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Robert Reiss: Explain the phrase you coined “The Subscription Economy.”

Tien Tzuo: The Subscription Economy is the idea that with every day that passes, you and I are finding ourselves buying less and less. We don’t need to buy things for what we need anymore. Why buy a car when you can get from point A to point B with services like Lyft or Zipcar or Uber? Why buy songs or DVDs or CDs if you can get any music that you want on Apple Music or any movie on Netflix or HBO or any of these streaming services? Why even buy software applications when you can just point your browser or your phone to the cloud to a Google or a Salesforce.com and do the things you need to do for work? This whole idea of not having to buy things and, instead, running your life on a set of services that you subscribe to, is what we mean by “the Subscription Economy.” We are seeing this continue to grow not just in the US, but all around the world.

Is this Millennial-driven in terms of the shared philosophy?

Well, the Millennials definitely have a temperament towards needing to buy less. They are buying fewer cars. They are delaying their house purchases. They are traveling with each other on Airbnb. In general, they favor access over assets. But this is a global phenomenon. Even you and I - I’m certainly not a Millennial; I’m a GenXer - but I’ve found myself just buying less and less stuff. Once I have access to something on a phone that I can get for what I need, why go back and buy it? The more you use Uber, the more you question why you actually have to purchase a car. We went down from being a two-car family to a one-car family because of the widespread availability of these transportation services.

How does the Subscription Economy apply to business?

The Subscription Economy entails a big shift in mindset. I get asked to speak about this a lot with different company leadership teams. Look at the last 120 years, ever since the whole concept of mass production and assembly lines -- once you had mass production, the whole goal of a company was to ship as many products as you could. We all know Henry Ford’s saying, “You can have any color you want as long as it’s black,” because the goal was to be able to ship products efficiently. If you can ship the most products, you could drive down your marginal cost for your product and that is how you competed.

The Subscription Economy is about shifting that by bringing the customer back into the picture. With today’s technology, it’s impossible for you to not know who your customers are, what they are trying to do and the outcome that they want. So, instead of seeing the business as, “I need to sell more cars,” you think of your business as, “I have 3,000, 3 million, or 5 million people out there who are comfortable with my brand in order to fulfill their transportation needs.” So now it is, “how can I use technology today - cloud computing, mobile phones, internet of things, big data, whatever it happens to be - to create a brand new experience and a new service for that customer? When you think of it this way, any company can claim to be a Subscription Economy company.

Any kind of company? Let’s use the example of a cement company.

We used to play these games sitting around late at night

after dinner with the wine flowing, asking, “What is the last company that can become a Subscription Economy company?” and people would always bring up cement. I mean, how can you subscribe to cement? But the key thing is not to think “instead of selling it to you, I am going to rent it to you.” Or instead of selling you cement, I’m going to let you use my cement as a service.

“Get to know who your customers are first, and then you can rethink what you do to deliver an outcome they want instead of getting them to buy a physical product that you have.””

That is not what it is about. It is about saying, “Who is the buyer of the cement? What are they trying to do?” They are construction companies, they are flooring companies and so you look at it that way. We actually have a customer that is a flooring company, and came to us about a year and a half ago. We talked to them and asked, “What are you trying to do? Are you trying to sell floors as a service so you don’t have to buy the hardwood floors?” They said, “No. What we are doing with today’s modern technology is we have put sensors underneath the floors so we can actually detect where and how people are moving in a given space.”

They call it the ‘ultimate connected product’ because we are people, not birds, so we are always connected to the floors. So, they are gathering all of this information and inventing brand new services and revenue models, like retail applications, hospital applications, and public space applications. Because once the floors become smart floors and they are collecting all of this data, it opens up an entirely new set of services that you can provide, with new revenue streams, and that is what is truly exciting. Imagine this in retail, at sporting events, in airports, in smart cities, etc. The biggest companies in the world are about to shift to the Subscription Economy.

What is the first thing a business owner should think about when they ask: “How can my business utilize and take advantage of the Subscription Economy?”

As an owner of the business, you certainly think about



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your customers and their needs. But inside, you are probably thinking about your business model in terms of the products or services that you sell to your customers, whether you are a lawyer and sell hours; a newspaper company, selling issues through a newsstand or through home delivery; or a movie producer selling movie tickets. We like to tell people to “flip the script on that”; think about your customers but don’t think about your customers as endpoints, as somebody whose sole purpose is to buy your products. Think about them instead of the needs that they have. Then take out a blank sheet of paper and ask, “How can I fulfill those needs with my expertise, and with my assets which are my products?” But really use the technical capabilities that you have today, whatever it is, sensors, internet, etc. It doesn’t have to be big and complex. You don’t have to be a big manufacturer using sensors. But you know what your customers like through email, through simple marketing applications from companies such as Hubspot. The point is, get

to know who your customers are first, and then you can rethink what you do to deliver an outcome they want instead of getting them to buy a physical product that you have.

So you are no longer focusing on inventory, no longer focusing on products, instead you are focusing intently on your customers?

That is exactly right. We are not saying inventory is not important; but if you look at Apple, every day that passes, it matters less how many phones and iPads that they ship. It matters how many Apple IDs they have and what is the value of that Apple ID. For example, a particular Apple ID, they simply buy a Mac every five years. This particular Apple ID subscribes to Apple music, they subscribe to Apple Storage, they have three phones in their family, and they buy a new Mac every single year. To think about it that way, what other services can you sell

to these customers? I would suggest starting to list out all of your customers, maybe you have 100, or 1,000 customers, maybe you have 10,000, and maybe you have a million customers. And then think about what is the value that you are getting per customer. Then, how can you increase the value that you deliver to the customer in terms of the outcomes that they are seeking? Find interesting ways to monetize that. That might go beyond simply trying to sell them a product.

What is an example of how you used the Subscription Economy with a customer?

Newspapers are a fantastic example where we all know that print newspaper is on a permanent decline. People are consuming news less and less in print and they are buying less and less at the newsstand. With that being said, at the same time, the New York Times has always had a loyal customer-base. The Boston Globe and others also have loyal customer-bases. The New York Times is now getting value from that information. As a New Yorker myself, I still consume it. I still read the New York Times in California, because I have a harder time reading a paper that I didn’t grow up with.

But now, instead of thinking of it as selling a newspaper, or worse, trying to sell individual articles -- I mean, how do I sell an article? What would people pay online for an article? -- newspapers have flipped the script. The New York Times has a million people now that have brand loyalties and will pay money for an engagement with the brand. They don’t care how they consume the news. They just care about the quality of the news. I’ll consume it on my phone. I’ll consume it on my iPad. If I’m on a subway, maybe I will take a paper, or on a Sunday on the weekend, I like to spread it out on my coffee table and I want to read the New York Times magazine. But think about what you can do for your subscribers. When you break that thinking, look at where the New York Times has gone. They have gone way beyond articles into building communities, building interactive content. They have events, they have premier memberships that give you access to key journalists that you like to follow.

So, they have been able to reignite their growth by not thinking of themselves as selling newspapers, and instead thinking of themselves as having and increasing

subscribers around the world, and having a level of engagement with those subscribers that they couldn’t do when they were just selling newspapers.

The Subscription Economy is now about \$100 billion. What is its future?

It is getting pretty big, and we believe that all companies one day will move to the Subscription Economy, and this is really the future. These transitions are going to happen much, much faster than you may think. We are going to find ourselves really not having to buy much of anything, and you can satisfy your lives around a set of services. You are going to see the Millennials do this first. They are going to live in one of these WeLive Apartments that are coming out, because they want to continue their college experience out in the real world. They are not going to own a car---they are going to use a set of transportation services, some public, some private, to get around town. They are not going to own any DVDs or songs, etc. They subscribe to services for their entertainment needs when they need to eat or simply point their phone at one of the services, and food will magically show up in their location. When they want to travel overseas, they are going to sign up for a subscription service that will take care of everything - the plane ride, the boat ride, the hotel, and wrap it all around an interesting experience. This is going to happen much faster than we think, and that is what the world is going to look like five years from now.

Who would be the winners and the losers in the subscription economy?

The real winners and losers are going to come out of the industries themselves. It is an open question whether the winner will be a new startup that doesn’t exist today and will be a disruptor of their industries, like Uber, or the winner is going to be an incumbent company. We are seeing today that the biggest businesses are realizing a shift because their customers are demanding a new model. In fact, The Economist did a study showing 80% of companies globally are saying their customers are asking for new alternative consumption models. So companies are very, very aware of this trend. And the asset, the advantage, these big companies have is they already have customers. Ford has a lot of customers. IBM has a

lot of customers. So their question is, “Can we reinvent ourselves to have a different level of engagement with my customers, where I know who they are?”

Think about the differences between Amazon and Walmart. Most people say that Amazon is e-commerce while Walmart is bricks and mortar. But now you are seeing Amazon opening stores and Walmart now probably does a few billion dollars a year on their online site. The difference between the two companies is that unlike Walmart, Amazon tracks everything you do back to your Amazon ID. So you can log back into Amazon and you can actually see the first thing you ever purchased from Amazon, which for me, in 1997, was a book, not surprisingly. If you look at how the Amazon Store is designed in Seattle, they want to track you. There are no prices, you have to take out your phone and point it to the book. Why is that? Because they’re trying to reproduce that online experience where they know what you are looking at, and they know who you are. Walmart has 100 million people - a third of the U.S. population - who walk into a Walmart every two or three weeks. They buy something and they check out. That is a staggering number! But Walmart has no clue who they are. They pay cash; even if it is a credit card, it is just a transaction ID. Walmart is not building that rich history. This is why Amazon can go to all of these places. They can sell you an Echo, they can sell you groceries, and they can sell you movies.

Now, think about yourself; you are not walking around today with a Coke ID. You are not walking around with a Nike ID. But look at what Coke is doing with their new vending machines; you can actually pick up your phone, buy a Coke that is customized to your specific taste - they will customize the formula specific to your taste. But more importantly, they know that it is you. Over time, if they do their job, your Coke ID will become a bigger and bigger part of your beverage consumption life and you will have a relationship with Coke that transcends the can that you bought into a whole set of things that are meaningful to you in this area of your life.

Let’s talk about you personally. Zuora is one of the fastest growing companies. What was a challenge you had to overcome personally in building Zuora?

One of the biggest growth areas for me personally was

becoming the CEO of a company. You have this idea as an entrepreneur and a founder that creating a company, a vision that you want to do something, and you go through the first three employees, then the first 15 employees, and the first 30 employees. It is a small team and we are all committed to the team. One day, you wake up and you find that you have a 150-person organization. Then you have a 300-person organization. And then you have a 600-person organization. That organization is around the world. You are used to being able to know every single employee and having a deep personal relationship with them. You can’t do that with 600 people, especially when your folks are in Tokyo, Berlin, Milan, and Sydney. So, there is a set of personal growth challenges that really comes with starting a company, and then growing as the CEO that is very, very different than, say, I went through the General Motors, or the IBM career track, and now I am trained to go and take over organizations and run them. So from a personal development standpoint, it is certainly one of the bigger challenges, but also one of the biggest experiences.

How did you overcome that?

The key thing is reinvention. It almost feels like every 12 months, I take out a clean sheet of paper and then redesign my role. You get to these moments where you feel like things aren’t quite working anymore. What used to work in terms of ‘I had an idea in my head’ and the organization executed on it, now, it’s not working. You talk to the people in the company and you will hear things like, “The left hand doesn’t quite know what the right hand is doing. We’re becoming a siloed organization. Management is getting clueless about what’s going on, on the ground.” These are typically the early signs that you have to reinvent yourself.

There was one time, four or five years ago, where I said to myself that I was doing too much. How do I take out a clean sheet of paper and write down a few things that I do? And I came up with four things. It was to be the leading evangelist of the Subscription Economy, something that only I can do. It was to manage and align the company across two layers of the organization. We were about 150 or 200 people back then (we’re over 600 today), and I thought that was important. It was also to be the functional architect. I was still, at the time, very deep in the design of our products. I have since passed



Tien Tzuo and Robert Reiss. Interview aired: 6/12/2016

it onto others. And then, I have to be the “chief people officer,” since we didn’t have a head of HR at the time. For everything else, I felt that I could delegate to somebody else. I would have to work with somebody, but somebody else would own it.

Then I had to go to the organization and explain all of this to them, because they were used to me doing everything at the time. So I said, “From now on, these are the only things that I will focus on.” Systematically, how can I eliminate that and bring it down? Today, with the size of our company, what am I responsible for? I am responsible for hiring and firing my direct reports. I am responsible for fundraising. I am responsible for choosing my board members. Hopefully, that’s about it. I am going to certainly do a lot. I work a lot of hours, but my job is to make sure that other people are successful doing their things, and that the organization is aligned.

What is the future of Zuora?

We want to be the company that really powers the new generation of companies of the world moving from being a product economy to a Subscription Economy. We think this is a massive, once-in-a-century shift in business models. There is an opportunity for a new software company to arise with the power to help this new breed of companies whether they are startups or existing large companies, and our goal is to be that company.

It has been great having you on the CEO Show, Tien.

Thanks, Robert, for having me.

zuora

Mr. Tien Tzuo co-founded Zuora, Inc. in 2007 and serves as its Chief Executive Officer. Mr. Tzuo serves as an Advisor of LiveOps, Inc. In his 9 years at Salesforce.com, Mr. Tzuo built Salesforce.com’s original billing system and held a variety of executive roles in Salesforce.com’s technology, marketing, and strategy organizations, including building out the product management & marketing organization. He served as Chief Marketing Officer of Salesforce.com for two years. He served as Senior Vice President, Marketing, Strategy and Product Management of Salesforce.com. He also served as Chief Strategy Officer of Salesforce.com. He was one of the “original forces” at Salesforce.com, which he joined in 1999. Mr. Tzuo personally oversaw the vision, direction and design of the first 17 releases of salesforce.com’s award winning product line, including overseeing the launch of salesforce.com and the AppExchange.

Prior to salesforce.com, Mr. Tzuo served at CrossWorlds Software, where he launched CrossWorlds’ Telecommunications business unit focused on integration with billing systems such as Portal, Kenan, Amdocs and MetaSolv. Prior to CrossWorlds, he spent over six years at Oracle Corporation in a variety of sales and professional services roles and managed several of Oracle’s largest Telecommunications accounts, including MCI, NYNEX, Verizon (formerly, Bell Atlantic) and AT&T. He serves as the Chairman of the Board of Zuora, Inc. He has been a Director of Network For Good Inc., since August 2005. He serves as Director of Groundspring.org. Mr. Tzuo has been Director of Sailthru, Inc. since September 03, 2013. He has been a Member of Advisory Board at Cloud9 Analytics, Inc. since July 2008. He served as Director of Radian6. He is also widely recognized as one of the thought leaders in the software-as-a-service industry. In 2004, he was named CMO of the Year Finalist by the CMO Council and BusinessWeek Magazine. He holds a Bachelor’s Degree in Electrical Engineering from Cornell University and a Master’s in Business Administration from the Stanford Graduate School of Business.