

SPEAKER: Welcome to Accenture's X as a Service Files. The podcast for business leaders helping their companies transform using innovative digital business models. Here you'll learn from some of the industry's leading movers and shakers, senior executives from companies around the globe who are changing the way the world works and plays by delivering all types of compelling subscription services. Join your host, Kevin Dobbs, Accenture X as a Service Managing Director, who brings twenty plus years of experience as an entrepreneur, CEO, and Senior Executive to the table. Kevin has led dozens of as a Service business transformations for some of the largest technology and industrial companies globally.

Now let's get to today's episode.

KEVIN DOBBS: Thank you for joining today. Our X as a Service Files Podcast. And today, I'm really excited to have Tien Tzuo, the CEO at Zuora joining us. And, Tien, thanks for participating today, really interested in your insights on the market.

TIEN DOBBS: Yeah, thanks, Kevin, glad to be here.

KEVIN DOBBS: First of all, hope you and your family and everyone is doing well. I know these are kind of crazy times and hope that the team at Zuora is doing well and kind of managing through all these challenges.

TIEN TZUO: Yeah, it is definitely a very interesting time to be in the world today and running a company, but thanks for asking. So far so good, we are adjusting, we're doing well, appreciate the ask.

KEVIN DOBBS: That's great. Yeah, I mean with the pandemic and the social unrest and the economic situation, it's a lot to take in. You know, I know that this is also an interesting time, I've heard - I've talked to a lot of companies lately who said this is a great time to think about a reset. It's like what was happening in the past is probably not going to help us going forward. So today, we are going to talk about business model transformational and kind of what's happening out in the market today.

And I think you're in a unique position to talk about that, I mean you were pretty much the inventor of the subscription economy many years ago. So I know you talked to many companies about this, so kind of to kick things

off, what have you seen as the major drivers out there that are causing people to kind of push this reset and think over again?

TIEN TZUO: Yeah, well, we - about twelve years ago, we started the company, we had this vision that the world was going to be dominated by subscription services. We had this vision that you and I, not in our personal lives or work lives, are no longer have to buy products. We won't have to buy servers, software, cars, DVDs, whatever it happens to be, instead we'll simply subscribe to services for our work needs or entertainment needs, our educational needs, our transportation needs, whatever it happens to be.

And what we've seen over the last few years is that vision has really taken hold. This whole idea of the end of ownership is really starting to take hold. And because we've been at it for 12 years now, and we power some of the biggest and best services in the world, across all these different industries, technology, transportation, entertainment, and so on so forth. We've got a good view into what's going on in the subscription-based business models.

And what we are seeing now is if these moments of extreme change are really accelerating underlining trends. And you and I saw this back in 2008, 2009, where there was an acceleration to the cloud. We're seeing as an acceleration to the subscription base customer centric business models because it's really proving to be much, much resilient and much, much more agile to be running these kinds of businesses today.

KEVIN DOBBS: Yeah, that's a great point. I do remember it kind of in the last recession that we had that it was interesting. My firm was covering a lot of the SaaS companies that were out there and what was interesting is companies would kind of contract their subscriptions during that time or they would start kind of experimenting with subscription, but over time what would happen is they got more comfortable with it, they ended up actually expanding kind of what they were doing around the subscription.

You mention that now. Another thing I've heard is that companies were sort of dabbling with the subscription economy in the past, but all of sudden, with this disruption, it's created maybe a three-year trajectory

that's now been compressed into three months. Are you kind of seeing that as well?

TIEN TZUO: Yeah, absolutely. You know, you look at Zoom. And, certainly, I think Zoom would have been a huge success no matter what, but because we're all here at home what would have happened for them in three years, would have happened in three months. And we power their services, we saw them grow from 10 million meetings to 300 million meetings a month.

KEVIN DOBBS: Oh, my God, that's a lot of growth.

TIEN TZUO: The scale was a pretty amazing experience. And so, when you talk about the journey to subscriptions. I think the normal journey, the normal times, goes something like this. The reason we saw the future of subscription economy was really our experience at a company like Salesforce.com, especially the early days I was there. I was one of the early employees. So if I look at the arch of Salesforce, it starts with technology, right? It starts with realizing that cloud computing, the Internet of Things, connected devices, mobile devices, creates a very, very different way to offer your services. And it makes

more sense to offer it as a Service than simply as a Product. That's what we experience at Salesforce. If we're going to put the software in the cloud and allow anybody to access it by pointing browser to it, revolutionary idea at the time, then we have to think of it as a Service.

The second step in the journey is realizing that you will actually then have a much deeper relationship with your customers. And so, that first experience that we had in terms of pushing the software out there and then realizing, wow, we can actually see our customers logging in. Are they using the features we thought they would use? Is our product too hard to use and they're not actually going into landscape abilities? And we were all - developers are used to shipped software and then you just wouldn't know. You wouldn't know what the customer was doing until they call for support.

Now, we can actually see it in real time and so, we became obsessed with it and we realized that connection to the customer is actually a completely revolutionary way of doing things. And we think about now, because of IoT, every car designer, every washing machine designer, every medical

scanner designer, they're all going through the same experiences because all their products are now centered up, seeing what the customers are doing and then pushing all that information into a cloud type infrastructure. And so, they're going through the same type of journey that the Salesforce engineers went through over 20 years ago.

And then the last step you realize is, okay, if it's a service, if my goal now is to get customers to use the service then incurring revenue model that's built on the loyalty of my customers is actually a much, much better business model. And when you look at what's happening now with COVID-19, that's what we are seeing. We're seeing that that the resilience of the subscription offers is making companies realize, wow, we don't suffer the same issues as other companies.

Other companies are seeing 50%, 60%, 80% drops in revenues. That's just not possible in our business model. Our customers are using the application, they're continuing to use the applications. And so, most of the SaaS companies I talk to are talking about, well, yes, our growth might slow this year, but we're still growing versus non-

subscription companies are saying my advertising sales are down, my unit sales are down, my car sales are down. People are realizing this is much, much better.

And so, anticipating there will be future downturns, companies are now saying this is the business model that we really, really have to move to.

KEVIN DOBBS: Yeah, and I mean we're hearing the same thing around that seems to be the word is resiliency. How do we build resilience into our model? And I mean I always loved the subscription model because having been in sales, it's the great thing about the subscription model is 80% of your revenue is already booked and it's just a question of retaining that and then upselling. That's why you see a lot of these companies have such fast growth trajectory because they do have all that kind of captured revenue available.

So are you talking to companies about when they think about switching or making this move, is it, hey, we need to get a platform, do we need the concept of platform is kind of essential to building out this kind of business or are you kind of talking to them about the concept of a platform? I know that to technology companies, platforms

seem very common, but I guess if I went to an auto manufacturer, would they really kind of understand what's required?

TIEN TZUO: Well, we power some of the top ten auto companies in the world. We power companies like Caterpillar and other industrial IoT companies and CRs is another good example. I mean what we are finding is these companies are realizing their backend and infrastructures were really geared towards shipping product. And as strange as this sounds, most of the car company's internal systems has no concept of the customer. That's because the dealers really have that customer information. And they just track cars, they track Vin numbers, they track materials, they track the supply chain.

It's a lot of times we go into them, they've been running their companies on systems like SAP and they're realizing this is a completely different business model. This is a direct to customer business model. And so, if you buy a car today, chances are it's got a 3G, 4G, 5G connection. Chances are they activate it for you as part of delivering the car. Chances are they give you 12 months of

something free whether it's Wi-Fi access or Sirius XM or whatever it happens to be. But that now becomes a direct to consumer platform that they can sell all sorts of things. And so, in many ways, a car is just becoming a big heavy phone and it's becoming an application platform where there's all sorts of applications that are going to be sold into the dashboard. And they're realizing the backend systems to do pricing, to do packing, to do ecommerce, to do credit card payments, is completely different and that's where they're turning to us.

KEVIN DOBBS: Well, that's great. So as you're talking to these companies, I mean are you kind of also talking to them what's required from kind of a cultural or a leadership perspective? Because I know one of the things - and your company see this a lot is the availability of data is, like you said, you can see in real time what your customers are doing, you need to be a lot more agile.

As you're looking at, let's say, an auto manufacturer who's thinking of moving to much more of an as a Service model, what kind of changes do you think the leaders need

to make or the culture needs to make in order to embrace a model like this?

TIEN TZUO: Yeah, two years ago, we released this book called *Subscribe*, after really answering the same questions and telling the same stories for 10 years, we decided to capture it in a book and the book sold, I think, close to 100,000 copies around the world at this point. And the first half of the book talks about industries and transition. What is a subscription or should the subscription mean for the software sector, for say the media industry, the newspaper industry, the manufacturing industry, for the retail industry?

The second half of the book really goes into a single company. And so, how does the sales department have to change? How does the R&D processes have to change? How do the financial models have to change? How does the marketing department have to change? And you're absolutely right, every department has to rethink what they do. It sounds like a simple, simple thing, but the picture in the book that people really go to is a picture, I'll sort of describe it now, but the old model is selling the product

through the as many channels as you can. So you take your product and you try to put it on the store shelves, you try to give it to the salespeople, you try to set up an ecommerce site and you put it on Amazon, you put it on Shopper 5, then you know there's somebody else on the other side of this multi-step distribution chain buying your product.

The new model is not that. And so, you think about Amazon. Amazon doesn't work like Walmart. Walmart says I'm just a physical store and about 100 million people walk into Walmart every two weeks to buy something here in the U.S. and there's no tracking who that is. But if you're an Amazon, you can click on my orders and you can see every single thing you've ever purchased on Amazon. I think for me, it was like 1997 and it was a book because that's all they sold then.

And you can see there's about 23 years of history now for me on what I've done for Amazon because they see everything back to their customer relationship. And even when they open a physical store, what do they want you to do, they want you to take out your phone, they want you to

buy it on your phone because they want to link that purchase back to your Amazon ID.

And so, the new model really starts with the customer and building a direct relationship with a customer and seeing them as a subscriber. And the difference is a customer is just - it's a name and address and a payment method on an invoice. A subscriber is somebody you have an ongoing relationship or you're building a subscriber history, a relationship over time. And then, you can choose to monetize that relationship through single transactions, business as usual, but a lot of companies realize that, gosh, if they're going to have lots and lots of repeat purchases, some sort of stable recurring revenue that supplements or replaces a transactional revenue winds up being a much, much more solid business model. You're trading customer loyalty for recurring revenue.

KEVIN DOBBS: And it's all about building that experience too. It seems like that the experience of Walmart isn't going to really work if you do it at Amazon. I mean you've got to deliver something that's easy, that's

frictionless, that probably encourages you to come back and do it again.

I remember in the last recession, a lot of people were sort of - or even when Amazon started, it was like I was very reluctant to put my credit card online because I was afraid somebody was going to steal my identity. But then, people, what they would do is they put their credit card online, order something, the next thing you know it arrives at their door, it was seamless, it was easy. I think you're seeing that with people now with grocery delivery in the pandemic. Instacart was sort of scary, I didn't want to have somebody else do the shopping for me, but when it turned out, I could go online, get it, it was easy. I push a button and the next thing you know it shows up. That was good.

And I think you're seeing a lot of customers starting to - or companies starting to look at customer behaviors have absolutely changed and they were embracing more of this, at least an option to be digital.

TIEN TZUO: Yeah, and if there's a company out there that's not thinking of changing like this, they're going to

be left out because like you said, once you try these things, once you try a Salesforce.com. It's 2008, you try your SaaS application for the first time, chances are it's Salesforce, you don't really want to go back to that SAP or that Oracle.

And so, you see the same thing. Our experiences are being reshaped. Our expectations are being reshaped. When I go to Instacart, again, it's not just - it actually remembers everything I've ever purchased. It actually makes it easy for me to just say, well, here's everything you ever purchased, do you want to just dump that back into the cart as a shopping point? And it just saved me 5 or 10 minutes of browsing and so, that ongoing subscriber relationship of like you mentioned about data, there's no reason you can't remember all this and there's no reason you can collect data about this and just create a better subscriber experience.

And then, I know by now, I'll switch to something else that doesn't remember my history, doesn't remember my preferences and I have to build it all up again. And so, my inclination is to go to Instacart again. And that's why

companies are realizing if I can build a better subscriber experience today, really own the customer, that becomes a competitive advantage of the future. It's no longer about owning retail shelves or distribution channels, it's really about direct to the subscriber relationship and then making sure that you are the service that they think about first when they have a specific need that they're trying to fulfill.

KEVIN DOBBS: Great. So as we're thinking about, so let's say, I own a big organization or I'm the CEO of some major company, as I'm thinking about this, if you were to give them advice, what are kind of three things that they would think about as they're starting down the journey to kind of really build out a subscription business?

TIEN TZUO: Well, we talked to so many established companies and some of these companies have been around. NCR is like a 135-year-old company. Caterpillar is a company and sometimes they'll say, gosh, are we going to be disrupted by that next Silicon Valley startup? The next Instacart, if you will. What they often realize is the advantage in this model is if the goal is to build a large

subscriber base, is it going to be easier for a customer, for a brand new startup, to build that subscriber base from scratch or is it going to be easier for a big brand, like a Nike or a Coke, to say we have a lot of customers today. We might not have a direct relationship, but we have a trusted brand and we have a customer.

If we can turn our customers into subscribers, build a direct relationship with them, then we can actually have the advantage over some of the disrupters. And so, in the arms race does it mean the disrupters that win or the established companies that win? It's not clear. The established companies have a clear, clear advantage, especially the manufacturing sector, they have manufacturing capacity, they've got a well-known brand and they've got a customer base.

I think one of the sectors that we've seen is the media sector. There was a thought, for example, say of newspapers, there was a thought that newspapers were going to go out of business, 5, 6, 7 years ago, people were saying the revenues were plummeting. And what they realized is our brand actually makes a big, big difference. There's

a loyalty to the brand that you get news from, that we all grow up with. And so, if we just rethink our leaders as cross subscribers, we should be okay. And you've seen the New York Times saying, well, we're just hoping to get to a million subscribers, this was a few years ago. Now they have 5 million subscribers. Now they have more subscription revenues than they have advertising revenue and it's completely transformed the company.

And so, I would say every established company, the name of the game, the imperative, if you will, especially as you're seeing this COVID situation, is to turn your customers into subscribers, building direct digital relationship with them and then start wrapping your business model around those relationships.

KEVIN DOBBS: Great advice. Well, thanks again, Tien. Great insights and we look forward to continuing the dialogue.

TIEN TZUO: Absolutely. Great conversation. Thanks, Kevin.

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