MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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SHARE INVESTING

ADOPT BLUE OCEAN STRATEGY

BLUE Ocean Strategy is a strategic framework developed by W. Chan Kim and Renée Mauborgne, first mentioned in their book, *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, published in 1994.

The duo famously coined the two terms "blue ocean" and "red ocean" to describe the market universe. Blue oceans are uncontested market spaces where there is ample opportunity for growth and making profit, whereas red oceans are crowded and competitive spheres with intense competition usually undercutting each other.

In traditional competitive markets, companies operate in crowded "red oceans" where they compete for market share, leading to price wars and diminishing profits.

A recent example is the gloves sector. During the onset of the Covid-19 pandemic, Malaysian glove companies enjoyed superprofits then. Seeing the lucrative profits, a slew of new players, locally and internationally, jumped onto the bandwagon, resulting in an oversupply and cutthroat price wars which then turned the industry into a very crowded red ocean.

Coupled with rising costs of operation from worldwide inflationary effect, Malaysian glove companies are going through a testing time with many of them recording quarterly losses along with scaling back production lines.

Blue Ocean Strategy suggests that companies should focus on creating uncontested market spaces, where competition is irrelevant or non-existent. By doing so, they can generate demand and capture new customers.

The fundamental principles of the Blue Ocean Strategy include:

- **Value Innovation:** Blue Ocean Strategy emphasises simultaneously pursuing differentiation and low cost. Rather than simply improving upon existing products or services, value innovation involves creating entirely new market offerings that provide exceptional value to customers while reducing costs for the company.
- **Six Paths Framework:** This encourages companies to explore alternative avenues for creating new market spaces. These paths are looking across industries, across strategic groups, within existing industries, at complementary product/service offerings, at functional/emotional appeal, and at time.
- **Four Actions Framework:** This framework prompts companies to reevaluate their value propositions by considering four key questions: Which factors should be eliminated? Which factors should be reduced below industry standards? Which factors should be raised above industry standards? Which factors should be created that the industry has never offered?
- **Non-Customer Focus:** Blue Ocean Strategy challenges companies to consider non-customers as potential customers. By understanding the reasons non-customers are not currently engaged with their industry and finding ways to address those barriers, companies can tap new markets.

The ultimate goal of Blue Ocean Strategy is to create value for both the company and its customers by offering unique products or services in uncontested market spaces. By doing so, companies can achieve sustainable growth, higher profits, and a strategic advantage over competitors.

> *It is important to note that while Blue Ocean Strategy can offer insights into investment opportunities, investing in shares involves various factors such as financial analysis, industry trends, management competence, and overall market conditions.*

Applying the Blue Ocean Strategy to share investing

The relationship between the Blue Ocean Strategy and share investment is primarily based on the concept of creating and capturing new market opportunities.

In the context of share investment, the Blue Ocean Strategy can be relevant in a few ways:

- **Identification of Investment Opportunities:** Blue Ocean Strategy encourages companies to innovate and create new markets, often by offering unique products or services. As an investor, identifying companies that have successfully implemented the Blue Ocean Strategy can present attractive investment opportunities, as they may have the potential for significant growth and profitability.
- **Evaluating Market Potential:** Blue Ocean Strategy emphasises understanding customer needs and creating value. When considering investments, analysing a company's market potential is crucial. If a company has effectively implemented a Blue Ocean Strategy, it may have identified unmet customer needs and positioned itself to capture a significant share of the market, indicating a potentially lucrative investment.
- **Competitive Advantage:** Blue Ocean Strategy suggests that by creating unique value propositions and differentiating themselves from competitors, companies can achieve sustainable competitive advantage. As an investor, assessing a company's competitive advantage is essential in determining its long-term potential. Companies that have successfully executed a Blue Ocean Strategy may have a stronger competitive position, which can be an attractive attribute for investment.

One of the questions that the Minority Shareholders Watch Group often raises to public-listed companies (PLCs) when they venture into new business is their competitive advantage — what makes them think that they can entice away existing customers of competitors or attract new customers? It is a question worth pondering whenever PLCs take on new business ventures.

Likewise, shareholders should also ponder the competitive-advantage question. It is common for PLCs to "jump onto" the bandwagon of what seems to be the flavour of the day.

When gloves were the rage, there was a slew of announcements of ventures into glove-related business. These companies enjoyed an immediate boost to their share prices due to the irrational exuberance surrounding glove companies given their stratospheric profits and valuations.

One of the greatest lessons we learnt from the rises and falls of glove counters is that massive windfall profits do not last forever. Fever-pitch demands do not last forever. There is a great leveller called competition.

The market will meet the fever-pitch demand with an equally fever-pitch supply to erase the super profits. And those enjoying super profits may have the ignominy of suffering losses instead of returning to their normal profit level.

It is important to note that while Blue Ocean Strategy can offer insights into investment opportunities, investing in shares involves various factors such as financial analysis, industry trends, management competence, and overall market conditions.

Therefore, it's essential to consider the Blue Ocean Strategy as one aspect of the investment decision-making process rather than the sole determining factor.

The writer is chief executive officer of Minority Shareholders Watch Group.