



Mercedes Journey to Customer Centricity

Guest was Joe Michelli

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Mercedes-Benz Journey to Customer Centricity

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Transcription of Interview

Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 Podcast. With me today is Joseph A. Michelli. Joe is an internationally sought-after speaker, author, and organizational consultant. He has written books about luxury brands like the Ritz Carlton, a coffeehouse like Starbucks and even about small fish markets. His latest, 'Driven to Delight' is about Mercedes Benz. Joe, I welcome you, and I have to say, every book just seems to get better, how are you?*

Joseph Michelli: *That's really kind. Actually, my main claim to fame is I have a great first name, don't you think? No, thank you for saying that. I really enjoyed working with Mercedes-Benz and being involved in the transformation of that brand in the United States has been just such a blessing and along with it came the opportunity to write about them.*

Joe: *Well, I can dodge this question but being a Lean guy and it's probably a terrible way to start but we talk about Lean influences in our last podcast about Starbucks, and the journey that Mercedes takes is not too much different than what I might say is a Lean journey.*

Joseph: Oh no, it's so right. I mean I think great Lean obviously would follow what I think Mercedes Benz did. I just have been exposed to such a cadre of different Lean providers, and I think some really get that you have to engage in the human element, and you have to look at that interface between technology and humans in a very special way. And then others just seem to be very locked in on process, so I think that Mercedes-Benz takes that high level, let's look at people, let's look at process, and let's look at the interface of people in technology.

Joe: *I think that's very well said, Joe. A Lean person or even an Agile person I think would review the table of contents of your book and I just don't know how they could resist not buying it.*

Joseph: Well, that's very kind of you. Again, I think that the key to business success today is relevance to your consumer and that relevance is the value that you add at each touch point that the consumer has with you or else they just go somewhere else. Getting your process efficiencies down and making their life easier, it's just at the core of great customer experience innovation today.

Joe: *The Mercedes-Benz story that you tell unfolds from being a product-centric to a customer-centric organization and you put together a great storyline or maybe they did.*

Joseph: Yes, I don't know if they wanted that storyline. I mean I think they wanted to be best or nothing, which is the brand promise across all dimensions of the business. It's just that when they founded the automobile, I think they become so in love with automotive

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

innovation, their product designers by nature, their gear heads, they know the tolerances and variations of the finest engineering aspects of the car, all of which is lost on me. But what they didn't dial up was the changing marketplace of consumers, and you have to make sure no matter how good your product is, you have an equally great deliverable in the way the customer interface is where they've been accessing it. And they very candidly new that that's not what they were delivering, and all of the external data or not all but a good chunk of the external data from third parties was verifying that from them, and so they needed to get on it, and they did and with the same precision of engineering, they applied that to engineering the customer experience and thus, we have a transformation.

Joe: *Was there something that really triggered that? You know that burning issue we always hear about for change management, was there a particular burning issue with them?*

Joseph: I think it's two-fold. The public facing number that has annoyed them for a long time is the JD Power Satisfaction Indexes. They were not performing in that number as well as they would like to and that's kind of a bragging rights number because the consumer sees it. I don't go buy a car because one company is number one in JD Power and somebody else is number two, but at least, it's a bragging rights issue. I think the other one was there's a new leader who said, I've just come to the helm here and what do I want my legacy to be? I think he was smart to say, of all the things I can change around here, the one I have the greatest influence on is if I can help our dealers treat customers differently at every touch point. So I think it was his rallying cry and his vision that led them into this pivot point.

Joe: *Mercedes-Benz committed to a multi-year program or something right from the very*

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

beginning. It was like there are no quick fixes here. I mean that's contrary to what we all think. We always try to say, well, let's get it done. Right?

Joseph: I was just involved in a Harvard Business Review article where they did a bunch of research on why companies are not achieving what they're trying to do in this customer experience phase. If you look at the research now, Forester says about 92% of companies are putting on their strategic list that they want to improve the customer experience. Despite 92% of companies saying that is a priority, we're at one of the lowest times in history for customer satisfaction if you use metrics like the American Consumer Satisfaction Index.

We have all these people prioritizing and then we've got very few customers feeling it, so something has gone wrong. I think one of the things that gets wrong about it is that as per the Harvard research recently, lots of these brands are just trying to do something without aiming, and they don't think of it as a long-term transformation. They think of it as a service initiative or customer service initiative, and they don't build the infrastructure, and they don't change the hearts and minds of their people to build it into their culture, and so it doesn't sustain, and it doesn't manifest in any significant in the life of the customer.

Mercedes-Benz has had a few of those flirtations along the way but, this time, around, they trudged down and said, we're going multi-year, and we're going to put money behind it. We're going to try to really look at a reapplication of resource, so in a classic Lean way, they said where are we wasting our dollars that aren't delivering throughput to our customers and then where can we reclaim those dollars and put them into some other offering for the customers that are going to engage in far more.

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

I think your point is well taken; that multiyear was a big breakthrough concept, and it's in keeping with the differentiators between wannabes and true customer experience leaders.

Joe: *Was there a couple points along the journey though that was like stopping points, was like hurdles that – can we get through this, is this the right direction? I mean some real questions marks in their mind if they're headed the right direction?*

Joseph: Joe, this is why I love doing your interviews. Because, you know when I Write these books, I always sound like 'see Spot run,' look how happy everybody is, they did it linearly, it was all sequential, and we all lived happily ever after. I mean I don't think it's quite that fairytale-esque, but I do think when you're trying to tell a story, you don't kind of bog the reader down with a lot of the challenges. The big challenge was that Mercedes-Benz is an OEM. They're an original equipment manufacturer of automobiles. They are not the people who sell them. They have a distribution channel of dealers who are all independent business owners. Some are magnificently big like Auto Nation, I mean they're a phenomena, and others are kind of just a small mom and pop in some town, multi-generation owners of Mercedes-Benz dealerships.

The real challenge is how do you get a bunch of dealers who are just these disparate business units to all agree that we're going to go along with this. We're going to get measured based on how customers are feeling about their experience and then, bigger yet; we're going to get dinged in terms of the revenue we generate per car if we don't deliver a high-quality experience as rated by our customers. There was a lot of negotiating and a lot of making up

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

sausage that I did not want to have to expose the reader too, but the beauty is I think if your idea is right, if you sell it to people that we're all going to make a lot more money if we treat our customers better and yes, if we don't treat our customers well, there should be a merit-based approach to that, and the customer is the ultimate determiner of truth. I think that I probably don't get into as many of the struggles that went on there, but they ultimately got alignment which is what makes the difference.

Joe: *You have to get that dealership; I mean you have to get that buy-in from them, and that is not necessarily something that you can just say 'Do it,' can you?*

Joseph: No and obviously they have a dealer board who represents all the dealers and so the most important thing is working with the dealer board in partnership to create a win-win and then the dealer board going back to their peers and saying, hey look, Mercedes gave on this, and we gained on that, and we have to give on this, and that's really what happens. In kind of the nutshell of that is that Mercedes-Benz basically had an incentive of variable margins. If you didn't perform in certain ways, they could hold back some money. They increased that variable margin and attached it to whether or not customers were having a great experience or not and to get that increase, Mercedes basically said, in the old days, if somebody didn't make their margin, we at Mercedes kept that money.

But nowadays, we're going to give that money right back to you. We're going to put it back into the pool and so if you'll allow us to take a little more margin and if you'll allow us to give you that money back to the top side of the people who are really knocking their cover off the bowl on customer experience, then we can make some progress here. It was just the

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

give and take of it I think that ultimately was compelling; that nobody was making a money grab, and everybody was thinking about the long-term interest of the business through the eyes of the customer.

Joe: *Mercedes has the money. They have the luxury automobile. They can create a customer experience. What about us poor folks? Can we do something similar to Mercedes?*

Joseph: The key here isn't how much money is spent. In fact, Mercedes didn't spend a significantly larger amount of money on this. As much as I implied that probably in some ways, some of the things they did were just kind of crazy. So by history, they've been spending money saying that if you want a Mercedes Benz automobile, you're going to get roadside assistance; cradle the grave. Whether or not you bought that automobile from the dealer or if you bought it from somebody who bought it from somebody else, you still are protected for that road assistance. Well here is the rub, those people who might have bought it from a third party and another third party, they may not have ever had that car serviced at a Mercedes-Benz dealership and all of a sudden it's dead on the side of the road, and they call up Mercedes and Mercedes-Benz funds the roadside assistance.

That kind of money you just can't spend in business today. Those customers are not connected to you; they're not bringing any profitability back to your brand and so instead of using that money, they change policies around that, and they take that money and use in a very constructive way to incentivize first-time car buyers in an entry level car like the CLA. And so I think what it really comes down to is we have to look at every dollar we spend in every business and ask as a Lean guy would ask, is this adding value or is this waste?

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

I'll put it in a little different way. Peter Drucker once said that we're in business to create a customer, and I used to believe that, but now I kind of believe that we're in business to create a profitable customer and to profit customers through our effort. If that customer doesn't return anything back to us, they're not really the customer we're trying to create, and if we don't create profit for them, we're not the business they want to do business with. What I think we all have to do is say every dollar, every action has to be looked at through the filter of the value and if it doesn't add value, let's save that money and reinvest it in something that does.

Joe: *Mercedes is more than a car company. Are these experiences happening outside of the luxury car business? Are you being delighted with a Mercedes truck now?*

Joseph: Oh yes, I mean they're definitely moving. They've got a commercial fleet in their vans. They're moving to some passenger vans. There's definitely movement in their product array. It's just crazy what they're all doing with products and the autonomous driving vehicle and all the things that are coming on board. What I'm being delighted is the lifestyle. You know the future of the automobile is going to be integrated. I mean these things are going to be able to talk to your dealership, communicate big data and what they're doing to be able to do is know more about who you are if you opt-in and make offerings to you.

If you're into tennis, they can make offerings for you to get exclusive access to the US Open for example and these are things that I think brands like Mercedes are going to be able to do more and more is associate themselves with luxury lifestyle and avail their customers to

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

elements of that lifestyle they might not otherwise experience. The car is just the vector by which that relationship is built.

Joe: *Well while you're on that subject, I mean does Mercedes feel somewhat threatened by like Google being the next car maker or somebody like that?*

Joseph: I mean I think everybody is threatened by who is the disruptor in this space. I mean look at what Tesla did to cars. Not that they have a market share that's I think threatening to a lot of these brands, but I do think the whole dealership experience, the Tesla store is very different, and it requires more technology in every kind of dealership in America.

I think the changing consumer of the future who's going to be buying cars is going to be looking for a different kind of consumer, a lot more digital assets online that clearly people are buying cars online and they're just going into dealerships now because they can't drive them online yet. If we get the virtual driving of cars, maybe we won't have any dealerships anymore. I think that fundamentally, everybody has to be looking at disruptors, but I'll tell you, Mercedes is well positioned on the cars that can drive themselves really. I don't think they're too worried about Google having a big leg up on the technology. They may have some different philosophies about autonomous driving vehicles, but I think they're in a pretty good place.

Joe: *And from what I've seen, in the futuristic cars that I've seen, I think they are too. But one of the things that just grabs me from the whole book and probably maybe the theme of*

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

the book even is that Mercedes is probably one of the most product-centric thinking companies there was maybe 10 years ago or 5 years ago, and that cultural change to customer-centric did not come easy.

Joseph: Blessings for you to catch that. I mean if there's anything I dreamed about in trying to communicate in the book, it would be that message. I have a history of writing about brands like Starbucks or Zappos or Ritz Carlton, all of whom were born to serve, right? I mean that was their DNA. Mercedes-Benz was born to create fabulous automobiles and not necessarily to focus on the attentive and rich customer experience that a Ritz-Carlton will provide. And so the market shifted, though. Great products even if – and I would say dealing with the Mercedes people long enough, they would view every other automobile as inferior to theirs. That's just the way they look at the world.

From a consumer perspective, let's assume I think Lexus is comparable for whatever reason, maybe slightly inferior but comparable enough for me, then what I'm going to go back to is how did I feel when I went and bought it or how did I feel when I had it serviced? And if they do a really good job there, then I'm not going to look at Mercedes-Benz the next time around. If they do a really bad job there, I'm going to turn from them, and I'm going to consider alternatives the next time around. So I think what Mercedes had to learn is they better nail down that experience or else they're letting their product down.

Joe: *Well so much of this is customer facing, and I go back to that auto dealership because the Mercedes, they've had a traditional auto dealership for years, 30 or 40 years or whatever especially in the US and we think of Lexus, you bring that up, and that was kind of all new.*

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

So you got this sparkling new thing out here, dealerships are new, and Mercedes had to turn it around with that old – I don't want to say, but that old standard dealership setting there.

Joseph: That's a great way to say it and frankly, the old standard dealership in some places was old. In other places, people have been progressive, and some of the best of the Mercedes dealers were by nature better than some of the best of the Lexus dealers, but Lexus had required as per their franchise agreement or their dealership agreement, they required the people they selected to be the best of the Toyota dealers, to be able to create a certain kind of physical environment, it was mandated so they had these beautiful customer facilities, and they required them to be part of a customer covenant and manifesto in how they were going to treat the customers and if they didn't do it, they wouldn't be selected and it was part of the original operating agreement.

Some of these agreements forced with dealers in Mercedes-Benz land ages and ages ago didn't have that kind of forward thinking view, well that's been the journey is how do you take a brand that wasn't born to be customer-centric and flip it and sell people on the notion that this is the future. We can't do business the way we've always done business and sustain success in the modern age of consumerism. I think the book is all about that, and I think it's probably about most companies because I think – I don't know. We get started in business because we have a passion for our product or for delivering a certain kind of service and then at some point along the way, we better become pretty sophisticated at how to deliver that product and service in a way that's credible, relevant, unique, and durable to the customers that we're trying to attract.

Joe: *Getting back to the book a little bit, it just published this week as we're doing this interview.*

Joseph: My first interview, I mean we definitely are excited about talking to you. I've got a ton lined up today, but you jumped right up in the list.

Joe: *I have to admit, you usually do in the other books you've written, 5 steps of this or 5 of this or 4 of that or something, but this book was probably your best job of taking the story and putting it into actionable items.*

Joseph: Well I was walking the floor back and forth going, wait I have a formula. I know how to do the 5 principle books. What am I doing here? So, thank you for that. I mean I know that as a business leader in many ways, I think it's more relevant to say, and we organize this book I think around people, process, and technology a lot, and I think that's a good way to think about my business, is how am I leveraging my people to deliver the warmth and compassion of customer service. How do I improve my processes based on the voice of the customer, to make sure that those processes are doing the best that they can both individually for that customer who just walked in a more broad scale.

How do I make sure that I give my customer choices to use technology to make life easier for them or to allow them to engage a human being and added value because I think we've gotten to a point now where because of all this automated technology, when somebody does opt in for a person, they should have a person who could do more than the technology good. And unfortunately, there're a lot of customer representatives for different companies out

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

there that really just kind of almost emulate cashiers and they don't really problem solve, engage, connect with, and value the customer in a way that technology never will be able to.

Joe: *I think one of the interesting ways is the way you ended the book - how good can good be? Can you give us sort of an outline of that chapter and where you're trying to head at there?*

Joseph: Some of my favorite bands were one hit wonders. I'm so sad about that in my lifetime. It's like, why can't they come up with something else? They were really great. I think we can all do the one hit wonder thing in business. I think we can hit something fairly well and then the question is can we sustain it. Do we inspire our people not just to achieve success, but to really protect that success and build on that success.

There are very few fabulous brands, I mean if you think about brands that might have been legacies in our time, they just don't exist anymore. There were brands that were such staples that maybe weren't such good ideas and you could see how they drifted away from success. The last part of this book is really a lot about the difference between creating success and creating a dynasty. It's a lot about looking at what do you want your legacy and business to be, and the notion is that we can be successful but not be significant. How do we shift in the space of significance so that we leave a lasting impact for future generations to build off of, instead of exploit success for the short term on the horizon.

Joe: *I have to ask you, what's on the agenda? What's in the future for Joe Michelli? You're*

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

going to promote the book of course for the next year or two, but what else do you have going?

Joseph: Every two years or so I write a book, so there would probably be another book in a couple of years. I work with so many amazing companies, whether it's Godiva chocolate or Pandora jewelry, or whomever it is that I have been blessed to work with, Dairy Queen, for example, so I am incredibly blessed. But I have a target for my client list. I have a target for another book in a couple years, but for me, it's always a matter of will this work? Is the company going to turn it or not? Because if they don't, even though I may be in love with the company, if they can't figure out how to dial this up in a way that really affects success, then there's no reason for me to benchmark. We'll see in a couple of years what the next book is. Maybe it's Joe's Company, what do you think?

Joe: *I doubt that. I doubt that very much. What was the big thought that you took from the book, Joe?*

Joseph: I think the ultimate thought is leadership really runs the ship. I think the quality of leadership that I saw at Mercedes-Benz and their passion and commitment, the clarity of their focus, their ability to drive this from the c-suite all the way down to the person in the back of a company they don't own, maybe somebody who's shagging cars at a dealership, their ability to get that message all the way through and then ultimately for customers to see it, feel it, and report it on a variety of different types of metrics, it was as impressive as I've seen, and they did it in such a short order because this was the priority and they walked the talk of their prioritization. And so I came away really heartened by for all the talk of how

Mercedes Journey to Customer Centricity

Guest was Joe Michelli

hard it is to change an organization, how well it can happen with the right passion of leadership.

Joe: *Of course everybody can read get the book on Amazon. It was released this week. Is there a book website?*

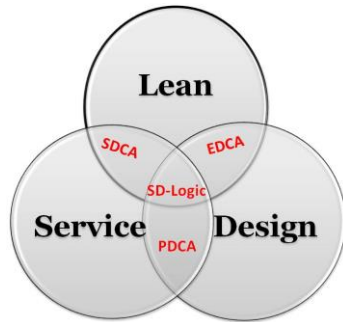
Joseph: There are two ways people can get it and we've got a special offer for the book, a discounted prices, and that is at dtodbook.com, and they could just put VIP in their code since you're a very important person to us. So that will just get them a significant discount on the book, and it will get them a signed copy, and we'll invite them to a Webinar, an exclusive webinar for people who buy through that code. So, that's one option, and then there are some other things that are available. If you just want to learn more about the book, there's a website called driventodelight.com.

Joe: *Well I'd like to thank you very much, Joe. I appreciate it. It was wonderful to have you again. I always appreciate having a discussion with you.*

Joseph: Two years from now, maybe another one.

Joe: *Keep me on the list, okay?*

Joseph: Thanks, Joe.



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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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