

## CSR as a Quality Enabler

“Sustainability” is about more than being environmentally or socially responsible. The story of Tchibo Coffee shows that it can also give customers consistent quality.

In earlier years, when powerful companies in the Northern hemisphere bought coffee or cocoa from small farmers in the South, they demanded low prices and threatened to buy elsewhere if they didn't get their way. Commodity prices often plunged before harvest, forcing many farmers into bankruptcy and others to cut down their trees in favour of other plants that would guarantee some type of income. In this heartless business environment, company managers would simply shrug their shoulders in mock-disbelief and move on to the next country. There was not a lot of coffee demand.

It took a strong cup of espresso in the 1980s to jolt business leaders into recognising the inefficiency of this buying strategy. As the Italian espresso culture caught on and demand picked up, leaders returned to the farmer with a more equitable and longer-term arrangement, one that would guarantee supplies and help to minimise risk for both partners. Turbulence on global financial markets and political insecurity also made long-term planning mandatory.

Big coffee importers sought the support of non-governmental organisations (NGOs), like Fairtrade and the Rainforest Alliance, who were already active promoting transparency and sustainable farming in poorer countries. They are part a worldwide network of organisations that certifies the source and quality of commodity exports.

Over the past 25 years, big importers have found that by working with certified farmers and co-operatives they could also maintain high coffee quality. “We went out to our coffee partners and we said, ‘we want sustainable quality, we'll help you to develop this sustainable quality, and we'll also assure you that we are willing to buy these qualities – not [just] next year, but also the year after, and the year after that,’” Dr. Markus Conrad, CEO of German coffee maker and retailer Tchibo, told INSEAD Knowledge in Hamburg.

### **It's all about Trust**

Tchibo is positioned at the top end of the coffee market, a quality segment with finicky consumers who don't like surprises. Tchibo mainly imports high-quality Arabica beans and enjoys the hard-won loyalty of consumers, especially those who are willing to pay a premium for coffee with its Fairtrade and organic labels. “We're a very specific brand,” insists Conrad. “And with our brand, more than with a lot of multinationals, we really rely on very high trust from our consumers.”

Maintaining the trust of consumers required a big shift in corporate thinking at Tchibo – a real challenge for Conrad who took the reins of the 64-year-old Hamburg-based roaster in 2006. Shortly after his arrival, he set in motion a far-reaching strategy of corporate social responsibility (CSR) and sustainable growth that has re-invented its coffee and non-food units.

“We define an internal target for the organisation. It's [in] our personal interest to encourage our partners to sell us the best coffee, because we need it – it's part of our supply chain,” explains Conrad. “So we said ‘let's make sure the organisation understands that it's ‘win-win’ – if we choose responsible partners, this is good for the quality of our product. If we don't have to change suppliers every month, this is good for our processes.”

At present, sustainable coffee such as Fairtrade, Rainforest Alliance, UTZ or organic beans account for roughly 30 percent of all Tchibo coffee imports. Conrad wants to boost that figure but is currently

limited by the small capacity of the fair trade market. Fair trade-certified beans still make up less than 1 percent of all global coffee exports, although the market is growing rapidly.

Tchibo operates over 1,000 stores and more than 8,000 shop departments throughout Europe (many with convenient internet terminals) selling coffee, espresso machines, clothing and other non-food products, green energy, and telephone and travel services. It has 12,300 workers worldwide. 2012 sales were €3.6 billion, a slight improvement over the previous year, as Tchibo slashed its coffee prices in step with movements on commodity markets.

### **Coffee Capsules Revolutionise the Industry**

Germany is a big coffee market (Germans drink more coffee than beer), and Tchibo is the country's largest roaster. It is also market leader in Poland, the Czech Republic, Hungary and Slovakia. Over the past 20 years, a handful of new chains, including Starbucks, Segafredo and Coffeeshop Company, have set up shops and are taking a slice – or a sip – out of Tchibo's market share. Conrad dismisses the competition and points to the strength of their diversified retail business. Its Cafissimo coffeemaker, which uses pre-filled capsules, is selling briskly. It is a promising new product and allows Tchibo to control the quality of each cup.

"It changes a product which for a hundred years hasn't changed at all because coffee was coffee and there was roast and ground coffee, and there was a revolution with instant coffee," declares Conrad. "So, worldwide share [of the capsules] probably doesn't even represent 3 percent of worldwide coffee consumption. But in the area where it picked up, it's growing dramatically, so we believe it's a fundamental change in the coffee industry and something we have to participate in."

### **Focusing on the Worker**

In textiles and other non-food products, Tchibo launched a global programme in 2007 to improve working conditions and give the worker more rights. A number of non-governmental organisations, like Social Accountability International (SAI), provide trainers for the programme. The Worldwide Enhancement of Social Quality programme (WE) is gaining considerable attention in China, Bangladesh, Thailand and India as a key platform for management-worker dialogue. "We now have 250 suppliers that subscribe to this programme, and we're very proud that a lot of multinationals approach us to collaborate with the programme," Conrad boasts. "So the nice thing is we roll-over this idea to other multinationals, and grow the supplier base [at the same time]."

The WE project is also effective in saving lives. In Bangladesh, Tchibo and PVH (Calvin Klein, Tommy Hilfiger) were the only two textile retailers in the country to sign a deal with international labour unions and NGOs to improve building safety prior to the disastrous Dhaka fire last April in which 1120 workers were killed.

Conrad earned an MBA at INSEAD in the mid-1980s. He is committed to CSR and is convinced it is a "win-win" strategy for all stakeholders. He suggests a road map lined with advantages: "First is trust with the consumers, that's the most important thing. The second thing is identification with the employees – the next generation, choosing the employee who wants to do something with the company. The third thing are partners. And the fourth thing is access to creativity. Because good partners not only give you access to products, they also give you access to innovation."