figure (3) Strategy Canvas has three main components, value curve, horizontal and vertical axis: (khouildat, 2018, p. 32)

-Value Curve is a graphic representation of a company's relative performance across its industry's factors of competition by comparing it to others rival curves.

- The Horizontal Axis includes those factors that the industry competes on and invests in.

-The Vertical Axis captures the offering level that buyers receive across all of these key competing factors.

It should be noted that company's value curve takes the blue color when it is different from other value curves in the industry. In contrast, when value curve on the strategy canvas closely resembles those of competitors, that means that company is competing directly with others in red oceans.

## **2- The experience of Sun Circus company**

To illustrate the ideas behind blue ocean, This part of the research will explain how did Sun Circus adopt blue ocean strategy to become a successful player in the declining circus industry, while other circuses were focusing on benchmarking similar traditional circuses in order to steal market share from a shrinking demand pool. (Bruin, 2020)

### **2-1- The background of Sun Circus company**

Sun Circus is an international entertainment company founded in Canada. It took the world by storm in circus industry by presenting the most imaginative and unique shows ever created, viewed by in excess of 180 million spectators in more than 300 cities around the world and generating in excess of \$1Billion in sales annually (Becker, 2018, p. 39). Its first show was named: “We Reinvent the circus”, This statement is more than a commercial slogan. By its blue ocean strategic move, Sun Circus was able to reinvent the industry and challenged the conventions of the circus. In less than twenty years since its creation, Sun Circus achieved a level of revenues that took Ringling Bros and Barnum & Bailey—the once global champion of the circus industry—more than one hundred years to attain. (Mauborgne, 2015)

### **2-2- The Red Ocean of circus industry**

Circuses in the 1980 were dominated by Ringling Bros and Barnum & Bailey. They featured three-ring circuses, clowns, animal acts, and their customers were both children and families. However, competition turned to bloody ocean for the following reasons: (Cheng, 2020)

- Circuses competed to secure more famous entertainers and exotic animal acts.
- The raising costs (Big Stars salaries and tending animals cost) without dramatically changing buyer value.
- Buyers (Children) had appealed substitutes for visiting circuses entertainment in television and video games; as a result, the industry was suffering from steadily decreasing audiences and, in turn, declining revenue and profits.
- The increasing sentiment against the use of animals and harsh training in circuses by public outcry and animal rights groups.

- Ringling Bros and Barnum & Bailey set the standard, and competing smaller circuses essentially followed with scaled-down versions. From the perspective of competition-based strategy, the circus industry appeared unattractive.

### **2-3- The Blue Ocean of Sun Circus**

Sun Circus succeeded because it realized that to win in the future, companies must stop competing in red oceans. Instead, they should create blue oceans of uncontested market space and make the competition irrelevant.

Another compelling aspect of Sun Circus’s success is that it did not win by taking customers from the already shrinking industry, which historically catered to children. Instead, it created uncontested market space that made the competition irrelevant. It appealed to a whole new group of customers, adults and corporate clients prepared to pay a price several times as great as traditional circuses for an unprecedented experience (Kim & Mauborgne, 2005, p. 4)

#### **2-3-1 Sun Circus’s four actions framework**

The Sun Circus company looked at the industry differently and did not try to compete with other circus companies. Hence, Their answers to the four questions of the four frameworks which are presented in the Eliminate-Reduce-Raise-Create grid in Table (2), explains its blue ocean moves.

**Table (2): Sun Circus ERRC grid**

<b>Eliminate</b>	<b>Raise</b>
-Star performer and Animal shows -Aisle Concession sails -Multiple shows arenas	-A unique venue place
<b>Reduce</b>	<b>Create</b>
-Fun and humor -Thrill and danger	-Main theme - Sophisticated atmosphere -Show variation ( Music and dance)

**Source: Kuras, P, (2016). The basic assumptions of blue ocean strategy, Proceeding of CITPM, Faculty of Management, University of Technology, Czestochowa, Poland, 21-22 april, 243-251, p249.**

The Eliminate-Reduce-Raise-Create (ERRC) grid is a type of addition to four actions framework. It forces the company not only to pose four questions concerning the four actions tool mentioned above, but also to take actions to create a new value curve. (Kuras, 2016, p. 249)

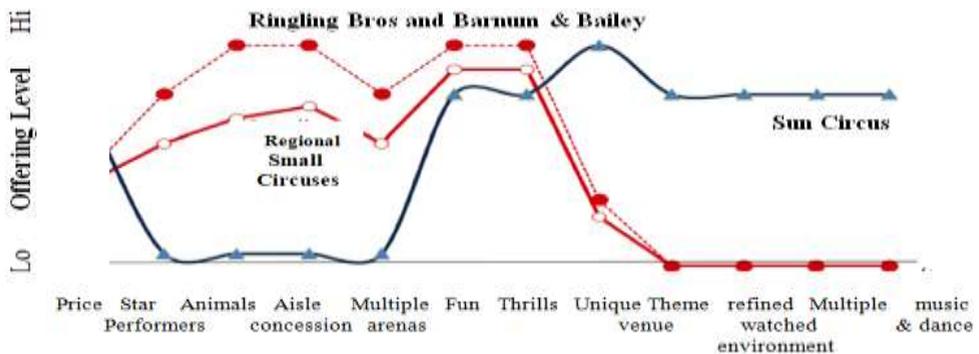
The ERRC Grid for Sun circus shows how it used the four actions framework tool to set it apart from other rivals. Sun circus eliminated and reduced several factors practiced in traditional circuses that were costly and worthless to customers such as animals for being expensive to feed and train, star performers with high wages, and other traditional factors.

At the same time, sun circus focused on creating a new experience to costumers, especially to adults by raising and creating Broadway shows, new sets usually computer designed, with the goal to make the shows more theatrical and magical. These new shows have allowed Sun Circus to raise their tickets prices to match those of the theater industry. Based on the previous strategic moves, Sun circus’s value proposition is “Sun circus offers an unparalleled show combining plays, music, and dance in an ideal environment to create an illusion of fascination for our visitors and create a memorable experience of the offered show.” (Delong & Vijayaraghavan, 2002)

### 2-3-2 Sun circus’ Strategy Canvas

The strategy canvas of Sun circus gives a comparison with the strategic profiles of their rivals (Ringling Bros, Barnum & Bailey, and other regional small circuses), this can be expressed graphically in Figure (4) below.

Figure (4): The strategy canvas



Source: khouildat. S, (2018). A conceptual framework on Blue ocean strategy , A study to determine the understanding of banks employees towards practicing blue ocean strategy, Idjtihad for legal and economic studies, 7 (1), 22-43, p32.

As shown in Figure (4), value curves of circus industry is built on those factors: ticket price, costs of gaining circus stars, animal shows, accompanying sales, multiple show arenas, fun and sense of humor, tension and danger, uniqueness of the place.

If we look at where sun circus differs drastically, and where it offers similar value, we can observe the following notes: (Cheng, 2020)

- Sun Circus cut down on costly expenses that did not provide customer value—star performers and animal shows.
- Sun Circus's shows featured similar acrobatic wonderment and thrill as circuses.
- Sun Circus introduced entirely new elements like high production value and artistry, which were important to their customers but completely absent from normal circuses.

This strategy canvas clearly shows how Sun Circus offered superior customer value while lowering certain costs.

## **Conclusion**

Market boundaries between the red and blue oceans exist only in the manager's minds. The core problem is how to create a new uncontested market space and change the focus from competition to creation of innovative value to make accessible new demand. As it can be seen from the example of this research paper, Sun Circus has created an exceptional value curve across both differentiation and low-cost concepts and used the Blue Ocean Strategy Tools to render the competition irrelevant. Sun Circus has found alternatives to survive in the market, jumped out of the Red Ocean of the circus industry, and created a new Blue Ocean concept that has never been before.

## **Results**

Based on the previous analysis of different concepts and the chosen experience study, the following results can be presented:

- Red Ocean Strategy is a theory of Market Competition and Blue Ocean Strategy is a theory of Market Creation.
- Blue Ocean Strategy is a revolutionary approach that takes Value Innovation as a center of thinking instead of competing in the furious market.

- Blue Ocean Strategy creates value innovation through its four actions framework (four dimensions: eliminate, reduce, raising, create).

-Sun Circus shifted from the red declining industry to a new deep blue market space through blue ocean tools (the four frameworks and strategic canvas). Those tools allowed sun circus to create an innovation value for both customer and company.

### **Recommendations**

In the light of the above results, it is possible to reach some scientific recommendations that include the following:

- Managers must think out of the box and differently about how to compete in today business field.

- Dissemination of Market Creation's concept and value innovation instead of market hyper-competition

- Companies must establish real policies of eliminating and reducing industry's traditional factors that affect negatively its cost structure. On the other hand, they must raise and create new factors that bring a real value to its customers.

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