

# Dynamic Business Model Development in Multi-Sided Markets

A case study of entrepreneurial firms

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Through a multiple case study of entrepreneurial firms operating in two-sided markets, we investigate how customers' and consumers' are affecting the business model development. By taking a dynamic approach to the business model concept we found that firms' customers and consumers affect the business model development continuously through the firm's process of choosing what customers and consumers to target, understanding these and developing a relevant value proposition.

We show that the interdependencies between the platform's two user groups are adding to the complexity in the business model development, both since firms have to deliver two separate value propositions simultaneously and since the volume and qualities of one user group are internalized in the value proposition of the other.

Furthermore, the tensions that arise between the two user groups affect the business model development since firms deal with the tensions by adapting their business models. Through developing an in-depth understanding of their user-bases, platform owners can create business models that align the two user groups and increases the value for each side of the platform.

Key words: Business model development, business model, two-sided markets, multi-sided platform, network externalities, network effects, entrepreneurial firms, market orientation



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“If there has been a first man he must have been born without father or mother – which is repugnant to nature. For there could not have been a first egg to give a beginning to birds, or there should have been a first bird which gave a beginning to eggs; for a bird comes from an egg”

Aristotle

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# 1. Introduction

## 1.1 Background

You might not reflect about it but many of the services and products you use in your daily life are platforms that connect two distinct set of users. When you went to work this morning you maybe grabbed a Metro paper on the subway station and bought a coffee-to-go with your credit card. Already there you have been in contact with two products that connect two interdependent user groups. The credit card brings together you as a shoppers with the merchant and the Metro paper enables the advertisers to interact with you as a reader. These services and products that enable two user groups to interact are called platforms (Rochet & Tirole, 2006). One specific feature of platforms is that the value of the platform for you as a user is dependent on the number of participants on the other side (Osterwalder et al., 2010). Think about it, you would not sign up for a credit card that isn't accepted by any merchants and you would not have any free paper if there were no advertisers financing it. At the same time Metro is not attractive for the advertisers and the credit card is not attractive for the merchants if the user base is too small. Platform owners are thus struggling with the famous chicken-and-egg problem since they need customers to please the consumers and consumers to please the customers.

Multi-sided markets are not a new phenomena but internet is making it increasingly easy to gain access to both sides of the market and new opportunities to build successful platforms arise in high-tech sectors (Eisenmann et al., 2006). Companies such as Facebook, Google, Amazon and eBay are just some examples of powerful platforms that have emerged in the era of information technology. However, it is not evident how to succeed. Taking Facebook as an example they have hundreds of millions of users and a market cap of 104 billion dollars, but the challenge to capitalize on the user base prevails (Forbes, 2012). It also becomes increasingly challenging for new companies to enter and succeed in today's high-velocity market due to increasing competition and the difficulty to win picky and restless consumers' hearts.

In this turbulent business environment where consumers are reluctant to pay for the things they consume, firms face a great challenge to understand what their potential customers want, develop their offering accordingly and find a way to capitalize on the value created. Developing a relevant business model is at the heart of this challenge and a salient issue for entrepreneurs seeking to establish their business. Entrepreneurial platform providers face an especially large challenge in developing a successful

business model since they do not have one side, but rather two *interdependent* sides to take into consideration. The interdependencies between the two user groups, makes it especially interesting to investigate business model development in multi-sided markets.

Due to new opportunities to create platforms in traditional as well as new markets, business model development in multi-sided markets is a pressing concern for practitioners. There is a surprisingly scarce supply of academic research on business model development in entrepreneurial firms in general (Zott and Amit, 2010) and research on business model development multi-sided markets is equally underdeveloped (Rochet & Tirole, 2006; Eisenmann et al., 2006). Hence, there is a theoretical gap to fill in this area which is of growing importance for practitioners.

## 1.2 Pre study

When deciding what subject to study we started off from our interest for entrepreneurial companies and business model development. Due to the scarce supply of research on the subject, a pre study was conducted in order to gain an initial understanding of the investigated subject. The pre study further enabled us to take a practical approach and pinpoint aspects of business model development that are relevant to practitioners. The encounters with the entrepreneurs in an informal setting also helped us to get access to the firms and identify interesting and complementary cases that could suit the main study.

When choosing what firms to include in the pre study we identified two criteria that the firms had to meet. First, the firms had to consciously work with their business models, or at least be aware of it, in order to be able to discuss the matters we were interested in. Second, we looked for firms that had interesting business models or that had been object for an interesting business model development since the start. We judged that processes in the business model development would be clearer if the firms filled these prerequisites. Based on these prerequisites, seven entrepreneurial firms were chosen for the pre study and nine interviews were held with persons in leading positions within these firms. To get perspectives on the input from the entrepreneurs and minimize the risk that the findings were specific only for these firms, interviews were also held with two persons working at different business incubators.



Interviewee	Position	Company	Business in essence
Michael Karlström	COO & co-founder	Freebee	Market research in mobile phone
Ebba Bonnier	CEO & co-founder	Femme Natural Energy	Energy drink for women
Peter Schierenbeck	CEO & co-founder	Guidepal	City guides in app format
Victoria Senkpiel	Head of brand management	Glossybox	Marketing channel for beauty brands
Marcus Hartwall	CEO & founder	Glossybox	Marketing channel for beauty brands
Daniel Parsan	CEO & founder	Nattbutik	Convenience store with home delivery
Livia Moore	CMO	Mutewatch	Digital design watches
Victor Dahlborg	CEO	Facit.com	Facilitates the purchase of new cars
Mikael Samuelsson	CEO	SSE Business Lab	Incubator, Stockholm School of Economics
Raoul Stubbe	Business coach	Sting	Incubator, Royal Institute of Technology

The interviews were held at the firms' respective offices and were all around one hour long. The interviews were qualitative and unstructured since it is the most suitable method in a pre-study due to its explanatory nature (Bryman & Bell, 2007). In order to not miss out on any important aspects some pre-chosen points of discussion were used as a guide, for example if and how they work with their business model, if and how the business model has changed over time and what has affected the business model development. For the incubators, the areas of discussion were similar but related to their experience when coaching different entrepreneurial firms. Extensive notes were taken during each interview and the fact that they were also recorded made it possible for us to go back to key issues in the interviews and complement the notes.

When going through the notes from the interviews we first identified frequently mentioned citations that were judged to be of potential theoretical significance. We then labelled and grouped these into concepts in order to facilitate the analysis of the data (Bryman & Bell, 2007). The concepts were further elaborated upon and transformed into themes and categories (ibid.). In this coding process, four themes that were relevant to the firm's business model development, emerged; (1) the challenge of finding the

right customers, (2) the process in which the firms learn about the customers, (3) the challenge of creating a valuable offering and (4) the continuous experimentation with the business model. Furthermore, we found that the business models of the firms in the pre-study were varying in their complexity. Three firms operating in two-sided markets were identified as especially interesting in regards to their business model development.

### **1.2.1 The challenge of finding the right customers**

*"A question we asked ourselves in the beginning, and still do, is who are our customers and what value are we adding to them"* Michael Karlström, COO and co-founder, Freebee

Identifying relevant customer segments was one of the themes that recurred during the conversations with the entrepreneurs. All the interviewees had experienced the challenge of finding the right customer segment to target and several firms had changed or added new segments since the start. In line with the entrepreneurs, Mikael Samuelsson at the SSE Business Lab state that finding the right customer segment is a process of experimentation where the entrepreneurs approach a customer, take in feedback and maybe change customer segment based on information obtained in the sales process. It was also revealed that these new or additional customer segments often affected the business model e.g. since a new offering had to be developed and delivered to the market. Another theme that was discussed was whether to choose a customer segment and then develop an offering or develop an offering and then find a relevant customer segment. According to Raoul Stubbe at the incubator Sting, entrepreneurs should do the latter and ask themselves 'what do we have, and who want to buy it' instead of 'who is our customer, and what do they want to buy'. It was evident that the process of defining and redefining the customer segments is an essential part of the entrepreneurs' work and that it affects the business model design.

### **1.2.2 The interaction with the customers**

*"The more you know about the customers, the more the customers decide"*  
Peter Schierenbeck, CEO and co-founder, Guidepal

Another important part of an entrepreneurial company's everyday work was the understanding of the customers. This process seems to start before the venture is launched and continue on an on-going basis through for instance a dialogue in the sales process, communication in social media, surveys and data analysis of the customers' behaviour. The pre-study also revealed that this learning process changes over time both in terms of where it is taking place (for example in social media, through customer service or surveys), the content of it (such as user data, written content, secondary research) and the aim of it (long

term relationship, short term transactions). For example Guidepal, did not have much knowledge about their users, but is now increasingly tracking the users' behaviour in the app. The feedback and deeper understanding of the customers were several times taken up by the entrepreneurs as a factor affecting the development of the business model.

### **1.2.3 Creating an appealing value proposition**

Many of the practitioners emphasized that formulating a relevant value proposition is an on-going process that they work constantly with. Samuelsson at SSE Business Lab claims that it is better for start-ups not to define their value proposition too rigidly when meeting potential customers in the starting phase, since it is making the offering less flexible. The market can restrict the development of the value proposition. Stubbe at Sting suggests that companies sometimes know which optimal business model they want, but are forced to adjust to prevailing market conditions such as standards in the industry, a rigidity in consumer behaviour or the dominance of a competitor.

### **1.2.4 Experimenting with the business model**

*"Tear the business plan, and just go!"* Daniel Parsan, CEO and founder, Nattbutik

Another recurring theme in the pre study was that business model development is a trial and error process constituting of small experiments and tweaks. For example Michael Karlström at Freebee says that business model development is a lot about 'gut feeling' and that small companies can't afford analysing the market. Schierenbeck at Guidepal stated that business model development is about experimenting continuously and Hartwall at Glossybox said that it is a dynamic process where you learn by challenging the concept. Samuelsson at SSE Business Lab claims that much of the development in the BM stems from a learning process thought for example selling the product.

Although experimentation was mentioned in almost all interviews, many practitioners also emphasized the importance of improving things you already do. Samuelsson at SSE Business Lab says that many make the mistake of experimenting for too long. His advice is to be more focused and exploit the model once you know that it works. In line with these thoughts Hartwall at Glossybox says that the experimentation was more intense in the beginning and that it is also a matter of creating processes and standardize. Karlström at Freebee says that while experimenting is important, some sort of consistency in the offering is also crucial.

### **1.2.5 Identifying multi-sided platforms as an interesting phenomena**

When talking to the entrepreneurs, we found that three of them had especially interesting and complex business model dynamics. We soon realised that this stemmed from the fact that all three of them,

Freebee, Glossybox and Guidepal, serve two distinct and interrelated user groups. Freebee, is making market research in the mobile phone and has one user group consisting of companies that sample products and buy market research, and another user group that collects the free samples and answers a survey that the market research builds on. Similarly, Glossybox is providing subscription of beauty products for consumers while the service also is as a marketing channel for beauty brands. Guidepal is making city guides in app format for smartphones and has experimented with different types of customer segments while keeping a user base consisting of people who use the guides. This duality, we realized, is making these business models especially interesting to study since the dynamics between the two user groups makes the business model development complex.

### **1.2.6 Towards formulating a purpose**

The pre-study indicates that it is relevant to take a dynamic approach when looking at business models since the entrepreneurs revealed that their business models continuously develop through a process of experimentation. The process of business model development further seems to be affected by at least three other factors: the issue of finding customer segments to target, the process of understanding what these customer segments value as well as the challenge to develop an appropriate value proposition based on this knowledge. The pre study also made us identify companies providing platforms in two-sided markets as a type of companies where the business model dynamics were more complex. In order to generate results in the main study that are relevant to practitioners these findings were used as a starting point when formulating the purpose.

## **1.3 Purpose**

With a dynamic view of the business model concept, our purpose is to explore how customers and consumers are affecting the process of business model development in entrepreneurial firms operating in two-sided markets.

In order to fulfil this purpose we aim to answer the following questions:

- Q1.* How do entrepreneurial firms in multisided markets understand customers' and consumers' current and latent needs?
- Q2.* How do they choose their customers and consumers?
- Q3.* How does the choice of customers and consumers as well as the understanding of their current and latent needs affect the development of a firm's value proposition?
- Q4.* What effects does the choice of customers and consumers as well as the development of a value proposition have on the development of the business model?

We call the B2B side of the business model for customers, regardless if they are the paying customers or not. Individuals that use the products or services are called consumers. In the empirical findings we use the words that best suit the cases.

## 1.4 Expected contributions

Firms can facilitate the challenge of keeping up with today's high-velocity markets by being market oriented and adaptive in their business models (Day, 2011). However, the lack of research regarding the dynamics of business model evolution has resulted in few insights about how business models change (Demil & Lecocq, 2010). The business model development is an especially salient issue in entrepreneurial firms since the business model is not yet settled (Demil & Lecocq, 2010) and is less constrained by path dependencies and inertia (Zott & Amit, 2007). In two-sided markets business model development is an especially complex issue because of the interdependencies between the platform's two user groups. Due to the importance to "get both sides on board", choosing a business model that court each side while making money seems to be a key success factor for platforms, that corporate managers devote much attention to (Rochet & Tirole, 2003). However, the research within this area comes mostly from economics (Parker & Van Alstyne, 2005; Rochet & Tirole, 2003, 2006; Koksall, 2011, Zhou, 2012) and even including these papers the research about two-sided markets is scarce (Eisenmann et al. 2006; Rochet & Tirole, 2003).

The overall objective of the BM is to create and deliver value to customers (Chesbrough and Rosenbloom, 2002, Zott et al, 2010) and the mismatch between the design of the business model and the customers' needs has been pointed out as a source of negative business performance (Hargadorn & Douglas, 2001; Chesbrough and Rosenbloom, 2002). It is thus important for firms to take the customers into regards when designing their business model. This especially holds in multi-sided markets where the platform providers struggle to please two user groups that are interdependent (Rochet & Tirole, 2003). When Chesbrough and Rosenbloom (2002) investigated how to bring new a technology to the market through a successful business model, they indeed found the entrepreneur's interaction with potential customers was affecting the business model development. Albeit the importance of delivering the right value to customers through an effective BM and the customers seemingly impact on the business model development we have not found any research on how the customers are affecting the development of the business model neither in one-sided, nor in multi-sided markets.

To summarize, this thesis contributes to the research field in at least three ways. It adds to the business model literature by providing an empirical study on dynamic business model development in entrepreneurial firms. Furthermore, it contributes with insights regarding how customers are affecting

the business model development. Lastly, this thesis adds to research on multi-sided markets by studying these from a business model perspective including the customer impact in the process.

## 1.5 Delimitations

When studying the development of business models we are not debating or investigating their efficiency but rather examine processes, decisions and interactions and how these affect business model development. Thus, the study is not normative in nature but seek to create an understanding of the development dynamics. Furthermore, our aim is not to describe the business model of an industry, instead we take a firm-centric perspective seeing business models as proprietary for one firm. However, we acknowledge that a firm's business model is boundary-spanning and placed in a network of related entities, such as partners, competitors and customers (cf. Zott and Amit, 2007; Mason and Spring, 2011). Due to the limited scope of this thesis we have chosen not to interview the firms' external partners or customers. We only investigate the firms' own perspective of their business model development.

When investigating the business model development we put an emphasis on how firms create value, as opposed to how they capture value. We do this for two reasons, first, Zott et. al (2010) reveal in their review on business model literature that firms' value creation is an increasingly important aspect of the business model. Second, the value creation is more closely related to firms' customers and consumers. A focus on value creation is therefore relevant since the aim of the study is to investigate the customers' and consumers' impact on the business model development. Therefore, we do not immerse as deeply into the other aspects of the business model.

## 1.6 Definitions

Despite the popularity of the business model concept's there is no consensus on what a BM actually is. Different scholars and practitioners have been using diverse definitions and many claim that the multitude of conceptualizations have been negative for the progress of BM research (Zott et. al, 2010; Casadesus-Mansell & Ricard, 2010; Johnsson et. al, 2008; Santos et. al 2009). However, Zott et al. (2010) found, after completing an extensive literature review of business model research, that there is an emerging common ground among BM researchers. First, scholars seem to agree that BM emphasize an *holistic approach* of how companies are doing business; second, it has to do with an organization's *activities* and third, it seek to explain how the organization *creates and captures value* (Zott et. al 2010). We have used this common ground when approaching the subject.

In line with Santos (2009) we use the concept business model development in opposite to business model innovation since we are looking at tweaks of the business model that are not necessarily resulting

in performance improvements. The concept business model innovation furthermore indicates that something radical happens whereas we investigate business model development with a focus on the processes.

Entrepreneurial firms are, in line with Bhidé (2000) defined as “relatively young organizations that have the potential of attaining significant size and profitability” (Zott and Amit, 2007).

## **1.7 Disposition**

The thesis is structured in the following way. First, the methodology describes how the purpose was approached. This section is followed by a theoretical framework including a review of previous studies within our research field and theoretical tools that will be used in the analysis. This section falls into a presentation of our research model that summarizes the research questions and their connection to the literature. The empirical findings are then presented case-by-case and ended with a summarizing table. Last, the analysis is presented followed by critical reflections and suggestion for future research, a conclusion as well as managerial implications.

# **2. Methodology**

This chapter will explain the research method chosen as well as the framework for collecting and analysing data. Thereafter follows a reflection of the quality of the research.

## **2.1 Research method**

In order to approach our area of interest we have applied a qualitative case study method. In the following section we motivate this choice as well as the abductive, interpretivist and constructionist approaches chosen.

### **2.1.1 Qualitative method**

A qualitative method is adequate for studies of descriptive nature and when studying a phenomenon in its context (Bryman and Bell, 2007). Since the business model concept takes an all encompassing view of a firm it was therefore considered suitable. A quantitative method typically derives the research instruments from existing theoretical work (Bryman and Bell 2007), since our area of study has not been covered in literature before such a method was judged not to be appropriate. Below our research method will be further described based on our choices of approaches to this study.



### **2.1.2 Abductive**

This thesis takes an abductive approach to the generation of theory. This means that it does not seek to confirm or reject a certain hypothesis stemming from existing theory, it rather seeks to generate new theory with the current literature as a source of inspiration to find patterns in the phenomenon investigated (Abnor and Bjerke, 2009). Thereby existing literature and the findings from the investigation are seen in the “light of each other” throughout the research process (Ibid., p 92). Given our area of study this means that we draw on existing literature on business models, multi sided markets as well as market orientation to explore how business models develop.

### **2.1.3 Interpretivist and constructionist approach**

In order to reach understanding of this subject we use an interpretivist approach, thus recognizing that social actions have subjective meanings that must be interpreted by social scientists (Bryman and Bell 2007). We thus view our area of study not as given by natural laws but by actors whose rationales and self-understanding we must interpret (Ibid.). Applied on our area of study this means that we identify the development of the studied firms not only as a function of their abilities and preconditions, but also of these actors' subjective *interpretations* of these abilities and preconditions.

In line with the interpretivist approach adopted we also use a constructionist approach, meaning that we view social phenomenon and their meanings as being continually constructed and reconstructed by social actors (Bryman and Bell 2007). Applied in an example this means that we see practitioners understanding of a certain market and how that market works as socially constructed. This implies that through changing the practitioners understanding of how the market is constructed, one actually changes the market. It also implicates that in the process of establishing the studied firms' structures, rules and relations are not given but negotiated both by actors within and outside the firm (Bryman and Bell, 2007).

### **2.1.4 Case study method**

A Case study method was judged to be the most appropriate since according to Yin (2003) “case studies are the preferred strategy when ‘how’ and ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context”. Thus, given the interpretivist approach adopted, case study as method helps to catch the complex social and cultural occurrences investigated in this thesis. Moreover case study as a research method is appropriate to achieve the in-depth understanding of the subject needed when there are no related established theories to emanate from (Yin 2003).



## 2.2 Research design

Research design is according to Bryman and Bell (2007) a framework for the collection and analysis of data. In this section we aim to take a process perspective on the research design and go through how the theoretical framework was developed, how the cases and case representatives were selected as well as how the data was collected and analysed.

### **2.2.1 Forming a theoretical framework**

With the aim to investigate business model development in entrepreneurial firms we formed an early theoretical framework from literature on business model development. When having defined the purpose of our study as to investigate how the customers are affecting the process of business model development, research on market orientation complemented the initial theoretical framework. After the pre study we realized that the two-sidedness of the firm's business models were of particular interest, and we therefore added theories on multi-sided markets to the framework. The method of simultaneously complementing the theoretical framework as a result of the empirical findings is in line with the study's abductive approach (Bryman and Bell, 2007).

### **2.2.2 Selection of cases**

A multiple case design was chosen in order to allow us to contrast the findings from different cases and single out the commonalities and structural similarities between the firms (Bryman and Bell, 2007). Furthermore, multiple cases increase the generalizability of the study (Eisenhardt, 1989). Since, the aim of our study is to look thoroughly at the processes of business model development we limited our study to three cases. In this way we had the opportunity to study each case more in detail and give an extensive description of the cases.

When choosing what cases to study it is important to pick the ones that best can illuminate the research questions (Yin, 2003). The pre study revealed that firms in two-sided markets were especially interesting to study since the dynamics between the two interdependent user groups seemed to have implications on the business model development. These findings made us concentrate our research on such firms and thus the two-sidedness became a prerequisite when choosing the cases. We limited our consideration set to the cases singled out in the pre study since we already knew that they were interesting in regards to their business model development and since we had the advantage of extensive access to interviewees and data in these firms. This left us with three cases: Freebee, Glossybox and Guidepal. Worth mentioning is that we have insights in two of these firms and their industries since Streman has worked at Guidepal and Berglund has worked at Glossybox. This knowledge has

contributed with a deeper understanding of the firms and their journey of development. We believe this is positive for the study since it help us put the findings in a context and gain access to extensive details. In order to avoid our subjective thoughts to have implications on the results we have based all the empirical findings solely on the interviews. The fact that we did not have any knowledge about Freebee might have affected the initial phase of the study since we had to be introduced to the firm's operations. However, we did not see any difference between the cases during the rest of the interviews and in the analysis.

Due to these cases varying characteristics in terms of revenue models and industry, this selection enabled us to contrast the findings between the cases and capture different business model dynamics.

### **2.2.3 Semi-structured interviews**

Given our interpretivist approach where the actors' subjective interpretations of the firm's development are studied, it was suitable to gain an insight about the business model development in the studied firms through qualitative interviews. Since the pre study had given us a fairly clear focus of the study and since a multiple-case study research requires a structure to ensure cross-comparability, semi-structured interviews were seen as the most relevant method (Bryman and Bell, 2007). Semi-structured interviews allowed us to be flexible, encouraging the interviewees to talk freely about their own experiences, while using an interview guide to make sure all relevant aspects were covered (Bryman and Bell, 2007). The interview guide treated the choice of customers, the development of the value proposition and the development on the rest of the business model (see appendix 1). We applied a process approach, starting with questions about the first customer and ending with questions about the customers today. In this way we encouraged the respondents to think about the decisions and emerging trends that had affected the development of the business model from the start until today.

In the end of the interviews the respondents were asked to recall events from the past that had been especially important for the development of the business model. Such, so-called "critical incidents" enables the researchers to develop an understanding of the sequence of particular events or behaviours (Bryman and Bell, 2007) why it suited the purpose of our research well.

### **2.2.4 Selection of case representatives**

Since all studied firms were small entrepreneurial companies the choice of who to interview was quite straightforward since few persons had most of the insight in the business model development. We started by interviewing the founder or the CEO of each company and then, if necessary, complemented his/her view with employees that had a deeper understanding in a particular area of interest. It resulted

in nine interviews of which eight were face-to-face interviews, all between 45 min and 1,5 hours long. The interview with Sebastian Andreescu was performed by phone because of geographical constraints. In order to allow for a more thorough analysis and repeated examination of the interviewees' responses, all interviews were recorded and transcribed (Bryman and Bell, 2007). The recording also allowed us to be flexible and responsive during the interviews (ibid.). All interviews were conducted in Swedish and both of us were present during all but three interviews. When one of us could not attend, we instead listened through the recording in order to make sure we got a second interpretation of what the interviewee said. This increased the confidence in the findings (Eisenhardt, 1989).

Company	Name	Title	Date	Duration	Interviewer
Guidepal	Peter Schierenbeck	CEO & co-founder	12-10-12	45 min	VB & ES
			12-11-02	45 min	
	Robert Hedberg	Ex head of product development	12-11-02	1 h	ES
	Sebastian Andreescu	Ex head of sales and business development	12-11-04	30 min	ES
Glossybox	Marcus Hartwall	CEO & founder	12-10-10	1 h 30 min	VB & ES
	Victoria Senkpiel	Head of brand management	12-10-12	1 h 15 min	VB & ES
	Louise Broberg	Head of marketing	12-11-08		VB
Freebee	Rasmus Fahlander	CEO & co-founder	12-10-16	1 h	VB & ES
	Michael Karlström	COO & co-founder	12-09-11	1 h	VB & ES

### **2.2.5 Analysing the data**

Due to our abductive approach we combined what Bryman and Bell (2007) call analytical induction and grounded theory when analysing the data. Consistent with the analytical induction we developed an early research model based on the theory that can be seen as a hypothetical explanation of the research question. This model was used in the early examination of the cases. However, our method is more closely related to grounded theory since the collection of data and the analysis was performed simultaneously and the research model was constantly updated based on what the empirical findings revealed (Bryman and Bell, 2007).

## **2.3 Quality of research**

In this section we look closer into the trustworthiness and authenticity in our findings by discussing the study's credibility, transferability, dependability and confirmability.

### **2.3.1 Credibility**

Credibility refers to which degree a study's findings are believable and valid (Bryman and Bell 2007). Gobi and Lincoln (1994, cited in Bryman and Bell 2007) recommend that triangulation should be used in qualitative studies, a technique where the researcher takes in several views to interpret a social reality in order to take several positions of a situation into account. Through conducting several interviews in each case this technique could be applied, both in order to detect possible conflicting views, but also to get a more nuanced view from several positions in the firms. In two of three cases interviews were held both with decision makers and with other persons at the firms in order to get a second perspective on decisions taken.

As mentioned, the open interviews were held based on the chronological development of the firm with focus on the critical events of the firm in order to avoid misunderstandings when describing the development of the studied cases. The chronological order of the cases also helped the interviewees to remember the situations and tensions that led up to the critical events in the firms' development, this also increased the credibility of the study since this made contrasting perspectives of the firms' development even more clear.

In order to avoid misunderstandings respondent validation was used which means that all interviews were transcribed and sent back to the interviewees so that they could check the content. All quotes used in the thesis were also sent separately so that they could be verified explicitly. (Bryman and Bell 2007)

### **2.3.2 Transferability**

Transferability is according to Bryman and Bell (2007) the degree to which the results of a study can be generalized into another context. By doing a so called “thick description”, i.e. including many details about the cases, transferability can be increased since it provides the reader with a better ground for making judgements about the possibility to transfer the findings into another context (Ibid.). This is related to Yin’s (2003) view that case study findings are generalized analytically rather than statistically. Using multiple cases the transferability is increased since the different cases can be compared to single out commonalities and differences (Ibid.)

### **2.3.3 Dependability**

Dependability is the degree to which the findings are likely to apply at other times, which depends on if proper procedures have been followed (Bryman and Bell, 2007). In order to achieve dependability the notebooks during the process has been kept as well as interview recordings, and transcriptions. The data was also made available for the respondents to check.

### **2.3.4 Confirmability**

Confirmability is the degree of a study’s objectivity, thus, the degree to which the investigator has been able not to let her (his) values affect the findings (Bryman and Bell 2007). In order to achieve confirmability we were two people interpreting the interview data. We also transcribed all interviews and sent them as well as the quotes to the respondents (Eisenhardt, 1989). We also brought a printed version of Osterwalder et al.’s business model canvas (Osterwalder et al., 2010) so that there would not be any misunderstandings about what we included in the concept.

## **3. Theoretical framework**

When investigating what role the customers and consumers have on the business model development in multi-sided markets, we draw on literature about business models, market orientation and multi-sided markets. The section falls into a theoretical research model that we later will base the analysis on.

### **3.1 Business models**

This section is including research of business models in one-sided markets. Since our study aims at investigating the processes of business model development we mainly dig deeper into research with a *dynamic approach* to business models. After reviewing such relevant literature we introduce the Osterwalder et al. Business Model canvas as a starting point for investigating business model development.

### **3.1.1 Business model development**

#### **3.1.1.1 A dynamic approach**

Quite recently a dynamic approach to business models has emerged. Mason and Spring (2011) suggest that business models are dynamic in nature since they are not designed and then implemented but rather constantly evolving in an iterative and evolutionary way. It is hence more suitable to think of BM as “systems that is made up of components, linkages and dynamics” (Afua & Tucci 2000:4) or activity systems (Zott & Amit, 2010; Casadesus-Mansell, 2010, Santos et. al, 2009). In line with this reasoning Chesbrough and Rosenbloom (2002) see a firm’s initial business model as a *hypothesis* for how to deliver customer value. This model is then adapted over time to new information and possibilities. Demil and Lecoq (2010) conceptualize business models as consisting of three core components and look at the constant interaction between and within these components, resulting in a permanent state of change for the BM. Interactions can either follow from internal factors, such as conscious decisions to change any of the components or change dynamics within or between the components, or from external factors such as environmental changes. As such, the framework seeks to integrate both voluntary and emerging dynamics in BMs (Demil and Lecoq, 2010). Morris et al. (2005) look closer on how BM in entrepreneurial companies are expected to emerge and evolve over time through a process of refinement, adaptation and reformulation. They assume that the model evolve towards a fairly definitive, formal model.

#### **3.1.1.2 How the business model evolve**

Doganova and Eyquem-Renault (2009) suggest that business models evolve and change over time as the firm encounters different actors that engage or disengage from the original business model. By materializing the business model in various documents and circulate it to an audience, firms’ can gain input from various actors and understand the market better (ibid.). In other words business models can be used both as an input in meetings and as an output by being adapted to the audience it is presented to.

Chesbrough and Rosenbloom (2002) claim that the business model is a result of a sequence of adaptations to new information and possibilities rather than the result of a careful evaluation of well-understood alternatives. Experimentation and trial-and-error processes are common themes in the literature on business model development (McGrath & Gunter 2010, Bhidé 1994; Sosna & Velamuri, 2010). According to McGrath and Gunther (2010) a discovery driven approach where firms experiment with the BM before any investments are made, is often better than to plan analytically since it is

impossible to tell in advance what BM will work. Bhidé (1994) concurs and says that entrepreneurs should let their strategies evolve in a process where guessing, analysis and action are interrelated.

### **3.1.2 Business model dimensions**

This thesis adopts a dynamic approach to business models. However, in order to facilitate the discussions with the entrepreneurs and cover all relevant aspects, it was useful to depart from a component-based model. We chose Osterwalder et al.'s Business Model Canvas for three reasons. First, the pre study revealed that it is widely used among practitioners, making it more likely that our results will be practically relevant. Second, it fits well with the purpose of this thesis since the customers have a central role in the framework. Third, by taking a holistic approach with the organizational activities in focus explaining how value is captured and created (Zott et. al., 2010) the components in the model are corresponding to the general line in the BM literature. It is important to emphasize that the model will not be used with the static view that originally was the thought, but instead a focus will be on how and why the components constantly are tweaked and updated in a dynamic process. Thus, the canvas was mainly used as a checklist in the interviews. The business model canvas constitutes of nine building blocks summarizing a firm's business model (see appendix 2). In the next section we elaborate on the components and relate them to other business model theories.

#### **3.1.2.1 Creating value to customers**

What future and current customer segments to target is an important part of a firm's business model (Osterwalder et al., 2010). Once one or several customer segments are chosen, a business model can be designed around an understanding of the customers' needs (ibid.). Hence, the choice of customers affects several parts of the business model such as the offered value proposition, the degree of customer relationship, the revenue streams etc. Zott and Amit (2010) suggest that the firm's choice of a business model design in reverse defines who the firm's potential customers are. As an example they take the technology-based start-up Frisco and suggest that if FriCSO choose to adopt a business model as a manufacturer they get machine suppliers as their customers whereas if they adopt a technology-licensing model they get manufacturers and suppliers as their customers. The choice of a business model is in other words framing the situation by defining what actors to take into account and not (Doganova & Eyquem-Renault, 2009).

A common theme in the business model literature is that the value proposition and the value creation for the customers are central issues. Chesbrough and Rosenbloom (2002, p. 535) claim that "the business model starts by creating value for the customer, and constructs the model around delivering

that value” and Zott et. al (2010, p 217) says that the overall objective of the BM is “to fulfil customers’ needs and create customer surplus while generating a profit for the focal firm and its partners”. The value proposition is at the core of the customer value and it was one of the most frequently cited words in Odette et al. (2010) review of business model definitions (cited in over 50 per cent of the papers). Osterwalder et al. (2010, p 22) that defines the value proposition as “the bundle of products and services that creates value for a specific customer segment”. Johnson et al. (2008) argue that the value proposition is by far, the most important component in a business model and Zott et. al (2010) claim, based on their literature review, that there is a shifted emphasis from value capture to value creation in the BM literature in general. Thus, the customer perspective in business models is growing stronger among scholars.

Different channels can be used in order to reach the customer segments with the value proposition. These touch-points can occur during the whole customer lifecycle in order to raise awareness of the value proposition and make the customers evaluate and purchase the product. It also includes the delivery and after sales service (Osterwalder et al., 2010). The interaction with the customers can lead to an automated relationship or more deep and long-term relationships (ibid.).

To conclude, the customers are at the heart of the business model concept. Embedded in a network of actors companies strive to choose one or several relevant customer segments, create a strong value proposition to them and interact with them through different channels, resulting in different types of customer relationships.

### 3.1.2.2 Delivering the value to the customers

In order to create value to the customers, reach markets, maintain customer relationships and earn revenues, the firm needs to perform certain activities (Osterwalder et al., 2010). Business models define what activities a firm performs, how these activities are related to each other and who performs them (Zott and Amit, 2010). Business models have been used to explain how value creation works in networked markets since activities in a firm’s business model can be performed either by the focal firm, or by third parties such as partners, suppliers or even customers (Zott and Amit, 2010). Partners in the firm’s network are therefore often-crucial components in the business model, whether it is a buyer-supplier relationship or strategic partnerships between competitors (Osterwalder et al., 2010). Furthermore, in order to perform the activities that create value to customers, key resources such as physical, intellectual, human or financial assets are needed (ibid.).



### **3.1.2.3 Capturing the created value**

At the other end of the business model spectrum is how firms capture the value created. All parts of the business model, from the choice of a customer segment to the firm's partnerships and its key resources affect the potential profitability of the firm by having an impact on revenue streams and the costs related to the generation of these revenue streams. A firm can have revenue streams from each customer segment and it can be based on differing logics, such as one time or on-going payments. These further depend on different pricing mechanisms, such as flat fees or subscriptions. (Osterwalder et al., 2010)

## **3.2 Market orientation**

Given the customer's central role in the business model we have chosen to include market orientation to our theoretical framework since it describes how firm's understand and respond to understanding of their customers.

According to Kirca et al. (2005) the marketing concept stipulates that finding and satisfying customer needs more effectively than competitors is a requirement for sustainable competitiveness. The market orientation literature has to a large degree studied to what extent firms behave in accordance with the marketing concept (Kirca et al., 2005; Kohli and Jaworski 1990). Several authors also argue that market orientation has positive effects on firms' performance through increasing e.g. innovativeness and customer loyalty (Kirca et al. 2005, Han et al. 1998, Jaworski and Kohli 1993, Slater and Narver 1994(b)). Han et al. (1998) stress the link between market orientation and innovation as the key to why market oriented firms has been proved successful. They argue, with support from their quantitative study, that market orientation has positive impact both on innovation in technical-, and in administrative areas.

Kirca et al. (2005) argue that the market orientation concept can be divided into two different perspectives, the behavioural and the cultural. The behavioural perspective concentrates on organizational activities and is advocated by e.g. Kohli and Jaworski. The cultural perspective focuses on how organizational norms and values affect market orientation and is defended by among others Slater and Narver.

We have chosen to employ Kohli and Jaworski's (1990) definition of market orientation, namely that market orientation is "the organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness to it". Market intelligence is the understanding of customer's current and future needs as well as the factors affecting those needs. This definition is suitable to this study since it puts a focus on decisions and actions rather than the norms and values of an organisation. Moreover this definition has according to Kirca et al. (2005) a stronger

link to the actual market orientation of firms, since it has a stronger link to the profitability of organisations. Kohli and Jaworski (1990 p. 5) argue that the question of a firm's degree of market orientation should be understood as shades of grey rather than a binary yes or no, since all firms to some degree generate, disseminate and respond to market intelligence.

### **3.2.1 Generation of market intelligence**

Intelligence generation is at the core of market orientation and includes not only heeding customers articulated needs and requests, but also latent and future needs as well as the factors influencing these needs and preferences (Narver and Slater 1990, Kohli and Jaworski, 1990). According to Slater and Narver (1998) understanding these latent needs is essential in order to develop a sustainable competitive advantage since understanding of pronounced customer needs is available to all actors who are doing market research. Therefore, they suggest that there is a fundamental difference between customer-led firms, which are reacting to expressed needs only, and market oriented firms, which are also managing to target the customers unexpressed latent needs (Ibid.). Further, they claim that market oriented firms acquire market knowledge not only through listening to customers, but also through indirect means such as customer observations, lead-user relationships, continuous experimentation and selective partnering.

Kohli and Jaworski (1990) argue that market oriented firms generate market intelligence throughout the entire organisation. They claim that market oriented firms might do market research and take in feedback from customers through the marketing department, while intelligence is also generated in other departments through sales interactions, customer support, analysis of web-tracking etc. Kohli and Jaworski (1990) emphasize the importance of such a varied means of the generating market intelligence since it not only extends the marketing departments ability to take it in, but also increase the understanding of the customers to other parts of the organisation.

### **3.2.2 Dissemination of market intelligence**

Even though much easier in entrepreneurial organisations as the ones studied, the dissemination of market intelligence is still very important. Responding to a market need requires a coordinated effort by several functions within the firm, therefore all of the departments involved in an initiative must approve of the actions taken. Kohli and Jaworski (1990) argue that in some cases it might be up to the marketing department to sell in certain ideas internally to other parts of the organisation to get them along. However, the marketing department should not always lead the distribution of the market intelligence, ordinary small talk among colleagues is a very important mean of spreading information horizontally across the organisation, especially in small dynamic organisations as the ones studied (Ibid.).

### **3.2.3 Responsiveness to market intelligence**

The responsiveness to market intelligence is all activities performed in response to the intelligence generated, such as the selection of target market, the formulation of an offering to customers, as well as the production, distribution and promotion of this offering (Kohli & Jaworski 1990). Narver et al. (2004) argue that firms that only reactively respond to their customers' expressed needs will not acquire a position where they can be ahead of the markets' developments. Therefore, skills in proactively discovering and responding to customers' needs are a prerequisite to innovate new offerings based on customers' preferences. They further claim that the proactive approach to responding to customer needs will cause these firms to lead their customers, which if innovating novel solutions, can include teaching the customers new practices and proving of the benefit when fulfilling latent needs.

Reed and Defillippi argue that market orientation in firms foster sustainable competitive advantages through their activities by; (1) inducing unique activities, (2) inducing activities that are difficult to achieve and copy, and (3) inducing activities that have a strong link to good performance (Pelham and Wilson, 1996).

Pelham and Wilson (1996) further argue based on the results of their quantitative study, that there is a correlation between performance and market orientation in small firms. The authors mean that market orientation can provide a guiding light to small firms increasing the firms' strategic consistency and workability which otherwise tend to be missing due to lack of formal planning. Therefore we reason that market orientation can guide managers in their business model design.

## **3.3 Two-sided markets**

Previous studies on two-sided market mainly come from the field of economics where Parker and Van Alstyne (2005) based on textbook economics present a model for two-sided network externalities, Rochet and Tirole (2003) derive what is affecting the price allocation between the two sides of the market and Koksal (2011) examines the welfare implications of zero fees to the Internet content providers in the context of two-sided markets. Eisenmann et al. (2006) contribute with a more strategic perspective and point out pricing and the challenges with the monopolistic nature of two-sided markets as something platform managers must consider in their business model design. Hagiu and Yoffie (2009) take the perspective of firms using two-sided platforms and give advice on how to deal with the platform provider.

### 3.3.1 Platforms in two-sided markets

Google, Visa and PlayStation are just three out of a multitude of products and services that serve two-sided markets or two-sided networks. They have two distinct customer groups (e.g. advertisers and users, merchants and shoppers, game developers and players) that both incur costs and are potential revenue sources (Eisenmann et. al 2003). Two-sided markets thus differ from the traditional value chain since value is not moving from the left to the right, instead costs and revenues can come from both sides (ibid.). Products and services that facilitate interaction between two groups of users in a two-sided market are called platforms (Rochet & Tirole, 2006) or multi-sided platforms (MSP) (Hagiu & Yoffie, 2009). These platforms, such as the above mentioned Google, Visa and PlayStation, support both groups and incorporate an infrastructure for interaction as well as rules that govern it (Eisenmann et. al, 2006). The two groups of users benefit from the fact that they interact on a common platform and thus, to get both sides “on-board”, platforms are struggling with the “chicken-and-egg problem” (Rochet & Tirole, 2006).

### 3.3.2 Network effects

Since the value of interacting on the platform is related to other actors the theory of two-sided markets is related to theories of network externalities. Network externalities is defined by Katz and Shapiro “the utility that a given user derives from the good depends upon the number of other users who are in the same ‘network’ as is he or she” (1985, p 424). Network externalities in multi-sided markets are more complex since the two user groups are attracted to each other, thus it becomes relevant to distinguish between cross-side network effects and same-side network effects (Eisenmann et al, 2006, Parker & Van Alstyne, 2005; and Rochet & Tirole, 2003). To give a concrete example, the PlayStation platform is creating same-side network effects if a player’s satisfaction increases (or decreases) when his or her friends join the platform, for instance they can borrow each other’s games and play against each other. At the same time there are cross-side network effects since the game developers benefit from a large community of players and, the other way around, players benefit from numerous developers that produce games. The platform thus creates so-called *complementary goods*, i.e. the platform links two complementary offerings to its two sides (Parker and Van Alstyne, 2005). The value to any given user is in other words affected by the number of users on the platform’s other side (Eisenmann, et al., 2006). When a platform succeeds in generating such positive cross-side network effects, the value of the platform increases. Eisenmann et al (2006) further claim that positive cross side network effects can occur when especially attractive so called “marquee users” help allure participants to the other side of the network. Furthermore, Rochet and Tirole (2003) discuss the phenomena of multihoming where

more disloyal users connect to several platforms. Both multihoming and marquee users indicate that the characteristics of the users are important in addition to the amount of users. However, cross-side network effects are still defined as a change in the value of the platform to one given user group depending on the *number* of users on the other side.

Network effects can either be positive or negative (Eisenmann et. al, 2006). Negative same side network effects occur when an increasing number of users on one side of the platform makes it less valuable for other users on the same side. Because of negative network effects, it might be reasonable for a platform owner to exclude some users (Eisenmann et. al, 2006).

### **3.3.3 Pricing in two-sided markets**

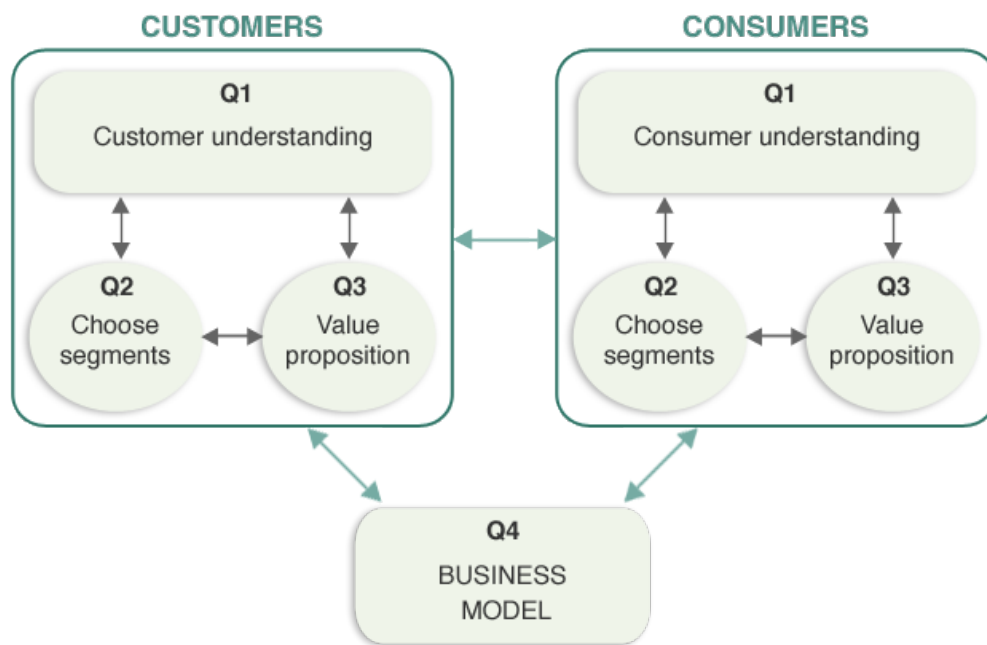
In order to deal with the chicken-and-egg problem of growing two interdependent user groups, platform providers often subsidize one of the groups (Parker & Van Alstyne, 2005). In this way they can attract a user group and as a result increase the attraction of the platform in the eyes of the other group. A virtual circle is created since the non-subsidized users also makes the platform more attractive to subsidy-side users (Eisenmann et. al., 2006). Platform providers are thus not only deciding their overall price level but also the price structure; how much to charge each side (Rochet & Tirole, 2006). The decision of which market to subsidize depends on the relative network externality benefits (Eisenmann et al, 2006). It is relevant to subsidize the market that contributes the most to the demand of the other side (Parker & Van Alstyne, 2005). In other words the subsidized user group should be highly valued by the non-subsidized market when attracted in volume (Eisenmann et al, 2006). It is more relevant to subsidize the most price sensitive side, especially if the cost of each new subsidy-side user is very low. Furthermore, it makes more sense to subsidize the side that demands quality and charge the side that must supply quality. This is because the quality provider often needs to be assured that there are enough users on the other side in order to invest the necessary money. (Eisenmann et. al, 2006). Once having taken the decision of which market to subsidize, it is relevant to consider how long this will go on (Eisenmann et. al. 2006).

## **3.4 The research model**

Drawing on the research questions as well as theories on market orientation, business model development and multi-sided markets, we have developed a research model. The model sets the research questions in relation to each other and the theory, as well as provides a basis for answering the purpose. The purpose of the study is to take a dynamic approach to business models and explore how firm's customers and consumers are affecting the business model development in entrepreneurial firms,

operating in two-sided markets. As mentioned, we aim to answer the following research questions and in the figure below you can see how they relate to the research model:

- Q1.* How do entrepreneurial firms in multisided markets understand customers and consumers' current and latent needs?
- Q2.* How do they choose their customers and consumers?
- Q3.* How does the choice of customers and consumers as well as the understanding of their current and latent needs affect the development of a firm's value proposition?
- Q4.* What effects does the choice of customers and consumers as well as the development of a value proposition have on the development of the business model?



Below we will elaborate on how the theory relates to the research model as well as define the variables included in the model.

Market orientation has positive effects on a firm's performance since it is providing firms with better prerequisites to satisfy their customers (Kohli & Jaworski, 1990). This is based on the fact that market oriented companies understand customer's current and future needs and disseminate this market intelligence across the organisation as well as respond to it by taking actions based on the understanding (Kohli and Jaworski, 1990). We define the understanding dimension in our model as the generation and dissemination of market intelligence. One way in which companies can act based on their customer understanding is when developing a value proposition; the products and services that create value for a

specific customer segment (Osterwalder et al., 2010). Thus, as the arrows in the model indicate, the value proposition concept and the understanding of the customers can be assumed to be interrelated.

We see the choosing of customer segments as a process where firms continuously evaluate potential and current customers and choose which ones to serve and not. Choosing customers is related to the understanding variable since it defines what actors to take into account in the learning process. The learning process can also result in a deeper understanding that affect the choice of customers.

Choosing customers is also related to the formulation of a value proposition since the value proposition is the value created to a specific customer segment (Osterwalder et al., 2010). To summarize, the literature indicates that the dimensions of choosing customers, understanding them and developing a value proposition are interrelated.

Furthermore, as research on two-sided markets reveal, the platform's two user groups are interrelated since the platform's value to any given user group is dependent on the other side (Eisenmann et. al 2006). Thus, as the arrow between the two sides suggest, we expect some sort of interaction between the two sides and aim to explore if this is affecting the business model development.

The value proposition of the customer respectively the consumer side and the fact that they are interrelated are assumed to have an impact on the business model development since in order to create value to the customers firms need to perform certain activities, employ certain key resources, work with certain partners etc. (Osterwalder et al., 2010). Furthermore the business model is built around how to create value for customers (Chesbrough and Rosenbloom, 2002) and the business model should be designed in order to fulfil customers' needs (Zott et. al, 2010). The customer's needs and the value proposition should hence have an impact on the rest of the business model.

## 4. Empirical findings

In this chapter we will present the development of three entrepreneurial firms operating in two-sided markets: Guidepal, Glossybox and Freebee. The cases are separately described in chronological order from the first initiative until now, where each case has been divided into three different phases: early, mid and current. Under each phase the evolution of the firm is narrated with focus on the critical events in the development of the firms business model. In general the early phase describes the launch of the firms and their first formulation of an offering to the market. The mid phase covers the establishment on the market including a development and refinement of the business model. The current phase describes the studied firms current challenges to explore the potential in their business model further.



## 4.1 Guidepal

Guidepal is a Stockholm-based start-up, making city guides in application format for smartphones. The free app consists of guides for 56 cities and all of them are available in English, and some in Chinese, for iPhone, iPad, Android and Windows 8. Since the launch in 2010, Guidepal has grown quickly and today it has over one million registered users and about 4,7 million downloads.

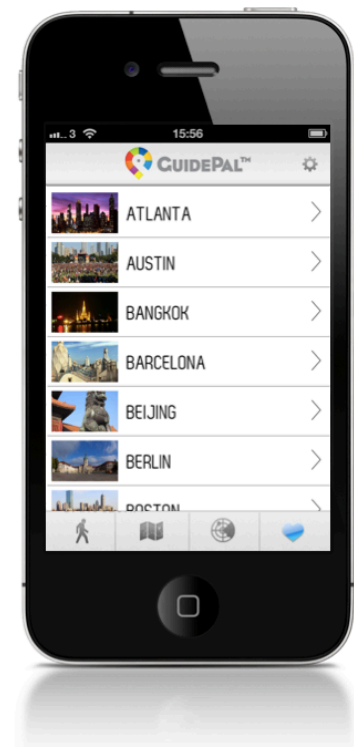
In order to illustrate Guidepal's journey the early phase when the app was launched and the first experiment with a profit model was conducted, the mid phase when the focus to generate great content was manifested, and the current phase when user engagement is seen as the key to future business opportunities.

### **4.1.1 Early: Proof of concept and experimenting with a profit model**

The embryo to Guidepal was created in 2009 when David Jansson, Guidepal's current Chairman, bought a company producing city guides in DVD format. The content was soon converted into a web-based travel site that was named Guidepal. In the beginning of 2010, when the sales of smartphones took off and apps got popular, Peter Schierenbeck, who had been working as a consultant for Guidepal, was hired as the CEO. Jansson and Schierenbeck realized that city guides were perfect in app format and the Guidepal app was released in the summer of 2010. The launch of the app created the ground for what Guidepal is today and allowed Guidepal to grow.

#### **4.1.1.1 The launch of the app**

When the app was launched the focus was to prove the concept, rather than to make money on it immediately. Therefore, as an experiment, the app was made free to all users. Compared to the first week when the app was priced 14 SEK the downloads took off intensely. Schierenbeck and Jansson realized that the product had potential and that it was possible to build a large user base by letting the app be free. They decided to focus on driving downloads and figure out how to monetize on the app later on. As Schierenbeck puts it: *"The focus became to get a large market share by being free. We adapted the goal to the reality"*. In the autumn of 2010 Guidepal attracted new investors by doing a new issue. The money raised was necessary to continue to build Guidepal and drive downloads. It made it possible to hire people and one of the first employees was Robert Hedberg who became head of Product Development.





More and more people started to download the Guidepal app. Due to the novelty of apps and the varying quality of the Guidepal content, the first users saw the app more as a cool technical product, than as a really good city guide. Many got disappointed by the quality of the recommendations. The content was both written and compiled by locals that were picked randomly based on contacts so the guides became very different. Most often the locals did not have English as their mother tongue, nor any expertise in professional writing. Schierenbeck admits that *"To be honest, in the beginning it was a pretty bad product we had content-wise"*, which was also reflected in the comments Guidepal got in app stores. Tech-wise, on the other hand, simple features such as seeing the GPS position on the map satisfied the users. External tech consultants performed the technical app development at this time.

Guidepal did not have much statistics or contact with the users back then so what the users valued or thought about the app was mainly based on guesses. The only source of feedback was the ratings and the comment functions in the app stores.

#### 4.1.1.2 The first experimentation with a profit model: Adding deals to the app

When the app had been up for a couple of months and had a decent amount of downloads, Schierenbeck started pondering on how to capitalize on the growing user base, while at the same time increase it through providing users additional value. At this time it started to get popular with digital deal sites and Schierenbeck decided to introduce deals in the Guidepal app so that users could click on a venue in the guide and for example get a free dessert. The experiment was not based on any research, which is a common way to work at Guidepal. As Schierenbeck puts it: *"Maybe this will sound strange but to be honest I don't like research. It is better to just go out and try."*

In order to sell in the deals to the hotels at a reasonable cost, a call centre in India was hired. They started to call venues in London, one of Guidepal's most popular guides. In return for exposure in the app that could lead to the attraction of new guest, the venues contributed with a deal for the Guidepal users. The venue then paid Guidepal 5-10 SEK each time a guest activated the deal. It soon turned out that it was harder than expected to get good deals, *"We got a decent amount of deals but they were never on the best venues and the deals were not good."* (Schierenbeck). Guidepal decided to give the model another try, selling in the deals themselves locally. A massive work to get deals on the best venues in Stockholm was initiated. In the sales process Guidepal understood that the value for these already popular venues was not in attracting new customers. *"It was hard from a sales perspective since people went there anyway (Hedberg, Head of Product development)"*. What was valuable for them was rather to drive additional purchases, such as giving away three oysters when the users bought a bottle of champagne, or driving customers to the

place at unattractive hours. Even though, the sales improved after a reformulation of the offering, it was still hard to attract many of the restaurants.

Except being a revenue source, the deals became a way to create value to the users. However, initially *“It was not much value in the deals”* (Hedberg) which was one of the reasons for the low conversion rates *“It converted one deal a week maybe”* (Hedberg). Furthermore, there was a risk that users started to doubt in Guidepal’s objectivity and suspect that venues were added just because Guidepal got a deal there. The trustworthiness of the Guidepal brand and the original thought of offering an unbiased travel guide got threatened. When the sales process was taken in-house the deals got better and the conversion rate increased slightly. *“We realized that, in order to make it work, we needed really good deals on places people go to”* (Hedberg). The quality of the recommendations and the quality of the deals were equally important. *“The bad conversion rates indicated that the users did not have confidence in us”* (Schierenbeck)

#### 4.1.1.3 Moving to the next phase

Even though the idea of introducing deals was more successful in Stockholm, the conversion rate was still too low to generate any reasonable profit, especially since the user base was relatively small. Furthermore, the sales process was costly and complicated *“It was a major work only in Stockholm, then you can imagine implementing it on 50 cities”*, and the model threatened Guidepal’s objectivity and the brand’s trustworthiness. From this experience Guidepal learned that volume was crucial to monetize on the users and that a major concern to achieve this was to make users trust and appreciate the content in the guides. They could no longer expect that the hype around apps would drive downloads. *“We came to a period when we started to think that if we’re going to get big enough we have to have better content”* (Hedberg). These insights pushed Guidepal into the next phase where the focus was on producing better content in order to increase downloads.

### **4.1.2 Mid: Content is king**

#### 4.1.2.1 Improving the content

In the beginning of 2011 the term “content is king” was manifested as the focus and the mean in which Guidepal would enlarge the user base. In May 2011 Simon Doyle, a British journalist, was hired as the head of the content team. His job was to ensure Guidepal’s position as a media company by improving the standard of the existing content and produce new guides. Parallel to this work, Guidepal had a workshop to clearly define the target audience as conscious weekend travellers and position the brand as a city guide with recommendations handpicked by locals. The content production that previously was based on the freelance platform Enlace, was increasingly taken in-house in order to improve the quality

of the copy and assure that the recommendations suited the brand. *“The process became more controlled and professional” (Schierenbeck)*. When the content improvement was initiated, users’ comments and ratings got continuously better. Better content also opened up for new business opportunities. *“We would never have gotten the business connections we have today if we had kept the crappy content” (Schierenbeck)*.

#### 4.1.2.2 Launching the hotel solution

One of the opportunities related to better content was revealed when Hedberg and Schierenbeck were in London and stayed at the hotel Baglioni. With the aim to create a revenue stream and spread the Guidepal brand, Hedberg got the idea of creating a subscription-based service where hotels would get their own tab in the Guidepal app in addition to Guidepal’s city guide. In their tab they could add information about breakfast hours, menu, performances etc. Hedberg explains that the hotel solution suited both the ambition to create an objective guide and build the Guidepal brand through improved content. The logic was that the better the content, the more attractive Guidepal was for the hotels, the more hotels would sign up and the more users they would contribute with to Guidepal.

In April 2011 Sebastian Andreescu was hired as head of Sales and Business Development and his first mission was to sell the hotel solution. Andreescu met around 40 hotels and in the early sales meetings his key selling point was the quality of Guidepal’s content. *“I told them that the content is built by local experts, with this app you find places that are not in ordinary tourist guides” (Andreescu)*

Even though many hotels were positive to the concept, the sales process did not work out as smoothly as expected. According to Hedberg, one problem was that the original Guidepal guide was free so the hotels did not see why they would pay for that same app, with the only additional value of a customized tab. The hotels wanted a fully customized app with advanced technical features. It resulted in large projects where people from high positions at the hotels got involved. The solution Guidepal presented in the sales meetings was adapted gradually so that the app became more and more customized for each hotel. *“When I was out selling I started to feel more like a tech consultant than a travel app seller” (Andreescu)*.

When Guidepal went from offering a branded tab in the Guidepal app to a fully branded app with customized features and content to each hotel, the solution was not as scalable anymore. Hedberg, Schierenbeck and Andreescu all agree that the idea about Guidepal changed. *“Guidepal went from being a city guide company to a technical IT company that delivered apps” (Andreescu)*. *“We were thinking about letting go of the Guidepal brand and become a pure content company” (Hedberg)*. The pricing model was also revised because the customized app was more expensive to produce. Instead of a subscription-based fee the hotels would

pay a fee per download. *"We turned the company to follow what the customers wanted, and that resulted in a loss of identity and direction, you get confused - should we build content or IT services"* (Andreescu).

#### **4.1.2.3 Moving to the next phase**

The technical development that the hotels required was going to take a large part of the resources that was needed to build a great content product and a solid user base. The development of the sales process put Guidepal at a crossroad: should the focus be on building a solid user base or earning money? *"It has been a constant question in every business decision. Should we get more users or money?"* (Hedberg). *"We are too small and too under-financed to succeed with the profit model and the growth at the same time. So we have to choose one"* (Schierenbeck)

Guidepal chose to continue on the original track to create a Guidepal branded app with great content as the driver to build a large user base. This was because the hotel model was not scalable in the current organization and neither Schierenbeck, nor the board were interested in building the IT consultancy firm needed to please the hotels' requests. *"It was not Guidepal, it was not what they invested in"* (Andreescu). Furthermore, since the content had to be hotel labelled, the initial advantage of using hotels as a mean to increase Guidepal's volume disappeared. Guidepal dropped the hotel solution and returned to focus on building a large engaged user base and experiment with business models that built on this.

#### **4.1.3 Current: Engagement and volume in focus**

In order to increase the volume, further efforts to improve the guides and the product were made. *"It is about AS (App Store Optimization) the better product we have the better we will rank in the app stores and the more downloads we will get"* (Schierenbeck). The tech development was taken in-house and both the product development side and the content side grew. Even though the focus was on building volume, the experimentation with revenue sources continued and as a result of increased reach, experiences with an advertising based model was conducted.

##### **4.1.3.1 Advertising and sponsorship**

Guidepal had long monitored the development of mobile advertising and saw that the growth was surprisingly slow. They realized that making money on regular advertising was challenging *"We did a calculation, even if we would have filled the whole app with advertising, we would never have gotten more than 100 000 SEK per month"* (Hedberg). Furthermore, according to Schierenbeck they still had too few users per market to be interesting for large advertisers. He read a blog post about 'native advertising'; a form of advertising where the advert is a part of the content, and thought it was a good way to provide additional value to the Guidepal's users base while monetizing on it. The first customer was EF, a global

company providing international education, which agreed to pay a flat fee to have an dictionary in Guidepal's Spanish, Italian and French guides.

A sales team consisting of three persons was set up. To EF the concept was sold in as a way to communicate the brand's expertise in international travelling and education. It was also a way to increase EF's mobile presence. However, the longer the partnership continued, the more Guidepal realized that what EF really cared about was volume and conversion rates. *"When you start talking about larger campaigns they were extremely conversion focused"* (Schierenbeck). In general it turned out that both the sales process and the tech development related to native advertising was time consuming and that this was not the scalable model in which Guidepal would make money on the long term.

#### 4.1.3.2 Closing the sales department: focus on volume and engagement for real

Guidepal's current focus is to go for the scalable models that leverage the user's engagement in the app. The goal is to become more than a digital city guide; a travel community with engaged users, before, during and after the travel to get inspiration for new trips, specific recommendations in the city and share and discuss their travel once they're back home. During this cycle, Guidepal would offer the users an opportunity to organize their travel through the app by booking hotels, restaurants, taxis, events etc. The venues would then pay a kickback fee for each user Guidepal is directing to the venue. As a trial, Guidepal users can click on "book a hotel" in the app and get redirected to a site where they can book their hotel. Another opportunity is to offer premium content that the users would pay for in the app, so called in app purchases. In the autumn of 2012 an experiment of such a freemium model will be launched, so that users will have to pay for the guide or share it on Facebook and get it for free. Schierenbeck assumes that people are more prone to trust Guidepal, and in the long run buy things through the app if they see that one of their friends share it on Facebook. In order to make these freemium- and kickback-models work, engagement and volume is in focus. *"Engagement is key to build these models, if we don't have the engagement we're not going to get the bookings and the purchases"* (Schierenbeck). One event pushing Guidepal to this focus was the difficulty to get new investors in the autumn of 2012. The investors' requirement was that Guidepal decreased spendings and showed that there is a viral engagement around Guidepal. As a result, the marketing and sales department was closed while product development and content generation is taking up a larger part of the resources so that the product can be improved in order to increase engagement.

The focus on engagement is changing the product for the users in several ways. A constantly updated newsfeed has been introduced in the app in order to change the user behaviour so that they check out

the app even when they are not travelling to get inspiration. A project that is currently in the running to increase engagement is an improved social tool for planning your own trip and share it with your friends. The users will have their own profile and see who are using Guidepal among their friends, what places they have been to and what they thought about these places. As Schierenbeck puts it *"You engage in our content, rather than only consume it [...] it will be a discussion around our content, it's a new dimension"* (Schierenbeck).

The new focus is for the first time making the users into paying customers. In order to make the users engage in the app, it is more important than ever to understand the users according to Schierenbeck. His anticipation is that the user relationship is going to get stronger both as a result of a better user knowledge and as a result of the community feeling a dialogue between the users can create. The user knowledge is going to be built up by improved data analysis, where the behaviour in the app is analysed in order to optimize the product so that users feel comfortable and inspired to book things in the app, pay for additional content and spread it virally. One person is now working full-time, almost only with analysing the data. Furthermore, a comment function is introduced in the app, so that users can give feedback both regarding the content and the technical features, and a survey was recently sent out to the users. *"In order to make the users buy things, we have to understand the users much, much better"* (Schierenbeck).

#### **4.1.4 Initial summarizing reflections**

The fact that the Guidepal app was made free led to an endeavour to create a large user base. Since then, downloads has been the main focus even though parallel experiments with the profit model has been conducted.

Initially, the value proposition to the users was more about the technical features in the app than the content provided. When Guidepal introduced deals, the value proposition to the users was extended. However, most deals were not good and the low conversion rate indicated that the value to the users failed to come. There was also a risk that the users would doubt Guidepal's objectivity. Even though the sales process was taken in house and the value proposition to the venues was updated the conversion rate was still not pleasing and the selling took much of the resources. When the idea was dropped, so were a potential revenue stream and a customer segment. From this experiment Guidepal learnt that volume and great content was key to capitalize on the user base.

Improved content both led to a better value proposition to the users and new business opportunities. The hotel solution suited both the ambition to create a large user base, by providing a great-unbiased guide, as well as build the Guidepal brand. The initial value proposition to the hotels, the access to Guidepal's content, changed into technical features as a response to the feedback in the sales meetings.



Guidepal increasingly went towards becoming an IT consultant. Due to the board's opinion and the difficulty to scale the model, Guidepal chose to continue to build the user base and the brand instead of developing the profit side and become an IT consultant.

The focus went back on building a large engaged user base and business models that built on this. Guidepal soon realized that advertising was not appealing neither to the advertisers, nor the users. Native advertising was a way to instead improve the user experience while making money. However, the sales process was time consuming and the customers wanted larger volumes and higher conversion rates. The current focus is to go for scalable models where users buy additional content in the app and book things related to their travels. In order to reach this goal, really large volumes are needed and vigilant data analysis will be used to understand how to make users engage in the app. With a shift towards engagement, the value proposition to the users has been extended so that additional services will be incorporated in the app.

## 4.2 Glossybox

The Glossybox concept was started by the German company, Rocket Internet in July 2010 in Germany, France and UK. It was launched in Sweden in 2011 and this study will focus on this local unit that is run as an individual entrepreneurial firm with some support from the headquarter in Germany.

Glossybox offers a monthly subscription service of a box with beauty products. The gift-wrapped box contains travel- and full-size products from high-end brands in five categories such as skincare, perfume and makeup. After having tested the products the subscribers can optionally fill in a survey to earn credits that can be saved up and exchanged for another months subscription. Brands that want to participate in the box contribute with products in exchange for exposure and insights gained from the survey. Below, Glossybox is presented in three phases; the early phase when the organisation was set up, the mid phase when focus was on building reputation among brands and reaching a critical mass of subscribers, and the current phase when Glossybox is going from a sampling tool to a strategic marketing channel.



### 4.2.1 Early: Launching the first box

Glossybox Sweden (from now on Glossybox) was started when Hartwall and a co-CEO were hired in October 2011. They immediately recruited a team of four people and decided to launch the first box in December. Victoria Senkpiel, head of brand management, describes it as a critical and stressful time

since the first box had to be sold in to the brands, a logistic process had to be set up and the box communicated and sold to the market, all in a couple of months. The most urgent task was to fill the box with products, or in other words ‘close the box’.

#### 4.2.1.1 Closing the first box

*“When launching a new company perception is reality – there is no other reality”* Hartwall, Glossybox’ CEO.

For Glossybox it was incredibly important to attract the right brand for the first box. Hartwall describes how the understanding of an unestablished company is subjective and how Glossybox worked with creating a remarkable launch, with reputable brands, in order to gain credibility from both the industry and the consumers, *“If we did not deliver an enormously strong launch box we would have limited our growth potential for a long time forward”* (Hartwall). The aim was to compile a combination of products from Swedish and international brands. Chloé was signed in the perfume category as an old reputable brand, while the upcoming brand Moroccan Oil was signed to represent an upcoming trend. In order to further establish the perception of Glossybox as a reputable company they managed to get chocolate truffles from the upscale department store NK, *“If we have NK in the box that is a quality sign of Glossybox, NK does not work with anybody”* (Hartwall).

Given the goal to achieve both an appealing combination of complementing products while establishing a high standard of brands in the box, Senkpiel describes the task of filling the box as a great challenge. *“I had to prove a concept that did not exist”* she says and describes the work of selling in Glossybox to the brands as cold calling. The initial sales pitch focused on Glossybox as a sampling-tool to an engaged set of consumers. However, both Hartwall and Senkpiel had an idea of transforming Glossybox into more than a sampling-tool. They envisioned Glossybox being more of a strategic channel even though they could not formulate their thoughts clearly at this point, neither for themselves, nor for the brands. By instead selling in Glossybox as a sampling tool, the companies could relate to the concept more easily. Moreover the brands already had a share of their marketing budgets allocated to sampling which made the concept easier to sell in. Additional selling points were the feedback generated from the optional consumer survey and the PR exposure. Hartwall emphasize that the offer to the customer was created in a dialogue with the brands *“It was about getting to know what is interesting to the brands”*.

A structural difficulty during the process of selling in the concept was the long planning process of the brands’ marketing activities. Large brands were typically tied up by yearly budgets and had lead-times of product samples which could be up to nine months. *“Everybody told us that we had to contact them more in*



*advance*” (Senkpiel). To handle this situation Glossybox had to be flexible in the offering to large distributors, “*you tell us which brand you think is best suited for this, and then we match our offering*” (Hartwall). For example, Säter, a distributor of 20 brands, happened to have a party of leftover samples of Chloé perfumes that they decided to contribute with.

Since the larger brands had such long lead times Glossybox found it easier to work with smaller firms that typically had a greater ability to act on a short notice. The deal with the distributor of Burt’s Bees was the last one to be signed to the first box “*We needed to sign this deal and we knew this guy was able to act. We needed the products on Monday morning and closed the deal Friday afternoon*” (Senkpiel).

#### 4.2.1.2 Shipping the first box

Before launching the first box, Glossybox had a workshop to pinpoint the targeted market. Without any specific market research a target character named Laura was developed and assigned attributes such as age and preferences within e.g. music- and film were defined. “*The reasoning was that if we could catch a girl, 29-30 years old, who has money and lives in Stockholm – then we would get the 25 year olds who want to become her as well*” (Hartwall). Moreover a 30 years old character was easier to relate to for older women, which was considered a secondary target group. The definition of Laura came to be central to the strategy of the firm, “*It helped us of two reasons, firstly it came to be a quality check – would Laura like this? Secondly, it guided us in the choice of PR-channels*” (Hartwall). Glossybox target market furthermore had to match the end consumer of the brands Glossybox targeted, so the work to find the right brands and define the target market was two sides of the same coin.

Glossybox did not control who became their first consumers by any other mean than the formulation of the concept and the brands in the box. They worked with many factors in order to frame a concept that could appeal to the target market. Important parts was to fill the box with the right brands and develop Glossybox as an experience, from the first text message when the box was delivered at the post office, to when they got the package, opened it and ultimately used the product. To ensure the experience, careful personnel were hired for the packaging of the boxes and additional treats such as a chocolate truffle was included in every box. “*You get the box delivered as an experience, and you pay for that experience*” (Senkpiel). Furthermore, the price defined which subscribers Glossybox got initially, “*you know that the customers you get are enthusiastic about the concept since they pay for it. You’re always regulated by the price, and that sets the bar for how enthusiastic customers you will get*”. The consumers that signed up for the first Glossybox were mainly early-adopters, lead-users within beauty products who read foreign beauty blogs and had heard about the concept abroad.

#### 4.2.1.3 Moving to the next phase

The months after the first box the number of subscribers steadily increased and Glossybox' turnover as well as the reach and thus the value to the participating brands improved. However, a larger customer base also became a challenge because, during these first months, Glossybox had a difficult time filling the box, especially given the brands' long planning processes. *"It was all about surviving each month. We did it again! It was all about the products"* (Hartwall). Senkpiel mentions filling the box in February, a couple of months after the launch, as one of the toughest challenges since the start since it was no longer a brand new concept with the Christmas rush to boost the sales. The long-term goal of increasing the number of subscribers thus made the short-term goal of filling the box even harder to reach since more products were needed.

#### **4.2.2 Mid: Becoming an established actor**

Glossybox realized that in order to grow they had to build a reputation towards the brands so that Glossybox became a natural part of their marketing activities. At the same time they had to increase the number of subscribers to keep up the reach and increase the turnover.

##### 4.2.2.1 Gaining credibility

Glossybox repeatedly proved their concept throughout the spring by continuous exposure at some of the largest blogs in Sweden, a steadily increasing subscriber base and by attracting many respected brands to participate in the box. However, it was still a challenge to fill the boxes and Hartwall and Senkpiel felt that they always had to convince brands about Glossybox' novel concept from an underdog position. One event that turned the tables and positioned Glossybox as a credible actor on the market was in April 2012 when sponsoring the Swedish Beauty Awards, a yearly Swedish beauty gala. As the main sponsor of the awards they got a position as a credible actor on the market. As Senkpiel put it, *"it is another power play in the meetings nowadays – Marcus and I were on the stage presenting the lipstick of the year. No-one knew who we were but next time they will all know."*

Another event that was important for Glossybox' reputation and credibility was when they did a collaboration with the fashion magazine Metro Mode in September 2012. It was the first so called 'flash-box' on the Swedish market. It was not connected to the subscription of Glossybox and included more up-scale brands than the boxes usually do. The 1 000 boxes were sold out in 40 minutes. Hartwall is very enthusiastic about the concept of flash-boxes, both from a brand and consumer perspective, *"It was a little like the NK chocolate truffle again, Metro Mode puts its sign of approval on Glossybox"*. Hartwall further stress the fact that the flash-box together with Metro Mode enabled building a relationship with high-

end brands like Yves Saint Laurent and Armani. Earlier Glossybox had not been able to reach these up-scale brands. Hartwall consider flash-boxes as an important way to develop the concept further *“These boxes are strategically important onwards, both financially, but also to keep our concept exciting. Moreover it’s important in order to reach both brands and consumers that otherwise would have been inaccessible.”*

Both Metro Mode and the Swedish Beauty Awards facilitated Glossybox’ struggle to gain reputation among the beauty brands. These events were also contributing with more subscribers. Both Senkpiel and Hartwall describe the point when they reached a critical mass of subscribers as an important shift, where it became easier to attract both brands and consumers. It also put new demands on scalable processes and more routines that could enable them to deliver repeatedly and keep the consumers and the brands exited.

#### 4.2.2.2 Reaching the critical mass

Senkpiel and Hartwall describe how delivering a box is a result of a chain of activities that basically are the same each month. Compared to the early phase when everything was very ad hoc, they started to get more and more standardized procedures that helped the whole team to be more efficient. *“We have become better in working with deadlines so that we can work in parallel” (Senkpiel)*. They are also striving to optimize each step of the process. One action in order to do that was to change the firm that packaged the boxes to increase the capacity and ensure that the right products got in the right boxes. *“Before we had a hard time packaging 1000 boxes in four days, now we pack 6000 boxes a day” (Hartwall)*.

When Glossybox grew, more people that lived outside the big cities were added to the customer base that initially mainly consisted of early adopters. However, the definition of the target character Laura was not updated accordingly but remained a character that could match the brands that Glossybox targeted. The consumers were still very engaged in the concept and Hartwall emphasizes that the experience and the community aspect has grown to become a part of Glossybox’ offering. The company he says, differs from traditional e-retailers that are typically very transactional, Glossybox on the contrary, is a relational e-retailer. *“All these girls that share this experience together, they experience it through blogs, Instagram, Facebook – and they think it is fun!” (Hartwall)*. The relationship to the subscriber base has also become important in recruiting new consumers according to head of marketing Broberg since the subscribers recruit their friends, *“Our subscriber base is our most important sales channel ... If the subscribers are happy about the box they tell it to all their friends”*.

As Glossybox was becoming more established they faced the challenge to keep the consumers satisfied when the novelty in the concept was fading. Hartwall emphasizes the importance of varying products in

the boxes and segmenting the consumers so that they get products and brands that suit them. Senkpiel further describes how the feedback from the consumers is very important and that they continually adjust in accordance with feedback generated through the customer service and on their Facebook page *“We can see in the feedback if we are failing, then they’re not happy”* (Senkpiel). In March the box had an ecological theme that received reactions especially on Facebook from some of the subscribers, *“Some said that one product smelled like moss. That taught us that working with ecological products is no problem, but as the theme of a box it gets a little too much”* (Senkpiel). Furthermore, the service is optimized through analysing data about how users behave on Glossybox’ website. *“You can measure everything and then you can really improve everything”* (Hartwall)

#### **4.2.2.3 Moving to the next phase**

The process of gaining credibility, standardizing the routines and keep delivering great boxes made Glossybox as a concept stabilize. In the end of the summer of 2012 Glossybox’ ecosystem and stakeholders started to get in place and it became easier to attract both brands and consumers. With the necessary reputation and a growing subscription base, Glossybox was up for new challenges in order to fully capitalize on the growing subscription base.

### **4.2.3 Current: A strategic marketing channel**

During the summer of 2012 Glossybox experienced a shift in the market when selling in participation in the boxes. The brands had started to recognize the concept and to actively demand Glossybox’ services. This affected how the sales process, but also what value Glossybox was able to deliver, *“Now we can be more strategic and better advisors. Back then it was all about understanding what these brands value”* (Hartwall).

#### **4.2.3.1 A new dialog**

The active demand from the brands has allowed Glossybox to have a completely new dialog with the participating brands. When earlier Glossybox tended to pitch the sampling as the primary benefit, most brands now understand to appreciate the more long term, strategic benefit of Glossybox’ concept. Many brands have already booked their participation next year. Hartwall, *“Now 25 per cent of the brands are booked for the next year and that is a tremendous achievement”*. With the necessary reputation, Glossybox has the opportunity to further capitalize on the large engaged user base and increase the offering to the brands. At the same time they have to keep the concept exciting for consumers.

#### **4.2.3.2 Servicification of Glossybox**

Through the feedback and tracking of consumer data Glossybox now works at elaborating on the value created and quantify it into its constituting factors so that they can start monetizing on the brands, *“It*

*has been a learning process where we have tried to understand our own value. It has been about getting an overview so that we can put a price tag to it” (Hartwall).*

The work with elaborating on the value added by Glossybox include extending the service offering through developing new touch points between the brands and the subscriber base. From only being exposed during the month of participation, Glossybox will let the brands reach the consumers at different points in time through different channels in order for the message to get across. *“This is about working around the box and taking Glossybox from a sampling-tool, which is the foundation of the model, into a media-tool” (Senkpiel).* In addition to working more consciously with social media and newsletters, Glossybox has also introduced new services for example the magazine Glossymag, flashboxes and the possibility for non-beauty products to get exposure in the box.

Glossymag is an entirely new channel first introduced on the web site in August 2012 and soon distributed together with the box in a printed edition. It is a way to strengthen Glossybox’ position as a beauty expert but also a way for the brands to reach the market in an editorial setting. One such example was in September 2012 when the magazine included an interview with Skinplan’s, CEO in order to make the consumers build a relationship with the Skinplan brand. Hartwall consider Glossymag as an exciting new source of revenue. He thinks that an advertisement in Glossymag is at least as valuable as an advertisement in any of the current established lifestyle magazines since the magazine will benefit from the large number of subscribers and the audience’s high engagement.

One service that started out as an ad-hoc initiative but has grown to become a standardized offering is to use the box as a media space for non-beauty brands. Already in the first box Glossybox contacted the department store NK to add chocolate truffles to the box. Back then it was a question of gaining credibility in the market but since September 2012 it is a new source of income, since the non-beauty brands pay for exposure in the box. In October 2012 Glossybox piloted a test to add a flyer for a jewellery retailer in the box. Using the box as a media space for non-beauty brands is opening up for new types of paying customers, both the non-beauty brands but also media agencies that buy media space for their clients. However, Hartwall is careful about how far to push such a new source of income, *“we don’t want our subscribers to perceive that we spam them with ads, to perceive us as greedy. That is a balancing act.”*

Another initiative that started out ad-hoc was the Metro Mode flash box, in which Hartwall sees high potential both as a new source of income as well as to keep Glossybox’ concept exciting to attract new subscribers. *“The Metro Mode box was something that just happened – a creative idea that we implemented which became a great success. Next year we will work more with this as a form of partnership, we will conduct it 4-5 times per*

year". The new mean to reach out to the market will become a new channel for Glossybox' partnering brands, less restricted by the format of Glossybox' subscription service.

#### **4.2.4 Initial summarizing reflections**

For Glossybox it was very important to attract a selection of attractive brands to the first box in order to establish a high standard for both brands and subscribers. Since the brands did not understand the more strategic advantage of Glossybox' concept, it was sold in as a sampling tool with the additional value of PR exposure and market research. The challenge imposed by the long planning processes of the larger firms' marketing activities made Glossybox initially choose smaller firms, with a greater ability to act, as their customers. The selection of brands in the boxes was compiled in order to attract the identified target market. Except from the products in the box, the experience chain from ordering to discussing the products with the engaged community was also a part of the value proposition to the subscribers. Glossybox benefited from the increasing subscriber base but at the same time it made the challenge of filling the boxes with products even harder.

As the sponsor of the Swedish beauty awards and with the launch of the Metro Mode flashbox, Glossybox established themselves on the market and it became easier to sell in the concept to both brands and subscribers. The flashbox also allowed Glossybox to reach new segments, more upscale brands and more luxury-seeking consumers. Reaching the critical mass of subscribers put demands on creating a scalable process and keeping the subscribers happy by nurturing the community, varying the products and taking actions based on feedback and data about the subscribers. The concept has now stabilized and Glossybox is moving in to a phase when the goal is to establish Glossybox as a strategic marketing channel and capitalize on the whole lifecycle of the engaged user base by providing additional touch points between the brands and the customers. The value proposition to both subscribers and brands are thus extended by the introduction of new services such as Glossymag and promotions from non-beauty brands.

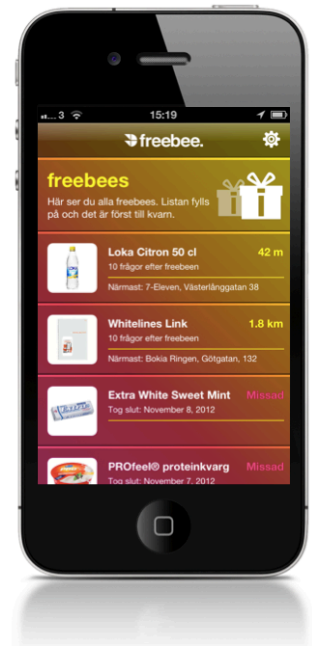
### **4.3 Freebee**

Freebee started in 2009 and provides fast and cheap consumer research of fast moving consumer goods (FMCG). The hub in the system is the Freebee mobile application where consumers can get free products in exchange for answering a short survey about the product directly in the app. The customers, mainly large companies in the FMCG industry, pay for the analysis that Freebee delivers.

### 4.3.1 Early phase: Finding a customer

Two students at Stockholm School of Economics (SSE), Rasmus Fahlander and Michael Karlström had an idea to make market research in the mobile phone. The process started with framing the offering, they had to decide if they would do the analysis of the data in-house, or outsource it. Also, they did not know if they were to have direct contact with the end-customers of the service or go through an intermediary, perhaps an established actor within the market research industry.

Fahlander and Karlström did background research on the industry, interviewed professors at SSE, and met with industry experts as well as potential partners or competitors. They also knew brand managers at Procter & Gamble and at the dairy product producer Arla that they contacted to discuss the concept, the response was very positive and the brand managers thought it was a unique idea that would be relevant on the market. The firm was founded in January 2011 and a software developer was brought on to the team to develop the app and the website. Soon a market researcher was also recruited part time in order to enable Freebee to deliver complete analyses directly to the end-customers.



#### 4.3.1.1 The first customer

Small local businesses were identified as a suitable target market since Freebee could enable these firms to do market research much cheaper and less cumbersome than established research methods. *"We thought that our first customer would be Nisse's café, the small local café that didn't have any way to do market research"* (Fahlander).

The sales process to the local businesses was initiated long before the app was released and in these meetings Fahlander emphasized three benefits. Firstly, compared to traditional research methods, Freebee's system was more cost efficient. Once the system was set up the variable costs were marginal. Secondly, Freebee's pre-arranged pool of respondents made it possible to instantly reach out to a relevant crowd, making the market research faster than competing methods. Thirdly, by doing the research in the mobile phone, an increased accuracy could be achieved since the respondents completed the survey close to the point of consumption. Web-based surveys are not as suitable in this regard and face-to-face surveys are very expensive.



#### 4.3.1.2 Changing customers

When selling to the local businesses Freebee had difficulties to close a deal. Even though the firms were enthusiastic about the service they were not used to handle information about key figures such as buying intention and net promoter score, therefore the value in the information was not obvious to them. *"Nisse could not benefit from our insights, we were too academic"* (Fablander). Moreover, the small businesses did not have any money reserved in their budget for market research, so even though Freebee was cheaper than the alternatives, it was still hard for them to find the money.

When Freebee realized that the local businesses couldn't benefit fully from Freebee's offering they tried to call larger companies as an experiment. When talking to the beverage producer Vitamin Well, the discussion was entirely different, *"The great revelation came when we went to Vitamin Well, they said –that's great, because we wonder how our new product is going to relate to other products in the category. They knew what they bought from us"* (Fablander). Freebee's academic background at SSE became an asset and the collaboration with SSE's Center for Consumer Marketing (CCM) was used as a brand to gain credibility within research in the eyes of the companies. Thus, the offering did not change, it was still a cheap-, fast- and relevant market research tool, but the target market of the service was updated. The larger companies recognized the advantages of Freebee's offering and furthermore a part of their budget was already earmarked for market research. With the positive feedback from Procter and Gamble and Arla in the start-up phase in mind and strengthened by Vitamin Well's reaction they started to call bigger and bigger companies. *"We tried to call Vitamin Well, and then we thought that we might as well call Fazer, and then Coca-Cola and then Arla - which is biggest in Sweden"* (Fablander).

In retrospect Fahlander cannot comprehend the fixation at local firms Freebee initially had since they so early in the process got positive feedback from two of the largest companies in Sweden; *"It's comic that the two persons who first told us to do this were brand managers at P&G and Arla. One of who is customer today and the other is our advisor... Still we continued to call local businesses for three months before we reconsidered"*

#### 4.3.1.3 Moving to the next phase

Freebee managed to find a unique position when entering the market, however even though they had received positive response from the industry they were still inexperienced compared to the large established FMCG companies. *"It was a pretty weird thing for two bachelor students to go to someone at Procter and Gamble who had worked with research for 15 years, and tell them that we knew what we were doing. Even if we would have said it, in reality we didn't have a clue"* (Fablander). The next challenge was to deliver the value they had promised and establish the service.



### 4.3.2 Mid phase: Launching the service

#### 4.3.2.1 The first campaign

In parallel to the process of selling in the offer to the brands Freebee set up a pre-registration site where consumers could enter their email addresses to get to know when the app was released. The site was very simple with a short text “Freebee is an app that will make you happy. Sign up here to keep posted”. Through friends and acquaintances the registration-site was spread and at the moment of the launch Freebee had gathered a database of several hundreds of e-mail addresses. When the app was launched, 10th of April 2012, it instantly got a large number of downloads, it even got listed among Apple App Store’s 25 most popular apps. Fahlander was surprised but still relieved by the popularity, *“It could have been a turning point when we launched the app if getting users had been a problem ... but gaining users was not a problem at all so it did not affect our operations”*

The first campaign was an on-the-go porridge from the grocery producer Axa. The campaign was spread very quickly and the products were distributed in only a few hours. The campaign introduced Freebee to an unexpected situation, it was spread much faster than expected and the demand exceeded the supply of products by far. The successful launch had led to a large set of subscribers who were very willing to do the survey in exchange for the a freebie, but from a market research perspective there was no rational in increasing the number of respondents.

#### 4.3.2.2 Deliver the first analysis

Fahlander describes that he was very nervous before the customer presentation when Freebee was to deliver their first analysis. Freebee received very frank feedback from the customer on what could be improved. As Fahlander put it, *“I almost felt like leaving during the meeting, but somewhere halfway through I reminded myself that they really sat there and gave us valuable feedback. If they had not believed in this they would not have given us any feedback at all”*.

Freebee realised that acting on the feedback was very important in order to develop the offering towards the brands, and throughout the initial phase the feedback from customers grew to become very important; *“It is very difficult with companies where you cannot easily get input (from the customer). I would probably not dare to start such a company”* (Fahlander). One specific remark that was brought up was the importance of relative measures in the analysis, i.e. how the tested product performed compared to the category on average. Fahlander thinks that Freebee probably wouldn’t have understood the importance of relative data if they had not listened carefully to the customer in the customer presentations. As Fahlander puts

it, *“You probably understand if something is good. But it is very hard to tell the difference between what is necessary and what is just nice-to-have. The only one who could do that well is the customer”*.

#### 4.3.2.3 Developing the value proposition to the customer

Freebee went to market with a bare minimum product and after the first campaigns the workflow was developed further. In the beginning the customers could choose one of several surveys, which were manually programmed into the app, this was changed in order to achieve relative measures in the analysis and the research was condensed into one survey which made it possible to compare answers to a category average. An automated system was also developed which did not require the surveys to be manually programmed. *“(Initially) There was no interface where the customers could create the campaigns. The customers filled in a paper by hand and then Fredrik programmed it in our system by hand before it went out to the consumers” (Fahlander)*.

Freebee also came to change the pricing model. Initially the company had a fixed campaign fee together with a cost per sampled product. Fahlander describes that the first pricing model did not feel relevant and created a friction in the sales pitch: *“The customers only care if the analysis is based on representative data [...] for customers it is not as important if there are twice as many answers [...] therefore the number of respondents was not a relevant base for the pricing”*.

The feedback from the customers was considered so important that Freebee developed a process for prioritizing and internalising it. When the sales department, or another function get feedback from customers they enter that in a spreadsheet that is shared among all in the organisation. Specific requests in functionality get rated based on the frequency of that request and the priority of developing new functions is based on this rating. When new functions have been developed, or when different strategic options are considered these are checked with an advisory board consisting of brand managers with long market experience. The advisory board is then giving feedback to the suggested solutions and when a solution has been approved by the advisory board it is brought to market.

The feedback from consumers however is not considered to be of any large strategic value for Freebee since the firm has a surplus of users compared to what the model requires. This has resulted in a rather reactive approach to the consumer contact, *“we maintain the relationship, we answer all emails and questions asked at Facebook, but we only intervene with the users on their initiative” (Fahlander)*. Fahlander says that there has even been a discussion about charging for the app, however that would not fit with Freebee’s position as a researcher since it would affect the user base and thereby the statistical representativeness of the samples in the research.

#### 4.3.2.4 Moving to the next phase

When delivering the first market research analyses Freebee realized that even though the retention rate of the customers were good the purchase frequency for market research was very low. When asking the customers when they would be interested in launching another campaign they answered that they did not need another campaign before next year when releasing their next product. This came as a great surprise to Freebee *“We had had these discussions, but then it really struck us as a fact”* (Fahlander). The issue with the low frequency was also emphasized in the feedback from consumers who demanded more campaigns, especially given the small volumes sampled in each campaign in relation to the large consumer base.

#### **4.3.3 Current phase: Widening the offering**

When working to establish Freebee as an actor in the market research field, the company came to develop a better understanding of the field of operation. The demand within research is cyclical and the expected frequency of every given customer is limited since research is only done at specific moments during a product life cycle. Market research is usually performed during the launch of a new product in order to map how the product is received in store, when considering a product line extension or when considering closing down a product line. Freebee’s offering of in-store surveys, that pinpoint the factors of success or failure of products, is thus only relevant when changing the product range.

Fahlander further describes that Freebee has come to understand that the initial offering from the customers’ perspective was actually two-folded. On the one hand customers appreciated the market research performed, but on the other hand many used Freebee primarily as a tool to drive trial. The market-research offering was suitable for the marketing department whilst the sampling rather suited the sales department in its objective to increase sales on a short-term.

The dichotomy between the benefits offered, market research versus trial, as well as the insight about the cyclical purchase behaviour of the customers, led Freebee to reconsider their offering. In order to create an additional revenue stream while making both consumers and customers satisfied, they decided to open up for sales promotion through discount coupons to be distributed through their app. The introduction of coupons will fit the customers that want to use Freebee’s platform to drive trial, simultaneously, it provides consumers with more campaigns since these campaigns have the explicit aim to reach out to larger crowds. The discount promotions are also much cheaper for the customers per coupon distributed, since it only discounts a share in the customers’ revenue and not the full retail-price

in store. *“Initially [...] we did not understand our own system. We could not explicitly identify what we were doing, but everything was there from the beginning” (Fahlander).*

Through offering a distribution of coupons Freebee could keep the relationship both with customers and consumers and even develop it further, without leaving the old offering behind. The app and the distribution solution even included the functionality needed to introduce the new offering, process-wise the only difference was to exclude the survey when a coupon campaign was launched. Fahlander explains that there are synergies between the market research offering and the coupon offering. The insights gained in the market research can lead to a request from the customer to ignite trial in a particular segment, thus making customers purchase the coupon solution as an add-on to the initial market research offering. Reversely, a coupon campaign can waken a need to understand the customers further, thus creating additional sales of market research.

#### **4.3.4 Initial summarizing reflections**

Freebee was founded from the idea of market research in the mobile phone. Local businesses were initially targeted and Freebee's value proposition was that their research solution was cheap, relevant and fast, compared to established market research solutions. However, Freebee had difficulties in closing a deal with local businesses since they could not take use of the insights gained in an appropriate way. This led Freebee to target larger businesses within the FMCG-industry instead since these firms showed interest in the value proposed.

The service was well received by the customers and in the sales meetings they gave valuable feedback that helped develop the service further. Among other things Freebee realised the importance of relative data, which resulted in a standardisation of the survey so that the customers could compare their performance to the category on average.

The app generated a large number of downloads which led to a position where the demand from consumers significantly exceeded the amount of products needed to perform the market research conducted. The insight that the market research could only supply a little of the freebies demanded by consumers together with recurrent requests from customers to use Freebee's platform solely for distributing samples of products led Freebee to open up their platform for distribution of discount coupons. A new offering was formulated in addition to the old one, now customers will be able to distribute coupons through the Freebee app. Using digital coupons enables targeting of specific audiences as well as tracking of campaigns' performances. The offering to distribute coupons has

synergies with Freebee's first offering and will allow Freebee to simultaneously profit from-, and satisfy the base of consumers.

## 4.4 Summarising table

Below the three phases in each case are presented in a summarising table.

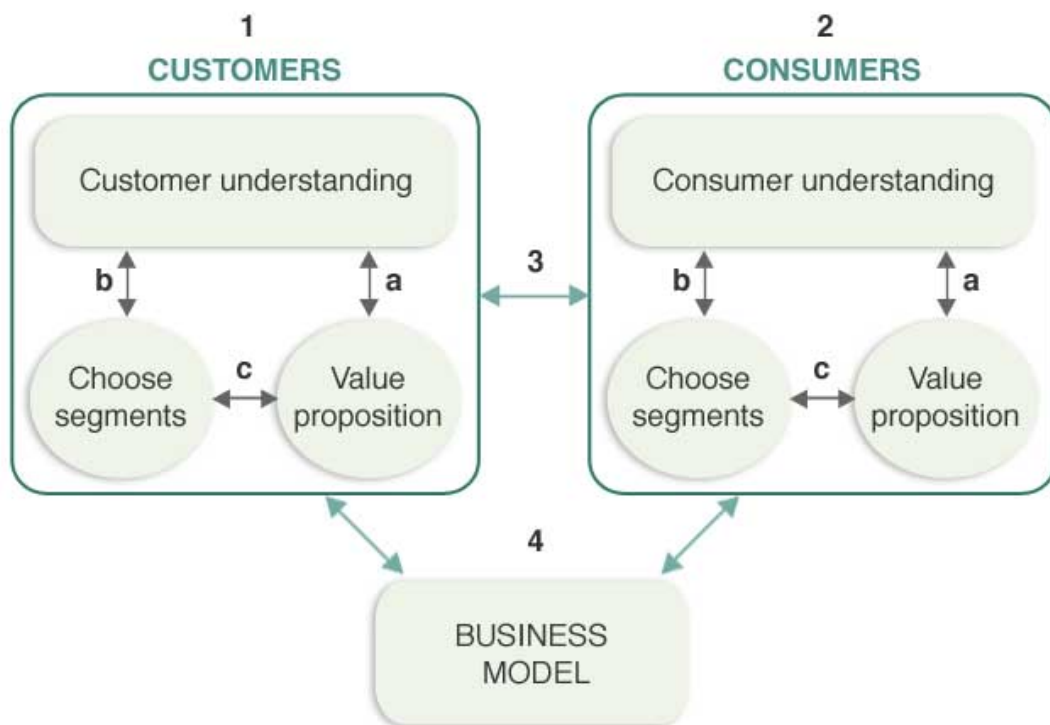
	Early phase	Mid phase	Current phase
Guidepal	<b>Proof of concept and experimenting with a profit model</b> Technical value proposition to consumers and deals in the app.	<b>Content is king</b> Improved content led to a better consumer value proposition and the launch of the hotel solution.	<b>Engagement and volume in focus</b> Experiments with advertising and models based on engagement.
Glossybox	<b>Launching the first box</b> Finding brands that could contribute to an attractive consumer value proposition.	<b>Becoming an established actor</b> Gaining reputation and reaching a critical mass of consumers.	<b>A strategic marketing channel</b> Developing exposure to brands and new services to consumers.
Freebee	<b>Finding a customer</b> App based market research for local businesses.	<b>Launching the service</b> Sampling FMCG products and freebies to consumers.	<b>Extending the offering</b> Adding discount coupons extends the value proposition for both consumers and customers.

## 5. Analysis

In this section the empirical findings and the theoretical framework are brought together in order to shed light upon the processes of business model development. Following the research model, the customer sides of the platform is first brought up, using market orientation as well as business model literature to investigate thoroughly the relationships between the process of choosing customers, understanding these and develop a relevant value proposition. As we shall see the three elements are intertwined and affect one another in both directions. In a second step an equivalent analysis is done of the consumer side of the model. The two sections are ended with a summary where the iterative process of choosing, understanding and creating value for customers and consumers is highlighted.

In a third step we apply literature on two-sided markets and show how the two user groups interact through cross-sided network effects. In the fourth step we then look at what implications the tensions between the user groups have on the development of the business models.

As mentioned, we call the B2B side of the business model for customers, regardless if they are the paying customers or not. Consumers are the individuals that use the products or services. In the analysis these words will be used consistently throughout the cases. When we refer to both groups we call them users or user groups.



## 5.1 The process of choosing, understanding and creating value

### 5.1.1 Choosing, understanding and creating value to customers

We start off with the customer side. In order to gain an initial understanding for how the studied firms learned about their customers we first look into how they generate and disseminate market intelligence. Then we investigate the relationships between (a) understanding the customers and developing a value proposition, (b) choosing and understanding the customers and (c) developing a value proposition and choosing the customers.

#### 5.1.1.1 Understanding the customers

Generating market intelligence is at the core of market orientation as it entails being receptive to customers pronounced and latent needs (Narver & Slater, 1990; Kohli & Jaworski, 1990). In order to gain an understanding of the customers that could serve as a basis for the firms' actions, various methods were used in the studied organisations. The interaction with the customers in the sales process was one valuable source of feedback. For example the hotels asked Guidepal in the sales meetings to add more customized features to the app, and Freebee's customers asked to use the system as a way of driving trial and skip the market research. A more subtle feedback related to the customers latent needs was when Guidepal understood from the difficulty of selling in deals, that the venues did not value the attraction of more guests. Similarly, Glossybox got indications in the sales process that their customers were not yet mature for using Glossybox as a strategic marketing channel since the brands had a hard time understanding the unknown concept. Even though the sales process was mentioned most frequently as a way to learn about the customers, other methods such as customer support and web tracking were also mentioned. Freebee for example used a spreadsheet where sales representatives filled in customers' requests and consulted two brand managers as senior advisors regarding input in the development of new offerings. This form of lead user relationship is something that Slater and Narver (1998) suggest as a way to acquire market knowledge.

As the studied organisations were quite small and all employees were involved in most functions, the generation of customer knowledge was not concentrated to the marketing department, a sign of the firms' market orientation (Kohli & Jaworski, 1990). For example in Guidepal's case the tech department was internalizing the tech related feedback from the app stores, the marketing department sent out a survey to get an understanding of the level of consumer satisfaction and the sales organisation received customers' direct requests in the sales meetings. The input was then shared among the employees.



#### 5.1.1.2 The relationship between developing a value proposition and understanding the customers

Below we will look into how an improved customer understanding led to a development of the value proposition in the studied firms. We also investigate the reverse direction, and see that the development of a value proposition can lead to a better understanding of the customers.

##### *The understanding is affecting the value proposition*

The empirical findings show several examples of situations when the firms' understanding of the customers i.e. the generation and dissemination of market intelligence, was affecting the development of the value proposition. This support Doganova and Eyquem-Renault's (2009) suggestion that the business model change as different actors engage and disengage in the model as well as Chesbrough and Rosenbloom's (2002) claim that the business model is adapted over time based on new information and possibilities. In Freebee's case, the insight that customers bought market research cyclically together with the customers' request of using Freebee's system solely as a way of driving trial, made them extend the value proposition by adding the coupon offering. Glossybox updated the value proposition when they understood that the customers' latent needs had developed into pronounced needs. They suspected that the brands had a latent need to reach out to the engaged set of consumers in a more strategic way, but realized that initially it was not possible to sell in this value proposition to the brands. Glossybox also understood when their customers' attitudes changed, and based on this understanding they are now in the process of updating the value proposition by adding more services to the offering. By responding to the customers needs proactively Glossybox could be ahead of the market development (Narver et. al., 2004).

The cases also revealed a situation that illuminates Narver et. al. (2004) concern that companies that only reactively respond to customer's expressed needs risk to lag behind the market development. This is the case if the customers' requests are changing the general direction of the company in an undesirable way. One example was when Guidepal were facing increasingly demanding requests from the hotels. In an attempt to satisfy the customers, the value proposition was tweaked to be more tech focused. However, Guidepal realized that in order to please the hotels they had to become IT consultants and abandon Guidepal's core idea; to create Guidepal branded city guides. By changing direction, and drop the hotel solution, Guidepal avoided to be led by the customers' request and instead learned that the part of their offering with the most future potential was the content and the brand.



### *The value proposition is affecting the understanding*

It was noticed that the relationship between the value proposition and the understanding of the customers also went in the other direction; the formulated value proposition led to a deeper customer understanding. This finding is related to the literature that emphasizes the element of experimentation and trial and error in the business model development process (McGrath & Gunter, 2010; Bhidé 1994; Sosna & Velamuri, 2010). McGrath & Gunter for example says that it is better to experiment with the business model than to plan analytically. As mentioned Guidepal has frequently experimented with for example their value proposition and updated it depending on what they learn from the markets reactions. Another example is when Freebee got requests from their customers to use the system solely as a way of driving trial. This function was not something that Freebee consciously developed and deliberately incorporated in their initial value proposition; from their perspective they went to market with a system for market research. Only later they realized that it had an inherent potential as a marketing tool. Freebee's value proposition, although unconscious, thus led to an understanding of the customers' needs. Supporting McGrath and Gunter (2010), it could thus be relevant to try out a value proposition since it is impossible to know what will work in advance anyway.

#### 5.1.1.3 The relationship between choosing customers and understanding them

A deeper customer understanding is not only related to the formulation of a value proposition. Equally important is the choice of what customers to target since it delimits what there is to understand and who the value proposition is going to be developed for. The choice of customers 'frames' the situation and makes it 'calculable' (Doganova & Eyquem-Renault, 2009). The cases reveal that also this relationship can be two-directed. A firm's understanding of its potential and current customers can lead to an addition or removal of a customer segment. Reversely, the choice of a customer limits the learning process in relation to that customer.

### *The understanding is affecting the choice of customers*

In the cases there were several examples of processes when a deeper understanding of the customers affected the process of choosing customers. When Guidepal realized that the hotels demanded a more customized app solution they decided to drop this customer and focus on the consumer side of the model instead. Similarly, Glossybox learned that large firms had a hard time to provide products on a short notice while smaller firms had a greater ability to act. The interaction with the market led to a generation of market intelligence and the tactical choice to focus on smaller brands, e.g. Moroccan Oil.

### *The choice of customers is affecting the understanding*

Freebee is a good example of when the relationship between choosing and understanding the customers has worked in both directions. Freebee initially chose to sell the concept to small local firms since they assumed that their value proposition of fast, cheap and relevant market research suited these customers. In the sales process Freebee understood that their offering was too academic for these companies and that larger firms valued the derived insights more. When understanding that the offering was better suited for large than for small local firms Freebee chose to neglect the smaller firms and focus on the larger ones. Thus Freebee's initial customer choice led to a deeper understanding about the customers and this understanding in turn led to a redefinition of the target customer.

#### 5.1.1.5 The relationship between the value proposition and the process of choosing the customers

Already in the pre-study we got indications that there are various ways in which to launch a business idea. Raoul Stubbe at the business incubator Sting highlighted the importance of finding the value proposition and then a customer segment that is attracted to it. Mikael Samuelsson at the incubator SSE Business Lab on the other hand emphasized the importance of having a flexible value proposition in order to keep it adaptable to the chosen customer. The suggestion that business model development can start either in the choice of a value proposition or in the choice of a customer was also noticed in the studied firms. Guidepal often started with identifying a potential customer and then developed a relevant value proposition based on their preferences. For example they identified hotels as one potential customer segment and tried to develop a relevant value proposition based on their needs.

Freebee on the other hand started off by developing a value proposition consisting of fast, relevant and cheap market research. The choice of a value proposition resulted in an initial definition of a target market, local firms, since it was assumed that they were attracted by this value. Later Freebee redefined the target market since the larger firms valued the value proposition more than the smaller ones. Similarly, the offering that Glossybox will develop when becoming a more strategic market channel will probably lead to a shift in the target market. A more strategic offering can be assumed to suit larger firms better since these have more money set aside and employees that work with strategic marketing specifically.

#### **5.1.2 Choosing, understanding and creating value to consumers**

In this section we look closer on the consumer side of the platform by investigating how firms gain an understanding of their current and potential consumers, choose what consumers to target and develop a

relevant value proposition to them. Just as in the previous part we start off by investigating how the studied firms gained a deeper consumer understanding.

#### 5.1.2.1 Understanding the consumers

The generation and dissemination of market intelligence in relation to the consumers took different forms in the cases. Both Glossybox and Guidepal had workshops to create an image of the target audiences. This was a way to make the understanding of the abstract consumer base more tangible, which enabled people to share a common image of who the product was developed for. In other words the image of the consumers developed in the workshops made it possible to disseminate some sort of consumer understanding in the organisation, even though it essentially built on a fictional image. Kohli and Jaworski (1990) suggest that one way to disseminate information can be for the marketing department to “sell in” certain ideas to the rest of the organisation, thus these workshops can be viewed as a corresponding way to reach consensus concerning what consumers to target.

The cases also showed that there were certain channels that the firms used in order to generate market intelligence directly from the consumers. On Guidepal’s and Freebee’s part ratings and reviews in app stores was an important mean to understand consumers’ opinions about the apps and initially this was even the dominant channel for interacting with consumers for both companies. However, the aim to increase consumer engagement in the app and the insight that this required deep consumer understanding led Guidepal to a new focus on generating market intelligence. Guidepal has for example developed an internal feedback function in the app to learn more about their consumers. Glossybox put a large emphasize on the opinions of consumers and social media like Facebook, Instagram and Twitter became central, both as a marketing tool and a forum for interaction. The consumer base, which has developed into a community, expressed their reactions, opinions and suggestions through posting comments and “liking” posts on Glossybox’ Facebook page. Another important channel for consumer feedback at Glossybox was the phone based customer service.

Glossybox applied an “organization-wide generation of market intelligence” in order to attain a nuanced picture of consumers opinions, which according to Kohli and Jaworski (1990) is a criteria for being market oriented. Freebee, and initially also Guidepal on the other hand, took a more narrow approach to generating intelligence about their consumers, which indicates that in-depth understanding of the consumers were not prioritized in the firms. However, in Guidepal’s aim to increase consumer engagement the firm acknowledged the importance of further generating intelligence about the consumers, which has resulted in, among other things, an internal feedback-function in the app.

Data analysis was also a mean of generating market intelligence for all the studied companies. As compared to channels of direct feedback from consumers, data analysis rather generated market intelligence through analyses of trends and patterns in the consumer base. The studied cases used analysis tools such as Google Analytics to track consumer behaviour, e.g. Glossybox used this to understand the performance of different initiatives. In addition to the direct feedback function in the app, Guidepal has added wide-ranged tracking functionality in order to gain a deeper understanding about their users. Computerized statistical tools however are not the only mean in which to gain an understanding of consumer behaviours. An obvious sign that the Metro Mode flashbox was a success was the fact that the thousand boxes were sold out in only 40 minutes. Data tracking becomes a opinion-neutral mean to generate intelligence about how consumers actually behave and what generates actions from the consumers. It can therefore work as one mean to generate market intelligence beyond consumers pronounced needs, which according to Slater and Narver (1998) is one criteria for truly market oriented firms.

#### 5.1.2.2 The relationship between developing a value proposition and understanding the consumers

Knowing how the firms gained a deeper consumer understanding we now move on and look into whether the knowledge led to a development of the value proposition and in reverse if the development of a value proposition affected the understanding.

#### *The understanding is affecting the value proposition*

The generation and dissemination of market intelligence was clearly affecting the value proposition to the consumers in the cases studied. Thus, in line with the results of Doganova & Eyquem Renault (2009), also the consumer side is affecting the business model through interacting with the firm. The idealized image of the target audiences that Glossybox' and Guidepal created in the workshops served as a basis for the development of the firms' value propositions. The brands participating in Glossybox were compiled in order to attract the character Laura and the recommendations in the Guidepal guides were picked to please the conscious weekend traveller.

Direct consumer interaction can also lead to a change in the value proposition. Reviews in app stores led Guidepal to understand the importance of quality content, which resulted in a content improvement process where the value proposition to the consumers developed. Glossybox used the responses in social media to evaluate the popularity of different activities, which generated a learning about the concept and helped Glossybox to refine it. One example of this was when Glossybox had an ecological

theme on the box which met negative reactions, a response that Senkpiel directly internalized to her understanding of what works and not in the concept.

Data analysis was employed by the studied companies in order to understand the consumer bases' behaviours. At Guidepal, data analysis was a crucial tool in order to optimize the app and develop the value proposition in a way that made the user engagement increase. For example, data analysis will reveal if the social travel planning tool has an ability to engage consumers.

#### *The value proposition is affecting the understanding*

As shown in Glossybox' case a firm can also come to discover the value in an offering already delivered. From the initial formulation of the value proposition as "five beauty-products in a gift-wrapped box" Glossybox came to discover that Glossybox had developed into a community that had become a part of the value they offer to their subscribers. Through this new understanding Glossybox understood the importance of working with social media such as Facebook and Instagram. Moreover, it lead to the insight pointed out by Broberg, Glossybox' head of marketing, that consumers are the firm's most important sales channel since the subscribers recruit each other.

#### 5.1.2.3 The relationship between choosing consumers and understanding them

##### *The understanding is affecting the choice of consumers*

None of the studied companies has completely changed their target audience on the consumer side. For Glossybox and Guidepal the target audience is represented by an idealized character. This complicates the process of understanding the consumers since there are two parallel learning processes, one involving the actual consumers and one involving the target character. What the companies learned about the actual consumers was rarely affecting the image of the target character. For example Glossybox learned that their consumer base increasingly included people living outside the city. This learning did not translate directly into an updated target character, Laura was still a city-girl, since a box that suited her had proved to be a successful concept in order to grow the user base.

Freebee has no interest in choosing a specific consumer segment since they are conducting market research and thus need a consumer base that can provide a statistically representative sample for the surveys.

### *The choice of consumers is affecting the understanding*

The choice of consumers leads to the generation of market intelligence, which seems to be a common theme in proof of concept situations, i.e. when experimenting without enough market intelligence to make a well-founded decision. This was the case in all the studied companies when launching to consumers where none of the firms had done in-depth studies of their target market or communication campaigns in order to reach a certain target market. After the launch however, the companies could learn from the development of their consumer bases. The firms thus behaved in accordance to Bhidé (1994) who says that firms business models develop in a process including guessing, analysis and actions. One example of this was Glossybox that before the launch developed the character Laura, which then was manifested as a consumer base that they could generate market intelligence about.

#### 5.1.2.4 The relationship between the value proposition and the process of choosing the consumers

As Osterwalder et al. (2010) states, the business model should be designed around an understanding of the consumer's needs. This is in line with the market orientation concept, which implies that firms should respond to the understanding of their consumers' needs (Kohli and Jaworski, 1990). These theories suggest that the value proposition and the choice of consumers are intimately related. Just as the theory suggests the empirical findings indicate that the value proposition and the choice of consumers affected each other to a large extent. However, instead of going in a clear direction of either starting with the value proposition or in the choice of consumers, they seem to develop in parallel. In other words, there was a simultaneous interplay between the development of the value proposition and the process of choosing consumers. Already when the entrepreneurs expressed the idea of what they wanted to contribute with on the market, e.g. free sampling for consumers, a free city guide or subscriptions of beauty products it entails a passive choice of a consumer group since the value proposition developed will please a certain type of consumers. For example, Guidepal went to market with their city guides in app format and this implied a certain type of consumers that downloaded the app. In the beginning, when the content was not good, the tech-interested were the most prominent consumers whereas they have increasingly managed to please the savvy traveller when improving the content. In reverse, the choice of target consumers, such as the target characters in Glossybox and Guidepal's cases, affected the development of the value proposition by affecting the choice of brands in the box or the recommendations in the city guide.

### 5.1.3 Analysing the process

In the two previous sections we broke down the choosing, understanding and value creation elements and investigated the relationships between each of them thoroughly. The consumer and customer sides were investigated separately but we can see a common pattern on both sides. The analysis reveals that there is a relationship between all three elements (understanding, choosing and developing a value proposition) and that the relationship goes in both directions. We saw that these relations affect each other in a dynamic way where the different relationships trigger each other and evolve over time in a constant process. This is in line with Demil and Lecoq (2010) who claim that there is a constant interaction between and within the business model components. Since all three elements are interrelated the process can go in any direction and the direction can change during the process. Furthermore, it was revealed that the process can start in any of the elements. The case of Freebee illuminates the iterative process and the various directions the development can take. The development of a value proposition (the initial market research system) led to an understanding of the customers (that they valued the trial-driving component), which in turn led to an updated value proposition (the coupon service was added). The process will probably continue so that the new value proposition and new insights about the customers lead to a refinement of Freebee's coupon tool.

One of the engines in the iterative process was revealed to be the learning about the consumers and the customers since a deeper understanding ignited changes in the other elements. Thus, direct and indirect input from the consumers and customers affected the process of choosing what segments to target as well as the development of the value proposition. These business model dimensions are two especially important ones since the business model's role to create value to customers and other stakeholders is growing in importance according to scholars (Zott et al., 2010).

The cases reveal that firms providing two-sided platforms can be unevenly market oriented between the sides of the platform. While Glossybox showed a large interest to understand both their customers and consumers, Freebee rather focused on their customers' interests and had a reactive approach towards generating intelligence about their consumers. One factor affecting this could be the immediacy of the long-term and personal relationship between the buyer and the seller. Another factor that could influence firms different interests in different user groups could be which side they subsidize. The cases reveal tendencies that the subsidized side would have a less favourable position in the firm's generation of market intelligence. We thus ask ourselves if Freebee is listening more to the customer side due to the



fact they are paying and if Glossybox listen to both sides due to their potential to generate revenues from both sides.

## 5.2 Relationship between customers and consumers

The firms studied in this thesis can be seen as platforms since they enable an interaction between two so called user groups (Eisenmann et. al. 2006). So far we have analysed the processes of finding, understanding and satisfying the customers and consumers as two separate processes. However, since the firms are platforms, the both groups are interdependent and benefit from the fact that they interact on the same platform (Rochet and Tirole, 2006). The development of one side of the platform is thus affecting, and affected by, the other side and in order to understand the development process it is therefore essential to look at the effects of the interdependencies between the two groups, the so called cross-side network effects.

### 5.2.1 Cross-side network effects based on volume

According to the literature, cross side network effects arise since the platform's value to any group is dependent on the number of users on the other side (Eisenmann et. al, 2006). The value could either increase or decrease when the number rises (ibid.) and hence the size of one given side is an important part of the other side's value proposition. Freebee is one example where this cross side network effect is evident. The platform's value in the eyes of the consumers is dependent on the number of campaigns they can exploit, thus the amount of customers that Freebee can attract. Vice versa the customers require a sufficiently large consumer base in order to get research based on a statistically representative sample. Guidepal acknowledged the importance a large consumer group, i.e. reach, when experimenting with an advertise-based model. The limited reach was one of the reasons why the advertise based model never got established since it resulted in a weak value proposition to the advertisers.

### 5.2.2 Cross-side network effects based on qualities

The theories of cross-sided network effects are considering the variation of a platform's value to any given user group when the volume of users on the other side varies (Eisenmann et al, 2006). However, when suggesting that especially attractive so called "marquee users" in one user group can help attract participants to the other user group, Eisenmann et. al. (2006) indicate that also the type of user matters. However, he is not elaborating on this thought. Our empirical findings add to this perspective since the cases show that it is not exclusively the volume that is creating cross sided network effects. We argue that also the *qualities* of a user group are affecting the value of the platform to the other group. In the cases this effect manifests itself in two ways. First, the mere choice of customer or consumer segments



is affecting the value proposition of the other side by defining what groups are going to interact on the platform. Second, the characteristics of the customers or the consumers within the chosen segment are affecting the platform's value for the other side. In the two following sections we will go more in detail in these matters.

#### 5.2.2.1 Network effects based on the choice of customers

It was revealed that the introduction of a new customer or consumer segment was affecting the value proposition of the other user group by becoming a part of, or adding value to, the offering. Adding a new customer segment can thus initiate a new complementary good. The introduction of deals in the Guidepal app, led to an altered value proposition for the consumers since they got perks in addition to the city guide. Also the introduction of native advertising in Guidepal, coupons in Freebee and flashboxes in Glossybox, created new customer offerings that were internalized in the offering to the consumers. Guidepal's consumers got the EF Phrasebook, Freebee's consumers got coupons and Glossybox' consumers got a new exciting box. In other words an addition of a customer segment led to a change in the value proposition for the consumers.

Negative cross-side network effects can also arise when a new segment is added. For instance, the fact that deals were added to the Guidepal guide made users question Guidepal's objectivity and this led to a decreased value of the platform in the eyes of the consumers. The choice of customer and consumer segments is hence affecting how valuable the platform is to the other user group.

#### 5.2.2.2 Network effects based on the characteristics of the users

The introduction of a new segment is not the only qualitative element that contributes to the value of the other side. It was shown that the characteristics of the customers and consumers also were important determinants of the other side's satisfaction. The characteristics of the user groups can take various expressions. One characteristic, that was especially valuable to Glossybox' customers, was the consumers' engagement in the service. The fact that the consumers discussed the content in the box, shared it with their friends in social media and evaluated and cared about the products, became an essential part of Glossybox value proposition to the brands. Now that Glossybox is becoming a more strategic marketing channel, the engagement is even more important since it opens up for additional services around the concept, thus creating further value for the customers.

One example where a characteristic of a customer segment proved to be important for the value to consumers was when Guidepal added deals to the app. The bad conversion rates indicated that the venues that provided deals (the customers) were not good enough in the eyes of the consumers. The

low conversion rate in their turn negatively affected the value proposition of the customers since, even if they provided deals, not many consumers used it.

### **5.2.3 Elicit cross-sided network effects**

#### ***5.2.3.1 Increasing volume by subsidizing***

As the theory suggests, the studied firms dealt with the situation of simultaneously attracting both user groups by subsidizing one of the groups (Parker & Van Alstyne, 2005). The cases provided examples of both subsidized consumer groups and subsidized customer groups. Glossybox is currently subsidizing the customers, letting the brand participate for free in the boxes while the consumers pay a subscription fee. They judged that a prerequisite for attracting consumers was to attract the brands and that the brands were more reluctant to pay for the service than consumers. Hence, in line with theory Glossybox subsidized the most price sensitive user group (Eisenmann et al, 2006). The attraction of consumers has been relatively smooth and the price level is planned to stay at the current level for a foreseeable future. However, as the concept is established the brands are becoming less price sensitive and Glossybox judge that there is an opportunity to start charging the brands, making both sides revenue sources. This shed light on the importance of constantly monitoring which side to subsidize and challenge to stop subsidizing.

Guidepal and Freebee are examples of platforms that subsidized the consumers although their rationales for doing so were different. Guidepal did it for two reasons, first it was a way to trigger cross side network effects since a large user base made the platform more attractive for potential customers. Second, a large user base will open up for turning consumers into a significant revenue source since the revenue from e.g. in-app purchases is related to the number of consumers. Freebee was charging the customer side and was providing the app for free to the consumers even though they sometimes struggled with providing consumers with enough campaigns. However, their product was not allowing them to charge the consumers since the sample had to be statistically representative. In line with the theory, all three firms subsidized the side they believed would generate the most positive cross side network effects (Parker & Van Alstyne, 2005).

#### ***5.2.3.2 Improving qualities through the process of understanding, choosing and creating value proposition***

In order to create cross side network effects that arise from *qualities* firms have to attract the right users, or enhance the qualities of the existing users. We suggest that by improving certain user qualities that the other side appreciate, platform providers can increase the value of their platform. Firms can do this through developing a value proposition that triggers the desired qualities and this process is facilitated by

an accumulated user understanding. For example, Guidepal identified engagement as a consumer characteristic that could increase the platform's value for the customer base. This led Guidepal to put a great emphasis on maximizing consumer engagement in the app by optimizing the product in an attempt to shape consumer behaviour. The emphasis on consumer engagement is manifested in an improved value proposition to the consumers, including features such as a social travel planning tool and a viral inspirational newsfeed. The development of the value proposition is based on the constant learning process where Guidepal's consumer understanding is improved through data analysis and direct feedback. By constantly evaluating what makes the consumers engaged as well as tweak the value proposition accordingly Guidepal could further increase the quality of the consumer base in the eyes of the customers.

Firms need to identify and choose which qualities to develop in both of their user-groups. As mentioned before, the established theory on multi-sided markets says that firms should subsidize the side that result in positive cross side network effects (Parker & Van Alstyne, 2005). Creating an analogy to this theory, we suggest that firms should develop the qualities that result in the most positive quality cross-side network effects.

### 5.2.3.3 Summing up

We suggest that cross side network effects are created when the volume *and qualities* of the users on one side becomes a part of the value proposition of the other side. These network effects can be positive if the platform provider manages to get both sides on board while ensuring that both sides have the necessary qualities. Based on these findings we developed a formula that could illustrate the relationship between the platform's value of the two sides.

The value of interacting on a platform for a user on side one ( $V_1$ ) can be described in the formula below:

$$V_1 = n_2 * Q_2 (\text{user choice, user characteristics})$$

$n_2$  is the number of users on side two, and  $Q_2$  is a coefficient of all qualitative factors of this user base. As explained earlier the qualities hinge upon the user choice and the user characteristics. It is important to notice however that these user characteristics defining the qualities can be different in different complementary platform relationships. It could e.g. be derived from engagement in the platform, usage frequency of the platform, spending on the platform or ability to attract same-side or opposite-side users etc.

According to the formula value can be increased for one side, either through increasing the number of users on the other side, or through improving the qualities of the users. The multiplication factor has several implications. For example the value of an enlarged user base is correspondent to the qualities of the added users, and the value of improving the qualities of the user base is correspondent to the size of the user base. In other words an enlarged user base is not worth anything if it does not have the required qualities and improved qualities are not as effective if the user base is not large enough.

Cross sided network effects based on qualities can be created if the platform provider can identify and develop the qualities that are valuable to the other side of the platform. The qualities can be improved through understanding customers and consumers, choosing segments to target and formulate the value proposition.

### **5.3 The process of business model development**

In the previous sections we have seen that the customer and consumer understanding interacts with the process of choosing segments to target and the development of a value proposition. Thus, the consumer and customer understanding is affecting two important dimensions in the business model. Furthermore, we have seen that the two sides of the platform are interrelated and becomes internalized in each others value proposition. In the following section we investigate how the process of understanding, choosing and developing a value proposition is affecting the entire business model development and how the two-sidedness can create tensions that also contribute to the development.

#### **5.3.1 The value proposition and target segments affect the business model**

According to Osterwalder et al. (2010) the chosen value proposition to a certain customer segment is affecting the business model design since it requires certain activities to be performed, partnerships to be established and implies certain revenue streams and costs etc. In line with Osterwalder et al.'s suggestion, our empirical findings revealed that the value proposition and the choice of customer segments in the studied firms had several implications on other parts of the firms' business models. When Freebee for example decided to deliver fast, cheap and relevant market research through the mobile phone they had to start selling the service (key activity), hire someone to do the analysis (key resource), establish a relationship with the academic institution (partner) etc. leading to both costs and revenues.

When the firms' value propositions or target segments were updated or changed (as a result of the process of understanding the customers and consumers) it led to a change also in the business model. A better understanding of the customers and consumers in other words contributed with new information

that, in line with Chesbrough and Rosenbloom's suggestion (2002), was leading to an adaptation of the business model. Guidepal provides an example where an updated value proposition had implications on the business model. When initiating the content improvement process, in order to strengthen the value proposition to consumers, it had implications on the business model since the content generation process was taken in-house in order to become more controlled and professional and it became a key activity inducing larger costs. People were also hired to manage the content generation process, a key resource that got an increased importance in the business model. Similarly, the business model changed, e.g. a new revenue streams were added, when Glossybox added a new customer segment and started to sell media space for non-beauty brands.

The constant interaction between choosing, understanding and developing value propositions described in previous sections, is causing a permanent state change of the business model since the value proposition and the choice of segments to target is related to the rest of the business model. Thus, a dynamic approach to business models seem to be relevant since the business models are not designed and then implemented but rather constantly evolving in an iterative way (cf. Mason and Spring, 2011).

### **5.3.2 Two-sidedness and business model development**

For platforms in two-sided markets the development of the business model is more complex than for regular firms. The two-sided platforms have to simultaneously create and deliver value propositions to different user groups and therefore the firms have to take into consideration both sides when designing their business models. One example of when it failed was when Guidepal introduced the hotel solution, they had to deliver an attractive app to the consumers, while simultaneously delivering a customized app to the hotels. The business model thus had to incorporate key activities related to the app development and content generation for the consumers, while the tech department also was concerned with the development of the hotel apps.

The interdependencies between the groups in two-sided markets is making the business model development even more challenging since one given group has an impact on the platform's value to the other side (Eisenmann et al, 2006). This implicates that the firms can not isolate the two sides and design a business model that treat the groups separately. Instead the business model has to embrace the interdependencies and create positive cross-side network effects between the two sides. In the cases we observed that tensions arose between the user groups in the process of business model development. As we will elaborate on next, these tensions affected the business model development.

#### 5.3.1.1 Deals and hotels were failing to create cross-side externalities

One tension between consumers and customers that affected the business model development stemmed from the deals in Guidepal's app. The deals risked biasing the content from the consumers perspective, thus decreasing the value for consumers, meanwhile it did not constitute a large revenue stream in itself. This lead Guidepal to abandon deals and put a new emphasis on generation of content to the city guides, while moving over to hotel customers in an attempt to align the interests of the firm's user groups. The hotel solution Guidepal thought, would not bias the content as deals had done but benefit from the qualitative content produced.

Throughout the process however, Guidepal realised that the hotels did not consider Guidepal's consumer base as an asset, neither the qualitative content of the city guides. The hotels rather demanded a tech-focused service that would not contribute with any value to Guidepal's consumer group. A new tension occurred between the user-groups that led Guidepal to abandon hotels as customers and focusing on customers that could contribute to the value for consumers.

Eisenman et al. (2006) presented cross-side network effects as the increased utility that derives from the number of users on the other side of the network. Deals and hotels can thus in this case be seen as two examples of failures to create cross-sided network effects, since neither deals nor the hotel solution increased the value to the consumers in the platform.

#### 5.3.1.2 Binding the two sides tighter together

In Glossybox' case the goal to elaborate on the value propositions to customers, together with the aim to keep the concept exciting for consumers led to the servicification of Glossybox. In this case the interests of the user groups were already aligned and the tension to develop rather stemmed from a need to strengthen these bonds in order to attract more customers and consumers.

As described earlier the value to a given user group is affected not only by the number of users on the platform's other side, but also on qualitative factors. Glossybox introduction of new services such as Glossymag can be seen as a way that the value was increased to both sides since it introduced an additional complementary offering between the two user groups. The new complementary offering can thus be seen as a mean to strengthen the cross-side network effect through tightening the bond between the user groups.

Freebee did similarly to Glossybox already have aligned interests between the two user groups since both customers and consumers simultaneously benefited from the campaigns in the app. However, soon after the launch of the app a tension arose from the low purchase frequency of market research.

Through introducing discount coupons to the app Freebee will relieve this tension through tightening the bond between the two user groups while further capitalizing on the key resource (the app), the consumer base and the customer base simultaneously.

In Freebee's case the low purchase frequency of market research campaigns led to a limitation in the value that could be delivered through the business model. One aspect of the tension that occurred was the negative same-side effect for consumers, i.e. the decreased value for every new consumer using the app. To relieve this tension Freebee developed the functionality of discount coupons. This will also lead to stronger cross-side network effects since consumers will get discount coupons in the app while customers get a new tool for driving trial. Similar to Glossybox' case the discount coupon-offering can be seen as a way to tighten the bond between the user groups and thus relieving the tension through a stronger connection between the user groups.

In their on-going process of creating a large, engaged user base that will increase the platform's attractiveness to potential customers, Guidepal is on its way to create a business model that aligns the interests of the two user groups.

This study reveals that the development of the business models can be derived from the connection between the user groups. Except for the business model's overall aim to create value for the user groups and capture a part of the value created, the analysis of the cases emphasize the need to align the interests of the user groups to make them create value for each other.

## 6 Conclusions

By taking a dynamic approach to the business model concept we have explored how customers and consumers are affecting the process of business model development in entrepreneurial firms operating in two-sided markets.

The customer and consumer sides are individually affecting the development of a firm's business model since the firm's understanding of the respective user groups is affecting what segments they choose to target and the value propositions they develop. This understanding can both be gained through the user groups' direct feedback or the firm's understanding of the users' latent needs. In reverse, the value proposition and the choice of target segments are affecting the user understanding. Since all elements are intertwined and changes in one of the elements provoke changes in the others the process of choosing customers and consumers, understanding them and developing relevant value propositions is



continuous. This implies that the firms' customers and consumers affect the business model development continuously.

Firms operating in two-sided markets have to deal with the complexity of creating and delivering value propositions to the two sides simultaneously. This is especially complex since the user groups are interdependent so that the qualities and volume of one given user group becomes a part of the other user groups value proposition.

The customer and consumer impact on the business model development is not restricted to the value proposition and the choice of target segments, since changes in these dimensions also lead to changes in the rest of the business model dimensions. Thus, the adaptation to the understanding of consumers and customers is one of the reasons why business models constantly evolve, especially in market oriented firms, where the understanding has the most impact on the firm's actions.

Furthermore, the tensions that arise between the two user groups are affecting the business model development since firms deal with the tensions by developing business models that embrace the interdependencies and align the two user groups.

## 7 Managerial implications

Our findings show that the understanding of the customers and consumers is a valuable asset in entrepreneurial firms' business model development since it facilitates the choice of appropriate target segments as well as the forming of relevant value propositions. Therefore, entrepreneurs should ensure that they are receptive to the customers' and consumers' needs and respond to the understanding when developing their business model.

For firms working as platform provider it is important to acknowledge that the user groups are interrelated since every decisions taken toward one user group might also affect the other. It is important to acknowledge the interdependencies when choosing what customers and consumers to target since they by definition affect the value delivered to the other group, both by number and by quality. Platform owners have to identify what qualities in each user group are appreciated by the other side and develop the ones that are. If decisions are taken with both parties interest in mind mutual benefits can be framed. Firms must thus develop an understanding for both their user groups since a learning process that is biased to one side of the platform could make the business model develop in a course that ignores the value created to the other user group.



The phenomenon that platform providers need one user group in order to attract the other, i.e. the chicken-and-egg problem, has been clear in our cases. Subsidizing one or two user groups can thus help building up the platform. This implicates that a solid funding could be a great advantage for entrepreneurs establishing a platform.

Our findings are also valuable for managers that are customers to platform providers. Since the customer feedback is affecting the business model development customers should make sure to get their voice heard and affect the business model development in their interest. When customers understand the tensions a platform provider face they can negotiate in a more constructive way.

## 8 Limitations and future research

This thesis has investigated business model development in firm entrepreneurial firms operating in two-sided markets. Entrepreneurial companies were considered suitable due to their ad hoc processes and lack of path dependencies and inertia (cf. Zott and Amit). However, it would be interesting to compare our findings to business model development in larger and more mature firms operating in two-sided markets. The processes could probably be different since the organisation in larger firms is more complex and the firms could be more restricted by a certain dominant logic. The topic is increasingly relevant due to the digital shift in many industries, one such example is the newspaper industry which is currently experiencing great challenges with redefining the platform due to consumers unwillingness to pay online etc.

When investigating the business model development in the studied firms we have only interviewed people working in the firms. Thus, although we have tried to gain as many perspectives as possible on their business model development, the firms' descriptions might be biased since it is based on the interviewees subjective thoughts and memories. It would be interesting to get another perspective and hear how the consumers and customers' perceive their impact in the business model development and how they interpret their interdependencies.

Due to limited research within our area of interest, both on dynamic business model development and multi-sided markets, the findings in this paper do not yet have robust theoretical support. It would be interesting to look further into the impact of two-sidedness in business model development, and especially the area of how firms work to create cross-sided network effects through improving qualitative aspects of their user bases. We have identified that qualitative aspects of a user base seem to affect the value to the other side, but our limited number of cases do not allow us to draw any detailed

conclusions on exactly how this relationship works. Therefore it would be interesting to investigate this relationship further, especially with a larger number of platform providers.

Furthermore, it would be interesting to perform a more normative study, looking at best practice and key success factors in managing platforms. While this study has focused on the value creation such a study could go more in-depth into the aspects on how firms capture the created value by making a profit. A case study could for example be performed on the music streaming site Spotify in the shift to launching their premium subscription service, thus when they stopped to subsidize consumers and made them into a paying user base.

Last, due to the aim of investigating micro processes of business model development we have consciously neglected the larger perspective. However, our findings indicate that the business model does not evolve in a constant and smooth development process but that it at times can be subject to more fundamental transformations. It would be interesting to see the business model development in multi-sided markets from a larger perspective investigating if for example their multi-sided nature causes these larger transformations.

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# Appendix 1: Interview guide

## Introduction

- What is your business idea?
- How do you listen to your customers? (sales calls, customer support, focus groups, surveys)
- Do you use other ways to understand the market? (relations with lead-user, consumer observations, market experiments, selection of partners etc.)
- What functions in the company are involved in this learning?

## Describe your first customer

### Customer selection

- What client was it?
- When you launched the business did you know who the customer would be?
- How was it when you chose/found it/them?

### Value Proposition

- Did the choice of customer affect your value proposition?
- What value did you offer your first customer? What was the sales pitch?
- How did you define that value?
- Did you learn something about the customer's view of the value?
- Was the sales pitch altered after the first customer contacts?

### Business model

- How did the choice of the customer affect the business model?
- How did the value proposition affect the rest of the business model?

## Developments since the start

### Customer selection

- Which customer segments have you had since the first customer?
- How did you choose a new customer?
- Have you left your first customer? Why did you do it?

### Value Proposition

- How did the new choice of the customer affect the value proposition?

### Business model

- How did the new choice of customer affect the business model?

## Describe your customers today

### Customer selection

- What are your customers today?
- Did you aim for that customer since the start?

- How did you choose/find it/them?

#### Value proposition

- Do you have the same value proposition today as for the first customer? Why/why not?
- How has the customers affected the value proposition?
- Have you learnt something about the customer's view of value? How?

#### Business model development

- How has the development of the value proposition affected the rest of the business model?
- Have the customers affected other parts of the business model? How?

When you look back at the development of the company since the start, are there any critical turning points that have been especially important?

# Appendix 2: Osterwalder Business Model Canvas

## The Business Model Canvas

Designed for:










Designed by:

On:

By:

For:

Iteration: 1

<div><h3>Key Partners</h3><p>Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform? How do we share value with partners? What do we expect from partners? What do we expect from partners?</p></div>	<div><h3>Key Activities</h3><p>What Key Activities do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>	<div><h3>Value Propositions</h3><p>What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>	<div><h3>Customer Relationships</h3><p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>	<div><h3>Customer Segments</h3><p>For whom are we creating value? Who are our most important customers? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>
	<div><h3>Key Resources</h3><p>What Key Resources do our Value Propositions require? Our Distribution Channels? Customer Relationships? Revenue Streams? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>		<div><h3>Channels</h3><p>Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>	
<div><h3>Cost Structure</h3><p>What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>		<div><h3>Revenue Streams</h3><p>For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues? Channels? Customer Segments? Key Partners? Key Resources? Key Activities?</p></div>		

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