

HMA Link

JUNE 2007

Figuring out new ways to stake out “uncontested market space”

Ralph Trombetta of

Value Innovation Associates spoke at

the recent HMA National Conference & Expo in

Charleston, S.C., about concepts and practices from

Blue Ocean Strategy: How to Create

Uncontested Market Space and Make Competition Irrelevant, the

best-selling book by W. Chan Kim and Renee Mauborgne.

The authors, whom Trombetta described as his “academic partners,”

are professors at INSEAD, an international business school with campuses in France and Singapore. Their book, published in 2005, is the all-time best seller

Conference speaker charts Blue Ocean strategy



than a million copies in print.

Trombetta began by drawing a distinction between red oceans and blue oceans. The red oceans, he explained, stand for “known market space” and the bloody nature of competition.

“When you get beat up by competing with each other ... the red signifies the blood in the water.” Companies find themselves battling for a share of a fixed market.

The blue oceans, by contrast, “signify the untainted waters where there is maybe more smooth sailing.” Blue

from Harvard Business School Press, with more

Making the Point

► Competition in a fixed market leaves “blood” in the water.

► Blue Ocean thinkers succeed by finding new space to operate.

► Professors Kim and Mauborgne defined strategy in best-seller.

Ocean strategy defines the problem as “How do we make the competition

(Continued on page 4)



HMA Member Benefit

Northeast Regional Meeting June 6 – 7 in Clarion, Pa.

Tours include:

- Appalachian Wood Products, Inc.
- BWP Hardwoods, Inc.
- Matson Lumber Company
- PW Hardwood, LLC
- Allegheny Wood Products, Inc.

View equipment lists and register online at www.hmamembers.org.

2007 Manufacturing Cost Survey

Responses are being tallied. It's not too late to get your company's data included. Contact the Beck Group at (503) 684-3406. Results will be distributed to participating members in July.

HMA welcomes another new member

Bingaman & Son Lumber, Inc., of Kreamer, Pa., is the newest member of HMA.

In addition to its Kreamer yard, Bingaman also owns a yard in Clarendon, Pa., and is the parent company of Pine Creek Lumber in Mill Hall, Pa., and St. Marys Lumber in St. Marys, Pa. The four facilities have a combined annual output of more than 6 million bf.

Max Bingaman is president of the company, Chris Bingaman is vice president sales/marketing, and Dean Heintzelman is executive vice president.

Further information is available at the company website, www.bingamanlumber.com

Figuring out new ways to stake out “uncontested market space”

(Continued from page 1)

irrelevant and grow the pie so everybody wins?”

Among the points Trombetta made in his presentation were:

▶ Between 1975 and 2000, the list of Fortune 500 companies had a 70 percent turnover. Some went out of business, some were acquired, and some were simply replaced.

▶ Blue Ocean strategy addresses the questions, “How can you start to think about creating new space?

How can you create new customers for growth? Blue Ocean is not about optimizing your current business.

It’s about how do you figure out new ways to go to market.”

▶ As global production shifts to the lowest-cost countries, competition has intensified. “As the competition heats up, the markets get more commoditized, and unfortunately the prospects for profit and growth become reduced.” The alternative —

There is no such thing as a permanently good industry, and there is no such thing as a permanently good company. Industries change and companies change...

Blue Ocean strategy — can allow a company to break out of the vicious cycle of competition.

▶ “With supply exceeding demand in more industries, competing for a share of contracting markets — while it’s necessary — is never going to be sufficient for high performance.” Swimming in the red ocean, in other words, is “necessary but not sufficient.”

▶ The airline industry was a Blue Ocean industry in the 1930s, 1940s and 1950s, but now the industry has turned red. Still, Southwest Airlines has profited through Blue Ocean thinking.

▶ Kim and Mauborgne studied 100 business launches in a 100-year period and found 86 percent were launched in red oceans, but 61 percent of their profits derived from Blue Ocean strategies.

“Ninety percent of these Blue Ocean strategies did not, N-O-T, not involve new technology,” Trombetta said. Blue

Ocean strategies, he said, have been used in service industries and manufacturing, in consolidated and fragmented industries, in family businesses, big companies, small companies, new companies and existing businesses.

He said Kim and Mauborgne also concluded, “There is no such thing as a permanently good industry, and there is no such thing as a permanently good company. Industries change and companies change, and if you really want to sustain value in the long run, you have to continue to make strategic moves that result in redefining your business. And that is the bottom line of what their research says. You cannot sustain excellence permanently. It requires some continual adaptation or creation of a strategic move, a set of actions to create some new space.”

There are six paths within Blue Ocean strategy, and for the complete map you need to read the book. Trombetta focused on the first path in his presentation, saying “Let’s stop thinking about what we produce and let’s start thinking about the alternatives that buyers have.” As an example, he cited Cirque du Soleil, which reinvented the circus by not competing head-to-head with it. The company eliminated animal acts and the three rings, creating a new theatrical attraction with a lower cost structure. In so doing, Cirque du Soleil created “new market space” in Blue Ocean terminology.

If you’re swimming in the red ocean, Trombetta said, “You might want to think about talking to non-customers about how you can create some new market space. Maybe talk to your customers’ customers or talk with your customers about how you can help them with their customers. And look outside the boundaries of how you traditionally competed. Think about the six paths, which are six ways to think about new business strategy.”

WORLD MARKETS



China’s forest imports up 29 percent in year-to-year totals

Imports of forest products to China increased 29 percent in the first two months of this year, according to year-to-year comparisons based on Chinese customs data. A new report from the USDA Foreign Agricultural Service also said China imported \$1.4 billion in U.S. agricultural, fish and forestry products in the first two months of this year. The total, which was nearly a quarter of China’s imports from all sources, nearly matched the sum of imports from Russia, Thailand and Malaysia — numbers 2 through 4 on the list. The year-to-year comparisons show increases in “oak wood, in the rough, not treated” from \$3 million to \$5 million in the two months; and “non-coniferous wood in the rough, not treated” from \$11 million to \$12 million. “Oak wood, sawn, over 6 mm thick” decreased slightly to \$11 million.