BLUE OCEAN STRATEGY (EVALUATING PROFIT OF BUSINESSES IN THE INDUSTRIAL TOWN OF BU ALI IN HAMADAN)

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Abstract: *In this study titled Blue Ocean Strategy Evaluating Profit of businesses in the Industrial Town of Bu Ali in Hamadan, the researcher has made assumptions using the hexahedron model of blue ocean strategy. This research has been conducted using descriptive survey research method in the research statistical population. The most important tool of data collection in this study is the questionnaire and the highest effect of six factors of blue ocean strategy on profit gain of businesses is related to the factor of considering complementary products and services.*

Key Words: *Strategy, Blue Ocean, profit.*

1. INTRODUCTION

The idea of Blue Ocean was presented by Professor Hill in Michigan State University in 1988. He claimed that Porter idea is flawed, since the distinction can mean cost leadership and the company which offers its product with a lower price, in fact, acquires an aspect of distinction strategy. He points out that companies must employ a combination of cost leadership and distinction strategies to obtain a sustainable competitive benefit. Inability to forecast future demand, lack of awareness of modern methods and techniques in advertising and marketing, and dozens of other problems are seen in many companies, including businesses located in the industrial town of Bu Ali in Hamadan which can have a considerable impact on their sales, profitability and competitiveness. The researcher in this study seeks to answer this question: does Blue Ocean Strategy have a significant impact on profit gain of businesses situated in the industrial town of Bu Ali in Hamadan?

Blue Ocean Strategy is one of the newest available strategies which can be influential in the area of economic revival and its enhancement in businesses. Since Hamadan Province is one of the poor provinces in the field of industry, it needs

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additional attention and scientific assistance in the field of management so as to be able to have a growing and deep industry in addition to dealing with economic challenges. Blue ocean strategy is one of new strategies introduced in recent years.

The overall objective of the present study is to assess the impact of using blue ocean strategy on profit gain of businesses in the industrial town of Bu Ali in Hamadan and the secondary objectives of the research are to evaluate the impact of blue ocean routes on profit gain of businesses in the industrial town of Bu Ali in Hamadan.

In this research, by clarifying the relationship between independent variables (businesses using blue ocean strategy and six routes) and dependent variables (profit gain), appropriate strategies become better and more clear on how to make use of this strategy and programmers may plan better and more accurately and implement necessary operations more precisely.

2. RESEARCH LITERATURE

(a) Theoretical Principles

1. *Strategy*

The research literature review reveals that no single and popular definition exists to answer the question what a strategy is. Different experts and managers employ this word in various ways. Strategy can at least be defined from two perspectives: from the perspective of what job an organization intends to do and also from this perspective of what the organization eventually does. From the first viewpoint, strategy is a comprehensive plan to define and achieve the objectives of an organization and execute mission and from the second viewpoint, strategy is the pattern of an organization's responses to its environment during time.

2. *Profit*

Adam Smith, the well-known Scottish economist, was the first person to define profit as such:

Profit is an amount the consumption of which does not hurt the capital.

Profit, in terms of economic science, equals the difference of income and expenditure. Profit is divided into two categories of short-term and long-term. Profit has a direct relationship with income and inverse relationship with loss. Profit is the remaining of income after deducting the cost of sales and operations and other expenses (net profit).

3. *Blue Ocean*

In this point of view, it is assumed that global work and service areas consist of two ocean categories: blue oceans and red oceans. Red oceans represent all industries

existing today and are the recognized spaces of work and service areas. Blue oceans are all industries not existing today. These are in fact unrecognized work and service areas. In red oceans, limitations and boundaries of industries have been defined and accepted and, moreover, competition game rules are ascertained. In red oceans, organizations attempt to obtain a better performance than competitors in order to own a greater share of the existing demand in work and service areas. Since currently red oceans are densely populated, profitability and growth in them is low. In red oceans, the severe and lethal competition among organizations has been likened to a red and bloody ocean. Conversely, blue oceans have not been utilized and no competition exists in them. Consequently, in blue oceans there is high potential for growth and profitability and high potential demand for products and services of these oceans. The creator of this ocean can determine regulations and boundaries of an industry.

4. *Specific Patterns for the Creation of Blue Oceans*

There are specific patterns for the creation of blue oceans of which 6 main routes are mentioned for the revival of work and service areas in the following sections and they can be called the decision-making pattern with six routes. These six routes have general application in all sectors of an industry and lead a company toward a set of commercial and lasting ideas of Blue Ocean.

Route 1: search and evaluation among alternative industries

In a broad sense, an organization is not only competing against other organizations and businesses existing in their industry, but also against organizations producing alternative products and services in other industries.

Route 2: search and evaluation of strategic groups in industries

The term strategic group is related to organizations existing inside an industry which follow a similar and identical strategy. Strategic groups, in an overall hierarchy, can generally be ranked in two dimensions: price and performance. Each jump and expansion in price leads to a similar jump and expansion in some aspects of performance.

Route 3: search and evaluation among chain of customers

In most industries, competitors reach a convergence on a clear definition of individuals called target customers. However, there actually is a chain of "customers" who are directly or indirectly involved in purchasing decisions. Purchasers who pay for products and services may be different than individual consumers.

Route 4: search and evaluation among complementary products and services

In an industry, a few products and services are produced or provided. In most instances, products and services of alternative industries influence the value of the intended industry's products and services. Nevertheless, in most industries, competitors gather together within the boundaries of their industry's offered products and services.

Route 5: search and evaluation among customers' functional or emotional characteristics

Organizations competing with each other in an industry are not only inclined towards a fixed and accepted domain of products and services, but also their common destination is based upon one of the two functional or emotional characteristics of products and services; some industries mainly compete on the basis of calculating profit and benefit on price and functionality. The major characteristic and systematic structure of these industries is the logic-oriented tradition. Alternative industries compete to a great extent on emotional characteristics; the major characteristic and systematic structure of such industries is their being emotional and exciting.

Route 6: search and evaluation throughout time

All industries are dependent on foreign procedures and events that have great effect on their business and services. These procedures must be regarded with a right perspective so as to determine the way of creating Blue Ocean opportunities through contemplating in such procedures.

5. Model Research
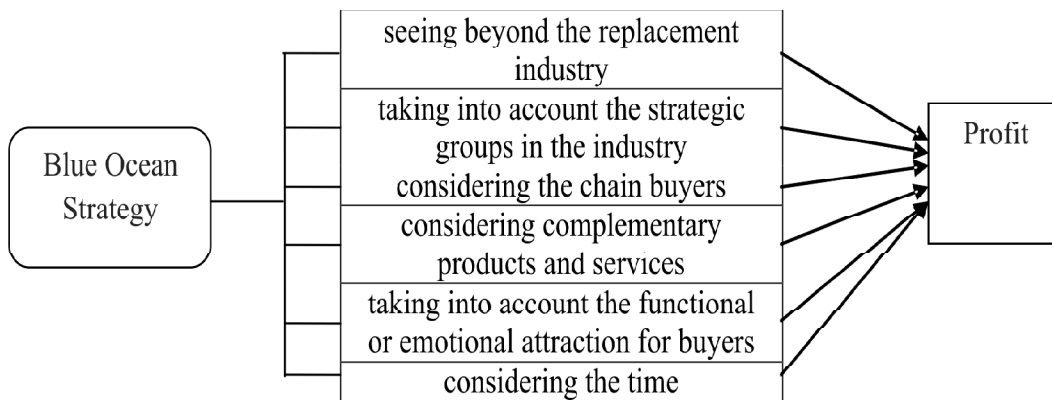
(*Source:* W. Chan Kim, Renée Mauborgne (2005), p. 103)

(b) Domestic Research Background

Golpayegani and Pirouzfar (2008) published an article entitled "Blue Ocean, Competition Strategy in an Uncontested Market." The purpose of this paper is to evaluate a new belief about strategy. Here, a new strategy called Blue Ocean Strategy is introduced. Blue Ocean Strategy is a new approach of strategy and innovation the objective of which is the sustainable performance and growth of a company. Unlike the competitive strategy in which companies normally attempt to actually divide or seize the existing value instead of creating value.

Tavallaie (2009) wrote an article entitled "Blue Ocean Strategy as a revolution in the field of Strategic Management." This paper has been conducted in order to introduce and clarify the concept of Blue Ocean Strategy and investigate its role in strategic change and transformation of organizations. In the notion of Blue Ocean Strategy, work and service fields of organizations have been likened to two oceans: Blue Oceans and Red Oceans.

Jahangiri (2010) did a research entitled "evaluating how to implement strategy with Blue Ocean Approach (case study MoghadamGarment manufacturing company). In the present study, the way of implementing strategy with Blue Ocean Approach and seeks to demonstrate beneficial capabilities of clothes industry by utilizing the elements of Blue Ocean Strategy.

(c) Foreign Research Background

Chan Kim and Renee Mauborgne (2000) published a work entitled "Blue Ocean Strategy." Below, an abstract of this work is presented:

Despite the lasting fall of circus industry, du Soleil (circus of the sun) has multiplied its revenues to 22 times in the last ten years by reinventing itself accompanied by profitability. Instead of competition in the closed field of current industry or attempt to seize shares and customers of others, du Soleil has created a specific market in which competition is meaningless. This circus has created something which the article's authors have called Blue Ocean: an unknown place in the traditional market.

Roy Tarik, Andrea Vahn Steele and Andrew Burke (2009) published an article entitled "Blue Ocean vs. Five Forces." The abstract of this article is as follows:

Are you in favor of five competitive forces or Blue Ocean? In other words, do you try to dominate the existing market or create a new market? Both approaches of the strategy have certain followers yet as far as we know, up until now, no empirical study has been conducted to compare them. This model states that as long as presence in a particular market is profitable, more and more suppliers will enter that market until it reaches the saturation point, in this case, all will reach break-even.

Catherine Bell (2010) wrote an article entitled "Blue Ocean Story." The abstract of this article is as follows:

It is said that Americans work more than any other postindustrial countries. Many of us spend more time with our colleagues than with our family. Our work defines our life. However, rarely do our story writers (those whose duty is to describe and interpret what has kept us busy and we're working on it) enter work offices where we live.

(d) Industrial Town of Bu Ali in Hamadan

Industrial town of Bu Ali in Hamadan Province is located 12 kilometers from Hamadan City on Hamadan-Tehran road. The overall area of the town is 147 hectares and in the functional phase of the town, 180 businesses are active where 32,420 people are engaged at work. Hamadan's Industrial Estates Company was established on January 28, 1986 with the objective of creating harmony and optimum use of infrastructural facilities and offering appropriate services necessary for applicants to invest in the field of industrial productions and has generated various industrial companies in line with the province's industrial development from the beginning of its activity until now. Among businesses available in the town, food products (flour, pasta, cheese, sugar, tomato paste, etc.), plastic, garments, paper, porcelain, metal, hygiene, machinery, equipment, etc. can be named. (Web site of industrial town of Bu-Ali Hamadan, 2014).

3. RESEARCH METHODOLOGY

This study is a scientific-analysis research which is considered in terms of time (time domain: second half of 2014), with respect to its objective functional, in terms of research depth depth-oriented, in terms of obtaining required data belongs to descriptive (non-experimental) research and of the category of survey research and in terms of research nature is included in background research which is conducted in the spatial domain of businesses located in the industrial town of Bu Ali in Hamadan.

1. Statistical Population: The statistical population of this research includes managers and administrators of businesses located in the industrial town of Bu Ali Hamadan, a total of over 180 firms, according to data.

2. Sample Size: Due to the large population size and infeasibility of conducting statistical calculations based on the total members of society in practice, the sample size of this study is estimated using the Cochran formula as given below:

$$n = \frac{\frac{(t)^2 (Pq)}{(d)^2}}{1 + \left[[\frac{1}{N} \times \left(\frac{(t)^2 (Pq)}{(d)^2}] - 1 \right) \right]} = \frac{\frac{(1.96)^2 (0.5 \times 0.5)}{(0.05)^2}}{1 + \left[[\frac{1}{180} \times \left(\frac{(1.96)^2 (0.5 \times 0.5)}{(0.05)^2}] - 1 \right) \right]} = 123$$

N: total number of statistical population individuals   n: research sample size

t: size of variable in natural distribution (normal distribution related to Gaussian curve) = 1.96

P: percentage of distributing traits in population = 0.5   q: percentage of individuals lacking that trait in population =0.5

d: The difference between the industry's actual ratio in the population, the estimation rate for the existence of that trait in population the maximum ratio of which is 0.05.

According to this formula, the number of research sample size has been determined tantamount to 123 individuals.

3. Sampling Method

Since the statistical population is nearly congruent from every aspect, the simple random sampling is used for sampling.

4. Data Collection Method

In this study, library data collection method has been used for gathering data and inferential method has been used to deduce results:

1. Library Method: to gather data regarding theoretical framework and background related to the current research, library study method has been used. Moreover, internet sources have been utilized in order to evaluate theories and study research background.

2. Field Method: in this section, after acquiring permit from the intended university and referring to the statistical target units, i.e. managers and heads of business enterprises, research questionnaires are designated to the statistical units and, afterwards, data will be collected.

5. Data Collection Tools

Due to the fact that the research method in this study is survey and the survey research is considered as descriptive research, thus, the researcher-made questionnaire was used for gathering data. This researcher-made questionnaire is an object-based research which measures the impact of Blue Ocean Strategy variable components on profit gain. This questionnaire has also been prepared at an ordinal measurement level, based on the five-level likert spectrum.

6. Research Validity

In this research, content validity method has been used to measure validity and the intended questionnaire comprising Blue Ocean Strategy and profit gain. Content

validity has been verified after modification and revision by the venerable professors.

7. Research Reliability

Questionnaire's reliability of this study is estimated using Cronbach's alpha coefficient. If alpha's coefficient is greater than 0.7, the questionnaire has an acceptable reliability. Accordingly, alpha coefficient for questionnaire's questions is 0.781, as a result, it can be said that the questionnaire of this research has a high and acceptable reliability.

8. Statistical Methods and Data Analysis

In this study, descriptive statistical methods are used to measure frequency, mean, standard deviation and variance percentage in order to describe the data obtained in this study and for inferential statistics, Kolmogorov-Smirnov test is used to evaluate the normal distribution of variables, based on the results of which, due to abnormality of variables distribution, the binomial test is applied to test the hypotheses. For this purpose, the software SPSS version 20 is used.

4. DATA ANALYSIS

The research main hypothesis: using Blue Ocean Strategy has a positive and significant effect on profit gain of businesses in the industrial town of Bu Ali in Hamadan and secondary hypotheses: seeing beyond the replacement industry, taking into account the strategic groups in the industry, considering the chain buyers, considering complementary products and services, taking into account the functional or emotional attraction for buyers and considering the time has a significant and positive effect on profit gain of businesses in the industrial town of Bu Ali in Hamadan and accordingly, the results of descriptive and inferential statistics of the research are as follows:

(a) **The results of descriptive statistics for demographic variables**

   After collecting the data, it was observed that with respect to gender, 88 (71.5%) of the respondents are male and 27 (22.0%) are women and 8 respondents (6.5 percent) did not answer this question. In terms of educational level, 6 (4.9%) are below diploma, 19 (15.4%) have a diploma, 23 (18.7%) have an associate's degree, 59 (48.0%) have a bachelor's degree and 12 (9.8 percent) also hold a master's degree and 4 (3.3 percent) did not respond to this question. In terms of age, 21 (17.1 percent) of respondents are under 25, 52 respondents (42.3%) between 26 and 35, 32 (26.0%) between 36 and 45 years of age, 14 (11.4%) between 46 and 55 years and 1 (8.0%) and 56 years and above and 3 (2.4 percent) did not respond to this question. In terms of economic activity, 37 (30.1%) of respondents under 5 years, 34 (27.6%) between 6 and 10 years, 31 (25.2%) between 11 and

15, 11 (8.9 percent) between 16 and 20 years and 7 (5.7%) 20 years and above and 3 respondents did not respond to this question.

(b) The results of descriptive statistics for research variables

Blue Ocean Strategy variable has a very high mean. Distributing the data of this variable has a curve to the left in terms of symmetry and is also far from the normal distribution diagram in terms of dispersion. By classifying data relevant to this variable, it was observed that most respondents i.e. 99 (80.5 percent) have chosen the option "high" in response to this variable. By classifying data relevant to Blue Ocean routes, it was observed that most respondents i.e. 85 (69.1%) chose option "high" in response to seeing over replacement industries, 66 (53.7%) in response to considering strategic groups in industries, 78 (63.4%) in response to considering chain of buyers, 84 (68.3%) in response to considering complementary products and services, 7 (62.6%) in response to considering functional or emotional attractions for buyers, 64 (52.0%) in response to considering time.

(c) The results of the test for normal distribution of variables

To assess the normal distribution of variables, the Kolmogorov – Smirnov test is used. According to the results obtained from the above-mentioned test, because the significance level of the test for all variables is lower than =±0.05, thus the hypothesis zero based on the normal distribution of these variables is rejected and the distribution of these variables is not normal.

$$\begin{cases} H0 : \text{the variable has a normal distribution} \\ H_1 : \text{the variable does not have a normal distribution} \end{cases}$$

(d) The binomial test

According to the type of questionnaire (object-based) and also abnormal distribution of variables of this research, the binomial test is used for the evaluation of hypotheses.

$$\begin{cases} H_0 : p \leq 0/60 \text{ (variable absence of effect)} \\ \quad H_1 : p > 0/60 \text{ (variable effect)} \end{cases}$$

Based on the results of the binomial test, since the significance level of all tests is lower than the hypothesized amount á=0.05, it may be inferred that zero hypothesis regarding the absence of effect of (Blue Ocean Strategy and its routes" on profit gain is rejected and the hypothesis regarding effect of "Blue Ocean Strategy and its routes" on profit gain is confirmed. Consequently, it can be accepted that using Blue Ocean Strategy and its six routes have significant and positive effect on profit gain of businesses in the industrial town of Bu Ali in Hamadan and the highest effect of six factors of Blue Ocean Strategy on profit

gain of businesses is related to the factor of considering complementary products and services.

5. SUMMARY AND CONCLUSION

The main objective of the present study is "Evaluating Profit of businesses in the Industrial Town of Bu Ali in Hamadan." In conducting the research, after preliminary studies in theoretical and applied research and using the opinions of teachers and experts to provide the notion of Blue Ocean Strategy and profit gain of agencies, research literature and background was formed; subsequently, in order to determine the amount of usage of Blue Ocean Strategy on profit gain of agencies, the statistical population was determined and sampling was performed. Afterwards, questionnaires were designed as tools of data collection and by distributing a preliminary sample of it and using the intended experts' opinions, its validity and reliability was verified. Therefore, the activity partly began by distributing questionnaires in the statistical population and ended with their collection, in the end, in order to analyze data, descriptive and inferential methods were used. For this purpose, the SPSS software was applied. Based on the result of the table for Blue Ocean Strategy Binomial test and its routes on profit gain, since the significance level of all the test are less than the hypothesized amount of á=0.5, it can be concluded that using Blue Ocean Strategy has a significant and positive effect on profit gain of businesses in the industrial town of Bu Ali in Hamadan.

According to the research assumptions, it is suggested that a group of managers with the experience of production businesses study and search methods of implementing this new strategy in other successful companies and/or other countries, take part in conventions related to organizational strategy and inspired by functional methods and appropriate to the environment and situation and conditions of the regional and provincial companies, explore the problems of traditional and classical methods of the available industry so as to be able to choose and implement efficient and effective alternative strategies. By the cooperation and affinity of business managers for the creation of synergy and use of individual capabilities of companies for the sake of variety in mass production of goods with the highest quality and prorating overhead costs, they can improve their position in the region. Furthermore, it is recommended to all researchers to use alternative models in Blue Ocean Strategy in other similar researches and perform comparative feasibility studies of establishing Blue Ocean Strategy in other commercial regions of the country and use alternative methods to questionnaire in the process of their studies so as to achieve more accurate results.

In doing this research, like other researches, several limitations exist which probably influence the obtained results:

1. Presence of limited sources for the compilation of research literature.

2. Absence of a questionnaire consistent with the research model
3. Lack of knowledge of some respondents toward the research subjects.

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