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MAXIMIZING PROFITABILITY WITH THEORY OF CONSTRAINTS

WE DISCUSS INCREASING YOUR PROFITS, INCREASING SALES, INCREASING CASH FLOW, AND INCREASING CASH VELOCITY USING ELIYAHU M GOLDRATT'S THEORY OF CONSTRAINTS.

FRIDAY, AUGUST 10, 2007

[Book Review: Blue Ocean Strategy](#)

Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant by W. Chan Kim and Renee Mauborgne.

This review will focus on pointing out those things that are consistent with [Theory of Constraints](#) (TOC) and my opinions from those things that are not.

The authors have done a nice job of explaining the problems with current strategy and market development techniques. Specifically, I agree that:

- "... with supply exceeding demand in more industries, competing for a share of contracting markets while necessary, will not be sufficient to sustain high performance." pg 5
- "The result has been accelerated commoditization of products and services, increasing prices wars, and shrinking profit margins." pg 8
- "In overcrowded industries, differentiating brands becomes harder in both economic upturns and downturns." pg 8
- "The trend toward globalization has compounds the situation." pg 8

No question. There is a problem. We can't continue to do things in the same way and expect different results. However, I believe that a couple key assumptions have lead the authors astray.

Here is what I don't agree with:

- "To seize new profit and growth opportunities, they need to create blue oceans." pg 5

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Blue oceans are new products in new markets/industries and I believe that in many cases this is an invalid assumption -- that you MUST create new products and/or new markets/industries to substantially grow profits. I believe that this is invalid because we have experience in creating irresistible market offers that we call [Mafia Offers](#). These [Mafia Offers](#) are typically for existing products in existing markets. The reason we focus our [Mafia Offers](#) develop on existing products in existing markets can be traced back to the [5 Focusing Steps](#) that were discussed in [The Goal](#) by [Eliyahu M Goldratt](#):

1. IDENTIFY the system's constraint.
2. Decide how to EXPLOIT the system's constraint.
3. SUBORDINATE everything else to the above decision.
4. ELEVATE the system's constraint.
5. If in the previous step the constraint has been broken, go back to Step 1.

If your system's constraint is the market, then new products or new markets/industries is an ELEVATION step. I believe that before we elevate we should first try to get more (EXPLOIT and SUBORDINATE) out of what we already have.

The authors then address the risk associated with new products in new markets/industries:

- A systematic process will minimize risk to expanding into new products and/or new markets/industries. I agree with this, but then they go on to imply that it would be no more than the risk of strategies around existing products/markets/industries.

I think the business owner who was investing in the new development would disagree.

In contrast, a good Theory of Constraints [Mafia Offer](#) will achieve all the positives of a blue ocean strategy without the risk. Because mafia offers are developed on existing products/markets/industries and with little or no investment, it is an EXPLOIT and SUBORDINATION step.

Okay, now back to more about what I liked:

- If and when you need to develop new products/markets/industries then I think the process outlined by the authors is very good.

Almost everyone at some point WILL need to develop new products/markets/industries and I liked this approach. I do think it would be difficult to implement the approach just based on what's in the book. But the framework is there.

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Here's to maximizing YOUR profits!

"Dr Lisa" Lang

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Need an example of a Mafia Offer? <http://www.podcasternews.com/programs/87/better-process-podcast/3574/?A=1>

AT 8:46 P.M.

LABELS: [5 FOCUSING STEPS](#), [BLUE OCEAN STRATEGY](#), [BOOK REVIEW BLUE OCEAN STRATEGY](#), [DR LISA LANG](#), [ELIYAHU M GOLDRATT](#), [MAFIA OFFER](#), [MAFIA OFFER BOOT CAMP](#), [RENEE MAUBORGNE](#), [THEORY OF CONSTRAINTS](#), [TOC](#), [W. CHAN KIM](#)

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