

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 us for the X as a Service Files Podcast. I'm Kevin Dobbs with Accenture and today we've got Tien Tzuo, CEO of Zuora and we're talking about business model transformation.

And in the last segment, we were really talking about kind of what we see out in the market and what you're talking about with other companies, you mentioned

Caterpillar and other large organizations that were shifting. It'd be really interesting, you're a founder, you've been running Zuora for 12 years, kind of what was your experience starting your own company and kind of growing it and scaling it? Because in some ways, your experience is what a lot of these larger organizations as they start their kind of as a Service businesses, they're going to go through something very similar to what you went through.

TIEN TZUO: Yeah, that's absolutely right. I mean we think about what customers are doing. A lot of our work is really replacing existing billing systems to help companies continue to scale. Another chunk of what we do is helping companies onboard with some on ramp to subscriptions by launching perhaps their first ever subscription service. This can be Caterpillar launching Cat Connect, this could be Ford launching FordPass. And so, launching - and this could be Bloomberg putting up their pay for Paywall, so launching a subscription service is a big, big part of what we do.

And you're absolutely right, there's a lot of parallels, even though it can be large established companies, a lot of parallels between that and in a startups journey. I would say, if you look at what a startup has to do, there's a first phase that's heavy, heavy experimentation. And the classic word that people use is product market fit. But just a spin on that, we'd like to think of it as more of a customer fit.

And so, you have a specific customer in mind, but the name of the game now is not simply to sell a product as a one-time purchase. But the name of the game now is to think about your customers as subscribers. They've got a specific need, how do you intersect with that need and how do you do a better and better job of fulfilling that need over time.

And so, the first thing as a company is really that. It's really trying to understand what is it that you do for your customer, how do you do a better job of it than the other alternatives? Then how do you continue down a path of improving that and going deeper and deeper into that relationship?

KEVIN DOBBS: And you've mentioned a couple times like it seems like the North Star vision for the business should really be around the customer. And I would say, what's been interesting and my experience is that you use the example of the automotive company where we make cars, the dealers actually have the relationship with the customer, we don't. How is that companies all of a sudden establish that relationship? Is it you create a new business to do this? Do you have a segment of, let's say, your product organization that kind of peels off and they start kind of begin building out kind of the intelligence around what the customers are looking for? How does that work?

TIEN TZUO: Yeah, I would say it really depends on the company. And for a lot of manufacturing companies, like a Caterpillar, like a Ford, what they realize is they have traditionally sold through a multi-tiered distribution channel. I sell it to a manufacturer. A manufacturer sells it to a distributor that maybe puts it in a warehouse, that maybe puts it through dealers or retailers and so, it's a multi-step process before it actually hits the customer.

And so, this is the first time they're actually building it direct to customer business. For those type of companies, a separate business unit is usually the way to go. And just the driver of all this again is technology is such today that there's no excuse for you not to have a direct relationship with your customers.

And a lot of these car stories, these manufacturing stories certainly are smart products, connected products that are censored up and collecting all this information and connected to a cloud service and internet. But even it doesn't have to be that way and that's why we really like the story of Fender, Fender Guitar. They didn't try the guitar. The Fender guitar is that iconic piece of musical equipment and they weren't about to change it. But they also recognized that if you look at it from a customer's point of view, that their research said, 50% of guitar owners, guitar buyers, are first time buyers.

So there's a lot of new people coming into the marketplace. But the big problem is they quit. They quit after 90 days and then the guitar goes underneath the bed, it goes in the attic, it just lies in the corner. And so,

they say if we can actually retain more of our customers using customer centric subscribers language then, of course, we're going to grow our revenues. They're going to buy more guitars, they're going to buy more amps, they're going to buy more picks.

And so, they actually launched a service called Fender Play that teaches you how to play the guitar. So when you buy a guitar now, you get a little postcard that says sign-up for two weeks to Fender Play. They're up to about a million subscribers. They saw this massive increase in the number of people signing up for Fender play, once we were all sheltered at home, people decided, hey, it's a good time to pick up a new hobby.

And so, now they have a direct relationship with a million guitar players and they can actually monitor are they playing the guitar? Are they learning? How well are they advancing? Well, they don't seem to have taken a class or a lesson, online lesson in two weeks, why don't we push them. The song that they probably like based on the data that we have of what they've seen before. And so, that digital relationship with the customer is really something

that any company can do today. And that's what ultimately what you're looking to do.

You're looking to establish a direct relationship with your customers as a startup, if you will, inside your existing business.

KEVIN DOBBS: So that's a great story. That's fantastic. As part of this journey too, I know you know about this, but this whole concept of customer success, I think the Fender story is a great one in that it's kind of like you're building an organization that really is their number one goal in life is to make sure that the customer uses and enjoys, appreciates the product. I know that most of the companies that we work with, customer success is a new concept to them and I think they often think about customer success as like if it breaks, I'm going to call an 800 number and somebody's going to fix me. And it's a very different kind of way of thinking and a way of acting.

Talk to me, your company was one of the first ones to really kind of deploy customer success. I'd be interested in kind of your perspectives on that?

TIEN TZUO: Well, so when I talk to people about the book that we wrote about this transformation, the book's called *Subscribe*. They take it back to this whole concept of product to customer. And unless you stop and think about it, there's so many things about how we think about business today, how companies run, how business models work, that's really anchored on products. And so, you're absolutely right, the goal of the company used to be to sell a product, that if a product breaks, they call the customer service line.

And the subscription model is not about taking the same product and price it over time or charging all the time. The subscription model is really about understanding what is the customer really trying to do? So it's not really about cars, it's really about getting from Point A to Point B or better yet, it's getting from your house to the office. It's a commute vehicle.

It's not really about music, it's about entertainment. For Fender, it's not really about guitars, it's really wanting to wanting to a rock star, even if it's just in your own head. It's not really about (inaudible), it's

about productivity. It's about the ability to do work. And for Caterpillar, it's not about tractors or excavators, it's about moving dirt.

So if you can actually understand what your customers are trying to do and you still use your expert teams, you still use your technical expertise, you still use your R&D capabilities, but now through technology, you should be able to deliver them the outcome that they're looking for.

So Ford says, our customer experience is not when they get in the car and they exit the car. Our customer experience is bed to desk because they recognize that 80%, 90% of the use of a car is actually to commute to work.

And so, companies really need to start thinking, what is it that I do for my customers? How do I do that as a service? And then, how do I build a direct relationship with my customers, so I can see how well am I actually providing the service and how do I do that better and better and better over time?

This is the secret of Netflix. This is the secret of Salesforce. This is the secret of Amazon. And that's why you see these companies really care about customer success

because once you define your business in that way, what is this outcome that I'm creating from our customers that, of course, customer success then becomes the North Star.

KEVIN DOBBS: Yeah, so one of the bedrock components of customer success is and I know when we met with you a few months ago, we were talking about metrics. Data is at the core of everything. So when you think about metrics and companies looking at what the customers are doing, kind of what success metrics should they be looking at? I know one of the ones we talked about is how often you log onto the system or what you're doing with the system, but are there kind of key metrics or performance indicators that you'd take a look at and I know you've got a whole division of your company that looks at this.

TIEN TZUO: Absolutely. Well, if you think about the last 100 years as a body of research about metrics for creating product quality, Six Sigma, supply chains, lean manufacturing, all those things. You're going to see this thing being around customers. And login is usually one of the basic, basic ones that people start with. How often are they using the service? That's very telling.

But then, as you get more sophisticated, it really will depend on your company. And so, we see media companies, wanting to understand how many articles are they reading? When they do engage, are they just reading one article and popping out, which probably means they just clicked on something in a Facebook or a Twitter link. Were they really engaged with the material, right, they're actually exploring, they're taking an hour having a deep experience like they would say the Economist or a magazine? We're seeing car companies talk about, well, are they - how well are they driving? How fast are they driving? Do they know how to change the clock twice a year, right, at Daylight Savings Time, some basic, basic things like that and how can we do that a better job or how can we just automatically do that for them?

I know for our company, we breakup what we do for our customer into what we call the 9 Key. What we do, for example, is we help companies price, we help companies build, we help companies collect, we help companies acquire and nurture their customer experiences, all the way down to

accounting, revenue recognition and then grabbing the metrics that they need.

And so, we actually have a set of metrics that are in each one of these things of well we're doing and because we've been collecting this over 12 years now, we can actually now benchmark companies with each other and say, gosh, the fastest growers seem to have allow their subscribers to come back and modify their subscriptions more than once a year. The slowest growers don't really do that. And so, let's talk about techniques and best practices with how you can actually drive better growth through our technology, obviously. And so, there's a win win situation. And that, ultimately, is the mindset of every customer, every company needs to have.

KEVIN DOBBS: Yeah, and all of that kind of encourages the right behavior by the organization. I know other companies who talk to, it's that sort of measurement that allows you to even establish kind of compensation plans or reward systems to encourage as you well know, if you don't have a high renewal rate, the economics of kind of the subscription model don't work. So it's really important

like your sellers need to actually be concerned about renewals. It's not just doing the initial transaction, it's keeping them in the boat and, hopefully, selling them more.

TIEN TZUO: Well, I mean a good example that we're often there with is Netflix. And a couple weeks ago, Netflix announced that if you don't use Netflix for 12 months, they're going to automatically just cancel your subscription. They'll just say, you don't have to pay us anymore. It'll be just completely automatic. And it sent shockwaves to the world, right, because, well, you're actually firing your customer. Why would you do that? Why wouldn't just continue to collect their money?

And I think the product manager of Netflix said, well, we only have a few 100,000 people that actually don't watch Netflix out of something like a 170 million, which is I think is the latest count. And so, they focused on these leading metrics of making sure that people are watching.

And, today, Netflix is like TV. If you want to turn on, you know, watch something, you turn on Netflix, you don't turn on your TV. And so, they know that the adoption and in use of the service is sky high and they must have

done the calculus and says, well, okay, as we continue to acquire customers, if they know that you don't have to pay if they stopped using it, then they're going to be more inclined to pay.

Very much similar to like if you know that you can return a product if you don't like it, well, then you might go ahead and the risk is gone. Just let me go buy the product and try it out. And companies know that chances are you're going to like the product, you're going to keep it.

KEVIN DOBBS: Right. So kind of extending, we had talked in the last segment a thought around a platform. When you were building Zuora, is that how you were kind of envisioning - you know, obviously, you do billing and collections and analytics and is that what you were ultimately trying to do is build a platform that your customers could kind of plug into? And is that the way other companies should be thinking about building their subscription businesses?

TIEN TZUO: Well, if you look at a subscription business, and I'm taking you back to really what we do. You want to find something that's important to do for your

customers and the original subscription business are the telecom companies, AT&T. Before that it was NTAI, it was (inaudible), it was packed out here in the U.S., right, Deutsche Telekom and so on and so forth. And if you look at the guts of these companies, they're really billing companies. There's a big billing system that's the heart of everything they do. It's what allows them to come up with new plans, family plans, unlimited plans, monthly plans, pre-paid plans, triple play plans. And at the end of the day, they built this big service, towers, switches, networks, whatever it is and now what they need to do is they need to monetize that service in all sorts of ways. That's exactly what a cloud computing company does, right. You create a service, you put it in the cloud and now you want to find ways of monetizing that in pricing, in packaging, which is really the billing system is the enabler for pricing and packaging is what's really, really important.

So we knew if we were going to do this, that we were going to be in the heart of our customers businesses in that they would need to build things around us. They would

need to plug payment gateways in. They would need to plug customer experience engines in. They would need to plug ecommerce systems in because that's how telecom companies work. And so, we made sure that we built our system really as a platform and you've seen us in recent years invest more and more into that platform concept to really be an open architecture because of our central position in the enterprise architecture would allow our customers to really customize a system and then integrate it into all sorts of other things.

KEVIN DOBBS: Well, and that's how you scale your revenues, right? It's again, that you get the multiplier effect over time. A platform also has an advantage because you can pull in an ecosystem of partners as well, correct?

TIEN TZUO: Yeah, absolutely, absolutely. No company can do everything these days, right. And so, to the extent that you can partner with companies and I think about Avalara, we make that partnership easy. I think about what we do with Stripe. I think about what we do with GoCardless or EDN. We have a partner, (inaudible), has an ecommerce system.

The more we can make this easy for our customers, so they can just plug a few components in and it just works out of the box, the better off we're all going to be. And that has to be the new method.

KEVIN DOBBS: Yeah. So in kind of closing this out, as you were building your company over the last 12 years, were there things that sort of surprised you as you were scaling your business? Not so much starting it, but as you've kind of grown it to where it is, gone public, were there things that kind of lessons learned that you might share with people? Is there, again, thinking about not only starting it, but kind of scaling their business?

TIEN TZUO: I would think it's back to basic principles and it's just so hard as you scale a business to always remember go back to it. I think about the arch of the company. I think it's really simple. I think in those periods of time, where we were maniacally focused on customer success, we did well. In those periods of times where we were focused on other things, maybe we took our eye off the ball on customer success, we suffered.

And so, really staying true to that and it's embedded in our vision. Our vision is that there's that we want to create the subscription economy, but our mission has to be the best companies in the world to win in the subscription economy and making sure you stay true to that vision day in day out really is ultimately a secret success in these type of businesses.

KEVIN DOBBS: Great advice, Tien. Thanks for sharing that and, again, we'll look forward to continuing the dialogue.

TIEN TZUO: Thanks, Kevin. This is fun, good conversation.

SPEAKER: Thank you for listening to Accenture's X as a Service Files. Please be sure to visit our podcast website at [Accenture.com/xaas-files](https://www.accenture.com/xaas-files). That's [accenture.com/xaas-files](https://www.accenture.com/xaas-files) where you can listen to more conversations with other industry leaders about their vision and perspectives on innovative digital business models. You'll also find more great insights from these leaders on our blogs that accompany each episode. And, of course, we always appreciate it when you rate and review

the show. Be well and we'll catch you again on the next episode of the XaaS Files where we'll learn about the next venture in the digital transformation business journey.

Disclaimer: *"This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks."*

Disclaimer: *This document is intended for general informational purposes only and does not take into account the reader's specific circumstances, and may not reflect the most current developments. Accenture disclaims, to the fullest extent permitted by applicable law, any and all liability for the accuracy and completeness of the information in this presentation and for any acts or omissions made based on such information. Accenture does not provide legal, regulatory, audit, or tax advice. Readers are responsible for obtaining such advice from their own legal counsel or other licensed professionals."*

Disclaimer: *"Copyright © 2020 Accenture. All rights reserved."*