PETER FADER AND SARAH TOMS

THE CUSTOMER CENTRICITY PLAYBOOK

IMPLEMENT A WINNING STRATEGY DRIVEN BY CUSTOMER LIFETIME VALUE

Wharton
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Contents

Introduction

We begin with a company that has been around for about 36 years, predating any modern notion of customer data analytics.[1] Back in 2013, it was loathed so intensely by its customers that it was named the worst company in America—for the second year in a row.[2] From the outside, this company appeared to be in such serious trouble that its days were surely numbered. Yet, over the past six years, its stock value has rebounded 1,000%,[3] and in 2017 it managed to clear a billion dollars in profit.[4] Would it surprise you to learn that the company in question is global gaming giant Electronic Arts (EA)?[5]

Sparking EA's miraculous turnaround was the company's realization that even if customers *look* the same on the surface, not all customers *are* the same—a principle that is fundamental to customer centricity. Today, we count EA in an elite class of companies that turned themselves around thanks to their steadfast commitment to their customer-centric strategy. We say *steadfast* because the turnaround has taken more than a decade to gain outward visible momentum, as reflected on Wall Street.

EA's turnaround actually began five long years before its stock price started to climb again, when a few data nerds working on the sales planning team decided to follow a hunch. They believed that the company was wasting vast resources in the way it invested its marketing budget—22% of revenue was spent on marketing at the time. Following this thread, the analysts wanted to see if they could use data to find a better way to advertise EA's games. Back then, much of the budget was spent right before a game launch and went to TV ads and other broadcast *spray-and-pray* approaches, but no one at EA had any clear goals in mind for how to measure the returns on this spending.

Figure I.1. EA NASDAQ Stock Prices, January 2012–July 2018

ELECTRONIC ARTS INC   Last $129.67   ▲1.62 (1.27%)   Volume 2,306,241   — 136.00 / 129.67 / 119.00 / 102.00 / 85.00 / 68.00 / 51.00 / 34.00 / 17.00 — 2013 2014 2015 2016 2017 2018

Source: "Electronic Arts Inc. (EA) Interactive Chart," Nasdaq, July 16, 2018, www.nasdaq.com/symbol/ea /interactive-chart.

By optimizing a marketing mix algorithm, the data team was able to provide indisputable evidence to the decision makers at EA that the company was, indeed, spending its marketing dollars inefficiently. And thankfully for EA, the decision makers paid close attention when presented with alternatives. The result was a universal decrease in marketing dollars spent, with no negative impact to efficacy. This provided the first proof to EA that by leveraging data insights, it could forge a path to more successful decision making.

When EA purchased Playfish, a digital-first gaming company, in 2009, one of those data nerds from the sales planning team—Zachery Anderson—was appointed to lead the analytics and insights arm of EA Digital. This team made it their mission to mine whatever data they could find. By standardizing metrics, they created a unified, reliable way for the company to analyze hundreds of data points. The company was abuzz with the possibilities that these newfound insights heralded, but many EA employees also worried about the company's identity in light of this new flood of information. As Benjamin Tisdale, senior director of business analytics, reflected, many employees were asking, "Is data going to decide everything for us now? We're a creative company, and we didn't want to lose sight of who we are."[6]

Then, in 2013, Andrew Wilson was named EA's new CEO. Wilson decided to address head-on the tension between data-driven decision making and the need to protect the creativity of the game studios. By leveraging some key correlations that the Digital team's analysis revealed around engagement and customer value, Wilson championed a "Player First" mantra that translated into marching orders for the entire company to understand what exactly leads to higher player engagement.

As part of Wilson's "Player First" initiative, Anderson was asked to head up a new group called Global Analytics & Insights, which started to consolidate the company's understanding about players, showing that in-game engagement was a good proxy for the future value of individual players. In fact, engagement was the single best predictor for whether a customer would purchase other games in the future. This finding may seem obvious now, but for a company that was not digitally native and had spent most of its history thinking about its customers monolithically, this pivotal insight ignited a transformation that has touched every aspect of how the company thinks about its customers and how it designs games tailored to attract and retain its best customers.

EA's culture has since matured to a point where it values data and creativity equally, recognizing that these two approaches are symbiotic. The game designers embrace the insights data provide about player engagement, which helps inform what specifically is working and what needs to improve in the games they're producing. The studios aren't necessarily living and breathing in data in the same way the data teams are, but they are using these insights as guideposts to help scaffold ideas as they brainstorm new game ideas.

Certainly, the financial health of the company tells us this approach is working—really well! But if player engagement is one of the best indicators of the future value of EA's customers, then the recent stats about the popularity of EA's games are the best news of all. EA's 2017 end-of-year fiscal report stated: "EA was the #1 publisher on PlayStation®4 and Xbox One consoles in the Western World for fiscal 2017, based on available sources and EA estimates."[7]

EA is an almost-perfect case study in implementing a successful customer-centric business strategy. EA shows us how a firm can maximize its long-term financial value—and set itself up for long-term success—by drawing on the current and future needs of customers to guide the development and delivery of a company's products. Granted, the route to becoming a customer-centric company is not always simple or direct; in fact, some companies that think they're already customer centric don't even have a clear understanding of what customer centricity actually *is*, much less how it should be executed effectively.

Thankfully, that's where *The Customer Centricity Playbook* comes in.

About This Book

The Customer Centricity Playbook will guide you through the specifics of many customer centricity success stories, providing you with a 360-degree analysis of all the elements that support customer centricity in an organization. You will learn to

- develop a customer-centric strategy for your organization;
- understand the right way to think about customer lifetime value (CLV);
- make informed investments in sales, marketing, and customer service based on the customer life cycle;
- foster a culture that sustains customer centricity;
- understand the link between customer lifetime value and market valuation; and
- understand customer relationship management (CRM) systems, as they are a vital underpinning for all these areas through the valuable insights they provide

We lay out a straightforward methodology and set of concepts that are essential considerations for any organization looking to become

customer centric. In fact, the goal of wanting to better explain the underlying principles of customer centricity is what brought us, your authors, together as collaborators.

Why We Wrote This Book

When we met in 2013, Peter's first book, *Customer Centricity: Focus on the Right Customers for Strategic Advantage*, had recently been published. It was one of the first on the subject intended for a general business audience, and it had also been translated into Chinese, Korean, and Portuguese, revealing global interest in the topic.

Peter was on the hunt for a capstone experience for students of his customer centricity MBA course at The Wharton School that would bring all the concepts of the course together in a challenging and realistic way. Sarah had recently become the director of Wharton's Al West Jr. Learning Lab, a collaborative incubator for driving the development of groundbreaking, award-winning, high-tech applications in education. When Sarah heard about Peter's desire to create an immersive learning experience for his students, she jumped at the chance to collaborate with him. She started by reading *Customer Centricity*.

Together, we created Wharton's Customer Centricity Simulation, a game that realistically simulates the acquisition, retention, and loss of thousands of customers and allows learners to put the customer centricity essentials they have learned into practice to win over those customers. It took more than two years to develop, and in 2015 we successfully launched it. During this time, we learned a great deal that we realized could also help those outside the classroom who are struggling with these issues in their organizations.

We soon decided to write a book that would be a true playbook for developing a customer-centric organization. Whereas Peter's first book, *Customer Centricity*, makes the case for moving away from a product-centric strategy to a customer-centric strategy, *The Customer Centricity Playbook* shows customer-centricity converts where to start to develop and implement a winning customer-centric strategy.

What's Next

Chapter 1 lays a foundation for the book by defining *customer centricity*, a term that is used widely but often incorrectly. In this first chapter we discuss the importance of customer heterogeneity and explain the right and wrong ways to think about CLV—a key building block for a customer-centric strategy. Chapter 2 delves into the first step in the customer journey—acquisition—and explores various strategies and tactics. We also discuss why personas and demographics are archaic customer acquisition approaches that should be retired. Chapter 3 shifts the conversation to fine-tuning retention and development activities by leveraging CLV. Chapter 4 focuses on the data analytics, technology tools, and processes that are the pillars of customer relationship management (CRM) and are all essential to customer centricity. Chapter 5 discusses the differences between traditional approaches to corporate valuation and why it is beneficial to use customer-based corporate valuation to draw a fuller picture of an organization's financial health, which will also drive specific operational decisions. Finally, chapter 6 discusses organizational transformation, culture, and leadership, which are all key to sustaining any customer-centric strategy.

About the Authors

Peter S. Fader is the Frances and Pei-Yuan Chia Professor of Marketing at The Wharton School of the University of Pennsylvania. His expertise centers on topics such as customer relationship management, lifetime value of the customer, and strategies that arise from these data-driven tactics. His work has been published in leading marketing and statistics journals, and he has won many awards for his research and teaching accomplishments. He is the author of *Customer Centricity: Focus on the Right Customers for Strategic Advantage* (2012).

In addition to his activities at Wharton, Professor Fader co-founded a predictive analytics firm (Zodiac) in 2015, which was sold to Nike in 2018. He then co-founded (and continues to run) Theta Equity Partners to commercialize his more recent work on customer-based corporate valuation.

Sarah E. Toms is executive director and cofounder of Wharton Interactive. She is a demonstrated thought leader in the technology field with over two decades experience working in a wide variety of industries. In her positions at Wharton, Sarah has built award-winning *edtech* teams that develop highly engaging games and simulations, which are played by tens of thousands of students globally. Her passion to democratize education led her to co-invent simpl.world, an open-source simulation framework. Sarah was an entrepreneur for more than a decade, founding companies that built global CRM, product development, productivity management, and financial systems. She is a certified ITIL practitioner and led a global ITIL

change initiative that touched every aspect of the technology life cycle for a pharmaceutical company.

She is also dedicated to supporting women and girls in technology through her work with the Women in Tech Summit and techgirlz.org.

About Wharton Digital Press

Wharton Digital Press was established to inspire bold, insightful thinking within the global business community. In the tradition of The Wharton School of the University of Pennsylvania and its online business journal, Knowledge@Wharton, Wharton Digital Press uses innovative digital technologies to help managers meet the challenges of today and tomorrow.

As an entrepreneurial publisher, Wharton Digital Press delivers relevant, accessible, conceptually sound, and empirically based business knowledge to readers wherever and whenever they need it. Its format ranges from ebooks to print books available through print-on-demand technology. Directed to a general business audience, the Press's areas of interest include management and strategy, innovation and entrepreneurship, finance and investment, leadership, marketing, operations, human resources, social responsibility, and business–government relations.

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About The Wharton School

Founded in 1881 as the first collegiate business school, The Wharton School of the University of Pennsylvania is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. With a broad global community and one of the most published business school faculties, Wharton creates economic and social value around the world. The School has 5,000 undergraduate, MBA, executive MBA, and doctoral students; more than 9,200 participants in executive education programs annually; and a powerful alumni network of 98,000 graduates.

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