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ACCELERATING ENTREPRENEURIAL SUCCESS PODCAST

EPIISODE  
**40**

**Peter Fader**

Show Notes at: <http://www.aesnation.com/40>



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Episode #40

John Bowen and Peter Fader

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Best of success,



John Bowen  
Co-founder, AES Nation

**John Bowen:** As entrepreneurs, we're hearing all kinds of messaging on how we have to build deep relationships with our clients. We're hearing we've got to use big data. What is big data? How do you build these relationships? How do you create really powerful long term relationships so that we recognize a lifetime client value? This is stuff that all of us are hearing about and I got to tell you, it's unbelievably valuable when you do it. We're doing it. We're just learning it. And over the last few years, it's been huge impact on our businesses. And I want it to be on yours. One of the top individuals in this whole arena is our special guest, Peter Fader.

Peter is one of the top fellow entrepreneurs but he's also a professor of marketing. So he's one of those data geeks, number guys that actually likes creating results. From a marketing perspective, he's one of the co-directors... I'm looking over this side to make sure I get the right title, of Wharton Customer Analytics Initiative. Stay tuned. If you've ever wondered if you're using data right, you're building those right relationships to create tremendous value for your clients and for yourself. Stay tuned.

Peter, I am so excited to have you join us. I've had the privilege of working with you a little bit. I'm going to have you come out and visit with my two hundred plus financial advisors, our Mastermind Group because I think your message, your book, all the research you're doing is so powerful. So I want to share you with your group here at AESNation. So thank you Peter for joining us.

**Peter Fader:** It's a pleasure to be with you John and I'm glad to have a chance to share the message with everyone who follows you.

**John:** Tell me a little bit about how you've got to where you are. I want to get a little bit of the back story so they get some framing.

**Peter:** Unlike most of the folks you talk to who have just an incredible autobiography, I've been sitting in the same chair for 28 years doing pretty much the same thing. It's just that the world has changed in a way to make my work all of a sudden interesting.

So fact is, I'm a number-cruncher. I'm looking for patterns and data. I like predicting things. But I like to do it from a practical perspective, which means I want to use math that's easily accessible to most people like Excel. And I want to be able to answer real problems, not just nice theoretical ones.

So whether it's been sports statistics or looking at applying dollar bill poker or looking for patterns and numbers there, or in particular, if you're looking at a customer data to try to understand who are the right kinds of customers, who we should invest in, what should we expect out of them, those kinds of questions. That's what I've been doing for three decades.

But all of a sudden, companies and entrepreneurs in particular really care about that stuff in a way that they never did before.

**John:** How are you seeing entrepreneurs start putting it into place and what are they doing with it to start moving along on this journey?

**Peter:** So a lot of what I do, here's the secret, is to take the kinds of things that direct marketers were doing to sell Ginsu knives on late night TV back in the 60's and 70's and just take some of those already basic, prospective, frameworks, methods and just update them to fifty years later. So a lot of it is kind of tried and true thing that our forefathers in direct marketing and other fields have done. It's just bringing it to new fields, to new data structures, to new kinds of managerial decisions. But it's distinctly not magic. And unfortunately, a lot of firms see it that way, that it's magical or that it's some kind of black box that they can understand.

I think it's really important for people to have at least some appreciation for the math. But I'm not here to talk about the math per se, but to understand how it's going to change the kinds of decisions that you'd be making if you didn't have access to that kind of data and models.

**John:** Over the last several years, I've gotten really interested in the direct marketing community and the Ginsu knives and the late night infomercials. And they were one of the first to really collect data. But it was very hard to collect that data.

**Peter:** So many people, so many companies are out there saying, "Oh it's a whole new world, the old rules don't apply" It seems like every ten years, there is some kind of generational wave that we got to throw out the old and start out with the new. And while it might be true with specifically the kinds of data that we have are the words that we put around it.

The basic patterns of how people behave and how many of them are going to come in and try something, how many of them are going to try to second time or become loyal to it - those basic patterns are remarkably robust. They're incredibly stable over time across geographies and across industries.

So the real key here is to be open to learning from some of these other domains instead of saying, "Ours is different." or "Today is different." So if we can just take the Greatest Hits from these other sectors or other time periods, there's a lot of collective wisdom already. So we don't need to reinvent the wheel.

**John:** One of the things Peter, we talked before in our previous conversation, I wanted to introduce you to Joe Polish, who is one of those old... well, he's not an old guy but an old time

direct marketer. He has learned with some of the greatest guys like Dan Kennedy and others. And I'm part of his Mastermind Group. It's called Genius Network Mastermind and one of the reasons I joined was I saw the power of living in Silicon Valley, of using big data.

But you've got to use the tools of the old way of doing it, it's just now makes it easier to do and really, that is to me, revolutionized marketing and building relationships and the value that can be created. Because it's not only influence is influence. But it's also that we can now get much deeper in the client and actually serving better.

**Peter:** That's exactly right. While it does indeed revolutionize a lot of firms, there's a lot who have been doing this kind of thing. The record has it, you have a small number of clients, you have a pretty good sense about what their likely to do and how they'll respond and who's call are you going to take at two o'clock in the morning, and who's going to have to wait until Monday to get the call back.

So there's been a lot of a heuristic understanding of this kind of customer-centricity, again especially if you have a relatively small number of customers. The revolutionary thing is to be able to take that understanding and to figure out how to use data and technology to be able to scale that up, to be able to do that when you have hundreds of thousands, if not millions of customers, to be able to use more technological solutions, to be able to do the same kind of thing that you used to be able to do with small numbers.

So some of the basic ideas of what we're trying to do are new. It's just that people don't think about that it's possible to doing that kind of scale.

**John:** I'm so excited about this stuff because quite honestly, it's fairly new to me. Even though I grew up in the financial services industry, I worked with some of the largest companies and still do, they're doing it but it's very isolated and it's not, I think you and I would agree, there's a lot of opportunity to do it more. Who has been doing it for a while that our fellow entrepreneurs would know about and doing it well?

**Peter:** I think that the classic textbook example would be Caesars Entertainment. In their previous incarnation as Harrah's, it was very interesting that out of desperation when Harrah's couldn't compete on an equal level with a lot of its deeper-pocketed competitors, they said, "We got to do something that's different from the others. Let's turn to the data and let's build a loyalty program and let's get these deep insights and let's have the courage to be able to treat different customers differently on the basis of what we think they're going to be worth to us. Let's align them based on their value and allocate accordingly instead of trying to roll out the red carpet to absolutely everybody because we can't tell the difference among them."

So Harrah's rose to the top of their industry, ended up buying Caesars Entertainment. So that's one classic textbook story. And there's a number of other companies like that, Tesco, the grocery retail in the UK, and then of course a lot of eCommerce startups.

One can argue that this is the whole basis of Amazon for instance. So Jeff Bezos wasn't out there to sell books. He was out there and he has been quoted of saying this, "I'm using books just as a way to find people with a lot of disposable income and then sell them all kinds of stuff." That's what I'm talking about. And while some companies are kind of born into it, they're born around the technology, it's much tougher for older, more established companies or older, more established industries to do this kind of pivot and to start saying, "We now can treat our customers differently in a way that wasn't possible before."

And you know what, you might be able to make more money by being able to sort those customers out and figure out who are the more valuable ones and so on rather than just trying to sell the same thing to as many people as possible.

**John:** Honestly, I became interested in this in the 2008-2009 downturn in the financial markets because our consulting, our coaching was to big firms and all of a sudden, some big firms weren't there. And then others, in our case, we're helping the top financial advisors with wealth management-built great practices to serve their clients. Well, we've got a segment that's not for everybody. We've got to work with them. And now we no longer had the firm's ability to do that so we had to market direct and that's why I really became interested in this whole data because the data's available. It's easy to sort through with today's technology.

And one of the biggest mistake all of us make, and we used to shoot out this wide net to everyone and treat everyone equal, and boy, they're not equal. One of the things you write about in your book a lot is this client lifetime value. Let's define that and tie that into that segmentation why it's so valuable.

**Peter:** I'm happy to do so because that is really the heart and soul of all this stuff. We're looking at a particular customer and I'm completely agnostic as to what we mean by customer. It could be a client in the financial services setting. It could be someone buying tickets to a sporting event. But it also could be on a B2B side. So it could be a business that you see as the client or the customer and what we want to do is to project how much revenue, how much profit, we're going to get from that client in the future.

Let's project it not just over the next quarter or the next year but let's project it out as far as we can imagine, ten, twenty years, maybe further. Of course recognizing the time value of money that those dollars would get twenty years from now on as much worth to us as the dollars we get tomorrow. And so let's come up with really, really accurate projections about what those cash flows might look like. And let's use that as our basis to decide who the best

clients are. As opposed to historical profitability. Let's stretch people on what we think they're going to be worth to us as opposed to what they have been worth to us.

Now admittedly, those two are close to each other. If someone's been a good client in the past that is probably going to be decent in the future, but it's not a one-to-one mapping. And if you're going to want to play this game the right way, you care about the future than the past.

**John:** I'm a little embarrassed Peter. It's so blindingly simple that so many of us as entrepreneurs have been slow to do it. We've been slugging in out the hard way just one client at a time, one relationship, one B2B type and then now, I feel like I'm a kid in the candy store with all these data. I now can go, "Okay, this is who we want to talk with."

**Peter:** So let me put in a perspective specifically for entrepreneurs because a lot of these ideas, we often associated with bigger companies that have the big, elaborate CRM systems and the millions of customers to pick and choose.

So how does this all fit for entrepreneurs? The thing is most entrepreneurs for good reason are inherently product-centric. They come up with that great idea of product or service and it's all hands on deck to figure out how to refine that product, how to get the message out, and how to get as many people as possible to buy it. That's the definition of product-centricity. And that's totally understandable because again, you're always going to start a business, in most cases, on with the product or the service.

The issue is this. As you grow and then you have more and more customers and you start adding more products to the line and so on, at some point, you're going to stagnate. At some point, competition's going to catch up. At some point, you're going to have to say, "It's not enough just to tweak this product-centric business model. We need something different." And it might be because of competition as in the case of Harrah's or a variety of other reasons.

And at that point, people start picking up my book or other books on this basic topic and saying, "We all learned this customer-centricity stuff. We all learned how to value those customers and build our business around them. What I want for entrepreneurs is to recognize that while they're not going to be customer-centric right out of the gate, that's understandable, that pivot is going to take place. And I'm not saying you necessarily have to do it sooner rather than later. But I want them to be sowing the seeds, building the infrastructure, having the mind-set and the culture. So when the time is right, it's as simple as flipping a switch and saying, "We can use these other strategies now or maybe we can use both strategies for different parts of the business."

So it's just a recognition that for so many companies, building the business around the customer often becomes vital for the future. So let's figure it out even when we're in a mode when we're not going to be necessarily doing that stuff on a day to day basis.

**John:** When do you think this big breakthrough happened? My guess as a teenage you didn't think about big data and big companies and client lifetime value. When did this happen? How do they come that you go, "Geez, this is just amazing?"

**Peter:** I remember it so well. It was actually in 1998, was my moment of epiphany. Because I was born and raised on package goods data. So working with a lot of the CPG firms and then the data suppliers, the Nielsen's and the IRI's, and helping them build models and so on.

But when that whole dotcom thing started, just out of curiosity back in '98, I took a model that I was using actually for a kid's juice drink. And just for fun, I applied it to a dotcom business just to see how the patterns would be different. You know that they have to be different. People buying music online is going to be different than people buying kids' juice drinks in a grocery store. Well it turned out that the patterns were identical. Again, if you look at the number of people who adopt the product over time or the percent that they would come back and buy again and how often they do that, and just what the overall sales curves look like. It's remarkable how similar they were.

So this was a moment of epiphany that to be able to kind of break down the walls, to say "Oh, here is consumer package goods." and "Oh, here's online electronic commerce." And that made me curious to start to push the boundaries a little bit further. Like can we dip our toes into financial services? Or what about pharmaceuticals? Or what about median entertainment? And I haven't found the limits yet.

I've found that as I've mentioned before that the patterns are remarkably the same, online, offline, US, China, big business, small business, B2B, B2C. Yet I find it just disheartening that so few companies are aware of these patterns and are willing or able to build models that fully exploit them. That's why I wrote the book.

**John:** Whether you're B2B or B2C, you're working with people. And while we're all different, we're all a little weird, there's so many similarities of how are influence and relationships we want to have with the people who are working with us, serving us and so on.

**Peter:** Which is to say, in any one sector, with any one business, the customers are actually vastly different from each other. There's going to be the good customers and not-so-good customers. The similarity that you're referring to is that the range of customers is pretty similar from one industry to another. So the customers aren't similar. But the differences among the customers are similar.



**John:** The behavioral issues that we have as individuals whether I'm representing a big, defense contract or I'm buying a drink at Starbucks, where it's still people but definitely very different.

**Peter:** That's right. And that's why it bothers me when I see a lot of companies segmenting on the basis of demographics saying "Men do this. Women do that. GenX's do this. GenY-ers do that. The thing is in any one of those demographic groups, there's still going to be a vast array of differences. And so it might be true that the average woman buys a little bit more than the average man. But the spread around that is huge.

So when it comes to segmenting customers, you want to do it on the basis of behavior because that's ultimately what we care most about. In the old days, we couldn't segment on behavior. We couldn't see the behavior at a granular level. But today we can see it yet still so many companies are locked into age and gender and whatever else. It's just not necessary or helpful anymore.

**John:** Today, with data, Peter if you're my client. I have all the data about that relationship so I'm much more equipped. I can segment it down into that individual, not only demographics, psychographics, but the actions that they're taking. And we couldn't do that in the past in any scale. So that to me is one of the big wows.

**Peter:** And the big wow comes back to the words that you said before, competitive advantage. So we're looking at all of the textbooks that were written in the 60's, 70's, 80's, 90's. Competitive advantage always arose through the products. Like let's find ways that people can't imitate us or people can never catch up to us. It was always about building competitive advantage through product-centricity. Like Michael Porter's work was all around that kind of thing.

And I'm not saying it's invalid. But today, it's just much harder to build those product-based competitive advantages. When it comes to our customers, when it comes to the data that you just described, no one can ever take that away from us. That will never ever commoditize. The things that I know about my customers are unique to me and so I really see that understanding customers at a granular level as a true source of competitive advantage. Not just a way just to sell more stuff but to figure out who are the best customers and the not-so-good ones. Build the business around that.

**John:** And serve them well. It's not that we're manipulating clients or anything. It's our ability to serve the right clients that we can do profitably has never been better. That's why I love this. Peter I haven't thought of this until you said it is, I look at all products and I know financial services industry well. They're commoditized. There's no way of really patenting anything. If

something comes out, it can be reinvented six months later. So the only thing that really is the value is the relationship. But in the past it was having the salesperson having that relationship. Well today, that's still important, but the data is really the king part of this.

**Peter:** I actually think the salesperson is more important than ever. The point at the end of the spear on this stuff is changing the way that we manage and accent our salespeople because traditionally, what most companies do is, "Sell a lot of stuff. If you can book enough business this month, then we're going to give you the good parking space or whatever else."

What I want to do is to change sales force kind of accounting. Instead of how many orders did you book? It's how much did you lift before we're looking lifetime value? So I want to encourage salespeople not just to "I got to do this before the deadline." But let's think long term. Let's build relationships. Maybe they're not going to buy a lot from us right now. But we're going to open the door to lock the sales that wouldn't have occurred otherwise.

And what's the nice thing about it is that this is what sales people want. Salespeople don't want to be order-takers. They want to build relationships. I mean that's why God invented golf after all, is that people build relationships.

So if we can create structures that let us measure the amount of relationship building that has gone on, as measure by customer lifetime value, and then reward salespeople on that basis, I think we can just revolutionize the way firms work.

**John:** I totally agree and I'd love to say I've already done that but I haven't. But what the salespeople initially when I was putting it in place, they didn't like the idea. Just pay us more. And now, they love it because what it does, they say they recognize that the buying cycles are deeper in that people are doing more research before they have a conversation. And when they have the conversation, they may not get it unless they've interacted like this. And then when they do have the conversation, they have unbelievable data so they can have a rich conversation to serve that person. So we've seen not only are we having better conversations when we're talking about the marketing sales, but better conversations with the right people who they can serve really well. And that wouldn't have been possible without the data.

**Peter:** That's right and that right there that is competitive advantage.

**John:** You are a passionate guy. We're both get excited about numbers and data. It's little weird but we can impact so many lives. What are you working on now that you're most passionate about Peter?

**Peter:** A lot of this is this educational idea. So the models themselves, that's done. In fact, that's the good part about it. They're done. They're validated. The math parts, sure, I'm still tweaking a little bit. I'm still living the "publish or perish" professorial life. But I'm spending a lot of my time, and one of the reasons I'm having this conversation with you John is because I want to pay it forward. I want companies to have a real clarity on what this customer-centricity stuff is and what it isn't... the value that they can get from it.

And one of the things that I've seen is that for companies to get real value from it... it's not just a matter of them doing the number-crunching themselves. But if they themselves can pay it forward. If you can teach your clients how they can be customer-centric with their own customers, then it's going to give them a better appreciation of why you're doing it for them.

So a lot of it isn't just giving people the math and the methods, which again is the most of what my life is. But it's trying to find ways to make this stuff just really palatable, to make it just as really easy for folks to understand it and share it.

And again, that's one of the reasons why as a real technical guy, I kind of was willing to put down the calculator and then write a very non-technical book in the hopes that it's going to spread the gospel in a way that others could continue moving it forward as well.

**John:** Peter, one of the things I normally do is I say, what's your favorite book? And I'm not going to let you get off that easy and name someone else. I want you to tell me about your book and you kind of gave me why you wrote it. But what's in there? For entrepreneurs particularly, how do they get the goal out of all this?

**Peter:** It's really three things. Number one, it's bringing clarity to these two words, customer centricity. Unfortunately, it means a lot of different things to a lot of different people. And for some, it means just being nice to everybody. If any customer has a little thick up there but then we're not doing our job well. I don't believe that. I absolutely believe that there are some customers who are better than others. And we're going to be more responsive to them.

And again, I look often at financial services as an area that's been willing to do that and has been rewarded as a result. And I want to see other industries take on those same kinds of practices. So that's number one is just bringing clarity to the basic definition.

Point number two, I alluded to you before, is understanding this healthy balance between being product-centric and being customer-centric. To some firms, it means making a choice. We can only be one or the other. We can only have one strategy. We can only be thinking in one direction or hiring people with one kind of talent. For other companies, it means finding ways for those two to co-exist with each other that they're really going to be customer-centric

with those customers who are valuable. And for those other customers, we're going to just do them in great volume. That's going to be more product-centric.

And third, as I've mentioned briefly before, it's understanding the evolution that some firms go to from being product-centric towards customer-centric. What are the things you need to do? What are the metrics you need to start bringing in place? Just how do you start changing the culture of the organization to move in that kind of direction?

So I want to bring clarity and then offer just some initial advice. I'll be the first to admit. It's not the end all and be all just to get people to think about some of those differences, those dualities and that evolution from one kind of thinking to the other.

**John:** And it doesn't stop there Peter. I know on your website at the school, you've got other resources. What might entrepreneurs find there?

**Peter:** A lot of it is the idea of harnessing that data. So when I'm plugging to entrepreneurs, I'm always asking them three questions. So if you had to rank or choose the best bits of behavioral data that you have about your clients, what would it be? What data are you most interested in tracking and data-basing and so on? That's number one.

Number two, what derived measure would you create out of that observed data?

And then number three, how is that going to change the way you make your decisions?

Now, the right answer to question number two is going to be lifetime value. So as we're going to look at the different behavioral data that we have and then we're going to come with this forward looking projections and eventually use that to target customers, change the way you do the business, everything that we've covered. I want entrepreneurs to be really thoughtful about that.

I want entrepreneurs to realize that, maybe not tomorrow, but a year or two or five from now, we're going to be building our business around that stuff so we might as well start figuring it out now. We might as well appreciate a little bit of the math or at least the behavioral data that we need to have in place as well as some of the systems, some of the early things that we'll do towards building a proper serum system. Maybe starting with a simple loyalty program or other tactics like that.

And so a lot of the research that I've done and a lot of technical notes that I've written and a lot of the workshops that I've run, of all these things are alluded to on my website, I'm just holding people's hands, giving them both the motivation to want to go in this direction as well as some of the actual tools to help them take some of those first steps.

**John:** You're making it a lot easier Peter and that's so invaluable.

Let me play back the Key Takeaways that I really hear and wrote down. Number one, competitive advantage, strategic advantage - we work so hard to get this. And that shift from product to client or customer is huge. Products are commoditized and if you are industry isn't, it's weird that it's not yet but it will be and this is the only way that we can really differentiate ourselves. Boy, get started now. As a fellow entrepreneur, I want you to have a big win. Peter wants you to have a big win. Everybody at AESNation wants that.

Second is the recognition and this is one that's so easy for us to screw up. But some clients are better than others. Some customers are better than others. And we should treat them that way as well as seek them.

Third, using this data to really mine for lifetime value is just such a bid deal.

This has been amazing so thank you for sharing your insights.

**Peter:** It is my pleasure John. I want to give you credit. A-plus to you for pulling those three takeaways because a lot of different messages and the stuff that I'm writing about and doing in my research. And sometimes people pick up on some of the less impactful parts but you hit them all in the head. And I hope that all of your viewers and listeners will do so as well.

**John:** Your clients, your customers, and all those future clients and customers, they're counting on you to do this well. Don't let them down. We wish you the best of success!

## A Second Opinion on Your Finances

*A Complimentary Service from Financial Advisor Select for the Members of AES Nation*

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Best of success,



John Bowen  
Founder and CEO  
Financial Advisor Select