

SPOTLIGHT

ARTWORK Yayoi Kusama
Obsession, 1988
 Collection les Abattoirs, Toulouse, France

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market-creating moves, introducing the iPod, iTunes, the iPhone, the App Store, and the iPad. From the launch of the iPod in 2001 to the end of its 2014 fiscal year, Apple's market cap surged more than 75-fold as its sales and profits exploded. Over the same period, Microsoft's market cap crept up by a mere 3% while its revenue went from nearly five times larger than Apple's to nearly half of Apple's. With close to 80% of profits coming from two old businesses—Windows and Office—and no compelling market-creating move, Microsoft has paid a steep price.

Of course, it's not that companies don't recognize the value of new market spaces. To the contrary, their leaders increasingly are committed to creating them and dedicate significant amounts of money to efforts to do so. But despite this, few companies seem to crack the code. What, exactly, is getting in their way?

In the decade since the publication of the first edition of our book, *Blue Ocean Strategy*, we've had conversations with many managers involved in executing market-creating strategies. As they shared their successes and failures with us, we identified a common factor that seemed to consistently undermine their efforts: their mental models—ingrained assumptions and theories about the way the world works. Though mental models lie below people's cognitive awareness, they're so powerful a determinant of choices and behaviors that many neuroscientists think of them almost as automated algorithms that dictate how people respond to changes and events.

Mental models have their merits. In dangerous times, a robust mental model can help you quickly make decisions that are critical to survival. And we have no issue with the soundness of the mental models that we saw managers apply. They were grounded in knowledge acquired in classrooms and from years of business experience. They help managers respond better to competitive challenges. But our conversations suggest that the mental models managers rely

Red Ocean Traps

The mental models that undermine market-creating strategies

by W. Chan Kim and Renée Mauborgne

In America, corporate performance has been deteriorating for decades. According to Deloitte's landmark study "The Shift Index," the aggregate return on assets of U.S. public companies has fallen below 1%, to about a quarter of its 1965 level. As market power has moved from companies to consumers, and global competition has intensified, managers in almost all industries have

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come to face steep performance challenges. To turn things around, they need to be more creative in developing and executing their competitive strategies. But long-term success will not be achieved through competitiveness alone. Increasingly, it will depend on the ability to generate new demand and create and capture new markets.

The payoffs of market creation are huge. Just compare the experiences of Apple and Microsoft. Over the past 15 years, Apple has made a series of successful