

Customer Relationship Management
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Lecture – 24
Tchibo Case Study

Hello everybody, welcome to the NPTEL Swayam course on Customer Relationship Management. This is Dr. Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course for you. We are in week-4. And in this particular session, we will discuss a case study on Tchibo ideas. So, the case study's name is **Tchibo** ideas, leveraging the creativity of customers. So, I would want to say that I have taken help from a case study from Harvard Business Review and from multiple sources of information that has been, that can be obtained about this particular business in multiple places like the internet and etcetera. And those are there in the references of this particular presentation.

And we will be discussing about Tchibo ideas in the context of B2B in the customer space, and later point of time we will CRM in the customer space.

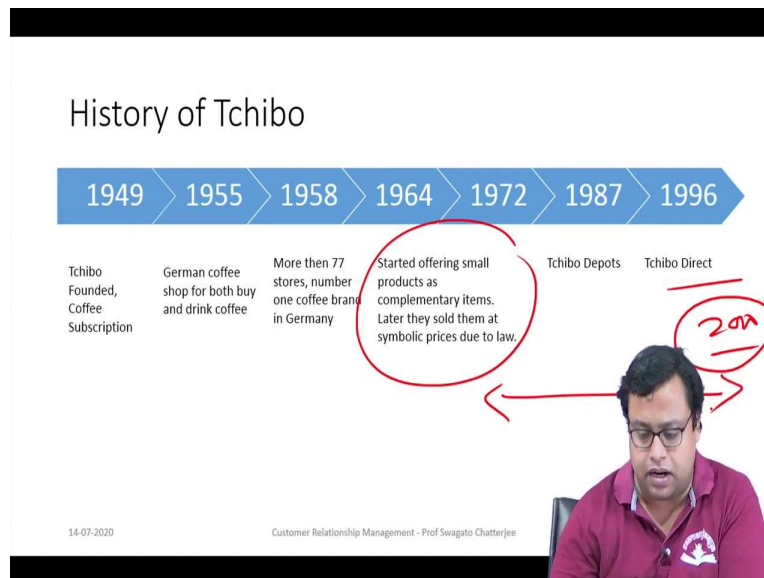
And in the later point of time, we will be discuss in detail, what exactly CRM means when it is in the context of B2C businesses, and how that affects customer decisions, customers welfare, customers satisfaction, and etcetera in the context of both products and services.

So, here in this particular context, Tchibo is actually a combination of product and services. And here we are talking about the creativity of the customers, how you can leverage that and how you can make your customers innovate for you is something that we will be discussing. It is a classic case study of co-creation that we were discussing till now.

So, what is *co-creation*? Co-creation is where you and your customer come together to build a service and experience or an offering. And that might be very much particular to that particular customer that whatever he gets, he designs, he only gets, but sometimes that particular design can be also adopted in a mass scale production or can be given to other people also. So, both ways, it is co-creation.

And this is an example of the second one, where the customer comes up with the ideas and Tchibo basically uses those ideas to create different kinds of experiences. So, let's go ahead with this case.

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So, what is Tchibo? Tchibo is basically a company which is a coffee company based out of Germany. So, in 1949, Tchibo was founded. And it was a coffee subscription company. Once it will go to your house and it will deliver coffee to your house that kind of a company it was.

So, initially coffee subscription was a business that was going pretty well for Tchibo, there were lots of subscribers all over Germany, and they were actually having different kinds of subscription plans, and those plans have different kinds of takers as well.

Depending on what kind of plans you are taking and what, whether you are renewing the plan and etcetera, the customer lifetime value calculations and etcetera were going on.

Now, in 1955, 6 year later, German coffee shop, they started a German coffee shop to both buy and drink coffee, so it is like something like Cafe Coffee Day in our, but probably an older version of that.

Where somebody can buy coffee, buy raw coffee powder or coffee beans, and they can also have coffee in that particular place. So, slowly from a product based model —subscription is primarily a product based model, obviously, there are some service components in it.

We always say, all businesses there is nothing called a product business or there is a service business; it is always a continuum. And in this continuum you will say that one end is service, another end is product. The services are more intangible products or more tangible; services are

more customizable, products are less customizable than services, and so on. So, there is always a continuum and you have to position yourself in between that.

So, when they were in the subscription mode, they were more towards the product continuum, product side of the continuum that means that they were more related, they were more associated with the product ideation or let us say the ideology of product or product selling.

Now, in 1955 they removed themselves, they moved themselves a little bit from product to service in the continuum, and they opened a retail shop. So, they still have their own products, but they are opening a retail shop which is basically a Cafe Coffee Day kind of shop which is German, German coffee shop. And where you can probably have coffee and you can also buy coffee beans and coffee powders.

In 1958, 3 years from then more than 77 stores; all of a sudden they found out that these stores are doing better business than the subscription models. So, they started expanding and expansion also requires a little bit of investment.

So, invest they invested on the expansion plans and they were not only in the bigger cities of Germany, but also in the smaller cities or tag two cities they went up and they had 77 stores, which is a big number for, in 3 years at and that too at that point of time when when the economy is not as strong as now probably post Second World War kind of a situation.

From 1955 to 58, they opened 77 stores, and they became the number 1 coffee brand in Germany. So, slowly on the national level they were a pretty well-known German brand.

And now from the, in the continuum that I was talking about from the product to service continuum, they have moved further from product to being service, because they were they now their major business is the retail business rather than the subscription business.

Then in 1964, they started offering small products as complementary items. So, this is where all of a sudden again they are coming back to the product mode. So, they have retail stores, but what does this retail store sell? The retail store sells coffee.

Now, they started thinking that I have a retail store. How can I actually leverage this existence of this retail store in multiple places all over Germany better, easy I have a space and or not always the customers can only buy up to a level of coffee.

Let's say, I will consume let's say around 100 grams or 200 grams of coffee in a month or in a fortnight. So, I cannot probably go and buy huge amount of coffee, but the fact that I am going to

your retail store is an opportunity for you; you have to if you are this German bakery, German the coffee shop, you have to make sure that how much you can take advantage of me visiting your retail store.

Remember at that point, there was no internet; business was going on; so it was all food fall in the brick and mortar retail store. So, if somebody is coming inside your retail store, you have to take that opportunity as much as possible. So, they started thinking that other than the normal coffee, what else could they sell? And what else they can sell? They can sell various kinds of coffee related products.

So, they started offering small products initially they started offering as complimentary items, why complementary items? Because they were just measuring the depth of the water, they were checking how much people will actually buy this stuff, how much people were interested to buy something beyond coffee in a coffee store.

And later, they sold them at symbolic prices due to loss. So, initially when so, German law at that point of time was very strict they were not allowed to give complimentary items, because there was competition involved.

So, if you give a complimentary item, then that particular item will not be sold in an open market, because people will think that okay; this price of this item is very low in comparison to what is being charged in the open market, not as complementary.

So, then what? So, then what they did is instead of giving complimentary, they were charging very small prices provided that you had drinks, coffee or whatever in that particular retail store or you bought something. So, ideally they were again moving back from the service model to a little bit of product model.

And in 1972, they actually, this thing went on till 1972 pretty well. And then they were having in 1987, they came up with Tchibo Depots, and in 1996 Tchibo Direct.

Tchibo Depots are basically bigger shops, where not only products, not only this kind of — I would say complementary products or coffees were sold, but also various other kind of products related to grocery, related to other interesting items — apparel and etcetera were also being sold in Tchibo Depots.

Which is basically a medium scale mall, where you can go to a mall or a medium scale shop; where you can go and buy multiple products at the same time you can enjoy your coffee while doing the shopping.

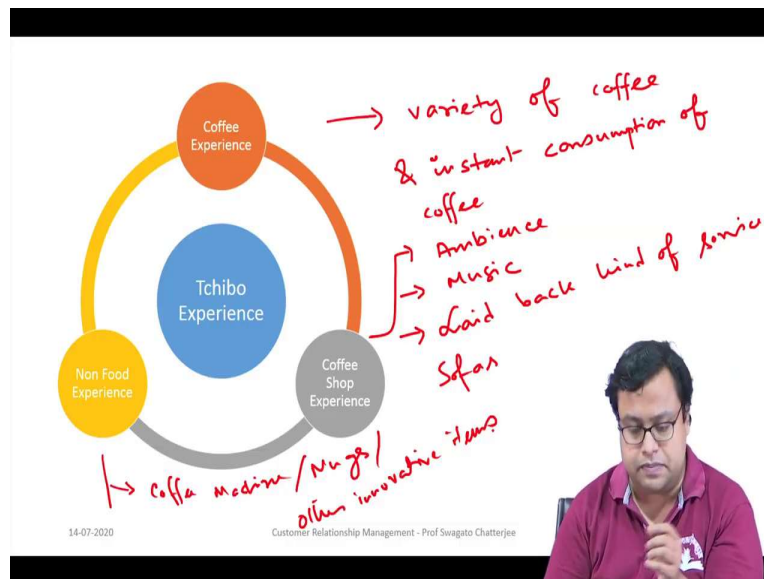
And in 1996, they opened up a Tchibo Direct. Tchibo Direct basically an internet shop of at the same time you can buy all the products that were there in the Tchibo or selected products that were there in the Tchibo, can be bought through Tchibo direct also.

Tchibo Direct is basically both an online store which sells both this coffee and at the same time it also sells products, which were more popular, which were more accepted by the customers that were also being told.

So, this is the history of Tchibo, that is how they have developed over time.

So, they were very I would say very fluctuating in nature in terms of their exact positioning, but they actually whatever positioning that they decided at a certain point of time. They generally could manage it well and that is why they were successful both in the product type, product side of the continuum and also in the service side of the continuum.

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Now, later they came up with something called the Tchibo Experience. So, Tchibo Experience has 3 major models; one is the coffee experience, the second is the coffee shop experience, and third is the nonfood experience.

So, these are the three major things that created the coffee, the overall Tchibo. So, it is something like what we do in the case of what we see in the case of Tchibo also. For example, for a CCD

also or if you, Barista or this kind of coffee shop that you see, there the similar experiences they used to give much, much before.

So, if I talk about the coffee experience, it is like the good of rich coffee, it can be espresso, it can be Americano, it can be cappuccino; different kinds of coffee they had to they were producing.

And also they had coffee in the bin form in the powder form or in the survivable form which you can directly consume at that particular place, so that was one of the major things. So, I would say, the variety of coffee and instant consumption of coffee, this was the major thing out of the coffee experience.

Then came the coffee shop experience, it is like when you go to CCD or Barista, what do you experience? You experience a very good ambience, you experience the music, you experience the laid back kind of service.

So, laid back service means the service people are also very laid back, very relaxed; and they engage they encourage you to actually relax, so big sofas and comfortable sitting and etcetera. So, they actually encourage you to spend time and discuss and talk and enjoy the coffee shop experience rather than only coffee.

So, it is not only I am selling you the coffee, I am selling you the ambience, I am selling you nostalgia. Sometimes nostalgia of having a good time with your friends or I am giving the experience of having a good talk. So, all of these things come under the coffee shop experience. And the third one is nonfood experience. So, it can be anything, it can be some, let's say, coffee machine, mugs or other innovative items.

So, all of these three things together became the overall Tchibo's ideation, overall Tchibo brand value. So, Tchibo experience had these three prominent components and each of these components had their own importance in the overall service, service design that they were doing.

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4Ps

Product:
New product every week
Associated with the seasonal theme
Repetitive theme annually
Innovation

Place:
800 Tchibo shops
Tchibo Depot in 9000 German supermarkets
Tchibo Direct

Price: Affordable
Promotion: Through Tchibo Direct

Customers:
82.5 million target group in Germany
Average age 50 years
80% are female
Mothers buy for kids
Consumer life cycle of kids

Good brand awareness and overall customer satisfaction

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So, their major product why, when we are talking about this particular non food experience, what exactly is the nonfood experience that this Tchibo Experience shops or Tchibo Depots or Tchibo retail store were giving is something that we have to discuss.

So, what they were doing here is they had a new product every week; every week they were coming up with a new product. And oftentimes that was associated with the seasonal theme, at that particular season whatever theme was going on. So, then what happens is that there is a repeated theme annually.

So, whatever was last monsoon, whatever theme was there, again the same theme and same products repeats itself, but every week there is a new item and that is why, because there was every week there is a new item involved and which will be shown in the racks of the retail store and which will be pushed by the retail shop employees and etcetera, that is why one of the major challenge that they were facing was innovation.

And people were actually liking the innovative products that are coming up in the retail store, but keeping up with that expectation that every week, there will be innovation, there will be

innovative products that will be not something boring which can be seen there, was becoming slowly a challenge.

What are the places? So, this was about the product the 4 P's we were discussing . So, what are the places? They are in 800 Tchibo shops, where this nonfood experience was being provided. Tchibo Depot in 9,000 supermarkets, so basically it is the big, big retail stores as was telling; majorly selling was more important than coffee experience.

So, here I would say in Tchibo shops, coffee experiences were more important, coffee and coffee shop experiences were more important, but here basically nonfood experiences were further more important and Tchibo Direct was basically internet.

So, in all of these places where also coffee not coffee shop; coffee and nonfood experience were more important. So, in all of these three channels majorly in these two, the nonfood was a thing that was very important and nonfood means innovative products FB.

So, they were trying to actually attack the market from multiple fronts, one is the retail store where somebody can come and buy various products, which is which they call Tchibo Depot. And then there were also food retail stores in terms of Tchibo shops, where people can consume coffee also and also buy products and then internet marketing also which is like internet, e-commerce or mobile commerce; mobile was not there, e-commerce was from where they were selling.

The price was affordable and the promotions that were done were majorly through Tchibo Direct. Now, see it is an innovative product every week if the product changes, you cannot run to an advertising company every week.

So, because the internet marketing is relatively cheaper and you can do more targeted advertising in an internet environment that is why they have chosen this Tchibo Direct through which they were doing their advertisements.

And if I talk about the customers, what are the majorly customers that they were getting? 82.5 million target group in Germany, 82.5 million in the context of Germany is not a small number. And the average age was 50 years, so these guys were all middle aged. So, this is something which is important. Middle aged or probably slowly going towards old age. So, after 60 if we consider old age, so they were middle age, 40 to 50.

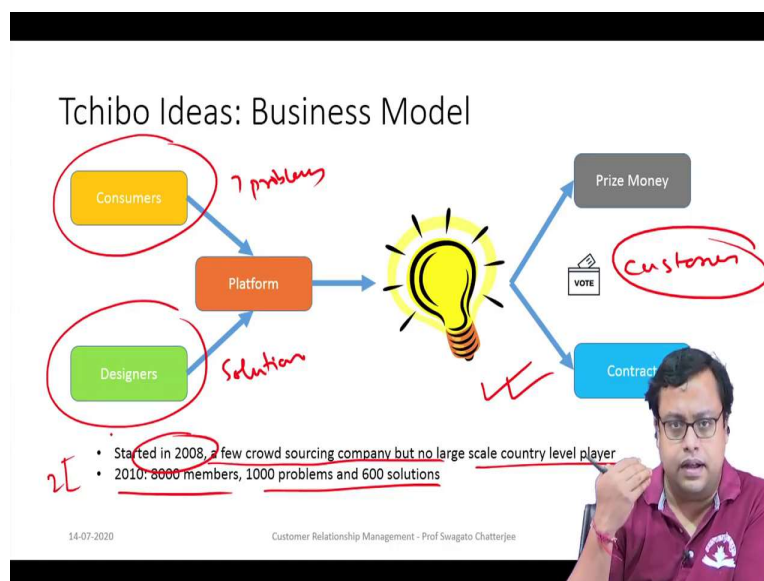
And then 80 percent were females, this is further more important observation that majorly they were female and that is why the products that you have to make are majorly probably household

oriented or female needs oriented products, where majorly being you have to create those kind of products.

And mothers generally buy the innovative small, small, very interesting things mothers used to buy for their kids; and convert consumer life cycle of the kids was also something that we are focusing on.

See ultimately the kids will someday will become the elder generation. And so by attracting the kids to the shop by the innovative toys let's say at an early age, they were making sure that okay, this guy will feel nostalgic; once he becomes older once he becomes, let say 25, 30, 35 or even 50, he will think that okay, in the childhood I used to go with my mom to this particular store, so I will also go with my kid to this particular store, so that kind of cycle they were trying to track. And if you check, they were therefore quite some time. They were they they have started this business of innovative products in 1964; and we are talking about 19-2000 something, so that is a very long time they have stayed with this particular kind of products, so that helped them a lot. And good brand awareness and overall customer satisfaction was their basic USP based on which they were doing the business.

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Now, till now everything is so goody, goody, goody, goody. We have to discuss what was the challenge? So, Tchibo Ideas is something that they launched in 2008, which has a different kind

of business model, what they were having the problem was as I said that generating innovation was becoming a very important problem.

How can I generate innovative ideas every week? How can I get new products every week? That was becoming a specific challenge. So, what they did is they created a platform which is a crowdsourcing platform, where idea generation. As I was telling that co-creation is the basic background of this case.

So, crowdsourcing platforms for idea generation and there were a few crowd sourcing at that time, there were not many crowdsourcing platforms and no large scale country level player was there. So, they made Tchibo Ideas to be one of the first crowdsourcing platforms and that is why it is a case study, so they launched in 2008.

What had, what it had? It had some customers and some designers. So, what designers used to do is to give various kinds of plans. So, these designers may also be some customers, these are not employees of Tchibo; they are outsiders, they used to post their ideas.

And customers used to like or dislike or vote for those ideas, and only the one which are more prominent ideas, more successful ideas will be converted towards a product. And if you, it is converted to a, at the product, there will be a contract you will get money, the designer will get money from the loyalties of the product; and if, even if it is not converted, every week there will be a winner and that winner will get some prize money.

So, by doing this, they were encouraging their designers to submit certain designs and they were encouraging the customers to vote for this particular design, so that money can be generated out of it. So, by 2010, they had 8,000 members and who posted 1,000 problems and 600 solutions.

So, there were so, the customers will come up with the problems obviously, problems will come from the customers and the solutions will come from the designers, and the voting will be done by the customers again, so that was it.

And by 2010, they had 8,000; so this was a very huge success. In 2 years, you had 8,000 members, ,1000 problems and 600 solutions were there in that particular platform. So that is how they actually challenge the problem. So, they actually accepted the problem and then focused on the problem, and tried to solve the problem of innovation generation.

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The slide is titled "Consequences" and contains the following bullet points:

- 2000 different products every year
- Fast paced innovation
- Tchibo image: From traditional company to innovative company
- Could reduce 20-30% of marketing costs through customer involvement
- Positive review from bloggers
- Mixed review from designers

Handwritten annotations in red ink include:

- An arrow pointing from "Consequences" to "campaign" written above a box containing "+ WOM".
- An arrow pointing from "Positive review from bloggers" to "Standard / required media".
- A box around "Mixed review from designers".

At the bottom of the slide, the date "14-07-2020" and the text "Customer Relationship Management - Prof Swagato Chatterjee" are visible. A presenter in a maroon shirt is shown in the bottom right corner of the video frame.

So, what was the consequence? Again it is a very good step and the problem is solved now. So, there were 2000 different products every year that were getting created.

And it was a very fast paced innovation, so generally innovation takes time for market ideation; whether the market will accept it or not, the testing in the market and etcetera, but because everything was done in the in a online platform and anyway the market itself was talking about the problem and the design was giving solutions.

And the market was readily giving acknowledgement that whether this particular solution is good or bad, the innovation pace was very fast; very fast you can create a problem, first corresponding solution and the viability of the solution, all of these things were very fast.

So, slowly Tchibo's image which was there from the 1950s which is still there in the 2000's right now. So, generally if a particular brand is there for the last 60 years, you will know that it is a traditional brand, like Tata Tea or ITC. In our case, we know that okay these are traditional very well established names we will always believe in them, and blah, blah, blah. This kind of image creates in the customers mind similar things that happen with Tchibo.

But from being a traditional blend all of a sudden this Tchibo Ideas changed their image and made an innovative company, because no other crowd sourcing company was there at that point of time, and because Tchibo was doing this Tchibo had become all of a sudden very..

So, it is like coming up with the new avatar. We you change your face and you change your looks and etcetera, come up with a new avatar which is very young, very energetic, very innovative, sharp in mind not a person who is he, it is the trustworthy and etcetera all of these things are there; but the old traditional thing that you will get a traditional feeling or a nostalgic feeling that is gone.

So, by doing this they could reduce 20 to 30 percent marketing cost. That is the, one of the major things through customer involvement, because customers are involved in the product.

You do not have to sell it, you do not have to push the innovations, customers themselves were liking the innovations and that is why they are involved with the innovation making process and that is why the marketing costs will come down, they will anyway buy.

There were lots of positive reviews from the bloggers you know, people were actually tracking this thing and people were writing good things about doing, so this is called owned media. Sorry, this is not owned media; this is called *acquired media* or something like that. So, which is basically you, it is not owned, sorry, its acquired media that you acquire based on, it is acquired based on your own skills.

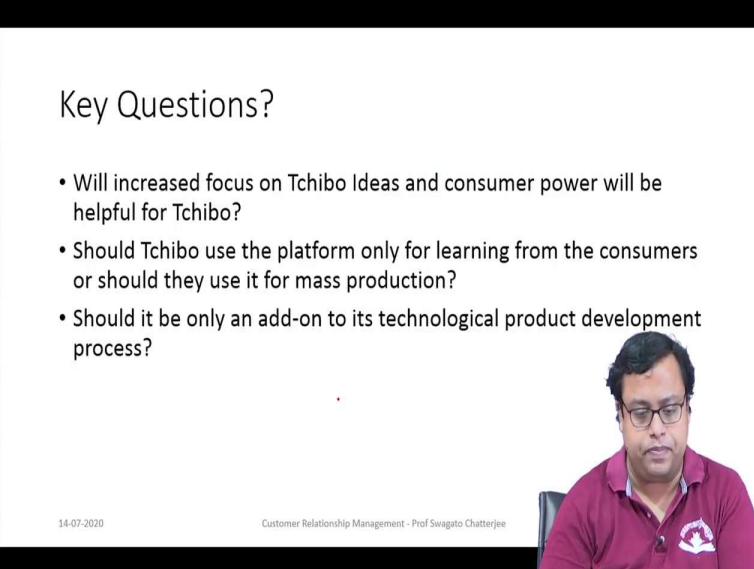
So you, this is basically unpaid; you do not pay anything for them and they do a word of mouth, positive word of mouth for you, so that kind of things were going on, because bloggers were in a gaga; because bloggers got a very good idea generating platform, bloggers also need their own ideas.

So, if somebody is generating ideas very very frequently, and you can go to this platform and see that okay, this product has come up which is very good. And 10 products that you can see which can change your keychain, that kind of blog you can write, and that creates a positive image for Tchibo.

But the problem that happened through this was with these designers, who are giving the solutions. They started thinking that okay I am getting some royalties out of it, but that royalties were not so good.

So, for a very strong time, they very long time they started feeling that they are getting cheated, they are not getting the amount of money or recognition that they should have got and they had mixed feelings. So that was a major problem for, or slowly it was becoming a problem for Tchibo, but otherwise everything was fine.

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The slide is titled "Key Questions?" and contains three bullet points. In the bottom right corner, there is a small inset video of a man with glasses and a maroon shirt. At the bottom left of the slide, the date "14-07-2020" is visible. At the bottom center, the text "Customer Relationship Management - Prof Swagato Chatterjee" is displayed.

Key Questions?

- Will increased focus on Tchibo Ideas and consumer power will be helpful for Tchibo?
- Should Tchibo use the platform only for learning from the consumers or should they use it for mass production?
- Should it be only an add-on to its technological product development process?

14-07-2020

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Now, the question that I would want to discuss in this particular context is, will increasing focus on Tchibo Ideas and consumer power will be helpful for Tchibo, which will be more advantageous? Should Tchibo use the platform only for learning from the customer or should they use it for mass production?

So, is it only a crowdsourcing platform, where I will source ideas or I will make it a mass platform the Tchibo Ideas itself will be a platform or should it only be an add-on to its technological product development process. So, these are the key ideas that I want to say.

You can read about Tchibo ideas on your own on the website, on the internet and etcetera. And in the next video, we will try to discuss these particular three points. Why don't you stop, take probably a 1 day break? Don't come back to this next video before 1 day.

If you are listening in the morning, use your evening time; if you are listening in the evening, use your next morning time to search about Tchibo and Tchibo Ideas a little bit. Get all the information, then you can get about Tchibo Ideas in detail, it is a pretty good case and then come back with this analysis of these questions on your own, some 3, 4 pointers. And the next video we will discuss about that.

Thank you very much. I will see you in the next video.

