

# Export Policy Plan for Tchibo



## Exploring the Mexican Market

Final Thesis Paper

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## Preface

I am a student of The Hague University in the European Studies Program (HEBO). My specialization is business. This paper was written in order to finalize my studies and to show that I master the skills and knowledge acquired during the three year bachelor program.

For my thesis topic I decided to write an export policy plan. My second choice was to do that in Mexico, in order to improve my Spanish and to obtain a deeper knowledge of the Mexican culture. I have already gained some experience in writing export policy plans during my studies, but I never had the possibility to actually live in the country of which I am writing an export policy plan.

Finally I searched for a suitable company which has the potential to enter a new market. This company needed to offer a product or service which is promising and bears a great possibility of success. Another important aspect was that I could identify myself with the company and its products. After doing some internet research I concluded that Tchibo would be an interesting choice. Tchibo has its origin in my home city Hamburg (Germany) and I grew using the Tchibo products. I have many Tchibo products in my household and personally think that the unique three-in-one-store model could be successful in many countries.

Writing this thesis was a challenging task for me. However, it was also a great experience. It was a big advantage to live in Mexico while writing about the country.

Finally I would like to thank my supervisor and my parents for the support given. The geographical distance between Mexico and Europe never had been a problem.

## Executive Summary

Tchibo is an international retail, coffee and consumer good company. Throughout the company's history a unique business concept combining coffee expertise with a weekly changing range of consumer goods was created.

This paper aims to analyse and outline the market characteristics of the Mexican market and to evaluate the opportunities and threats Tchibo faces when entering the Mexican market. Therefore, the main purpose of this plan was to answer the following question:

**Is the Mexican market interesting for Tchibo products and what does Tchibo need to consider if they want to enter the Mexican market?**

In order to answer this question adequately, several important aspects, which are of major importance in the decision-making process had to be looked at. The following outcomes are presented in this report:

The Internal Analysis of Tchibo displays its strengths and weaknesses; from this chapter the conclusion is that Tchibo is ready to enter new markets, even though the brand image is not known internationally and Tchibo only has little experience on the international market. However Tchibo offers a worldwide unique three-in-one-store model with its distinctive 'Every week a new Experience' marketing concept. Tchibo has great know-how in the coffee and consumer goods business and established over the years good business relations to cooperation partners and suppliers, therefore Tchibo can offer high quality products at a low price.

The External Analysis of the Mexican Market investigates its accessibility. The findings in this chapter are that Mexico has an accessible market and that Tchibo concept could be successfully introduced in the Mexican market. One of the main reasons is that Mexico has the best economic performance in Latin America and a stable political situation. Besides, the Mexican household income and demand for consumer goods will rise in the future and e-commerce and the franchise industry have growth potential. Furthermore, there are no direct competitors in the Mexican market and future coffee consumption may increase. However, companies often underestimate the size and diversity of the country and the Mexican market. More challenges for exporting companies include a currency risk and a possible loss of profit due to high corruption. Besides, the Mexican coffee consumption is rather low and there is fierce competition in the coffee and consumer good market. Nevertheless, the opportunities prevail.

The SWOT Analysis has linked together all the findings of the internal and external analysis and has lead to several strategic options, which can help Tchibo to succeed in the Mexican market. However to compensate the company's weaknesses, a good option would be to enter the Mexican market via joint venture or franchise. The internet can be used as a distribution and marketing channel. Furthermore a marketing campaign is essential. In addition to keep the risk low a first launch in a test market could be an alternative. The core business should be the three-in-one-store model. Nevertheless Tchibo needs to be aware of the risks and monitor them close.

The strategic options have formed the basis for the elaboration of the Marketing Mix. The eight P's in the marketing mix led to the following advices:

**Product:** Use the same consumer goods assortment as in Europe but test suitability in advance by contracting an external local research firm. The coffee range offered should be distinctive from local products; an option would be the exclusive coffee range.

**Promotion:** Television and radio advertisement should be used to create a brand awareness, to communicate the core benefits and to create the special 'Tchibo niche'. Store promotions and internet marketing are other promotion tools which could be used.

**Place:** Mexico City would be a good geographical area for a test market and the perfect location for Tchibo stores is in shopping malls. The target could be to open eight franchised Tchibo stores within one year and if these stores are successful, Tchibo could launch its concept nationwide.

**Price:** Use the penetration pricing strategy and make sure that in all distribution channels the products are offered for the same price.

**Physical Distribution:** Tchibo can operate from its basis in Germany; a representative who travels on a regular basis to Mexico and an external operated warehouse in Mexico is could provide the distribution structure needed.

**Presentation:** The presentation of the products should be according to the worldwide standardized Tchibo store concept.

**People:** An internal employed representative could who create good business relations with the Mexican business partners, such as the franchisee, joint venture partner, external warehouse or external marketing research institute.

**Politics:** It should be ensured that all products are labelled according to the packaging regulations.

In the last part Personal Opinion and Findings my own view is stated (after living for 5 month in Mexico). I am confident that the strategies and advices presented in this report will contribute to the success of Tchibo entering the Mexican market.

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# 1. Introduction

## About Tchibo

Tchibo is a German company specialised in coffee, coffee bars and a wide range of attractive consumer goods, which are newly selected and presented around a special theme every week. Since 1990 Tchibo successfully exports coffee to many countries. Until now, the concept of coffee bars and the sale of the consumer goods has only been launched in the European Area.

## Goal of the Thesis

This paper is concerned with identifying market attractiveness of the Mexican market for Tchibo. Up to now, Tchibo has not exported its products to Mexico. This export policy plan aims to analyse and outline the market characteristics of the Mexican market and to evaluate the opportunities and threats Tchibo faces when entering the Mexican market. Also, strengths and weaknesses of the company will be evaluated. Furthermore, possible strategic options and marketing measures are outlined.

## Description and justification of the research method

The Thesis is based on desk research: internet sources, books and reports, as well as my personal experience gained during my time living in Mexico.

## Central Question

**Is the Mexican market interesting for Tchibo products and what does Tchibo need to consider if they want to enter the Mexican market?**

## Sub questions

To be able to answer the central question, it is necessary to find the answers to the following sub questions:

- Who is Tchibo and what makes the Tchibo concept so successful in Europe?
- What are the objectives of the company?
- What are the strengths and weaknesses of Tchibo entering the Mexican market and what are opportunities and threats?
- Is there a demand for Tchibo in the targeted market?
- What are the elements of the marketing mix for Tchibo to export to Mexico?

## Chapter Overview

The thesis is divided into 11 chapters with information gathered by desk research. In the first Chapter a short introduction is given. Chapter 2 is concerned with the company description. A detailed product description is given in Chapter 3. Chapter 4 provides broad information about Mexico. After a general overview, more specific information is given in Chapter 5 with the internal analysis. Chapter 6 defines the market, before presenting in Chapter 7 the external analysis. Internal and external findings are combined in the SWOT analysis and followed by the strategic options in Chapter 8. My personal findings are described in Chapter 9. Finally, Chapter 10 is concerned with the marketing mix and Chapter 11 summarizes all findings stating the conclusion.

## 2. Company Description

Tchibo is an international retail, coffee and consumer goods company. The company was founded in 1949 as a roasted coffee mail order business. Today Tchibo is the world fourth-largest coffee producer, market leader for roasted coffee in four European countries (Austria, Czech Republic, Germany, and Poland), and leader in the European market for out-of-home coffee service.



Tchibo has subsidiaries in Austria, Czech Republic, Great Britain, Hungary, The Netherlands, Poland, Ukraine, Romania, Russia, Slovakia, Switzerland, and is involved in export activities all over the world. In 2006 the Tchibo staff counted over 12,500 employees, of which two-thirds work in Germany. The headquarter of Tchibo is located in Hamburg, Germany.

Throughout the company's history a unique business concept combining coffee expertise with a weekly changing range of consumer goods was created. In the core markets Tchibo expanded the product range to services such as insurance, travel, banking, and mobile phone contracts. In Germany Tchibo owns more than 1,300 shops and is therefore one of Germany biggest shop chains. According to Tchibo the awareness level in Germany is 99% (Tchibo, 2008).



Headquarter of Tchibo (Hamburg, Germany)



### 3. Product Description

In the following chapter an overview of all Tchibo products is given. Tchibo offers a combination of coffee, coffee-gastro-services, and well-priced, quality consumer goods. This three-columned-concept helps two overcome ups and downs in the consumer goods or coffee market.

#### 3.1. Food Products

##### Coffee:

The core business of Tchibo is coffee. The coffee expertise and the quality of the brand are well known and appreciated among the customers. The coffee range goes from all classic roasted to instant coffees. The tastes vary from decaffeinated to espresso.

##### The product line:

- Tchibo Classic Range (Feine Milde, Sana, Beste Bohne, Gran Café, Herzhaft Mild)



- Tchibo Espresso (Gusto Originale, Superiore, Caffè Crema)



- Tchibo Private Coffee (Brazil Mild, Guatemala Grande, African Blue, Colombia Fino Decaffeinated, Wiener Melange, Vulkankaffee, Schattenwald Kaffee, Perlbohnen, Mexican Muxbal)



- Tchibo Fresh Harvest





- Tchibo Instant Specialities (Cappuccino Classico, Cappuccino Chocolat, Dueccino 'Hot and Cold')



- Gala - Eduscho Brand (No. 1, No. 1 Gentle & Well-tolerated, No. 1 Decaffeinated, Mild, Intensely, Café Crema, Espresso, No. 1 Pads, Crema Pads)



### Chocolate:

The three Exclusive Chocolate products are offered in the Tchibo stores. The variants are: Marañón (dark chocolate, 59% cocoa content), San Vicente (milk chocolate, 42% cocoa content), Quevedo (dark chocolate, 71% cocoa content).



### Cafissimo:

Cafissimo is a one cup multi coffee maker with a capsule system. Due to the pressure control system, the capsules and the milk frother, it is possible to make with one single machine: filter coffee, espresso, cappuccino, or latte macchiato. The aroma-sealed capsules are available in eight different varieties: Feine Milde, Café Crema, Café Crema Mild, Privat Kaffee Brazil, Private Kaffee Mild, Espresso, Espresso Decaffeinato, and an Espresso milk forth combination.



### 3.2. Non-Food Products

In 1950 Tchibo started to offer its coffee in plastic or tin-containers; these were well appreciated by the customers and reused in the kitchen for food storage. After this great success, Tchibo started to add more kitchen or coffee related products to their assortment. This has grown to an important, highly professional business and created a worldwide unique and successful concept.

The overall idea and slogan is: “Every week a new Experience”<sup>1</sup> (Tchibo, 2008). Each week a new theme is created and around this theme Tchibo offers approximately 30 consumer good products which are exclusively made for the company. The themes suit the seasons and complement each other. The weekly changing range of products makes the customers return on a regularly basis

In March 2008 one theme for example was: ‘Garden of Delights – Green fingers and tasty barbecue’ (Tchibo, 2008). Products around this theme were garden-equipment, garden-furniture, candles, a high pressure cleaner, a dog bed, doormats, and a shopping basket to name some examples.

Below a few products from this theme and products from other themes are shown:



The theme is supported by several marketing channels: shop décor, window dressing, promotion material, advertisement, TV commercials, Tchibo magazine and internet site. This creates a consistent ‘new experience each week’ which the consumer can experience through all this different ways.

Tchibo has launched an own fashion collection, which is called Mitch & Co. The sports wear and fashion basics are designed in cooperation with the designer Michael Michalsky.



<sup>1</sup> The original German slogan is: “Jede Woche eine neue Welt” which means in English “Every week a new world”, but Tchibo decided to change it to: “Every week a new Experience”. In Great Britain the slogan: “Add a little O to your life” is used. (Tchibo, 2008)

Another important core feature is the value for money and quality concept. Tchibo offers good quality at a fair price. Over the years Tchibo has build a trust relation with their customers. As stated in the mission statement “Customer satisfaction and living up to the trust our customers place in us are the top priorities of Tchibo” (Tchibo, 2008). Tchibo products have high standard in terms of materials, durability, functionality, manufacture, and safety. All items are exclusively produced for Tchibo. Before the products are offered to their customers Tchibo makes sure that they comply with the safety and quality standards which Tchibo has. The TCM (= **T**chibo **C**ertified **M**erchandise) seal stands for the verified and attested quality.



Further services, which come with the products are a two year warranty and a three year guarantee<sup>2</sup> for technical products and zips, repair or product replacement service, and the right of return.

### Other Services

In Germany Tchibo also offers several other services in the field of travel, finance, insurance, mobile phone plans and flower delivery service. The travel service is also offered in Switzerland and Austria. These services are made possible through joint ventures with partners who are specialised and market leader in their fields. The offers are selected by Tchibo in line with their main principles quality and value for money. Tchibo uses their good reputation and customer trust to expand to other fields. The benefit for the customer is that Tchibo has already selected the best value money offer. The travel service is the most popular one. In 2006 more than 258,000 tour packages were booked through Tchibo.

Every Friday Tchibo offers in Germany the “Angebot”. This is a special low-priced service which is presented for a limit of one week. The service can be anything from banking, insurance, and flower order to airline tickets.

### Private Card

In 2007 a new consumer loyalty programme was launched in Austria and Germany. It is called Private Card and is used in the sales channels Tchibo shops and Tchibo direct. Today already more than 1.2 million Tchibo customers use this programme (Tchibo, 2007).

### 3.3. Coffee Bar

The Coffee Bar is part of the Tchibo shops and offers their customers a relaxing area to sit down drink a coffee and eat a snack. Different coffee specialities, cakes and waffles are offered.



<sup>2</sup> “A warranty is legally required and generally covers two years. In contrast a guarantee is provided on a voluntary basis by retailers and/or manufactures, who define the length and the conditions of a guarantee” (Tchibo Quality, 2008).



### **3.4. Tchibo Coffee Service**

Since 1972 the Tchibo Coffee Service offers solutions for serving hot beverages in hotels, restaurants, cafeterias, nursing homes and catering business. It is an out of home coffee service which has more than 35,000 customers across Europe in the hotel-restaurant-cafeteria market. Everyday more than four million cups of coffee are served through the Tchibo Coffee Service. Subsidiaries are located in Austria, Czech Republic, Great Britain, and Poland.

The Tchibo Coffee Service offers professional coffee making systems, coffee and several supply articles.

### **3.5. The Product Levels**

According to Kotler's principle of product levels (as cited in Alsem, 2005, ch. 8), the Tchibo products can be defined in the following manner.

#### **Core Product:**

Tchibo offers outstanding quality at a fair price. This relates to the coffee as well as to all other non-food products.

#### **Actual Product:**

- The different coffee products for home use; from espresso to latte macchiato, in several different preparing versions, such as classic roasted, instant or capsule system.
- Out-of-home coffee service in Tchibo Coffee Bars or in the hotel/ restaurant/ cafeteria business, provided by the Tchibo Coffee Services.
- Consumer goods and services according to the trends and needs of the customer.

#### **Augmented product:**

The 'Every week a new Experience' and the special three-in-one Shop combination is unique in the world. Every week, it provides the customer with a complete new 'experience' and makes the customer return on a regularly basis. The well-known quality and the assured guarantee, as well as a very good after sales service provide additional benefits.

#### **Conclusion:**

Tchibo offers a wide range of different food and non-food products which are sold in different sales channels. This export policy plan focuses on the three-in-one-store model and the related products. (There is no special focus on only coffee export.)

## 4. Country Description

Mexico is situated between the United States and Latin America, which provides the country with a good strategic location. Mexico is approximately five times the size of Germany with a total land area of 1.9 million square kilometers. Mexico borders to United States, Belize and Guatemala.



### Inhabitants

According to the World Fact Book Mexico has more than 108 million inhabitants, of which approximately 60 % are mestizo (a mix of American Indians and Spaniards), 30% are native and 9% white. Further, Mexico has a rather young population; the median age is 25.6 years, whereas in Germany the median age is 43 years. The population growth rate is 1.7% and the total fertility rate is 2.39 children born/women. In Germany on the other hand the population growth rate is – 0.03% and the total fertility rate is 1.4 children born/women (World Fact Book, n.d.).

### The language

The official language is Spanish but there are more than 80 regional indigenous languages, the important ones are Nahuatl and Mayan.

### Religion

Religion plays an important role in the Mexican culture but since 1873 church and state are strictly separated. About 89% of the population is Roman-Catholic, about 6% is Protestant, and about 5% others.

### Press, Media and Communication

The most important media are radio and television; approximately 60% of the Mexican population receive their information through television, 30% through radio and only 10% through the press. (Auswaertiges Amt, 2007). An essential communication tool is the mobile-phone. Approximately 58% of the population has a mobile-phone. 18.5% have a fixed phone and 17.5% have an internet connection at home, approximately 25% of the population uses internet (BFAI, 2007).

### State-structure

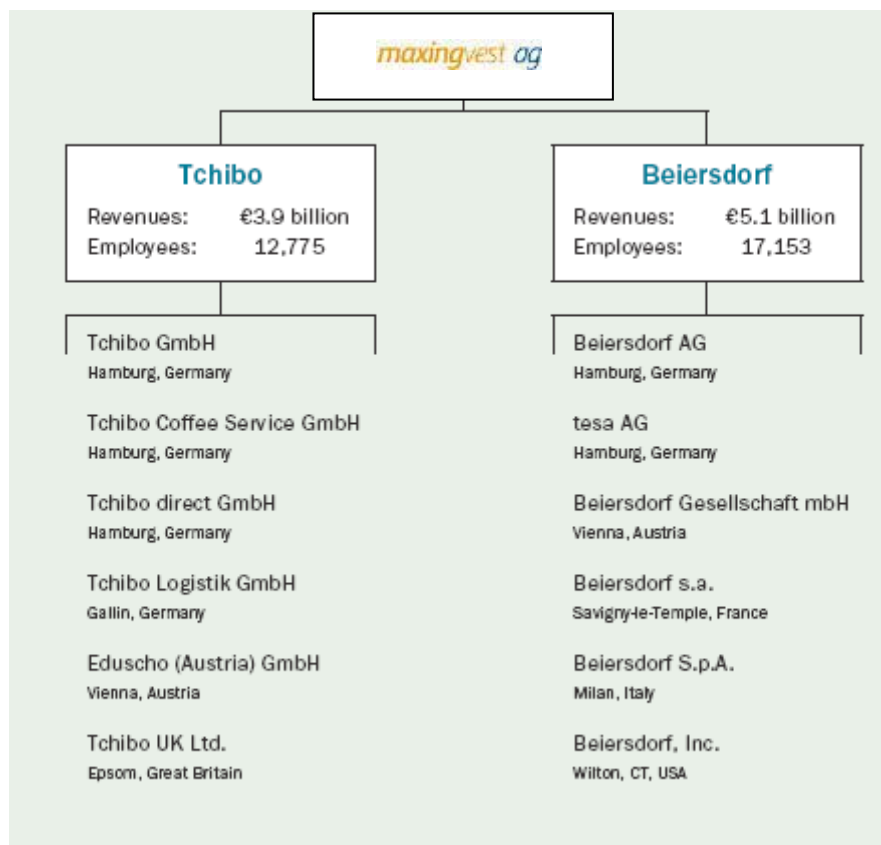
Mexico is a federal state, which consists of 31 states and one federal district. The economically most significant states are the Federal District of Mexico City and the states Monterrey and Guadalajara, which are also the three biggest cities in Mexico.

## 5. Internal Analysis

### 5.1. Company Structure

**maxingvest ag** (Maxingvest.ag) is Tchibo's parent company, which is owned by the founding family of Tchibo. The advantages of a family owned company are flat hierarchies and quick decision making process. Another sub-group of Maxingvest.ag is Beiersdorf. Maxingvest.ag holds the majority of its stock, a total of 50.46%. The voting rights accumulate to a total of 56.06%.

Tchibo puts a great emphasis on its 12,500 employees. The working climate is characterised by enthusiasm for a common objective, openness to change, dynamism, and the willpower to set international standards for quality and innovation. Training and development of the employees are important aspects of the company culture.





## **5.2. Company History and Future Strategy**

**1949** Tchibo was established in Germany by Max Herz and Carl Tchilling-Hiryan. The basic business idea was to send roasted coffee to customers by mail.

**1955** The first Tchibo shop was opened.

**1963** Tchibo sets up shop- in-shop outlets in bakeries and pastry shops.

**1973** The product range was extended by high quality consumer goods. In the same year the Tchibo Coffee Service was founded.

**1974** Tchibo buys a minority shareholding in the Beiersdorf AG.

**1980** Tchibo gains a majority shareholding in Reemtsma Cigarettenfabriken.

**1987** The shop-in-shop system extends to retail and super markets.

**1991** New branches were opened in Poland, Hungary and Slovakia.

**1994** Tchibo opens a new branch in Russia.

**1996** A catalogue order system was established. Tchibo enters the travel business and launches a travel magazine (Tchibo Reisen).

**1997** Tchibo acquires Eduscho, an Austrian competitor. In the same year Tchibo goes online with their services.

**2000** In Great Britain, Romania and Switzerland new branches were opened as well as the Tchibo Magazine was launched in Germany.

**2001** Tchibo increases share holding to 30% in the Beiersdorf AG.

**2002** Tchibo sells Reemtsma Cigarettenfabriken to Imperial Tobacco.

**2003** Tchibo increases its shares in Beiersdorf AG to 49.9%.

**2004** Tchibo buys in France the mail order specialist l'Homme Moderne and enters the Dutch market. The company gets the majority of shares in the Beiersdorf AG.

**2005** The single serving coffee machine Cafissimo is launched in Germany.

**2007** The Tchibo Holding AG is renamed to Maxingvest.ag, in order to separate clear between the Beiersdorf and the Tchibo branch.

**Future strategy:** In August 2007 Tchibo started a new corporate strategy which is called "Stärken stärken 2010" (Strengthen Strengths 2010) in order to return till 2010 to its traditional strength and growth. The core goals mentioned by Tchibo are: "Vigorous expansion in eastern Europe, emotional strengthening of the Tchibo brand in our core countries Germany, Austria, and Switzerland, and a Tchibo culture defined by customer focus, discipline and entrepreneurial spirit are the three foremost goals." (Tchibo, 2008)

### **5.3. Mission Statement**

In general, corporate responsibility is taken very seriously in all business areas and is a significant part of the company's identity. The mission statement for the customers is to be worthy of the trust consumers place in safety, quality, and excellent value for money featured in Tchibo products. Furthermore customer satisfaction is one of the top priorities. All actions are governed by the principle of service.

Another area is the workforce, where promotion and motivation are important values, this concept is based on the motto: "My work means a great deal to me" (Tchibo, 2008). Tchibo takes care of its employees and makes sure that they feel good at their workplace.

Suppliers and business partners all around the world are a further important area. Social and ecological manufacturing conditions play an important role, especially in developing countries. In the food branch, Tchibo has three sustainability standards: Fairtrade, which focuses on improving living and working conditions of coffee farmers. Rainforest Alliance, for more effective farm management and the Common Code for the Coffee Community, which contains ecological and social requirements. In the non-food branch, the Social Code of Conduct forms the base of all business relations with suppliers. Clear guidelines are made on issues such as child labour, compensation, working hours and working conditions.

Tchibo also sees a great deal of responsibility to a respectful and resource-friendly treatment of nature. A sustainable business in the food and non-food branches are the foundation to preserve best possible the natural resources for the following generations. This includes special climate protection projects, the Rainforest Alliance and others.

#### **5.4. Sales Channels**

Tchibo uses a multichannel distribution in order to offer the products and services as convenient as possible for its customers.

##### Tchibo shops

The Tchibo shops are a three-in-one-store model, a unique combination of coffee shop, retail store and coffee bar. The Tchibo shops offer an all-in-one experience. The scent of roasted coffee beans invites the customer to drink a coffee or buy coffee for home use. The concept of 'Every week a new Experience' makes the customer curious to look around, experience the new theme and to purchase some useful money for value consumer goods.

The shops are standardized and look the same all around the world. Tchibo shops are owned by Tchibo or a franchise. The shop concept is present in Austria, Czech Republic, Great Britain, Germany, Poland and Switzerland. There exists 60,000 outlets worldwide.

##### Shop in Shop concepts (Special Retail Partners)

Tchibo has many concession partners and Tchibo products are sold in bakeries, supermarkets, drugstores, tobacco shops, hardware stores and photo shops. A shop-in-shop concept is used in order to create the right brand awareness. Approximately one third of all special retail partners offer the 'Every week a new Experience' and a Coffee Bar Service. For each sales outlet individual sales solutions are developed. Tchibo supports the retail partners with several services, e.g. promotion material. Furthermore a good cooperation with big supermarkets chains provides Tchibo with a well spread distribution network.

##### Tchibo direct (Mail-order business and E-commerce)

Customers can order the non-food products and the coffee range via the mail-order magazine which is published monthly. The four non-food themes of the month and the coffee range are represented in the magazine.

Moreover, customers can order the coffee range, the current consumer goods of the week and last three weeks and special offers over the internet. Tchibo has own online shops for Austria ([www.tchibo.at](http://www.tchibo.at)), Great Britain ([www.tchibo.co.uk](http://www.tchibo.co.uk)), Germany ([www.tchibo.de](http://www.tchibo.de)), Netherlands ([www.tchibo.nl](http://www.tchibo.nl)) and Switzerland ([www.tchibo.ch](http://www.tchibo.ch)). Besides, there also exists an EU online shop, which serves: Belgium, Denmark, France, Italy, Luxembourg, Sweden, Estonia, Finland, Greece, Hungary, Ireland, Latvia, Lithuania, Portugal, Slovakia, Slovenia, and Spain ([www.tchibo.eu](http://www.tchibo.eu)). Generally, it takes one to two weeks until a product arrives and delivery costs depend on the country of origin.

### 5.5. Financial Overview

The financial position of Tchibo can be measured by means of financial ratios and analysing the annual report. Maxingvest.ag, which is the holding company of Tchibo, published one annual report for both subsidiaries.<sup>3</sup>

As stated in the financial report of 2006, the group's revenues exceeded the € 9 billion mark in 2006 for the first time, which is a total increase of 3%. The increase in revenues was accomplished by the Beiersdorf sub-group, whereas the Tchibo sub-group generated for the first year a decline in revenues for a long time.

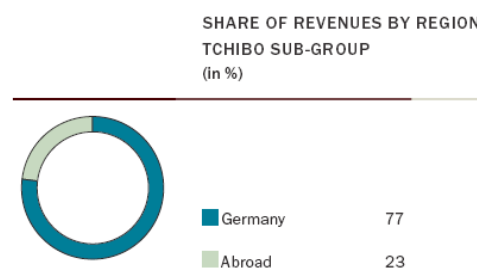
Furthermore, in 2005 the revenues were € 4,002 million and in 2006 only € 3,912 million. This is a decline of 2%, which happened due to a highly competitive German market (in which growth potentials have reached their limits), investments in new business areas, e.g. the French mail-order specialist l'Homme modern and a unplanned reduction of surplus stock.

The equity ratio of the group rises to 54%. This ratio indicates the relative proportion of equity to finance a company's assets.

The company's capacity to pay its debt is measured in the current ratio, which compares the company's current liabilities to its current assets. In order to have a financial stable situation the ratio should be between 1:1 and 2:1. The current ratio of Tchibo was, in 2006, 1.4 which proves a financial stable position.

The profitability ratio earnings per share define which value of the dividend the company can pay its shareholders. In 2006 the earnings per share amounted to € 178.73 in the previous year it was € 75.70, as the ratio gets higher, the stock value increases.

Foreign revenues increased for the Tchibo subgroup by 4%, pushing foreign business as a proportion of total revenues to 23 %. This means that the companies international business branch becomes to a greater extent important for Tchibo.



Generally it can be said that the Maxingvest.ag has a healthy and reasonably strong financial position, in which the Beiersdorf group is the more financially stable partner. Tchibo needs to take further actions in order to achieve again a positive grow of revenues, good possibilities for this lay in the international market.

<sup>3</sup> The Annual Report of 2007 wasn't published by the time of writing, therefore the financial analysis is based on the Annual Report of 2006 and the Interim Management Report of the first half of 2007.

### 5.6. Balanced Scorecard Method

	PERFORMANCE					IMPORTANCE		
	major strength	minor strength	neutral	minor weakness	major weakness	HI	MED	LOW
<b>MARKETING</b>								
1. Company reputation	X					X		
2. Market share		X				X		
3. Product quality	X					X		
4. Service quality	X						X	
5. Promotion effectiveness	X						X	
6. Innovation effectiveness		X					X	
7. Geographical coverage					X	X		
8. Connecting with consumers		X				X		
9. Distribution effectiveness				X		X		
<b>FINANCE</b>								
10. Financial stability				X		X		
11. Cash flow				X		X		
<b>ORGANIZATION</b>								
12. Training courses	X						X	
13. Career opportunities		X						X
14. Dedicated employees	X						X	
<b>PRODUCTION</b>								
15. Increase efficiency		X				X		
16. Economies of scale		X				X		
17. Technical manufacturing skill				X			X	

The Balanced Scorecard Method is a method used to give an overview of a company's strengths and weaknesses. We can conclude that Tchibo major strengths are the product quality and the company's' reputation. However a major weakness is the geographical coverage.

### **5.7. Strengths and Weaknesses**

#### Strengths of Tchibo

- S1 Tchibo has a worldwide unique three-in-one-store model
- S2 The distinctive 'Every week a new Experience' marketing concept
- S3 Tchibo offers high quality products at a low price
- S4 Great know-how in the coffee and consumer goods business
- S5 Early adopter of internet and strong in e-commerce
- S6 Good business relations to cooperation partners and suppliers

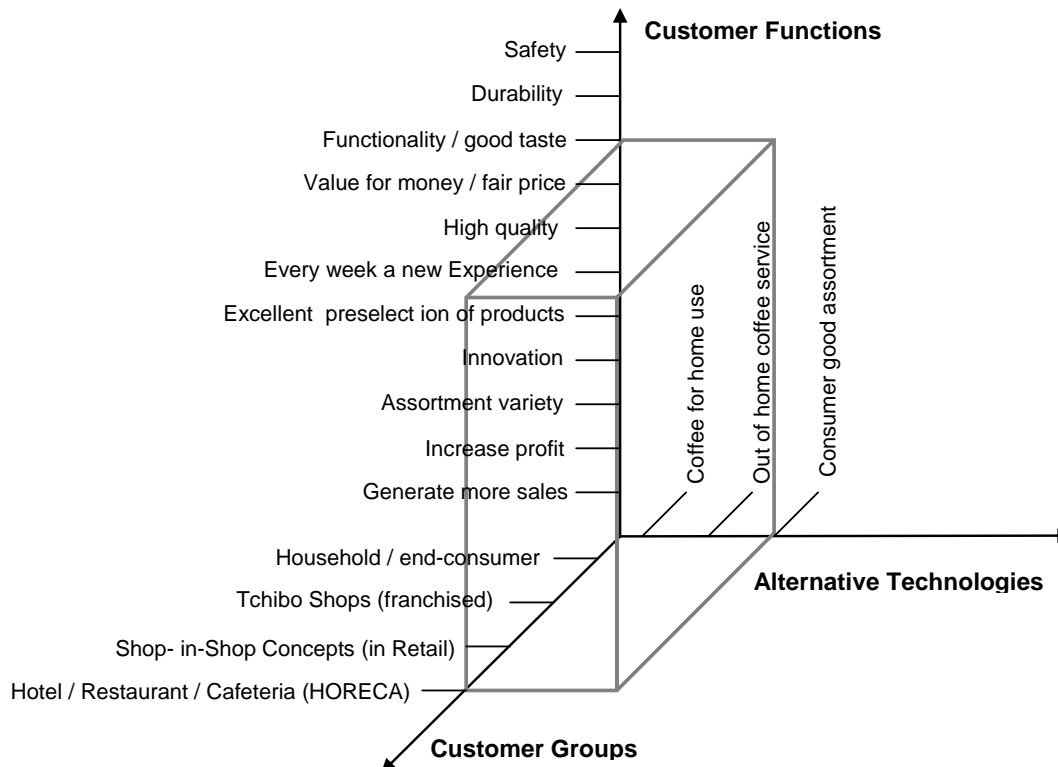
#### Weaknesses of Tchibo

- W1 A decline in revenues in 2006
- W2 Little experience on international market
- W3 Brand image is not known internationally



## 6. Market Definition

The Abell three dimension business definition model (as cited in Verhage, 2004, ch. 2, fig. 2.6) defines the current market for Tchibo as follows:



The Z-Axis defines the different customer groups. The most significant customer group is the household/ end-consumer. The end-consumer creates the demand and justification in the other customer groups.

The Y-Axis reveals the needs and customer functions the Tchibo products fulfil. The different customer groups have different need priorities and the different products (non-food and food) of course fulfil different needs. For franchise, retail partners and HORECA partners the most important need is to increase profit, generate more sales and offer an innovative assortment according to the needs and demands of the consumer. However, for the consumer high quality at a fair price for non-food as well as for food products are essential.

At last the X-Axis, which indicates the alternative technologies. The Tchibo concept consists of three main pillars: the coffee, out-of-home coffee service and the changing consumer good assortment.

This leads to the following chosen market definition for Tchibo:

**In Mexico, Tchibo will offer the three-in-one-store model to fulfil the need of the consumer who seeks high quality consumer goods at a fair price combined with a great coffee experience. The marketing concept of 'Every week a new Experience' will complete the Tchibo experience.**

## 7. External Analysis

### 7.1. Buyers Analysis

#### ***Who are the current and potential customers of Tchibo?***

The current buyers are households in several European countries who are searching for great coffee taste at a fair price and useful value for money consumer goods. Tchibo offers products for all ages and income levels. Although the product range is not gender-related, it should be considered that the majority of the buyers will be women because they mostly do the family shopping.

Potential buyers could be Mexican households, who look for great coffee taste and/or useful, value for money consumer goods. In many western European countries Tchibo sells its consumer goods to 'full closets', which means the consumer have almost everything and barely need new consumer goods but in Mexico there is great potential and consumers actually have a need for new consumer goods.

#### ***Where do they get in touch with Tchibo and buy the products?***

Tchibo has a great distribution network and is available in Tchibo shops, shop-in-shop concepts in retail and through mail-order or e-commerce. Besides, Tchibo uses several marketing channels: window dressing, promotions, direct marketing, advertisement, and online marketing.

#### ***When do they buy the products?***

The customer can purchase Tchibo products whenever they need them. There are no special moments to buy them. Coffee is often bought during the time of grocery shopping, because then it is on the mind of the consumer. For consumer goods, it should be mentioned that these are often impulse buyings. Only when the customer sees the products and experiences the 'Every week a new-Experience' marketing concept, plus the three-in-one-shop atmosphere, the desire to buy awakes.

#### ***Why do buyers choose Tchibo products?***

Buyers choose Tchibo products because they look for excellent quality at a fair price. They trust Tchibo and the guaranteed quality. They want great coffee taste and the experience of the 'Every week a new experience'. They are curious which new offers Tchibo has each week. Besides, they are keen on making a value for money bargain and they want to go with the latest trends. Tchibo is innovative and offers new products and innovations according to the seasons.

#### ***What do they do with Tchibo products?***

Coffee is of course for consumption, great coffee taste and enjoyment. Consumer goods are for use in the daily life. Consumer goods are innovative, creative, useful and should enrich the life of the customer.

## 7.2. DESTEP Analysis

The DESTEP analysis includes external factors that cannot be or can hardly be influenced. They will be described according to the DESTEP-method:

### Demographic factors

In 2007 the Mexican population numbered about 108 million inhabitants. The population growth rate was 1.7% and the total fertility rate was 2.39 children born/women. The population density was 55.2 inhabitants per square kilometre and urbanisation was about 75%. About 75% of the population lived in towns or cities. The biggest cities are Mexico City (22 million inhabitants), Guadalajara (4 million inhabitants) and Monterrey (3.6 million inhabitants).

The population structure is as follows:
<ul style="list-style-type: none"> <li>• 60% mestizo,</li> <li>• 30% native</li> <li>• 9% white</li> </ul>
Gender structure:
<ul style="list-style-type: none"> <li>• 48,8% man</li> <li>• 51,2% women</li> </ul>
Age Structure
<ul style="list-style-type: none"> <li>• 14 - years: 30%</li> <li>• 15 – 64 years: 64%</li> <li>• Older than 64-years: 6%</li> <li>• Median age = 25.6 years</li> </ul>

(World Fact Book, n.d.)

### General Economic factors

Mexico has the best economic performance in Latin America with a total gross domestic product of 850 billion US\$ and an income per capita of over 8,000 US\$ in 2006. In addition, economic growth reached 4.7% in 2006. Furthermore, in 2006 the inflation rate and the unemployment rate were 4%. According to the BFAI the available household income will approximately rise by 4.3%, which will give the consumers more money to spend.

GDP	850 billion US\$ (2006)
GDP per capita of the population	8,066 US\$ (2006)
Real Growth Rate GDP	4.7 % (2006)
Inflation Rate	4 % (2006)

Worldwide, Mexico has the twelfth biggest economy and is also the twelfth biggest trading nation. In general, Mexico has an open economy without any mayor trade barriers. According to the Index of Economic Freedom Mexico's economy is 66.4% free, which places Mexico at rank 44 worldwide (The Heritage Foundation, 2008). This low rank is caused by a high level of corruption.

A remarkable system of free trade agreements links Mexico with many countries e.g. EU, USA and Japan; in total there are 13 agreements which connect Mexico with a total of 42 countries. The most vital one is NAFTA (North American Free Trade Agreement), which links together the economies of the USA, Canada and Mexico.

The EU and Mexico have had a free trade agreement since 01.07.2000. Goods with the European origin can be exported tax free to Mexico, under the condition of a direct transport.

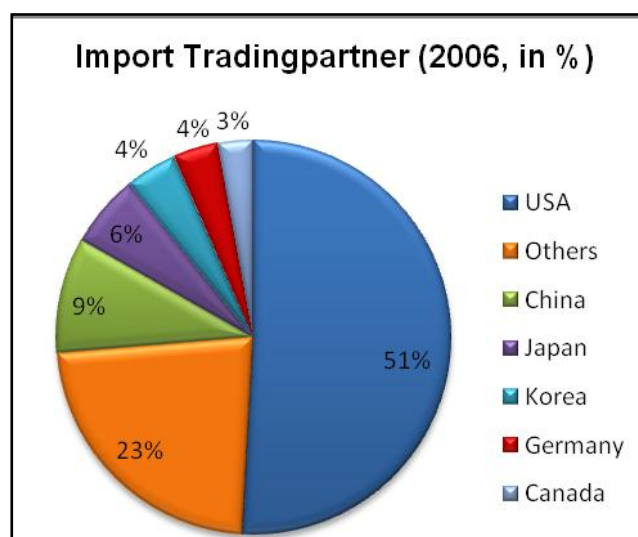
Germany is the fifth biggest trading partner but with a rather small percentage, only 3.7%. The most important trading partner is the USA with 50.9%. Germany exports mostly automobile parts and other machines. In 2006, the German exports sum up to approximate 9 billion US\$, whereas the imports from Mexico to Germany were an approximate total of 2.8 billion US\$. (Auswaertiges Amt, 2007).

Foreign trade worldwide in billion US\$:

	2004	%	2005	%	2006	%
Import	196.8	+15.4	221.8	+12.7	256.1	+15.5
Export	188.0	+14.0	214.2	+13.9	250.0	+16.7
Balance	-8.8		-7.6		-6.1	

Foreign trade with the EU in billion €:

	2004	%	2005	%	2006	%
Import	6.872	+5.7	9.167	+33.4	10.476	+14.3
Export	14.705	+2.4	16.801	+14.3	19.064	+13.5
Balance	7.833		7.634		8.588	



(Sources: Auswaertiges Amt, BFAI)

The income distribution is rather unbalanced, the lower 40% of the income pyramid only receive 11% of the national income, which leads to a widespread poverty. 40% of the gross domestic product is achieved in the federal district of Mexico City.

A problem Mexico still faces is corruption. According to the Corruption Perception Index Mexico ranks place 72 from 180 countries (Transparency International, 2007).

Furthermore Mexico has some infrastructure issues, e.g. the physical condition of transport, telecommunications, water and energy are rather poor.

A problem the economy faces is the dependence to the USA. The USA is by far the most important trading partner and therefore the economic growth in Mexico depends significantly on the economic situation of the USA, which is currently not stable.

On the other hand, an important economic factor are the approximately twelve million exile Mexicans which live in the USA and support their families in their home country. In 2006, approximately 23 billion US\$ have been transferred from the USA to Mexico. (Pew Hispanic Center, 2008)

### **Specific Economic factors**

#### The franchise market<sup>4</sup>

The franchise market has grown every year by 15 – 20 % over the last decade. Mexico is the eighth leading nation in franchise development according to the World Franchise Council. In 2007 sales reached over 8 billion US\$. Future business opportunities lay in many sectors such as: food, beauty, entertainment, education, restaurants, etc. (U.S. Commercial Service, 2008)

#### The Mexican Coffee market<sup>5</sup>

Mexico is a traditional coffee producing country without a strong coffee-drinking culture. Worldwide, Mexicans have the highest per-capita consumption of soft drinks but one of the lowest per-capita consumption of coffee, even though Mexico is the seventh biggest coffee producing nation. Mexicans had, in 2004, a coffee consumption per-capita of 0.9 kilo, whereas for example Germany had a coffee consumption per-capita of 6.7 kilo. In 2006, Mexicans consumed 1.5 million bags of coffee but the national coffee production was more than four million bags of coffee (World Resources Institute, 2007). This might change in the future. According to the International Coffee Organization (ICO), coffee consumption may increase by more than 25 percent in the next three years. The ICO wants to promote coffee drinking in Mexico to balance supply and demand. In addition the government also invested in several campaigns to promote coffee drinking among its people.

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<sup>4</sup> Since the Tchibo concept is also offered as a franchise concept, it is important to look at the Mexican franchise market.

<sup>5</sup> The core business of Tchibo is coffee, therefore a detailed analysis of the Mexican coffee market is essential.

## Social factors

- Gender: Mexican culture is still significantly male dominated and the role of the women is seen rather traditionally. The mother is the most respected figure in the society.
- Religion: 89% of the population is Catholic and religion plays a very important part in most peoples life's, especially in the lower class.
- Class: Mexican society is highly elitist and "classist". People are seen and treated by others according to the class they belong to. Education and opportunities will depend on class. The classes are determined by the amount of money one possesses. The income distribution is rather unbalanced, and the difference between rich and poor is huge.
- Ethnicity: The powerful and rich people in Mexico have historically been white-skinned, while darker-skinned indigenous people have long been oppressed. Till now there is discrimination against indigenous people and they struggle hard to be accepted in society.
- Business: Business is often done on the basis of relationships, and Mexicans appreciate a close working relationship. Patience is important, everything takes more time.

## Technology

Mexico has a total amount of 1,834 airports, of which twelve have a paved runway with a length over 3,047 meters. Besides airways, Mexico has 17,665 kilometres of railway. The Mexican motorway has a total length of 235,670 kilometres of which 116,751 kilometres are paved and 118,919 kilometres are unpaved. Mexico faces some infrastructural problems and transportation ways could be improved. In general, transportation-logistic-service is more expensive in Mexico. It is estimated that 8-15% percent of the product cost is related to logistics, in more developed countries it is only 5-7% (U.S. Commercial Service, 2008).

Communication technology is adequate for government and business, but the population is rather poorly served. Mobile subscription outnumbers the fixed line subscribers, 18 fixed lines per 100 persons. However, approximately 58 % of the population have a mobile phone (BFAI, 2007).

In 2006, Mexico had a total of 7.629 million internet hosts and about 25 million internet users. The government implemented 'E-Mexico', a program to raise the number of internet user by creating 400 communication centres all over Mexico. The goal is to reach 70 million internet users till 2012. Besides, not only online users are growing in number, but also in confidence and experience in the technology. As more individuals feel comfortable using the internet and have first good experience, e-commerce will increase.

The most important information medium is the television. Approximately 60% of the Mexican population receive their information through television; 25.6 millions televisions are connected in Mexico. (Auswaertiges Amt, 2007).



### **Ecological factors**

Mexico is one of the most geographically and biologically diverse countries on the planet. The Mexican countryside is marked by deserts, mountains, volcanoes, coral reefs, lagoons and jungle.

In the past, the government saw in urban industrial growth, destruction of forests and a chemical-based agriculture a way to prosperity. Until now ecological protection almost does not exist. The major environmental problems lay in Mexico City, where two-thirds of Mexico's electricity are consumed and groundwater is extracted, at a rate that causes the earth to sink all over the city. Another big issue is the forest and jungle reduction for farmland and urban growth. (Mexico, 2006)

### **Political factors**

Mexico is a federal presidential representative democratic republic with a president, who is directly elected by the people every six years. The possibility of reelection does not exist. In the 2006 presidential election the conservative Felipe Calderón, member of the PAN "Partido Acción Nacional", won and is in duty since 1 December 2006. The Federal Assembly is composed of two houses: 128 senate representatives, who are elected every six years and 500 representatives for the Chamber of Deputies, who are elected every three years.

Structure of the Chamber of Deputies:

- Partido Acción Nacional (PAN): 33,41%
- Alianza por Mexico (PRI, PVEM): 28,18%
- Alianza por el Bien de todos (PRD, PT, Convergencia): 28,99%
- Partido Nueva Alianza: 4,55%
- Partido Alternativa Socialdemócrata y Campesina: 2,55%

### 7.3. Competition Analysis

There are no direct competitors, since the Tchibo concept is unique worldwide. Direct competitors are defined as competitors who fulfil the same customer needs, in the same way. Since the Tchibo concept is unique there are no direct competitors in Mexico. However, this regards only to the special three-in-one-store model and the 'Every week a new experience' concept, but the products Tchibo offers have many indirect competitors. Indirect competitors fulfil the same needs of the consumer as Tchibo, though in a different way. Here it has to be separated between food products and non-food products.

#### Food products competitors:

The export policy plan focuses on the whole Tchibo shop concept. A single coffee distribution in retail is not planned and retail coffee competitors are not looked at in the competitor analysis. In this part competitors in the field of coffee houses are described. They compete in the way that they offer coffee beverages, snacks and roasted coffee for home-use, just as it is offered in the Tchibo shops.

#### Italian Coffee Company

The Italian Coffee Company is a franchise concept which, was first established in 1996 in Puebla Mexico. Up till now, there are 385 coffee houses in Mexico. The interior is based on an Italian style, several different kinds of hot and cold coffee beverages are offered, as well as different snacks. The Italian Coffee Company is a Mexican business concept and the company operates only in the Mexican market.<sup>6</sup> (The Italian Coffee Company, 2006).



#### Starbucks

Starbucks is the largest coffeehouse chain company in the world with more than 15,011 stores in 44 countries worldwide. The Starbucks business concept operates with Starbucks owned stores and licensed franchise stores. Starbucks keeps expanding to foreign markets: everyday an average of seven new Starbucks stores open. The Starbucks assortment covers different kinds of brewed coffee, espresso, cappuccino, hot and cold drinks as well as roasted coffee beans coffee mugs and other coffee equipment. The snack assortments range from pastry over sandwiches to salads. Starbucks has several joint ventures and therefore licensed locations in airports, theme parks, grocery stores, hospitals and university campuses. The mission of Starbucks is to create a third place between home and work. In 2002, Starbucks opened the first stores in Mexico; today there are more than 200 stores in Mexico. In 2007, the revenues were over 9.4 billion US\$. (Starbucks, 2008)



<sup>6</sup> There is almost no information online available and my attempts to get in personal contact where unsuccessful, but from my personal experience I can say that the Italian Coffee Company is a well established and successful business concept in Mexico.

### Dunkin Donuts

Dunkin Donuts is one of the largest coffee and baked goods chain worldwide with more than 7,900 stores, most of the stores are franchised. Daily more than 2.7 million customers are served. The product range varies from 52 different kinds of donuts, different coffee beverages, bagels, sandwiches and other baked goods. Dunkin Donuts, as well as, Baskin-Robbins (Ice-cream-chain) are owned by the Dunkin Brands Inc. In 2006, the revenues were over 4.7 billion US\$ (Dunkin Donuts, 2008).



### Oxxo

Oxxo is a Mexican convenience store chain with over 5,500 stores nationwide. The store concept is similar to the American convenience store company 7-Eleven. The Oxxo assortment ranges from several different kinds of food and beverage products as well as several convenient goods. Oxxo has its own coffee brand, which is called Andatti Café. Oxxo serves different kind of hot and cold coffee beverages and different kind of warm and cold snacks. Most stores have a sitting area. Oxxo is owned by the beverage company Fomento Económico Mexicano (FEMSA) (Oxxo, n.d.).



### **Consumer good competitors:**

In this part consumer good competitors are described. The range of stores which offer consumer goods are immense, and since Tchibo offers almost all kinds of consumer goods, it is impossible to look at all stores in Mexico which sell consumer goods. In my personal opinion big department stores and hyper markets are the biggest competition, because they offer a wide range of consumer goods.

Department stores:

### Liverpool

Liverpool (El Puerto de Liverpool, S.A.B. de C.V.) is Mexico's biggest department store chain, with over 65 stores nationwide and a market share of 62% in 2006. The company was established in 1847 in Mexico City. The revenues, in 2006, reached 3.5 billion US\$. The total sales Area was in 2006: 736,582 m<sup>2</sup>. The two key brands are Liverpool with 40 stores and Fabrica de Francia with 25 stores. The Liverpool department stores offer clothing, home furnishing, consumer electronics, household appliances, and more. Liverpool is also active in the Mexican shopping mall business and owns eight malls and has additional minority equity in three other malls. Another branch is the debit and credit business. Liverpool is the largest issuers of credit cards in Mexico (Liverpool, 2008).



## Sears

Sears is an American based company which opened the first store in 1947 in Mexico City. The American Sears Holding and the Mexican Grupo Carso formed a strategic alliance, in which Grupo Carso owns 85% of the Mexican Sears Company. Sears is Mexico's second biggest department store chain with 55 stores nationwide and a market share of 21% in 2006. The total sales area was 378,480 m<sup>2</sup> and total revenues reached in 2006 1.2 billion US\$. The Sears stores offer a wide assortment of clothing, electronics, home furnishing, cosmetics and more (Sears Holdings Corporation, 2008).



## Hypermarkets

### Wal Mart

Wal Mart Mexico (Wal-Mex) is the biggest retailer in Mexico with more than 1,000 stores and restaurants. These includes: Wal-Mart Supercenter, with 139 stores, which offers a wide merchandise assortment including, fresh food, groceries, and general merchandise; Sam's Club, with 84 stores, which is a membership wholesaler, targeting businesses and consumers who buy large volumes; Bodegas Aurrera, with 318 stores, which offers consumer goods, food and household items; Superama supermarkets, with 64 stores, which are medium size supermarkets located in residential areas; Suburbia, with 80 stores, which offer clothing for the whole family at a fair price; Vips and El Porton, with 359 restaurants, offering Mexican cuisine.



The Wal-Mart business model is based on offering a wide variety of general merchandise at always a low price. Wal-Mart is an American public corporation. The revenues reached 378 billion US\$ in 2007. Over 155,000 employees worked in 2007 for Wal-Mex (Wal-Mart, n.d.).

### Soriana

Organizacion Soriana SA de CV is a Mexico-based and 100% Mexican owned company that operates multi-format stores, selling clothing, food items, general merchandise, hygiene products and basic services. Soriana is Mexico's second-largest retailer. It owns and operates 290 stores. These includes: Soriana, with 163 stores, which operates as a hypermarkets; Soriana Mercado with 71 stores, which is a supermarket specialised on low-income customers; City Club, with 23 stores, which focus on wholesalers and large family and Super City with 137 convenience stores. In December 2007 Soriana bought the Gigante SA de CV enterprise, which operates 205 stores under the brand name: Gigante, Bodega Gigante and Super Gigante. In 2007 Soriana had 83,000 employees (Soriana, n.d.).



### Controladora Comercial Mexicana

Controladora Comercial Mexicana (CCM) is Mexico's third biggest retailer in terms of sales. CCM owns and operates about 214 retail stores and 71 restaurants. These includes: Comercial Mexicana with 60 stores, Bodega with 30 stores; Mega with 55 stores, Alprecio with 19 stores, Costco with 30 stores and Sumensa with 20 stores; as well as the restaurant chain California with 71 restaurants. Many of the stores are located in shopping malls.



The retail outlets offer a variety of food items, including groceries and fresh food, and non-food items, which includes general merchandise such as electronics, home furnishing, clothing and hygiene products (Hoovers, 2008).

### **Conclusion:**

There are no direct competitors, since the Tchibo concept is unique, however there are other very strong competitors in the out-of-home coffee - and consumer goods market. Both markets are highly oligopoly, which means these markets are dominated by a small number of businesses which have the mayor market share and the power in the market. This market form makes it rather difficult for new entrants to enter the market. Also both markets are very competitive and price sensible.

**On the other hand these are only indirect competitors and the unique selling point of Tchibo is the distinctive three-in-one-store model and the 'Every week a new Experience' concept. Certainly the consumer can full fill their needs with the indirect competitors, however not with the same shopping experience.**

#### 7.4. Porter's Five Forces

"The five forces framework of Porters helps identify the sources of competition in an industry or sector" (Johnson, Scholes, & Whittington, 2006, S. 80). The Porter's five forces model is "concerned with identifying the key structural features of industries that determine the strength of the competitive forces and hence industry profitability" (Porter, 1998). These five forces affect the industry or sector in the 'external environment competition' and are essential for the success of a company.

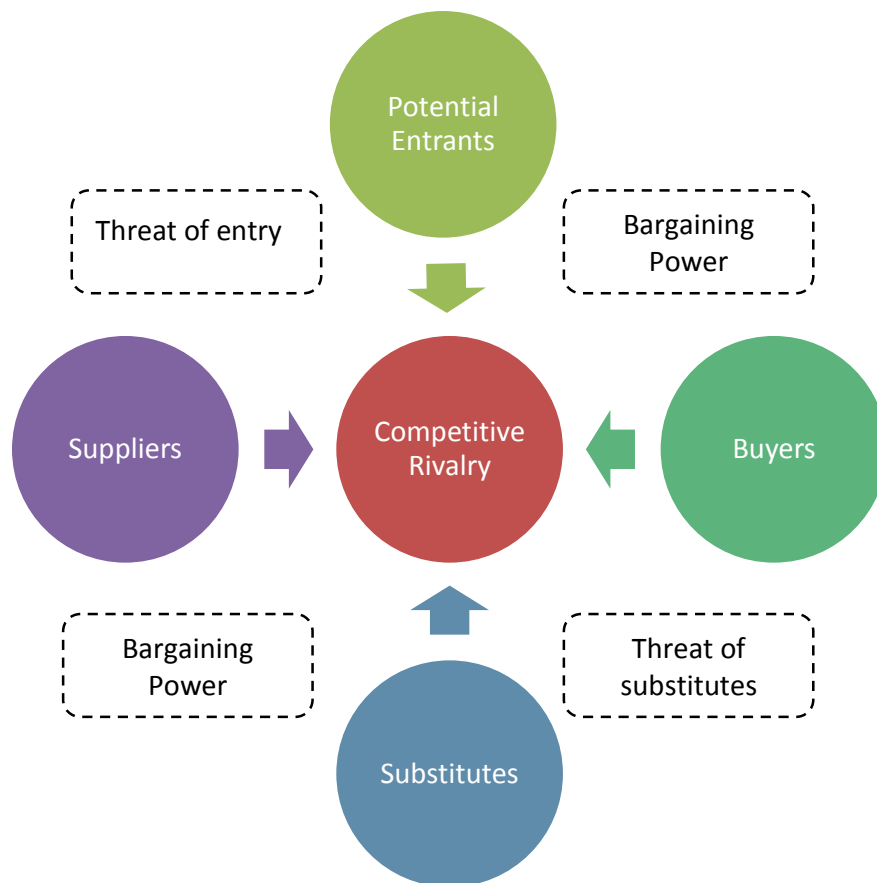


Figure: Forces Driving Industry Competition According to Porter (1998)

In the following section the theoretical framework provided above is used to identify the sources of competition for Tchibo in the Mexican market.



**Suppliers**

The bargaining power of suppliers is not very high. Most of the Tchibo products are produced in China and the Chinese manufacturer market is highly competitive and Tchibo can choose from several different suppliers. This freedom of choosing a manufacturer keeps the power of the suppliers low.

**Buyers**

The bargaining power of the buyers is very high. The customers decide if the every week selection of the products is a success or a failure. Only when Tchibo meets the demands the weekly products are sold. It is essential for Tchibo to offer a good selection of quality consumer goods at a fair price.

**Substitutes**

The power of substitutes is very high. Consumer goods and coffee beverages can be bought in many different places. Both of these markets are highly competitive and the consumer has different options to fulfil their needs. Tchibo has to strengthen its unique selling point and put emphasis on the distinctive three-in-one-store-model and the 'Every week a new Experience' concept.

**Potential Entrants**

The chance for new entrants is medium. Both markets are oligopoly markets, which mean that few suppliers control most of the market share and have the power. That makes it relatively difficult for new entrants to enter. However, the franchise sector is growing in Mexico and different concepts from all over the world could be established.

**Competitors**

The competitive rivalry regarding the products is quite high. There are several options for the customer. Different suppliers offer the same products and all try to attract the customers, however it has to be considered that this regards only to the product itself and not the shopping experience. Today the Mexican customers can drink coffee at a coffee house or shop in a store, but the three-in-one-store experience does not exist yet in Mexico. Therefore in this special 'Tchibo niche' the competitive rivalry is low.

### **7.5. Threats + Opportunities**

#### Opportunities of Tchibo

- O1 Mexican consumer value German brands
- O2 No direct competitors in the Mexican market
- O3 Free trade agreement between Europe and Mexico
- O4 Best economic performance in Latin America and stable political situation
- O5 Household income and demand for consumer goods rises
- O6 E-commerce has a big growing potential
- O7 The Mexican franchise industry growth steadily
- O8 Future coffee consumption may increase

#### Threats of Tchibo

- T1 Size and diversity of Mexico
- T2 Low coffee consumption against high soft-drink consumption
- T3 Currency risks, in particular US dollar price fluctuations
- T4 Several very strong indirect competitors
- T5 Loss of profit due to high corruption

## 8. SWOT - Analysis

### 8.1. Swot - Matrix

Internal	External
<i>Strengths</i>	<i>Opportunities</i>
<p>S1 Tchibo has a worldwide unique three-in-one-store model</p> <p>S2 The distinctive 'Every week a new Experience' marketing concept</p> <p>S3 Tchibo offers high quality products at a low price</p> <p>S4 Great know-how in the coffee and consumer good business</p> <p>S5 Early adopter of internet and strong in e-commerce</p> <p>S6 Good business relations to cooperation partners and suppliers</p>	<p>O1 Mexican consumer value German brands</p> <p>O2 No direct competitors in the Mexican market</p> <p>O3 Free trade agreement between Europe and Mexico</p> <p>O4 Best economic performance in Latin America and stable political situation</p> <p>O5 Household income and demand for consumer goods rises</p> <p>O6 E-commerce has a big growing potential</p> <p>O7 The Mexican franchise industry growth steadily</p> <p>O8 Future coffee consumption may increase</p>
<i>Weaknesses</i>	<i>Threats</i>
<p>W1 A decline in revenues in 2006</p> <p>W2 Little experience on international market</p> <p>W3 Brand image is not known internationally</p>	<p>T1 Size and diversity of Mexico</p> <p>T2 Low coffee consumption against high soft-drink consumption</p> <p>T3 Currency risks, in particular US dollar price fluctuations</p> <p>T4 Several very strong indirect competitors</p> <p>T5 Loss of profit due to high corruption</p>

8.2 Confrontation Matrix			EXTERNAL												
			Opportunities								Threats				
			O1 Mexican consumer value German brands	O2 No direct competitors	O3 Free trade agreement	O4 Best economic performance and stable political situation	O5 Household income + demand for consumer goods rises	O6 E-commerce has a big growing potential	O7 Franchise industry growth steadily	O8 Future coffee consumption may increase	T1 Size and diversity of Mexico	T2 Low coffee consumption, high soft-drink consumption	T3 Currency risks	T4 Strong indirect competitors	T5 Loss of profit due to high corruption
INTERNAL	Strengths	S1 Worldwide unique three-in-one-store model	A	A	A	A	A		B			F		E	
		S2 'Every week a new Experience' marketing concept	A					C				F			
		S3 Tchibo offers high quality products at a low price	A				A	C	B	A					
		S4 Know-how in the coffee + consumer good business							B	A					
		S5 Early adopter of internet and strong in e-commerce						C							
		S6 Good business relations	A						B						
	Weaknesses	W1 A decline in revenues in 2006	A	A			A								
		W2 Little experience on international market						C	B		G	D	D	D	D
		W3 Brand image is not known internationally	E												

### **8.3. Evaluation of the Confrontation Matrix**

#### **Strengths + Opportunities**

The Tchibo three-in-one-store concept is unique worldwide. Therefore there are no direct competitors. The concept is already established and successful in some European markets. Tchibo has a long tradition in the coffee and consumer market business and has gathered valuable know-how and business relations in both markets. Due to this experience Tchibo can offer good quality products at a fair price. Besides Mexican consumers value German brands and connect attributes like quality with German products. They are also very price sensitive. These are two core features of Tchibo products.

The Mexican market offers several opportunities:

- The free trade agreement between the EU and Mexico makes it much easier and financially efficient to enter the Mexican market.
- Mexico has the best economic performance in Latin America and a politically stable situation.
- The Mexican household income and demand for consumer goods rises
- The future coffee consumption may increase about 25% in next three years (According to the ICO)

#### **Weaknesses + Opportunities**

Tchibo failed to identify new markets in time and is therefore experiencing a decline in its revenues. There is almost no growth potential in the highly competitive German market. Tchibo has only little experience internationally and its good brand image is only established locally. On the other hand, the Mexican market offers good opportunities: German brands are highly valued, there are no direct competitors, there is a free trade agreement which links the EU and Mexico, and the e-commerce and franchise industry have growth potential. Besides Mexico has a good economic performance, in which the household income rises. In the future, the coffee consumption may increase.

#### **Strengths + Threats**

Tchibo offers its customers a unique three-in-one-store model; this combined with the 'Every week a new Experience' marketing concept can overcome threats by the Mexican market. The low coffee consumption and the strong indirect competitors could be problematic. Tchibo needs to use its know-how and long experience in business. The long and well established business relations can be of great advantage. The currency risk and the high corruption in the Mexican market are two factors which Tchibo cannot overcome with its internal strengths.

#### **Weaknesses + Threats**

Tchibo has only little experiences internationally and Mexico's size and diversity are often underestimated. Besides, the core business of Tchibo is coffee, but Mexico has a low coffee consumption. The brand image is only well established in their active markets. The Tchibo brand is not known in Mexico. In addition, the Mexican market is highly competitive, with many strong indirect competitors. Furthermore, the currency risk and the high corruption can lead to profit loss. The financial situation of Tchibo has already weakened through its decline in revenues in 2006.

#### 8.4. Strategic Options

Combining the strengths and weaknesses with the opportunities and threats in the confrontation matrix has led to several strategic options. These strategic options are defined below. The most significant option (the option that occurred most frequently in the confrontation matrix) will be mentioned first, the least significant will be mentioned last.

##### A = Market entry strategy - Joint Venture

(S1+O1 / S2+O1 / S3+O1 / S6+O1 / W1+O1 / O2+S1 / W1+O2 / S1+O3 / S1+O4 / S1+O5 / S3+O5 / S3+O8 / S4+O8)

The Tchibo business concept is unique worldwide. Tchibo has a great expertise in the coffee and consumer goods market. Over the years, Tchibo established good business relations with its partners and suppliers; therefore Tchibo can offer high quality products to a good price. Besides, there are no direct competitors. A niche could be created in the Mexican market. Since Tchibo only has little experiences in globalisation, a good market entry strategy would be via joint venture. Tchibo should search for local business partners who have experience and great knowledge in the local market. Tchibo has great opportunities to offer and a joint venture can be very beneficial for both business partners.

##### B = Market entry strategy - Franchise

(S1+O7 / S3+O7 / S4+O7 / S6+O7 / W2+O7)

In the existing markets Tchibo shops are owned by Tchibo or franchised. The unique three-in-one-store model is excellently marketable as a franchise concept. Besides, the Mexican franchise market has growth potential which gives Tchibo the opportunity to enter the Mexican market with less risk. Especially since Tchibo does not have much experience in internationally. The franchisee takes a lot of responsibility. Tchibo should search for reliable local business partners who already have the experience and knowledge of the Mexican market. This can be a very beneficial for both business partners. Tchibo has good and well established relations to suppliers and great knowledge of coffee and consumer goods. The franchisee knows the Mexican market and the Mexican consumer demands. Therefore a close corporation is essential.

##### C = Making use of the internet as a distribution and marketing channel

(S2+O6 / S5+O6 / W2+O6)

Tchibo was an early adopter of the internet and is strong in e-commerce. This knowledge can be used for the Mexican market. Right now the e-commerce market is rather small, but it has great growth potential for the future. Tchibo should use internet ordering as a distribution and marketing channel. Up till now Tchibo does not have much experience in the internationally but the internet offers an inexpensive and easy feasible way to enter a new market. In order to realise the internet ordering service; Tchibo could use an external operated warehouse as distribution centre.



### **D = Be aware of risk and monitor them close**

(W2+T2 / W2+T3 / W2+T4 / W2+T5)

Entering a new market is never easy and, obviously bears risks. Tchibo should be aware of these risks and monitor them closely. The main risks in the Mexican market are the low coffee consumption, the currency risks (especially the US Dollar), the strong indirect competitors and the high corruption. Clear and realistic goals and objectives should be defined. If these goals cannot be reached, actions have to be taken.

### **E = Emphasise through marketing on the core features and the uniqueness**

(W3+O1 / S1+T4)

Tchibo has created a well-established brand image and customer trust in their active countries, but this brand image is not known worldwide. Since Mexican consumer value German brands and connect attributes like good quality with German products, it should be easy to create the same image in Mexico. In order to form this image a marketing campaign should emphasise the core features: good quality at a fair price.

Another significant aspect in the marketing campaign should be the unique three-in-one store model and the 'Every week a new Experience' marketing concept. With this marketing campaign Tchibo can differentiate itself from all the strong indirect competitors and create a special 'Tchibo niche'.

### **F = Shift core business in Mexico to the three-in-one-store model**

(S1+T2 / S2+T2)

The core business of Tchibo is in its current market coffee. However, to overcome the threat of a low coffee consumption, Tchibo should shift the core business in Mexico to the combination of the distinctive three-in-one-store model and the 'Every week a new Experience' marketing concept. This combination supports mutual the different businesses. For example: The customer goes in the store to find out what the new consumer goods of the week are, the scent of roasted coffee beans awakes the desire to drink a coffee in the Tchibo Coffee Bar, the consumer likes the Tchibo coffee and buys also a package for home use.

### **G = Test market**

(W2+T1)

Mexico's size and diversity is often underestimated. Since Tchibo lacks experience in globalisation, an option is to start of with a test market in Mexico. A good geographically area for the test market would be the federal district of Mexico City. The urbanization with 22 million inhabitants is very high. People from many other different districts moved to Mexico City therefore the population is reasonably representative. After a successful test market Tchibo can consider to launch the concept nationwide.

## Conclusion

The Mexican market offers Tchibo good market opportunities for the three-in-one-store model and the 'Every week a new Experience' marketing concept. These are the concepts which should form the core business in Mexico. Since entering a new market always bears risks, the risks should be kept as low as possible. In order to minimise the risks joint venture or franchise and the internet should be used as distribution channels. A marketing campaign is necessary in order to create a brand image and to create and communicate the 'Tchibo niche'. Nevertheless, there are several risks and these should be monitored closely, and if necessary actions need to be taken.

## 9. Personal Opinions and Findings

The research for this export policy plan is not only theoretically based, but also practically. During the time of writing this report I lived and travelled in Mexico. My total time of stay was five month. I visited different states and cities and stayed with locals during that time. Of course in these five month I did not become a Mexican expert, however I always perceived Mexico with open eyes and I do think that I gained some relevant extra inside information during my stay. Therefore I would like to state some of my personal opinions and findings.

- Yes, it is true, Mexicans have a very high consumption of soft-drinks. While in Germany it is normal to drink coffee for breakfast, in Mexico is it normal to drink a soft-drink for breakfast. However Starbucks and The Italian Coffee Company concepts are very successful. All cities I visit had a franchised coffee store and in my eyes it looked as if they are making a good profit.
- Mexico has many franchise concepts and especially concepts from the USA, but Mexicans do not like Americans or the American culture very much. However Mexicans like Germans and the German culture. They think they are very reliable and efficient people. This good perception could be beneficial for a German franchise concept, such as the Tchibo business concept.
- The range between poor and rich is immense, especially in the countryside, however things are changing and the middle class is growing. I think that in this new class a need for new quality consumer goods at a fair price arises. In my opinion, many local products are of low quality and are also perceived as that. Most foreign products are of high quality and are perceived as that, but also the price is very high. Therefore I think that Mexicans will like high quality products to an affordable price.
- To reach a high number of potential customers, the best option is television. Televisions are overrepresented in Mexico. Not only in households but also in restaurants, stores, bars, just everywhere, can televisions be found. Even the poorer population, who lives without running water or a stove, have a television set.
- In Mexico things go slower and are less planed as, for example, in Germany; a lot more patience is needed. I found it quite surprising that in the end the Mexican way of "Tranquilo" (relax) works, however only with the necessary patience.

My overall recommendation for Tchibo would be, to enter the Mexican market. I do personally think, that the Mexican market could offer great possibilities for Tchibo. In my opinion, the unique three-in-one-store model and the 'Every week a new Experience' marketing concept could be successful. I believe, there is a demand for high quality consumer goods for a fair price, combined with the 'Tchibo Experience' in Mexico.

## 10. Marketing Mix

The marketing mix is a combination of marketing activities that an organisation carries out in order to meet the needs of the target market in the best possible way. In this paper the following eight elements of the marketing mix will be used: Product, Promotion, Place, Price, Physical Distribution, Presentation, People and Politics.

### 10.1. Product

Product refers to the actual specification of the product: the product itself, packaging, services, warranties and guarantees. Tchibo offers three different product ranges: out of home coffee beverages, coffee for home-use and the 'Every week a new Experience' consumer goods. These have already been described in detail in chapter 3: 'Product description'. In this chapter only some key aspects are given and the local adaptations requirements are described.

#### Out of home coffee beverages

The same assortment as in the other European countries will be sold: different hot and cold coffee beverages, soft drinks and snacks. The interior of the coffee bar is a standardized branding concept. All Tchibo stores around the world should look exactly the same. The only adaption necessary is obviously that the menu, shop promotions and all inner store descriptions are in the Spanish language.

#### Coffee for home use

Tchibo's coffee assortment is quite extensive, but for the Mexican market only a very selective range should be sold. The core business in Mexico lays in the whole three-in-one-store model and not in the traditional coffee sale. Since Mexico is an active coffee producing country, the coffee range Tchibo offers should be distinctive to the local products.

Therefore a good option would be to sell the Exclusive range, which is also sold in Great Britain. The Exclusive range consists of eight different high quality products. Four roasted bean products and four instant coffee products: Kenya Dark Blend, Guatemala Medium, Brazil Mild and Columbia Decaf.



The packaging needs to contain the content information in Spanish. It is common in the Mexican market to put a sticker, containing all necessary information on imported products. This authenticates even more its foreign origin, which is automatically perceived as higher quality if it comes from a western market

### **Non-food consumer goods**

The consumer goods which are every week offered around a special theme should be the same as in all the other European countries, only if the theme or some individual products of the theme are completely not suitable, an adaption for the Mexican market should be made. In order to find out if the products are appropriate, an external local market research institute could test the suitability in advance. In general there should only be little adaption be necessary, since the consumer goods are selected for a wide range of consumers. Since the Tchibo products are already sold via e-commerce to the Spanish market, no adaption in packaging or user manuals needs to be made. The Tchibo products are already multilingual.

### **10.2. Promotion**

Promotion refers to the various methods to advertise the product to the target group. This includes advertising, public relations, personal selling and sales promotion.

Primary goal of the marketing activities for Tchibo should be to create brand awareness, customer trust and to communicate the special 'Every week a new Experience' marketing concept. The core message should concentrate on: value for money products, German quality, the three-in-one-store model and the changing consumer good themes.

To achieve the marketing goals mentioned above, Tchibo should make use of the following marketing instruments:

- Television and radio commercials

The most important media is television and radio, approximately 60% of the Mexican population receives their information through television, 30% through radio and only 10% through the press (Auswaertiges Amt, 2007). Almost three quarters of the national marketing budget are spent on television commercials (Wirtschaftspartner Mexiko, 2005). Nationwide there are eight public television channels and several different cable television channels. Tchibo should create a television and radio spot in order to promote their products.

- Internet

Until now the internet is a rather less important marketing tool in Mexico, however this will change in the future. Since Tchibo will use e-commerce as a distribution channel, a professional Mexican Tchibo website in Spanish is essential. Tchibo can use their own website to promote their products, by offering a weekly newsletter and raffles. As well could Tchibo place banners on other frequently visited websites.

- Store promotions

Tchibo should offer different store promotion and decorations to the franchisee. Since the best location for Tchibo stores is in shopping malls it would be beneficial to do direct promotions in the mall, close to the Tchibo shop. Raffles or free coffee tasting samples could be provided to mall visitors.

### **10.3. Place**

In the strategic options three distribution channels were selected: joint venture, franchise and e-commerce. Since Mexico is a very big country in size it would be recommendable to start with a small test market and only if the test market is successful and profitable, the Tchibo concept will be launched nationwide. A good geographical area for the test market would be the densely populated federal district of Mexico City. The urbanization with 22 million inhabitants is very high and the population is quite representative. Since many years there has been a migration process towards the capital, which created a unique mix of Mexicans.

A perfect location for Tchibo stores is in shopping malls. Consumer visit malls in general to do some planned shopping, but also to do window shopping, or for entertainment reasons. This offers Tchibo a wide variety of different customers. The perfect spot in a shopping mall would be close to the food court, in order to achieve the best possible symbiosis/utilisation of the three-in-one-store model. The Tchibo Coffee Bar can become a spot of relaxation from the busy shopping atmosphere in a mall.

Mexico has 177 shopping malls, of which 33 are in the federal district of Mexico City (Publiboda, 2008). A 100% distribution in all these malls is not desirable, but a distribution of 25% could be an objective for the future. The target for the Mexican market could be to open eight franchised Tchibo stores within one year in the federal district of Mexico and if these stores are successful, the Tchibo concept can be launched nationwide.

In addition, the e-commerce distribution channel can be started right away nationwide. A test market is not necessary, because the risks are rather low, no high investments are needed.

### **10.4. Price**

Price is one of the most important aspects of the marketing mix, as it generates the turnover for the organisation. It is important to sell the products at a price, which covers all variable costs, part of the fixed and overhead costs and generates some profit. However the price needs to be set according to the perceived value of the product and to the price the customer is willing to pay.

There are several pricing strategies depending on the objectives of the company. Since Tchibo is new in the Mexican market and offers value for money products the best option would be the penetration pricing strategy. This strategy involves setting lower, rather than high prices in order to achieve a large market share. Besides, in other Tchibo markets the penetration pricing strategy is also used. On key feature of Tchibo products is the value for money aspect, which means good quality to a fair price. Tchibo has extensive experience and knowledge in the business and has built over the year's good business relations to their suppliers, therefore and for the economies of scale Tchibo has the possibility to offer these high quality products at a good price.

On success factor of the Tchibo concept is pricing, therefore in the franchise or joint venture agreement which Tchibo needs to negotiate for the Mexican market, should be clearly stated that Tchibo creates the prices and that these are fixed prices. It is also important that store and internet price are the same, in order to avoid competition within the same company.



### **10.5.     Physical distribution**

Tchibo will operate on the Mexican market from its home basis in Hamburg (Germany). For the beginning it is not necessary to have a sales office in Mexico. However there should be a representative who will travel on a regular basis to Mexico. Besides a warehouse with e-commerce distribution functions should be established. The warehouse can be handled by an external company which is specialised in this field.

The Tchibo goods are mostly produced in China and will be shipped directly from the country of production to the Mexican warehouse, from there the goods will be distributed to the joint venture partner or franchise stores or the end-customer (internet-customer).

The trade terms will be negotiated according to the International Commercial Terms (Incoterms). Trade terms are subject to future negotiation with the joint venture partner or the franchisee and the warehouse operator.

### **10.6.     Presentation**

Presentation refers to the product presentation in the point of sales. Since the Tchibo products will be sold in the standardized Tchibo stores, the presentation is according to the perception of Tchibo. Over the years, Tchibo optimized the store concept and the product presentation. Tchibo gained extensive knowledge in an optimal presentation of the products.

The three-in-one-store always has the same structure: In the entrance area is one counter, including the cashier and coffee bar, opposite are some bar chairs and tables, behind the counter is the coffee assortment exposed and in the back of the store is the weekly theme of the consumer goods is presented. The store has an open and inviting atmosphere, the products are organised and well arranged, the scent of roasted coffee is in the air. The presentation of the products is supplemented with promotion material. On the shelf is always an example product to touch and test and underneath are the product boxes for sale.

### **10.7.     People**

People refer to the manpower needed to provide the service. Tchibo needs one internal representative, who speaks the Spanish language and understands the Mexican culture. This employee needs to be dedicated to the company, understand the core concept and needs the flexibility to may move permanently to Mexico.

Since Tchibo is entering the market via joint venture or franchise it is very important to select the business partners very carefully and establish a strong relationship with them. Mexicans prefers to do business with friends or family members, therefore personal contact and a good relation is fundamental. When doing business negotiations with the Mexicans, it is crucial to remember that everything is conducted rather slowly and that patience is needed.

The headquarters in Hamburg operates as a central organisation and will arrange in the international division department all the support needed.

## **10.8. Politics**

### Import Regulations

The EU and Mexico have a free trade agreement since 01.07.2000. Goods with the European origin can be tax free imported to Mexico, under the condition of a direct transport between the EU and Mexico and a certified declaration of origin, which has to be in Spanish or English. The standardized form used is the EUR.1. For the service of customs clearance a fee of 0.8% has to be paid (= *dereche de tramite aduaner – DTA*), basis is the CIF value (Cost, Insurance and Freight). For some products an import licence is necessary e.g. food and agriculture products. Food, beverages and pharmacy products need to be registered and approved by the ministry of health. In general only importers which are registered in the importer register (= *Padron de Importadores*) and tax register (= *Registro Federal de Contribuyentes*) are allowed to import.

### Packaging Regulations

Textiles need a label with the country of origin, care instructions, material composition and the size, all the Spanish language. Electrical equipment needs a user manual in Spanish. Food and cosmetics have special packaging and label requirements.

### Taxation

In Mexico all products have a value added tax (= *Impuesto al Valor Agregado – IVA*) which is normally 15% of the custom value (for some special goods there is a lower tax of 6% and a higher tax of 22%). Some products are exempt of this tax e.g. books, golden jewellery and some basic food products.

## 11. Conclusion

This Export Policy Plan was written to answer the research question: *Is the Mexican market interesting for Tchibo products and what does Tchibo need to consider if they want to enter the Mexican market?*

**Summarising the findings from the internal and external analysis, the SWOT analysis, the marketing mix, and my personal findings one can conclude that the Mexican market offers great opportunities for Tchibo.**

The Mexican market could be very interesting for Tchibo. However, to successfully enter the market, Tchibo should consider the following aspects:

- Tchibo should offer the three-in-one-store model, to fulfil the need of the consumer who seeks high quality consumer goods at a fair price combined with a great coffee experience. The marketing concept of 'Every week a new Experience' will complete the Tchibo experience. These are the concepts which should form the core business in Mexico.
- A good option for a market entry strategy would be joint venture or franchise, in order to compensate the lack of experience in a globalised environment and to keep the risks as low as possible.
- Tchibo should use its strength and experience in e-commerce and utilize the internet as an inexpensive way of product distribution and as a marketing channel.
- A marketing campaign is essential to create brand awareness, to communicate the core benefits and to create the special 'Tchibo niche'. Best marketing channels in Mexico are television and radio.
- Tchibo should keep the risk low and start of with a test market.
- Tchibo needs to be aware of the risks and monitor them closely.

The P's in the marketing mix led to the following advices:

- **Product:** Use the same consumer goods assortment as in Europe, but test suitability in advance with an external local research institute. The coffee range offered should be distinctive to the local products; an option would be the Exclusive coffee range.
- **Promotion:** Television and radio advertisement should be used to create a brand awareness, to communicate the core benefits in order to create the special 'Tchibo niche'. Store promotions and internet marketing are other promotion tools which could be used.
- **Place:** Mexico City would be a good geographical area for a test market; the perfect location for Tchibo stores are in shopping malls. The target could be to open eight franchised Tchibo stores within one year and if these stores are successful, the Tchibo concept can be launched nationwide.

- **Price:** Use the penetration pricing strategy and make sure that in all distribution channels the products are offered for the same price.
- **Physical Distribution:** Tchibo can operate from its basis in Germany, having a representative who travels on a regular basis to Mexico and having an external operated warehouse in Mexico.
- **Presentation:** The presentation of the products should be according to the worldwide standardized Tchibo store concept.
- **People:** An internal representative is needed, who creates good business relations with the Mexican business partners, such as the franchisee, joint venture partners, external warehouses or external marketing research institutes.
- **Politics:** Ensure that all products are labelled according to packaging regulations.

Further research needs to be done in the field of finding adequate business partners. Since Tchibo will enter the Mexican market via joint venture or franchise, the selection of the business partner is of great importance. Tchibo can succeed in the Mexican market only with the right business partners.

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