Blue Ocean Strategy & The Problem Statement (Part Three)

Posted on Mar 30, 2012, Posted by Val Workman Category Product Management

Now that we've pointed out some background on the problem statement in Part One , and addressed controlling levels on innovation in
Part Two
, we're ready to look at some Blue Ocean examples.

Products or services that have different forms but offer the same functionality or core utility are often *substitutes* for each other. Take the example of Intuit's Quicken. To sort out their personal finances, people can buy and install a financial software package, hire a CPA, or simply use pencil and paper. The software, the CPA, and the pencil are largely substitutes for each other. They have very different forms but serve the same function: helping people manage their financial affairs. Instead of benchmarking the competition, Intuit created a blue ocean by looking to the pencil as the chief alternative to personal financial software to develop Quicken software. Intuit focused on bringing out both the decisive advantages that the computer had over the pencil – speed and accuracy; and the decisive advantages that the pencil had over computers – simplicity of use and low price - and eliminated or reduced everything else.

With Quicken's user-friendly interface resembling the familiar checkbook, it was faster and more accurate than the pencil, yet almost as simple to use. The program eliminated the accounting jargon and the sophisticated features traditional financial software offered, offering only the few basic functions that most customers use. Moreover, simplifying the software cut costs. Quicken retailed at about $90, a 70% price drop. Neither the pencil nor other software packages could compete. Again, I don't know what Quicken's problem statement was, but it could have been, ***'I F I use software packages to do my taxes THEN my taxes would be more accurate and quicker to do , BUT there're expensive, and hard to learn.'***
For simplicity of the example I'm acting as if these examples were one problem statement, in truth I'm sure they all would have been a collection of problem statements. The Blue Ocean that Quicken created, could have been the result of a set of Level 3 problem statements.

Apple observed the flood of illegal music file sharing that began in the late 1990s. Music file sharing programs such as Napster, Kazaa, and LimeWire had created a network of Internet savvy music lovers freely, yet illegally, sharing music across the globe. By 2003 more than two billion illegal music files were being traded every month. While the recording industry fought to stop the cannibalization of physical CDs, illegal digital music downloading continued to grow.

With the technology out there for anyone to digitally download music free instead of paying $19 for an average CD, the trend toward digital music was clear. This trend was underscored by the fast growing demand for MP3 players that played mobile digital music, such as Apple's hit iPod. Apple capitalized on this decisive trend with a clear trajectory by launching the iTunes online music store in 2003.

In agreement with five major music companies—BMG, EMI Group, Sony, Universal Music Group, and Warner Brothers Records—iTunes offered legal, easy-to-use, and flexible à la carte song downloads. iTunes allowed buyers to freely browse two hundred thousand songs, listen to thirty-second samples, and download an individual song for 99 cents or an entire album for $9.99. By allowing people to buy individual songs and strategically pricing them far more reasonably, iTunes broke a key customer annoyance factor: the need to purchase an entire CD when they wanted only one or two songs on it.

iTunes also leapt past free downloading services, providing sound quality as well as intuitive navigating, searching, and browsing functions. To illegally download music you must first search for the song, album, or artist. If you are looking for a complete album you must know the names of all the songs and their order. It is rare to find a complete album to download in one location. The sound quality is consistently poor because most people burn CDs at a low bit rate to save space. And most of the tracks available reflect the tastes of sixteen-year-olds, so although theoretically there are billions of tracks available, the scope is limited.

In contrast, Apple's search and browsing functions are considered the best in the business. Moreover, iTunes music editors include a number of added features usually found in the record shops, including iTunes essentials such as Best Hair Bands or Best Love Songs, staff favorites, celebrity play lists, and *Billboard* charts. And the iTunes sound quality is the highest because iTunes encodes songs in a format called AAC, which offers sound quality superior to MP3s, even those burned at a very high data rate.

Customers have been flocking to iTunes, and recording companies and artists are also winning.

Under iTunes they receive 65 percent of the purchase price of digitally downloaded songs, at last financially benefiting from the digital downloading craze. In addition, Apple further protected recording companies by devising copyright protection that would not inconvenience users—who had grown accustomed to the freedom of digital music in the post- Napster world—but would satisfy the music industry. The iTunes Music Store allows users to burn songs onto iPods and CDs up to seven times, enough to easily satisfy music lovers but far too few times to make professional piracy an issue.

Today the iTunes Music Store offers more than 8 million songs. iTunes is the largest music retailer in the US with sales exceeding 5 billion songs. Apple's iTunes has unlocked a blue ocean in digital music, with the added advantage of increasing the attractiveness of its highly successful iPod player.

I always hear how the problem statement wouldn't produce "Apple" results. I disagree. Maybe a problem statement within the Maintenance & Utility portfolio won't, but what could your team do with this problem statement: ***'IF I choose to download digital music from the web THEN I can get the song I find fast and inexpensively, BUT finding the song I want is not always easy, my choices are somewhat limited to what's most popular, the quality isn't standard, and it's very hard to gather all the songs of a CD when you don't know what's on the CD.'*** Given this problem statement, would have your team choose to create an on-line store, develop partnerships to supply the store, and create devices to consume what's in your store? Definitely a Level 4 or even a Level 5 solution, or would have you addressed it with a Level 2 or 3 solution as most people in the industry did.

I would argue that the innovation issue I'm talking about here isn't one with using a problem statement, maybe a little with the constraints around the problem statement, but mostly it's the bigger picture presented in the Blue Ocean Strategy webinar presented May 13, 2009 by Dick Lee.

Tags: Tagged in: Blue Ocean comp competitive advantage Problem

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