predictions, and the company was sold in 2009. Not everyone was surprised. At the time of the product's release, a prescient *Time* magazine article about Dean Kamen, Segway's inventor, struck a cautionary note: "One of the hardest truths for any technologist to hear is that success or failure in business is rarely determined by the quality of the technology."

Value innovation, not technology innovation, is what launches commercially compelling new markets. Successful new products or services open market spaces by offering a leap in productivity, simplicity, ease of use, convenience, fun, or environmental friendliness. But when companies mistakenly assume that market creation hinges on breakthrough technologies, their organizations tend to push for products or services that are too "out there," too complicated, or, like the Segway, lacking a necessary ecosystem. In fact, many technology innovations fail to create new markets even if they win the company accolades and their developers scientific prizes.

Technological breakthroughs don't necessarily create new markets. Segway was a marvel but never found a wide customer base. New markets arise from value innovation, not tech innovation.

TRAP FOUR
Equating Creative Destruction with Market Creation

Joseph Schumpeter's theory of creative destruction lies at the heart of innovation economics. Creative destruction occurs when an invention disrupts a market by displacing an earlier technology or existing product or service. Digital photography, for example, wiped out the photographic film industry, becoming the new norm. In Schumpeter's framework, the old is incessantly destroyed and replaced by the new.

But does market creation always involve destruction? The answer is no. It also involves nondestructive creation, wherein new demand is created without displacing existing products or services. Take Viagra, which established a new market in lifestyle drugs. Did Viagra make any earlier technology or existing product or service obsolete? No. It unlocked new demand by offering for the first time a real solution to a major problem experienced by many men in their personal relationships. Grameen Bank's creation of the microfinance industry is another example. Many market-creating moves are nondestructive, because they offer solutions where none previously existed. We've also seen this happen with the social networking and crowdfunding industries. And even when a certain amount of destruction is involved in market creation, nondestructive creation is often a larger element than you might think. Nintendo's Wii game player, for example, complemented more than replaced existing game systems, because it attracted younger children and older adults who hadn't previously played video games.

To create a new market, you can't view value and cost as a trade-off. Yellow Tail wine offers high value at low cost—and is a huge hit.

Conflating market creation with creative destruction not only limits an organization's set of opportunities but also sets off resistance to market-creating strategies. People in established companies typically don't like the notion of creative destruction or disruption because it may threaten their current status and jobs. As a result, managers often undermine their company's market-creating efforts by starving them of resources, allocating undue overhead costs to the initiatives, or not cooperating with the people working on them. It's critical for market creators to head this danger off early by clarifying that their project is at least as much about nondestructive creation as it is about disruption.

TRAP FIVE
Equating Market-Creating Strategies with Differentiation

In a competitive industry companies tend to choose their position on what economists call the "productivity frontier," the range of value-cost trade-offs that are available given the structure and norms of the industry. Differentiation is the strategic position on this frontier in which a company stands out from competitors by providing premium value; the trade-off is usually higher costs to the company and higher prices for customers. We've found that many managers assume that market creation is the same thing.

In reality, a market-creating move breaks the value-cost trade-off. It is about pursuing differentiation and low cost simultaneously. Are Yellow Tail and Salesforce.com differentiated from other players? You bet. But are Yellow Tail and Salesforce.com also low cost? Yes again. A market-creating move is a "both-and," not an "either-or," strategy. It's important to realize this difference, because when companies mistakenly assume that market creation is synonymous with differentiation, they often focus on what to improve or create to stand apart and pay scant heed to what they can eliminate or reduce to simultaneously achieve low cost. As a result, they may inadvertently become premium competitors in an existing industry space rather than discover a new market space of their own.

Take BMW, which set out to establish a new market in urban transport with its launch of the C1 in 2000. Traffic problems in European cities are severe, and people waste many hours commuting by car there, so BMW wanted to develop a vehicle people could use to beat rush-hour congestion. The C1 was a two-wheeled scooter targeting the premium end of the market. Unlike other scooters, it had a roof and a full windshield with wipers. BMW also invested heavily in safety. The C1 held drivers in place with a four-point seat-belt system and protected them with an aluminum roll cage, two shoulder-height roll bars, and a crumple zone around the front wheel.

With all these extra features, the C1 was expensive to build, and its price ranged from $7,000 to $10,000—far more than the $3,000 to $5,000 that typical scooters fetched. Although the C1 succeeded in differentiating itself within the scooter industry, it did not create the new market space in transportation BMW had hoped for. In the summer of 2003, BMW announced it was stopping production because the C1 hadn't met sales expectations.

TRAP SIX
Equating Market-Creating Strategies with Low-Cost Strategies

This trap, in which managers assume that they can create a new market solely by driving down costs, is the obvious flip side of trap five. When organizations see market-creating strategies as synonymous with low-cost strategies alone, they focus on what to eliminate and reduce in current offerings and largely ignore what they should improve or create to increase the offerings' value.

Ouya is a video-game console maker that fell into this trap. When the company began selling its products, in June 2013, big players like Sony, Microsoft, and Nintendo were offering consoles connected to TV screens and controllers that provided a high-quality gaming experience, for prices ranging from $199 to $419. With no low-cost console available, many people would play video games either on handheld devices or on TV screens connected to mobile devices via inexpensive cables.

An attempt to create a market space between high-end consoles and mobile handhelds, the $99 Ouya was introduced as a low-cost open-source "microconsole" offering reasonable quality on TV screens and most games free to try. Although people admired the inexpensive, simple device, Ouya didn't have the rich catalog of quality games, 3-D intensity, great graphics, and processing speed that traditional gamers prized but the company had to some extent sacrificed to drop cost and price. At the same time, Ouya lacked the distinctive advantage of mobile handheld devices—namely, their play-on-the-go functionality. In the absence of those features, potential gamers had no compelling reason to buy Ouyas. The company is now shopping itself to acquirers—on the basis of its staff's talent more than the strength of its console business—but as yet hasn't found one.

Differentiation cannot be sacrificed to cost savings. The Ouya video-game console has a low price, but because it underperforms established consoles and lacks the mobility of handhelds, it has failed to create a new market.

Our point, again, is that a market-creating strategy takes a "both-and" approach: It pursues both differentiation and low cost. In this framework, new market space is created not by pricing against the competition within an industry but by pricing against substitutes and alternatives that noncustomers are currently using. Accordingly, a new market does not have to be created at the low end of an industry. Instead it can be created at the high end, as Cirque du Soleil did in circus entertainment, Starbucks did in coffee, and Dyson did in vacuum cleaners.

Even when companies create new markets at the low end, the offerings also are clearly differentiated in the eyes of buyers. Consider Southwest Airlines and Swatch. Southwest stands out for its friendly, fast, ground-transportation-in-the-air feel, while stylish, fun designs make Swatches a fashion statement. Both companies' offerings are perceived as both differentiated and low cost.

THE APPROACHES or strategies presented as the red ocean traps are not wrong or bad. They all serve important purposes. A customer focus, for example, can improve products and services, and technology innovation is a key input for market development and economic growth. Likewise, differentiation or low cost is an effective competitive strategy. What these approaches are not, however, is the path to successful market-creating strategies. And when they drive market-creating efforts that involve big investments, they may result in new businesses that don't earn back those investments and that ultimately fail, as we have seen here. That's why it's key to surface and check the mental models and assumptions of the people who are central to executing market-creating strategies. If those models and assumptions are misaligned with the intended strategic purpose of new market creation, you need to challenge, question, and reframe them. Otherwise, you may fall into the red ocean traps.

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