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Testing freemium business model for Tori Autot



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The car market is undergoing a big change at the moment. Digitalization and change in transmission have been current issues already for a while, but the effect of the Covid-19 crisis and the Ukraine war have speeded up the transition. Consumer behavior is also changing. The internet is no longer only a tool for searching information, the whole buying journey is made online. Another question is if people are still buying cars instead of leasing, renting, or sharing. The whole industry, including car marketplaces, needs to adapt to this change.

Tori Autot is a category in the Tori online marketplace and has been one of the most used marketplaces for used cars already for years. The technical implementation for Tori Autot came to an end and the new Tori Autot was developed to answer the future demand. At the same time, there was a good opportunity to test a possible change for the business model. The old subscription-based model was put on pause and the freemium model was introduced to all Tori Autot corporate customers i.e., car dealers.

The present study explores the freemium results against the theoretical frame of different business models and customer relationship metrics and benchmarks the models chosen by other platforms. Even though the freemium model is today a very popular business model in many online services, the result of this study will show that it would not be a suitable solution for Tori Autot.

Keywords:

Freemium, Business model, Customer churn

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Freemium-liiketoiminta mallin kokeilu Tori Autoissa

Autoliiketoiminta elää murrosta. Autojen käyttövoiman sähköistymisestä ja digitalisaatiosta on puhuttu jo vuosia, mutta Covid-19-kriisi sekä Ukrainan sota ovat tuoneet yhä suuremman muutospaineen alalle. Kuluttajien ostokäyttäytyminen on lisäksi jo muuttunut ja muuttuu edelleen. Internet ei ole enää vain tiedonhankintaväline vaan koko ostopolku kuljetaan internetissä. Tulevaisuuden kysymyksiä tulee olemaan myös se, kuinka moni jatkossa haluaa ostaa auton, eri vaihtoehtojen lisääntyessä.

Tori Autot on kategoria Tori-markkinapaikalla. Se on ollut yksi käytetyimmistä autoportaaleista Suomessa jo vuosien ajan. Tori Autojen tekninen toteutus tuli tiensä päähän ja uusi Tori Autot kehitettiin vastaamaan nykypäivän sekä tulevaisuuden tarpeita. Kehitystyön aikana oli hyvä hetki arvioida myös olemassa olevaa kirjautumismallista liiketoimintamallia. Kaikille asiakkaille tarjottiin testijakson ajan Freemium-palvelua.

Opinnäytetyössä tutkittiin veloituksettoman testijakson aikana kerättyä tietoa ja verrattiin siitä saatuja tuloksia liiketoimintamallien sekä asiakassuhdemetriikoiden teoreettisiin viitekehyksiin. Vaikka Freemium-malli on nykyisin hyvin suosittu liiketoimintamalli, opinnäytetyön tulokset osoittavat, että se ei ole kannattava Tori Autoille.

Asiasanat:

Freemium, Liiketoimintamalli, Asiakaspoistuma

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1 Introduction

1.1 Background and commissioner

Today more than 60% of global business-to-customer sales via the internet take place in marketplaces. The sales are growing faster than in online shops or in traditional brick-and-mortar stores. (Business Finland, 2020.) More than 55 percent of Finnish car buyers are using car marketplaces, and more than 92 percent are using the internet when acquiring a car (Schibsted, 2022).

The thesis commissioner is a Finnish online marketplace, Tori. Tori is part of the Norwegian media group Schibsted Media Group. Schibsted is a combination of more than 55 different brands. The core business is in online marketplaces (Schibsted, 2022). In this study, the term marketplace is used to describe the marketplace operating on the internet. Other than marketplaces Schibsted is also doing business in News Media as the biggest media group in Scandinavia, in addition to this Schibsted also operates in Financial Services and Ventures (Schibsted, 2022). Tori is the most popular marketplace in Finland. More than 3.4 million Finnish people use Tori every month. In the year 2020, there were 13.7 million ads published in Tori (Tori, 2022). Tori both peer-to-peer (P2) and business-to-consumer (B2C) trading takes place. In July 2020 Schibsted acquired Oikotie marketplace in Finland and the company name for Tori and Oikotie changed to Schibsted Marketplaces Finland. (Schibsted, 2020.) The author of the thesis is a Tori employee in the Motor vertical sales team.

Tori Autot is a subcategory in Tori. Consumers can list their cars to sell for free, but car dealers make an agreement with Schibsted to use the marketplace as their sales channel. The agreement is a subscription, and it is based on the number of cars the dealer is listing to Tori Autot. Subscription includes the right to sell cars in Tori Autot, which is a shop site in Tori, and basic reporting. In addition to the basic service level, there are upsell products to enhance your visibility in the Tori Autot. Upsell products for dealers are for example manual or automated extra visibility to the listed cars, brand visibility elements, and display

advertising. The car marketplaces are dependent on car dealers, but new customer acquisition has limits. The number of car dealers and potential customers for Tori Autot in Finland is approximately 1500 car dealers (Schibsted, 2020).

The current market leader in Finland as the most used car marketplace in Finland is Nettiauto (Nettiauto, 2020). During this thesis project, Nettiauto was sold to Alma Media in March 2021 (Talouselämä, 2021). The deal led to a change in the competitor landscape as now Nettiauto and Autotalli, which are two of the three biggest car marketplaces in Finland, are both owned by Alma Media. (Alma, 2022).

Due to the Covid-19 situation in the springtime of 2020, car sales in Finland stopped almost completely (Talouselämä, 2020). Used car sales recovered after a big drop and were expected to have a 1% increase in year-on-year sales in comparison to 2019. New car sales have decreased significantly from 114 200 in 2019 to an estimate of 91 000 in 2020. (Autoalan Keskusliitto [AKL], 2020.)

Tori readjusted to the current situation and offered a helping hand to the Finnish car dealers. At the end of March 2020, Tori decided to offer their car marketplace to all Finnish car dealers for free-of-charge for the rest of the year. At the same time, a total change for the Tori Autot site started. After the freemium test period at the beginning of 2021, the new version of Tori Autot was launched.

The other change Covid-19 had was an impact was accelerating the digitalization of the car business. The traditional function of a car marketplace on the internet or car marketplace has been listing the cars for sale and delivering leads to the car dealer. The next step in the car marketplaces is to take care of the value chain. The marketplace is not only listing the cars but for example is able to offer different solutions to finance, rent, or lease the car and arrange the trade-in pick-up and delivery for the new car. (AIM Group, 2020.)

Schibsted Nordic Car Buyer's Journey 2022 (2022) brought up Finnish car buyers' thoughts about car buying now and in the future. Finland is the top performer when it comes to the use of the internet when buying a car, compared to other Nordic countries. In other Nordic countries, approximately 40% of the buyers expected to do all the research concerning a new car online, while the same number was 67% in Finland.

Already 26,1% of Finnish car buyers were ready to buy a car fully digital. That means more than one-fourth of the buyers could buy a car without test-driving or examining the car first. (Schibsted, 2022.)

1.2 Research aims and research questions

The aim of this study is to test the freemium business model in Tori Autot and to get useful data if the freemium business model could be a profitable business model in the future. The profitability of the business model will be evaluated based on customer upsell, customer lifetime value (CLV), and customer churn.

The study will indicate what are the reasons why the dealers are staying or leaving after the freemium period. With these factors, Tori Autot will gain an understanding of the pricing, and insight about car dealers, and get explanations if the free trial is successful or unsuccessful.

In this study, the main research questions are:

1. What is the insight from the car dealers about the freemium test period?
 - a. What are the reasons why dealers are continuing to do business with or leaving Tori Autot?
2. How to increase customer value?
 - a. Does the freemium business model increase the sales of upsell products?

2 Literature review

2.1 Online marketplace

This paragraph defines the difference between E-business and E-commerce. E-business is defined as the use of an electronic network within a company. It can be for example a company intranet which by definition does not include involving customers in to use of electronic solutions. E-commerce is the word to describe doing business on the internet. E-commerce consists of the whole path, not only the transaction. It can be considered that e-commerce also transpired when the customer has gathered all the needed information about the product and then buys it from the shop the next day. A marketplace is a location where sellers and buyers meet. It can be a physical location such as a market square or virtual on the internet. An internet marketplace can be a place to do e-commerce. (VanHoose, 2011.)

The online marketplace is a wide concept. All online marketplaces' target is to offer the seller a large audience and help increase the profitability by cutting operational and marketing costs. According to Arateg (2022), online marketplaces can be placed in three different categories:

- By the target audience.
- By their focus.
- By the management approach.

The target audience is telling who is selling to whom. The Business-to-business (B2B) marketplace is bringing together organizations and vendors. The Business-to-consumer (B2C) marketplace is the most popular online marketplace model today. A good example of a company using this model is Amazon. Companies sell their products and services to individual consumers. A Peer-to-peer (P2P) marketplace is a model where individuals are offering products or services to other individuals. They can be simultaneously the

service provider and the consumer. Etsy is using this model in its marketplace. (Arateg, 2022.)

The focus of the marketplace can be horizontal or vertical. Horizontal marketplaces are like department stores. They are fulfilling customers' needs in various situations. For example, Amazon offers consumers clothes, electronics, and almost everything. Vertical marketplaces focus on certain categories or sectors. For example, TaskRabbit is offering freelance services to consumers. (Arateg, 2022.)

The third category is the management approach. The marketplace can be fully managed, where marketplace owners control the whole sales process. Most likely there are fees or commissions the seller usually needs to pay. A lightly managed marketplace usually keeps the focus on the customer and manages the marketplace so the customer can use the platform trusting everything goes right. Owners of the marketplace make background checks or require a certain return policy. The unmanaged marketplace is usually a peer-to-peer marketplace. The owner of the marketplace does not involve themselves in supervising the marketplace. Usually, the credibility of the user is given by other users for example with a review or rating system. (Arateg, 2022.)

2.1.1 Online Marketplace principles

The internet has changed the way of making business. The rules to do business have changed in many ways but the fundamentals are still the same. The business is sustainable if there is a decent gap between the price and the cost. Industry structure and sustainable competitive advantage need to be in shape to make a profit. Making a profit on the internet is more complex than it used to be but it certainly opens many new possibilities. (Porter, 2001.)

First-mover advantage is an idea of a great advantage to enter the market first with a product or a service. The advantage should carry not only in the current situation but also in the future. (Miller, 2014.) To hold the advantage, the first-mover advantage should lead straight to a "winner-take-it-all" situation. The market leader is the winner, and the others are not. The marketplace in the

leading position is the one that is collecting all of the profits. The winner-take-all-situation might lead to the concept of “lock-in”. (Liebowitz, 2002.) Lock-in is a situation where the marketplace is not only taking it all but also keeping that winner's place, even if the competitor has more quality or better product. One example of this kind of situation is the QWERTY keyboard. The idea was that in the typewriter the letters that are used more commonly after each other were not placed next to each other in order to prevent jamming. Modern keyboards are still using QWERTY despite the development of much more convenient, logical, and faster keyboards for the user. (Liebowitz, 2002.) A lock-in situation is possible to take over, but the challenger needs to gain momentum in the eyes of the users by demonstrating the superiority of their product (Liebowitz, 2002).

Porter claims in his article (2001) that changing from one platform to another is easier than in traditional business. Even though buyers are used to using certain platforms and seller have knowledge about them much more than in traditional business, changing only needs a few clicks. The lock-in situation is not a very likely situation to happen in the world of the internet.

2.1.2 Car marketplace future

Consumers have already found the ease of buying online, but when it comes to buying a car, the dealers' ability to offer a seamless way to handle the whole journey online is still in progress. There are still some offline experiences many customer values such as test drives, but most of the customer journey is possible to handle digitally. AIM Group is describing the car buying value chain as starting from the inspection of the used car to sell and ending with the delivery to the consumer. (AIM Group 2020.)



Figure 1: Car buying value chain (AIM Group 2020).

Used cars are individuals and there are many attributes to affect the value of the car. Inspection is made to discover the condition of the car. Inspection can be made totally online, trusting the given information from the seller, or through in-person inspection. The information about cars is increasing in many ways. There are more advanced pricing tools available, and pictures of the cars are more specific, or example 360 degrees technology can be used. The inspection is a vital part to evaluate the value of the car. The inspected car can be a trade-in from a consumer to the dealer or other used car entering dealers for sale. The dealers make offers about the car in auctions. Then inspected used cars will be available to consumers through the car dealer. These pieces of the value chain can be offered by the dealer or marketplace or by using wholesale channels. (AIM Group 2020.)

Car marketplaces are adapting to the digitalized future by applying new technologies and making the customer journey better. Artificial intelligence (AI) and machine learning (ML) are helping to find the “best deals” according to mileage and price for example. (AIM Group 2020.) Car marketplaces are bringing up new digital services for car dealers' use, for example, auction and car dealer software. Selling a car is possible through the auction (dealers) and the software to manage the whole inventory is becoming as part of the car marketplaces. (AIM Group 2020.)

When a consumer is buying a car, there is often a need for financing and the car to be bought needs insurance. Insurance and financing are part of the value chain. The dealer of the car, the marketplace, or the consumers themselves can be the ones to take care of these pieces of the chain. (AIM Group 2020.)

The purchase is turning online. The marketplace or dealer can offer a solution to make the transaction fully online. The development in fintech (financial technology) is opening possibilities to offer finance to the car online secure and fast manner. And there are more and more marketplaces with possibilities to pay the purchase price securely through the marketplace. After purchasing the car is delivered to the consumer. The value chain can be fully digital. (AIM Group 2020.)

2.2 Business model

2.2.1 Business model dimensions

The business model term is a topic discussed in boardrooms and its definition varies from company to company. Often it is brought up when there is a need to change the way of working or doing business. (Gassmann et al., 2014.) In the book “Business Model Generation” (2010, p.14) Osterwalder and Pigneur define: “A business model describes the rationale of how an organization creates, delivers, and captures value”. Wirtz writes in his book “Business Model Management – Design – Process – Instruments” (2020, p.3) business model should answer the question “How do companies manage to successfully navigate to this highly dynamic and complex competition scenario”?

Despite many different views on the definition, there are certain fundamentals related to the business model. The four dimensions are customer, value proposition, value chain, and profit mechanism. In sum Gassman et al. (2014) describe a business model as answering the questions Who? What? How? and Why? There are dozens of different kinds of models to make business. The book “Business model navigator” describes 55 different models (Gassmann et al., 2014). There are several tools to help the company to choose a business model for their use. Gassmann et al., (2014) represent a “magic triangle” to describe business model innovation.

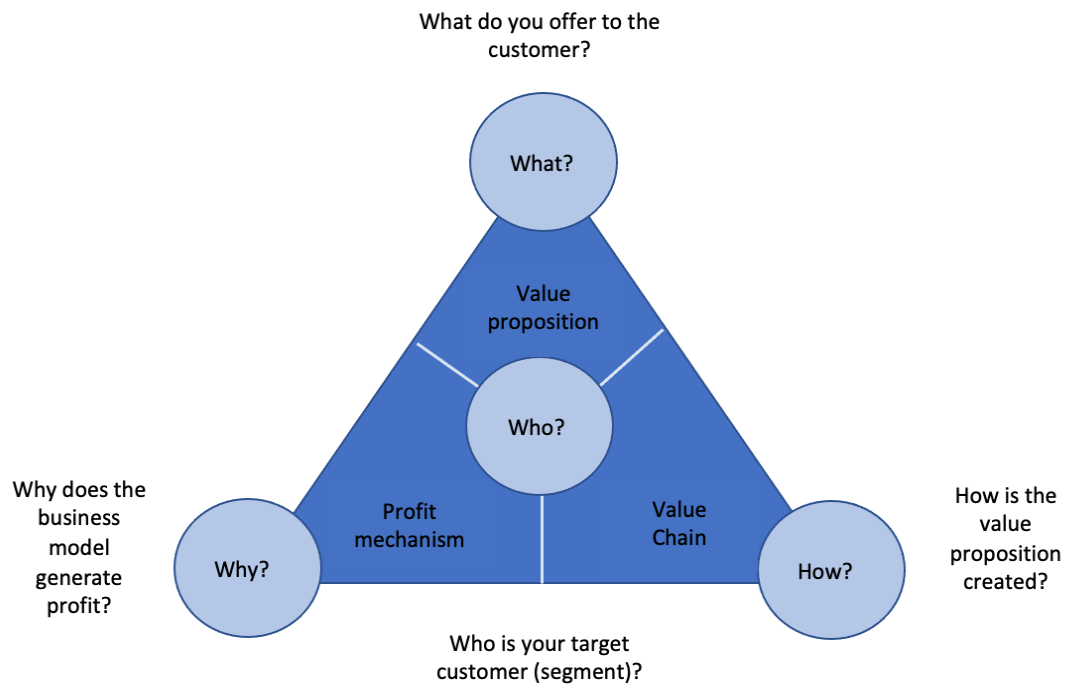


Figure 2: Magic triangle, (Gassmann et al., 2014, p. 7).

The idea of the Magic Triangle is to ensure the customer segments, value proposition, value chain, and profit mechanisms are clear. The triangle also creates a base for future innovations. In the center of the Magic Triangle are the customers (Who?). To ensure whom to serve the customers should be identified. The company should recognize the most important customers and what kind of relationship the company is aiming for with its customers. The left lower corner of the Magic Triangle is about the profit mechanism (Why?). In this corner, the company defines where money is coming from and what are the costs and risks. The right low corner is about the value chain (How?). In this corner, the company should define the resources and activities it takes to deliver the solution for the customer. The top corner is about the value proposition (What?). There the company should find out what problems they are solving for the customer with their product or service. How they differ from the competitors. (Gassmann et al., 2014.)

Osterwalder & Pigneur have created a tool called “The Business Model Canvas” (2010) which is based on nine different blocks to help the company to define a suitable business model.

The blocks are:

1. Customer Segments (CS).
2. Value Proposition (VP).
3. Channels (CH).
4. Customer Relationships (CR).
5. Revenue Streams (R\$).
6. Key Resources (KR).
7. Key Activities (KA).
8. Key Partnerships (KP).
9. Cost Structure (C\$).

The Customer Segment is a block where the company defines the people or organizations they want to reach and serve and which do not. The company can choose one or several different customer segments for this block. When segments are selected the whole business model is built for the understanding of these customers. The second block of the Value Proposition is answering the customer's challenges and helping them to solve their problems. Value can be quantitative, such as lower price or speed, or qualitative, such as customer experience or design of the product. (Osterwalder & Pigneur, 2010.)

Channels are chosen according to the customers. What is the channel our customer wants to use, not only what the company wants to use? It can also vary from segment to segment. It is also necessary to keep in mind the cost-efficiency and how to integrate chosen channels into the customer routines. (Osterwalder & Pigneur, 2010.)

The fourth block Customer Relationships defines how the customers are handled. It can be an automated relationship or a personal one. The motivations to choose this type of relationship are customer acquisition, customer retention, and upselling. One-time customer payments and recurring payments are types

of revenue streams the business model can involve. That is the fifth block. The company needs to ask itself how much each customer segment is willing to pay and in what way. Revenue can be generated by asset sales (physical products), usage fees, subscription fees, lending/renting/leasing, licensing, brokerage fees (for example credit cards), or advertising. (Osterwalder & Pigneur, 2010.)

The key resource block is determining the resources that are required to offer the value proposition to the customer. Those resources can be physical, such as machines, buildings, manufacturing, or intellectual, such as brands and patents. Resources can also be human for example in science-based companies where one scientist is heavily valuable, or it can be a financial resource when a company offers financial support for example financing or stock options to their customers or employees. (Osterwalder & Pigneur, 2010.)

Key activities are included in the game changer block. The company must define what are the most important actions that the company needs to do to achieve success. Osterwalder & Pigneur (2010) have divided the key activities into three different categories.

1. Production.
2. Problem-solving.
3. Platform/Network.

The eighth block is Key Partnership. In this block, the company should determine the key partners, and suppliers, what resources they can offer, and what is each of their role. (Osterwalder & Pigneur, 2010.)

The final block is Cost Structure. Minimizing the costs is important, but the most valuable cost should be identified and determined what kinds of costs are the most important. There are two different classes on how to approach costs. The company can be cost-driven when the focus is minimizing all possible costs, or it can be value-driven when costs can be higher when satisfying high customer needs but also high prices. (Osterwalder & Pigneur, 2010.)

2.2.2 The business model used in online marketplaces

In the online marketplace, the company should consider the unique qualities of the internet. Laudon and Traver (2018) have listed different businesses models and more specifically which are revenue models suitable for online businesses and narrowed them down to five:

- Advertising - The advertising revenue model makes it possible to offer the product or service for free to an end customer. Advertisers are bringing up the revenue.
- Subscription - The subscription revenue model customer pays a subscription fee to get access to the offering.
- Transaction fee – The company receives payment for transactions or sales they offer through their platform.
- Sales – Selling of goods, services, or information.
- Affiliate – The company receives payment for steering business to another company.

Subscription

The subscription-based business model is a model where the customer pays a regular fee to get access to the service. The customer does not need to purchase individual products or services one by one, and often gets an offering cheaper than it would be when buying one by one. For the company, the subscription-based model is good for measuring and forecasting finance. The regularly happening payments are much easier to forecast than individual payments occasionally. (Gassmann et al., 2014.)

Subscriptions can be optional for customers. There might be a free version to use and if the customer wants the premium version to use, the subscription is made. By subscription, the customer gets full or some of the content for free use. (Laudon & Traver, 2018.)

Revenue Sharing

The model of revenue sharing is based on working together and sharing the resulting revenue. The idea of sharing revenue is very old. Already in around 810 BCE, there are examples of profit-sharing between a creditor and a traveling merchant. They agreed to share both, the risk, and the profit. If the result was profitable the merchant got 2/3 of the profit and the creditor 1/3. (Gassmann et al., 2014.)

Revenue sharing is made even if there is no profit so in all cases revenue sharing is no win-win situation. Revenue includes all incoming money, not only sales. And it does not consider the losses. The revenue-sharing model is used for example on YouTube. They share their revenue with contributors who generate more than 1000 subscribers. (Milano, 2021.)

Freemium and other free models

Offering a service or product for free is an old way to acquire customers. The basic idea is to offer something for free to hook the customers to buy more from the provider. The classical example of the model is King Gillette, who invented the disposable razor blades. The story says he came up with the idea of providing the razor through partners as a giveaway to their customers and this way he was able to create a demand for the blades. (Anderson, 2009.)

If a service or product is offered free of charge for one or several customer groups, there is a need for another segment to be the financier. The financier can be customers who are willing to pay for the service to get the full version (freemium-based), the advertiser who is paying for the ads on the site (advertising-based), or the same user when buying upselling, or additional selling products or services. (Osterwalder & Pigneur, 2010.)

The Freemium model is a business model where customers are provided basic service for free. If the customer wants the full potential of the product to use, they need to upgrade to a premium model and pay for that. The freemium

version can be limited for features, usage quotas, or limited support. (Cox, 2020.)

With those limitations, customers are encouraged to upgrade to the premium version. Customers should be reminded to upgrade to the premium version time after time. Limitations can add comfort to using the service. For example, Spotify Premium removes ads from the service and allows users to make offline playlists. (Cox, 2020.)

The threshold can also be a limitation for usage. For example, Evernote limits the size of the notes saved to their service as well as the overall uploads per month for freemium users. As the service is used and found convenient the user is also hooked to using the service as there is already so much saved material in Evernote. Evernote also provides customer service for premium customers. For freemium customers, the service is only through Online Forums. The approximate percent of the customers who pay for the premium version is 2-5% of the users. (Cox, 2020.)

According to the Cambridge dictionary (2022) a free trial means a customer gets a certain time at the beginning free of charge to test the product or service before starting to pay for it. Offering a free trial to the prospect is one way to lower the threshold in the process from prospect to paying customer. Many companies offer a free trial to attract more customers, but their profitability is not indisputable. The study shows there are differences between regular paying customers and customers who are acquired by free trial. The free trial does not engage customers in the same way as the regular customers engage. (Datta et al., 2015.)

The good side of the free trial is increased customer satisfaction as they know on the forehand what they are paying for. The free trials lower the pressure for aggressive selling and there is minimal risk involved in the free trials. (Hentzel 2018.)

2.2.3 Example companies

The company can have one or many of these revenue models included in its business model. For example, the LinkedIn revenue model includes three different models. They have in-use advertising, subscription, and affiliate referral fees. (Laudon & Traver, 2018.)

Mobile.de is the most popular car marketplace in Germany. Mobile.de has more than 1.5 million car ads published and 16.9 million individual users per month. More than 42 000 car dealers have registered as Mobile.de users. (Mobile.de, 2022.)

Dealers register their company as a Mobile.de user and they select a package for their use. Mobile.de invoices customers monthly based on their selected package, the average number of cars the customer has listed in the service, and possible surcharge based on the average asking price of the cars. The surcharge varies from 0-15% of the car's asking price. If the customer wants to end usage, they need to send the termination notice and the service terminates in 30 days. (Mobile.de, 2022.)

The graphic displays three subscription packages for mobile.de, each with a title, a brief description, and a list of benefits. Each package also includes a 'details' button.

- Compact Package: Reach and visibility**
 Advertise where most customers are looking for their next car – in Germany's biggest vehicle marketplace online.
 Benefit from our reach.
- Comfort Package: Increased demand and greater efficiency in daily operations**
 Draw more attention to your business and increase efficiency. Increase your sales opportunities over the long term and save loads of time.
 More demand and high visibility for your ads
 Organise daily operations more efficiently
 Benefit from our reach.
- Premium Package: High-profile online presence and premium customer service**
 Have your name and dealership put front and centre on mobile.de. Stand out from the crowd.
 Ad reduced, custom-designed listings
 Premium customer service
 High demand and maximum visibility for your ads
 Organise daily operations more efficiently
 Benefit from our reach.

Picture 1: Get on board and take off - The mobile.de Service Model (Mobile.de, 2022.)

Mobile.de has a subscription-based business model. The dealer selects a package to which they have access. The subscription-based model gives customers the possibility to use the service regularly and to pay for the service at regular intervals (Gassmann et al., 2014).

In addition to a subscription-based model, Mobile.de has a revenue-sharing model. If the average selling price per month is higher than 20 000€, the customer pays 5% of the selling price to Mobile.de. The higher the selling price goes the higher the provision percentage increases. The revenue-sharing model is common in e-commerce sites and means companies work together and share the resulting revenue (Gassmann et al., 2014).

Spotify is a Swedish music streaming service that has achieved to become the leading music streaming service in Europe. They offer two different versions to their customers. Freemium version, free of charge, with limited features, and ads, or pay for the premium version when the customer has all the features in

use and no ads. Spotify has 70 million subscribers but is still struggling with profitability. (Laudon & Traver, 2018.)

If the customer is changing to a premium version the business model changes to subscription-based. The customer selects a suitable Premium version. Customers can choose how many users can use one order and get a discounted price if they are students. Prices vary from 6,49€ to 18,99€ per month. (Spotify, 2022.)

2.3 Customer relationship metrics

Customer relationship management (CRM) is used to collect, store, and analyze customer data. Profitable customer relationship metrics should be found in the CRM system. Companies often measure customer satisfaction, but it is good to keep in mind satisfaction is not an indicator of profitable customer relationships. In CRM the focus is to maximize the customer lifetime value. To gain a better understanding of the customer in the CRM the following data should be made available:

1. Customer acquisition.
2. Customer retention.
3. Customer churn.
4. Customer win-back.

These categories are to understand different stages of the customer relationship and to identify the process. The data gives the possibility to analyze the profitability of different stages and customer groups. (Kumar & Petersen, 2012.)

Customer lifetime value (CLV)

Customer lifetime value indicates the present-day value of the customer. What is the value of all cumulative margins earned from a customer? CLV is a value to understand how the customer's value is changing during the customer relationship. The customer should be watched as a whole. How the profit grows

during the relationship and not only counting individual transactions. The expectation is that revenue grows over time, cost-to-serve gets lower as the customer and the company know each other, existing customers pay more, as they are not offered new customer discounts, they are already happy with the experience and if they are happy, they also refer the company to other potential customers. (Buttle & Maklan, 2003.)

Fontanella (2022) offers an easy formula for the CLV. The formula is to multiply the customer value by the average customer lifespan. To measure customer value the average purchase value needs to be multiplied by the average number of purchases.

Buttel and Maklan (2003) explain the CLV is easy to be counted in theory but can be very complicated in practice.

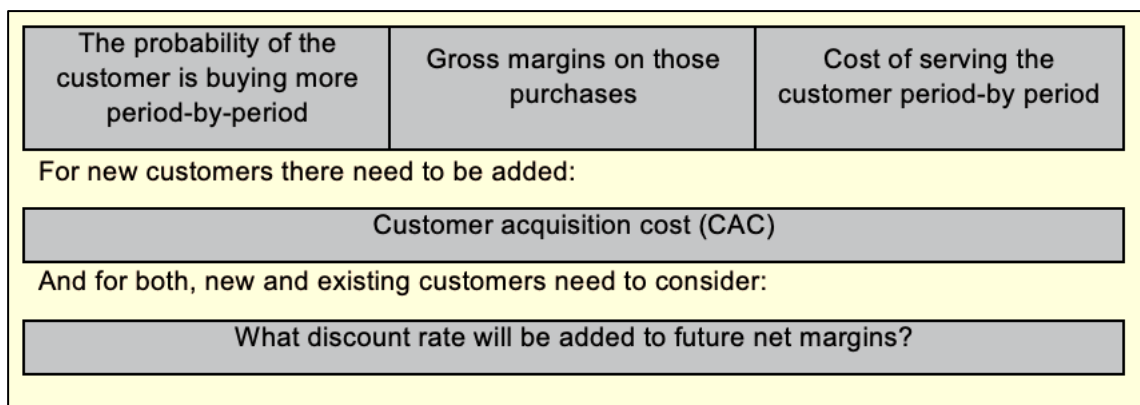


Figure 3: CLV formula (Buttle & Maklan, 2003.)

The figure has three different levels. The highest level is calculating the CLV for existing customers. For existing customers, the needed information to calculate the CLV is the probability of the customer buying more period-by-period, what are the gross margins of those purchases, and how much the cost is increasing period-by-period by serving the customer. If the customer is new there is a need to reduce the customer acquisition cost and for new and existing customers it is good practice to estimate the discount rates applied in the future. (Buttle & Maklan, 2003.)

Even though the CLV is easy to calculate on paper, in reality it is not that simple. The company should have the ability to forecast many uncertain things such as customer buying behavior, and different kinds of costs in the future like the cost of capital. That is the reason why many companies use approximate CLV estimates. Also, it might be reasonable to use different CLV calculations for different segments. Different segments might have different kinds of buying behavior which impacts the net margin significantly. (Buttle & Maklan, 2003.)

To increase profitability and at the same time to increase the CLV, the company has three different approaches to make improvements.

1. Customer retention improvements

The more customers the company can retain in the early years of the customer relationship the bigger the amount in the later years of higher profit customers.

2. Increasing the profit per customer

Profit can be increased by cutting costs or selling more (cross-selling or up-selling).

3. Improve the customer acquisition

New customers should be acquired cost-effectively and high-potential CLV customers should be identified as early as possible, and the company focus should be placed on them. On the other hand, no potential CLV customer can be left out before using any costs to those. A company should be analyzing and identifying the high CLV customers from the current portfolio and focusing on new customers which match to these profiles. (Buttle & Maklan, 2003.)

Customer churn

A long customer relationship is the wanted outcome in most companies. The reason is purely economic. Better results are gained from customers whom the company knows and what their wants and needs are. The customer churn rate is desired to be as low as possible and the customer retention rate to be high. Customer churn (rate) is a metric to describe the retention of customers. The

churn rate indicates the percentage of the defected customers. It is indicating the percentage of customers leaving the company. (Buttle & Maklan, 2003.)

Churn is also costly to the company. Every lost customer needs one newly acquired one to keep the level the same, but not all customer churns are avoidable. There are three different kinds of churns: unavoidable, involuntary, and voluntary. Only one of these is something a company can have an affection for. Unavoidable churn is a situation when the customer is leaving the service area of the company. Involuntary churn is a situation when a customer relationship ends because of non-payment, fraud, or for a similar reason. Voluntary churn is when a customer decides to leave the company without any forcing reason. This is the group the company is interested in. (Strouse, 2004.)

Bernazzani (2021) guides how to calculate customer churn. Before counting the customer, churn rate there is a need to define the time period to be observed. The company defines if its interest is in annual churn, monthly, or another time period. To calculate the customer churn first there is a need to divide the number of lost customers by the total number of customers at the beginning and then multiply the number by 100. The answer is customer churn percentage.

A good churn rate for a business where the customer is paying more than 1000 \$ per month is below 2%. If the payments are smaller, the acceptable churn rate varies from 2-8%. A higher percentage can be seen in business-to-consumer services and self-service solutions. For example, Spotify has reported its churn rate of 4,8% and Apple TV at 15,8%. (Bernazzani, 2021.)

If a company is in a strong growth phase the churn and new customer numbers can be both very high. As the business gets more stable the churn rate will turn lower over time. (Campbell, 2020.) The company should put effort into understanding the reason why customers are leaving and when they are leaving and find the reasons between customers who have left and customers who are still customers. (Kumar & Petersen, 2012.)

3 The research methodology

3.1 Data collection

This thesis is a case study. A case study is a research that investigates an individual, group, institution, community, or a combination of these to answer the research question (Gillham, 2000.). The research used qualitative and quantitative research methods. The quantitative method is based on countable variants as amounts or quantities whereas the qualitative research method is based on behaviors, attitudes, and other not measurable variants.

(Krishnaswami & Satyaprasad, 2010.) The qualitative data was collected by making 100 phone interviews (sales calls) and the quantitative data was retrieved from the company CRM.

Table 1: Research methods

Research question	Qualitative methods and tools	Quantitative methods and tools	Analyzing the results
What is the insight from the car dealers about the freemium test period?	Sampling group feedback	Grouped numeral results from sampling group	Customer churn and customer lifetime value (CLV)
What are the reasons why dealers are continuing or leaving Tori Autot?	Sampling group feedback	Grouped numeral results from sampling group	Customer lifetime value (CLV)
How to increase customer value?			Customer lifetime value (CLV)
Does the freemium business model increase sales of upsell products?	-	Sampling group monitoring	Analyzing the test period numbers

The data collection was done by using a random sampling method. The author made 100 phone calls to the car dealers from the target group and offered them a freemium service. Based on those phone calls the following data was collected:

- The prospect accepts the offer about freemium service: YES/NO.
- If the prospect declined: REASON
- If the prospect accepted: monitoring until the beginning of April 2021

After the observation period, collected data showed how many of those customers are continuing the subscription after the freemium period and whether they have used any upsell products during the freemium period.

Table 2: Data collection

Collected data	Data source
Amount of car dealers in Tori Autot	CRM
Customer acquisition data	The CRM and the sampling group
Upsell buying data	The CRM and the sampling group
Customer resignation data	The CRM and the sampling group
Customer feedback	The CRM and the sampling group

All the collected data is stored in the encrypted cloud service managed by the commissioner. The data does not include any data of private people. Collected data will be deleted following company guidelines, which are based on GDPR laws.

3.2 Data analysis

The author's daily job is associated strongly with this thesis, and most of the data was collected along the author's daily communication with the prospects and customers. The most important data sources were the company data (CRM and records) and data collection done throughout the freemium test period.

New customer acquisition was made by phone, contacting car dealers around Finland who were not using Tori Autot at the moment. With each phone call, the prospect is offered service free of charge until the end of the year 2020. All of them are informed the subscription will continue paid after a freemium period. All the customers were offered and informed about the upsell products such as the possibility of extra visibility in Tori Autot.

3.3 Process

The freemium test period started on 31st March 2020 and ended on 31st December 2020. If the car dealers were not willing to continue after the freemium period, the last possible date of resignation was on 31st October. The first invoices were sent out in January 2021. The observation period will end in March 2021.

The literature in this study is focusing on business models and tools to evaluate the test period results. The data was collected for one year starting from spring 2020 until the spring 2021.

Table 3: Schedule of the work

March 2020	Summer 2020	Nov 2020 – Jan 2021	March 2021
The Freemium model test starts	Customer acquisition, random sampling group monitoring	First expected cancellation wave (cancellation deadline), random sampling group monitoring	Second expected cancellation wave (invoice), data collected, analyzation

4 Results

4.1 Freemium model test results

At the end of March 2020, Tori Autot sales team started a new customer acquisition by phone and contacted nearly all Finnish car dealers which were not customers at Schibsted at that moment. The offer for dealers to start using Tori Autot marketplace as one of their sales channels was to use the service for free of charge until the end of the year 2020. The spring and summer of 2020 were the most attractive time for dealers to join as the car-selling season is the highest and the offer for free-of-charge use was tempting as the dealer got a long period without any costs. The fewer free-of-charge months left the attraction of the offer got lower, but there were new customers acquired every month. As the year and the freemium model test ended Tori Autot had gained 436 new customers during the test period. The number of customers before the test started in March 2020 was 964 and in December 2020 the number was 1400.

The subscription continued after the freemium test period. The price was presented to the customers when they made the agreement with Tori about the freemium service. If customers did not want to continue after the freemium test period they had a possibility to terminate the agreement. The first invoices were sent to the customers in January 2021. That was a notification for many car dealers as they realized the service had changed into a paid subscription. At the beginning of April, the number of customers in Tori Autot was 1073 car dealers in total.

4.2 Insights from the car dealers

The author collected data using a random sampling method in choosing 100 car dealers from the target group. Those 100 car dealers were contacted by phone and offered a freemium service for their use. All the dealers were informed the

freemium period has a limited time until the end of the year 2020 and after that period the service is automatically continued as a paid service.



Figure 4: Monitored customers

Interest in service was high and 78 out of 100 contacted car dealers started the freemium test. Only 22 prospects declined the offer.

Table 4: Reasons for declining

Total number of dealers who declined: 22				
Reason for declining	Number of dealers	% of the dealers	Explanation	Reason for churn
Business related	8	36%	Prospect's own business has changes coming up such as retirement or quitting the business	Unavoidable
Bad experience	6	27%	Prospect had used Tori Autot earlier and did not find benefit for their business	Voluntary
Disregard	5	23%	Prospect did not want to talk about the offer at all and ignored all approaches	Voluntary
Resources or expenses	3	14%	Lack of time to update the marketplace or did not want to pay for the data transfer	Voluntary
Total	22	100%		

There were 8 dealers out of 22 who gave an unavoidable reason to decline the offer. Their reasons were business related. The entrepreneur was retiring or the business was about to end in some other way. Other dealers who declined gave voluntary reasons for declining. The bad experience of Tori Autot was the biggest reason for their decline. Most of the car dealers have tried Tori Autot

before and based on those experiences they decided to decline the offer. The bad experience was about the benefits Tori Autot brings to their business. The lack of leads was the biggest reason for the bad experience. There were 5 dealers who did not want to talk about Tori Autot at all. They rejected the approach and did not hear the offer at all. Resources or expenses were the reason for 3 dealers to decline the offer. Even though the service was offered freemium they felt there was not enough time to start using the new service or there were indirect costs associated to the service the service.

After the freemium test period, 38 customers resigned from the subscription. Some of those resigned before any invoices were sent to them and others after the first invoice. Few of the customers did not give any reason why they wanted to resign.

Table 5: Reason for resignation

Total number of dealers who resigned: 38				
Reason for resignation	Number of dealers	% of dealers	Explanation	Reason for churn
Unknown	19	50%	7 of those has quit the business later, 12 of them still in business in May 2022	Voluntary/ Unavoidable
Business related	8	21%	Customer's own business has changed. Business has ended or changed so there is no need for car marketplace now or in the future.	Unavoidable
No advantage for the use	4	10%	Customers did not get enough leads from Tori Autot	Voluntary
Expenses	3	8%	They did not want to pay for the use of service	Voluntary
Other reasons:	4	11%	Did not use the service at all during the free period and other reason is a dispute case	Voluntary/ Involuntary
Total	38	100%		

By the April of 2021 in total of 38 out of the 78 monitored dealers who started the use of freemium service have resigned from the service. Half (19) of the dealers who resigned did not give any explanation of why they resigned. In May 2022 12 out of the 19 dealers 12 were still in business and 7 had closed their business. The unavoidable reason was the reason for the resignation in total 8 dealers gave a reason which was classified as unavoidable as had stopped car sales. There were 4 dealers who did not find any advantage of using Tori Autot and 3 dealers who felt the service was not worth paying for. There were 4 dealers who did not use Tori Autot at all during the freemium period or had some other dispute cases and the service was terminated for them. The reason for the resignation was in 22 cases voluntary. The Remaining 16 cases (42%) of the resignations were impossible to avoid.

4.3 Upsell products sales

The customers had the possibility to buy extra visibility and other upsell products during the freemium test period. They were able to buy some of the products by themselves via self-service or from the salesperson. From the monitored dealer group, 2,56% (2 out of 78 dealers) of the dealers bought upsell products during the freemium period. When looking into the Tori Autot customer base in euros there was a 54% growth in upselling product sales in the year 2020 when compared to the year 2019.

4.4 Customer churn

Before the Freemium period starting in March 2020 the Tori Autot marketplace had in total 964 car dealers registered as users. After the freemium period and the resignations in the spring of 2021, the total number of dealers using Tori Autot was 1073 dealers. The net growth was 109 new customers. The highest number of dealers was at the end of the year 2020 when Tori Autot had 1400 dealers using the service. Lost customers during that time were 327. Using those numbers, the churn rate is quite high:

$$(327/1073) \times 100 = 30,48\%$$

The time window selected in this study is quite crucial for the churn calculation. In the beginning there were 964 paying customers, the customer amount got much higher during the free period and the resignation amount is the number resigned when the service became a chargeable subscription.

4.5 Reliability

The collected data is based on one company's data and the feedback collected from the sampling group, it is reliable data for the commissioner's use, but might not be generalized. The author has a good understanding of the subject and knowledge about the business. The Covid-19 pandemic which was followed by the war in Ukraine has had big and long-lasting effects on the car industry (Automotive News Europe, 2022). The suggestions and calculations made according to the data in this study might need a closer exploration because of these effects to the industry.

5 Conclusion, discussion, and suggestions to commissioner

5.1 Freemium test period

In summer 2022 there are approximately 1100 car dealers in Tori Autot and all of them are paying subscription fees. The calculated potential of customers was 1500 (Schibsted, 2020). If the service would have stayed freemium, the potential customer amount could have nearly been reached. The freemium test period showed the interest of car dealers to use several marketplaces. On the other hand, the loss of subscription fees would mean a great drop in revenue.

When customers were asked the reason for their resignation, only 8% answered that the reason was *expenses*. That one does not encourage removing the subscription fee and changing to the freemium model. When a customer says they do not want to pay or use their resources, it raises more questions: *Why do they not want to use money? Because they do not have any or because they do not feel the money is well spent?* In those cases, it is possible the sales should clarify their key selling points or that the service needs to be improved.

To continue with freemium service there would be a need for a premium version alongside. Creating a premium level that would be attractive enough compared to the freemium version would require once again more effort on the product development side and would increase the costs.

The freemium version of the service might be relevant for very small dealers and companies whose business is not car selling. For example, the plumber might sell their van and as the seller is a company, they cannot sell the car as a private seller. Freemium service could be narrowed to a few ads and could be bought only through self-service. As such technical capability is not available to offer this kind of version, it is not reasonable to develop that for such a small customer segment at the moment.

5.2 The reasons to use Tori Autot

Tori is one of the most popular marketplaces for used cars in Finland. The new Tori Autot was launched, and it has received good feedback from the consumers and from the dealers. (Schibsted, 2022.) The churn rate was very high during this freemium period. This period can be considered a high-growth period and is not an ordinary situation in Tori Autot. Now the subscription-based model is attracting 73 percent of the calculated potential (1500 dealers).

5.3 Increasing customer value

To increase the use of upselling products the result could be different service levels and packages. To benchmark against for example Mobile.de service model there could be a possibility to increase customer value.

There would be a possibility to create a few different levels by bundling existing products together that have now been sold individually to customers. The customer would get a discount when adding upselling products to the subscription when compared to buying that one by one.

The revenue model to consider in the future is the transaction fee. Once again benchmarking against Mobile.de, there could be a fee when the car gets sold. In the future, if the customer journey would be handled in Tori Autot from start to end, this option would be a clear addition.

Acquiring new customers and winning back the old ones is costly and time-consuming. In the monitored sampling group, 42% were unavoidable resignations. More than half of the resignations could have been avoided. The reasons dealers gave were about lack of leads, or the service was timely, or money-consuming.

The year 2020 had turbulence and there was a very difficult phase for some of the dealers but also all-time high months in sales for some. Activity toward dealers from Tori Autot could be one way to retain dealers. Upselling products may help dealers to get more leads, and teaching dealers to use them might be

one way to increase customer satisfaction. The new Tori Autot has gotten a good reception, but satisfaction with the new platform should be ensured.

5.4 Freemium business model, a tool to increase sales of upsell products

The assumption was the customers would use the money for the upsell when they do not need to pay for the basic service. Overall, the result was clear. The year-on-year growth in total was 54% more euros compared to the previous year.

When it comes to new customers eagerness to buy upsell products is lower. The 2,56% of the customers of the sampling group bought upsell products during the observation time. Those numbers are not comparable as the other percentage is measuring euros and the other one is the number of dealers, but it can be used as an indication. Customers are willing to use upsell products, but they need to be taught how and to understand the benefits of those products. Focusing on upselling product sales in the future allows the growth of customer value.

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