

Customer Relationship Management
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Lecture – 25

Tchibo Case Study (Contd.)

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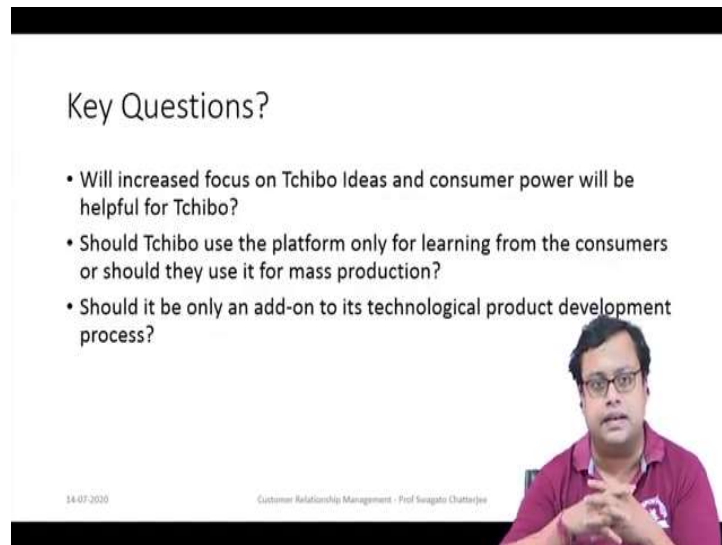


Hello everybody, welcome to the Customer Relationship Managements course in the Swayam NPTEL platform. This is Dr. Swagato Chatterjee from VGSOM IIT, Kharagpur who is taking this course for you. We are in Week 4 and we are discussing the case on Tchibo Ideas.

So, in the last class, in the last video basically I have asked you to read about Tchibo ideas I have given some, some basic uh presentation about Tchibo and I also told what Tchibo Idea is. It is basically an outsourcing platform where ideas are generated where the customers put their problems, the designers give solutions to those problems and then again the customers vote or like or dislike the solutions.

And, the solutions which get very large number of votes are generally converted to a product and then sold as innovative products in the in the in Tchibo direct and in Tchibo depots and Tchibo shops and even if it is not converted to a product ah designer will get some money as prize money. So, that was the overall concept.

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

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And, the questions that I asked you is will increased focus on Tchibo Ideas and consumer power will be helpful? So, rather than becoming a company which sells coffee then sells products and then sells experience, now sells I do not know what they do with idea generation. The question is whether this should be major focus or the previous thing, selling will be the major focus.

Then should Tchibo] use the platform only to create only to source ideas, only to learn from the customers or they will use it as a mass production platform. So, what is the mass production platform we will try to discuss later and should it be only an add on to its technological product development process? So, these are the overall question that we are trying to go to.

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So, what is this goal of this platform? I told the goal of the platform is: one is to create customer involvement, it is a customer co-creation. So, you try to involve the customers in the idea innovation generation process and you make this particular I would say, you, you try to make the customers more involved in the product generation process— you try to help them in designing the solutions.

The designers and the customers come together, see how well the customers explain their problem is the is also related to how well the designers will actually be able to answer the problems and then that will ultimately lead to the ultimate results of the particular thing. So, all of these things comestogether and the platforms major goal is to bring all these people together in one single place.

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The slide is titled "Goals" and contains a list of six bullet points. In the bottom right corner, there is a small video inset showing a man with glasses and a mustache, wearing a maroon shirt, speaking. At the bottom left of the slide, the date "14-07-2020" is visible. At the bottom center, the text "Customer Relationship Management - Prof Saugata Chatterjee" is displayed.

Goals

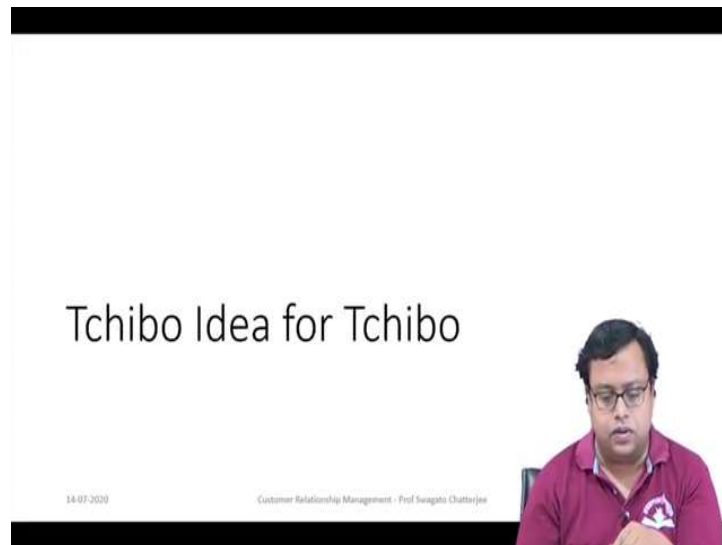
- Make consumers feel accepted and needed by the company
- Develop new product (Increase assortment, replace internal product development process)
- Develop new ideas
- Start of internet venture
- Grab attention, marketing gimmick
- Knowledge about the consumer

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So, make customers feel accepted and needed by the company that is one of the major goals. Develop new products obviously, increase assortment, replace internal product development process. Rather than a product development process which is in-house they are doing it out-house. Develop new ideas. Start on internet venture. So, this is also one of the important things because Tchibo direct if you remember Tchibo direct is a retail store, but retail store was just coming in at that time point of time.

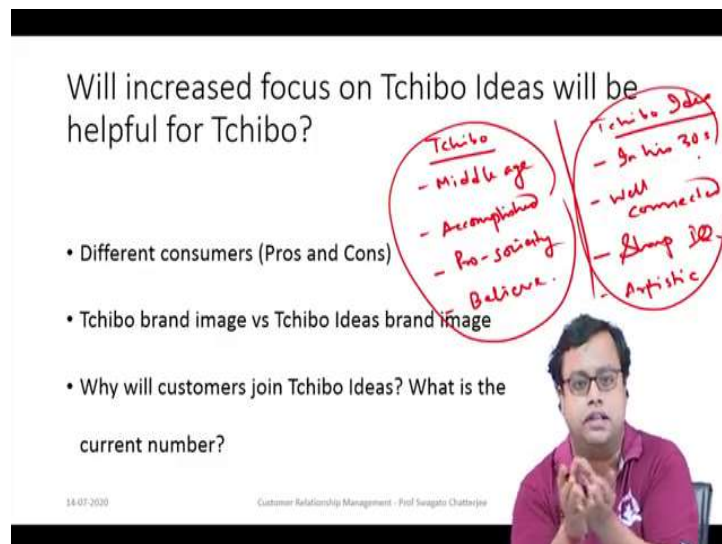
Now, Tchibo Idea is also probably will compliment Tchibo direct in terms of new product innovations. Fit pigging in or going inside Tchibo direct at every point of time. So, it will start a new internet venture. It will also obviously, grab attention and will be used as a marketing strategy, and it can also create knowledge about the customer. So, all of these things were the major overall goal of this particular platform.

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Now, how my question is that, how will Tchibo Idea impact Tchibo?

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So, will increase focus on Tchibo Ideas will be helpful. So, there are obviously, certain pros and cons for for, for these things. So, first of all you have to understand that Tchibo was a traditional company. We started this case and we discussed about the customers and who are the customers of Tchibo?

Tchibo's customers – average customer was 50 years old and Tchibo's 80%customers were women majorly– customers who were moms buying products for the kids that was a separate segment and

kids becoming elders in the life cycle kids becoming elders and then they are buying the similar kind of innovative products for their own kids.

So, if this is my target customer, on the other hand if I talk about Tchibo Idea, in Tchibo Idea the customer base changes because now I am looking about looking – focusing on those kind of customers who are primarily tech savvy that has to be the primary objective because if you are not tech savvy you will not even go to the internet and you can write your problem, describe your problem probably vote for a solution that kind of thing will go away.

So, primarily I am focusing on tech savviness and tech savviness is often times correlated with low age and low age is not something –probably young and and and probably 20s, 30s, 40s are not something which is Tchibo's major customer base. So, they there is some pros and cons of having a new customer base. One is, the cons are very specific you are delving in a new, new place, so you are not focusing on your old already established customer which is a problem.

But, these are the customers who are also getting higher willingness to pay or who have from fresh money in their hand not 20s, but at least in 30s or 40s they have fresh money in their hand. They have some amount of money to spend on their on-on-on luxurious consumption or in innovative products also. So, and these people will be in the customer base for the next 20 - 30 years.

So, that is also and internet is changing the overall game, the overall market environment. So, you have to embrace internet. So, giving all of these things there are some pros and cons of this decision, but probably there will be a slight I would say bend towards the pros rather than the cons.

Now, Tchibo brand image and Tchibo Idea's brand image were also different. Tchibo brand image was more related to tradition, more related to I would say, more related to something that you can believe on. On the other hand Tchibo Idea is more innovative – more young. So, if you, if I just write the Tchibo person and the Tchibo Idea person, the Tchibo Idea Tchibo person will be somebody who is again middle-aged.

So, if I do the personification accomplished, pro-society you can believe him something like that. On the other hand, Tchibo Idea if I try to personify this particular people he will be in his 30s probably and, and also well connected and sharp in terms IQ and etcetera and very artistic. So, these kind of so, this person who is a traditional person and this person this to idea and the people who will associate see the often time brand association with a particular brand actually leads to more sales and more brand loyalty and etcetera.

So, that the people who will associate with the first one and people who will associate with the second one are also different. And, why will consumers join Tchibo Idea? What is the current number? You can go and check that what is the current number of Tchibo Idea. So, this is something that is also an important question. So, initially the, the consumers were getting solutions and and they were they were giving problems and somebody were giving the solutions.

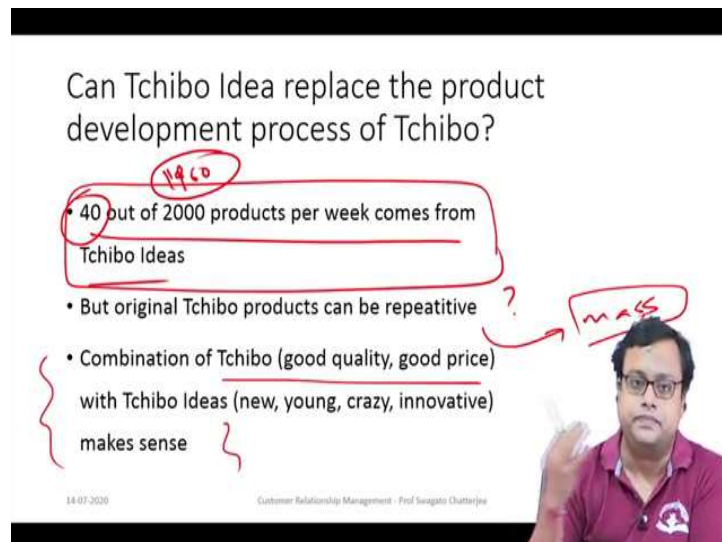
But, you remember that customers have to pay for those solutions. They were getting the solution which is more fitting their problem, but ultimately they have to pay. So, the customers might start thinking that what is in it for me? What will I get if I go on and do this thing? So, that kind of a problem was also coming up.

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Now, Tchibo Idea the next question is that whether it should be use as a marketing platform or this will be used as a production platform.

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So, the question is that can Tchibo Idea replace the product development process of Tchibo. Now, you have to understand that 40 out of 2000 products per week come from Tchibo Ideas. This is a thing that we found from the, from various cases and etcetera that, okay.

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Consequences

- 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 notes: 2000/50 = 40 products every week.

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Every week there were 2000 new ideas were getting generated 2000 various products every year; that means, what 2000 by 50 or that means, around 40 products every week. that was the case. There were only 40 products every week.

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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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And, every, if I – this is not written anywhere. So, you have to understand that 40 out of 2000 products every week were from Tchibo Ideas. So, that is not a very huge number. So, if it is not a

very huge number, then then I cannot say that these, with this 40 products I can go for a mass scale production. So, that was a challenge and the original Tchibo products were repetitive in nature.

So, the same products which were more common were repetitive because the same products were being used, so that that was actually affecting the, the, the innovative idea. So, that is, but, but these kind of products are also mass scale product. So, this is something that they have to take care of that whether I will go ahead with this mass scale production of repetitive products because repetitive products make me boring, but gives me money.

So, what they did or what makes better sense is basically a combination of Tchibo original products which is boring, but good quality and good price with Tchibo Idea products which is young crazy innovative kind of a kind of products. But, they are more pricey, means they you have to pay a lot and probably they are not very popular, as popular as the original Tchibo products.

So, you have to create a combination of that. So, I cannot say that Tchibo Idea will absolutely replace the Tchibo's normal product generation process because normal product generation process contributes to the rest 1960 products out of 2000 and they also make money for the Tchibo Ideas is like a marketing platform. It cannot be a product development platform, unless – unless they make it an open kind of market place.

But, it is a, if we they make it an innovation market place where they anybody without the Tchibo brand anybody can sell innovative products in this Tchibo platform and Tchibo will only take some royalty or some cut some margin out of that particular thing.

Obviously, there will be some checks and balances of what kind of product, what is the quality and etcetera. Then, this same platform can be used as a product development process, but that that product development will be done by somebody else, selling will be done by somebody else, but the same platform can become overall a different, different kind of business model altogether. It has that potential, but they have not done that at that point of time.

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Pros

- Customer engagement ✓
- Innovation ✓
- Niche market (✓✓)
- Reduced cost, high profitability ✓
- Media attention ✓
- Less chance of imitation ✓
- Future ready ✓

Cons

- Not mass products ✓
- Late followers ✓
- Consumer's and designer's skepticism ✓

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What are the pros and cons of coming up with a new product idea or new customer? So, the pros are the customer engagement, is good in case of Tchibo Ideas. The innovation is good. You are targeting a very niche market. So, you can probably charge more; the price can be charged more. It reduces costs as it was told in the 20 to 30 percent marketing costs has been reduced.

So, if you can charge more and your price has come down so, that will improve your profitability. Obviously, it also gives media attention less, chance of imitation because every day new products are coming up and your future ready. So, there are lots of pros as I was telling that you will have more inclination towards the pros.

The cons are that they are not mass products. So, you cannot these are not cash cows these are stars, but you have to have your cash cows, cash cows alive. So, you have to have the original Tchibo products alive. This can be only used for newer, newer products which will keep you ahead of your competition in the business. Obviously, the cons are if you do not do these you will be a late follower because ultimately you have to embrace technology, you have to embrace internet. So, the faster you do the better.

And, consumers and designers scepticism - this is something that has to be tackled by giving them more opportunities, by sharing more money with them or by giving discounted prices to consumers in the initial days. So, those see if you have to understand that those customers who are giving the solutions they are more prone to buy the product in the initial days.

So, rather than a classy market skimming kind of an approach where this is the demand, this is the price and you skim it you take each of the each of this the small, small pies one by one, you skim through the cake one layer by one layer, instead of doing that you should give—so, skimming means that when an innovation comes into the market you will see that initially the price is very high and slowly it comes down. Slowly it comes down why?

Because, in the high price you want to capture only the first few customers who want – who are willing to pay that much high. And then in the next time period you reduce the price a little bit and again capture a few more customers and this is how you go on. So, rather than, rather than ah putting one single price if this is the demand curve, this is price this is demand, if you put one single price you get this much money this is the price, this is the demand. So, the area is the revenue.

But, if you can put small, small prices and if you can change the prices over time in the first time period you get this much, in the second time period you get this much, in the third time period you get this much and so on. And, you can understand by doing this if you continue going on you can get the whole area; and this whole area is obviously, higher than this area. So, this is called market skimming strategy.

And, that is what generally the companies do when, when they are trying to come up with an innovation, but what they come– in this particular case what this the customers might feel that see I am there in the innovation generation process. So, what I am getting out of it? So, instead of doing this kind of market skimming, if you do something like this; so, instead of doing this, let's say, for the first few days you keep the price not this high, but somewhere here. So, you give the price here so, you get this much money and after that you start the skimming.

So, see the initial guys who are who are there in the innovation generation process will also have the highest willingness to pay. Now, they have willingness to pay this much and you are charging them this much. So, this dotted area is basically the consumer surplus that they take away. So they get benefited, they are happy. The customer surplus means whatever the customers are getting extra over and above whatever they wanted.

So, that customer surplus is something that they are happy with and then this scepticism will come down; and obviously, for the for the designers you have to create more margin, for them better if not margin at least better recognition for them so that they get recognized and, and people outside your platform also starts appreciating this particular people. So, that kind of opportunities has to be created. Tchibo Ideas obviously, in the future has done that.

So, that is probably all for this particular, particular case that we discussed and it was a nice case on Tchibo Ideas. We will keep on going and discussing this kind of cases in the coming videos. Thank you very much. In the next video we will discuss about customer equity and how that can be analysed in the context of CRM.

Thank you very much. See you in the next video.