

Channel Innovation for the Rest of Us

Admit it: in your heart of hearts, you'd really rather be sailing on a blue ocean.

The blue-ocean strategy, as articulated in Kim's and Mauborgne's book of the same name, says that you should go fish where no one else is fishing. Go where the tuna are, and the competitors aren't. Sounds great, but if you're in the consumer-products industry – a sector in which I've been spending a lot of time in recently – you know that this is a lot easier said than done. It's *really hard* to create brand-new products that people will actually buy.

What's the alternative? Well, you can sell people things that they already buy, but through a different and more appealing channel. This has the great benefit of removing some or all of the risks of new-product innovation from your calculations. This may sound less adventurous, but that's not necessarily so. Some of the most dramatic successes in recent business history have come through channel innovation. Think iTunes, which helped millions of music lovers take control of the sounds that they put in their ears, and – not incidentally – stop engaging in the theft of intellectual property. Think Amazon, which gave you books without bookstores. Think eBay, which made the neighborhood garage sale available to the entire wired universe.

But what if you're not a blue-ocean commander, or a dot.com buccaneer? What if you like the sound of channel innovation, but your product isn't easily sold on the web?

In this column, I aim to give you hope. I'll do so by focusing on a seemingly sleepy, mature sector – the food industry – and show you how four products have changed their fortunes by changing within their channels, or changing their channels.

What could be sleepier and more mature than bread rolls? (Petri-fied bread was found in the ruins of Herculaneum and Pompeii.) The problem with rolls is that they only taste *really* good when they're *really* fresh, which requires local production and frequent delivery. Even if you can persuade your bakers to work all night producing fresh rolls for breakfast, those same rolls will be stale by lunch. Even if you can persuade your bakers to work around the clock, you'll have to have a fleet of trucks making almost continuous deliveries, meal by meal.

One company has built a multi-billion dollar business based on changing the way bread and other baked goods find their way to customers. Zurich-based Aryzta has developed into a profitable multi-billion dollar business built on the simple idea of changing the way bread and baked goods reach their customers. Through subsidiaries like La Brea Bakery, Hiestand and Delice de France, Aryzta sells parbaked bread products that it describes as "fresher than fresh"; through its iconic Otis Spunkmeyer brand, it sells pre-portioned and parbaked cookies and muffins. The company ships frozen, half-baked product (or "parbaked," in the trade) from highly efficient plants, to restaurants and retailers around the world. Restaurants and

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retailers then finish the baking process on a just-in-time basis so they can offer fresh product all day: several dozen loaves for breakfast, a few dozen more for lunch, and plenty for dinner.

Parbaked bread is also the secret behind what is – without exception – the fastest-growing quick-service restaurant chain in the world: Subway, which at last count had 32,960 franchises in 92 countries. (It runs more outlets in the U.S. than McDonald's does, and claims to sell 2,800 sandwiches and salads in the U.S. every minute.) Subway pushes the nutritional value of its products – calling them “an alternative to traditionally greasy fast food” – but the meats and fillings are not what sets the company's offerings apart. What brings in all those customers is a dozen different kinds of par-baked breads, finished off in the franchise's own ovens and made into sandwiches straight from the oven with the bread still warm.

Orange juice provides another example of channel innovation. Sunkist came up with the idea of squeezing the juice out of an orange back before World War I, but it wasn't until just after World War II that new dehydration techniques (developed to dehydrate penicillin) were applied to orange juice. The result was “Minute Maid” – at first a thoroughly unappetizing orange powder, but shortly thereafter a concentrate, out of which 80 percent of the water had been extracted. People mixed the water back in and drank the result, which fine except that it really did not taste anything like fresh squeezed juice. More recently, though, a Florida company developed a “flash-pasteurization” process, which allowed it to sidestep the dehydration process and sell “fresh” orange juice. It wasn't exactly an overnight success, but Tropicana gradually grabbed more and more market share away from Minute Maid.

You could try to create a blue-ocean market for, say, pomegranate juice. (That hard work is going on right now, as a matter of fact.) But as a rule, you'll find it a lot easier to sell a better-tasting orange juice to people who are already accustomed to drinking orange juice. Today, Tropicana owns something like 70 percent of the not-from-concentrate market.

Now, let's step sideways to the world of pizza. It's all been done by now, right? Not quite. The “Papa Murphy's Take 'N' Bake”

chain of pizza outlets came up with an interesting new twist, a few years back: You walk in, tell them what you want on your pie. They put those toppings on the pizza, wrap it up, and you take it home and put it in the oven. According to the company's website, the product is always “ piping hot,” and “it doesn't get any easier!” The new delivery concept has enabled the relative newcomer to compete successfully against giants like Dominos and Pizza Hut, at a time when most pizza chains are suffering. Systemwide sales grew 17% to \$585 million in 2008, and continued to grow through 2009 with the company adding over 100 stores.

Last but not least, consider the world of salad and fresh produce. What can be done with a product category that is natural and unprocessed? Fresh Express Farms in Salinas, California was one of the first to realize that the answer was much more than anyone believed. The company recognized that we're all in too much of a hurry to actually wash lettuce, dry it, and rip it into appropriately sized pieces. And yet, we know we should eat more salad. After its first introduction of the one pound packaged garden salad in 1989, the company quickly added over fifty different varieties of packaged salad, helping create what is today, a twelve billion dollar category of packaged fruit and vegetables in the U.S. alone.

Let's look at a few lessons from this smorgasbord of consumable products. I'll point to three:

- **Figure out what's broken, and fix it.** Are your rolls stale? Does your breakfast drink taste like battery acid? Is washing lettuce leaves the absolute last thing you want to do with your evening? Chances are, you are not alone.
- **Don't get trapped by spurious price comparisons.** Yes, a typical head of lettuce goes for a buck. Yes, washing, drying, shredding, and packaging that same head of lettuce will drive up your costs dramatically – maybe to something several times the cost of the unpackaged alternative. Don't worry if the consumer benefit is there, they will pay it. The point is, you're not competing for the price-conscious lettuce-buyer. You're competing for those people who would otherwise be not eating salad or else at the salad bar and paying even more.

- **Embrace technology.** What made parbaking possible was the introduction of a new generation of “turbo ovens,” which were relatively compact and inexpensive, and could turn each local franchise or restaurant into a mini-bakery. Flash pasteurization was the key breakthrough for fresh-tasting orange juice.

In the case of packaged lettuce, modified atmosphere packaging (MAP) – which basically removes most of the oxygen from around the product – has dramatically extended its shelf life, in some cases to as long as 35 days.

Think, finally, about the phrase, “It’s the best thing since . . .” Sliced bread? Bottled beer? What do these great inventions have in common? Think about a new version of an old product. Think about new ways of delivering the same product that people have already learned to love. Think channel innovation!

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