



Starbucks Way of Connecting with Customers

Guest was Joseph Michelli

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Transcription of Podcast

Joe: Welcome everyone. This is Joe Dager, the host of the Business 901 Podcast. With me, today is Dr. Joseph Michelli. He is the chief experience officer of The Michelli Experience, where he has dedicated his career to helping leaders achieve loyalty, building customer experiences and dynamic workplace cultures. In addition to his new book, *Leading The Starbucks Way*, he is the bestselling author on other similar topics to include companies like Ritz-Carlton, Zappos, UCLA Health, Starbucks and the world famous Pike Place Fish Market. Joe, I'd like to welcome you, and mention *Leading the Starbucks Way*, I think is your best work today.

Joseph: You know, I can't even respond to that. I was so impressed by the introduction. I think you should be like my writer, or something except you had such a successful career you don't need me, but no-it's an honor to be back. I feel like I am coming home, Joe, so thanks for having me.

Joe: Our first podcast, on Zappos was excellent. I blogged about it for three months afterwards.

Joseph: I think we have an opportunity to be talking to people about great things and leadership.

Joe: By the way just one more thing, "Happy Birthday!"

Joseph: I'm getting old and thanks for bringing that up.

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Joe: In all your books, you frame them in a certain way which I really like. You base them on certain principles that companies can identify with. Could you start out by giving a brief introduction to the principles that you used in *Leading the Starbucks Way*?

Joseph: I think for me I have to get it in bite size pieces. There is so much information when you're dealing with a company the size of Starbucks. If I can come back and pull the cameras back a little we can get on that, some of the principles that we talked about in this book are really around focusing on the product and making sure you can savor and elevate your product. They have to do with extending to employees so that the love and I know it can be a tricky we can talk about, but the love that you extend as a leader to your employees is something then that moves into the life of the customers.

We are talking about mobilizing the connection in this book. The world has changed, and the notion that people are just going to walk into your storefront or on to your page on online business is just not there. You going to have to go out and find where their lives are and mobilized your connection to make sure that you step into that space with them. There is a principle in the book that looks at the importance of not just focusing on the transaction or the customer relationship of the day. Extending yourself out in the life of customers by challenging your legacy, making sure that you have a lasting legacy statement that goes out into the customer's space.

In the world, which we live, today there is a need to have a global connection with your customers as possible while also maintaining a nuance for cultural relevance. We have a

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business principle in the book specifically dedicated to that. To name all of them, they are (1) Savor and Elevate, (2) Love to be Loved, (3) Reach for Common Ground, (4) Mobilize the Connection and (5) Cherish and Challenge your Legacy.

Joe: Well out of the Five Principles which one do you think identifies Starbucks the most if you could only pick one?

Joseph: Oh! My gosh. Which child do you love the most? I think in honesty these all play one important function. Starbucks got into some troubles, and its economics, they stopped growing. It started just replicating itself out into the marketplace. It wasn't getting the growth for sales based on the kinds of brick and mortar investments. I think what this is all about. What resonates about across all these five principles is a need to transform yourself for relevance. Each of these principles is either going back to your core or looking for new ways to deliver your products so that you maintain relevance with those who brought you to the dance.

Joe: When you talk about Starbucks is this just another five year plan? Is this just changing over from your last book or have these principles always been there?

Joseph: Well first and foremost my last book, I started working on it 2004, so I'm coming up on nine years since I first worked with Starbucks. I would say that there is so much of what they are and whom they are that is in entrenched and it's a rich culture, and it's not all that transient. Then there was the economy drop that really caused them to say "What we have been doing is not working or where have we lost our way or where must we leave

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some of our past behind to connect with customers today. It's a mix. I think a lot of it is core, but there are plenty of transformational agendas and bold moves going on.

Joe: Well as you know, I'm a Lean guy and Starbucks during this transformation has put some Lean principles in place. I'd like to know how Lean principles were accepted by the Starbucks personnel when they were first introduced.

Joseph: Well I'll tell you I had the conversation with the CFO of Starbucks and he said to me "Look we got away with not being a very efficient company. I mean, we were not as good at managing the retail experience as we thought. We created a rich experience, we added value to experience, but we had all kinds of problems. We were not running our units very efficiently. I think they had to sober up and do an honest look in the mirror and say, "As much as we had success when times were high if we going to have any chance of turning around our profitability we're going to have to do it by being more efficient."

Fundamentally, Lean was absolutely essential to what has happened to Starbucks. To prove that something good has happened in the third quarter earnings reports were record breaking. The third quarter of 2013 record breaking earnings reports when they were struggling back in 2008. So how where they accepted? I mean they were hugely accepted once leadership could get their arms around the notion that they were in need of these tools. Once they got the tools then actually went out into the marketplace. They did the partnering, they did the observations, and they demonstrated their value. The employees are saying "Wow! This is easier to do my job. How wonderful that I've got repeatable routines that I can use to get my day done and not feel so overwhelmed. Customers were

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seeing greater efficiencies in terms of times of queue, products were more operationally consistent. The beauty of it once you can break through the resistance at the front of this, these plants just grow just right through the earth and they do really beautiful things and at Starbucks there's been so many returns on our lives "Thanks to Lean" that it's a self-perpetuating phenomenon.

Joe: So would Starbucks consider themselves a Lean organization now?

Joseph: They would. I think that they like to think of themselves as a customer centric Lean kind of organization. I mean not a true manufacturing Lean where the efficiencies are driven essentially for the outcomes of the business. I think there's a lot of debate within you whole Lean community and you are more far of an expert than I am, but I can tell you that Starbucks would say they're Lean different than say "McDonalds is Lean" They have to figure out ways to build in the emotional relationship connection to customers as a value not as a waste.

Joe: That is how I talk about Lean. How does Lean relate to the customers experience? Is it just in the queue? Is it just in the handling of customers and doing it more efficiently?

Joseph: I mean it is largely there. At the store level is where a lot of the labor costs are associated and where the material costs are associated. The key operational challenge is to get that as efficient as possible to reduce the number of people you have to have on staff, to have the right staff in at a right time. To decrease the number of steps, to decrease the number of, you know actions that are wasteful. That's where the bulk of it happens. It also

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happens in new product roll out making sure that there are repeatable processes that people have in roll out that makes for consistent delivery of product across the entire landscape. Beyond the brick and mortar of the store, I think the entire way that Starbucks runs its corporate headquarters has looked at Lean's principles to see what kind of Business processes are not officially being manifest within the organization. It's gone beyond the customer facing dimensions, and it's gone into the business processes. It's just becoming part of the culture. You know how it is though it catches fire, but it needs to continue to be kindled by somebody responsible. They've got the right numbers of people organizationally driving it throughout the organization keeping it front and centre.

Joe: I really enjoyed the section on how Starbucks engaged in dialogues on the ideas. It's practically a Kanban board where they used it to synthesize going from under review, to review, coming soon and launch. They're taking 150,000 ideas to launching 265,000. That's a lot of handling of ideas. Is that an important cog of Starbucks?

Joseph: Yes! It is so important. I love it that you're on this. It is my favourite area to talk about in the book, and I'm really excited. My Starbucks Idea website is what we're talking about. People should go to the website to get a sense of it. If I sign up for the website or if I'm a loyalty member, I get repeats visits, and I get free drinks every once in a while. I potentially could join this community and offer my ideas. I can tell them I want a certain kind of flavoured coffee or I can tell them I wanted to do something different in terms of what newspaper you carrying in my Starbucks or any number of ideas about the experience of products or almost any innovation. I fire that idea off to you-the community and in a crowd source way. They either vote it up if it's really some amazing idea, and lots

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of people share it. There's energy about it as it moves up. People at Starbucks are engaging in dialogues on those trending items or something that may see that's really interesting even it doesn't trend. Then they go back and look at the operational possibilities. They look at the priorities or strategic priorities and sometimes they say "While we had these five but when you look at all the energy behind it in a customer base, we moved it up in our priorities in terms on what we are trying to accomplish. It's amazing to watch the public voting. To watch this ability to join in communal support of ideas and ultimately watch the dialogues between the idea generator and those actually engaged in the experience, the customers and what's happening for the Starbucks leaders. I tell you one last thing there is a parallel universe that customers don't see which is a partner site just like it and that partner site is where the barista saying, "If only we could have this behind the counter it would make my job more efficient and allow me to deliver greater value to my customer."

Joe: That's very impressive! They're using online collaboration with partners and customers all the way through the system to improve their methods.

Joseph: Absolutely! They become aware of things that are salient to those populations that they might not otherwise get. They also get a read on how salient they are. Is it one person's idea? If I had this burning idea, I thought it's so great and then I put it out there and nobody cared about it. I kind of have to shrink back a little bit and say "Oh it's an okay idea but obviously doesn't really matter as much to the world as I thought it did."

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Joe: It is like an open conference where will put some ideas on board. Everybody divides up and picks where they want to go and if you're left alone well...

Joseph: Yeah it bummer but many of us were picked last, in grade school and you have to realize that you're not always first. Your ideas are not always best and you live through it anyway and move on.

Joe: Well I have to go back to your book. When I read it, I said "I could really use this as a strategic marketing outline for a certain customer I am actually working with!"

Joseph: Hey! That was it's there for you know. We gave you an advance copy so, I'm not even getting anything out of it. If people want to pay \$20 and transform their business around it I'm all good with that.

Joe: Well it's actually a better book for that than most books that claim to be a strategic marketing outline.

Joseph: Well that's good news! Maybe we should go back and reposition the entire thing!

Joe: It was excellent and I wanted to bring it up. It does outline processes and ask questions in it and gives some great reflection at the end of the chapters. That's why I think I liked so much about it because you gave so many different ways to use the material in it.

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Joseph: Well at the end of the day, we can tell stories about greatness, but unless you link it back to the reader, these things are just kind of puff pieces potentially. They are pride pieces for the brands. My goal is not to tell you how great Starbucks is. My goal is to get in there and figure out what is making them successful as they are so that we can kind of figure it out for ourselves and link ourselves to some of those approaches. Some will not be relevant I mean this is a 200,000 person's workforce, so there are things they are going to do; "Mom and Pops" aren't going to do. On the other hand, "Mom and Pops" can take some of the concepts and really blow them out because they have more the ability to be more nimble in their execution.

Joe: I think one of the key points that you talked about in the book though is centralization-decentralization.

Joseph: Absolutely! That's a core principle of seeking common ground. I mean the brand blew it some ways for a long time. They sat in Seattle, Washington and try to execute a global strategy. Well look at it this way, I mean what works in Seattle, Washington doesn't work in Mumbai and so in order to deal with that they had to decentralize their leadership. They had to get those leaders out of Seattle and sitting in the regions in which they had to conduct business and travelling across continents. Then you can see what your ubiquitous is offering is with everybody wants but you can also figure out what you better dang well change if you're going to even begin to resonate with the local nuances.

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Joe: What I took from your book and I'm going to try to say it here and you'll certainly have to add to this. Starbucks is standardizing what I would say the experience but changing the product somewhat for the locality.

Joseph: I think that's pretty dang close. I mean maybe they'll change the experiences just a tweak here or there clearly the products are the easiest thing to nuance. It is easier to figure out what a taste profile is in a particular country and how you might have to enrich your product offering to modify them slowly to deal with that. I think it's harder to understand how people want but let me just give you an example in China they tend to have a very large Starbucks. They do this because the communal spaces are general small. So in an effort to trying to create an expansive environment they go larger there and it resonates with creating a different open place, a different kind of place. I think they understand the experience differentiates or somewhat but they're harder to get your arms around and study than they are going to like a certain type of food because you're in a certain place.

Joe: When we talk about these strategic concepts of Starbucks and the customer's experience that they've seems to do so well and are able to mimic, all across the world. How did they transform that strategic knowledge to the person at the window?

Joseph: Well I think it is a lot about, for example, a very clear message and a very simple message. The more complicated your message is, the harder it is to get it to trickle down through leadership levels. I think they start with a very simple message; you're in the business of creating uplifting moments. I might have called it a little differently a long

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time ago to talk about the third place, or the living room of the community then it really matters. At the end of the day because less people actually consume their coffee sitting there, the moment that you have with a customer is to uplift them. Now you're in mass retail so it's not like you're going to uplift them with some "Wow! Crazy." Is just a moment that could be a break in the day of somebody who have been bullied at work and somebody actually smiles at them every day and knows their names? It's not rocket science but if you said to everybody "We are in the uplifting moment business and then you kept that as a constant mantra, you don't change from the Starbucks experience one week and the current principle next week. You stay with the common theme and then you create the tools to on board them; both in terms of direct trainings, on the job trainings, cultural, and rituals. Then you continue to reinforced those messages over the course of their employment the likelihood will deliver that experience in that one store and replicated to store, store, store, store, store across the world is exactly what Starbucks has done.

Joe: I think we hear so much about innovation. We hear so much about customer experiences but when I look at a Starbucks and I have to say this about McDonalds several years ago, I don't know if I think the same thing anymore, but when I look at Starbucks along the side of the road, I stop there because I recognized the experience I am going to have when I go there.

Joseph: I think, what I would say McDonalds just to be real clear will guarantee you'll going to have the same product profile no matter where you are in the world. The beauty of a McDonalds is the consistency with which they deliver and experience and that's where the whole Lean discussion comes into, there are those who I think in your space really

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want to keep everything operating exactly the same and that a Lean service model. The experiential model should be about having so much sameness but the ability to improvise off of that sameness in the direction of the desired emotional outcome. For Starbucks it should be operationally consistent and it should help people understand that when they improvise dealing with humans not machines. When they improvise with humans they're improvising in an attempt to add value that leaves the raw product, the human being transformed in an uplifting way. To me that's the differentiator and I think Starbucks had done a very good job. That is not to say that every interaction and every Starbucks is a beautiful uplifting thing because they have people as their delivery mechanism.

Joe: Do they have standards that they take the employees through. For example, every barista has to get out from behind the counter and walk among the people or anything like that?

Joseph: Absolutely! Not only sweep the cafe kind of thing for all the environmental factors, but they have this values walk that happens once a shift and it rotates across the baristas and that values walk actually starts outside. It's not just kind of doing the sweep inside the cafe and it's not that you immediately go and fix anything you just don't remediate what you see. It's a real ethnocentric look, Kind of a look that you might have if you're a cultural anthropologist and you're walking into the environment and you're just scanning for everything you see. You're going to be looking at the nature of the interaction. You'll be looking for dust on the top of something. It's an attempt to walk from the customer's view through the experience and then document those things. The beauty of it is, you're not tasked to actually fix everything yourself, you're more likely to

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acknowledge that there are things. Whereas if your job is if you see it fix it, this is just kind of see it, observe it, identify it and then we'll know to fix it when we have our first opportunity.

Joe: What comes to mind is... and I don't know how Starbucks teaches it so I have to ask the question? It is the ability to be able to see like an artist. How do you instil that in an employee?

Joseph: Well I mean first you have to have them want to see it. I mean car renters don't care if their car is dirty. That's why nobody washes their rent a car. I mean you have an ownership stake in something to want to see something. I think it starts long before you giving them tools to see and it goes back to the way you treat them early on and whether or not they want to follow you, if they want to join you in looking for things that will transform a customer experience. It starts there but beyond all those cultural foundational, orientation on boarding things I think that it gets down to putting them in a position where they're expected to look. By putting them out there and say "Every shifts somebody's going to look." Looking must be important, right? I mean in business were nobody seems to be looking at that kind of stuff, where there is dust and mold and mildew and grim and growing in corners and crannies. I walk in there and realize "Hey we're not supposed to be looking at that stuff; I have blinders to it just like the management does." I think by creating processes that cause you to be vigilant it sets a priority that is important. That's what Lean's all about in many ways I think it sets a priority for us to look for efficiencies and look for value and we live by that. We dedicate ourselves to those systems so guess-what, efficiency and value is important to our business, "Hello".

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Joe: I agree with you and too me I would think Starbucks has a very precise on boarding program when they bring someone on.

Joseph: Absolutely do! Some of it is operational checklist, some of it specific OJTs skills developments, and certification that you've achieved those skill levels. Some of it is corporate rituals. If you come in and I just hired you Joe. You come in and I just hired you to research Starbucks I'm going to sit down a cup of coffee with you before we do anything else. I'm going to ingrain the culture, so that you realize that before anything else it's coffee. That what it's about, it's about sitting down and savoring a conversation over a cup of coffee that's what we do. Before I can even get into all of how we do it, how we make that coffee, I need to make it really clear to you by my own actions that this is important. Then while you're on-board in addition in teaching you skills, I have to make the perfect espresso shot. I'm also going to teach you about all the different growing regions where the origins of coffees come from and you're going to go through a coffee passport where you're going to taste coffees from all over the world. You're going to write your own notes and observations about their flavour profile and that is bringing you up to speed to understand that is not enough to shove a cup in someone's face. You best understand where the coffee came from, the nuances of that coffee and what that flavour indicates about that customer's life. I think that's how you bring people on, you get them excited, you get them inside of the fold. They're no longer coffee preparers, they're creating experiences that uplift to the coffee, to the conversation, to the physical environment which they bring customers.

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Joe: I'm just amazed when I look at Starbucks, I think of Walt Disney. I think all of this because of a mouse and all of this because of a cup of coffee.

Joseph: Amen! I think his brother Roy was at the opening because at that time Walt had passed and Roy was at the gates when they're about to open Disney World and some custodian came up to Roy patted him on the back and he said "Boy I wish Walt were here to see this now." Roy turned to the custodian and said, "You know what, if Walt hadn't seen it we would not be here right now." I think there are those people whose vision is well beyond our sight and then we'll benefit from it whether it's through coffee or through a mouse.

Joe: What's in your vision? What's in your sight? What's next for you?

Joseph: 2015, I will have another book out. I already got the contract. I'm planning ahead a bit; it's about "Mercedes-Benz." I'm working with Steve Cannon there he's the CEO of Mercedes-Benz USA and were working on a project called "Driven to Delight" to try to elevate the overall customer experience. This incredible innovative marketing company called "Mercedes-Benz" it's been around a while. We're trying to elevate the experience in the dealerships to make sure it's everything the cars are.

Joe: I think that's a fantastic opportunity! I got to wait two years for it I'm disappointed now.

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Joseph: You have to wait two years, that's how long I have to write it. Sorry, I did this to you but it gives me some pleasure.

Joe: I'm sure it does Joe. Well I would like to thank you very much for the opportunity to interview you. Tell me where I could find the book and when does it comes out?

Joseph: Well you can order the book this very day I know that they're out from printers so they're going to be trickling in the bookstores in advance of the day that is set. Its official launch is September 6. I think it's safe to go ahead and buy it online now and be looking for it in your bookstore if you're visiting a bookstore anytime soon and certainly after September 6 it will be fully stocked everywhere good books are sold.

Joe: How can someone learn more about it? What's your website and how do they contact you?

Joseph: Leading The Starbucks Way, we have a website specifically about the book if they're interested in that alone. If they're interested in just kind of what I do and the breadth of books that we have out there you can just check me out at josephmichelli.com that's michelli.com and Joe you are an incredible gentleman, blessings to you continue to change the world through your efficiencies and all that you do and your heart for business and I'm so grateful.

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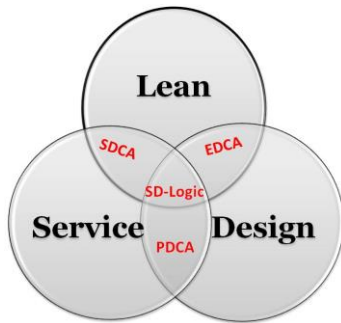
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Joe Dager is president of Business901, a firm specializing in bringing the continuous improvement process to the sales and marketing arena. He takes his process thinking of over thirty years in marketing within a wide variety of industries and applies it through Lean Marketing and Lean Service Design.

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