

How a Thought-out Omni-Channel Strategy can help the German Coffee Retailer to Stay Ahead of its Competition: A case of Tchibo

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Abstract

This study aims to develop a thought-out Omni-channel strategy for coffee retailers. We used Tchibo, a famous coffee retailer in Germany, as the research case in the study. The study suggested that the Omni-channel strategy for Tchibo includes that, firstly, online and offline channels should be integrated even tighter to enable a truly seamless shopping world. Secondly, optimizing availability checks of in-store inventory online. Thirdly, offering the chance to order and pay via any device and have the product ready for pick-up whenever the customer shows up. Fourthly, sales of non-coffee related products in-store can be improved by making the shopping experience more fun. Lastly, updating its social platform presence and integrate a customer review function so that customers can rate and discuss products from any given channel.

Keywords: Omni-channel, Cross-channel, lock-in effect.

1. INTRODUCTION

In the last decades, people have changed their shopping behavior dramatically and consequently it is crucial for retailers to adjust their strategy and value offering in order to not fall behind. As a result of ubiquitously access to the internet and the growing use of digital devices, the lines between the online and the real world are blurring. Consumer requirements have changed, and customers expect a seamless shopping experience. Regardless of which channels and touch points are used, customers expect consistent and superior service in order to enjoy benefits from an overall enhanced brand experience (Piotrowicz & Cuthbertson, 2014).

In the connected and flat world, we live in, it is more important than ever to make customer satisfaction the number one priority. Due to highly informed customers and relatively low switching costs, the ability to create mutually beneficial long-term relationships with consumers decides upon a company's success. To live up to the heightened expectations and to bridge the gap of the digital and physical world, is the ambitious goal of an effective Omni-channel strategy (Wang, Xiang, & Fesenmaier, 2016).

This paper aims to give a recommendation as to how Tchibo can transform itself into a successful Omni-channel Retailer and desires to show why the company should do so by pointing out the benefits customers and the firm could derive from changing its channel management strategy. More precisely, at first an introduction of the German company Tchibo will be given, followed by an analysis and assessment of its current channel use.

Subsequently recommendations for actions to enhance Tchibo's customer experience in terms of a thought-out

Omni-channel strategy will be given by providing measures that are necessary to create a seamless ecosystem for all customers.

Inevitably, these adjustments will cause challenges and it is crucial to take them into account when implementing a new strategy. Therefore, drawbacks will be addressed thoroughly in the following section and suggestions for a way to deal with them will be discussed. Furthermore, the added value for customers and Tchibo itself will be pointed out to show the positive effects a carefully developed and implemented Omni-channel strategy can have on a business in general and on Tchibo specifically. Finally, the expected impact of the suggested measures, as well as an outlook into the future will be provided.

2. ABOUT TCHIBO

Tchibo is a company that strives to provide exceptional shopping and brand experience in order to satisfy and retain customers. Founded in 1949, Tchibo is one of the key players in the consumer goods and retail industry in Germany. The company is a pioneer in the coffee retail sector and has also made a name for itself as a reliable retailer for numerous non-coffee related products, which change on a weekly basis. These products range from textiles, over kitchen appliances to electronics. Tchibo's mission is to offer high-quality service and fair-trade products at a reasonable price (Tchibo, 2018c). Recent numbers prove this concept to work and reflect the fact that Tchibo is enjoying a high popularity. Tchibo has the second most shops of all Coffee-bar brands in Germany; only defeated by McCafé but ahead of the international coffee giant Starbucks. Besides 640 shops in Germany, Tchibo also operates about 360 shops internationally (e.g., Austria, Poland, Switzerland, Slovakia, Czech Republic, Turkey and Hungary). In Germany Tchibo has a 99 percent brand awareness score, which portrays the fact that a vast majority of the German population knows the brand and chances are that there have been various contact points (Tchibo, 2018b).

Until 2016 there has been a slight but steady increase in revenue but over the last two years it has been declining by one percentage point. This development can mainly be blamed on falling coffee prices, which Tchibo decided to pass on to its customers (Handelsblatt, 2017). Regardless, Tchibo was able to increase its bottom-line further thanks to better marginal profits and disciplined cost cutting measures, such as the campaign "fit for growth". The fact that Tchibo was able to generate 3.5 billion in revenue and 477 million in profit last year speaks for itself and illustrates the dominant position Tchibo holds at this point in time (Tchibo, 2018b). Nevertheless, considering the current trends mentioned above and the fact that we are living in a time characterized by frequent and disruptive changes, it is important for Tchibo to stay agile and to keep innovating to not lose its leading market position. As always in the business environment, there is a high dependency on various external factors and the importance to keep innovating in order to increase customer traffic and to be able to make up for unexpected external circumstances cannot be overstated. One of the key changes Tchibo has to initiate to stay ahead of its competitors is implementing an improved channel management, more precisely an Omni-channel strategy. It will help the firm to further increase its market share by improving the overall shopping and brand experience and by thereby creating content and loyal customers.

3. CURRENT CHANNEL ANALYSIS OF TCHIBO

A channel is defined as a customer contact point or a medium through which the company and the customer interact (Neslin et al., 2006). Accordingly, Tchibo is using a variety of different channels and can be categorized as a Cross-Channel Retailer. To be more precise, Tchibo's customer contact points consists of physical stores, online, mobile and a monthly updated catalogue. Tchibo furthermore interacts with consumers through TV commercials, billboards as well as on social media platforms. Purchases can also be made via telephone.

Tchibo's most dominant channel, which brings the most revenue and profit, is the physical store. Nevertheless, the online and mobile shops are gaining ground and are accounting for a constantly growing part of the overall sales numbers. Keeping the overall increase in online shopping in mind and considering the fact that business-to-consumer smartphone sales grew by nearly 23 percent in recent years, this development is not surprising (Bitkom, 2013). The shift in channel balance is triggered by technological advancements that make shopping available to customers whenever they want, wherever they want. Although it might seem like a logical consequence to focus mainly on the online shopping channel, jumping to this conclusion could have negative outcomes. While online is undoubtedly an important part of the shopping world today and in the future, it is important to not just focus on a single way of distribution but to disperse sales efforts among multiple channels. The key of successful channel management is the combination of multiple touch points and the creation of a tight and seamless integration within these. In many industries, the online market is already saturated, and it is hence crucial to generate traffic on online, mobile and offline channels alike to create a diversified portfolio (Abramovich, 2016). We will now take a closer look at each of Tchibo's channels.

In its brick-and-mortar stores, Tchibo displays its weekly changing products (ranging from textile products, over kitchenware to technology) and sells its main product, coffee. Most of these shops are also equipped with a coffee bar which serves freshly brewed Tchibo-coffee and little snacks, such as cakes, cupcakes and cookies. High-quality coffee and a friendly atmosphere invite customer to relax in the coffee bars and shops. Eye-catching displays are carefully placed throughout the store and promote impulse buying after enjoying a quality cup of coffee.

Since 1997 Tchibo also offers its products on its website to give customers the option to order online. The company can thus be seen as one of the early adopters of E-commerce. The website displays current offerings of the week as well as a broad assortment of further products and acts as a direct purchasing platform. Customers can create their own account to create a shopping cart, to facilitate the check-out process and to save items to a wish list. To improve service for customers further, the Tchibo app was introduced five years ago. It brings online shopping to mobile devices and tablets and offers clients another convenient way to do their shopping and to stay in contact with the company. All the functions that are available on the website, can also be enjoyed via the mobile app.

Apart from these channels, Tchibo interacts with consumers on various social media platforms and hence provides a channel for mutual interaction. It also serves as platform for advertising and helps spreading messages in a fast and convenient manner. Catalogues and telephone are mainly used to take orders and for informational purposes and are being more and more replaced by the channels discussed above (Tchibo, 2018a)

To sum up, Tchibo can be classified as a Cross-Channel Retailer as it shows various characteristics of a

partially integrated channel management system as the customer can trigger partial interaction and the retailer can control partial integration of at least two channels or all channels widespread at that time (Beck & Rygl, 2015). The sales channels are linked through customer accounts, which can be accessed through the website and the app alike. All data will be updated simultaneously on all devices and can also be modified at the physical locations. Furthermore, click & collect and availability-check services are available, as well as the option to place an online order via tablets in all brick-and-mortar stores. All channels meet corporate design standards and adhere to the same set up, which allows for customer-friendly usability. Tchibo also follows a one-price-policy and offers the same price across all distribution channels. The following graph shows a summary of the just mentioned services and channels offered by Tchibo at this point in time.

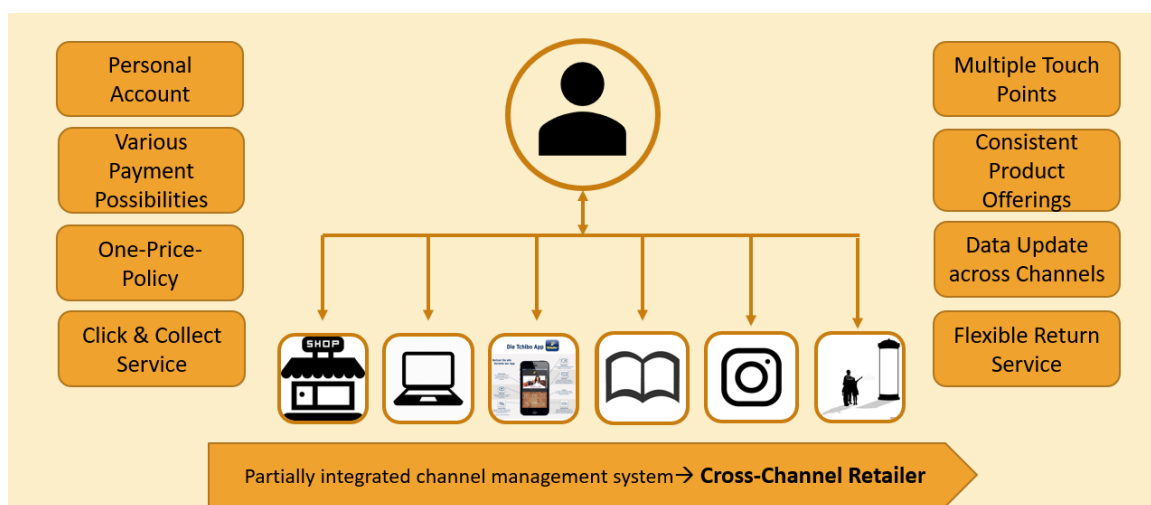


Figure 1. Current customer touchpoint analysis and services offered to Tchibo customers

4. IMPLEMENTATION OF OMNI-CHANNEL STRATEGY

Tchibo is undoubtedly on the right track and is already offering its customers various ways to conveniently purchase its products but in order to reach the ultimate goal of creating a truly superior shopping experience, the company should consider undertaking the following measures.

First, online and offline channels should be integrated even tighter to enable a truly seamless shopping world. To do so, Tchibo should introduce smart shelves with which customers can get detailed product information directly onto their phone or other devices after scanning a code in the store. This information could include origin of the product, contact information of the producer, list of input materials and many more interactive details.

Second, Tchibo is already offering availability checks of in-store inventory online and vice versa but this service ought to be optimized as it is not completely reliable. As a truly integrated company, Tchibo has to ensure that all information displayed on its website and in its mobile shop is accurate and in synch with information available in the physical stores. Another service that has to be optimized is the reward program for loyal customers. To do so, the free bonus card must be improved so that it is possible to check and reload the card via phone, website, in-store, or on the app. Any change to the card or profile gets updated across all channels in real-time.

Third, further innovations that will set Tchibo apart from its competition, is offering the chance to order and pay

via any device and have the product ready for pick-up whenever the customer shows up. Herewith there are no waiting times and the client can enjoy fast and flawless service. This service is particularly suitable for products such as coffee and snacks, which are being offered in the Tchibo Coffee-bars. To add on to a better promotion of its coffee and snacks, personalized discount-coupons should be sent to consumers based on their location, the time of the day and previous shopping behavior. This service can also prove successful for any other product categories.

Fourth, sales of non-coffee related products in-store can be improved by making the shopping experience more fun by allowing the creation of a shopping list online and then lay out the best route through the store to get to the wanted items in the fastest way. Besides the visualization of the suggested way to navigate through the store, vibration alarms on mobile devices can call the shoppers attention to a desired product he or she is passing. This service can be realized through the new iBeacon technology and would not only save time when in a rush but would also add a basic level of gamification into the shopping process.

Last but not least, Tchibo has to update its social platform presence and integrate a customer review function so that customers can rate and discuss products from any given channel. Another valuable addition would be the launch of a chat(bot) for questions- these can be asked in stores via tablets or online and the answers can be retrieved across all channels alike.

After implementing these changes, Tchibo can be considered an Omni-channel Retailer, which implies that merchandise or services are being sold through all wide-spread channels, whereby the customer can trigger full channel interaction and the retailer controls full channel integration (Beck & Rygl, 2015).

Figure 2 shows the proposed action plan in a graphical way. Catalogues and phone ordering are no longer widely-used channels and as their usage decreases further, they can slowly be removed, and financial savings should be invested in the implementation of an Omni-channel strategy, as suggested above.

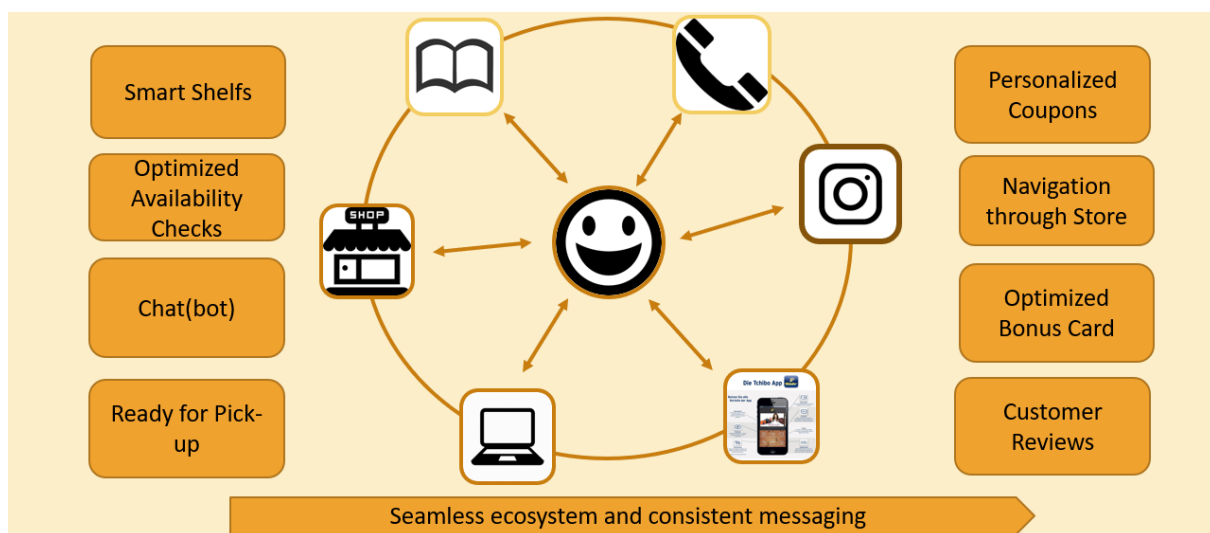


Figure 2: Action plan for implementation of Omni-channel strategy for Tchibo

5. Challenges and Possible Solutions

Inevitably, Tchibo must anticipate various strategy and development related difficulties when implementing these

changes and adjustments on all business levels are needed. Major required alterations are the decentralization of the organizational structure, the involvement of all employees (from sales clerks in the shop to top-managers) as well as an update of the retailing mix. It is important to get everybody in the company on board to support the implementation of the new channel management strategy. As a Cross-Channel Retailer, Tchibo already has fairly sophisticated (technological) structures in place that connect physical and digital channels. This existing infrastructure can be used as a solid base to integrate the two worlds even tighter. Another condition that facilitates the change process, is that managers and employees are already familiar with the Cross-Channel mind-set and bridging multiple channels is hence no entirely new approach. Nevertheless, training programs must be offered for employees, so all new services can be fully exhausted, and customers can enjoy the best possible service. Managers need to make seamless channel interaction their number one priority and have to make all decisions in alignment with that goal. Closely integrating all channels by implementing the above-mentioned changes, furthermore requires a highly functional information system. Qualified personnel must be hired, and financial means have to be provided to be successful. The online payment system must be improved to establish the online order and payment service mentioned above (Tambo, 2015).

Another aspect that must be considered is the reaction of customers to newly implemented possibilities and services. Some people might be hesitant in the beginning and not welcome all the changes right away. To help customers adopt to the changes, well-trained employees must offer guidance and explain new services. Privacy concerns also have to be countered by a sound and secure data handling policy. Especially older people might be overwhelmed by the digitalization taking place in regard to the Tchibo brand but once they have positively experienced the new way of seamless shopping with the help of motivated and qualified employees, they will see the added value. Overall, the shopping experience for all customer segments will be improved and in the long-run and customer relationships can be expected to be intensified and enhanced (Frazer & Stiehler, 2014).

6. CONCLUSION

To highlight the findings of this study, Omni-channel can be seen as the future of channel management. Throughout this paper the point has been made that customer satisfaction is the number one priority a company should strive for and that exactly that can be achieved with a thought-through Omni-channel approach, that puts the customer at the center of attention. In this connection, companies have to strive to find the right mix of multiple channels rather than trying to choose the one right channel. It is important to not solely focus on one isolated channel but to create truly incorporated channels with consistent messaging across every customer touch-point. Organizations failing to do so might become unattractive and lose customers because they lack the superior shopping experience customers can get with companies that pursue a seamless channel approach.

An important insight of the study is that moving from other channel management systems to an Omni-channel system is not an easy task and has to be planned thoroughly. Regardless, if the possible obstacles mentioned above are accounted for and a motivated management team and workforce is in place, the benefits outweigh the disadvantages and a resulting comparative advantage can be expected. Customers enjoy various benefits in form of better service, faster shopping experience and a stronger relationship with the company. By using above mentioned services, such as ordering and paying online and scheduling a time for pick-up, consumers avoid

waiting times and enjoy a high degree of convenience. Customers will be able to combine the recreational and hedonic elements of in-store shopping with the convenient and innovative elements of online-shopping in the best possible way and can shape a shopping process tailored to individual preferences. A company on the other hand can expect higher returns and more loyal customers. By creating a lock-in effect, Tchibo can intensify its relationship with its customers and benefit from content customers that keep coming back. Implementing the changes mentioned above will make Tchibo stand out from its competitors and help the company to keep its dominant market position. The addition of smart shelves in example, can also be used to underline the company's mission by displaying information about fair-trade suppliers and enhance its positive brand reputation. Furthermore, Tchibo can avoid redundant data entries and keep its data warehouses clean and increase sales numbers by taking advantage of cross-sales opportunities and purchases triggered by individualized coupons. Another major insight of the study is offering a solid argument that both, customers and Tchibo alike, would benefit from the implementation of an Omni-channel management system at Tchibo. Having a sound Omni-channel strategy is imperative for the future. It is only a question of time when a seamless experience and consistent messaging across every channel is expected by customers and crucial to stay competitive. By focusing on mobile commerce, personalizing the shopping experience, increasing the number of customer touchpoints and adding emotional value, Tchibo will be equipped for the future and will lead the way into an channel management strategy that truly puts the customer at the center of attention and satisfies all customer requirements such as convenience and innovative interaction, as well as the enjoyment and recreational factor many are looking for when shopping(Yumurtacı Hüseyinoğlu, Galipoğlu, & Kotzab, 2017).

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