

Mint Condition

Philip Diehl has transformed a clumsy bureaucracy into a fast-moving enterprise with great customer service and a cutting-edge presence on the web.

BY: ANNA MUOIO

Philip N. Diehl makes change -- literally. As director of the United States Mint, he and his colleagues produce roughly 20 billion circulating coins per year -- those nickels, dimes, and quarters that jingle in your pockets and feed parking meters. They also manufacture and sell collectibles, commemoratives, and bullion coins. With annual revenues of \$2.5 billion, 2,200 employees, and four manufacturing plants, the Mint makes money by making money.

More important, Philip Diehl knows how to make change -- deep-seated, far-reaching, this-feels-like-a-different-place kind of change. When he took charge of the Mint in September 1994, the agency lived up to every negative stereotype of a government bureaucracy. It was inefficient, slow moving, and utterly clueless about the standards of performance in the business world. One telling example: The Mint's primary responsibility is to keep an adequate supply of coins in circulation on behalf of its main customer, the Federal Reserve System. But six years ago, no one at the Mint could tell you how many coins were in its inventory.

Not that many Mint officials thought it was a big problem. Diehl remembers his first visit to the agency's headquarters, shortly after he was appointed by President Clinton. "I got to the building a little after 5 PM, and the hallways were empty. There wasn't a person in sight. I actually called my wife and told her that there must have been a bomb scare; but there wasn't. It was just business as usual at this sleepy, 201-year-old government agency that had lost its passion."

Today, the Mint is exploding every stereotype of a government agency -- and is setting a standard for performance and improvement that would be the envy of most private companies. Are you trying to improve customer relations? According to the influential American Customer Satisfaction Index, the Mint now ranks second only to Mercedes-Benz North America in customer satisfaction. Are you trying to create new lines of business from your existing people and assets? The Mint is turning its police force -- the folks who, among other responsibilities, guard Fort Knox -- into a revenue-generating unit that sells its services to other federal agencies and to foreign governments. It has also launched a new product line -- the heralded 50 State Quarters Program -- that is attracting a new generation of young collectors. What's more, the Mint has gone ".com" in a big way -- using the Web to generate customer feedback on coin designs and taking the

"eBay approach" to sell collectibles online.

"We've fundamentally changed people's expectations of our performance," Diehl declares with obvious satisfaction. "We've changed the expectations of our stakeholders on Capitol Hill. We've changed the expectations of our employees in terms of how they're treated. And we've changed our customers' expectations of our performance. In the old days, we shipped fewer than 50% of our orders within eight weeks. Today, if it takes two weeks for customers to receive an order, they complain. When you change expectations, it's very hard for an organization to relax and slip back into old patterns of behavior."

Diehl, 48, whose nearly six-year tenure is drawing to a close, believes that the Mint's transformation is comparable to some of the better-known change programs in a private sector. It's hard to argue with his assessment. "I was sitting in my staff meeting yesterday afternoon," he says. "I was listening to my director of marketing describe the huge demand for our products and all the things we're doing on the Web. We've had three straight weeks of million-dollar sales on the Web, and I fully expect that we'll soon have our first million-dollar day. I told the folks who were around that table, 'If this were a company, a bunch of you would be IPO millionaires -- just based on what we've done over the past six months.' And that's the remarkable thing about what's happened.

People have achieved this huge turnaround without any of the traditional incentives that companies use. Folks here get modest bonuses and free jackets. They're not doing it for the money."

CHANGE CUSTOMER EXPECTATIONS

Philip Diehl cuts an imposing figure. He's tall, with a full head of jet-black hair, a confident voice, and a slight Texas twang. He arrived at the Mint with an impressive background: former chief of staff of the Senate Finance Committee and Lloyd Bentsen's first chief of staff during Bentsen's tenure as secretary of the treasury. In other words, Diehl could have spent his early days as director of the Mint making bold declarations, big promises, perhaps even dire threats. But as a change agent who is in it for the long term, he chose another path.

"I've always been in a hurry," he says. "It's sort of my personal style. But I didn't rush the changes at the Mint. I started small, with a few initiatives here and there. Then as the envelope was pushed or as roadblocks appeared, problems were tackled as they cropped up and progress continued. Big changes have been made over the past six years, but they've been made incrementally. You do big things by doing lots of small things."

Back in 1994, Diehl and his change-minded Mint colleagues could have taken their first small steps in just about any direction. Costs needed to be cut. Manufacturing plants

needed to be streamlined. But Diehl's first critical decision was to focus on changes that got to the heart of the Mint's relationship with its customers. "One of the greatest lessons I've learned," he says, "is that if you identify a problem that customers really care about, and then commit yourself publicly to fixing it -- taking that risk is absolutely crucial to changing an organization. And if you fix the problem, you build an incredible sense of confidence that the organization can tackle the next problem."

The customer-service problems that needed to be fixed were plentiful, especially on the collectibles side. Sure, the Mint manufactures dimes and quarters and guards the gold in Fort Knox.

But it also runs a huge mail-order business -- a government version of L.L. Bean or Lands' End -- with distributors in 45 foreign countries, that sells coins to more than 1.1 million collectors. Last year, that business alone generated revenue of more than \$1 billion.

But the collectibles and commemoratives operation was big despite the Mint, not because of it. Its customer-service center in Lanham, Maryland was something out of Charles Dickens rather than Tom Peters. The center sat on the second floor of a converted warehouse. Customer-service reps were packed into a dismal space where the heat didn't work in the winter and the air-conditioning failed in the summer. "It was god-awful," says Diehl. To make matters worse, the center was housed in the same building as a U.S. Postal Service regional package-handling facility. Anytime postal workers stumbled on a strange-looking package, they'd issue a bomb scare, and the entire building would be evacuated. As a result, it wasn't all that unusual for an incoming call to be answered not by a U.S. Mint customer-service rep (no matter how frostbitten or heat exhausted) but by an answering machine.

This dysfunctional environment produced depressing results. The Mint was fulfilling only half of its mail orders within eight weeks. The rest, jokes Kevin Cullinane, 48, assistant director for customer care, would take anywhere from eight weeks to infinity. "That type of performance would bankrupt a private company," says Cullinane. But as a government agency, the Mint simply ignored the reality of its performance. "There was no sense of urgency about the problem," says Diehl, "or even a sense that there was a problem."

The situation got worse still. One reason that the Mint didn't feel a sense of urgency about its frayed relationships with customers was that it was basically forbidden from interacting with them. Prior to the Clinton Administration, the Office of Management and Budget (OMB) actively discouraged agencies from spending money on focus groups and surveys -- the most rudimentary tools used by private companies to gauge their performance. "OMB never saw the benefit of having an agency talk to its customers,"

Diehl says half-seriously. "In fact, it suspected that if you were talking with them, you were conspiring with them -- to get Congress to do something that OMB didn't want done."

That paranoid mind-set created a bureaucratic maze in which every customer-survey instrument that the Mint wanted to use had to be approved by OMB -- a review process that took, on average, six months. So Diehl hit on a simple idea: If the Mint couldn't survey its customers officially, Diehl himself would do so unofficially. A few weeks after joining the Mint, he embarked on his own personal fact-finding mission. He went to coin conventions, talked with the hobby press, found situations in which he could interact with collectors. He shunned the ceremonial role that the director of the Mint usually played at these functions (collectors would line up to ask for Diehl's autograph), and did what any smart politician (and change agent) would do: He worked the room.

Diehl asked questions, listened, and learned. He quickly identified the two most widely shared complaints about how the Mint did business. One, it took too long to get coins into its customers' hands. Two, because the Mint required payment up front, it was holding onto its customers' money for an unreasonably long time.

So Diehl and his colleagues got to work. A task force was formed to work on the two issues. Three months later, the group had made some progress. But Diehl knew that it would take more heat to get the fires going: "We had to put our reputation on the line." He went public with his customer-service agenda. To a very active hobby press, the general media, and a nervous Mint staff, Diehl promised that from then on, the Mint would process 95% of its orders within six weeks. That was far from Diehl's ultimate goal -- but it was a big improvement over existing performance.

His gambit worked. The sense of urgency increased, and a sense of accountability to external customers kept the pressure up. "Our task force figured out how to meet the six-week goal," Diehl says.

"Then it set a standard for processing 95% of all orders within four weeks. Over the past five years, we've tightened the standard several more times. Today, we are delivering 95% of our products within two weeks, and we're delivering some products within one."

Those tangible achievements touched off a wave of customer-service improvements at the Mint. Incoming calls to the new customer-service center, located only four miles (but a world away) from the old facility in Lanham, get answered, on average, in 17.5 seconds rather than in 2 minutes. Letters about problems or complaints get handled within 3 days, rather than the 42 days it took 3 years ago. Returns or credits get issued in 3 days versus 31.

"Five years ago," says Cullinane, "most people at the Mint, and especially the people in customer service, believed that their job was to protect the assets of the U.S. government. Before we send you your coins, we're going to make sure that your check clears, that your credit is good. We really believed that customers were trying to defraud the government or take advantage of us. Today, we have gone to the other extreme: The customer is right. The customer is king. We want our service to rank with the best in business."

It does. A few years into Diehl's tenure, the Mint (along with several other agencies) got permission to be part of the American Customer Satisfaction Index, an annual poll conducted by the National Quality Research Center at the University of Michigan Business School. Talk about a turnaround. The Mint received the best scores of any agency included in the study. But based on its scores, the Mint would have ranked second in service among the 200 private-sector companies in the poll -- just behind Mercedes-Benz North America and tied with H.J. Heinz.

Kevin Cullinane feels the changes personally. "The interest in our products is just phenomenal," he says. "A few years ago, if I went to a party and said I worked at the Mint, someone might say, 'How about those dollar bills?' when, of course, we make coins. Today, when I tell someone I'm from the Mint, you can see the excitement: 'What's happening with the new quarters? I loved the one for New Jersey!' "

CHANGE HOW YOU THINK ABOUT CHANGE

The first wave of change at the Mint was impressive -- but inadequate. It was certainly better to answer a customer call in 17 seconds than in 2 minutes. And it was better to deliver orders in two weeks than in eight weeks. But the challenges at the Mint ran deeper than what such technocratic fixes could solve. There were fundamental problems with strategy, marketing, even how the agency defined the business it was in. Put simply, the Mint had an identity crisis. Was it, essentially, a passive manufacturing organization that responded to the demands of Congress and the Federal Reserve? Or was it a market-driven organization that could launch product innovations, introduce new promotional campaigns, and change the game in a business that it has been in for 200 years? "The Mint needed a new story to move it into the future," says Diehl. "So the story of the Mint was retold, starting with its founding by Thomas Jefferson and Alexander Hamilton. The story reminded people that the Mint was on the leading edge of the industrial revolution and was one of the first manufacturing companies in the United States. Telling that story helped to create a new spirit among the staff. It got us further out of our bunker mentality."

As the leadership of the Mint thought more deeply about the agency's identity and future, one of its first insights was that its product offerings were flawed -- especially when it

came to collectibles and commemoratives. For one thing, it was selling too many of them. Five or six times a year, Congress would come up with an idea for a commemorative coin to raise money for a pet cause. But these programs, based more on political calculations than on market demand, were highly unpopular with collectors. It got so bad that in 1995, the coin-collecting community actually threatened to boycott the Atlanta Centennial Olympic commemorative -- which would be competing with five other commemoratives in circulation.

"Scarcity drives collectibles," says Diehl. "But we were becoming the coin-of-the-month club." So he and his crew marched to Capitol Hill to convince Congress to limit its commemorative coin fix to two per year. "We had finally committed to representing the interests of our collectors," says Diehl. "And we demonstrated that we were prepared to defend those interests."

Reducing an oversupply of bad coins simply inspired the next challenge: creating a more robust market for good coins. The fact was, congressional meddling aside, most of the Mint's coins weren't very compelling. The themes weren't interesting. The designs, which almost never changed, weren't engaging. But that hadn't always been the case. Back in the 19th century, coin designs were ambitious, and they did change frequently -- which is why collecting had become so popular. But in the 20th century, once the Mint began putting dead presidents on coins, it became virtually impossible to take them off. Asks Diehl: "Who's going to propose removing George Washington from the quarter?" Still, Diehl and his crew understood that unless they changed how the Mint made its change, their ability to make lasting change at the Mint would be limited.

Enter marketing director David Pickens. Pickens, 53, loves coins. He's been a coin collector, off and on, since he was eight years old. It was this early love of coins that gave Pickens a sense of what the Mint's future might hold. "I realized that the Mint could use its heritage and legacy to make change," says Pickens, whose official title is associate director for numismatics. "There aren't many organizations that can manufacture to the Mint's quality levels. Have you heard the term 'mint condition'? Well, this is the Mint! Yet it has suffered from a lack of strategic imagination and from the stealth marketing that was done.

"The Mint produces a legacy product that people will be collecting through the next several millennia," Pickens continues. "There's a mystique to this type of permanence. A coin has the year on it. It has 'In God We Trust' on it. It's sculpture, art, history. It is a representation of our culture and civilization. Most of our customers buy our coins and never intend to sell them. They pass them on to their children or their children's children."

The more that Diehl and Pickens thought about the Mint's long-term strategy, the more they rethought the nature of the business itself. They realized that the Mint wasn't just in

the business of selling collectibles. It was also in the business of creating and fostering exchanges -- exchanges between fathers and sons, between brothers and sisters, between perfect strangers. "Coin collectors have always known that coins have two functions in society," explains Diehl. "Primarily, coins facilitate commerce. But more important, coinage has always been used to tell the story of our nation to its own people, and to itself. Only by understanding how our customers viewed coinage could we rediscover a crucial method of using coins to tell our own story."

Adds Pickens, "We had forgotten the magic in our product. People were bored with coins. We had failed to see what it was that made coining and coin collecting exciting."

Thus began one of the most successful consumer-product launches of the 1990s. The Mint's 50 State Quarters Program, unveiled in December 1998, is a long-term initiative designed to rejuvenate public interest in coins. The program honors each state with its own special quarter. It involves the public (through the governor's office of each state) in the design process. Every 10 weeks for 10 years, a new state quarter gets put into circulation, released in the order in which each state joined the Union -- first Delaware, then Pennsylvania, New Jersey, Georgia, and so on.

Like most of the changes at the Mint, the initial push for the State Quarters Program came from collectors. For years, they'd urged the Mint to reintroduce circulating commemorative pocket change. But Diehl had been skeptical. His early years at the Mint were tough ones. Even as he was making big changes in Washington, the Mint's manufacturing operations were struggling to make enough coins. Diehl had neither the funding flexibility nor the personal desire to stimulate additional demand. Over time, though, as he sensed the enthusiasm coming from collectors, he realized that the idea was too good a business opportunity to pass up.

Of course, even a well-designed product needs a well-defined marketing strategy -- a competency that the Mint had never developed. How would it tell the public -- and especially kids, most of whom were more interested in Pokémon cards than in coins -- about this revolutionary new product? Answer: Kermit the Frog. "We were looking for the right person to introduce the program, and he volunteered," jokes Pickens. In fact, the Jim Henson Co. contacted the Mint after it got wind of the program, and an unprecedented public-private marketing alliance was formed. Kermit, the official Mint spokesfrog, took the agency prime time -- promoting the 50 State Quarters Program in commercial spots during shows like NYPD Blue and Jeopardy, and on such cable-TV channels as Nickelodeon, Lifetime, Discovery, and the History Channel.

The results have been stunning. "How many companies have introduced a product that will sell more than 4 billion units in its first year and will be touched by every person in this country?" asks Diehl. "When you think of it in those terms, this program is huge."

Even if you only think of it in profit terms, it's huge."

Huge, indeed. It costs the Mint about five cents to make a quarter. It sells the quarter, through the Federal Reserve Bank, at face value. Translation: The Mint makes an 80% margin on the sale of every quarter. The baseline demand for quarters averages 1.5 billion a year. By the end of 1999, the Mint expects to have produced a total of 3.5 billion quarters, 2 billion above baseline demand. That's real money. But profit isn't the primary objective. "It would be disappointing if, at the end of this 10-year program, all we have to show are 10 enormously profitable years," says Diehl. "Our underlying goal is to rejuvenate coin collecting by getting the interest of a new generation of coin collectors."

But the long-term effects will involve more than money. The 50 State Quarters Program has refocused the Mint on the overall collectibles market. And the explosion of Web-based auction sites -- eBay, Auction.com, Amazon.com, and others -- is helping a fast-growing activity to grow even faster. In fact, 24% of all coins purchased by collectors are bought online. Diehl and Pickens quickly realized that to maintain the agency's momentum, the Mint would have to ".com" itself. "There aren't many companies founded by Thomas Jefferson that are selling products on the Internet," notes Pickens. This now 207-year-old government agency would have to embrace e-commerce.

"My vision for the future doesn't have much to do with the Mint's products, markets, performance measures, or efficiency," Diehl says. "It has to do with the relationship that people here have with their work. My goal is to be part of an organization whose members are engaged as whole people. I want them to have a sense of purpose, excitement, and fulfillment. The ultimate performance metric might be to call people on Sunday night and ask them how they feel about going to work the next day. Are they really looking forward to Monday morning? If the answer is yes, then people can do just about anything."

Sidebar: The West Point of Turnarounds

Brad Cooper's initial impressions of his first day on the job were intimidating: a chain-link fence, enormous coils of barbed wire, a guard at the front gate with a machine gun. Walking inside, he was a little less intimidated. "The building was so old," he says. "It was like walking through The Land That Time Forgot. I thought to myself, 'I can't believe I've taken this job.'"

Cooper was the first nonpolitical appointee to become superintendent of a local Mint. He was also an experiment in Philip Diehl's change program. Once Diehl changed the law so that he could appoint whomever he wanted to leadership positions, the question was, Could those people deliver? Cooper, now 38, was a test case: "West Point was considered the black sheep of the Mint. Everyone wondered whether it was going to shut down." But

Cooper didn't shut it down -- he turned it around. He became superintendent in 1996, a year in which West Point made fewer than 638,000 American eagle gold coins -- and had reject rates that were higher than 8%. Last year, it made nearly 2.8 million gold coins (along with more than 166,000 platinum coins) -- and had reject rates as low as 0.5%.

How did Cooper change so much so fast? By applying to the West Point Mint his personal approach to minting change.

Don't just do something, sit there.

Cooper knew he had to unleash changes or the facility's future was in jeopardy. He also sensed a climate of fear among the 220 employees. So for three months, he just listened: "I basically walked around. I met with everyone in small groups. I did nothing - - because I knew that if I started acting before I had built trust, any changes would fail."

Sell hope, not fear.

After his listening tour, Cooper had doubts about the operation's viability. But he painted a vivid picture of an upbeat future: "I told people that we could radically improve our productivity, quality, and financial position." He also painted a tough picture of what might happen without change: "Only huge gains could prevent reasonable minds from shutting us down."

The shortest road to change isn't a straight line.

Despite his patience, Cooper had a brutal first six months as West Point. But as his changes became performance gains, and as the takeoff in the market for gold bullion triggered big increases in West Point's production, small strides snowballed into major advances. "The more we improved, the more people wanted to keep improving," Cooper says. "People here were once considered the worst manufacturing organization in the Mint. Now they see that they can be the best."

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