

MiniCase 14

Cirque du Soleil: Searching for a New Blue Ocean

Founded in 1984 by two street performers, Guy Laliberté and Gilles Ste-Croix, in an inner-city area of Montreal Canada, Cirque du Soleil (Cirque) today is the largest theatrical producer in the world. With its spectacularly sophisticated shows, Cirque's mission is to "evoke the imagination, invoke the senses, and provoke the emotions of people around the world."¹ Employing some 5,000 people (one-third of them artists) and with annual revenues of about \$1 billion, Cirque is hugely successful. Since its founding, some 160 million people worldwide have been dazzled by its high-quality artistic shows, with 15 million viewers alone in 2014. How did Cirque become so successful while most circuses either shut down or barely survive?

Cirque's Blue Ocean Strategy and Value Innovation

Using a *blue ocean strategy* based on *value innovation*, Cirque du Soleil created a new and thus uncontested market space in the entertainment industry. A *blue ocean strategy* attempts to make the competition irrelevant by creating new, uncontested market spaces. For a blue ocean strategy to succeed, managers must resolve trade-offs between the two generic strategic positions—low cost and differentiation. This is done through value innovation, aligning innovation with total perceived consumer benefits, price, and cost. Instead of focusing to compete directly with rivals, attempting to out-compete them by offering better features or lower costs, successful value innovation makes competition more or less irrelevant by providing a leap in value creation, thereby opening new and uncontested market spaces.

Successful value innovation requires that a firm's strategic moves lower its costs and at the same time increase the perceived value for buyers. Lowering a firm's costs is primarily achieved by eliminating and



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reducing the taken-for-granted factors that the firm's rivals compete on. Perceived buyer value is increased by raising existing key success factors and by creating new elements that the industry has not offered previously. To initiate a strategic move that allows a firm to open new and uncontested market space through value innovation, managers must answer the four key questions below when formulating a blue ocean business strategy. In terms of achieving successful value innovation, note that the first two questions focus on lowering costs, while the other two questions focus on increasing perceived consumer benefits.

Value Innovation: Lower Costs

1. *Eliminate*. Which of the factors that the industry takes for granted should be eliminated?
2. *Reduce*. Which of the factors should be reduced well below the industry's standard?

Frank T. Rothaermel prepared this MiniCase from public sources. This MiniCase is developed for the purpose of class discussion. It is not intended to be used for any kind of endorsement, source of data, or depiction of efficient or inefficient management. All opinions expressed, all errors and omissions are entirely the author's. Revised and updated: August 15, 2015. © Frank T. Rothaermel.

Value Innovation: Increase Perceived Consumer Benefits

3. *Raise*. Which of the factors should be raised well above the industry's standard?
4. *Create*. Which factors should be created that the industry has never offered?

Let's take a closer look at how Cirque used the *eliminate-reduce-raise-create* framework to reinvent the circus and to create a blue ocean of uncontested market space where competition is less of a concern.

ELIMINATE. In redefining the circus, Cirque du Soleil eliminated several taken-for-granted elements. First, Cirque did away with all animal shows. In recent years, the public has grown much more concerned about the humane treatment of animals. In addition, animals were the most expensive items for a circus because of their needed care, transportation, medical attention, insurance, and food consumption (a grown male lion can devour some 90 pounds of meat a day). Second, Cirque did away with star performers. They were also expensive; moreover, their name recognition in comparison to movie or sports stars is trivial. Third, it also abolished the standard three-ring venues. They were also expensive since so many performers had to be on stage at the same time, and they frequently created anxiety among circus-goers as they switched their attention rapidly from venue to venue. Finally, it did away with aisle concession sales. They annoyed most circus visitors not only because of the frequent interruptions and interference with the viewing experience, but also because visitors felt taken advantage of because of the vendors' high prices.

REDUCE. Cirque kept the clowns, but reduced their importance in the shows. Moreover, it shifted the clown humor from slapstick and low-brow to a more sophisticated and intellectually stimulating style.

RAISE. Cirque significantly raised the quality of the live performance with its signature acrobatic and aerial stunts to levels never seen before. While many other circuses did away with the luxurious circus tents of old in favor of generic low-cost venues that they rented, Cirque, in contrast, glamorized the circus tent. Using the tent as a unique venue capturing the magic of the circus, Cirque built tents with

magnificent exteriors, which attracted the attention of the public, combined with a much higher level of comfort and amenities in the tent's interiors. Given that Cirque attracted consumers who were used to paying much higher ticket prices for live performances at the theater and ballet than what the traveling circus charged, it raised ticket prices (starting at \$75 up to \$200). This was also possible because Cirque attracted an adult audience rather than several children coming with one adult to the circus.

CREATE. Cirque du Soleil created an entire new entertainment experience. Cirque did this by combining the fun and thrill elements of the traditional circus with the sophistication and high-quality choreographed performances of the theater. Cirque combined a number of unique entertainment features in novel ways. Each show follows a story line characterized by intellectual, sophisticated, highly choreographed dance performances and artistic music. In this sense, Cirque shows are more akin to theater and ballet productions than traditional circuses, which deliver a lineup of unrelated acts. Akin to Broadway shows, Cirque offers multiple productions, playing at all the major venues across the world. In summary, Cirque has created much more sophisticated shows and dramatically increased demand, even at high ticket prices. With multiple productions and changing global venues, visitors now also go to the "circus" more frequently.

A Perfect Storm

Although Cirque du Soleil's venues are still glamorous, the company has fallen on hard times in recent years. A combination of external and internal factors led to a significant decline in performance. Cirque du Soleil was hit hard by the economic downturn during the 2008–2010 global financial crisis. Cirque's management made the situation worse through poor strategic decisions, including offering too many shows that were too little differentiated (at least in the mind of the consumer). As a consequence, Cirque lost its rarity appeal, and its payroll and costs also ballooned. Demand for its European shows dropped as much as 40 percent.

Misfortune also struck: Cirque du Soleil experienced its first fatality as one of its performers fell 95 feet to her death during a live show in Las Vegas. The U.S. Occupational Safety and Health

Administration (OSHA) has issued citations and fines; an in-depth investigation of safety practices at Cirque revealed a very high injury rate. Some Cirque performers claim that the pressure to perform at a high level created a culture where it is difficult to raise concerns about acrobat safety. As a consequence of external threats combined with internal weaknesses, Cirque du Soleil's revenues dropped from \$1 billion in 2012 to \$850 million in 2013.

Cirque du Soleil is now in search of a new blue ocean. It is attempting to diversify away from its trademark live shows, characterized by creating theatrical spectacles combining high-suspense acrobat stunts. Given its poor safety record, it also revamped its shows to reduce the risk to its performers. Cirque-branded shows now deliver roughly 85 percent of the company's revenues; the company hopes to lower this to no more than 60 percent in 5 to 10 years as it continues to diversify into TV programs, special events, and auxiliary services such as ticketing. To increase its appeal to high-growth markets outside North America, it is infusing Russian and Chinese influences as well as improv comedy.

In 2015, Cirque du Soleil founder Guy Laliberté sold his controlling ownership stake to an investor group led by U.S. private-equity firm TPG. Once valued at close to \$3 billion, this deal valued Cirque at \$1.5 billion. Once flying high, Cirque du Soleil's valuation had dropped by 50 percent.

DISCUSSION QUESTIONS

1. Cirque du Soleil was able to gain and sustain a competitive advantage for many years. Why was Cirque du Soleil successful in the first place (while most other circuses barely survive)?
2. Which "industry" does Cirque du Soleil compete in? Who are its competitors?
3. Which factors contributed to Cirque du Soleil losing its competitive advantage, and as a consequence led to a 50 percent drop in its valuation? Look at both external and internal factors.
4. A recent report by OSHA concludes that Cirque performers suffered a high number of injuries that required medical attention. One investigation found that Cirque's signature show *Kà* had 56 injuries per 100 workers, which is four times the injury rate for professional sports teams, according to the Bureau of Labor Statistics. What can Cirque's management do to address the safety concerns of its performers? With more safety measures and less risky shows, do you think Cirque du Soleil will lose its differentiated appeal to audiences? Why or why not?
5. Cirque du Soleil's new owner has retained you (or your study group) as consultants. Which recommendations would you make to address some of the external threats and internal weaknesses to once again gain and sustain a competitive advantage? How would you implement your suggested changes?

Endnote

¹ *Cirque du Soleil* at a Glance, www.cirquedusoleil.com/en/home/about-us/at-a-glance.aspx.

Sources: This MiniCase is based on: Kim, W.C., and Mauborgne, R. (2005), *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant* (Boston, MA: Harvard Business Review Press); "Cirque du Soleil's next act: Rebalancing the business," *The Wall Street Journal*, December 1, 2014; "Cirque du Soleil tour revenue tumbles to £40m," *The Telegraph*, February 22, 2015; "Cirque du Soleil being sold to private-equity group," *The Wall Street Journal*, April 20, 2015; "Injuries put safety in spotlight at Cirque du Soleil," *The Wall Street Journal*, April 22, 2015; "The perils of workers' comp for injured Cirque du Soleil performers," *The Wall Street Journal*, April 24, 2015; and WSJ video on Cirque du Soleil, www.wsj.com/articles/injuries-put-safety-in-spotlight-at-cirque-du-soleil-1429723558.