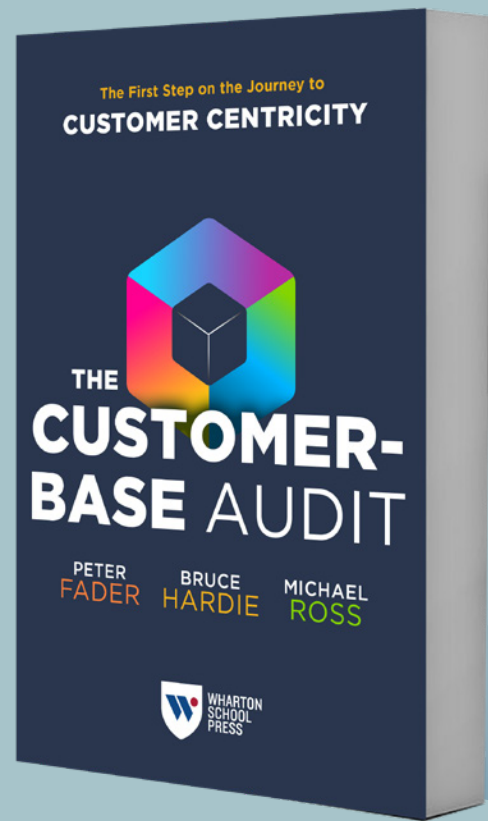


# *The Customer-Base Audit*

## DISCUSSION GUIDE



As a leader, it falls to you to understand your organization's financial statements and management reports, as well as budgets and expenditure. But how much do you actually know about the people who pull out their wallets and pay for your products and services? How well do you understand the people who generate your revenues?

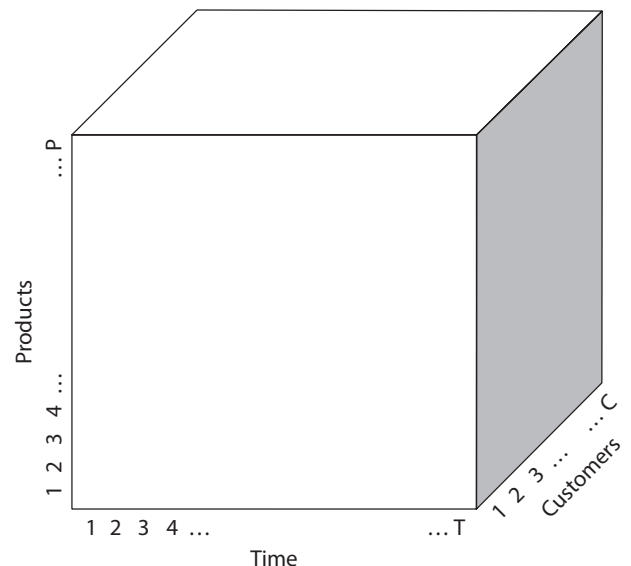
In *The Customer-Base Audit: The First Step on the Journey to Customer Centricity*, experts Peter Fader, Bruce Hardie, and Michael Ross start you on the path toward really getting to understand your customers' buying behavior as well as the health of your overall customer base. And in doing your own customer-base audit, say the authors, you will take a meaningful step towards real customer centricity.



To learn more, visit: [wsp.wharton.upenn.edu/book/the-customer-base-audit/](http://wsp.wharton.upenn.edu/book/the-customer-base-audit/)

## Questions for Discussion

1. How well do you currently understand your customer base, and are you clear who or what constitutes a customer for your organization? Could you confidently say how many customers you have right at this moment or how many of these customers are new or returning?
2. What do you understand by the idea of customer centricity or the customer as the unit of analysis?
3. What two or more concrete benefits do you think there would be to your organization by having fingertip access to customer purchasing data? How could you use this information in your firm? What questions could you answer?
4. Start with the Data Cube and the 5 Lenses described in Chapter 2, and look at the example of “Madrigal Inc.” How difficult or easy would it be for you to fill in the same transaction tables for your firm right now? What obstacles would you need to overcome, and can you articulate the value in doing so?
5. In Chapter 5, the authors talk about your customer cohorts: a group of customers acquired in one period of time. Using the analyses described in this chapter are you able to look at one cohort and say: How many customers come back and buy from you again? And of these, what happens to their purchasing behavior as they age over time?
6. Thinking now about your product sales data through the lens of your customer purchasing behavior, what kinds of new insights would you have with a customer-base audit? How might these insights be shared with other parts of your organization—R&D, say, or planning—to enhance decision-making?
7. Going forward, how might you use a customer-base audit to think about your own customer-centric strategy? How might you be better equipped to plan and to make decisions about what kinds of customers you need to acquire? What about aligning resources to customer retention and development?
8. Finally, how confident are you in the value of running a customer-base audit? Implementing and executing customer-base audits may mean shifting mindsets in your organization. What kinds of arguments can you make for doing so and how can you drive this kind of change such that it is sustainable?



## In Conversation with the Authors

Peter Fader, Frances and Pei-Yuan Chia Professor of Marketing, at the Wharton School of the University of Pennsylvania; Bruce Hardie, Professor of Marketing at London Business School; and Michael Ross, Chief Scientist at EDITED, joined forces to coauthor *The Customer-Base Audit*, published by Wharton School Press in November 2022.

Described as “a masterpiece that challenges companies to measure the differences and dynamics between their customers,” by Neil Hoyne, Chief Measurement Strategist at Google and author of *Converted*, their book argues that you cannot make fully informed decisions without first understanding your customers’ buying behavior and the actual health of your customer base.

Wharton School Press sat down with Pete, Bruce and Michael to find out more.

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**WHARTON SCHOOL PRESS:** The first and most obvious question is: What is a customer-base audit?

**BRUCE HARDIE:** As we say in the book, it’s a systematic review of the buying behavior of a firm’s customers using data captured by its transaction systems to summarize their actual buying behavior. We’re not interested in *who* these customers are, what they *think*, or their *attitude*. It’s very much a focus on their actual behavior; and providing that high-level overview for top decision makers in the organization.

**PETER FADER:** The customer base has historically been something of a Wild West, lacking a lot of rigor and accountability. It’s about time it was audited. And I think we do a reasonable job of both motivating our readers to do so, and laying out the framework they need.

**MICHAEL ROSS:** Most businesses already do some kind of customer analysis, but typically it’s a bit ad hoc. The rationale for the customer-base audit is to impose structure and coherence on the analysis, as Pete said.

**WHARTON SCHOOL PRESS:** How do these concepts of audit and analysis sit within the broader concept of customer centricity?

**PETER FADER:** Customer centricity is the idea that not all customers are created equal. And if we can understand their differences, quantify, and lean into them, we can channel that understanding to drive and evaluate our strategy and tactics. The customer-base audit is really a first step toward customer centricity. Some people embrace the broader ideas of customer centricity, hang a banner on the lunchroom wall, and march ahead. But you need to have your house in order first.

**MICHAEL ROSS:** A lot of businesses, especially consumer-facing businesses, see customer centricity as a necessary part of their corporate strategy. The problem is they don’t really understand what it means. As such, customer centricity tends to get interpreted through an organization in many different ways. In our book we have a clear definition of customer centricity: It’s about making the customer your unit of analysis. And it’s about looking at your performance and profitability through the lens of your customer.

**BRUCE HARDIE:** To really be customer-centric, you need a lot of data systems in place and you need to know how to analyze that data. The reality is that many companies and marketing departments simply don’t have these kinds

of competencies. The customer-base audit is a great place to start.

**WHARTON SCHOOL PRESS:** Getting down to the details, can you tell us about the concrete benefits of running a customer-base audit?

**MICHAEL ROSS:** Most businesses that I work with are grappling with post-COVID customer behavior shifts; dynamics that were happening before COVID, which have been massively amplified and accelerated. These businesses are realizing that the way they used to think in terms of channels—physical and digital channels—is simply not the way that customers think now. They’re starting to recognize that they need a new way of understanding how their business is performing. The customer-base audit is frankly a brilliant way to catalyze a change in thinking. The power of a customer-base audit is its coherence, its breadth, and systematic approach. It’s like looking at your business under a microscope. It doesn’t tell you the answer, but it really helps you frame the questions. And again, it inspires leaders and managers to think about their business differently.

**PETER FADER:** We spent a lot of time thinking about the role of marketing in the C-suite. In many cases, the folks in marketing are seen as the “ugly stepchild” of the senior management team. There’s often disbelief, sometimes disrespect for a lot of the practices in marketing. So by doing something as rigorous as a customer-base audit, we hope to raise the visibility and the respect for the practice of marketing.

We often talk about bridge building between marketing and finance, and that’s certainly a big part of it. But a lot of it is just kind of level-setting; raising the level of marketing so it’s on the same level as everybody else. And we hope to help improve the kinds of decisions that are made there, and the kinds of resources that flow to marketing.

**WHARTON SCHOOL PRESS:** If you had to condense all of this into one or two key takeaways for readers to implement in their organization, what would they be?

**MICHAEL ROSS:** I’d say customer analysis is too important to be owned by marketing—and I can say this in front of two marketing professors [laughs]. Customers have historically been *owned* by marketing. But the core idea for me is that customers are really a CEO issue and should be right at the heart of the business.

**BRUCE HARDIE:** I’d add that even the basic insights that you get into the behavior of your customers can be powerful. We all talk about the idea that customers are not equal, and we all throw around things like the 80-20 rule. But how do you know if that’s the actual reality for your business? Just starting to unpack it all systematically can generate phenomenal conversations about how your firm is organized, how you structure your marketing and much more.

**PETER FADER:** A lot of the work that I do, very often in conjunction with Bruce and other colleagues, is on forecasting models, predictive analytics, and customer lifetime value—a lot of concepts and methods that have become really popular of late. But for a lot of companies and executives, this can be a pretty heavy lift.

As we say in the book, the customer-base audit is unashamedly *descriptive*. It’s all just there in the data without you having to go out there and work with other vendors or buy a bunch of reports. It’s pure gold. And we just want to help companies see this, mine it, and then feel confident and motivated to start taking the *descriptive* and turning it into the *predictive*. But one step at a time. You need to walk before you can run. You need to start with a customer-base audit.

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—PETER FADER

## About the Authors



**Peter Fader** is the Frances and Pei-Yuan Chia Professor of Marketing at The Wharton School of the University of Pennsylvania. His expertise centers on the analysis of behavioral data to understand and forecast customer shopping/purchasing activities. He works with firms from a wide range of industries, such as telecommunications, financial services, gaming/entertainment, retailing, and pharmaceuticals.

In addition to his various roles and responsibilities at Wharton, 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 to commercialize his more recent work on “customer-based corporate valuation.”

Fader is the author of *Customer Centricity: Focus on the Right Customers for Strategic Advantage* (2020, 2012) and coauthor of *The Customer Centricity Playbook* (2018) with Sarah Toms. He has won many awards for his research and teaching accomplishments.



**Bruce Hardie** is a Professor of Marketing at London Business School. For most of his career, his research has focused on developing tools for analyzing customer and marketing data. He has worked with market research firms and their clients on the development of marketing analytics solutions for new product sales forecasting and marketing mix analysis. He has collaborated extensively with Pete Fader, developing a number of key customer analytics tools for computing customer lifetime value (CLV) that have been used by thousands of data scientists and researchers around the world. He teaches courses on customer and marketing analytics and the data-driven enterprise.



**Michael Ross** is a data agitator. He is currently Chief Scientist at EDITED, and a non-exec director at Sainsbury's Bank, Domestic & General and N Brown Group plc. He has co-founded businesses including ecommerra, DynamicAction and figleaves.com, and was also a consultant at McKinsey and Company. Michael has an MA in Mathematics from the University of Cambridge. He is also an Executive Fellow at London Business School, and is on the commercial board of the Turing Institute.