on to negotiate existing market spaces also undermine their ability to create new markets.

In our research and discussions, we've encountered six especially salient assumptions built into managers' mental models. We have come to think of them as red ocean traps, because they effectively anchor managers in red oceans—crowded market spaces where companies engage in bloody competition for market share—and prevent them from entering blue oceans, previously unknown and uncontested market spaces with ample potential. The first two traps stem from assumptions about marketing, in particular an emphasis on customer orientation and niches; the next two from economic lessons on technology innovation and creative destruction; and the final two from principles of competitive strategy that regard differentiation and low cost as mutually exclusive choices. In the following pages, we'll look at each trap in detail and see how it thwarts companies' attempts to create markets.

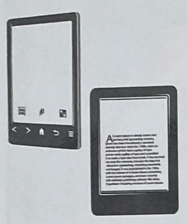
## TRAP ONE
### Seeing Market-Creating Strategies as Customer-Oriented Approaches

Generating new demand is at the heart of market-creating strategies. It hinges on converting noncustomers into customers, as Salesforce.com did with its on-demand CRM software, which opened up a new market space by winning over small and midsize firms that had previously rejected CRM enterprise software.

The trouble is that managers, especially those in marketing, have been quite reasonably brought up to believe that the customer is king. It's all too easy for them to assume, therefore, that market-creating strategies are customer led, which causes them to reflexively stick to their focus on existing customers and how to make them happier.

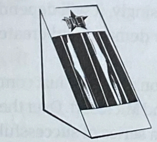
This approach, however, is unlikely to create new markets. To do that, an organization needs to turn its focus to noncustomers and why they refuse to patronize an industry's offering. Noncustomers, not customers, hold the greatest insight into the points of pain and intimidation that limit the boundary of an industry. A focus on existing customers, by contrast, tends to drive organizations to come up with better solutions for them than what competitors currently offer—but keeps companies moored in red oceans.

Consider Sony's launch of the Portable Reader System (PRS) in 2006. The company's aim was to



Growth comes from converting nonusers. Sony focused on improving e-readers' legibility to please current customers. But Amazon's Kindle addressed the number one concern of nonbuyers: too few available titles. Amazon won.


Niche marketing can be treacherous. Delta's Song targeted too narrow a segment of fliers—stylish professional women—and didn't last. But Pret A Manger thrived by "desegmenting" different customer groups—figuring out what they had in common—to create a new market space.



unlock a new market space in books by opening the e-reader market to a wide customer base. To figure out how to realize that goal, it looked to the experience of existing e-reader customers, who were dissatisfied with the size and poor display quality of current products. Sony's response was a thin, lightweight device with an easy-to-read screen. Despite the media's praise and happier customers, the PRS lost out to Amazon's Kindle because it failed to attract the mass of noncustomers whose main reason for rejecting e-readers was the shortage of worthwhile books, not the size and the display of the devices. Without a rich choice of titles and an easy way to download them, the noncustomers stuck to print books.

Amazon understood this when it launched the Kindle in 2007, offering more than four times the number of e-titles available from the PRS and making them easily downloadable over Wi-Fi. Within six hours of their release, Kindles sold out, as print book customers rapidly became e-reader customers as well. Though Sony has since exited e-readers, the Kindle grew the industry from around a mere 2% of total book buyers in 2008 to 28% in 2014. It now offers more than 2.5 million e-titles.

## TRAP TWO
### Treating Market-Creating Strategies as Niche Strategies

The field of marketing has placed great emphasis on using ever finer market segmentation to identify and capture niche markets. Though niche strategies can often be very effective, uncovering a niche in an existing space is not the same thing as identifying a new market space.

Consider Song, an airline launched in 2003 by Delta. Delta's aim was to create a new market space in low-cost carriers by targeting a distinct segment of fliers. It decided to focus on stylish professional women travelers, a segment it figured had needs and preferences different from those of the businessmen and other passengers most airlines targeted. No airline had ever been built around this group. After many focus group discussions with upwardly mobile and professional women, Delta came up with a plan to cater to them with organic food, custom cocktails, a variety of entertainment choices, free in-flight workouts with complementary exercise bands, and crew members dressed in Kate Spade. The strategy was intended to fill a gap in the market. It may well have done that successfully, but the segment proved too





### Idea in Brief

**THE PROBLEM**
To succeed in the long term, companies must find ways to create new markets. Competing in existing markets is growing less profitable. But despite much investment and commitment, companies find it extraordinarily difficult to establish new market spaces.

**WHY IT HAPPENS**
Managers' mental models are based on their experiences in existing markets. Though these assumptions and beliefs have worked in the past, they undermine efforts to create new spaces.

**THE SOLUTION**
To avoid being trapped in old markets, managers need to:
- focus on attracting new customers
- worry less about segmentation
- understand that market creation is not synonymous with either technological innovation or creative destruction
- stop focusing on premium versus low-cost strategies

small to be sustainable despite competitive pricing. Song flew its last flight in April 2006, just 36 months after its launch.

Successful market-creating strategies don't focus on finer segmentation. More often, they "desegment" markets by identifying key commonalities across buyer groups that could help generate broader demand. Pret A Manger, a British food chain, looked across three different prepared-lunch buyer groups: restaurant-going professionals, fast food customers, and the brown bag set. Although there were plenty of differences across these groups, there were three key commonalities: All of them wanted a lunch that was fresh and healthful, wanted it fast, and wanted it at a reasonable price. That insight helped Pret A Manger see how it could unlock and aggregate untapped demand across those groups to create a commercially compelling new market. Its concept was to offer restaurant-quality sandwiches made fresh every day from high-end ingredients, preparing them at a speed even greater than that of fast food, and delivering that experience in a sleek setting at reasonable prices. Today, nearly 30 years on, Pret A Manger continues to enjoy robust profitable growth in the new market space it established.

## TRAP THREE
### Confusing Technology Innovation with Market-Creating Strategies

R&D and technology innovation are widely recognized as key drivers of market development and industry growth. It's understandable, therefore, that managers might assume that they are also key drivers in the discovery of new markets. But the reality is that market creation is not inevitably about technological innovation. Yellow Tail opened a new market (in its case, for a fun and simple wine for everyone) without any bleeding-edge technologies. So did the coffee chain Starbucks and the performing arts company Cirque du Soleil. Even when technology is heavily involved, as it was with market creators Salesforce.com, Intuit's Quicken, or Uber, it is not the reason that new offerings are successful. Such products and services succeed because they are so simple to use, fun, and productive that people fall in love with them. The technology that enables them essentially disappears from buyers' minds.

Consider the Segway Personal Transporter, which was launched in 2001. Was it a technology innovation? Sure. It was the world's first self-balancing human transporter, and it worked well. Lean forward and you go forward; lean back and you go back. This engineering marvel was one of the most-talked-about technology innovations of its time. But most people were unwilling to pay up to $5,000 for a product that posed difficulties in use and convenience: Where could you park it? How would you take it with you in a car? Where could you use it—sidewalks or roads? Could you take it on a bus or a train? Although the Segway was expected to reach breakeven just six months after its launch, sales fell way below initial

**Does market creation always involve creative destruction? The answer is no. Many groundbreaking products offer solutions where none previously existed.**