Effects of Market Boundaries and Market Competition on Business Strategy: An Examination in the United States Banking Sector

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In this paper, we summarize the components and framework that make up the Blue Ocean and Judo Strategies, as identified and given these titles in recent strategic management literature. This is done by means of a case study analysis of a United States bank that has successfully implemented these strategies. From these analyses, a number of implications are drawn for how elements of these two very different strategies (Blue Ocean and Judo Strategies) can be incorporated into overall business strategy. We argue that as the business environment has become more competitive, so benefits from these two strategies has increased, despite the greater amount of planning required.

Introduction

The speed, complexity, and dynamic nature of the global business marketplace have never been greater (Hoskisson, Hitt, Ireland, and Harrison, 2008; Ma, 2004; Peng, 2009). In order for firms to be successful, they must constantly be gauging their internal performance while also scanning the external environment, looking for the next opportunities, threats, and challenges that are ever changing each day. Firms without clear and sustainable strategies for long term success are inevitably destined to falter among a fiercely competitive sea of competition (Carpenter and Sanders, 2009; Hitt, Ireland, and Hoskisson, 2010; Pitta, 2009).

While not easy, there are proven frameworks that companies can follow in order to develop a successful strategy to insulate them from the competition and maximize business results. Two frameworks for developing such strategies are presented in the Harvard Business Review articles entitled "Blue Ocean Strategy" (Kim and Mauborgne, 2005) and "Judo Strategy: The Competitive Dynamics of Internet Time"(Yoffie and Cusumano, 1999). In this paper, we will summarize the components and framework that make up the strategies discussed in the two articles while also including recent examples of companies that have successfully implemented these. In the final section, we will discuss the implications of the Blue Ocean and Judo Strategies for one US bank, in terms of how it can incorporate elements into its business strategy.

Blue Ocean Strategy

Extending their 2002 Harvard Business Review article ("Charting Your Company's Future"), Kim and Mauborgne (2005) describe the bifurcation of the global business sea into two primary types of environments/waters: Red Oceans and Blue Oceans. This metaphor is used to describe the differences between the market boundaries and degree of competition in each sea. The red ocean is comprised of all businesses, operating in a highly competitive marketplace, marked by relatively undifferentiated, commoditized products and services. The boundaries of the red ocean are well defined and the size of the pie is essentially fixed based on customer demand – existing companies and new entrants supply the market with goods and services while clawing at one another to steal a bigger share of the relatively fixed customer demand (Abraham, 2006).

Organizations attempt to compete by reducing prices below their competitors in order to attract/steal customers, which in turn reduces profit margins to such thin levels that future opportunities become limited, or eliminated altogether by the strongest competition in this "survival of the fittest" environment (Druehl and Schmidt, 2008). Eventually, the business industry (ocean), which may have begun as a promising sea of opportunities (clear waters), will become unattractive with few growth prospects and much bloodshed (red ocean).

Kim and Mauborgne (2005) assert that red oceans continue to exist given the ingrained military mentality (e.g., going to battle head on with the enemy /competitors) that underpins much of corporate strategy, constantly seeking ways to develop and exploit a competitive advantage. An illustrative example of a red ocean in recent years is the PC industry – a market in which there is significant competition between a larger number of manufacturers (Dell, Acer, HP, Gateway, Sony, Toshiba, Lenovo, etc.) for what has become a commoditized product. These companies are constantly engaged in price wars, attempting to establish competitive advantages in the supply chain, production processes, or distribution channels to drive out as much cost as possible in order to supply the lowest price to the consumer and thus gain a greater share of the market. The result is decreased profitability for the company and lack of brand loyalty for customers as they simply choose the lowest priced PCs since there is relatively little difference between the products (for example, notebook and netbook computers), which are built with most of the same parts from many of the same suppliers.

In order to break free from this inevitably bloody cycle, business management needs to rethink its strategy and market space in which it competes. Instead of simply surviving in such a bloody red ocean environment, Kim and Mauborgne (2005) propose that businesses should look to thrive by identifying and creating new oceans in previously uncharted or underserved business markets that contain little or no competition. The blue oceans provide companies with large advantages given the differentiation that exists, and the competition becomes so far behind the curve that they become irrelevant. Blue oceans often help develop and build brands for organizations through their strategic choices, which provide strong and lasting brand connection and differentiation in the minds of consumers. Given the lack of competition, businesses no longer are forced

into choosing an "either-or" strategy revolving around differentiation or low-cost. Instead, companies operating in blue oceans can pursue both of these strategic choices at the same time. In essence, businesses in this environment can dictate the rules and boundaries for the market.

Blue oceans can be created as a result of technological innovation (such as iPod and iTune by Apple), but it does not always have to be. This has been evidenced by many companies including Chrysler with its introduction of the minivan in the 1980's, capitalizing on an unmet market need using mostly existing technology. Additionally, blue oceans created by many companies are very often within the same industry that which the company is already doing business – as opposed to new ventures or start-up companies.

Judo Strategy

In the Judo Strategy article, Yoffie and Cusumano (1999) use the Internet browser wars between Netscape and Microsoft as a means to illustrate techniques and principles associated with the judo strategy. The judo strategy is based on the concepts of the martial art that seeks to avoid and redirect strikes/blows from opponents. Businesses can engage in a judo strategy by employing tactics such as rapid movement to provide flexibility and leverage while seek to avoid head-to-head matches with powerful opponents a la "sumo matches." Usually in sumo matches, both competitors are beaten around and usually only one remains standing in the ring at the end as the winner. Judo strategies can be implemented by both large and small companies, as well as new and existing companies within an industry. By incorporating elements of judo principles into a company's ongoing business strategy, small companies can exploit opportunities against their larger competitors and develop and sustain competitive advantages over time.

The judo business strategy contains three primary and defining principles: First, businesses must move swiftly to new markets and uncontested ground avoiding direct conflict; second, businesses should succumb when directly attacked by the competition; lastly, businesses should use competitors' size and strength against them.

Employing the first principle, Netscape was able to develop a new and incomparable product (Netscape Navigator) that set new standards and redefined the competitive market space for consumers using the Internet. Additionally, Netscape created further space from Microsoft by implementing an innovative "free, but not free" pricing model, giving the product away to education and non-profit consumers while charging a modest $39 to others. This enabled Netscape to develop a large market share quickly by getting the browser installed on more consumers' PCs quickly, and opening the door for cross selling and up-selling to the business segment. Lastly, Netscape developed an innovative model in which it leveraged end-users to participate in quality assurance and feedback of its beta versions of its browsers in order to cheaply and broadly perform testing of its product before it became available to the masses. Through these efforts, Netscape distanced itself away from its primary competitor, Microsoft, to new uncontested ground -- the same fundamental idea behind the development of blue oceans.

After capturing a large market share quickly, Netscape began to face a strong competitive

response from Microsoft. When faced with the strongest attacks, Netscape did not follow the second principle of the judo strategy and yield to the bigger, stronger Microsoft that had deeper pockets and more resources at its disposal. Instead of dodging these attacks, Netscape countered each attack with its own response, losing deal after deal thus hampering its market share and long term prospects for survival.

With the last principle, Netscape was able to gain some wins in how it positioned its product against the larger giant Microsoft within the Internet browser industry. It used Microsoft's biggest asset (its market dominance of PC operating systems) against it by developing a cross-platform browser that could run on all operating systems including non-Windows platforms such as Unix, which were, in fact, in use by many corporations and large businesses; Thus, Netscape further extended this strategy of operating system neutrality by promoting its products as adhering to "open standards" and even going as far as giving away its source code for Netscape Communicator in 1998. Netscape had leveraged Microsoft's central business strategy, developed on proprietary technology which Windows and Internet Explorer software was built, directly against them. By adopting this open approach, Netscape was able to use open innovation, capitalizing on the worldwide development community to code and develop new features and functionality for the Netscape browser quicker and with higher quality than Microsoft.

Implications: A Bank's Exemplar

The blue ocean and judo strategies provide excellent insights with regards to how companies can differentiate themselves from the competition and establish long-term sustainable advantages in the market place which they compete. Both of these strategies are relevant for many business organizations including banks.

Regarding the principles of the blue ocean and judo strategies, Fifth Third Bank (Fortune 500; Cincinnati, Ohio USA) has demonstrated the first and third principles by avoiding conflict and moving to uncontested ground, while leveraging the strength of the national banks against them through its implementation of the "Affiliate" operating model. The Affiliate model essentially subdivides Fifth Third's markets into geographically based regions (Cincinnati, Northeastern Ohio, Southern Florida, Western Michigan, Chicago, Central Indiana, St. Louis, etc). These Affiliates are not simply artificial market boundaries drawn to examine business results, but instead provide tremendous operating autonomy and flexibility for each Affiliate while still providing the brand reputation and scale from centralizing common, shared functions. Each Affiliate has its own President and other management, and business and lending decisions are made locally by the individuals who live in that region and are closest to the market conditions and consumer and commercial customers in which they serve.

As a growing super-regional bank, Fifth Third entered many new markets for the first time. As such, it faced severe competition against larger, more established banks. By implementing and leveraging the Affiliate operating model, Fifth Third was able to compete against some of its larger rival national banks such as Bank of America and Citibank, whose banking presence may appear a too distant with customer decisions

made centrally without regard to local markets. Fifth Third continues to exploit this as a key differentiator between itself and its competitors as it is able to combine elements of smaller, local community banks with a larger and super regional banking presence to provide customers with a unique and customized offering to its customers.

Through Fifth Third's rapid expansion in the 1980's and 90's, it had entered the Phoenix, Arizona market vis-à-vis one of its bank acquisitions. For multiple reasons, this market proved to be very difficult to operate in given the large amount of competition and geographic distance. Fifth Third's market share in that region continued to slide as competitors outpriced and outperformed the bank. As such, the bank successfully exhibited the second principle in the judo strategy by giving way to continued attacks by competition and exiting the market. Instead of engaging in a head-on direct attack that could have hampered its overall performance by further draining resources this losing battle, Fifth Third made the smart, strategic adjustment and avoided a "sumo match," thereby conceding this market.

Regardless of the industry or strategic decision a business faces, the blue ocean and judo strategies provide an extremely valuable framework. As the business world continues to move towards a faster, more global environment in which there are more and more competitors trying to grab a piece of the pie, the need to develop blue oceans and implement judo strategies has never been greater. While implementing these strategies may require more planning, an honest assessment of one's business, and often some tough decisions, the payoffs can be much more lucrative – and the oceans can be clearer and undoubtedly appear much bluer.

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