



Creating a New Business Model by Using Business Model Innovation Tools and Identifying the Feasibility of Subscription Business as Part of the Business Model. Case: Finnish Golf Service Intermediate

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**Creating a New Business Model by Using Business Model Innovation Tools and Identifying the Feasibility of Subscription Business as Part of the Business Model. Case: Finnish Golf Service
Intermediate**

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Tulevaisuuden innovatiiviset digitaaliset palvelut
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Liiketoimintamallin luominen käyttäen hyväksi liiketoimintamallien innovointityökaluja ja tilausliiketoiminnan sopivuus osaksi liiketoimintamallia. Case: Suomalainen golf-alan toimija

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Digitalisaatio ja yritysten strategisten painopistealueiden muuttuminen on tehnyt liiketoimintamallien systemaattisesta muuttamisesta ja tämä muutoksen johtamisesta tärkeää lähes kaikilla aloilla. Organisaatiot toimivat maailmassa, jossa muutos toimintaympäristössä ja asiakkaiden tarpeissa on jatkuvaa ja osittain nopeaakin. Menestyäkseen organisaatioiden tulee olla valmiita muuttamaan liiketoimintamallia tarpeen vaatiessa. Yksi tapa liiketoimintamallin muutoksen johtamiseen on liiketoimintamallin innovointiprosessi (Business Model Innovation, BMI). Yksi liiketoimintamallien jatkuvan kehittämisen tarpeen taustalla oleva tekijä on kulutustottumusten muuttuminen. Ostamisen ja omistamisen arvostus on laskenut ja lainaamista tai vuokraamista pidetään hyvänä vaihtoehtona omistamiselle. Tämä on johtanut kuukausimaksullisten palveluiden suosion kasvamiseen sekä maailmalla että Suomessa.

Tämän opinnäytetyön tarkoitus on tutkia voidaanko liiketoimintamallin innovointiprosesseja sekä palvelumuotoilun toimintamalleja hyväksikäyttämällä luoda uusi liiketoimintamalli keskisuurelle yritykselle. Tutkimuksessa käytettiin viitekehyksenä Double Diamond-mallia, liiketoimintamallin innovoimisessa ja kuvaamisessa hyödynnettiin puolestaan Business Model Canvas- ja Business Model Navigator - työkaluja. Työ toteutettiin suomalaiselle golf-alan toimijalle.

Tietoperustassa käsitellään liiketoimintamallin innovoimista sekä siihen liittyviä työkaluja ja viitekehyksiä. Tietoperusta käsittelee myös tilauspalveluita, niiden merkityksellisyyttä liiketoiminnalle sekä niiden ominaispiirteitä. Kehitystyön lopputuloksena esitellään uusi ehdotetty liiketoimintamalli tutkimuksen tilaajalle sekä prosessi liiketoimintamallin luomiseen.

Asiasanat: Liiketoimintamalli, liiketoimintamallin innovointi, tilauspalvelu, palvelumuotoilu, Business Model Canvas, Business Model Navigator

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Digitalization and the generic change in the strategic focus points has increased the need to constantly develop business models in almost every industry. It is no longer enough to have a business model and then to operate with it for decades. Companies and organizations face constantly changing markets and consumer needs, and hence need to be prepared to change the business model to stay ahead of the competition. This process can be achieved via the business model innovation (BMI) process. Another trend affecting businesses globally is the change in consumer preferences. Today many, especially Millennials, value renting and sharing instead of owning. This, together with digital development, has led to increased demand for subscription services worldwide.

The purpose of this thesis is to study if business model innovation and service design tools can be used to create a new refreshed business model for a medium sized company. Double Diamond is used as loose framework and both Business Model Canvas and Business Model Navigator are used as methods. The development project is done for a Finnish company that operates as digital golf service intermediate.

The first theoretical framework concentrates on business model innovation and business model tools and frameworks. The second part describes the subscription business, focusing on the characteristics and key measurements. Subscription business is one of the fastest growing business models of today and it clearly came out as one of the possible business models during the research process.

The outcome of this study is a new proposed business model for the company. The model is created by using Business Model Canvas and Business Model Navigator. The recommended next phase is to keep on testing and iterating the business model, both internally and in co-operation with the consumers.

Keywords: Business Model, Business Model Innovation, Business Model Canvas, Business Model Navigator, Service Design, Subscription Business

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1 Introduction

For the last eight years I have worked within the media and broadcasting industry. An industry, that has gone through a major and extremely fast change both in business environment and in the way the business is run. Especially the way people consume media and content has changed dramatically. Increasingly fast internet connections and technological development have enabled the growth of streaming business. Eight years ago, there was not even a commonly known word for streaming, whereas now the market is saturated with different streaming services and households filled with internet connected devices that can act as a screen. I have seen the enormous speed on how the market has developed and subscription-based business models have established in various industries. Music streaming service Spotify and entertainment streaming services, such as Netflix and Viaplay, are now more the norm than the exception- people are increasingly moving from owning to renting, and not only in the entertainment industry. Subscriptions have become an integral component of our daily lives, changing the way we consume media and purchase goods.

Lot of companies and whole industries are now looking into possibility of moving their product offering towards service and subscription business. Launches are seen both internationally and in the Finnish market. For example, the Finnish tableware manufacturer Arabia announced in November 2019 (Aaltonen 2019) that they would start to test renting service for their tableware. In this service consumers pay monthly fee and can change the tableware collection when they wish. Finnish kids' clothes manufacturer Reima also started to offer service where consumers pay monthly fee and then get new set of clothes delivered for every season for their kids (Palmén 2019). Mobility as service (MaaS) is taking market share in the Helsinki region as Finnish start up Whim offers unlimited use of public transportation, city bikes and taxis for set low price within the Helsinki region (Koho 2019). Their service costs less than the monthly public transportation ticket alone.

Consultancy company McKinsey&Company conducted a study in USA during 2018, which showed that that the subscription e-commerce market had grown by more than 100% a year over the past five years. According to the study the largest e-commerce retailers generated more than \$2,6 billion in sales in 2016, whereas only five years earlier in 2011 it was only \$57,0 million. Subscription businesses have been globally launched in a wide range of categories, ranging from clothes to video games, and to almost in every imaginable thing. The growth has attracted lot of established brands also to launch their own subscription businesses, such as Gillette on Demand by Procter & Gamble, Play by Sephora and Beauty Box by Walmart. (Chen et al. 2018, 150)

Zuora is a company operating in the subscription business consultancy and platform field. They publish a subscription economy index (SEI) regularly, where subscription business sales

are compared with Standard & Poor's (S&P) 500 list (list of top 500 largest listed companies in the US) sales and US retail sales. This data reveals that subscription businesses grew revenues about 5 times faster than Standard & Poor's 500 company revenues and US retail sales from January 2012 to June 2019. (Zuora)

Lot of businesses believe that the way to maintain direct relationships with consumers and to grow the business is to move away from product centric approach and instead create long-term customer value and revenue by flexible subscription-based services. Research and advisory company Gartner predicted that by 2020, all new entrants and 80% of historical vendors would offer subscription-based products or services. (Pettey 2018)

Another interview based small survey from growth strategy experts Manifesto Growth Architects in UK revealed that 70% of businesses believe that membership and subscription models are the key to future commercial growth and expansion. However, according to the interviews they conducted with 504 senior business leaders across retail, finance, leisure, automotive and utilities sectors, only 24% of businesses utilized subscription models at the time of the research. And only 7% generated significant revenue via membership business. (Jordan)

1.1 Golfing industry and GoGolf

Golf is one of the most popular outdoor activities in Finland. The Finnish Golf Federation has 130 golf clubs as members, and they operate over 150 golf courses. There are approximately 140 000 registered golfers in Finland. The number of registered players has remained somehow steady during the last years, in some years there has been a light increase and in others a slight drop. This has caused some concern regarding the future of golf in Finland, especially as the season is limited to summer time only due the harsh Finnish weather conditions. (Golflitto 2018) The way golf is played and paid for has remained very steady and unchanged for quite some time - players either own or rent a share of the golf course and are allowed to play unlimitedly or players pay a fee for the single game, so called green fee. There has been some co-operation between golf courses to bundle green fees together or to offer monthly lease plan for the unlimited golf season pass, but not much more. Overall, there has been no major changes in the service and product portfolios golf courses offer during the past years, or even decades. Golf has bit of an image of being expensive, time consuming and strict game. This is something the golfing industry would like to change. (Tyry 2020)

GoGolf is an intermediate in golf industry that has actively and innovatively started to develop the Finnish golf environment towards more modern approach. GoGolf Group has various golf related companies with different focus - GoGolf focusing on media and digital golf service sales, Sky Golf focusing on golf retail, Golfresepti focusing on golf holidays and travel services and Kurk Golf managing a golf course and multiple golf ranges. The development

project presented in this thesis focuses especially on GoGolf and the digital resale part of the business. The usual services sold by GoGolf are for example golf courses and green fees¹. This part of the GoGolf Group business has been very successful, but it has operated with the same business model almost since the start of the business. The current business model is very product focused and that has led most of the customer sales being one-time purchases. This makes the revenue both unpredictable and unevenly divided through the year. This model also includes high customer acquisition costs and low customer loyalty.

1.2 The purpose, objectives and limitations of the thesis

The main objectives of this thesis are to:

- Use business model innovation process and service design tools to create a model on updating Business Model in medium sized company
- Find, through this business model creation process, a new business model for digital golf service intermediate operating in Finland

The development questions used for the study are:

- How the Business Model Navigator approach can be applied in a context of building new business model for existing company?
- How subscription business model can be integrated into the business model of a company operating within traditional digital retail?

This thesis focuses on business model innovation and covers two selected approaches - Business Model Canvas and Business Model Navigator. The term business model is literally combined from the words business and model - business describes the value creation process and model is a representation of reality (Shafer, Smith & Linder 2005, 199-207). The term business model has been increasingly used since the rise of the digital commerce in the 1990s when companies needed actively to start looking for new ways of doing business (Yip 2004, 17-24) and does not cover all aspects influencing the business decisions in real life.

The development research itself focuses on building the business model, and even though the recommended outcome would suggest building certain service these services are only discussed on general level. This research will not include any detailed service prototypes or service concepts.

¹ Green fee is the fee golf player pays to access the golf course to play once

1.3 The structure of the thesis

The key concepts of this thesis are all business model, business model innovation and the selected tools for the actual innovation process. From the actual business model's subscription business is taken into closer evaluation. The reason for selecting subscription business is that it is one of the core business models currently and the popularity of it is still growing. Golf industry has not utilized subscription business widely not yet. Already during the initial discussions with the researcher and GoGolf subscription model was identified as possible new business model

The first chapter focuses on explaining the background of the research - reasons for selecting the topic and shortly introducing the industry and the company the development project is done for. First chapter also includes the development questions and research objectives.

Second chapter focuses on the knowledge base. This chapter is divided into two phases, first one focusing on the business model and on business model innovation. Two tools for business model innovations are introduced - Business Model Canvas and Business Model Navigator. The second phase focuses on the subscription business - the basic principles and the economic impact.

Third chapter describes the development setting. This research is a developmental research where the approach is mixture of case study and service design methods. The methods being used are interviews, Business Model Canvas and Business Model Navigator workshop.

Fourth chapter describes the development project results and on the last chapters the development project and findings are being discussed, concluded and analyzed, some further development ideas are also given.

2 Knowledge base

The main approach of the knowledge base is the business model innovation and two selected methods on managing the innovation process.

Innovation as its simplest is defined as the process of making changes to something established by introducing something new to the service or product that adds value to the customers. (O'Sullivan, Dooley 2008). A business model describes the architecture how a company or organization creates and delivers value to its customers and the mechanisms employed to capture share of the value created. (Teece 2018)

Business model innovation goes deeper than just product or service innovation or business model alone. Today's organizations have a need to rethink their whole business and the earning logic. Teece argues that management's ability to develop and refine business models is a core foundation of the company dynamic capabilities. (Teece 2007, 1319-1350) This holds also true both for designing the original business model but also for replacing and recombining the business model elements over time. The first initial step towards innovation is for the companies to identify that there are customers with unmet needs who are willing and able to pay for a product or service that can rectify their predicament. (Teece 2018)

The concept of business model started to be recognized in the management literature only in the beginning of the 21st century (Nielsen, Lund 2014) and the business model innovation only ten years later in around 2010. In this thesis there are two different models introduced that can help companies within the business model innovation process. First one is Business Model Canvas, that was initially introduced in 2005 by Alexander Osterwalder based on his earlier work on business model ontology. Second one is Business Model Navigator methodology, that basis on the findings of Gassmann, Frankenberger and Csik and it was first published in 2013. (Gassmann, Frankenberger & Csik 2014)

These two models have lot of similarities and they both overlap to some extent. The Business Model Canvas is more of a structured way of describing the business model, but it is also a tool to build and innovate one. Business Model Navigator is more of a framework for the actual innovation process, though it also includes a visual model for describing the business model. Business Model Navigator's business model includes to some extent also same elements as the Business Model Canvas. The whole business model innovation is concept that is tied closely to the digitalization and hence there is lot of material that is published and discussed in a very modern way, such as blog discussions. Hence not all sources in this research are purely academic but the sources include for example some consultancy firm researches and publications. Including these as sources also allows some very recent data to be used.

One of the newest and fastest growing business model innovations during the last decades has been the rise of the subscription business model. It is not only about selling products or services with a fixed periodic fee, but more of an overall change in the business model. It requires placing the customer to the center and turning the business to be more data focused. As this is becoming dominant business model in the direct to consumer business and many companies face the need to move from product centric approach towards service centric approach, I chose the subscription business to be included to the theory. (Warrillow 2015)

The rise of the subscription business concept is quite recent, and we have seen it really peak only in the 2010's when Netflix and other large subscription businesses took off. There is limited amount of research available on the topic and in my research, I have relied heavily on

experts on the topic. One of the key experts I have used is Tien Tzuo, founder and CEO of California-based enterprise software company Zuora. Zuora is a company that creates and provides subscription management software to hundreds of subscription companies and therefore has massive database available on subscription companies. Tzuo has talked about the subscription economy in multiple high-profile events and written a book in 2018 with Gabe Wisert called *Subscribed: Why the Subscription Model Will Be Your Company's Future - and What to Do About It* (Tzuo, Weisert 2018).

Another expert I have looked at is Robbie Baxter, also highly appreciated keynote speaker and consultant focusing especially on membership business, which is directly linked to the subscription business. If Tzuo coined the term “subscription economy”, then Baxter has coined the term “membership economy”. She is also the author of the book *The Membership Economy: Find Your Superusers, Master the Forever Transaction & Build Recurring Revenue* (Baxter 2015) . Baxter states that the difference between Membership Economy and Subscription Economy is that “A subscription is a pricing decision. It is a tactic. The Membership Economy is about a mindset, in which organizations are working to build long-term, formal relationships with their customers. Some organizations charge their members a subscription fee. But others might be free for most, like LinkedIn or Pinterest.” (Aria Systems 2016) However these two terms overlap and are often used mixed, the subscription is a pricing tactic, but subscription economy can also be understood as wider concept, where memberships are only tools.

As with the business model innovation, I have also widely used digital sources to further understand and describe the subscription business. The industry moves extremely fast and hence the published data is quickly undated. Some of the sources used are from Zuora, the company Tzuo represents, and I understand that some of the findings are part of their content marketing, such as the Subscription Index. They probably have the largest data pool available and research is conducted by 3rd party organization, so I have evaluated those publications as qualified and relevant source for this thesis.

Subscription business is a concept that belongs tightly to the digital age, and in the digital world data is the king and creates the base for any business decisions. Therefore, I have also included a chapter on the key metrics on subscription business to this thesis. In a flexible and agile company environment, where many of the subscription businesses operate, decisions are made fast and changes in the product and service field are continuous. (Warrillow 2015)

2.1 Critical concepts in the thesis

A Business Model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. In a company aimed to make revenue it could be simply described as the model on how the company will make profit - what

are the products and services offered, the target market, cost structure, delivery methods and the way the organization creates value. (Chambers, Patrocinio 2012)

A business model innovation is the conscious change of an existing business model or the creation of a new business model. The aim is to have result that satisfies the needs of the customer better than the existing business models. (Lindgardt et al. 2009)

A Business Model Canvas is a strategic management template for developing new or documenting existing business models. It is a visual image with elements describing organizations value proposition, infrastructure, customers and finances. In the original Business Model Canvas, proposed by Alexander Osterwalder, there were nine "building blocks" in the business model design template, later new canvases have been released for more niched needs. (Osterwalder, Pigneur & Clark 2010)

A Business Model Navigator is a tool that aims to facilitate the business model innovation process. It bases on a database project that was aimed to better understanding of the key drivers of business model success. It offers a structured business model innovation approach and process. It is originally introduced by Gassmann, Frankenberger and Csik in 2014 and basis on data gathered from hundreds of companies. (Gassmann, Frankenberger & Csik 2014)

The Membership Economy is a term Robbie Kellman Baxter introduced to describe the transformation in every kind of organization, from non-profit organizations and associations to the most profitable of companies. It is a term to describe the change from ownership to access, from anonymous transactions to data knowledge, from formal relationships and one-way communication towards two-way communications between the organization and its members. (Baxter 2015)

The Subscription economy refers to the business of offering subscriptions to consumers. For some companies, the whole business model can be subscription business and for some, it can just be a pricing tactic, among others. The number of companies offering subscription is increasing as the increase is tight to larger shift from the product economy to the subscription economy. **Subscription** itself can be defined as an advance payment made to receive or participate in something. (Warrillow 2015)

2.2 Business Model

In general, and at its core, business model is a description of how any company or organization makes money or value. Even though the business model literature has not yet reached a common opinion as to which components exactly make up a business model, it seems that there is quite a good mutual understanding of the key components of the business model within the experts and researches. Almost all business model frameworks include approach to

the questions of what, how, why and who. There are though tweaks and emphasis on the way the business model is seen and described. (Teece 2018)

Teece himself defines business model as a model that describes the architecture how a company or organization creates and delivers value to its customers and the mechanisms employed to capture share of the value created (Teece 2018). Chesbrough (Chesbrough 2003) in the other hand states that business model has six different functions: value proposition, market segment, value chain structure, revenue mechanism and costs, positioning of the company and competitive strategy. Rajala et al. (Rajala et al. 2001) define business model as an appearance of business strategy as a combination of product proposition, distribution and service model, combined with revenue logic. One of the most well-known ways of visualizing the business model is Osterwalder's Business Model Canvas (Osterwalder, Pigneur & Clark 2010). Business Model Canvas offers a framework to analyse the different elements of the business model. The basic elements of Osterwalder's model are nine business model building blocks consisting of four pillars. Business Model Canvas and the elements are introduced later in this research.

Lindgardt et al. (Lindgardt et al. 2009) state in a publication done for Boston Consultancy Group that a business model consists of two critical elements, the value proposition and the operating model. Value proposition answers the questions "what do we offer and to whom". The Business model they use includes the following dimensions:

- Target segment
- Product or service offering
- Revenue model

The operating model answers the question "how do we profitably deliver the offering". It includes three critical areas:

- Value chain - how does business deliver on customer demand and what are the processes
- Cost model - how the business utilizes the assets and cost on delivering value profitably
- Organization - how does the organization develop their people to sustain and enhance the competitive advantage.

(Lindgardt et al. 2009)

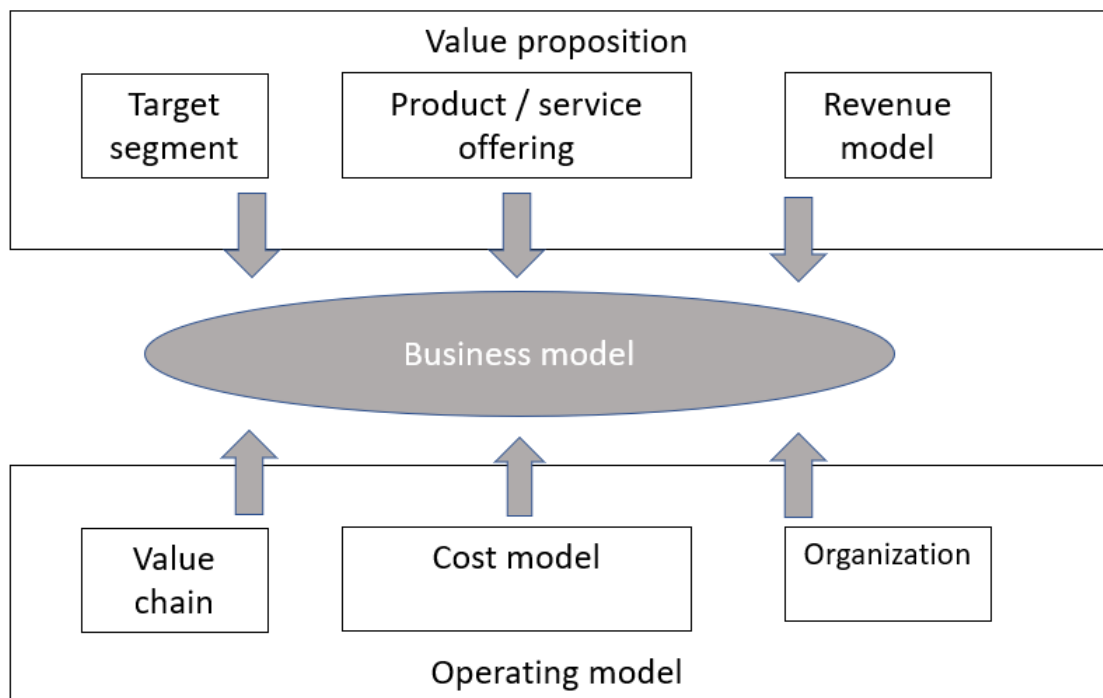


Figure 1 Business model components after the model by Lindardt et al. (Lindgardt et al. 2009)

When two or more of these elements described are changed, it becomes a business model innovation. In the business model innovation process elements are changed or reinvented in order to deliver value in a new way. As business model involves multiple activities, it is both difficult and challenging to imitate. (Lindgardt et al. 2009)

Another way of describing the business model is to the Business Model Navigator model introduced by Gassmann, Frankenberger and Csik (Gassmann, Frankenberger & Csik 2014). They build a business model description based on their studies and the concept includes four key elements - the Who, the What, the How and the Value. The first-dimension answers to the question "who is the customer". The customer is essential part of the whole business model especially in the modern customer centric times. The second dimension is what and the proper question would be then "what is offered to the target customer". Another, more customer centric, way of formulating this is to call it the value created for the customer. It could also be called the value proposition.

The Business Model Canvas gives a holistic view of products and services that create value to the consumer (Osterwalder, Pigneur & Clark 2010). The third dimension is how and that describe the processes, activities, resources and capabilities the company uses to build and distribute the value proposition. The fourth dimension "Why" explains why the business model is financially viable, it relates directly to the revenue model of the company. This dimension includes for example the revenue mechanisms. (Gassmann, Frankenberger & Csik 2014)

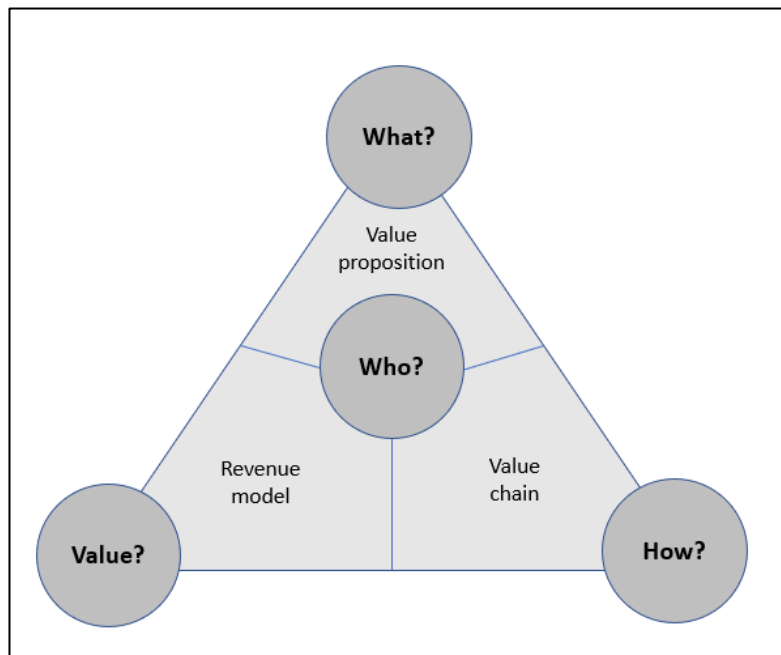


Figure 2 Business Model Canvas description of business model after Gassman, Frankenberger and Csik (Gassmann, Frankenberger & Csik 2014)

2.3 Business model innovation

When parts of the existing business models are changed, it becomes business model innovation. In the business model innovation process elements are changed or reinvented in order to deliver value in a new way. As business model involves multiple activities, it is both difficult and challenging to imitate. (Lindgardt et al. 2009)

In the academic literature the term business model innovation has been described in many ways. For example, Markides and Oyon have referred to it as “disruptive business models” (Markides, Oyon 2010, 25), whereas Johnson et al. called the process “re-inventing of the business models” (Johnson, Christensen & Kagermann 2008, 50). Wirtz et al. have described the business model innovation in a similar way by calling it as “renewal or revamping of the current business model” (Bernd W Wirtz, Oliver Schilke & Sebastian Ullrich 2010, 272).

As the advanced industrial revolution keeps going on and artificial intelligence platforms are maturing, the technological innovations become increasingly important and the amount of the innovations increases constantly the importance of business model innovation increases. It is highlighted now as one of the most crucial topics in management and strategy fields. (Kim, Ku & Lee 2020, 379-396)

Kim, Ku and Lee identify in their research to the literature the key differences between business model modification, business model renovation and business model innovation. They

state that business model may be defined as the logic to make ultimately profit through value generation and that the business model innovation should only be needed when technological change and needs evolution happen (figure 4). (Kim, Ku & Lee 2020, 379-396)

Hacklin et al. stated similarly in their research in 2018 that when the industry is characterized by rapid value migration, companies are likely to be successful when they are proactive and substitute key elements of their primary business model in tandem with the external business environment. (Hacklin 2018, 82-110)

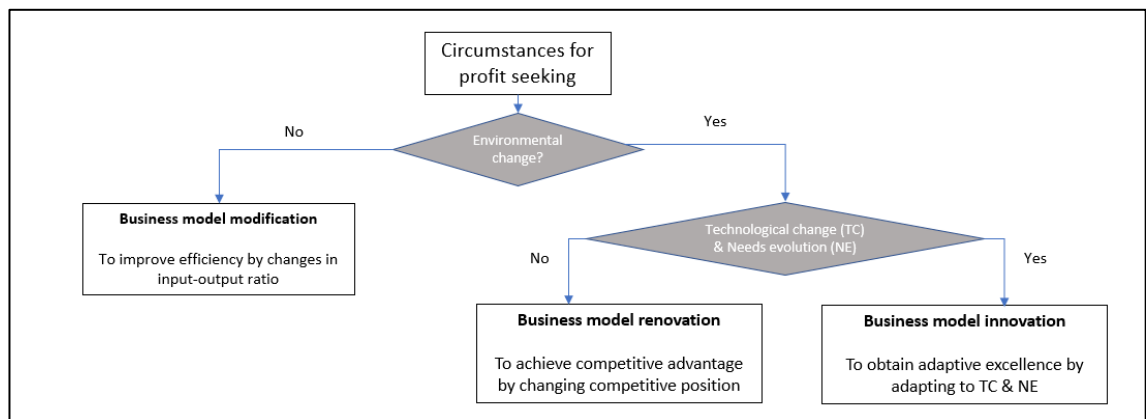


Figure 3 Business model modification, renovation and innovation after Kim, Ku & Lee (Kim, Ku & Lee 2020, 379-396)

Lindgardt et al. define the business model innovation as art of enhancing advantage and creating value by making simultaneous and supportive changes to the value proposition towards customers and to the underlying operating model in the research done for Boston Consultancy group in 2009. Lindgardt states that when two or more business model elements are changed, it becomes a business model innovation. (Lindgardt et al. 2009)

According to consultancy group BCG and the studies they have conducted, during the past 50 years the average business model lifetime has fallen from 15 years to less than five years. Already this shows that business model innovation is essential for all companies to defend themselves against industry disruption and decline. It is no longer enough to innovate only on product and service side, but also innovate on business models as that can bring longer lasting competitive advantage. (BCG)

When it comes to business model innovation at the value proposition level, it can mean changes in the choice of target segment, product or service offering, and on revenue model. At the operating level, the focus should be on how to drive profitability, create competitive advantage and value creation through these decisions on how to deliver the value proposition: Where to be in the value chain, Which cost model to use and what kind of organizational structure and capabilities are essential to success. (BCG)

BCG states that there are four different approaches to Business Model Innovation and that is important to understand that not all business model innovation efforts are alike.

1. The reinventor approach is needed when there are fundamental challenges in the industry the company operates in. This could be for example change in regulation. In this case the company should reinvent its customer value proposition and realign its operations.
2. The adapter approach is needed when current core business is unlikely to combat fundamental disruption. Adapters need to build innovation engine to continuously experiment new successful business areas as the existing core business might even decrease.
3. The maverick approach deploys business model innovation to scale up the business. Mavericks use their core advantage to revolutionize the industry and set new standards. This requires company's ability to continuously evolve the competitive edge to grow the business.
4. The adventurer approach aggressively the business by exploring or venturing into new or adjacent territories. This approach requires a solid understanding of the company's competitive advantage and actively planning and making bets for the future. (BCG)

BCG defined approaches to the business model innovation also shown in the figure below.

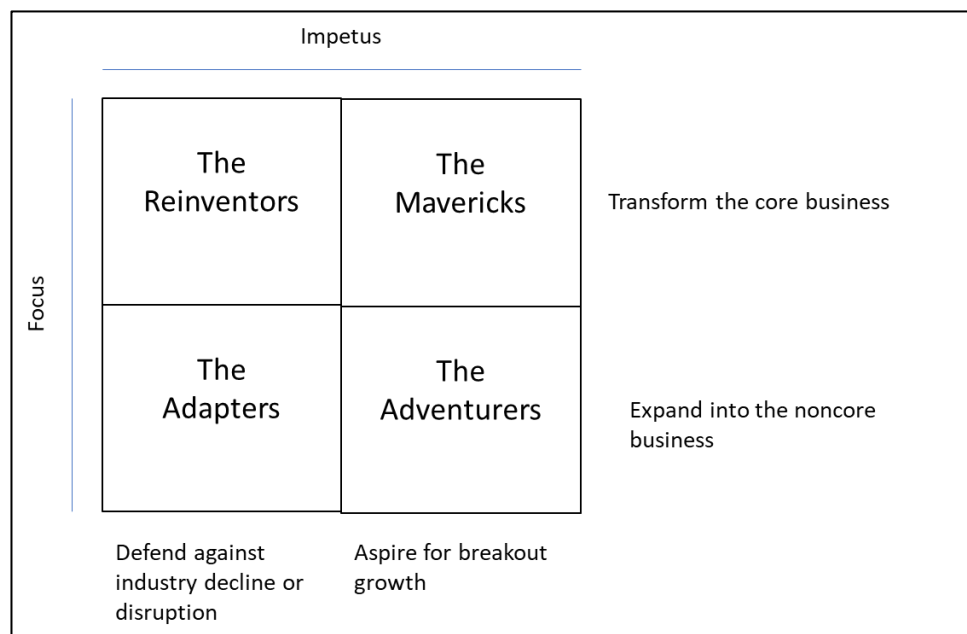


Figure 4 Approach to Business model innovation freely after BCG (BCG)

In another whitepaper BCG defines business model innovation needs more than just a brilliant insight coming at the right place at the right time - but to offer a reliable competitive advantage the business model innovation must be systematically cultivated, supported and managed. (Lindgardt et al. 2009)

Innovation has always been an instrumental factor in driving both competitiveness and innovation in business. Earlier it was enough to have a superior technological innovation or exceptional product but in today that is no longer enough as information and innovations travel so fast everyone to be able to reach them. That is the reason business model becoming more critical in the reach of successful business. (Gassmann, Frankenberger & Csik 2014)(Gassmann, Frankenberger & Csik 2014)

In their book *The Business Model Navigator* Gassmann, Frankenberger and Csik describe why business model innovation is important for the companies. They state that business model innovation creates additional, and in some cases even critical, growth potential to the companies. This growth exceeds the growth that is gained from product or process innovation. (Gassmann, Frankenberger & Csik 2014)

Study conducted by BCG has shown that over five-year period business model innovators are six percent more profitable than their contemporaries who concentrated in innovating products and processes. (Gassmann, Frankenberger & Csik 2014) Another factor pointing the importance of the business model innovation is that it is included to BCG's research on innovations and their relation to company success as one of the key factors studied annually. (Ringel et al. 2019)

This thesis focuses on the tools that can help on the process of innovating the business model. The focus is not so much on the company motivations to change their business model, or on the different approaches, but those are described briefly above as the approach usually drives the need for the change.

2.3.1 Business Model Canvas

As stated earlier there are multiple descriptions of business models. Alexander Osterwalder and Yves Pigneur define business model as a model that describes the rationale of how an organization creates, delivers, and captures value (Osterwalder, Pigneur & Clark 2010). They believe that business model can best be described through nine areas, or blocks as they call them, that describe how the company makes money. This business model visualization is called Business Model Canvas. The elements of it are key activities, key partners, key resources, cost structure, customer relationships, customer segments, value propositions, channels and revenue streams. The Business Model Canvas is a tool that helps people to understand a business model in a straightforward, structured way. Canvas shows insights about the customers, value propositions, channels, and the revenue model on one single page. The model is shown in the image below. (Osterwalder, Pigneur & Clark 2010)

The Business Model Canvas

Designed for: _____ Designed by: _____ Date: _____ Version: _____

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
	Key Resources		Channels	
Cost Structure		Revenue Streams		

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DESIGNED BY: Strategyzer AG
The makers of Business Model Generation and Strategyzer

Strategyzer
strategyzer.com

Figure 5 Business Model Canvas by Strategyzer, copyright: Strategyzer.com (Strategyzer)

Customer segment defines the different groups or people or organizations that the company wants to reach and serve. Some examples of these segments are niche market, mass market or multi-sided platforms, which means serving two or more customer segments. (Osterwalder, Pigneur & Clark 2010) (Osterwalder, Pigneur & Clark 2010)

Value proposition describes the products and services that create value for the specified customer segments. Values can be quantitative (for example price or speed of the service) or qualitative (such as customer experience or design). There are multiple elements that can contribute to the customer value creation and those can be for example offering something totally new to the customer, something that market did not have available earlier. Or it could be customization, offering products or services that are tailor made for individual customers or customer segments. Other examples are for example brand, design or accessibility. (Osterwalder, Pigneur & Clark 2010) (Osterwalder, Pigneur & Clark 2010)

Channel describes how the company communicates with and reaches their desired customers to deliver value propositions. Finding the right mix of channels is critical in bringing the value for the customer. Channel types are divided to own and partner channels, and the channels can be either direct or indirect. For example, company's webshop is own and direct channel. The channel part also includes thinking the whole sales process from awareness to after sales care. (Osterwalder, Pigneur & Clark 2010)

Customer relationships segment describes the types of relationships company builds with their customers. These relationships can vary from personal to automated. These relationships can relate for example to customer acquisition, customer retention and boosting sales. There are multiple categories of customer relationships and they can overlap or serve different customer segments. The customer relationship can for example be personal, self-service, automated service or community, where consumers help each other. (Osterwalder, Pigneur & Clark 2010)

Revenue streams represent the revenue company makes from different customer segments. Usually there are multiple revenue streams and each revenue stream may have different pricing mechanisms. Business model can either have transactional revenue streams coming from one-time customer payments or recurring revenues occurring from ongoing payments or additional sales. The fees can be for example usage fees, subscription fees or license fees. Each revenue stream can have different pricing mechanism. There are two main types of pricing mechanism, fixed pricing and dynamic pricing. Fixed pricing means predefined prices that are based on static variables, whereas in dynamic pricing prices change based on market conditions. (Osterwalder, Pigneur & Clark 2010)

Key resources block describes the most important assets required to make the desired business model work. The key resources allow corporates to offer value proposition, reach the market, manage customer relationships and make revenue. Key resources can be physical, human, financial or intellectual and company does not necessarily need to own them, but they need to have access to those. Physical resources can mean manufacturing facilities, buildings, machines, distribution networks and so on. Intellectual resources are more intangible, they could be brand, patents and copyrights, customer database and knowledge or partnerships. These assets can be very difficult to achieve, but they are becoming increasingly important parts of business models in today's world. Human resources are required by many companies and they are crucial especially on design and knowledge intensive industries. Financial. (Osterwalder, Pigneur & Clark 2010)

Key activities describe the must-do things for the company. These are the most critical actions company must succeed to be able to have a successful business model. Key activity for a consultancy firm could be problem solving capabilities, whereas for software manufacturer the key process could be software development. The key categories can be divided to three different categories: production, problem solving and platform or network. For example, for the ecommerce giant eBay the key activity would be making sure the platform works and it is continuously improved. (Osterwalder, Pigneur & Clark 2010)

Key partnerships describe the network of suppliers and partners that are critical for the company's success. The partnerships become more and more important in many business models

as companies use partner networks to reduce risk or to acquire resources. There are four main partnership types, strategic, co-opetitions (meaning co-operation between commercial competitors for their mutual advantage), joint ventures and buyer-supplier relations. There are different motivations for companies to form partnerships. These motivations can be for example optimization and economy of scale, reduction of risk and uncertainty and acquisition of resources and activities. (Osterwalder, Pigneur & Clark 2010)

Cost structure describes all costs that are related to operating the business model. There are broadly two business model cost structures, cost-driven and value-driven. Many companies though fall in between these two cost structures. Cost-driven business model focuses on keeping the costs on minimum or reducing them. Whereas value-driven companies are not that concerned about the cost but focus instead on creating value. Low cost airlines are good example of cost-driven business model and luxury brands of value-driven models. The actual costs can have following characteristics. Fixed costs that remain the same despite the volumes. Variable costs vary depending on the volume of produced goods or services. Economies of scale gives cost advantages for companies that produce on large scale. Economics of scope are cost advantages that company can receive due larger scope of operations; this could be for example same distribution channel supporting multiple products. (Osterwalder, Pigneur & Clark 2010)

According to the Strategyzers website the Business Model Canvas has been downloaded over 5 million times and many companies from startups to large enterprises use the model to improve their business model. (Strategyzer) As the Business Model Canvas has been so popular it has received multiple adaptations and variations. It has also received some criticism and discussion on how to improve the model. Osterwalder himself developed the model further and presents the Value Proposition Canvas in 2013. It is a tool that allows to gather more insights and deeper analysis on two of the Business Model Canvas blocks - value proposition and customer segments. The main aim of the tool is to find perfect fit between these two blocks. The Value Proposition Canvas is introduced in the figure below. (Strategyzer)

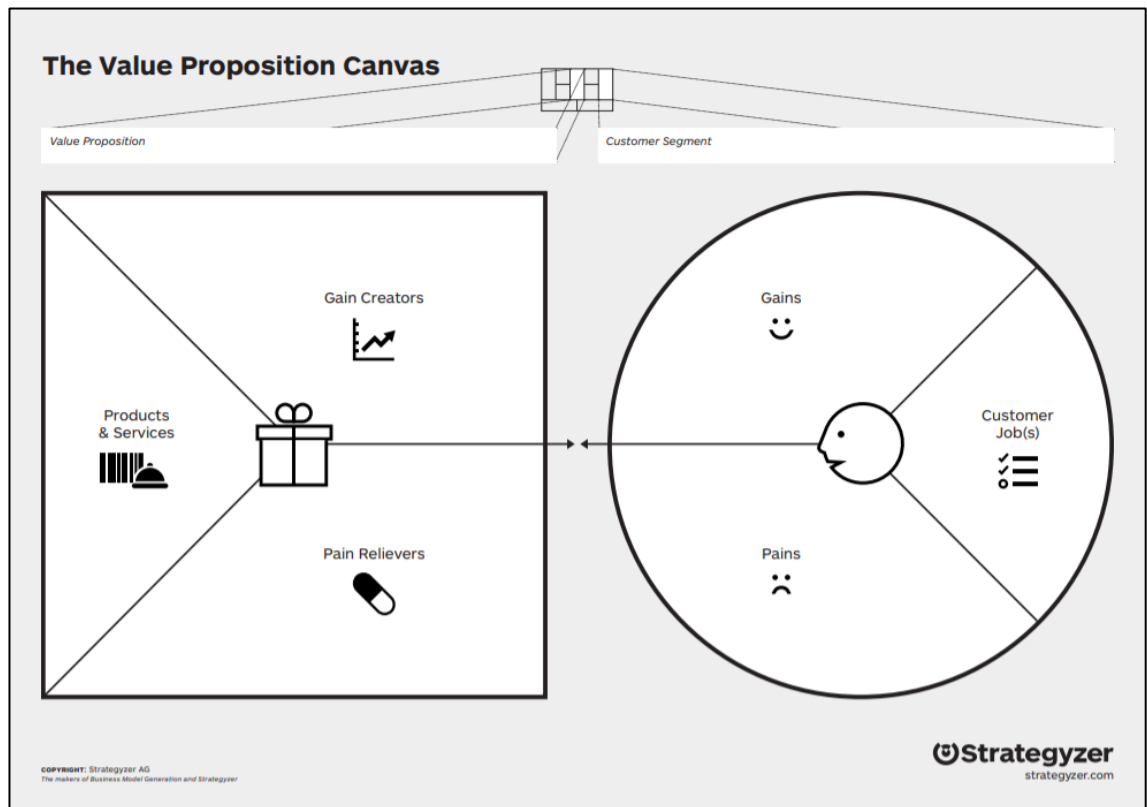


Figure 6 Value Proposition Canvas as presented by Strategyzer, copyright: Strategyzer.com and Strategyzer AG (Strategyzer)

2.3.2 Business Model Navigator

Business Model Navigator is a tool that is created to help in the actual business model innovation process. The tool is aimed to help all in initiating the change, in the idea phase, during integration and on the actual business model implementation. The model is developed from data gathered by Thomas Möllers and Camillo Visini in the Institute of Technology Management at the University of St. Gallen and then provided as a tool by the BMI Lab. The model is built on data gathered from 350 business model innovators and during the process researcher found out that 90% of the innovations looked are combinations of existing concepts, ideas, or business models. The model uses these existing business models as inspiration to build new business model. (BMI Lab)

The Business Model Navigator is an action-oriented method that helps companies to innovate their business models. It has been used in many different types of organizations and companies. The model bases on existing business models and creatively reutilizing, copying and recombining them for other businesses or industries. (Gassmann, Frankenberger & Csik 2014)

The model has three different phases - initiation, ideation and Integration as shown in the figure below.

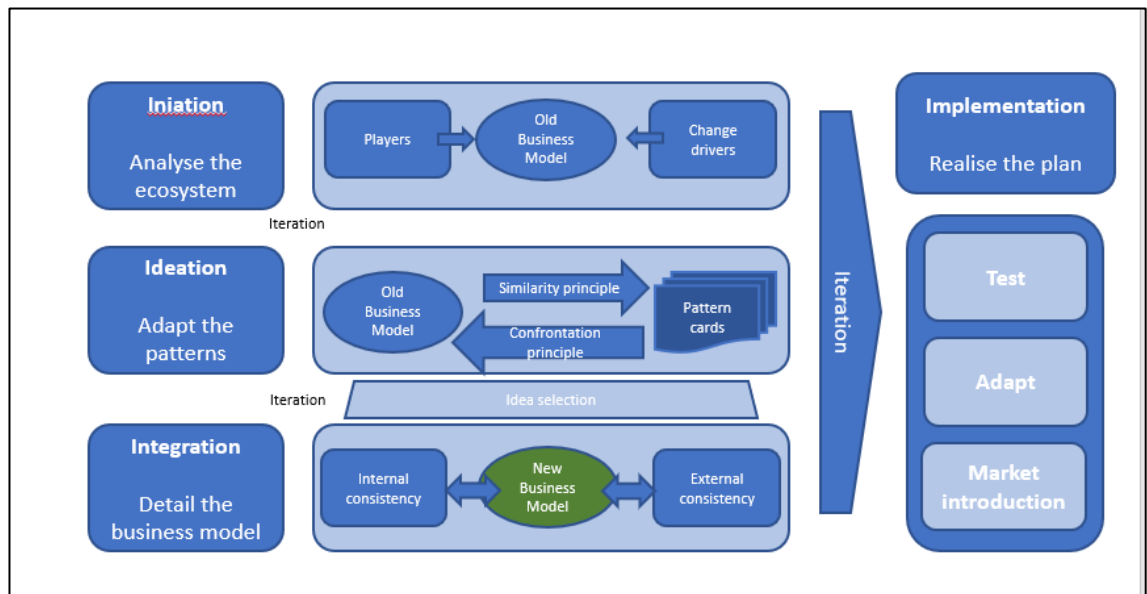


Figure 7 The Business Model Navigator process as described by Gassmann, Frankenberger and Csik (Gassmann, Frankenberger & Csik 2014)

Iniation phase defines a starting point and a rough direction on where the company is heading towards. In this phase the current business model, its value logic and the environment are described and analysed. The meaning of the phase is to get common understanding of the current business model and why it might need some changes. It also builds understanding of the factors affecting the future and helps seeing the future opportunities. The initiation phase has more possibilities for success if:

- The team participating includes open-minded members from different functions.
- The dominant business logic thinking is not allowed, for example phrases like “this has been done this way always” are not allowed, but instead funeral speeches to your company are encouraged (“the company died because”). This is an exercise that for example McKinsey consultancy company uses. (Gassmann, Frankenberger & Csik 2014)

The ideation phase is the part where new business model is being actively innovated. The model includes 55 pattern cards that describes actual successful business models. Each pattern card contains the essential information that is needed to understand the concept behind the business model pattern. An example of these cards is shown in the figure below. The information on the cards is kept on very simple and minimum level, the aim is to give just enough information to trigger innovative ideas. The meaning is to select few business models and then describe how one’s own company would operate if they would use the same business model. Often the card acts as stimuli and causes innovative ideas to emerge and inspirational discussion to arise. (Gassmann, Frankenberger & Csik 2014)

Success factors for ideation phase:

- To include also more distant patterns to one's business model - not just to look at the ones that are obvious or close to the current business model
- To keep on trying even if it might seem difficult in the beginning to learn something for an outside industry. (Gassmann, Frankenberger & Csik 2014)

The third phase is called implementation and during that phase the ideas created during the innovation stage are translated into business model concepts. It is important to check the idea internally and externally; good tool is for example the Business Model Canvas discussed already before or Business Model Navigators business model triangle. The financial aspects need to be taken into consideration to check that the business model is viable and can be profitable. As this should be iterative model, full scale business plans are not necessary before the value creation both for the customers and for the company are sanity checked. There might be multiple iteration rounds needed. (Gassmann, Frankenberger & Csik 2014)

Success factors for this phase include:

- Not spending too much time with the business model details - this should be done during the iteration process and through the sanitary checks.
- To pay attention to assumptions as the future is insecure
- Get feedback and comments from your customers and iterate based on the feedback (Gassmann, Frankenberger & Csik 2014)

The last step in the process is the actual implementation of the business model, this phase should always be iterative. The business model needs to be tested by the various dimensions and launched only after those tests are done. This part of the process can, and usually does, include lot of design thinking methods and tools, like prototypes and iteration based in the feedback from consumers. Implementation itself is a multidimensional phase, once the prototype is tested and iterated multiple times it is ready to be introduced to the market. In the Business Model Navigator model the testing phase is based on 1) identifying the most critical assumptions of the business model, 2) developing and conducting tests to validate and falsify the assumptions, and 3) updating the business model concept with the results. (Gassmann, Frankenberger & Csik 2014) There are multiple design thinking tools to do the testing and iteration phase.

2.4 Subscription business

The way people buy and consume has changed dramatically during the past ten years. Part of the engine for this change has been the digitalization and the change in consumption preferences, change that is especially driven by the millennial generation. The consumers of the

digital era are indeed different than before. Not only the way people buy has changed, but also the consumer expectations have changed. Today many people prefer renting instead of owning and customization instead of standardization. They want to have services instead of products. (Tzuo, Weisert 2018)

Tien Tzuo is the founder of Zuora and he is widely recognized as one of the thought leaders in the software-as-a-service industry. He is also known keynote speaker and evangelist about shifting from traditional business models to subscription-based business models. In his book *Subscribed* (Tzuo, Weisert 2018) he pictures the shift from old business models towards subscription business. The way Tzuo sees the change and digital transformation is that customer is moved to the center of the business model (image below). The shift to subscriptions over one-time transactions is happening across all industries, not only in the software industries. For companies, the transformation towards subscription model represents a better business model as it is built around recurring customer relationships and more predictable income stream. Tzuo has named this new business model as the Subscription Economy. (Zuora 2014) (Tzuo, Weisert 2018)

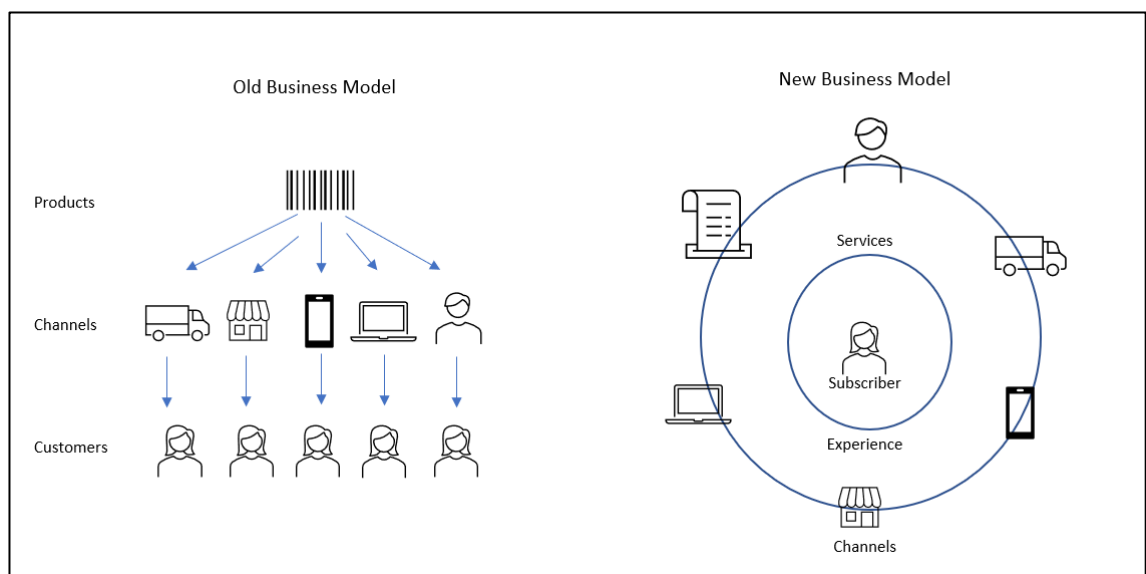


Figure 8 Digital transformation and the change in business model freely after Tien Tzuo (Tzuo, Weisert 2018)

Tzuo argues that the change towards subscription business is happening now because there are more technical capabilities to deliver services digitally. These services create huge amounts of data that then further help to improve the services and allow them to be more personal. Digital consumer subscriptions are also exploding because of huge improvements in user experiences during the past years. The big power behind this change towards subscription-based business is also the mega trend of changing from product centric to service centric

economy and from owning to renting mentality, driven especially by the millennial generation. (Tzuo, Weisert 2018)

2.4.1 The changes behind the rapid change towards subscription business

The subscription-based business model is not really an invention. Magazines and newspapers, for example, have been delivered home with subscription model already for many decades. However, where it earlier was a business model just for few industries, it has now become a major trend that affects all industries. Larger trend began in the beginning of 21st century and that change is now recognised as large transformation on how business is transacted - moving away from buying products towards subscribing to services. This is called the subscription economy. (Tzuo 2017) Companies have permanently changed the way they deliver services to customers, in addition to that they have also reinvented the customer relationship management. These companies operating in the subscription economy are almost totally customer centric, for them it is not just good customer service they are looking for, but a massive revenue opportunity. In the traditional 20th century business models, companies aimed to create hit products and then then sell them via every channel. These products were mostly sold and consumed only once. Customer understanding came mainly from research companies and the surveys they conducted. In the subscription economy this is turned around and the customer knowledge and customer understanding are continuous process. In this new economy the business is almost run by subscribers, not vendors. (Tzuo 2017) In his book *Subscribed* subscription business expert Tzuo states that the shift from product-centric to customer-centric mindset is a defining characteristic of the subscription economy. Tzuo writes that today the whole world runs “as a service” and that is because of the way subscriptions are being delivered, digitally. (Tzuo, Weisert 2018)

Another subscription business expert Janzer writes about the subscription business in her book “Subscription Marketing, strategies for nurturing customers in the world of churn” (Janzer 2017) . She opens the reasons for the growth of the subscriptions and those follow very much the same views as Tzuo described in his books and articles. Janzer sees that the major trends that have contributed to the growth of subscription economy are the sharing economy, mobility, Internet of things (IoT), digitalization and resource scarcity. (Janzer 2015)

The businesses in sharing economy are built on the concept that people really want access to goods, and not necessarily ownership of them. This works well especially on those things that people need only occasionally. The whole sharing economy business relies on subscriptions and memberships. (Janzer 2015)

With mobility Janzer means the mobile devices that have become powerful tools in people’s hand. Mobile devices allow people to be connected all the time and to have instant gratification. Some people call this the on-demand economy. Mobile applications are key to many

startups and many of the apps people use have a paid subscription component included. (Janzer 2015)

Internet of things (IoT) refers to growing number of devices and items with embedded internet connectivity. This could be for example a watch, thermostat or a remote data reader. The number of connected devices grows day by day, and Internet of Things is becoming a huge phenomenon. (Janzer 2015)

The digitalization of consumer goods has made it easier to build subscription services around the products. For example, music and movie industry are good examples of this, there are no longer that many CD's or DVD's available, but everything is available digitally. (Janzer 2015)

Resource scarcity relates to the ever-increasing concern of wasting nature resources. As businesses adapt to the world of decreasing resources, they will start to work with their consumers to reduce waste or reuse materials. The rise of circular economy, a model where resources are reused and refurbished, is a good example of the resource scarcity. (Janzer 2015)

The rules of success are changing for all businesses and there is continuous need to find new business ideas that will help companies to drive growth. One of the strategies is to shift business from transactional towards recurring revenues or subscription model.

To include a more Finnish view on this subject a study done by Rajala, Westerlund and Leminen about the changes in media industry was included on building the knowledge base. They discuss in their publication (Westerlund, Rajala & Leminen 2011) about the paradigm changes that have affected the industry. They identified six major paradigms, which are value paradigm, technology paradigm, customer paradigm, competence paradigm, revenue paradigm and operation paradigm. These are described in the figure below.

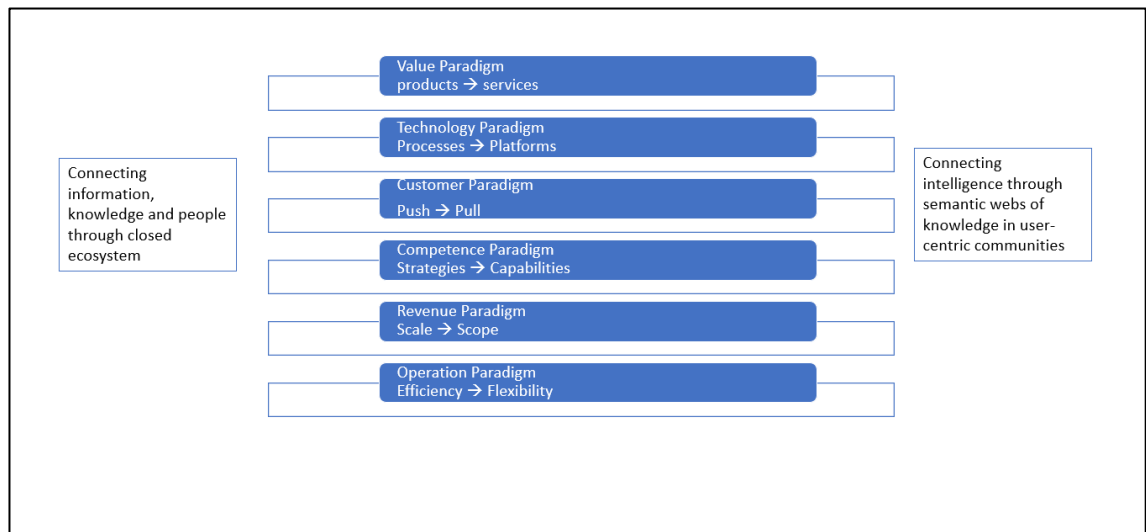


Figure 9 Paradigm changes in service intensive industries freely after Westerlund, Rajala & Leminen (Westerlund, Rajala & Leminen 2011)

The value paradigm means the mindset shift from products to services. Technology paradigm means technology shifting from facilitating to enabling services. Customer paradigm means the transformation of moving away from the push strategy towards pull strategy, so that the communication with customers becomes interactive. Competence strategy means change from top-down strategy design to developing dynamic capabilities by organizational learning. Revenue paradigm is the change from scale to scope. In the media industry it means moving away from the something-to-everyone towards everything-to-selected. Operation paradigm challenges organizations shift the focus from efficiency to seeking strategic flexibility and agility. (Westerlund, Rajala & Leminen 2011)

The reason why subscriptions are so successful is partly because of the millennials. Unlike the previous generations, millennials are not as interested in owning products. Instead they can survive well on rented cars, rented laptops, rented software and even on rented furniture. Millennials make up majority of the subscribers and for them signing up is part of the hassle-free lifestyle.

It is not only the revenues the subscriptions bring; it also creates new kind of relationship between companies and consumers. The subscription business model values the relationship with the subscriber - it offers flexibility, customization and ever-changing service portfolio according changing customer needs. The lifetime value of a subscriber depends on the company's ability to adapt, to recommend, to utilize technology and to personalize their service or product for each individual subscriber. This requires change in the way companies conduct their business, organizations need to be prepared to change and innovate. In order to compete they now need business model innovations.

2.4.2 The economic impact of subscription business

Zuora, platform provider for subscription-based business, publishes Subscription Economy Index annually. The data behind the index is based on anonymized, aggregated, system-generated activity on their Zuora platform meant for subscription businesses. The index reflects the growth metrics of hundreds of companies around the world, in variety of industries SaaS, IoT, manufacturing, publishing, media, telecommunications, and business services. The data in the index goes back to 2012. Even though the data is company owned and published data, it is widely used as reference when talking and researching subscription business as Zuora is widely recognised as one of the largest players in the market. The index itself divides companies into different business services, so that it is easier to compare between one's own industry. The sectors include management consulting, manufacturing, IoT, media, publishing, SaaS and telecommunications. (Zuora)

The index published in October 2019 shows that overall subscription businesses grew revenues about five times faster than Standard & Poor's (S&P) 500 largest US publicly traded companies' revenues (18,2% versus 3,6%) from January 1, 2012 to June 30, 2019.

Another research about US subscription e-commerce and subscription box market showed that the market continued strong growth in 2018. Research by Fuel, A McKinsey company, shows that the largest subscription e-commerce companies in US generated \$7,5 billion in sales in 2018, which is up about 30 percent over the previous year. They estimate that the total market size for subscription e-commerce services is about \$12 billion to \$15 billion. (McKinsey 2019)

The report also showed that from the Internet Retailer's 2019 US Top 500 list of the largest e-commerce companies by sales, 16 are primarily subscription-based. In total, these subscription companies brought in \$7,5 billion in revenue in 2018, which is up from \$5.8 billion in 2017. Since 2014, the market has grown at a compound annual growth rate (CAGR) of nearly 60 percent. (McKinsey 2019)

SUBTA, The Subscription Trade Association, predicts that by the end of year 2023, 75% of organizations selling directly to consumer (D2C) will offer subscription services. Of the global credit card processing industry, the global subscription commerce economy already accounts for 18% of the market. Globally the subscription commerce economy will have a 17,33% compound annual growth rate (CAGR). (Subta 2019)

At the European and Nordic market, the subscription economy is also growing at a fast pace. According to a study carried out by MEC on behalf of the payment provider Nets, the Nordic markets are at the forefront of this phenomenon. In MECs study subscription is defined as an advance payment made to receive or participate in something. The study states that globally

over EUR 93 billion has been invested in companies operating in the subscription economy, and it is estimated that around 28,000 companies globally offer a service based on subscription. The subscription is present in both in the business-to-business (B2B) and in business-to-consumers (B2C) markets, and both physical goods and services are offered by subscription. (Nets 2018)

Out of those estimated 28 000 companies, almost 3 100 companies offer subscriptions in the Nordics. According to NETS´ s whitepaper, over two-thirds of the subscriptions supply in the Nordics is provided by global suppliers and that leaves only around 1 000 locally based providers. Over 65% of the subscription companies operating in the Nordic market serve the B2B segments, which is the dominant customer segment. Approximately 25% serve the B2C market and the remaining part serves both B2B and B2C. During the past five years, the growth in revenue for subscription companies has outgrown the retail growth in Nordics and global S&P 500 sales index. (Nets 2018)

NETS´ s whitepaper states that there are some signs that the market is now already starting to slow down. The reasons mentioned are:

- Market saturation: Markets are already filled with several alternatives and many consumers already have multiple subscriptions. This makes the market entry more challenging
- High cost of differentiation: Subscription businesses require constant and increasing investments to retain the customer base
- Subsidisation: High competition forces companies to lower prices and that infects the profits
- High consumer expectations: Consumers expect subscription services to offer variety or discounts through the customer lifetime

(Nets 2018)

2.4.3 Subscription business models

The more dominant business model the subscription becomes, the more variations there are of the business model. The Subscription Trade Association, SUBTA divides the subscription commerce economy on six categories based on the business model:

- Subscription Box
- Membership
- Subscribe and Save
- Media and Streaming Subscription
- Digital Subscription

- Software as a service (Saas)
(Subta 2019)

Subscription boxes are a medium for consumers to be introduced to and engaged with a recurring delivery of niche products. This is both a marketing strategy and product distribution method for the company. In 2018 there were close to 7 000 companies offering subscription boxes in the world. According to SUBTA almost 70% of these companies are based out of US. SUBTA estimated that there are 18,5 million people in US to subscribe to boxes, and from the active base 35% have three or more subscriptions. Box subscriptions have seen continuous growth since year 2017, but also have the highest churn rate of all the SUBTA subscription segments. (Subta 2019)

The membership business model occurs when consumers pay a recurring fee to access the value an organization creates. One of the best-known examples in this category is Amazon Prime membership, which has over 100 million members. Amazon customer pay to get access to faster delivery, special offers and other member specific content. Amazon Prime members spend four times more than non-Prime customer on annual basis and the renewal rate is estimated to exceed over astonishing 80%. Memberships are also very popular within the fitness industry; many fitness and health centres offer monthly memberships. Also, the clothing rental memberships continue to rise. Lot of big brands, such as Banana Republic, offer now memberships to their clothing rental services. Membership businesses usually utilize at least of one of the following pricing tactics; fixed term membership, recurring subscription with fixed price period, front-loaded membership, instalment plans, free or reduced-rate trial, lifetime membership, group pricing, add-on pricing model or pay-as-you want pricing. (Subta 2019)

SUBTA has named membership as business strategy within the subscription economy. A well-known keynote speaker regarding the membership economy is Robbie Kellman Baxter, who is also the writer of *The Membership Economy: Find Your Super Users, Master the Forever Transaction, and Build Recurring Revenue* (Baxter 2015). Baxter states that in the membership economy, customers become members and they stop evaluating competitive options and instead trust the organization to provide them with ongoing value. This creates value both for the consumer as they do not need to spend time on evaluating different options, but also for the companies as this drives customer lifetime value and reduces the impact of competition. (Baxter 2018, 18-21)

There has been also discussion if the whole economic system where consumers pay a certain regular fee should be called membership economy where subscription would just be a pricing tactic inside the economy. As in not all cases the membership even costs something but they can be free, and most probably monetized in other way. (Manifesto Growth Architects 2019)

However it seems that the more dominant view is currently that the economy is called subscription and membership as concept belonging tight to it. There are similarities and overlap when using these terms.

The next category in the SUBTA subscription business types is subscribe and save. That means a model where businesses give customers both opportunity for a one-time purchase and the option to subscribe specific product, and then to receive it weekly, monthly, or any other given timeframe. Usually there is an incentive to subscribe in the form of a discount. According SUBTA 15% of digital shoppers have signed up for one or more subscriptions to receive products on a recurring basis. The key components of a subscribe and save Business include flexibility, possibility to pause the subscription, possibility to change products and to get discounts. These subscriptions usually have on average order value of \$30 or less and the lower order value correlated as low churn, which is according the SUBTA study below 10%. (Subta 2019)

Media and streaming subscription category mean the mass communication channels and this includes for example broadcasting publishing and internet business. In the SUBTA classification this includes this includes digital broadcast subscriptions, print subscriptions, and both audio and video streaming subscription services, such as Netflix. According to SUBTA 15% of digital shoppers have subscribed to an e-commerce service over the past year, and from those respondents over 46% subscribed to a streaming service. (Subta 2019)

The fifth category is digital subscription, those businesses provides access to products, services or technology from a computer or device. Digital businesses commonly use technology to create new value in business models or customer experiences. They can also bring internal capabilities to support company's core operations. The category includes not only digital brands but also and traditional players, who have added services with digital technologies. This category includes companies, such as Uber and LinkedIn. It is estimated that these kinds if services are growing fast in the coming years as the number of smartphone users keeps on growing. It is estimates that already now an average person uses nine mobile apps daily, spending over 2 hrs on a day with them. (Subta 2019)

The last category according to SUBTA is software as a service (SaaS), which is a software licensing and delivery via digital subscription. The old model for this was buying a software and installing it to computer. Within the different SUBTA categories SaaS category has the lowest churn of them all, customers voluntary churn only 4,04% monthly and involuntary only 1,02%. (Subta 2019)

Another view is introduced by Warrillow (Warrillow 2015) in his book *The Automated Customer*, where Warrillow introduces nine basic subscription business models. He states that

savvy companies in every industry are or can create revenue streams by utilizing the subscription business. (Warrillow 2015)

The first one is The Membership Website Model, where consumers pay a fee to be included in certain community or entitled to certain other member only features. This model's revenue usually relies on cross-selling or upselling for the consumer. The model usually works in a niche market where the benefits or information are not easily available outside the membership. (Warrillow 2015) SUBTA also lists Membership as one of the main subscription business models. (Subta 2019)

The second model is called The All-you-can-eat Library Model and it includes the idea of paying a fixed fee to be able to access and consume content or items as much as one wants. This model works well on industries where items can be digitalized and with many industries have been disrupted with this model. Netflix has changed the movie rental and TV business and iTunes and other music streaming services the music industry. (Warrillow 2015)

The third model is called The Private Model Club and it offers the subscribers ongoing access something rare. This could be for example access to members only sport club. One of the key things that make this model work is the status and privacy itself and usually the included high entry barrier, such as a huge fee to access the club. (Warrillow 2015)

The fourth model is The Front-of-the-line Model, which relates to the private model. This model involves selling priority access to a group of customers, such as offering faster customer service or no queuing passes. If this model is adopted one should be very clear to state that not all customers are treated equally and be very transparent about this. (Warrillow 2015)

The fifth model is called The Consumables model. It involves offering a subscription to a product that customer will need on regular basis and offering a replenishment service for this. The value proposition is very simple, people should not have to worry about boring every day tasks but let the subscription take care of that. This model includes services such as delivering diapers, books, razors etc. Directly to home on agreed frequency. There are signs that the subscription as value proposition does not work alone any more and many of these companies have been acquired by larger companies that can offer wider product catalogue. (Warrillow 2015)

The sixth model is the Surprise Box Model, where consumers are delivered a curated package of goods and items each month. Boxes are typically built around themes the consumers feel passionate about, such as sport supplies, make up or pets. A big part of the value the consumers experience is the curation, that needs to be extremely good and well fitted to the consumer needs. Data works well for these companies as they are able to gather tons of

useful information about the consumers by their sophisticated rating platforms, but in the other hand it also requires the companies to continuously improve the box content to each individual consumer. This model also includes high dependency of well working logistical solutions. (Warrillow 2015)

The seventh model is called The Simplifier Model, and it promises usually two things to it's subscribers - taking off to-do lists and tasks and also reminding the customers of the to dos. The simplifier model relates to the ever increasing amount of tasks that consumers should remember to do and take care off. The simplifier model works through many industries, as the service could be for example maintenance of the house, filling in tax forms or maintaining home electronic safety. (Warrillow 2015)

The eight model is named The Network Model. One of the defining characteristics of the network model is that the utility of the subscription increases as more people subscribe, opposite to the private club model. A good example of the network model is the messaging service WhatsApp, the more people use it the more the value it brings to it's users by easier messaging, wider reach and lowered messaging costs. Very often the networks increase popularity with word-of-mouth advertising and effect. This also works other way round if there is bad experiences and the amount of subscribers can quickly decrease due bad reputation. Key to success is really to stay customer focused and keep the customers happy and satisfied. (Warrillow 2015)

The last one of the models is called The Peace-of-mind Model. The model means offering insurance against something the customers hope they will never need. The insurance could be, for example, towards home security, computer insurance, rare disease or something similar. The tricky part is to calculate the right ratio between subscription fees and payments for the customers. These kind of services can be offered both to consumers and business customers and it works best when offering security to something that is difficult, expensive or impossible to replace. (Warrillow 2015)

The subscription business is relatively new concept, and hence there are limited number of ready-made templates or success recipes to take directly into action. Zuora, the subscription platform company, has large information databases about their customers and their businesses. Zuora states that subscription model is a win-win for both for the consumers, but also for the businesses. Consumers benefit from the model as businesses are focused on customer success, earning customers trust and constantly improving the offering to meet customer requirements. This is very much the same as companies have always done to be successful, but this time the difference is that due digital capabilities companies can measure and analyse every single action. (Zuora 2014)

Tzuo claims that for companies this is a win-situation because if they continue to meet the customer needs, they continue to earn revenue that is more predictable. In addition, companies have access into customer insights and can further improve their product and service offering based on real data. In the traditional product centric world, the interaction between companies and consumers were very limited and data available came mainly from these rare interactions. (Zuora 2014) (Tzuo, Weisert 2018)

They have identified four critical values that companies must recognize and operate around. These are:

- Deep customer relationship - companies must develop deeper customer relationship than in just executing one-time transactions
- Value based pricing - companies must establish dynamic and value-based pricing model. The traditional fixed pricing based on costs does not work in subscription model
- Consumption-based services - companies need to deliver efficient and consumption-based services as opposite of shipping unit after unit
- Measure and report - There is a shift from backwards-looking financial statements to forward-looking predictions.

(Zuora 2014)

In addition to these key characteristics or operating principles, Zuora has introduced nine key elements that are common blueprints for successful subscription business. It is good to keep in mind that Zuora operates as platform provider for subscription companies and their focus is on managing the product and customer base together with invoicing cycle. The blueprints Zuora has identified as critical among their clients are:

1. Price

In the subscription business pricing and packaging are key components as they are directly tied to the revenue stream and acquiring of new customers. Price also effects on churn, which is one of the key elements of managing the customer lifetime value and whole revenue stream. The whole pricing is a complex issue, as there are hundreds of pricing strategies in the subscription economy (for example different pricing periods, free test period etc.). Zuora states that the key is to start with simple and basic model and iterate once the company starts to gather more data and insights on the consumers. (Zuora 2014)

2. Customer acquisitions

The process for consumer to sign up to a subscription needs to be seamless experience, and the process need to be available via multiple channels such as the web, mobile or through

assisted sales. The challenge is to change the technical capability from more simple one-time product sales to support the more complex subscription model. Systems need to manage different pricing, subscription lengths etc. Subscription businesses need to have fast, simple, streamlined and automated customer acquisition workflow across multiple channels. (Zuora 2014)

3. Billing

In a subscription business, billing is more complex than in the traditional one-time purchases. Businesses have to bill new customers at the time of the activation, bill existing customers at different times of the month, bill for usage and so on. This requires more complicated billing solution, that is preferably designed for subscription usage. (Zuora 2014)

4. Payment collection

Companies deal with many collections in the Subscription Economy, and the collections process is complex. In the subscription model the automation is the key to optimize cash collections. (Zuora 2014)

5. Customer relationship

Developing deep customer relationships is at the core of the subscription business model, this enables recurring revenue growth and developing the service according customer needs. Understanding and having tight relationship with the customer is of the most important factors in the entire framework. It is critical to acquire new subscribers, but evenly important is to take care of the existing customers. The vast majority of customer transactions consist of changes to existing subscriptions, such as renewals, suspensions, add-ons, upgrades, terminations, and so on. (Zuora 2014)

6. Account

A subscription typically has number of order transactions and changes over its lifecycle and this causes a complex need for accounting. This is something companies need to identify and be prepared for. Companies might need to streamline their accounting processes to stay compliant. (Zuora 2014)

7. Measure

The base of the subscription businesses is to drive accurate and timely decisions based on the data gathered. There are multiple key metrics companies should follow and many of these are specific to those companies. The metrics provide insight into customer value and the financial health of the business. There are also some metrics that every subscription business should

focus on and those are such as ARR, retention rate, recurring profit margin, and growth efficiency index to be successful. (Zuora 2014)

8. Iterate and rapidly deploy new pricing

There are infinite number of pricing options for the subscriptions and many start with a simple pricing model. However, it as the market and customer needs change, it is critical that package and pricing model are flexible and dynamic. Those are the strategic elements of a subscription product. (Zuora 2014)

9. Scale

Subscription business need reliable technology and systems that are reliable and scalable. Also seamless integration to other commercially critical systems, such as payment gateways, is necessary. (Zuora 2014)

2.4.4 Subscription business categories and pricing tactics

SUBTA categorized the subscription businesses based on their business model and Zuora listed operating principles and different success characteristic (Zuora 2014) (Subta 2019). Payment operator NETS has also researched this issue together with a research company MEC. In their whitepaper and research, they mention two different ways of categorizing the companies offering subscription. The first way to categorize is based on the offering. (Nets 2018)

1. Physical goods: this includes companies providing ownership or consumption of a physical good, for example a grocery subscription
2. Access-dependent: this includes companies offering access to a service or platform (usually digital), for example video subscriptions
3. Person-dependent: this includes companies offering products or services that are tailored to the requirements of an individual and are non-transferrable, for example a fitness service (Nets 2018)

According to the study the companies based in the Nordics, are mostly (92%) access-dependent, followed by person-dependent (6%) and physical goods subscription companies (2%).

The second way to categorise subscription companies is to base the categorization on the pricing tactic. As digitisation has reduced the distribution, marketing and personalisation costs for businesses, companies are enabled to target customer more data-driven and hence efficiency able to offer lower priced products for customers. The study identified six broad categories of companies based on the technologies and billing procedures. These are: Flat-

rate unlimited usage, Flat-rate limited offering, Tiered pricing model, Usage-based billing model, Freemium and Hybrid of the models. (Nets 2018)

2.4.5 Key Metrics in the subscription business and role of data analytics

The fundamental difference between product centric retail and subscription models is that the traditional retail is based on ad-hoc purchases and total revenues, whereas subscription business relies on recurring revenues and pre-known purchases. This means that the key measurements and success factors are different. The measurement is often used on measuring the growth based on customer retention. There are multiple key measurements, but the once most often mentioned are churn rate, customer acquisition rate, and cost per customer lifetime value. These are business critical factors in most subscription businesses and business needs to succeed in these ones. (Nets 2018)

The Nets whitepaper identifies an additional four KPIs to the main once mentioned above, these are customer acquisition cost, number of new customers, share of active customers and average profit per user. These are presented in the image below. The nature of customer engagement or business model of the company can increase or decrease the value or relevance of one metric. The study also opened the core KPI's to actual measurements and their perceived importance, those are shown in the image below. (Nets 2018)

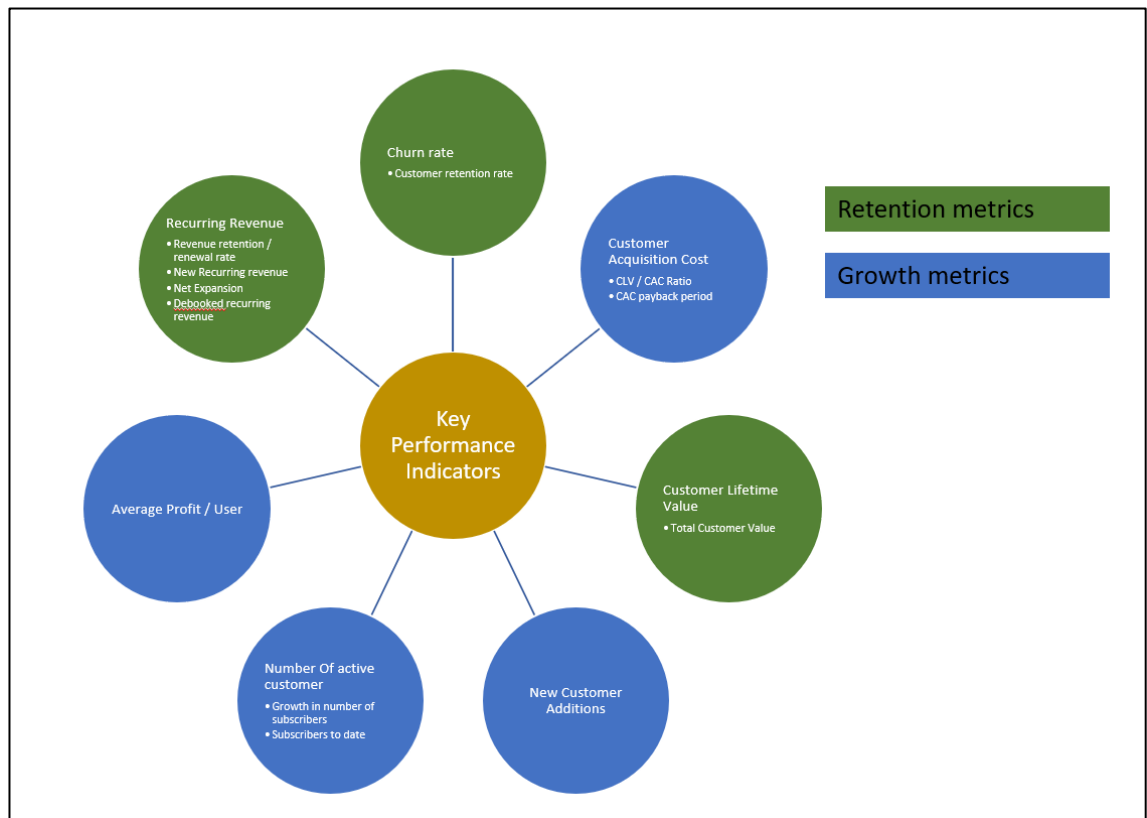


Figure 10 KPIs for measuring the subscription business performance after NETS' s research (Nets 2018)

2.4.6 Churn, customer acquisition and customer retention

Churn rate is defined as the proportion of customers that a business loses on a regular interval, because of cancellations or elapses. Managing churn rate is one the most important tasks of the subscription business as it is an important indicator of long-term success and has direct effect on revenue.

Nets whitepaper states that the churn rate comprises of two parts - voluntary churn and involuntary churn. Voluntary churn means customer cancelling the service and this usually relates to low customer satisfaction, disengagement with service, pricing issues or aggressive competition. Involuntary churn occurs without the customer taking a conscious decision to cancel the subscription. One of the most common cause for involuntary churn is failed payment. (Nets 2018)

Zuoras Subscription Economy Index published in October 2019 showed that the churn varies heavily between industries or business types. Index shows that over 12 months period the highest percentage of lost customers is Media (37,1%), followed by Publishing (28,2%). The sector with the lowest is Business Services (16,2%). Average churn rate in the index is 25,5%.

(Zuora) Already these figures give indication that churn has massive impact on business if over 25% of customers leave on 12 months period.

As the churn is so critical to subscription companies also lot of business strategies and activities focus on this. Nets study tells that companies focus on variations of three broad strategies to reduce the voluntary churn. The strategies are communication and engagement, offering more features and offering discounts. The key is to find the optimal level in between these. The subscription business is extremely data oriented and it is also required to use extensively data and data analytics to be able to acquire new subscribers, have personalized swerve and to mitigate churn. In the image below is an example how data can be used in subscription business in relation to customer acquisition and customer churn. (Nets 2018)

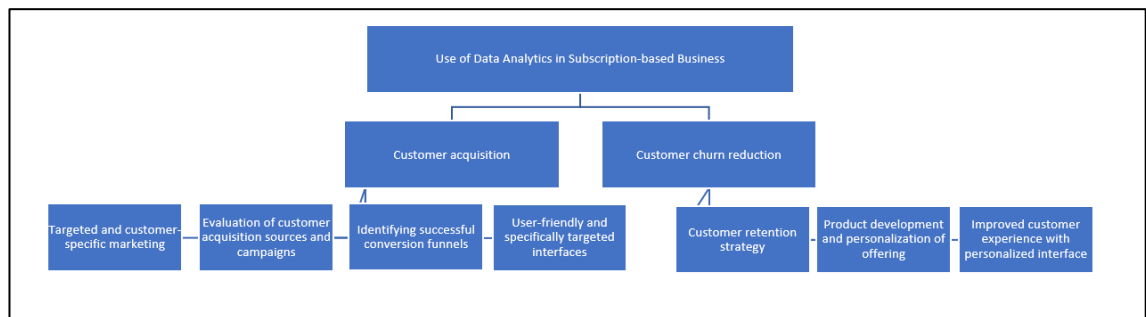


Figure 11 Using data analytics in subscription business as described by NETS (Nets 2018)

John Warrillow also highlighted the importance of the financial performance measurements in his book (Warrillow 2015). He states that company needs to pay special focus on the financial performance. The foundation of the subscription business are the recurring revenues, customer lifetime value (LTV) and customer acquisition costs (CAC). According Warrillow's book the ratio between LTV and CAC should be at least 3:1 for the company to be successful. (Warrillow 2015) Warrillow also highlights the importance of managing the churn, he states that arguable churn is the most important factor contributing to the viability of the subscription business. The churn depends heavily on the business and the industry the company operates in. Churn viewed in isolation is not as meaningful as looking at churn in the relation of how much it costs to acquire a new customer. In ideal situation the churn should be so low that, over the life of the subscription, the average customer is worth minimum three times as much as it took to acquire the customer. (Warrillow 2015)

3 Development setting

In this chapter the selected research methods and development process are explained in more detail. The selected methods and reasons for selecting those will also be explained.

This is a development research as the research is development-oriented and aims to provide answers to specific development problem. Development research also often aims to create new information for the businesses to use, by systematically and critically combining information both from the academic proven theories and from the more practical operational side. Development research also uses actively multiple methods to conduct the study. (Ojasalo, Moilanen & Ritalahti 2014, 204 sivua)

Approach of this research basis loosely on service design, which usually includes has an active phase of gathering information and then developing it by using different tools. Key for service design is to put the actual users in the centre. This research does not include full customer centric method, but the customer view is gathered from the discussions with company representatives. Originally customer participation was included in the test and iteration phase, but the plans were changed due timeframe limits and the changed market conditions in spring 2020 when COVID-19 pandemic took action. Specific methods used in this research are interviews and discussion, Business Model Canvas and Business Model Navigator. The phases of the research follow service design model Double Diamond (Design Council 2015).

3.1 Research and development process

In this development project, there were both a problem and a hypothesis in the beginning - the way people behave is changing and at the same time the golfing industry has seen very little development during the last years. There was a hypothesis that new innovative products or even a totally new business model would be needed to answer the changing needs of the market and consumers. Golf has an image of being very time consuming, expensive and the atmosphere in the courses being bit stiff, somehow even bit old fashioned. GoGolf was keen on finding ways to shape up the market and bring new and more consumer-friendly solutions to the market. During the initial discussions, the subscription model was mentioned multiple times, both by the company representatives but also by the researcher. For that reason, subscription business was selected as part the knowledge base.

As this was a clear service and product innovation case, with the possibility to even change the whole business model the Design Council ´s Double Diamond model (Design Council 2015) was selected as a loose framework for the research. It is a clear, comprehensive and very visual description of the process. It also offers lot of flexibility in the research and allows various methods to be used.

The Double Diamond model consists of four different phases:

- Discover - this helps to understand what the problem is and usually involves speaking and spending time with people who are affected by the issue
- Define - this phase includes defining the challenge in more detail

- Develop - in this phase there is already one clearly defined problem where inspiration and further insights are searched for
- Deliver - the final phase includes testing out different solutions at small-scale and iterating the process until working model is found
(Design Council 2015)

The Double Diamond framework shown in the image below outlines the four core principles and the design principles the model is built to work. The principles are:

- Put people first - understand the people using the service
- Communicate - visually and inclusively
- Collaborate and co-create - work together and get inspired by what others are doing
- Iterate - this needs to be done constantly, spot errors and avoid risk and built confidence in the model
(Design Council 2015)

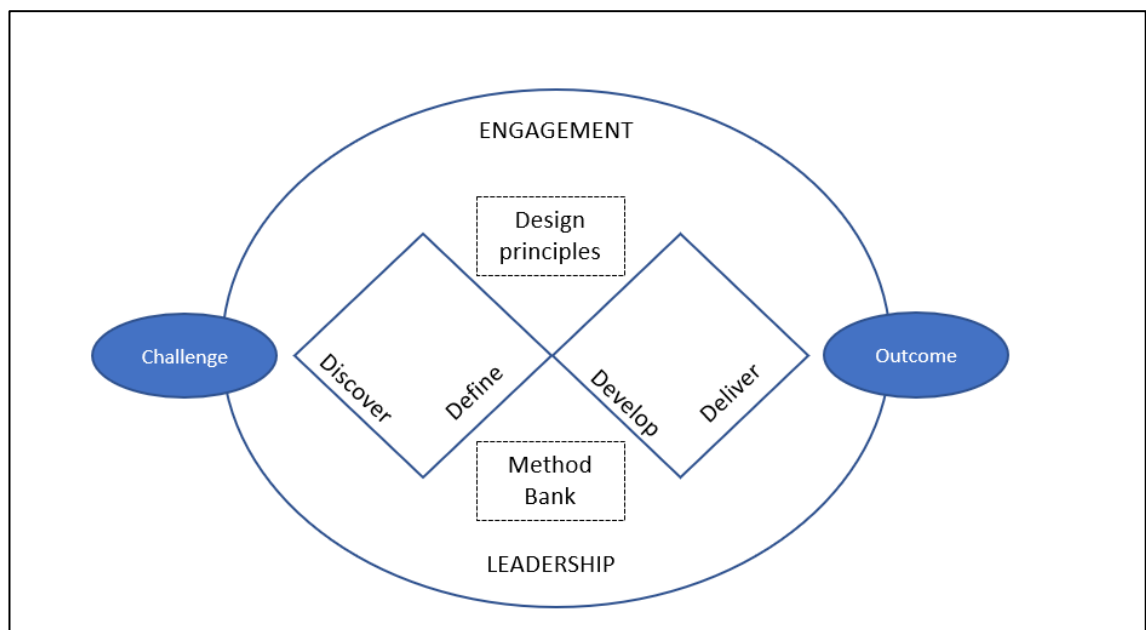


Figure 12 Double Diamond model and design principles after Design Council (Design Council 2015)

The Double Diamond model starts from a problem, and during the discover-phase the problem is researched, and multiple ideas and thoughts might arise. Once there is enough data and ideas the process can continue to further investigate the topic in question. After that there should be a clear case or view from the wide set of ideas and solutions. (Design Council 2015) This process was well suited to the problem this development project was about - it allowa

both innovative thinking but also a structure to keep the process tight and ending to a single solution to work with the future.

In the discovery phase the aim was to understand the current business model by discussing about it with the key employees. This phase included also lot of reading and researching the market data in order to understand the business better. This knowledge was further improved during the workshop where the current business model was discussed. It became obvious that the business model had some limitations and included lot of vulnerability. Business Model Canvas was used as a tool to visualize the current business model.

During the define phase the project moved to more concrete and hands on work. The key method and business design tool during this phase was the Business Model Navigator workshop, where both existing business model and it's limitations were discussed and also new business model innovated.

The development phase was more individual research as it included developing the core of the proposed new business model. This was done again by using Business Model Canvas and other related tools, such as Business Model Canvas questionnaires. Result of this phase was the new proposed Business Model.

The deliver phase will remain as development project for the organization. In the original plan this was supposed to include both customer surveys and mock sale (Bland et al. 2020), where the service would be launched for limited time to be available for sale on the company website. The actual service would not be available, but the aim would be to gather information if the service attracts consumers. With the mock sale it would also be possible to test which one of options would interest consumers the most (as multiple different service levels should be tested) and to gather already customer database for launch marketing. This phase was first moved to the development phase as COVID-19 pandemic changed the market situation and all extra development projects were put on hold. Later though one part of the new business model was launched directly to the market as COVID-19 also created unexpected demand to golf courses and quick launch of new services became possible and even a competitive edge.

The Double Diamond model, research methods, related knowledge base and the timeframe of the research are described in the image below.

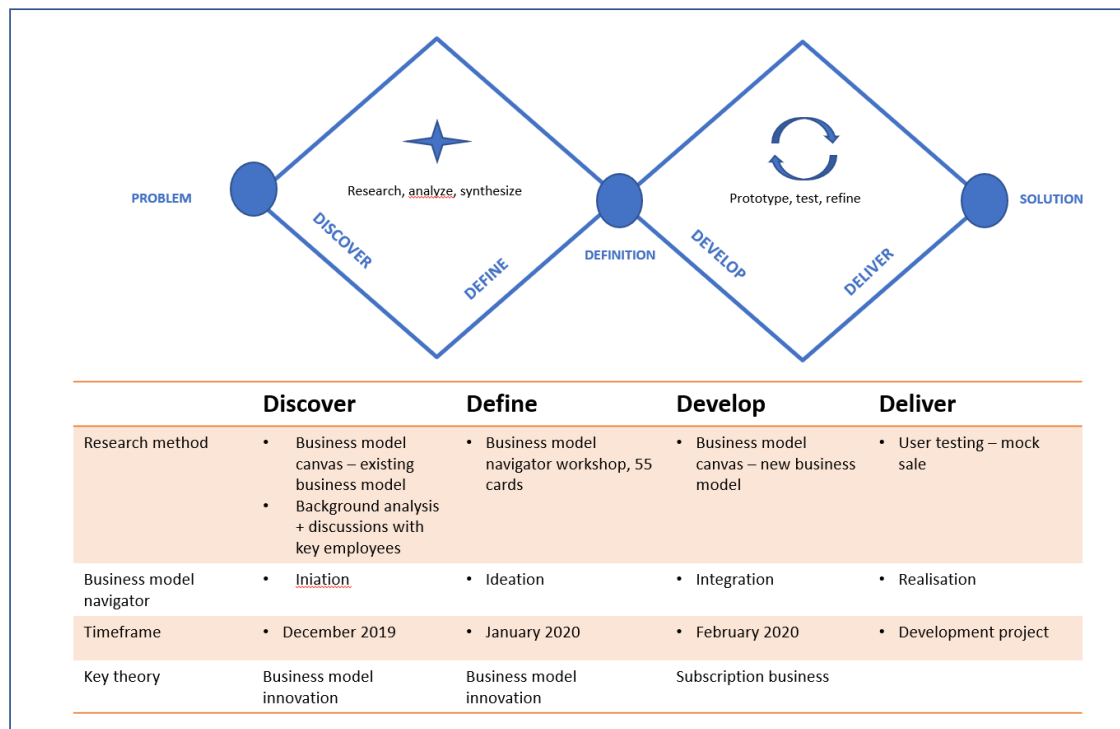


Figure 13 The Double Diamond model (Design Council 2015), research methods, related knowledge base and the planned timeframe of the development project

3.2 Discover phase: Background analysis and Business Model Canvas

The first phase of this development project began in autumn 2019 when the discussions started with GoGolf key employees. We had known each other for some time and discussed the possibilities and limitations of the whole golf industry in Finland and the effects on GoGolf's business. We agreed that I would conduct a research on the business model during the wintertime. We had discussed about the possibility and success factors of the subscription business already multiple times before hand, so I started to gather more information and knowledge base for that specific business model. I, for example, had short discussion with Robbie Kellman Baxter about different services offered in the US market that operate in industry where demand varies between seasons. She recommended me to have a further look for example to leisure industry and operators such as ClassPass (offering variety of fitness classes and access to various health clubs in multiple locations), Epic Pass (provides access to premium ski resorts around the globe) and Inspirato Pass (provides access to luxury vacation homes). I spend some time getting to know these services better and also to familiarize myself with different golf related services available all in Finland, Scandinavia and US. It seemed that were indeed subscription services available for lot of different health and leisure related services, but the supply within golfing industry was limited. One could argue that the "traditional" way of playing golf in Finland, which is paying a fee for the whole season, could be calle a subscription model as payment can be split to monthly payments. And yes, one could

probably call it a subscription, but at the same time the customer would still commit to pay for the whole season and would get access only to one golf course. Some development and new solutions were available also on golfing industry -for example co-operation between different golf courses, green fees being sold bundled and memberships that offer discount.

I discussed with the key employees of the organization, such as Chief Executive Officer and Head of Sales, about the current business model and its challenges and possibilities. After these discussions I mapped the current business model by using Business Model Canvas template (figure below). To keep the material updated and as true to reality as possible the Canvas was later modified to some extent as got deeper understanding of the business during the workshop held later in the process.

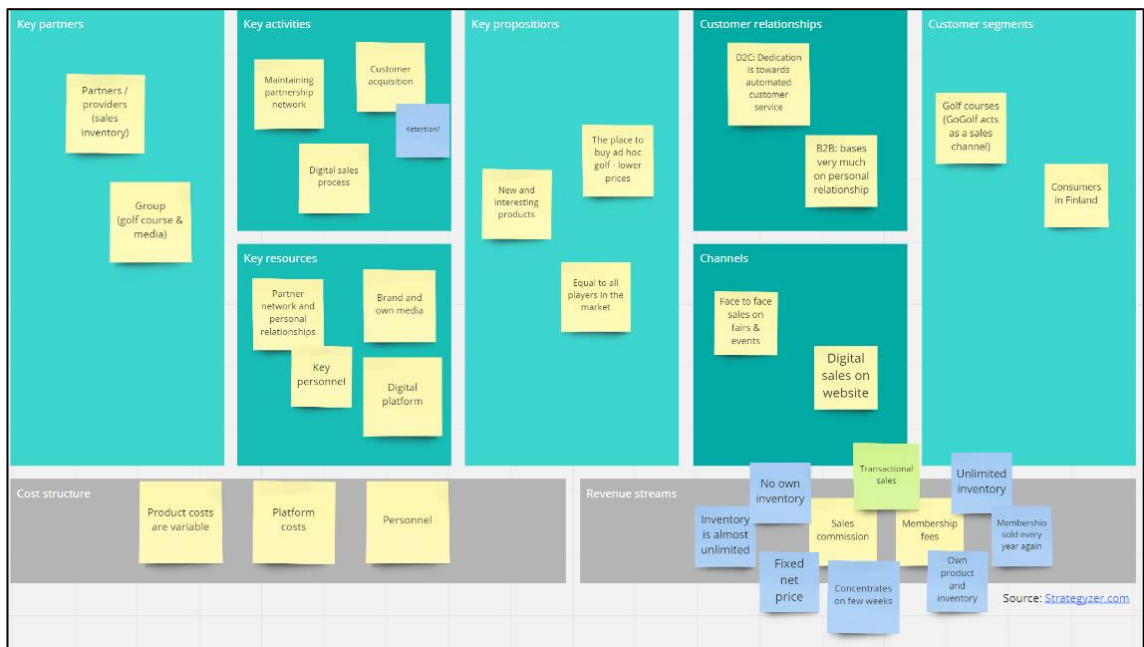


Figure 14 Simplified current business model described in the Business Model Canvas by Strategyzer.com (Strategyzer)

Once the Business Model canvas was done it was delivered to the key people in the organization. The Canvas was delivered just after the Business Model Navigator workshop that was held in early January 2020. The reason for delivering this only after the workshop was that I wanted to have an opportunity to discuss with everyone about the current operation and business model before delivering my vision of it for them. In this case the company operates both as media and as digital service retailer and this exercise only focused on the service retail part - it was required to commonly agree about which business we were discussing about. When I delivered the Business Model Canvas, I requested the key employees to analyze the current model using Strategyzer’s ready questionnaire that is panned to analyze the viability of the model.

The questionnaire has seven questions that help to assess the business model and its vulnerability. These questions are related to factors such as switching costs, recurring revenues, earning vs. spending, cost structure compared to competition, the cost of value creation, scalability and protection from competition. The questionnaire was handed to four people, three being in key positions in the company (Chief Operating Officer, Chief Financial Officer and Sales Director) and to one senior business consultant. During this phase it was again clarified that the analyze would only apply to current business model (as the process of changing it has already started in the company and mentally some ideas are already prepared) and it would only apply to the current consumer facing business (as company also operates as media and B2B sales organization). To further align everyone to be assessing the same business model, the current Business Model Canvas was delivered simultaneously as a reminder.

Everyone filled the questionnaire independently without seeing the replies of other participants. As one would expect the answers were quite similar. All participants saw biggest vulnerability being on the switching costs and on recurring revenue. This follows very much the discussion we had in the business model session. At the time it was very clearly identified that there is need for more stable and predictable revenue stream. Also, the technology and eCommerce set up is becoming quite old (even though once very modern and innovative) and easy to copy. Ready solutions are available in the market, as the market has developed enormously during the past years and today almost anyone can set up a digital platform and webshop within just few hours.

The earning versus spending was marked as highest asset or having the lowest risk in all answers. This might be because none, or very few, of the products sold are tangible. Hence there is no, or very small, cost for inventory or any storage. Most of the products also have almost unlimited supply as it would be very rare occasion that golf course should limit the tee times available, none of the golf courses in Finland is completely full throughout the season.

Another factor marked high was the game-changing cost structure. This might link to the low cost of running the webshop and easy supply of non-tangible products. One of the identified core competitive edges of GoGolf are the good and personal relationships with the golf courses, GoGogolf personnel is also known to be very innovative and fast on reacting. Their core value is not to maximize the revenue, but to make golf easier to approach and to play. This attitude really shows throughout their daily operation and this also pays back as easier access to get items / services to sell from the golf courses.

Scalability received above the average scores. This relates to the fact that almost all of the inventory is nontangible and hence easy to increase. The number of products is also unlimited. However, GoGolf currently operates only in Finland and the market size is quite stable, so to be able to grow they either need to take market share or expand to other markets.

Protection from competition received both very low but also quite high figures. After discussing with the key employees, it was clear that basically it is extremely easy to change the place where one buys green fees and other golf related services. Most of the products could also be booked or bought directly from the golf courses. On the other hand, GoGolf is known to be very innovative and they package the traditional “just green fee” products with some appealing add-ons, such as play & eat packages. Very much of this comes once again from the core values of the company, always putting the customer first. The attitude, values and innovative approach is much more difficult for other companies to copy.

The factors where all answers showed low grades were switching costs and recurring revenues. These two are attached to each other in my opinion. As there is no recurring service or focus on building long term customer relationship, there is very little emotional attachment to GoGolf and nothing prevents customers from buying from another provider. The recurring revenue problem is also very clear to see in the way revenues occur, there is a considerable peak in the revenue during the golfing fair. The rest of the weeks are much weaker in sales. This puts huge pressure on one single event - it must be a success or otherwise the revenue for whole year will remain low. This is a significant business risk.

3.3 Define phase: Business Model Navigator workshop

The Business Model Navigator was selected as method to this project as it offers an easy and fast way of brainstorming through vast of ideas. GoGolf is a medium sized enterprise, with approximately 20 people actively participating the everyday life in the office. The atmosphere within the company is very relaxed and innovative, ideas are warmly welcomed, discussed and tested in real life. Even though there are no official agile processes or working methods used, the way of working is very agile and has a “startup” feeling. GoGolf has been very innovative in their way of seeing golf in general and especially the products around it. For example, they have challenged the deep-rooted impression of golf being a sport that is difficult to start and requires lot of time and investment. They have launched a ready concept called “golfer in a day” which basically allows anyone to start golf and be ready to enter the courses in just one day. It helps that the GoGolf group also operates a golf course in Southern Finland, Kurk Golf. GoGolf can easily create, test and iterate services they have innovated there. I saw that Business Model Navigator process would be great fit for this kind company culture where new ideas are bursting, and you rarely hear anyone saying, “we cannot do this because it has not been done before”.

I organized a brain storming session for few hours in the beginning of January. Present were key employees, with wide knowledge and expertise of the business. There were employees all from management, sales, finance and marketing.

We started the session with discussing about the current business model (image below), so that everyone was aligned on it. In this case this was necessary as there are multiple operations in the group which overlap in between the companies. Also, GoGolf has two business areas - the products sold for consumers (consisting mainly of green fees, green card courses, memberships) and media business (magazine publishing, digital content and advertising sales). In this case we focused on the consumer business, however it will have some overlap with the media business as they support each other. We used the Business Model Navigators business model framework when discussing about it. The model focuses on four dimensions - What, Why, How and Who which then lead to value chain, revenue model and value proposition.



Figure 15 Business model workshop in January 2020

After the business model was discussed and it was clear for everyone participating, we moved on to the brainstorming part. We utilized the Business Model Navigator cards, which present 55 different business models. The cards were present in the brainstorming, so that two people shared set of cards. The method includes very good instructions on how to set up the brainstorming (figure below). The method advises to pre-select 6-7 cards and to focus on those ones. However, we decided to allow all the cards to be selected as people in the session were creative and we had more time available. However, this would work better if there would be additional session later where only few cards would be on the table and those would be selected based on the first round of selecting cards. In this case we continued working with the models in other type of meetings and brainstorming sessions. The brainstorming otherwise was very successful, there were plenty of ideas arising and lot of talking. Few hours itself is not enough for coming up with totally new business model, but it did create lot of single product ideas. However, the whole brainstorming session continued with further ideas and new kind of base for the business - so even though the brainstorming itself did not create

clear new business idea it did bring new product ideas that led to possible new business model.

In the brainstorming session the participants looked at the cards and came up with ideas where it felt natural, then they wrote the idea on a sticky note and put it back. Person sharing the card set was then able to see the ideas as well and continue same card with his/her ideas. There were few sets of cards available, so not everyone was able to see what others wrote - despite that there were certain cards that received more ideas in every card set. This might be because some of the ideas might have already been discussed before within the company.

After the cards were filled with comments and ideas, we talked through the most common ideas and it was already clear that the participants all felt very inspired by some of the business models and these intrigued more discussions - for example the subscription model was discussed a lot and it was attached to many other ideas. At this stage though the ideas were mainly product related and included lot of service and product innovations “Oh, we could concept the golf club renting for the golf courses”, “yes, we could offer that as service provided by the group’s golf shop” or “how about, if we could include golf balls to monthly subscription as an example of add on business concept”. Even though most of the ideas were just single product related ideas at that stage, they still started to develop and form themselves around same concepts - customer ownership and ongoing billing.

After the workshop I took all the sticky notes and comments with me and mapped them first according the Business Model Navigator business models. The ones that created most ideas and comments were:

- Customer Loyalty
- Subscription business model
- Pay what you want

I continued the work and combined the brainstorming sessions notes with the discussions I had with the key employees before the workshop, my own industry knowledge and the discussions we had during the workshop. This process led me to further combine the ideas to five segments:

1. Subscription business model related

This segment did not only include comments and ideas purely mentioning subscription but also other ideas that are closely attached to it or are part of the subscription business mechanisms (also discussed in the theory part), such as freemium (“offering first month for free”) and add on (“offering multiple service levels for different price categories”).

2. Customer and data related

Already during the discussions, it was clear that many of the ideas required deep customer understanding and putting data in the middle of the business. This relates also heavily to subscription business as that basis on knowing the customer and customer behavior. The discussion was mentioning also same elements as the whole rise of business model and business model innovation, “we need to be customer focused instead of product focused”.

In this group I gathered ideas related to eCommerce development, customer loyalty (increasing loyalty and acknowledging it), cross selling (this could also easily be in the subscription model related items, but as one needs to know the customer and their buying behavior before starting to cross sell I decided to keep it on customer data related box) and push to pull (utilizing the customer data for creating demand). I also included the “solution provider” ideas to this group as they are related to data and technology and the ideas were for example “create one-stop-shop, where all services are offered in one place and then you can allow 3rd party providers to offer also their services” - this idea in my mind is very close to the idea of owning the customer relationship and hence it is listed here.

3. Pay what you want related

There were also many comments and ideas related to turning the pricing model more dynamic and customer centric. So far, the golf green fees have been priced by the golf courses and they have a set price. Ideas presented here evolved around building an auction platform, where golf courses could sell green fees or selected tee times (tee time is the time slot when 1-4 players leave to the golf course) as auction based. There was also an idea of turning this upside down and customers telling that they would like to play in selected area and the price they are willing to pay - then golf courses could offer tee times for them. Also flat rate - pricing was mentioned, currently most of the time the fee golfers pay is per person playing, but there could be demand for one price tag for the group playing at the same time (called also flight in golf terminology), for example one fee for the tee time of 13:30 whether there is one or four players. In some cases, people prefer to play only with their family or friends and do not want to have any unknown players playing with them.

4. Shop related

The fourth group included ideas that were closely related to the retail sector of the group. Group has a retail shop chain that specializes in golf equipment, clothes and other related items. These two companies work together to some extent, but the co-operation could be strengthened further. The brainstorming session showed clearly that people have already started to actively think different co-operation models and pure product and service innovations that can be used as such in the retail sector.

Ideas here were such as running a franchise retail concept, that golf courses around Finland could utilize. Also, easy to build pop-up shop concept that could be utilized in different events, not in golfing events but in all sorts of places where there are lot of active people in one place, such as mass sport events, fairs etc.

There was also quite lot discussion around the topic of renting the golfing equipment instead of buying it. This is a concept that for example some skiing centers offer, one can rent the equipment for one season and even change them during the season. The returned equipment will then be used in the rental business. The discussion led to further discussion if all green fees should include rental equipment in the group owned golf course - this would lower the barrier to start playing of coming to the golf course if one would not need to invest to the equipment or carry it with all of the time.

Also, the trash to cash concept created discussion, how the company could help in recycling and at the same time being able to offer for example new golf equipment. Discussion had ideas like reusing the materials, offering the used equipment for young or new players and so on. All these ideas were not put on sticky notes but were mere discussions that raised after the moderated part.

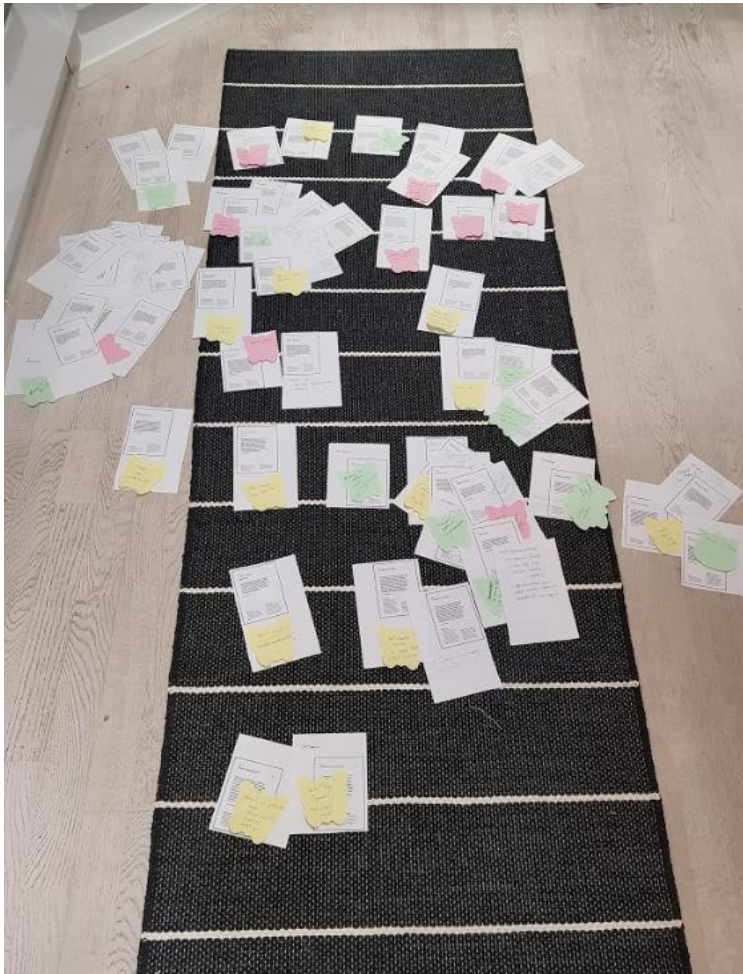


Figure 16 Mapping the workshop notes

After the different notes were mapped in to four identified main sections, I further simplified the findings. As I saw that many of the topics and ideas required either customer knowledge, data or technology, I placed customer and data into the centre of the findings. Then I looked at the other areas and placed subscription model to the other site, as that represents constant value and revenue creation. The product innovation is placed to the other side, as those can either represent one off transaction-based business but also all improvements and new products to the subscription business. The product innovations also showed that the organization has lot of energy, drive and extremely good base for innovating. That itself is also a value and would allow different kind of business build around that asset. So far, the company has offered these innovations and ideas freely to the golf market, but they could also build a consultancy services and concept factory around this. Especially if the customer data and knowledge sit with the company - also a very good reason to put customer & data to the centre of the business. The importance of customer and data is something that for example Tzuo (Tzuo, Weisert 2018) highlights. Ideas for the retail segment were placed outside the core as

they belong to different segment of the group - however in the group strategy the customer could be owned commonly and different functions supporting each other even more clearly.

In this stage it was very clear that in future the focus should be more on owning and knowing the customer. Actual services and products should be built around the customer understanding. So far, the business has been very focused on products and creating demand for supply, not the other way around.

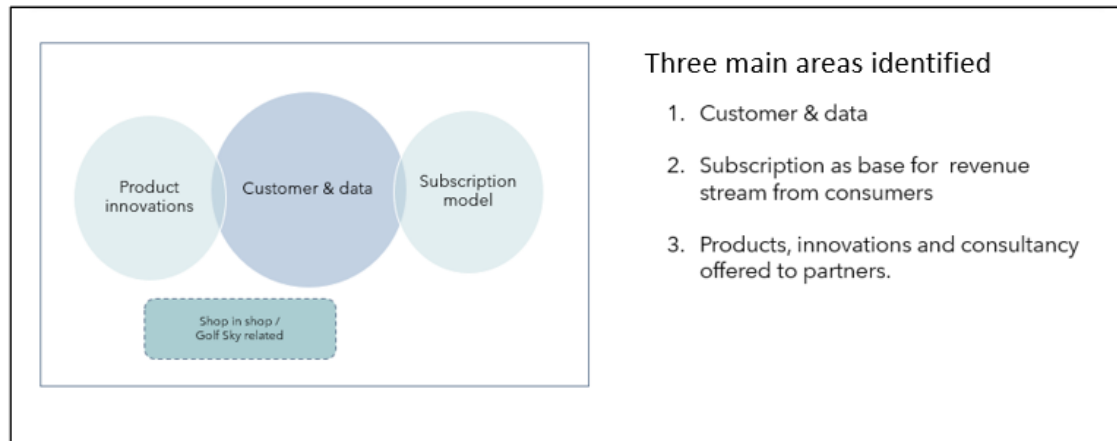


Figure 17 The Business Model Navigator-workshop findings simplified

Combining the hypothesis in the beginning that subscription business could be one of the options in their business, the discussions with the key employees, getting to know the business and findings of the Business Model Navigator workshop lead me to recommend a new business model for the company. Not entirely changing the business to be only subscription based but more of turning the focus away from just being a digital retail operator towards knowing and owning the golf consumer. Having said that, that does not overrule the possibility of running a subscription business, in my opinion this creates the base for having one. If the core is to know the customer and own the customer data, it gives possibilities to build various businesses, products, services or revenue opportunities on top of it. The proposed business model is introduced in the results chapter.

4 Develop phase: Business Model Canvas

The end delivery of this project, and the develop phase of the service design process, is new proposed business model for the company done by using Osterwarlder's Business Model Canvas template (Strategyzer).

In the proposed business model focus is moved from selling one-time golf related products to owning the customer and building products and services based on that. The biggest changes to the current business model are:

- **Key partners:** key partners are no longer only the golf courses that utilize the platform for green fee sales, but wider selection of key partners whose services or products can be delivered via the platform or included to the subscription services. Also, the platform and partners on providing it has been added as key partner. This both makes it possible to expand the business but also makes sure that platform, customer data, data possibilities and the whole digital service flow will be in the core of the business.
- **Key activities:** platform and focus on building digital competency & excellency has been added to the key activities. Customer database and handling it with full compliancy is added to key activities, and customer acquisition is changed to data driven marketing and communication, that drives both customer acquisition and retention.
- **Key resources:** Customer database and platform has been added as key resources.
- **Key propositions:** the original proposition highlighted more of the products and the webshop. New proposed model focuses on larger picture, by promising to have “all your golf in one place”. This leaves more freedom to build services and product and those can be based on the data gathered from the customers, a customer driven and ongoing service portfolio development. This could mean that one finds online tee time bookings, score cards, memberships, fitness data and all that in the same place. It could also mean that customers only get communications and products offered for them that are relevant for them. This also makes it possible to offer a subscription service to the consumers. Internally this means changing from product centric to consumer centric organization.
- **Customer relationship and channels:** these remain as they were.
- **Customer segments:** The focus remains on consumer segment, with different target audiences to different products and services. Other customer segment is changed to partnership networks, which can also be outside the core golf related products.
- **Cost structure:** Personnel remains naturally one of the key cost segments. Technology and platform costs will be critical in the future and managing those correctly will have impact on the overall financial success. The cost structure on products shall

move away more from the pure fee or cost + profit model and should be based on value created. This is very much in the core of the subscription services (Tzuo, Weisert 2018).

- Revenue streams: Focus on creating products and services that create ongoing and predictable revenue streams. There will be also one-time purchases, but the key is to utilize the data and customer knowledge to increase the amount of purchases, the value of single purchase and cross-sell towards the subscription services - to increase the average revenue per user (ARPU).

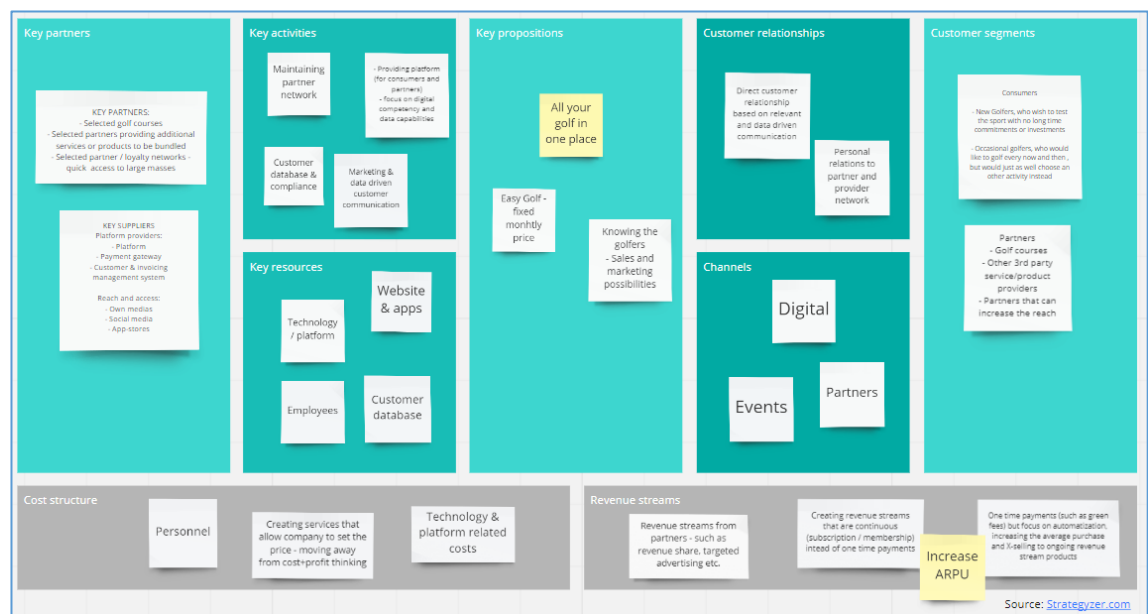


Figure 18 New proposed Business Model (Canvas by Strategyzer.com)

As a summary, following development ideas were found through this research. The current business model and way to operate has lot of good features, but there are also some limitations. The biggest advantage GoGolf has is the extremely innovated and talented people working within the company. They also have great advantage of being part of larger group of companies where cross-selling and directing consumers to purchase items from the webshop should be easy. However, there are also limitations in the current operating and business model, such as focusing on selling one-time purchases. This makes the revenue stream unpredictable and vulnerable as sales rely on certain peak sales weeks. Other untapped potential, and the key to running successful ecommerce or subscription business (Tzuo, Weisert 2018), is the lack of proper focus on managing the customer relationships. Third main limitation I saw, and partly attached to managing the customer relationship and data, is the focus on technology and platform. These should be in the core when running any digital business, these make the flawless customer journey, targeting, automatization, automated billing, subscription

business management etc. possible. My recommendation after the research is to place technology, data and customer in the middle of the business and turn the vision to be “to know every golfer in the market”. Only then start to build services and products to cater the needs of the customer, with focus on building services that create ongoing revenue and increase the knowledge about the customer, such as subscription services.

So, my recommendation in the new business model is to focus on putting customer needs, data, technological capabilities and ongoing revenue streams to the middle and allow the actual products and services sold support and be built around that. The customer and knowledge should be the key asset to compete with in the future.

5 Conclusion

The first main objective of this thesis was to use the business model innovation process and service design tools to create a model for updating business model for a medium sized company. Second main objective was to find, through this business model creation process, a new business model for digital golf service intermediate operating in Finland.

Both objectives were met as the new proposed business model was introduced after using Business Model Canvas and Business Model Navigator as tools to create the business model. Creation process was done by using service design method Double Diamond as framework. The framework and tools used during the different phases of the process are shown in the image below. The Deliver-stage actions are included in the model as recommendation for the next phase.

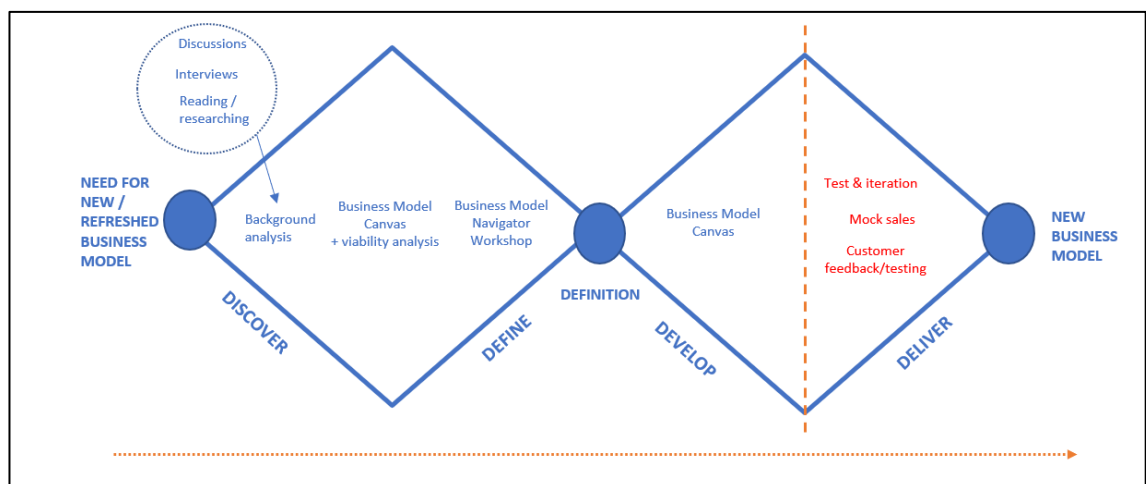


Figure 19 process for creating a new business model

The first development question was if the Business Model Navigator approach can be applied in a context of building new business model for existing company? The question was answered when Business Model Navigator workshop was used as the key element of the process; it was the sole tool used during the Define-phase. However, the Business Model Navigator was not the only method used during the complete process. It worked as a good discussion opener and source of ideas and completed the Business Model Canvas approach well in the process.

Second development question was related to the hypothesis if and how subscription business model could be integrated into the business model of a company operating within traditional digital retail? The question was answered in the new proposed business model. During the process of creating the new business model it became clear that subscription business could be one pricing tactic or a key element in the business model. In this development case subscription business was not planned to be the primary business model, but the business model should create a base that subscription business can be built upon.

6 Discussion

This thesis is written during the time when being innovative and creative is more important for companies than probably ever before. During the spring 2020 COVID-19 pandemic and the lockdowns followed by it, changed the business environment to many companies overnight. Being able to innovate the business model became almost necessity to survive. The topic of this thesis ended up being more current than anticipated in the beginning. The objectives of this thesis are both to use the business model innovation process and service design tools to create a model for updating business model, and to create a new business model for a medium sized company in Finland. During the development project these objectives were met as old business model was analyzed by using Business Model Canvas and new one created by using Business Model Navigator workshop and the Business Model Canvas. Even though the COVID-19 pandemic prevented conducting some of the planned actions in the original plan, it also fastened the process of launching some parts of the business plan into action. It was not yet a full change in the core business plan, but nonetheless the process proved its agile approach by creating something new to offer for the customers when the market changed.

The original plan included user testing and iteration rounds before launching the new business model. After the market situation changed dramatically due COVID-19 pandemic GoGolf decided to fast forward and launch a new service concept with an extremely fast schedule. Already in April 2020 GoGolf launched a subscription-based service to the golf course that GoGolf group operates. The launched service is a true subscription service where customers

can play golf as much as they wish during the given timeframe. The subscription can be cancelled any time. In this case the planned mock-up test sale turned into testing with real product.

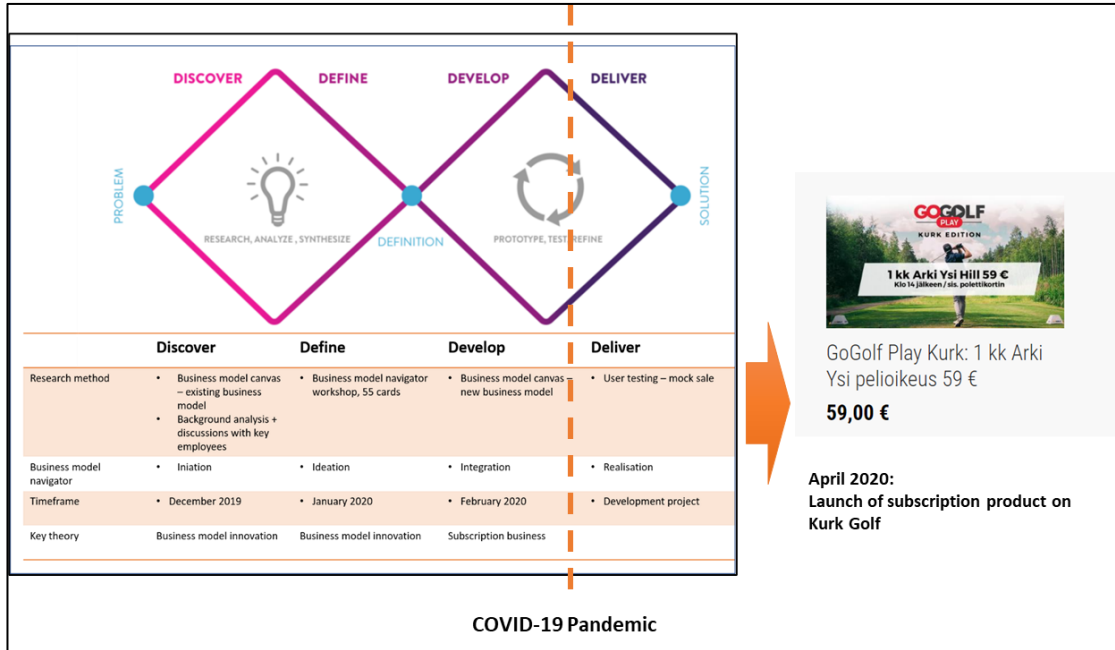


Figure 20 Planned Development project process and first product outcome after the development project



Figure 21 Image of the service selection GoGolf launched in April 2020 (GoGolf)

The first development question of this study was if Business Model Navigator tool could be used in the occasion when there is a need for fast and efficient process to create or update business model. In this research it turned out to be a really good tool to start the discussion and process towards the new model. Overall, the business model session with Business Model Navigator as framework was very interesting, and it created lot of discussions - also after the session was already finished. Lot of good ideas were brought to the table. Even though some of these ideas were just single products or improvements, it was clear that the session made

all participants to think about the new business model. In my opinion the Business Model Navigator is a useful tool in this kind of process and it most probably would work even better and with larger impact if the process would include multiple sessions. One session to ideate and brainstorm seemed to create very hands-on ideas, whereas business model changes need to have longer time to formulate. As a standalone tool the Business Model Navigator offers good and simple facilitation possibilities, but it needs other methods to support the change and deeper understanding of the business and business model needs. I think it operated well as a brainstorming tool and helped to start the discussion to see the business differently. However, during this process, we also used the model more as a discussion starter as we allowed all the cards and business models to be discussed. If few business models would have been pre-selected the result could be deeper business model change.

In this development process the organization and its employees fitted well especially to the Business Model Framework. The creators listed some success factors (Gassmann, Frankenberger & Csik 2014) to ensure the best possible outcome, and many of these factors were easy to fulfill as the company has a very open atmosphere, bit of a “startup feeling”. For example, one of the success factors during the initiation phase is to include open-minded members from different functions (Gassmann, Frankenberger & Csik 2014). In this case, the employees discussing openly and innovatively was key to the successful outcome, it both kept discussion alive and the good discussion continued to grow the ideas. According to the creators the initiation phase should encourage participants to keep on trying to learn something for an outside industry (Gassmann, Frankenberger & Csik 2014). This advice was given to the participants before the session started, but as the team was already quite open-minded, it felt like the ideas from other industries were naturally the best ones as they created a lot of ideas. However, I believe this is very much dependent on the participants and the organizational culture they represent. The model might not work this well on all organizations. Though the framework itself can work as inspiration if the facilitator is inspiring enough, it has a lot of success elements already built in.

The second development question was to find out if a subscription business model could be part of the new business model. The answer for this is yes, it can. However, based on the discussions, workshop and other analysis I recommend changing the business model to be more data and customer driven. This approach allows subscription business to be offered as a service built on top of the data, but it does not limit other services to be included in the service portfolio. I recommend building the business model based on principles that create possibilities for long term and allow more flexibility and higher possibility to succeed. If a company knows the customers, it is easier to cater their needs now and in the future. As Tzuo claims (Tzuo, Weisert 2018) the subscription model is a win-situation for both customers and companies. For customer it shows as improved and accurate services and for companies as increased revenues as they are better fitted to meet the customer needs. In addition, companies have access into

customer insights and can further improve their product and service offering based on real data. Subscription can be applied on almost any industry. (Subta 2019) (Tzuo, Weisert 2018)

As a result of this development project GoGolf gained an understanding of the limitations of the current business model. They also gained many great ideas for product and service development, and those can be part of the future business plans and actions. These ideas occurred especially during the workshop organized and during the lengthy discussions with the key employees. I got informed that many of the discussed ideas during the session were later developed further and widely discussed within the organization. Some of the ideas raised during the workshop will most likely be developed to actual services later, the golf subscription already launched. The workshop also made the participants to think the current business model and especially the limitations, but also possibilities it offers. Even though changes in the operating model might not be instant, this development project has awakened the discussion.

The main outcome of the project was the process on updating the business model. The model is created by using GoGolf as example company and therefore it includes tools that are fitted to this case, such as discussions and interviews during the Discover-phase. However, the model can easily be modified to the needs of different kind of companies or organizations. As the creators of the Double Diamond model stated the aim of Discover phase is to understand the problem and there is a great variation of tools that can be used for it, just as there are for the other parts of the process as well (Design Council 2015). This process created can act as an easy way for an organization to sanity check the current business model, the limitations it has and especially on innovating new business model or products. As the case showed, the process for creating a new business model can take longer and this model can act also as a tool to innovate products and services. The process could easily be used in smaller companies to check the viability of the business model and to check the need for the change on frequent base. Even though the outcome might not always be new business model, it can still give valuable output by refreshing some parts of the business model and creating additional services. It can be used as an easy management tool in other companies as well, for example it can be a refreshed tool for strategy updates usually done annually.

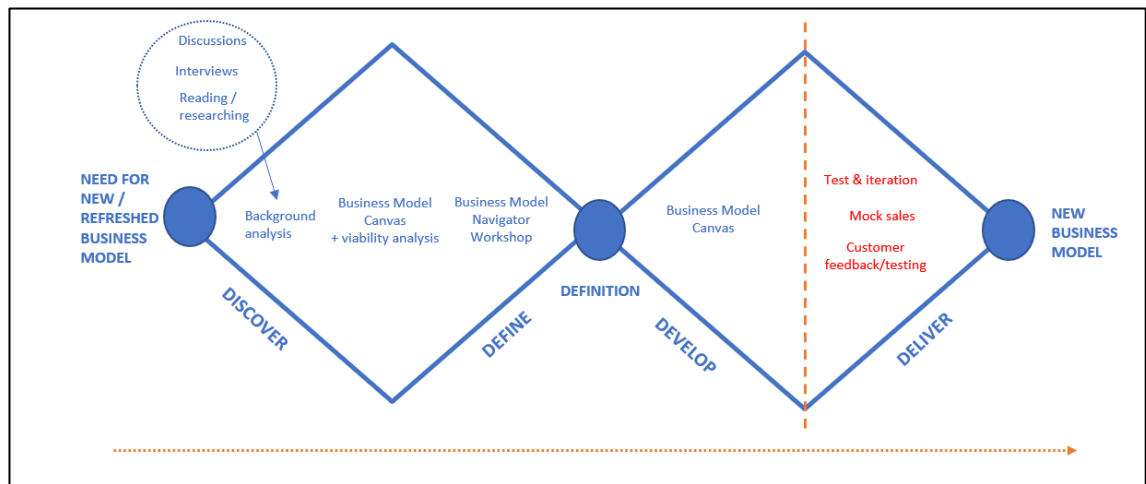


Figure 22 Process for creating a new business model

Even though the model proved to work well within the case company, the project also has some limitations. Firstly, this development project did not include the implementation of the business model. Hence the possible success and benefit of this business model creation process can only be theorized and verified to be successful once the business model is taken into use. Secondly, this model was tested only with one company and this company has extremely innovative and talkative employees. This gives the process higher change to succeed. The result could be very different in another type of company. It is fair to state that the success of the selected methods is dependent on the participants and their willingness to think outside their usual business environment. Especially the Business Model Navigator workshop relies to the participant but also to the facilitator. The facilitator can have quite an impact on the result, especially if the people participating do not get the right mood for the discussion. The atmosphere and chemistry in-between the participants can also influence on the outcome of the workshop. To prove the model even further the model should be tested with other companies as well to get more accurate details of the success.

Another limitation is that the model included elements that were handpicked for this particular case, especially on the Discover-, and Deliver-phase. For the model to be flexible, there should be a wider tool selection and the tools should be picked to fit the needs of the organization in question. This project also included very limited financial analysis, and before launching any business plans those should be taken into consideration. However, the Business Model Canvas as part of the process allows this process to have more throughout analysis on the different blocks of the business model, including the financial viability (Bland et al. 2020).

One limitation is also that the created the process does not fully meet the core service design principles (Polaine et al. 2013), as the customer view was not completely included. In the process used the customer view was taken into consideration through the discussions with the

key employees of the company. GoGolf had gathered lot of customer feedback already before this research was done and the discussion with the key employees covered the customer view requirement. When this process is used in other companies the Discover-phase should include more tools or methods that take the customer view into consideration. The original plan and process included elements in the Deliver-phase, where the business model would have been tested and iterated. This would have been done by creating new value statements and services fitting the new business model and testing those with consumers by using both consumer feedback tools, such as surveys, and mock sale (Bland et al. 2020) on the website. However, the timeframe did not allow this part to be finished as discussed before. The delivery and testing part were moved to the recommended next parts of the research, the Deliver-part of the Double Diamond Model. This is clear limitation of the research that the complete process was not researched.

The last limitation is related to the details and deepness of development process. In this development project the business model creation was quite a simple process and it did not include multiple iteration and test rounds, what many experts recommend. For example, Osterwalder, Pigneur and Clark (Osterwalder, Pigneur & Clark 2010) guide to use multiple models and sketches of the business model and test it thoroughly. This development project did not include iteration rounds, but those were left on the recommended further actions. Also, the Business Model Canvas was used on the basic level, if there would have been more time and resources available, the process would benefit on spending more time on value propositions and on each business model block. Iterations and testing can be conducted by using modern service design methods that are agile, easy and fast to implement but also to iterate. In this case one of the recommended tests and iteration methods would have been mock sale (Bland et al. 2020). In the mock sale simple landing page is created for the service sales and then traffic is actively diverted to the page. This will quickly give indication if there is demand towards the product. This can be tested by allowing consumer “subscribe” for the service and then providing them information that service will be available later. Outcome can be analyzed by various metrics, which are easily available as this will be a digital test. For example, data can give hint how many percentages of visitors is keen on subscribing, which one of the services would attract most attention if there are multiple options available etc. However, the mock sale might not be necessary now after there are already actual subscription services available.

This development project proved that changing business model or parts of it does not necessarily need to be long term project, but it can be done in fairly short time. Short process does not necessarily allow digging deep into all aspects, but it gives great opportunity for the organization to stop for a while and take a wider look on the business. This can help organization to identify changes in the business environment and take a fresh look on their own

business. The aim does not always need to be full scale business model change, but it can be just permission for the organization to critically evaluate the current business model and identify possible needs for change. Short process can also work better for small and medium sized organizations. They might not have resources to go through long and in-depth strategic planning processes but could easily fit this kind of resource scarce process to their schedule.

The development project showed that the exercise was indeed useful. Not only it brought lot of ideas for service and product improvements, but also clarified the current business model to everyone and made participants actively think about the limitations and opportunities. Even if the business model would not be fully changed right away, this project can have impact on the future actions as the seed of change has been implemented. The best part of this project is, that when the COVID-19 pandemic happened and market situation changed dramatically, GoGolf had a ready set of innovative services already planned via this project and all that was needed was to polish them and launch. Looking forward seeing how the golf-as-subscription services succeed.

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