

Research Article

THE BLUE OCEAN STRATEGY IN INSURANCE INDUSTRY (CASE STUDY: SINA INSURANCE COMPANY)

***Zahra Jedi¹, Hassan esmaeil Zade² and Zeinol abedin RahMani²**

¹*Department of Executive Management*

¹*Department of Teacher Training University, Alama-Tabatabai Campus, Lorestan, Iran*

**Author for Correspondence*

ABSTRACT

The blue ocean method is one of the new methods of strategic management which was introduced by Dr. Chan Kim and Renee Mauborgne. These two researchers studied the companies which were successful in increasing the indicators of profitability and found out that the major approach of these companies in the business climate was that of competition avoidance. This method suggests that the organizations are in a fiercely competitive ocean in which small and large ones fight each other like fishes. They make the business setting bloody and then, they exit that setting to enter a new self-made environment in which there is less competitors. The result is a completely blue sea. The present study is applied in its objective and non-experimental in its method of data collection. It means that the present study is correlative. To ensure of the content validity, the indicators of present study for the desired constructs were designed based on the previous studies, matching with the present status of current domestic systems and critical comments of university professors and lecturers. The objective of present study is to examine the effects of blue ocean strategy in Sina Insurance Company. The statistical population of present study included the employees and experts of different representatives of Sina Insurance Company in Tehran City. The Cochran's formula was used to determine the sample size with 95 percent level of confidence. The sample included 196 individuals and the primary instrument of data collection was questionnaire the reliability and validity of which was verified and then, the necessary data was collected. The obtained results showed that all four hypotheses were supported and the implementation of blue ocean strategy has the highest effect upon proper provision of products and services in this organization.

Keywords: *Strategy, Blue Ocean, Insurance*

INTRODUCTION

The analysis of the way through which “strategy” was developed since its emergence in 1950s and after WWII up to now shows that five periods of development of strategies for organizations and companies have passed which range from financial planning and prediction of external environment to strategic management. The development of technology and market along with increase in the significance and effect of customers upon the development of organizational strategies have led to introduction of new methods of strategy development based on strategic thinking.

In this regard, the new scientific methods emphasize the increase of competition, customer-orientation and combination of current methods to increase the efficiency and effectiveness of this science upon the expected results and expectations of organizations. The idea of “Blue Ocean” was first raised by Dr. Hill from Michigan State University. He believed that Porter's idea is partial because distinction might mean cost leadership and a company which provides its products with less price has an aspect of distinctive strategy. He notes that to attain a stable competition, the companies should use a combination of cost leadership and distinction strategy (Hi, 1988). Prof. Ridderstrale and Nordstrom confirmed this issue and stated that the competitiveness strategy doesn't lead anywhere and companies need those strategies that create dynamism. This theory is somehow similar to blue ocean strategy. For example, the competition factors in blue ocean strategy are identical with those of finite and infinite dimensions which were introduced by Nord Ridderstrale and Nordstrom. Both of these strategies emphasize this point that the companies need a new game in playground. The environment in which the companies and industries exist is a red ocean (Snell, 2008). On the other hand, a new concept called “Blue Ocean” exists which refers to

Research Article

all companies and industries which are currently non-existent and a market which is new. In this environment, demand is more than supply and there are a lot of opportunities for quick and profitable development. In this situation, competition has no definite and pre-determined definition because the rules of playing have not yet been developed (Srinivasan, 2008). The color “blue” symbolizes innovation and by innovation, creation of new demand, choice or alternatives for the customers of seasonal markets is intended. In fact, the blue ocean is a metaphor for a new and untouched market the depth of which has not yet been fathomed. The basis of this strategy is value innovation. The blue ocean is made when a company provides simultaneous values for itself and its customers.

The innovation in products and services or the way of introducing these products leads to the creation of value for such a market. In addition, those activities with less value for the present and future market are exterminated.

Theoretical Framework: The term “strategic” means anything that is associated with strategy. This term originates from the Greek word “Strategos” which means leadership (Porter, 2008). Strategic planning is a self-made attempt to make fundamental decisions and to do activities which shape the essence, type of activities and the reasons behind the actions of a company.

This method suggests that small and large companies fight each other like fishes in the ocean. They make the business environment bloody and then the exit to go somewhere in which there are less competitors and the ocean is blue.

Those who introduced this concept in a book with the same name showed that among the studied companies, 14 percent selected the strategies of competition avoidance.

Such companies obtained 38 percent of the market income and 61 percent of its total profitability which are outstanding statistical values for these companies. If we term the competitive strategies as red ocean strategies and competition avoidance strategies as blue oceans strategy, the differences of these two approaches are shown in table 3.

Table 1: Comparison of Competitive and Avoidance Strategies

Red Ocean Strategy	Blue Ocean Strategy
Competition in the Current Market	Creation of an Environment without Competitors
Domination over Competitors	Insignificance of Competition
Using Current Demand	Creation and Occupation of Sources of New Demands
Creation of Value-Cost Replacement Relationship	Breaking Value-Cost Replacement Relationship
Creation of Differentiation Strategy	Creation of Commonality between Differentiation and Cost Reduction Strategies

The procedure of implementing blue ocean strategy has the following steps:

1- Reduction: It should be shown that which one of the indicators of products and services intended by the customers can be reduced in comparison with other competitors. It is evident that major indicators in this step are intended by customers the reduction of which is accompanied with the significant reduction of production costs and expenses of providing different services (Walness, 2009).

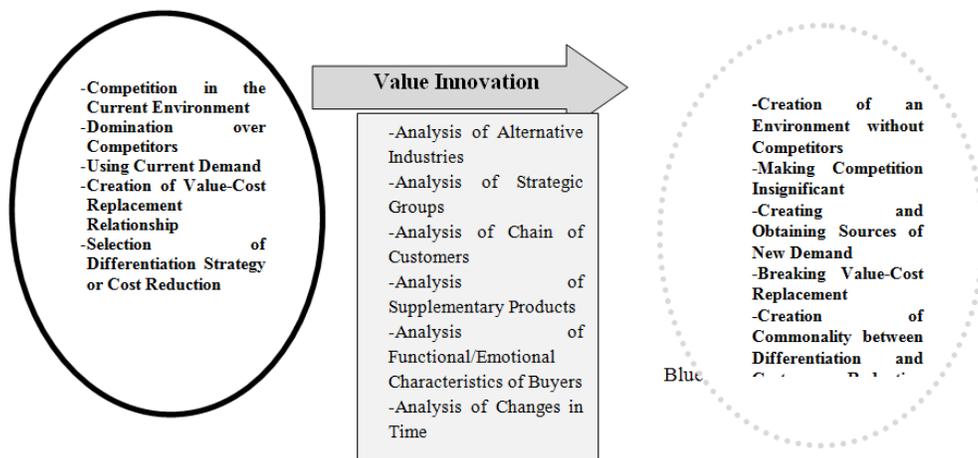
2- Elimination: In this step, it is verified that which one of the indicators of products and services which the competitors use to compete can be eliminated in the products and services of one’s company. This work is risky and weird but such an analysis leads to significant reduction of production costs and consequent supplementary actions eliminates this deficiency.

3- Increase: In such a case, it is verified that increase in what indicators can increase the differentiations of your company from other ones and create higher value-added for the customers.

4- Creation: The most important and the most difficult step in the blue ocean method is to create values in products and services which haven’t yet been provided by others. The key to success in this method is the quality and efficiency of this analysis.

Research Article

In this method, some charts called “map of strategy” are used to measure different indicators of one’s and others’ products and the above four analyses are used to provide a new design of products and services which can be satisfied.



Red Ocean Strategy Blue Ocean Strategy

The statistical population and community of customers in the blue ocean strategy include (Kim and Mauborgne, 2005).

- Group of Customers: This group includes those who are consistently using the existing products and services. They are completely or relatively satisfied with provided service. The blue ocean approach is not limited to this part of the market and seeks to maintain current customers by keeping them satisfied as other strategies do.
- *First Group of Non-customers*: This group includes those who frequently use provided products and services but if a better alternative exists, they will leave you. In other words, they are at the edge of the market. Differentiation through the blue ocean method can attract this group of individuals but to avoid their exit, attention to and reinforcement of common properties are necessary.
- *Second Group of Non-customers*: This group includes individuals that regard your products and services as unacceptable for satisfaction of their needs and those who cannot afford to pay for them. The strategies of price and cost reduction in the blue ocean method can be effective in attracting such individuals.
- *Third Group of Non-customers*: This group is not basically customers of your market and competitors do not pay attention to attracting them. This group is a potential source of income and development for your company that can provide future customers for your only if you apply differentiation strategies of blue ocean approach. This group of people constitutes the primary target of blue ocean strategy.

The blue ocean method is among the new methods of strategic management which was originally introduced by Dr. Chan Kim and Dr. Renee Mauborgne (lecturers of INSEAD University). These two researchers academically studied a large number of global companies with significant rate of development, especially in growth of profitability indicators. They found out that the major approach of these companies in the business environment is avoidance from competition (Hamel, 2007). They also found out that the common methods of strategic management excessively emphasize competitive environment and this issue leads to the increase of final costs of products and services while the prices always decrease. In simple terms, the blue ocean approach is the approach of competition avoidance. The competitive or red ocean strategy is essential for better performance and stability of a company but it is not sufficient. In fact, the company should pay attention to some issues other than competition which can lead to higher profitability and survival of the company which are premises of blue ocean strategy. In red ocean strategy, the growth and profitability is extremely limited and the companies try to get their own

Research Article

shares (Porter, 1980). On the other hand, blue ocean strategy is dependent upon this fact that limits and structure of an industry have not yet been completely codified and they can be recreated or restored by the other competitors. It is supposed that the limitations exist in the minds of managers and pragmatic individuals try to free themselves and their minds of such boundaries. Innovation is the cornerstone of blue ocean strategy. It is called “value innovation” because in this strategy, the companies focus on lack of competition instead of fierce competition and this leads to creation of value for the customers and company. It also results in new and without-competitor environment and lack of excessive emphasis on competition. The value innovation has equivalent emphasis on value and innovation. Value without innovation means attention to value creation in large skill which increases value but this is not sufficient for the survival of a company. Value without innovation means technology-orientation, pioneering in the market and forward outlook which are almost above the expectations of current customers. In such a case, one should distinguish between value innovation and technological innovation. In the insurance industry, accepted competitive factors are defined by customers. A pioneering insurance company focuses on its points of emphasis, diversions and a justifying objective in its strategy (Sushil, 2006).

The first step in blue ocean strategy is rebuilding the market boundaries to exit competition and to create a blue ocean. In the book “The Blue Ocean Strategy”, six primary approaches to recreate the boundaries of the market have been introduced which are called “decision-making pattern” or “six paths”. All of these paths are based on common data but new perspective. The writers of this book believe that the managers should look beyond the boundaries of their own industry to create a blue ocean. The managers need to take a look at the alternative industries, strategic groups, complementary products and services and go beyond their present functional orientations and time so as to recreate the market structure and make new blue oceans. They believe that development of a strategy map is only a part of strategic planning and in some stages, figures and evidence are necessary. They also believe that if the managers start their work with development of a vision and a grand picture of competition in the industry, other associated procedures and functions will be steered in the right path.

The third principle of blue ocean strategy is regarding the fact that how a company can enlarge the area of a created blue ocean and respond to more demands. To do so, the insurance companies should pay attention to the non-customers. These companies can use value innovation to become successful in attraction of non-customers to the market, receive their new demands and create value to attract the customers of other competitors.

The next challenge is an efficient business model based on which the blue ocean approach might lead to profitability. This issue guides us to the fourth principle of blue ocean strategy which is proper planning of strategic stages (Kim and Mauborgne, 2005).

The insurance companies need to follow the stages of blue ocean strategy to get to a blue ocean. They should base their planning on the preferences of customers, cost, price and acceptance. They should initially come to know that whether the blue ocean idea is attractive for the customers and it can encourage customers to select this company or not. If the answer is positive, the second stage starts which is strategic pricing in a correct manner. The pricing process should be based on the targeted customers and their needs. The third stage of blue ocean strategy is cost. It means the verification of possibility of providing services in the targeted cost range so as to obtain proper profit margin. The managers should prevent a status in which costs drive the price of services (Sushil, 2006).

The last stage is to analyze complication and barriers to acceptance of blue ocean idea. Due to the fact that this idea threatens the current condition, it might face resistance by three groups of shareholders: the employees, business partners and the public. For instance, using an up-to-date and unknown technology might lead to transfer or ousting some labor. The employees might show resistance and lack of risk-taking and disapproval of business partners might lead to failure (Snell, 2008).

Ideas Index: Insurance Companies should create their blue ocean strategy in the stages of utility, price, cost and adaptation. The ideas index is an efficient but simple test of this systematic approach and scoring to its factors can help us to know what factors should be modified. The deficiencies and disadvantages of an idea should be predicted. These indicators are considered in some aspects such as provision of utility

Research Article

for customers, setting prices for access to majority of customers and realization of targeted cost. Based on the present literature in this field, one can use the following statements as proper indicators.

First Hypothesis: The implementation of blue ocean strategy influences the provision of proper ideas for customers.

Second Hypothesis: The implementation of blue ocean strategy influences the access to provided prices by the company for the customers.

Third Hypothesis: The implementation of blue ocean strategy influences the realization of objective of a company.

The present study is applied in objective and non-experimental in its method of data collection. To verify the content validity, the indicators of the present study for the intended construct were based on the previous studies, current conditions of domestic systems and critical comments of experts and university professors. A five-point Likert scale (“strongly disagree” to “strongly agree”) was used for all the analytical questions of the present study. The statistical population of the present study consisted of 196 experts of representatives of Sina Insurance Company in Tehran City. This number was determined based on Cochran’s formula for a limited statistical population (95 percent level of confidence and 0.05 percent error). In the present study, the regression analysis method was used to test the hypotheses. The obtained results supported all the hypotheses and it was confirmed that implementation of blue ocean strategy has the highest level of effectiveness upon the utility.

RESULTS AND DISCUSSION

It is clear that insurance services are similar to each other due to similarity of marketing and modeling methods. This issue shows the necessity of entering new environments of the market in which creation of new marketing methods and new values would contribute to attaining a high share of the market. In the present study, implementation of blue ocean strategy had the highest effect upon the variable of utility in the business environment. The market-oriented organizations match themselves with the current conditions of the market and try to improve their market share but in the blue ocean, a new market and new demands are waiting. One could say that in the blue ocean, the strategy development stage is followed by implementation stage. In this stage the fifth principle of blue ocean strategy emerges which is to overcome the key organizational barrier. To properly implement a strategy, an organization should be consistent in its objectives and procedure of implementation. The four barriers which managers claim they might limit the implementation of blue ocean strategy are: 1-cognitive barriers which inhibit the employees to understand the necessity of fundamental changes 2-resource problems which are common 3-motivational barriers that frustrate employee’s 4-domestic and foreign policy barriers which inhibit changes. Although all active firms will face different levels of these barriers, many of them might deal with some of these barriers. The key point is that resolution of barriers is equivalent with reduction of organizational risk. The significant rate of competition, limited capital resources and increasing number of customers make up the current status of insurance companies. Therefore, an agile organizational structure to change primary strategies and marketing methods of companies is necessary to get to new blue oceans and go to newer ones when the old competitors arrive.

REFERENCES

- Hamel G (2007).** *The Future of Management*. (MA: Harvard Business School Press) Boston.
- Hill CWL (1988).** Differentiation versus low cost or differentiation and low cost: a contingency framework, *Academy of Management Review*1(3) 401-12
- Kim WC and Mauborgne R (2005).** Value innovation: a leap into the blue ocean. *Journal of Business Strategy*.
- Kim WC and Mauborgne R (2005).** *The Blue Ocean Strategy: How to Create an Uncontested Market Space and Make Competition Irrelevant*, translated by Golpaygani M and Pirozfar Sh (Mehr-Amirolmomenin Press).
- Nordstrom kjele A and Ridderstrale Jonas (1999).** *Funky Business: Talent Makes Capital Dance*, (Printice Hall).

Research Article

- Porter ME (2008).** The five competitive forces that shape strategy. *Harvard Business Review*.
- Porter Michael E (1980).** *Competitive Strategy*, (Free Press) New York.
- Scherer M (2007).** Red ocean, blue ocean. *Educational Leadership* 1-2.
- Snell P (2008).** Anheuser-Busch ups savings goal. *Supply Management*.
- Srinivasan SK (2006).** Blue ocean strategy: how to create uncontested market space and make the competition irrelevant. *Vikalpa: The Journal for Decision Makers* 31 156-151.
- Sushil (2006).** Flowing stream strategy and blue ocean strategy. *Global Journal of Flexible Systems Management* 7(1).
- Wanless T (2009).** The Accidental Innovator. *BC Business*.