

BUILDING THE SUBSCRIPTION ECONOMY

IIC Partners in partnership with YPO, interviewed Tien Tzu, Founder and CEO of Zuora, a leading software platform for the Subscription Economy. Tien discusses how subscription services are transforming industries, why relationships are critical for customer loyalty and how this drives change at the leadership level.

zuora

Tien Tzu
Founder and CEO
Zuora

Zuora (zuora.com) is the leading Subscription Economy Software as a Service (SaaS) platform that automates all subscription order-to-cash operations in real-time. Zuora gives companies the freedom to launch new businesses, shift products to subscription, implement new pay-as-you-go pricing models, gain insights into subscriber behaviors, and disrupt market segments to gain competitive advantage.



What industries are best suited to the Subscription Economy?

The Subscription Economy emerged as Software as a Service (SaaS) companies like Salesforce.com appeared. It then transformed digital media services like Netflix and Spotify, and later revolutionized manufacturing through innovations around the Internet of Things (IoT). Now, the Subscription Economy is spreading across all industries. Consumer services, telecom and utilities, financial services, healthcare, education, farming, automotive and more are all pivoting to or starting as recurring revenue subscription businesses.

What industries are least suited to the Subscription Economy?

Companies will eventually realize the truth that future growth can only come from subscriptions. According to the [Subscription Economy Index™ \(SEI\)](#), subscription-based companies are growing revenues approximately nine times faster than the S&P 500. Once a subscription offering is available in an industry from software, to transportation or music – that is where customers go. All sorts of companies from Ford to General Electric are finding new sources of revenue in the Subscription Economy and recognizing the future is in digital transformation and offering services, in addition to products, to deepen relationships with customers.

How has the Subscription Economy had a profound impact on an industry?

Amazon now dominates our lives from clothes to music, TV, news, and the cloud and is drastically disrupting the retail industry. Amazon understands that today's consumers prefer online browsing to in-store shopping. If big retailers don't act fast to turn distribution centers into E-commerce warehouses, invest in digital subscription experiences, and declutter stores to bring back the fun of discovery while shopping, they will lose the ongoing customer relationship required to survive in the Subscription Economy.

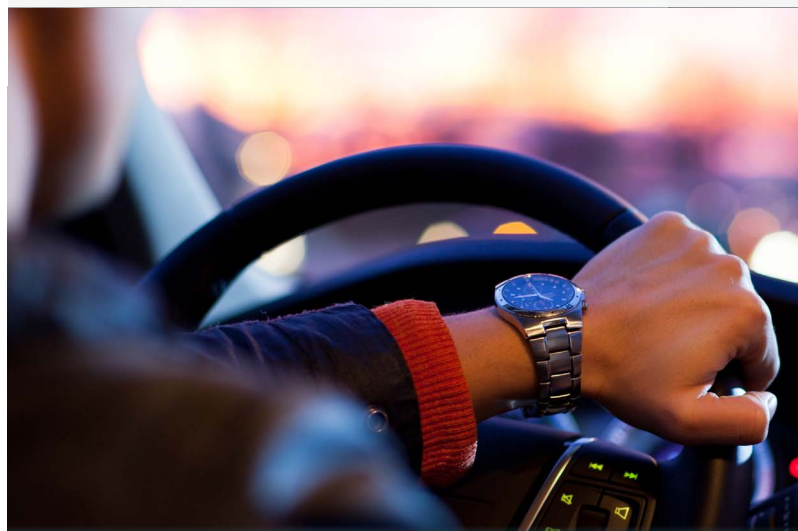
In the past year, Walmart acquired Bonobos and Jet.com. In November, the company reported Q3 earnings that topped Wall Street estimates, boosted by continued growth from its E-commerce platform and saw revenue explode by 50% versus a year ago. The results sent Walmart shares to a record high.

Think about the automotive industry. Traditionally, automakers relied on simple metrics like units sold and average selling prices. Last year, 80 million cars were sold at an average price of \$19,000 US, for a total of \$1.5 trillion US. According to Fortune, those [cars sit idle 95% of the time](#). Automakers are seeing the economic value that is unlocked when all those idle assets become productive. Last year, approximately 10 trillion miles were driven at an average cost of \$1 US per mile, totaling \$10 trillion for the ride sharing industry.

The Subscription Economy is a global trend boosting manufacturing and product sales across all industries.



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How Will Big Retailers Survive The Subscription Economy?



Transform distribution centers into E-commerce warehouses



Invest in digital subscription experiences



Declutter retail stores to bring back the fun of discovery while shopping

With large gatekeepers managing subscriptions and driving consumption, will it be more difficult for small companies and start-ups to bring competing products to market? (i.e., what is happening today as Google, Facebook and Amazon acquire small competitors)

The subscription business model has actually opened huge future growth opportunities for companies of any size to succeed and up-end large incumbents. Subscription services provide businesses with the opportunity to better understand their customers based on their preferences and behaviors. This enables companies of all sizes to develop longer-lasting and more meaningful relationships that will drive new, more predictable revenue streams as loyal customers keep subscribing. This gives you a sharper competitive edge and a stronger business foundation. All it takes is one brilliant innovation for customers to change, and then the whole industry will shift. Look at Uber and the automotive industry - who knew that would happen? But once it does, it will move fast.

Do companies have an ethical responsibility when using data for targeting / niche marketing in a hyperdata age?

Absolutely. Securing personal information is an important issue, and the best companies realize that customers should own their data. Ultimately, customers will own the decision-making process and will choose the subscription brands that they trust.

What do you see as the biggest business challenges for subscription-based companies?

Many global companies entering the Subscription Economy must contend with rolling out new services, billing, pricing, packaging and financing complexities - all while continuing to sell their products. According to a Fortune survey, 72% of the Fortune 500 say the single greatest challenge limiting their growth is technology. Aging infrastructures, like Enterprise Resource Planning (ERP) systems purchased 20 years ago, are a major challenge. The problem with legacy systems is they were designed for an era that was focused on getting products to customers in a transactional manner. Since a subscription-based business creates an ongoing relationship with a customer, the system must be designed to help a company manage these relationships. Maintaining a strong recurring revenue business model requires a single platform to orchestrate the processes for a business' growth from pricing experimentation, order fulfillment and revenue recognition. The [International Data Corporation \(IDC\)](#) predicts that by 2020, 50% of the world's largest enterprises will see the majority of their business depend on creating digitally enhanced products, services, and experiences. By moving from providing goods to offering services, companies unlock huge economic growth. The software industry's shift to subscriptions has moved its revenue from single digit growth to double digit growth.



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What newly emerging leadership roles are you seeing as a result of the Subscription Economy?

Subscription businesses require that every role embark on a whole new way of thinking. It's a completely different business model. It's no longer about shipping products out and transactions with customers - that was the old world. In the new world, it's about putting the subscriber first and at the center of everything you do. Subscriber-centric businesses must develop multi-channel experiences to deliver the outcomes their customers want, wherever they are. So the Subscription Economy, in fact, requires an entirely new leadership team with a CEO, CMO, CIO, CSO, CFO, CPO, etc. who can think and operate in this new mindset.

Will the Subscription Economy ever disrupt the labor market and traditional hiring models?

I coined the phrase Subscription Economy in 2008 to describe a once-in-a-century shift in business models, away from shipping products, to providing outcomes. This is the core essence of the digital disruption that everyone is talking about, and is a huge opportunity for the labor market. Whether it's Uber rides, monthly Netflix fees, usage-based cell phone plans or hourly cleaning services, the point is to rethink your business model not as selling products, but providing services to a group of subscribers. Your customers will be loyal and gain both value and freedom from what you do. It's a highly sustainable model for both laborer and consumer.

How has YPO helped your business?

The global network of YPO has helped us at Zuora tap thousands of businesses around the world who are seeking new growth opportunities through disruptive business models. As the Subscription Economy grows, so does the forward-thinking ecosystem of companies within it. YPO has connected Zuora with fellow entrepreneurs pushing that envelope of digital disruption and transformation.

How has being a member of YPO helped your management style?

YPO is a great reminder that outside perspectives are critical to leading a company to success. One of the amazing things about working in Silicon Valley is the power of its massive social network. At the same time, tech execs tend to be so industry obsessed that most tech CEOs spend their time thinking and talking about their own products. I believe the better model is to get out of our "Silicon Valley Bubble" and draw inspiration from the outside world and non-tech industries. YPO helps us spend more time outside our bubble and be more understanding and connected to leaders who are empathetic about the way our products impact the world around us.



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About YPO

YPO is the global platform for chief executives to engage, learn and grow. YPO members harness the knowledge, influence and trust of the world's most influential and innovative business leaders to inspire business, personal, family and community impact. Today, YPO empowers more than 24,000 members in more than 130 countries, diversified among industries and businesses. Collectively, YPO member-run companies employ 15 million people and generate USD 6 trillion in annual revenues. For more information on YPO visit www.YPO.org.

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