

An Exploratory Empirical Verification of Blue Ocean Strategies: Findings from Sales Strategy

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This paper reports on a study on sales management organization in a survey of CEOs and sales directors of Finnish companies across industries. The study investigates the role of totally new value creation mechanisms in a company's sales strategy. Using value creation and strategic marketing as theoretical approaches, the survey finds that active strategic networking aiming at creating totally new a) network roles, b) value creation logics and c) benefits feeds into profitable growth among respondents. This is one of the first empirical verifications of so-called 'blue ocean strategies' globally.

Field of Research: Sales Strategy, Sales Management, Strategic Marketing, Value Creation, Business model transformation, Blue ocean strategy

1. Introduction

This study adopts a perspective of sales strategy in examining how business model transformation constituting of completely new approaches into value creation drives the profitability and growth of sales activities. While we underpin

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our perspective to the company into the strategic marketing approaches (Srivastava, 1999) that treat the company as a functional whole guided by strategic marketing, it is the goal of this study to assess the matter from the sales management perspective which manifests at the business model (business unit) level, with ability to reflect to particular more detailed actualizations of the same issue (e.g. organization and coordination mechanisms within the business model, tactical human resource management and practical processes and practices in strategic marketing and sales).

Blue ocean strategy literature, originated by Kim and Mauborgne (2004, 2005) assumes a casual and descriptive approach into assessing how successful companies are capable of creating business model transformations that provide a foundation for creating a completely new value offering to the marketplace resulting in competitive advantage for the company. It is our suggestion that successful Blue ocean strategies rely extensively in the practical applications of the literature in service-dominant logic and other service management topics. In any case, Blue ocean strategies describe new and even disruptive approaches for creating value in the marketplace in order to achieve competitive advantage. In this study we set to uncover how such approaches affect the sales performance of a company by assessing a data set of 568 questionnaire responses by CEO's. The data set provides extensive empirical data on the business model / unit level organization of activities in Finnish business organizations.

Our findings suggest that the creative, and even bold, utilization of both perspectives and practices involving the creation of new value to customers substantially increases the sales performance of companies in general. In addition, specific drivers that inhibit this development were also identified during the course of the assessment of the empirical data. Furthermore, this study shows, that a majority of the companies whose higher management participated in the study lacked the courage to experiment and develop the required transitory business models to actualize the benefits for business performance embedded in Blue ocean strategy approaches.

2. Literature Review

Our theoretical framework, as briefly described in the introduction calls on the perspective of seeing core company processes to be managed as a unified value creation mechanism united by strategic marketing (Srivastava, 1999). Radical alterations in any of these core processes may create unanticipated success in the marketplace relative to competition. These radical strategies have been cursorily described by the blue ocean literature. The scope for this study in

particularly the Blue ocean strategy and business model transformation focuses to the sales management activities of the company. When put in practice in this scope, we suggest that the successful Blue ocean strategies manifest as applications of service-dominant logic by Vargo and Lusch (2004, 2006) and service business model literature in general. Our empirical data put this observation into practice.

As postulated by Srivastava (1999) in his seminal article, contemporary literature on marketing strategy has been concerned with advocating a paradigm shift from a functional view of marketing as a department in the organization into a more holistic view of the firm as a unified unit of value production managed as a whole. Marketing has been seen the leading driver of all organizational processes for the continuous and systematic development of organization to better satisfy the need of its customers. The core processes of a firm are identified to be the product development management (PDM), supply chain management (SCM) and the customer relationship management (CRM). The systematic and holistic strategic management of these core processes have been postulated to be the key for effective long-term strategy deployment. Less attention, however, has been directed to how the management of these processes in the aforementioned way creates competitive advantage and manifests in practice.

In this study we aim to build a link between these theoretical underpinnings and the literature on "Blue ocean" strategies (Kim and Mauborgne, 2005, 2006) through extensive empirical evidence. Blue ocean literature can be viewed as a polarization of the aforementioned studies in firm marketing strategy for it offers a myriad of practical observations and descriptions, but lacks a scientific approach to corporate marketing strategy. Even as it can be so described to constitute mostly of relatively casual unrigorous assessments, it is our view, that they are actually often describing the practical manifestations in how the management of the core company processes (PDM, SCM and CRM) can be used to create competitive advantage by creating superior offerings by conducting business exchanges in different and novel approaches regarding competition. In this study we conceptualize and assess blue ocean strategies from a scientific standpoint and, through a wealth of data, show that embarking on blue ocean strategies can be seen as beneficial for the performance of the company.

One must bear in mind that the literature on blue ocean strategies still lacks a scientific theoretical corpus. In this study the gist of blue ocean strategies are referred to as what is commonly understood; creating unconventional, unanticipated and even surprising business models that create completely new ways of delivering value to the customer in the marketplace contra the competition. Limited demand and commoditization (characteristics of red oceans) are also challenging companies that have the principal means to circumvent them. The principal mechanisms offered are growing demand, entering uncontested markets and value innovation (Kim and Mauborgne, 1997, 2004, 2005). In this paper, we concentrate on exploring Kim and Mauborgne's key

proposition that with blue ocean strategy, growth can be profitable. We associate growth to revenue generation, to sales performance and, through them, to sales management.

In the Blue ocean literature, it is unclear which level of analysis blue ocean strategies actually operate on. Conceptually, we assume the stance that blue ocean strategy operates primarily at the level of the business model. Recently, the concept of a business model has been sharpened from representing the pricing models of ICT companies (Venkatraman, 2000; Hamel, 1999; von Krogh and Cusumano, 2001; Sweet, 2001) through representing the tactical core of value creation and economic logic in terms of revenue generation (Amit and Zott, 2001; Magretta 2002) to the notion of a managerial decision-making system (Tikkanen et al., 2005).

Particularly perspectives on business model transformation and disruptive business models (e.g. Ratliff, 2002; Feng et al., 2001; Williams, 2001) are useful. Sharing an ideological foundation in Schumpeterian creative destruction, both Blue ocean perspectives and business model transformation adhere to a perspective that the key characteristic of a business model is the ability to create completely new structures quickly in accordance with market change (see e.g. Sauer and Willcocks, 2003). The necessity of disruption in business model transformation has also been verified in the contexts of vertical integration (Christensen et al., 2002; Jacobides, 2005), diversification (Miller, 2004) and new-product, new-market combinations (Mosey, 2005). In these contexts, business model transformations are assumed to take place in a networked context, in which transforming business models both needs and causes changes in network structures (Möller et al., 2007).

If the conceptual foundations resemble business model literature, the theoretical core for Blue ocean thinking could stem from the theory value creation in business model transformation, particularly along the lines of service dominant logic (Vargo and Lusch, 2004, 2006). The logic of Blue ocean strategy in entering completely new arenas has the same premises as service dominant logic. In both approaches, the business model transformation process consists of a) acquiring the necessary information, b) converting the information into knowledge and c) designing value propositions consisting of novel and complex customer-enterprise exchanges based on this knowledge and d) turning these value propositions bravely into action

For existing companies attempting to embark into new business opportunities by the creation of more radical or blue ocean strategies there remains an imperative for business model transformation. The persistent questions remains; what approaches and logic are paramount for the business model transformation to yield successful business results.

From this perspective, we build the following explorative hypotheses, encompassing the key aspects of blue ocean strategy in sales strategy and management:

Hypothesis 1) Emphasis in sales strategy on the creation of novel value by transforming traditional industry-specific roles, relationships, and business models is related to profitable growth.

Hypothesis 2) Emphasis in sales strategy on selling the firm's product/service expertise within business networks to create *novel* value, ultimately to consumers, is related to profitable growth.

3. Methodology and Research Design

Data and sample

The data set used in this study was based on an extensive questionnaire survey sent to firm managers across industries in Finland. An invitation to answer to the questionnaire was sent by e-mail to the CEOs or marketing managers of approximately 8.000 companies. The actual questionnaire was realized as a web questionnaire. Usable responses were obtained back from 568 companies, producing a response rate of about 7 % – a fairly typical figure for web surveys. The items used to examine the hypotheses of this article were taken from among a much larger set of questions inquiring about the firms' sales and marketing strategies and management.

Measures

Profitable growth. Profitable growth was measured by

- asking the respondent to report his/her the sales growth of his/her SBU in the last year, with the question: "How, approximately, did your company's sales develop last year from the previous year?"
 - decreased more than 50 %
 - decreased 50-31%
 - decreased 30-16 %
 - decreased 15-6%
 - decreased 5-0 %
 - increased 0-5 %

- increased 6-15%
 - increased 16-30%
 - increased 31-50%
 - increased more than 50%”
- asking the respondent to subjectively assess the development of the *operating income percentage* of his/her SBU last year, relative to the previous year, with the question: “Compared to the previous year, how did your SBU succeed last year with regard to operating income %?”
 - much worse
 - worse
 - somewhat worse
 - equally
 - somewhat better
 - better
 - much better

Responses to these questions were coded on interval scale (0-10 and 0-6, respectively) and multiplied with each other, so that a measure indicating not only (sales) growth but also the profitability of the growth could be obtained. Graphical distribution analysis showed that the distribution of the product measure followed normal distribution in a fairly adequate way – a condition for linear regression.

Strategic emphasis on industry transformation. Emphasis in sales strategy on the creation of novel value by transforming traditional industry-specific roles, relationships, and business models was measured by asking the respondents to rate the following statement on a Likert scale (0=strongly disagree, 7=strongly agree):

- “In our strategy, it is central to make initiatives to create completely new kind of value by transforming traditional industry-specific roles, relationships, and business models in certain geographical market areas”.

The measure obtained from this question was treated as interval scaled.

Strategic emphasis on novel (consumer) value. Emphasis in sales strategy on selling the firm’s product/service expertise within business networks to create novel value, ultimately to consumers, was measured by asking the respondents to rate the following statement on a Likert scale (0=strongly disagree, 7=strongly agree):

- “In our strategy, it is central to pursue the creation of novel value to consumers together with other firms in our network, by selling our product/service expertise”.

The measure obtained from this question was treated as interval scaled.

Analytical procedures

We performed linear regression to examine the hypotheses with the above variables. The explanatory variables were STRATEGIC EMPHASIS ON INDUSTRY TRANSFORMATION and STRATEGIC EMPHASIS ON NOVEL VALUE, whereas the dependent variable was PROFITABLE GROWTH.

4. Results

Linear regression with the dependent variable PROFITABLE GROWTH was performed to analyze whether STRATEGIC EMPHASIS ON INDUSTRY TRANSFORMATION and/or STRATEGIC EMPHASIS ON NOVEL VALUE had impact on the level of firm profitable growth. The R^2 value of the calculated model was not very substantial (adj. $R^2=.0326$), yet the model was significant by F test ($F = 8.94, p < .0002$).

With regard to STRATEGIC EMPHASIS ON INDUSTRY TRANSFORMATION, we find a positive effect ($\beta = 1.17842$) on the level of PROFITABLE GROWTH, which is significant ($p=.0003$). Thus, hypothesis 1 received support in this analysis. That is, an increase in strategic emphasis on the creation of novel value by transforming traditional industry-specific roles, relationships, and business models has positive impact on firm profitable growth.

With regard to STRATEGIC EMPHASIS ON NOVEL VALUE, we find a positive effect ($\beta = .64358$) on PROFITABLE GROWTH, which is marginally significant ($p=.10$). Thus, hypothesis 2 received marginal support in this analysis. That is, an increase in strategic emphasis on selling the firm's expertise within business networks to create novel value, ultimately to consumers, may also have positive effect on firm profitable growth.

Table 1. Linear regression results.

Explanatory variable	β	s.e.	t-value	p
Intercept	22.02777	1.38505	15.90	<.0001
Strategic emphasis on industry transformation	1.17842	0.39498	2.98	0.003
Strategic emphasis on novel value	0.64358	0.39112	1.65	0.101

In examination of a possible multicollinearity problem, the analysis gives rather low variance inflation factors for the explanatory variables (VIF=1.167) in the estimated model. This suggests that multicollinearity should not be a problem with these variables and the variables should vary independent of each other.

5. Discussion

Using value creation and strategic marketing as theoretical approaches, the survey finds that active strategic networking aiming at creating totally new a) network roles, b) value creation logics and c) benefits feeds into profitable growth among respondents. This is one of the first empirical verifications of so-called 'blue ocean strategies' globally. In the scope of this study the sales strategy and sales performance was brought under scrutiny.

Our findings suggest that various applications of blue ocean perspectives have a positive connection with increasing profitability in the sales activities of the company. The results of the study show support for the postulated hypotheses. This brings us to conclude that companies creating new market opportunities by utilizing blue ocean strategies in their business model transformation were found to have an advantage in the profitable growth of their sales activities in the context of the data set of this study. To put this more flippantly: In terms of facilitating sales growth by entering uncontested markets with blue ocean strategies it is beneficial to think outside the box, and additionally it seems to also pay off. The exploratory nature of this study must be remembered, however.

The conceptualization and subsequent operationalization of the blue ocean strategy perspective is naturally a source of uncertainty in terms of the research and, realistically, the research design in its entirety. Our treatment of Blue ocean strategy in terms of this study is suggestive, as it lacks a formulated theoretical

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foundation. Part of the exploratory nature of this study is our bringing them into the context of sales management issues. However, in terms of this study, due to the lack of a theoretical foundation, our conceptualization of blue ocean strategy and the subsequent operationalization of such concepts can certainly be contested from different perspectives.

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