

**Blue Ocean Strategy**

A way to break out of the pack

**Uniformity or nonconformity**

Thoughts about office dress codes

**Diamonds in the rough**

Find the entrepreneurs in your company

February 2006

Washington

**smart**

**CEO**

Leadership

Family Business

Finance

Technology

Law

Sales & Marketing

Talent

Management

Culture

Required Reading for Growing C

[www.smartceo.com](http://www.smartceo.com) \$2.95

# serial entrepreneur

Andrea Keating, CEO of Crews Control, would love to have a business that runs itself, but new opportunities keep getting in her way.

# WHAT COLOR IS YOUR OCEAN?

Intense competition has bloodied the waters in your industry. Your product is a mere commodity. So stop selling it and start looking for new oceans of opportunity.

BY TIMOTHY BURN

**F**or about a dozen years Bob Corlett was working in a promising field in a town that could really use his talents. That town is Washington and his field is staffing. The Washington area is one of the top five markets in the country for staffing companies because of its stable and growing economy, chock full of busy companies and talented workers. So it will come as no surprise that googling “Washington” and “staffing agencies” conjures more hits than you know what to do with.

Though Washington businesses are constantly in need of just the right talent, Corlett’s industry – staffing – had begun to bulge with new entrants, some offering general hiring, and an increasing number offering services to targeted industries and needs. The Internet, too, was complicating things as anxious human resources folks ventured quickly into cyberspace to try to solve their immediate dilemmas.

In such a crowded field it was getting harder for a staffing firm to get noticed. It was getting harder to make a buck.

“I began to realize that buyers could not tell the difference between one staffing firm and another,” said Corlett. “Some vendors could say they are the oldest staffing firm or the biggest staffing firm in North America. But at the end of the day buyers were simply throwing a dart on a map to select a staffing agency to solve their problems.”

Hiring managers were beginning to realize that staffing firms were becoming a simple commodity, something that could get bartered down to the best price. Staffing firms were jumping over each other to get business.

“In the whole staffing industry – amounting to about \$60 billion in North America – brand did not seem to mean anything,” said Corlett. “In the auto industry a buyer can easily tell the difference between a Lexus and a

Hyundai. In the staffing industry you can’t really describe one company versus another, and it is hard to compete in such an environment.”

The competitive ocean that Bob Corlett was swimming in was becoming red with blood, and he decided that his business model needed to change – fast – to survive.

Doug Davidoff, CEO of Imagine Sales Consulting, of Severna Park, MD, calls this situation a “commoditization trap.”

“Companies fall into the commoditization trap when they focus too much on the thing they think they need to sell, and 99 percent of the time that thing is a commodity,” said Davidoff. “What they really should focus on is what people buy and why. People buy for their own reasons, and many times they are solving a particular problem of the moment. But if Microsoft focused their sales and marketing on what they sold, they would be selling you Microsoft Windows and Word. But what people are buying from Microsoft is productivity. So Microsoft focuses its marketing on its ability to increase productivity.”

## BLUE OCEAN STRATEGY

In doing so Microsoft was able to redefine itself away from its growing mass of competitors in the software industry and create a new niche within an existing market segment. Authors W. Chan Kim and Renee Mauborgne, call this an example of “Blue Ocean Strategy,” which is also the title of their recent book. The concept has been around since at least the beginning of the last century. Henry Ford pursued a Blue Ocean Strategy when he decided to turn the automobile from a luxurious toy for the privileged few into a

mass-produced must-have product for the average family.

According to Kim and Mauborgne, the business universe consists of two distinct spaces: red oceans and blue oceans. “In red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are well understood. Here companies try to outperform their rivals in order to grab a greater share of existing demand.”

As this happens – think pizza delivery, cellular phone service, staffing, travel – and the field of competition gets more crowded, the chance for growth and profits are lessened. The water that these companies are swimming in gets red with blood, and mere survival becomes the immediate challenge.

Blue Ocean, according to the authors, refers to all industries that are not in existence today, a market space that has not yet been discovered or invented. Companies that find blue oceans first find seemingly unending room for growth and profit, and those that enter after you struggle for years to catch up. In some cases, Blue Ocean strategies create an entirely new industry, though in most cases such a strategy can be pursued within an existing industry, but by offering a new set of products or services that carve out new and open space.

The best way to ponder blue ocean strategy is to look at industries that are

known today but were undiscovered, and likely unimaginable, in the years before they exploded onto the industrial scene. At the turn of the last century, the automotive industry as we see it today was unheard of with millions of cars, scores of models and a host of service industries cropping up alongside. Looking back just 30 years, there was no cell phone industry, no Blockbuster, no cable television, no overnight package delivery, no double latte grandes. No Google, no eBay.

The question now becomes what new industries will evolve over the next 20 years. If history is our guide the answer is many. And across the Washington area, CEOs tired of throwing elbows in increasingly crowded waters are – like Corlett – starting to re-examine their offerings and conjuring new ways of doing business by first identifying customers' problems and desires and then becoming the solution.

Corlett knew that being just a staffing agency was not going give him the Blue Ocean market space he was looking for. So he began to explore the problems that Washington area employers were having with staffing. He began to think like the human resource managers that he wanted as clients.

"I began to look at the situation in my industry and ask, who are HR departments most happy with – benefits brokers or staffing agencies," said Corlett. "The answer is the benefits brokers because they can offer a wide variety of choice and help solve problems for the company."

About four years ago Corlett started a new business called Staffing Advisors, which serves as a broker and consultancy for companies that are having staffing problems. He noticed that the vast array of staffing companies and Internet job sites were often overwhelming and confusing for HR professionals. He essentially created a new industry within the staffing industry, one that does not just provide butts in seats but instead works to connect companies with just the right staffing agency and to fix long-term staffing issues.

"If a client is having a turnover problem I make it my business to get at the turnover problem, and not simply find new hires for them." Corlett had a recent client that was in this constant mode of having to hire and replace temps for data entry work. Rather than supply this company with a really good temp agency, Corlett suggested to the

company that it consider outsourcing the entire data entry function.

Corlett's pricing structure is now quite a bit different than it was before he started Staffing Advisors. Rather than taking a consulting fee from the hiring company, Corlett takes a commission from the staffing agency, and the company pays nothing. One good sign that you have found an effective Blue Ocean Strategy is your ability to change your pricing structure and get away from the way your previous competitors are pricing. Because Corlett is offering a new and different service, his pricing is different and much more lucrative for him. By his estimates, Corlett's revenues have doubled every year since he started the company in 2002.

"The natural tendency of a company – and a CEO – is to look inward, but you need to look outward," said Davidoff. "What problems do your customers have that you can solve uniquely? How do you make yourself

sional sub-contractors. Everything you need is there, usually, you can find it, usually. Their motto says it all, "You can do it. We can help." In a sense they are selling more than just tools, they are selling you the notion that you can solve bigger home improvement problems that you may realize.

CNN is no longer the sole inhabitant of the Blue Ocean it created – 24-hour global television news coverage. But it is still dominant 25 years after it came into existence in 1980. For more than a decade it was the only cable news channel and was able to not only provide unique coverage of the major news of the era, but in many cases, also become a part of the story, as was the case during the first Gulf War when CNN reports like Arthur Kent and Peter Arnett became stars. Cable news is now open to other entrants like Fox and MSNBC, but it will likely be years before that ocean gets red.

Southwest Airlines is an example of

compelled the majors to try and compete in the budget travel space. Most have been failing at this effort for years, and now Southwest ranks third in airline quality, with majors like United and Delta trailing behind.

## WHAT DO THEY WANT?

Mike MacNair, CEO of MacNair Travel Management, in Alexandria, VA, has been slugging it out in the travel industry for 16 years. Travel has been at the bleeding edge of an information transformation that is impacting virtually every industry. Travel agents have struggled in the past decade to justify their existence and value as the Internet has made travel information abundantly available to the average consumer.

"At a time when people could be their own travel agent I had to figure out what customers would be willing to pay for beyond what they could accomplish on their own," said MacNair.

Just as with the staffing industry,

What problems do your customers have that you can solve uniquely? How do you make yourself irreplaceable? Doing this is no tall order but it is a paradigm shift in thinking. You have to let go of your existing commodity so that you can begin to provide what people want to buy. People are willing to pay more because they are getting what they want.

irreplaceable? Doing this is no tall order but it is a paradigm shift in thinking. You have to let go of your existing commodity so that you can begin to provide what people want to buy. People are willing to pay more because they are getting what they want."

## HARDEN YOUR BRAND

Looking around today there are scores of Blue Ocean companies, and it should come as no surprise that their brand names have become ubiquitous features of modern American culture. Home Depot took the concept of a hardware store chain and then amped it up into something that is much more. People go into to hardware stores because they have a home project that they themselves have decided to tackle. There is a feeling of accomplishment and satisfaction in going into a hardware store, finding what you want and then going home to fix the problem. Home Depot, rather than treating customers like reluctant and befuddled homeowners, treats them like profes-

sional sub-contractors. Everything you need is there, usually, you can find it, usually. Their motto says it all, "You can do it. We can help." In a sense they are selling more than just tools, they are selling you the notion that you can solve bigger home improvement problems that you may realize.

a company that has successfully pursued a Blue Ocean Strategy from within an existing industry. Prior to the arrival of Southwest, a handful of major carriers dominated the nation's airways and airports using complicated hub-and-spoke models, each airline holding controlling real estate at a couple of major airports (hubs) and then staging flights to outlying smaller market airports (spokes). The service was similar – checked bags, in-flight meals, a bag of peanuts. The airlines made money; the customers were getting restless under the weight of inconvenience and cost. Southwest jettisoned the hub-and-spoke model and the idea of winning in any of the major markets of the time. Instead, it forged a new path by offering service to the many underserved small and mid-market airports. It stripped away standard service staples like in-flight meals, it kept the planes simple and it sought to give customers value. In doing so it not only created a new submarket of discount air travel, it transformed the whole industry and

the Internet has opened up a vast – though increasingly crowded – sea of options for travelers. These days, rather than call a travel agent to book flights, hotels and cars, most people can get all that done online in a matter of several minutes. The concept of travel has become a commodity and it is increasingly difficult for travel agents to compete and make a profit.

A lot of times, travelers find great deals online, sometimes not. Sometimes business travelers find great deals and manage to save their employer a few dollars. Though often the convenience of online booking prompts business travelers to pick the first deal, and not always the best.

MacNair began to look closely at the potential customer base in the travel industry, and he saw an opportunity to provide value to sizable companies that needed to better manage travel expenses.

Said MacNair, "These companies are really facing what I call 'travel anarchy.' They don't know how to manage

## A FULL SERVICE TRANSPORTATION COMPANY

• We specialize in Convention and Meeting Shuttle Service, Airport Transfers, Private Charters, and Daily Employee Shuttles.

• Fleet: Executive Sedans, Deluxe SUV's, 10 Passenger Vans, 20 Passenger Limo Buses, 21, 25, 29, and 37 Passenger Minibuses, and 57 Passenger Coaches

• We currently maintain 14 ADA wheelchair accessible buses and vans

• Knowledgeable, Uniformed Drivers, Professional Onsite Coordinators (meetings and conventions)



**We will be on time!**

### BELTWAY TRANSPORTATION SERVICE

*B.T.S. is licensed with The Department of Transportation (DOT #177997), The Interstate Commerce Commission (MC #323006), the Washington Metropolitan Area Transit Commission (#25) and the Maryland Public Service Commission.*

301-420-5100 • [mdavis@beltwaytransportation.com](mailto:mdavis@beltwaytransportation.com)  
[www.beltwaytransportation.com](http://www.beltwaytransportation.com)

*Serving DC, Maryland, and Virginia since 1987*

## WANT \$100,000 IN BENEFITS FOR YOUR EMPLOYEES?



### How it Works

#### THE DOLLAR DEAL

■ Super Fare Share pays each participating employee up to \$65 per month in Metrocheks and other transit passes, tax-free. ■ During the first year, the employer's monthly contribution is only \$1 per employee, while the County pays the remaining \$64...up to \$20,000 a year! ■ During the remaining 4 years of the program, the County matches the employer's contribution dollar-for-dollar, up to \$32.50 for each employee, for a tax-free benefit of \$65 a month.

### What's In it For You

#### COMPANIES

- Receive tax credits
- Increased productivity
- Higher morale
- Lower turnover
- Improved recruitment

#### COMMUTERS

- Gain tax-free income
- Stress-free commutes
- No parking hassles
- Reduced vehicle wear
- Lower gas expenses

Quick and Easy  
 Ways to  
 Get On Board

Call Montgomery County  
 Commuter Services at 301.770.7665  
 or Email us at  
[commuter.express@montgomerycountymd.gov](mailto:commuter.express@montgomerycountymd.gov)



travel because it is not a standard focus of business training. They don't easily know where all the good fares are at any one time. They are concerned about the time and energy their teams are spending on processing travel (look, book, change, change). They think their people are good at finding the right fares, but they are unsure."

MacNair transformed his travel agency into a travel management consultancy targeting mid- to large-size companies and organizations where staff travel is constant, expensive and difficult to manage. "Our niche is customers that need to manage travel, which is the second largest business expense after labor," said MacNair. "They want to offer complexity and volume and they need access to plenty of data, like where everyone is, budget codes, what low fare was offered to what traveler. They want a travel and logistics consulting firm and not just a mere online or bricks and mortar travel agency."

One good example of where MacNair was able to find a new market was in the realm of political campaign travel. Every four years and for several months straight presidential campaigns play host to a bizarre and costly travel dance. Media outlets big and small – from television, print, radio, and now blog – follow presidential candidates around the country in planes. In the early months it's usually just the candidate, a modest staff and a couple dozen reporters, all in one plane. As summer turns to fall, the press gaggle expands among the leading candidates. Then a second plane is deployed to follow the

lead plane.

The planes touch down at as few as three locations a day, and as much as seven or more as the days drag on. Each reporter and political staffer needs to pay for each leg of each trip, every day, and then a room for the night. This intricate dance has for years been organized – albeit poorly – by the travel staff of the political campaigns themselves. In the early days of the first Clinton term the White House travel office came under scrutiny for mishandling travel account money provided by media outlets for their reporters.

MacNair Travel Management is the type of firm that was able to bring much-needed clarity and accountability to such a system, and it so far has organized travel for six presidential campaigns. Doing a little quick math: dozens of reporters, several daily flights each, up to six months straight or more, adds up to good work if you can get it. MacNair provides support for smaller political organizations, trade associations and any group with plenty of road warriors. Like Corlett, MacNair found it necessary to change his pricing structure, and now rather than getting paid wholly in commission, his company takes up to 80 percent of its revenue in the form of consulting fees.

"The rumors of the travel industry's demise have been greatly exaggerated," quips MacNair. "It's great for the great."

## RED OCEAN VERSUS BLUE OCEAN STRATEGY

*The imperatives for Red Ocean Strategy and Blue Ocean Strategy are starkly different:*

### RED OCEAN STRATEGY

Compete in an existing marketplace

Beat the competition

Exploit existing demand

Make the value/cost tradeoff

Align the whole system of a company's activities with its strategic choice of differentiation or low cost

### BLUE OCEAN STRATEGY

Create uncontested market space

Make the competition irrelevant

Create and capture new demand

Break the value/cost tradeoff

Align the whole system of a company's activities in pursuit of differentiation and low cost.

Source: *Harvard Business Review* Blue Ocean Strategy

## STONE AGE PRODUCT LINE

The relative age of an industry tends to determine the color of its ocean. Take chisels for instance. Chisels are older than the English language itself, a lot older. They are older, likely than even the concepts of currency and trade. So the ocean is as red as it could possibly be in the industrial category of chisels, hole punchers, hammers and such.

H.D. McCarty, president of Baltimore Toolworks, has struggled for decades to come up with a way for his family-owned business to break out of the pack. That has been a difficult quest as the technology behind precision tools has barely changed over the ages.

Said McCarty, "We are in a real red ocean scenario. We are selling a commodity and my product line is virtually indistinguishable from that of my competitors. Our customers cannot tell the difference, and for them it is all about how much they are going to pay for a chisel."

Globalization has created an added challenge for the likes of Baltimore Toolworks as products from Brazil, India and China flood the marketplace and drive down cost.

McCarty had been sharing his plight with fellow CEOs in his regular peer group meetings. They collectively told him that he must find a way to set his offerings apart, or face a slow decline. The subject of tool safety kept cropping up in his mind. Precision tools are metal and they often strike metal, which creates shock to the body, and carries the risk of nasty injury to hands, eyes and more. McCarty noticed that some industries were doing interesting things with polymers.

His colleagues compelled him to act on his thoughts. Several years later, and with the research and development help of the University of Delaware, Baltimore Toolworks recently came out with a new line of polymer chisels, which are already being rolled out into Home Depots throughout the Eastern half of the United States, and in Europe.

He has a new product, something that is different than the other chisels. It looks different and is designed differently. Subsequently, its pricing structure is different. These chisels cost about 60 more than regular chisels. That's because Baltimore Toolworks isn't just selling chisels, it's selling safety

and peace of mind. McCarty is still slogging through the initial upfront cost stages of this new venture. But he is indeed swimming, for now, in blue water.

## SWIMMING WITH SHARKS

Of course, pursuing a Blue Ocean Strategy is not the only way to succeed in the current business climate. But thriving in a red ocean environment takes a good bit of skill, luck, timing and enough cold hard cash on hand to dominate your competitors when the pricing wars start. And it doesn't hurt to be a child-prodigy turned CEO.

Enter David Schaeffer, CEO of DC-based Cogent Communications. His early story is interesting: he graduated from Wheaton High School in Silver Spring at age 12, entered University of Maryland early as well, eventually earning his PhD in physics. Fate pushed Schaeffer into a business management role early as his father's local cab company was in trouble. The three Schaeffer brothers turned it around and it grew in four years from 50 cabs to 2,000.

His more recent story is a case study in highly effective red ocean warfare. After several business ventures, Schaeffer in 1999 founded Cogent Communications, a tier-1 Internet service provider. In the 1990s the ISP market was dominated by a few biggies, like UUNet, PSINet, Digex, AT&T, Qwest and Global Crossing. When Cogent entered the field in 1999, the industry was starting to collapse under its own rapid growth and investment. Schaeffer started the game with a strategy of focusing laser-like on one goal: providing Internet service to companies. He also sought to fight and win any price battle. Many of the above companies are gone now, and PSINet is now part of Cogent.

In 2000, the average price per megabit of service was \$300. Cogent offered \$10 per megabit to its clients. Currently the average market price per megabit is about \$60, and Cogent still charges \$10. Cogent also has pursued an aggressive acquisitions strategy, buying companies for their fiber and also for their client base. So far Cogent has bought 13 companies for a total of \$60 million, and now has 9,500 customers. Schaeffer says that Cogent is second only to MCI in terms of usable network capacity, and he predicts that his company will take over the top spot sometime in the next year.

CEO

# EVENTS CALENDAR

## Washington & Baltimore SmartCEO

<b>January</b>	• Washington's Future 50	January 25
<b>February</b>	• Baltimore SmartCEO Live!	February 24
<b>March</b>	• <a href="#">Washington SmartCEO Live!</a>	<a href="#">March 17</a>
<b>May</b>	• Washington SmartCEO 1 <sup>st</sup> Anniversary Party	May 4
<b>June</b>	• SmartCEO Golf Classic	June 7
	• <a href="#">Washington SmartCEO Live!</a>	<a href="#">June 16</a>
	• Baltimore SmartCEO Live!	June 23
<b>July</b>	• Washington & Baltimore SmartCPA Awards	July 6
<b>September</b>	• Baltimore SmartCEO Live!	September 8
	• <a href="#">Washington SmartCEO Live!</a>	<a href="#">September 13</a>
	• Baltimore SmartCEO 5th Anniversary Party	September 28
<b>November</b>	• Baltimore SmartCEO Live!	November 17
	• <a href="#">Washington SmartCEO Live!</a>	<a href="#">November 22</a>
<b>December</b>	• Baltimore's Future 50	December 7

**Call (301) 585-3322 x24  
for sponsorship opportunities.**



Required Reading for Growing Companies