



Entering a Coffee Business in Finland

Viability of an online coffee subscription business model

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ABSTRACT

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Aiming to provide Finnish consumers with additional different coffee options that the author considered reduced in the market and intending to give insights to entrepreneurs considering entering this business field. The thesis was written to explore on the viability of an online coffee subscription in Finland.

In Finland coffee is consumed by nearly every person in diverse situations, however it was perceived by the author that varieties and brands typically chosen by Finnish consumers are reduced to only a few, this despite the broad selection available in retail stores of varied sizes. Subscription businesses of physical goods are not as popular as its digital equivalents.

To explore and understand the reasons behind these perceptions, several Finnish coffee consumers were interviewed to express their feelings when presented different coffee options and an online survey was distributed to identify their online shopping preferences. Additionally, secondary data such a journals, articles, peer-reviewed documents, and documented experiences of different business in these areas were analysed to get a deeper understanding on the topic.

The findings suggested that Finnish consumers have a strong attachment for brands they already know and are familiar with, yet on occasions they are open to try out different options while these do not differ considerably to their regular choices. Also, Finnish people preferred to get information from friends or family or to visit their local store if they want to try a new product. Meanwhile in the e-commerce sphere, sales of physical goods using online subscription were not so extensive in the country, but it is slowly growing across different industries. A business in the coffee industry could benefit from assessing these preferences, making use of the growing trend on subscription, and developed digital culture.

Key words: e-commerce, coffee, business-to-consumer, subscription business

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GLOSSARY

B2B	Business to business
B2C	Business to consumer
CBI	Centre for the promotion of imports
COVID-19	Coronavirus disease
CRM	Customer relationship manager
E-commerce	Electronic commerce
GDP	Gross domestic product
ICT	Information and Communications Technology
SPI	Subscription performance indicators
SEO	Search Engine Optimization
TAMK	Tampere University of Applied Sciences
UBS	Union Bank of Switzerland

1 INTRODUCTION

Businesses have evolved over time; they have gone from a traditional exchange of money for goods to create a considerable number of solutions for consumers. Meeting constant changing demands, to stay competitive in the market and grow. The internet era allowed a unique way to create and deliver these solutions, and different business models expanded such as subscription businesses.

According to a report from UBS, predictions for subscription businesses are positive and it is expected that subscription business economy will keep growing. Subscription business could grow worldwide from 650 billion U.S Dollars to 1.5 trillion between 2020 and 2025 (Forbes 2022).

Finland is one of the countries with highest consumption per capita of coffee in the world, 7.8 kilos in 2020 (Statista 2020) and coffee is widely consumed and present equally in households as workplaces. Additionally, Finnish consumers have access to products of high quality, and they are well accustomed to digital forms of payment.

During the pandemic COVID-19, a great number of businesses had to comply with severe restrictions that translated into reduced revenues, loss of customers and in many cases closure of their operations. However, at the same time, it turned into an opportunity to reformulate their business models and to adopt online sales and subscription models, which had been already growing around the world.

This research focused on understanding those factors affecting creation of an online subscription business while analysing Finnish consumers' preferences regarding coffee and online shopping, intending to discover what are the motivators of Finnish consumers to choose a determined coffee brand and interpret the results to explore potential benefits to a coffee subscription business.

2 THESIS PLAN

The following plan was created to guide the research and creation of thesis as outcome to the research. This chapter explains the thesis topic in more detail, motivation of the author to select this topic, concepts, theories, and models utilized to research on the topic, as well as methods to collect data and an overall process of the thesis.

2.1 Thesis topic

The thesis topic is the research on entering a coffee business in Finland and explore the viability of an online coffee subscription model. In Finland there is a great demand for coffee, ranking Finland as one of the countries with highest consumption per capita in the world (Statista 2022).

Coffee brands and types found in retail and specialty stores are broad. However, there are a few major brands such as Meira or Paulig which together take most of the domestic market share (CBI 2019). On the other side, there are in Finland smaller roasteries selling coffee of presumably better quality, yet their sales are not great neither they are as popular in comparison to the previous mentioned.

During COVID-19 pandemic, online sales gained a major importance and only in Finland it increased 22 percent in 2020 (Kauppa 2021). Different products and services were created, and these were offered mainly online. However, several of them found place in a post pandemic society, creating then opportunities that might have not been taken advantage of yet.

According to Camillari (2018) understanding customers is key for a business to be able to grow and be successful, in that regard the author aimed to explore and understand factors and reasons of Finnish consumers' preferences and the basics to set up a successful online coffee subscription business model.

2.2 Thesis objective, purpose, and research questions

The objective for this thesis was to explore the viability of an online coffee subscription business model in Finland. To achieve these objectives, several questions were originated to be answered through the research, the main question was:

How to create an online coffee subscription business in Finland to offer Finnish consumers other coffee varieties?

Additionally, subsequent questions were included to explore deeper into the topic: What are the subscription model characteristics? How to make online customers experience pleasant? What are the characteristics of Finnish consumers? What motivates, affects people to choose subscription purchases over other models?

The result of the research was primarily to be a practical guide to establish a new online coffee subscription business or to be adopted by an existing company that seeks to enhance its online presence thus increasing sales.

2.3 Research methodology

Necessary information and relevant data were gathered from different sources to answer the previously proposed research questions, research is described as a scientific and systematic search for pertinent information on a specific topic (Kothari, C. R. 2004). The academic literature classifies these as primary or secondary data.

According to DiCicco-Bloom and Crabtree (2006), the purpose of qualitative research interviews is to contribute based on the meaning that life experiences hold for the interviewees. To understand perceptions and expectations of Finnish consumers linked to coffee choices, primary data was collected in form of interviews from residents of Finland. Additionally, "quantitative techniques are particularly strong at studying large groups of people and making generalizations from the

sample being studied to broader groups beyond the sample” (Holton III, Swanson 2005, 30) with this purpose, online questionnaires were distributed through online groups to obtain data about online shopping and coffee preferences of people in Finland, consequently the information was processed to obtain quantitative and qualitative data to acknowledge preferences of the respondents.

There are previous studies, websites, journals, and relevant peer reviewed literature, produced by professionals and organizations in the topic which has been used as secondary data. These have been used to gain deeper understanding of established practices, trends, and experiences of similar actors in the field.

2.4 Thesis process

The aim of the thesis was to illustrate in a practical manner the topic, for that purpose it has been divided into two main parts, in the first part concepts and secondary data was explained and described, later during the second part primary data was analysed, interpreted, and applied through the model chosen and its various steps.

In the First chapter an introduction of the thesis was presented to readers. Second chapter describes the background, objectives and plan created for this thesis. Third chapter contains information of concepts and theories used for this research. Chapter four illustrate the data collection methods and their analysis. Chapter five explains and graphic the situation of the Finnish market regarding coffee and ecommerce in greater detail. Chapter six offer readers information about subscription business model, its presence and evolution in Finland. In Chapter seven the model to build a subscription business is explained. Conclusions and Recommendations are found in Chapter eight.

3 THEORETICAL FRAMEWORK

Concepts in e-commerce, subscription business model and customer decision making are introduced in this chapter as well as theories and models that served as theoretical framework for this research. These are briefly explained with the focus on helping readers becoming familiar with the literature used in this thesis and applied to the research.

3.1 Business models

“A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams” (Osterwalder, A 2004, 2).

There are multiple business models created each with distinctive characteristics and classified according to different criteria. However, Osterwalder (2004) propose the characteristics in a business model to include: Value proposition, Target customer, Distribution channel, Relationship management, Value configuration, Capabilities, Partnerships, Cost structure and Revenue model.

With the appearance and massification of technology, the role of ICT in businesses to create new business models have changed. Although, the role of ICT in business models do not have to be so apparent (Osterwalder, A 2004, 18).

3.2 Subscription business

A subscription model could be described as an exchange of recurrent payment for constant replenishing of products or continuing service. Subscription business model has already existed for centuries, during the 15th century, books were delivered monthly to loyal customers (Bigcommerce 2022).

Subscription model differs from a traditional business which relies on single transactions and to increase the amount of them to generate value. In a subscription model, value is created and added through maintaining the relationship with its customers. “Moving to the subscription economy means we have to learn not to monetize the transaction but rather monetize the relationship.” (Dunn, Baker, 2022)

The boom in e-commerce, rapid development and massification of technology, which provided businesses of all sizes the possibility to adopt this business model in their operations. Nowadays, in our societies exist several well-established businesses based on a subscription business model, being amongst the most popular subscription businesses like Spotify, Netflix, HBO, or Amazon that have global impact and consumers worldwide.

Moreover, subscription business has expanded to other categories covering different aspects of a person’s life and allowing consumers to receive physical goods directly to their home. During COVID 19, subscription businesses have just spread further (Forbes 2020). UBS predictions are positive, and it is expected that subscription businesses will keep growing. Subscription business could grow from 650 billion U.S Dollars to 1.5 trillion market between 2020 and 2025 worldwide (Forbes 2022).

3.3 Electronic commerce

By Lutkevich (2022), e-commerce is defined as the activity of buying and selling products and services electronically. Since the creation of internet, a new way to do business was perceived and predicted among academics, considered then as the most significant revolution since industrial revolution (Qin 2012, 4).

Turban et al. (2017) classifies businesses as pure or partial e-commerce based on complying with three categories; ordering and payment, order fulfilment and delivery to customers. Pure e-commerce businesses are described as carrying out each of these categories digitally, meanwhile partial e-commerce do at least of these physically.

E-commerce application has expanded beyond buying and selling electronically. Its application serve also to manage customer relationships, collaborating with business partners and conduction electronic transactions within organizations (Turban et al. 2017, 6)

Business transactions can be business-to-business (B2B), business-to-consumer (B2C), customer-to-customer (C2C) or consumer-to-business (C2B) (Vipin, Bindoo & Satyendra 2021).

E-commerce have additionally allowed Small and Medium Enterprises (SME) vendors to reach out customers that are physically distant within a country and abroad. According to Chau (2003) benefits of E-commerce to SME companies are cost savings in communications, marketing, greater business exposure and access to new trading partners and customers (Solaymani, Sohaili & Yazdinejad 2012).

With the massification of internet in the world and popularity of online services, e-commerce took a major role as financial and economic driver of countries around the world. A report by Statista (2021) revealed that worldwide e-retail sales amounted 5.2 trillion U.S dollars during 2021.

3.4 Business to consumer market

The result of this research was to be a practical guide to enter an online coffee subscription business serving end consumers. Therefore, it was pertinent to understand a business to consumer (B2C) concept which varies from other business modes such as business to business (B2B).

There are several differences between a B2B and B2C market, but the most relevant ones to the purpose of this research were mentioned. Business to consumer (B2C) compared to Business to Business (B2B) possess different factors affecting the purchasing decision process.

For instance, end customers in B2C decide based on their own preferences and compare their different options prior deciding, meanwhile in B2B companies prioritize their need and look for products complying with certain specifications (Hall 2022). Additionally, sales process in a B2C market is often based on emotions and human factors, where creativity has space for self-expression. In B2B markets, rationality is often a key factor which directs the entire sales process thus leaving less space for creativity (Reklaitis, Pileliene 2019, 83).

These characteristics in a B2C market give additional space to a company to create innovative strategies that appeal to the target group in question. Moreover, a report in 2021 by McKinsey reveals the importance of personalization for customers in different industries, where companies that excelled at personalization generated 40 percent more revenue than their median counterparts.

3.5 Models applicable

Different models have been created in e-commerce and subscription models by academics, although models chosen for this research were found to be the most suitable to answer those questions previously originated and that would help to achieve those objectives, following are brief introductions to these models.

3.5.1 Consumer decision-making

The Consumer decision-making process introduced is a model consisting of 5 stages broadly utilized and popular in business (Figure 1).



FIGURE 1. Five stage decision-making process (Carrapichano n.d.)

This model used by marketers aims to help understand a customer decision making process to develop policies accordingly. Stages are need recognition, information search, evaluation of alternatives, purchase decision and post purchase evaluation.

In an e-commerce environment, websites must attract attention to get engagement from a potential new customer. Therefore nowadays, companies invest heavily in Search Engine Optimization SEO and it has played an important factor for a company to succeed in a digital environment.

It has been found that customers start more often their purchase journey online before visiting a traditional brick and mortar store. McKinsey's model (Figure 2) propose that this process has become a cyclical journey instead of following a linear pattern as in Figure 1, arguing that customers will more likely repurchase from the same brand or business based on their previous experience thus creating a loyalty loop.

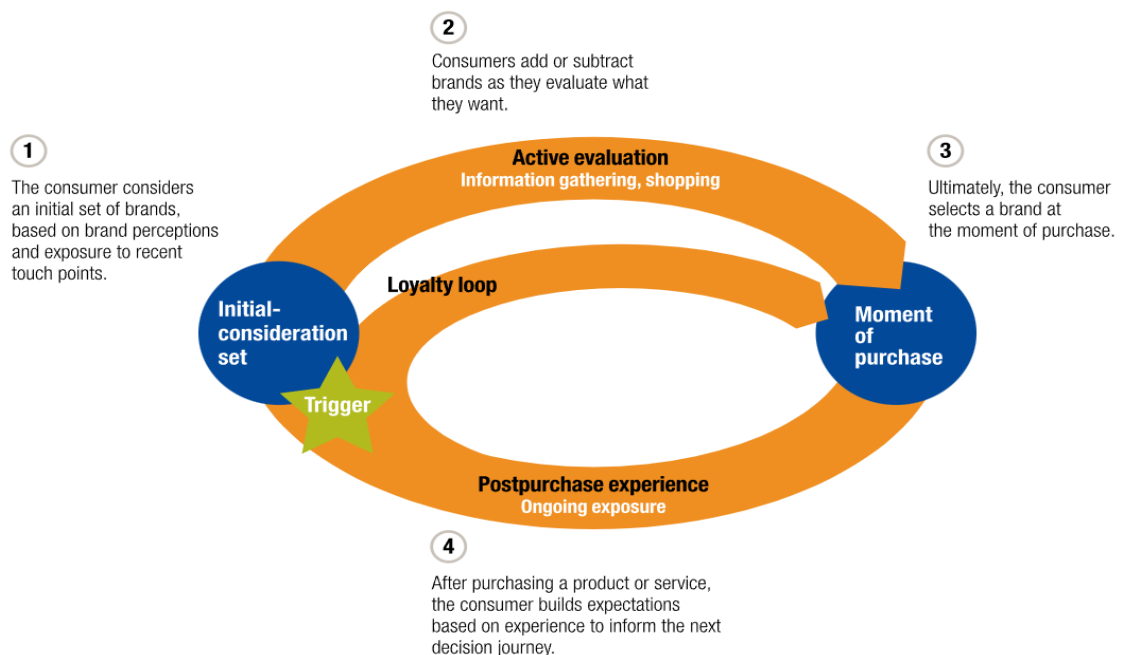


FIGURE 2. The decision-making process is now a circular journey (McKinsey 2009)

During the active evaluation phase, Mckinsey's report (Figure 3) that there is a pattern in which consumers decision is affected by family and friends and reviews

on internet on what is called consumer-driven activities. The effective goal of driving the customer to make future purchases then will depend on positive post purchase experiences.

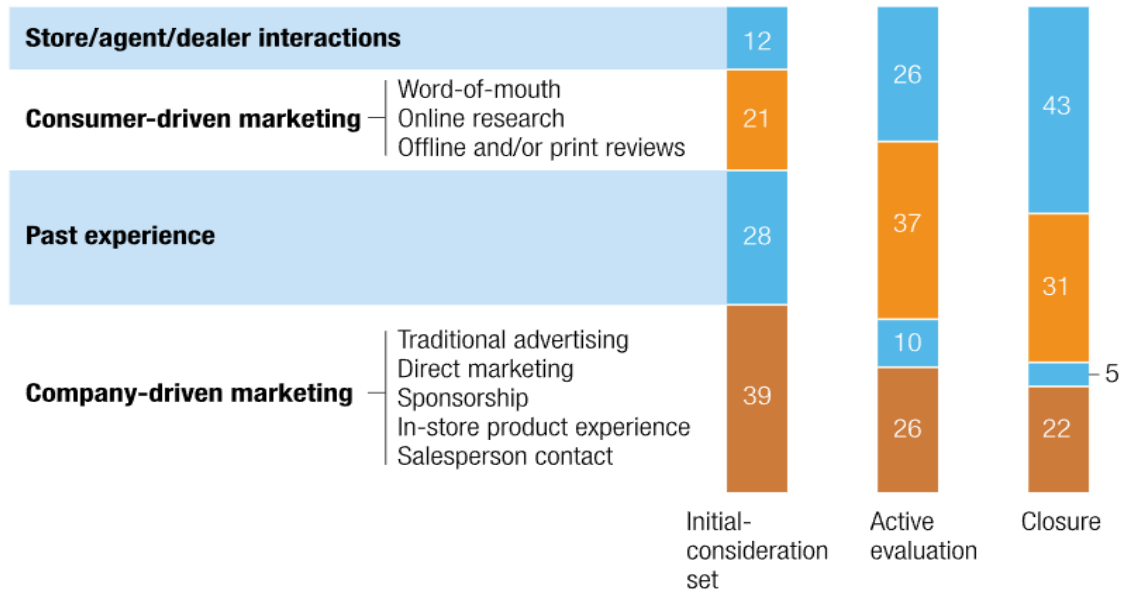


FIGURE 3. Most influential touch points by stage of consumer decision making journey (McKinsey 2009)

During the Post-purchase evaluation, consumers will likely express their feelings towards a product if excel or satisfied its expectations and will be more prone to suggest it to friends and family, thus creating a network effect.

3.5.2 How to build a subscription business model

The model created by Morten Suhr Hansen in 2014 aims to explain in several steps the creation of a subscription business model. According to Suhr Hansen, the purpose of the model is to be a guide for assembling, launching, and running a subscription business. As observed in Figure 4, the model is divided 7 phases: subscription modelling, subscription systems, acquisition, customer retention, customer expansion, customer win-back and analytics.

Suhr Hansen also stresses on the importance for any business model to provide tangible benefits to consumers and for the company that provides the service or

product. Additionally, a successful business model is explained as a fair exchange of value that takes place when two parties do business (Spencer 2013, 2).

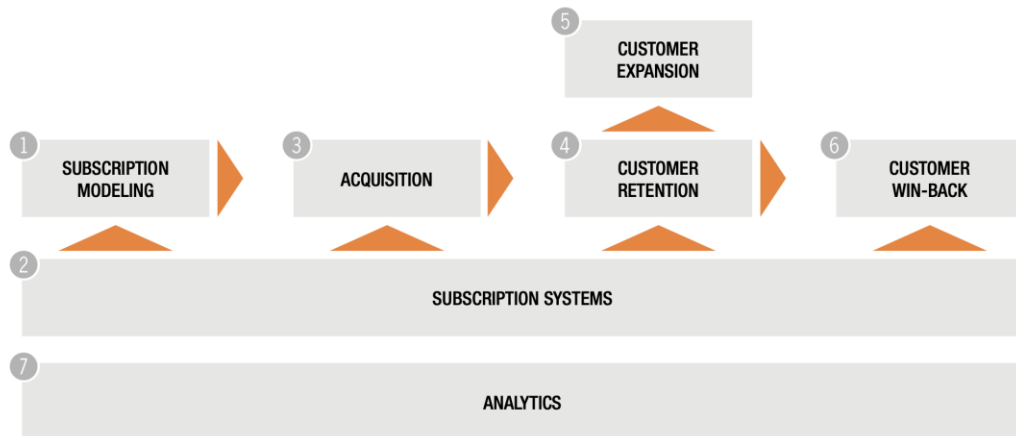


FIGURE 4. Suhr Hansen subscription business model (Suhr Hansen 2014)

The steps detailed in this model propose to offer guidance in creating value for the customer and allow a company to achieve success. Later on, these steps were applied to the creation of an online coffee subscription.

4 METHODOLOGY

The following chapter introduce the data collection methods, results and analysis used in the research based on the theoretical framework and to answer the proposed research question.

4.1 Data collection methods

The research aimed to explore and understand the factors and reasons of Finnish consumers regarding coffee purchase habits and basics to set up a successful online coffee subscription business model. For that purpose, it was necessary to obtain information about feelings and perceptions of Finnish people regarding coffee.

A group of 5 people between 25 to 55 years were selected to describe and explain their own perceptions regarding flavour, smell, and consideration of use with different coffee types. Participants were presented 3 different coffee products of Peruvian origin as listed in Appendix 2 and offered to taste those coffee varieties. Thereafter open ended questions (Appendix 1), questions that allow participants to provide responses in their own words instead of predetermined choices (Albudaiwi 2017), were raised to obtain information from the participants.

Additionally, a questionnaire (Appendix 3) in form of an online survey was distributed in online groups to gather broader information about preferences in coffee habits and online shopping to be processed and obtain quantitative data for the research.

4.2 Results and analysis

After tasting Coffee number 1 (Appendix 2) which was commonly agreed as having a totally different flavour, it was found that most interviewees would not

change their habitual coffee in favour of the presented option. Also, it was expressed as this coffee being more suitable for special occasions.

To the question, would you change your habitual coffee for this one? Interviewees were willing to change and use the coffee number 2 (Appendix 2) if the price did not exceed their current coffee choice.

Also, when one of the characteristics such as flavour was perceived as familiar in contrast to the scent which was distinguished as stronger, most of interviewees agreed that it represented a potential option to be consumed daily.

It is important to mention that when presented to product number 3 (Appendix 2), some interviewees showed reluctance to taste the product. This could be attributed to the newness of the product, added to the lack of available information of the method of consumption in the package and scarce information on the internet. Thus, creating the perception of the product as potentially dangerous.

The questionnaire (Appendix 3) distributed online showed that consumers in Finland have a strong preference for brands such as Juhla mokka, Paulig and Kulta Katriina. Features in a website considered as important were varied payment method, easy buying process and clear descriptions and images. Respondents have bought premium coffee for themselves or to gift it. The number of women respondents to the questionnaire was 64 percent and 36 percent of men.

5 FINNISH MARKET

A definition for market describes it as a place where parties can gather to facilitate the exchange of goods and services (Investopedia 2021). In addition to this, a market possesses distinct characteristics, and understanding these characteristics along with its actors (buyers and sellers) is of importance to a business to reduce risks, increase their profitability and ultimately avoid bankruptcy (Cint 2022).

The Finnish market is considered a developed market where consumers have access to high end products and services that often top globally in different rankings, a market that is highly integrated in the global economy and a third of Finnish GDP comes from international trade (ITA 2022).

According to Sanoma, an advertising and media company, Finns trust brands they know (Sanoma n.d.). Similarly, a study carried by Salonen et al, classified a quarter of Finnish adults living in their own household as Caretakers, a group characterized by giving importance to tradition, family, and avoidance of extravagance (Salonen et al. 2014, 76).

Nevertheless, within the Finnish society there is room for indulgence, and exploring new options. Hofstede insights model (n.d.), gives Finnish culture a score of 57 points in Indulgence, considered a score relatively high describing a society as prone to use money as they wish, realise their desires to enjoy life and give importance to leisure time.

5.1 Coffee market

It is widely recognized that coffee is commonly consumed in Finland and present equally in Finnish households and workplaces, locating the country as one of the countries with highest consumption per capita in the world, 7.8 kilos in 2020 (Statista 2020).

Some reasons to this high consumption are attributed to long cold weather experienced in the country, 100 days of winter in southwestern Finland and 200 days in Lapland (Ilmatieteenlaitos n.d.), and the consumption of coffee as a social activity.

In psychology, social activities are explained as activities performed to bring people together and create a sense of group (Kelly, Duff & Kelly et al 2017). Therefore, coffee consumption in Finland could be considered as a mean to foster interaction between friends, family and in the workplace, considering that most of the coffee is consumed at home or work, and a lesser amount in places such as cafes or restaurants (CBI 2019).

The elevated level of coffee consumption in the society can be observed as well in the Finnish working culture, there are coffee breaks normed by law and mandatory to comply by employers, where a coffee break has typically a duration of 10 to 15 minutes (Työelämänpelisaannot 2021).

According to Baek & Kim (2014), In terms of consumption motivation there are two main categories of goods: Utilitarian and Hedonic. Utilitarian goods are essentially practical, necessary, and helpful, whereas Hedonic goods are fun, delightful, and enjoyable (Lu, Liu & Fang 2016). Products can possess both characteristics, and coffee consumption motivation will depend mainly on the perspective of the consumer.

For reasons such as coffee being consumed primarily on daily basis and in considered regular situations or places, the profound presence of coffee in Finnish culture as an intrinsic part of special occasions, and normalization of coffee consumption rather than a luxurious practice. It could be suggested that coffee is primarily perceived as a utilitarian good.

5.1.1 Prices

Price maintains a fundamental role affecting consumer purchasing decision. According to McKinsey (2021) customers need to perceive that the price paid for a

product is creating value in other terms worth to pay for. In Finland, consumers are accustomed to buy products of good quality and willing to pay to obtain it (Lloyds Bank 2022).

The Finnish Coffee market has a broad variety of types and brands available to consumers, however retail prices could be divided in main 3 segments: upper-end, middle-end, and lower-end.

- Upper - end ranging from 30 € to 67.70 € per kilo
 - Middle - end ranging from 12 € to 29 € per kilo
 - Lower - end ranging from 6 € to 12 € per kilo
- (Finnpartnership 2017)

It was reported that Juhla Mokka 500g is one of the most popular coffee brands in the market with a cost of 12.98 € per kilo in 2022 (K-market 2022), classifying it then within the middle-end segment. Similarly, other of the most consumed brands were found in this segment, Paulig Kahvi 500g 15.98 € per kilo and Kulta katriina 12.20 € per kilo (K-market 2022).

Meanwhile in the Upper-end segment could be found brands such as Kaffa Talvikahvi 39.90 € per kilo (Kaffa 2022), Cafetoria Altura 30.40 € (Cafetoria 2022) and Helsingin Kahvipaahtimo Blend numero 3 37.95 € per kilo (Helsingin kahvipaahtimo 2022).

According to the Finnish Commerce Federation (2022), Finnish consumers awareness of sustainability, social responsibility and obtaining extra information of the products they consume has grown and they are willing to pay an extra for products and companies perceived to fulfil these characteristics.

5.1.2 Coffee varieties and roasteries

The exports of coffee to Finland are predominantly as green coffee beans. In 2020, 60 metric tons of it were imported in comparison to roasted coffee which amounted 10.9 metric tons (Statista 2022). There are two main types of green coffee beans: Arabica and Robusta.

Arabica has smoother flavours and a higher concentration of sugar and lipids (The Roasterspack 2014). Robusta contains more caffeine (2.7 percent) than Arabica (1.5 percent), this higher concentration makes the coffee to taste bitter turning it in some cases unpleasant to drink. One main difference is the altitude at which the plant grows. Arabica plant grows at above 1000 meters and Robusta below 1000 meters (CBI 2022).

In Finland, Arabica coffee is the most consumed type, coffee beans are typically light roasted, and it is considered one of the lightest roasted in the world (CBI 2022). This popularity could be explained by the preference of Finnish consumers who are accustomed to light-roasted coffee, 80 percent of the coffee consumed belong to this variety (Korhonen, Paulig 2018).

According to Jhon Söderlund from Kaffecentralen, dark roasted coffee has gained popularity and its consumption has grown (The Signmoak 2019). However, it dawdles in terms of preference compared to light roasted coffee. There are other varieties such as premium blends that consist of coffee processed with special care and flavoured beans (Coffebi 2019), that are getting a foothold in the Finnish market.

Coffee is mainly sold through Finnish retailers S-Group, Kesko Group and Lidl which form 90 percent of coffee retail market (Finnpartnership 2017, 3). An estimated number of 20 small roasteries and traders were operating in Finland in 2016, all together representing 20 percent of the total market share, meanwhile 80 percent of the market is still dominated by 3 large companies. Specialty roasteries have experienced growth in recent years specially in Helsinki, this phenomenon coincides with the growing switch of consumers to seek new types of coffee.

Small roasteries have a different way to work to large companies, their primary focus has been on producing and offering coffee of high quality while aiming to a niche market. They have excelled in quality compared to already established brands in the market (Finnpartnership 2017).

These characteristics provide consumers with an extraordinary experience wherein hedonic values influence the acquisition of coffee, through allowing consumers to experience positive feelings and turning it as the main driving motivation for consumers' willingness to pay more for it.

5.2 E-commerce in Finland

Finland had an internet penetration rate of 97 percent in 2021 which has grown year by year since 2010, when it was at 81 percent. The use of internet is widespread among all age groups, Statistics Finland reported that in 2021, 93 percent of Finns aged 16 to 89 accessed to internet daily. These high rates have favoured the development of e-commerce in the country. Consequently, e-commerce has grown to become an industry that generated 8.1 € billion in 2021 (Statista 2022). Data from DESI (2020) report that Finland, Sweden, Denmark, and the Netherlands has the most digitalized economies within the European Union.

Trust is “a fundamental component of all human social relations, and as such, it has been studied in a number of disciplines, each focusing on different aspects of this remarkably complex concept” (Beatty et al. 1999, 14:4) and different cultures perceive differently on what makes an e-retailer trustworthy (Järvenpää et al. 1999).

In E-commerce, online shoppers are likely to engage in a more exhaustive information search before purchasing an item (Ward, Lee 2000). Despite of their physical location which could undermine trust (Salam, Lyer & Palvia 2005, 76), in Finland, international websites are among the most visited by consumers to purchase goods, this could be explained by the access to a broader range of products and lower prices found in these sites (Lloyd's bank 2022)

Finnish consumers are acquainted with digital forms of payment, at the lead of this form of payment are “credit or debit card (with a total share of 32%), followed by direct payment via bank transfer, invoice, and PayPal. Mobile payments have increased considerably: in 2017, 34.41% of payments were made using either a tablet or a phone, compared with 27.43% in 2016 (PayTrail)” (Lloyds Bank 2022).

Most of the age groups in Finland incur in online shopping of different products and services, statistically 80 percent of Finns have shopped online at least once in 2021 (Statista 2021). Similarly, Kurjenoja, J. Stated that “Pioneer digital shoppers are shaping the market and ways of buying in online purchasing and the commerce sector in general” (Kauppa 2022).

The sales of Finnish companies in B2C e-commerce have grown by 7 percent from 2014 to 2021. However, the number of companies incurring on sales through a website still represents only a 17 percent (Statista 2021). The Finnish Commerce Federation (2022) suggest that political and economic measures should be taken to encourage the growth of the domestic e-commerce further.

One of the effects that could be attributed to Covid-19 in Finnish consumers has been increased adoption of online shopping as a common habit, online shopping has seen an increase of 22 percent in the last year and attitudes change could be reflected also in the grow of domestic e-commerce (Kauppa 2022), It has grown in the past year to 30 percent. Additionally, in a recent survey by Kesko group, Finns showed an inclination to purchase items of Finnish origins (K-market 2022).

6 SUBSCRIPTION BUSINESS

When opting out for a subscription, a buyer is looking for access to content that has excellent characteristics and that will provide them an extraordinary experience that cannot be obtained through a single purchase. Therefore, it is important that a business transmits the message appropriately to a consumer for the benefits of the subscription to be acknowledged thus maintaining the ongoing relationship (Baxter, R. 2020).

Several of the benefits for a business deciding to establish its online presence have been described in previous chapters. To a consumer, benefits gained from committing to a subscription cover different aspects ranging from psychological to physical needs. Baxter (2020) postulated that these benefits gained are access to exclusive good, achieve of status, feel part of something, save time and money, and get expert advice. Similarly, Suhr Hansen (2014) describes those benefits as convenience, reduced complexity, inspiration, gateway to membership of a community and saving money.

Additionally, a qualitative study performed by Lee et al. (2019) to identify the main stimuli that influence consumer loyalty, found that product quality and uniqueness affected consumer attitudes toward products in the subscription economy.

6.1 Types of subscription model

Subscriptions models have evolved and changed to satisfy the different needs of consumers and meet their demands. Suhr Hansen (2014, 21–22) describe these types of models encountered across different markets as:

- Unit-based is a model where a customer pays for what receive similarly to a traditional business exchange, main difference is on the process being automated.
- Usage-based which means that a customer pays for the usage of the product or service.

- Tiered is a type of subscription that offers different types of tiers or packages defined by the business. A customer choose to which tier subscribes.
- User-based subscriptions offers low fee access to the service or product but increases as the number of users are added to the service.
- Unlimited based subscriptions provide access to the product or service unlimitedly for a fixed continued amount price.
- Hybrid models combine different usage models within one subscription.

Each of the models mentioned above provide benefits and it will depend on the industry in which a business is operating to maximize those benefits as well as the characteristics of the consumers it aims to reach.

For instance, while on the digital content market, companies offer primarily unlimited access to their catalogue, the focus on companies whose goods are physical is onto providing premium products and special treatment.

Similarly, subscriptions business types are proposed in a report by Nets (n.d.) in Figure 5. They categorized businesses in six different models based on how subscribers are billed. To identify and select the right type is of importance to a business entering the subscription economy and its success, changes to an already established model could disturb the reliability and convenience of the service leading to dissatisfaction of customers and potential interruption of it (Baxter 2020).

Model	Definition
Flat-rate Unlimited Usage	Product/services are provided at a fixed rate with no capping on the volume of usage by the customer
Flat-rate Limited Offering	Product/services are provided at a fixed rate with a certain cap on the volume of usage by the customer
Tiered Pricing Model	Services are offered with varied allowed usage volume or extent of services or both, usually in 3-4 different packages based on the type of target customers
Usage-based Billing Model	Customers are enrolled for a basic token fee and then charged for the products/services based on their usage volume
Freemium	Product/service is provided free of charge, but money (premium) is charged for additional features or services
Hybrid	Flat-rate or tiered pricing models are clubbed with usage-based billing, i.e. providing a certain extent or volume of services at a given rate and then charging over and above for any extra usage of the services

Source: MEC+ analysis

FIGURE 5. Subscriptions businesses by model of billing (NETS n.d.)

6.2 Subscription model in Finland

Finland is not distant to the trend of the growing popularity of subscription businesses around the globe and there are several businesses operating under this model. In a survey carried out by QVIK (2022) to more than a thousand consumers in Finland revealed that 60.6 percent of Finns had been subscribed to a digital service.

The market of subscription to physical goods however is not as massified as occurring with digital content. This could be understood based on the low percentage represented in the total retail sales which was 8 percent in 2021 (Kauppa 2022).

According to Finnpartnership (n.d.), Finnish buyers would greatly appreciate if suppliers invested in professional communication, such as a good website, company brochure, product specifications.

Nevertheless, this represents an opportunity for companies of growth and to acquire new costumers on condition that they achieve value creation through a subscription with a defined strategy for consumers (Suhr Hansen 2014, 45).

6.3 Subscription model – case examples

There are several companies in different fields that have started to implement a subscription model in addition to their traditional ways of selling.

Synsam Lifestyle is a subscription service provided by Synsam an optical retailer. Once subscribed, a customer has access to diverse benefits for a monthly payment that starts from 5 €. The subscription allows a customer to choose 3 glasses of their preference and have access to eye exams, new lenses when vision changes, clean and adjustments of glasses and option to replace one of the products every year (Synsam 2022).

Kaffa Roastery is a coffee company that counts with a physical location in the city of Helsinki. It operates in the upper-end segment of coffee retail and offers deliveries of premium coffee chosen by their roasters on intervals of two or four weeks. The price of the subscription is 17.90 € / delivery (Kaffa 2022).

Alvar is a company established in 2019 specialized in food and supplements for dogs. It offers subscription food and cured box styles in their shop. Customers can start their subscription for as low as 4.90 € and can test their product with a trial service which includes a 2 kg bag of dry food (Alvar 2022).

6.4 Postal service

One of the benefits commonly encountered in different academic literature regarding subscription business is convenience. Convenience etymologically is defined as “that which gives ease and comfort” (Online Etymology Dictionary 2018).

For this part, convenience will be explained on the perspective of delivery as one of the main benefits to consumers when purchasing goods in a subscription model. An optimized product delivery saves the consumer time and energy in the complex process of choosing delivery options when buying a product (Suhr Hansen 2014, 9).

In the case of Finland, it has a well-established network of postal service and there are several companies operating in this industry such as Posti, PostNord or Matkahuolto broadly for domestic delivery.

Also, most of postal boxes in buildings share the same physical characteristics and dimensions, representing this an opportunity for businesses that aim to deliver goods directly to its customers' door thus increasing like this convenience.

6.5 Risks in subscription business

The appeal of a subscription relies on the novelty and recurrent interest of the customer with every delivery additionally to getting maximized convenience. Therefore, some of the principal risks associated with the cancellation of the subscription are a perceived lack of value for the price, dearth of fun in new products or experiences and reduced options within subscription or pricing (McKinsey 2021)

Similarly, among Finnish customers the reasons to cancel their subscription were: products not meeting their expectations, similar services found for a lower price and the feeling of no longer needing the service (QVIK 2022).

As explained in chapter 6.1, changes to the features of an established subscription business could lead to unfavourable consequences for a company, as seen in the case of Netflix that in 2022 lost 600 thousand subscribers in North America following a change in the price of its subscription (MUO 2022).

According to McKinsey (2021), brands and retailers that use a customer-centric approach to offer the right combination of value, flexibility, option, and novelty to create customer devotion will succeed in the subscription business.

7 SUBSCRIPTION BUSINESS MODEL STEPS

Suhr Hansen's model (2014, 15) to create a subscription business and its various steps are elaborated in the following chapter utilizing the data gathered from the interviews, questionnaire and secondary data explained in previous chapters.

7.1 Subscription modelling

During this step it is necessary to establish the value proposition of the subscription business as well as the subscription packages and content along the prices (Suhr Hansen 2014, 17).

Finnish consumers have a strong attachment to coffee varieties that are familiar and whose characteristics are not far from what is already known. Also, there is a growing demand for products of Finnish origins and for products/companies fulfilling their social responsibility.

As observed in Figure 6, 68 percent of respondents chose Juhla Mokka as coffee regularly purchased, suggesting a strong preference for trusted brands and brands already established in the market. Juhla Mokka is brand present in the Finnish market since 1929. Followed by Paulig, 31 percent, another brand of the same company (Paulig n.d.).

What coffee brand do you usually buy?

22 responses

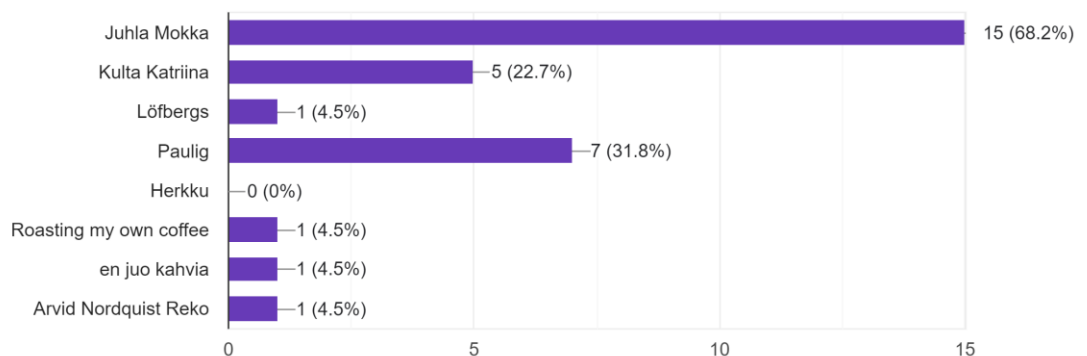


FIGURE 6. Coffee brands regularly bought

Therefore, the author suggests that the characteristics of the subscription should be focused on offering Finnish customers products primarily in the middle-end segment and additionally offer access to premium varieties in the high-end segment.

Regarding convenience in delivery, it was described previously in chapter 6 as a mean to reduce the actions of the customer and allow a seamless buying experience, it is recommended that the packaging of the subscription deliveries fits to the characteristics of the mailboxes in Finland thus increasing a direct delivery to a customer's location.

Additionally, Finnish consumers regarded different features of delivery in an online store as important, Figure 7. These factors could be taken into consideration when building delivery options.



FIGURE 7. Important features in online stores – deliveries (Wakeupdata 2022)

Customers' expectations might change over time but if these expectations don't meet the price they are paying for, probabilities of the subscription to be termi-

nated are high. Also, to avoid the business changing prices due to financial factors in an already established price, it is believed that setting different prices for a customer to choose would reduce those risks.

7.2 Subscription systems

As described in chapter 5.2, Finnish people are well accustomed and rely highly on digital payments. In the survey, Finns have expressed that varied payment method 52 percent, easy buying process 81 percent and detailed product description 61 percent as the most important feature when buying online (Figure 8).

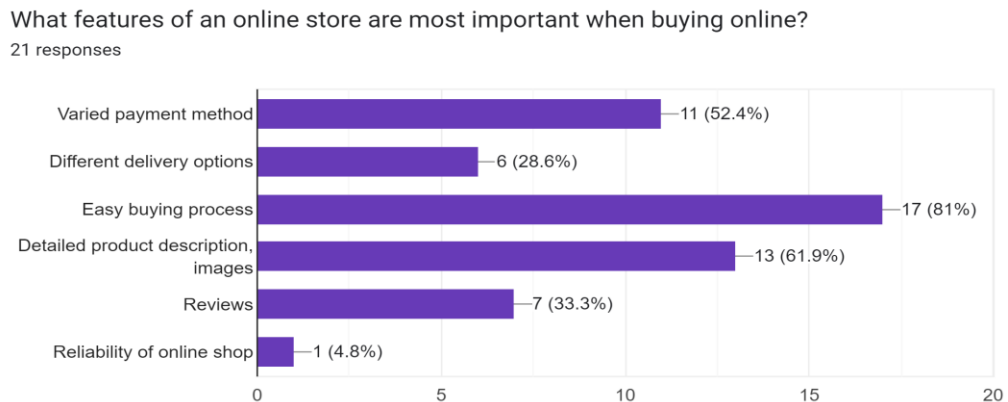


FIGURE 8. Importance of features of a website while shopping online

It is strongly suggested that the features of the website fulfil these needs considered important by Finnish consumers. For instance, on payment establishing a combination of payment methods such as online banking, PayPal, and traditional physical billing with option to be renewed automatically.

A study by Udo and Marquis (2001). suggest that the effectiveness of a website is influenced by the layout and design factors affect visiting a website again. In the same line, in the feedback provided to Finnpartnership observed in chapter 6.2, Finns expressed that websites should look professional and count with an appropriate communication of their value in it.

Therefore, it is suggested that the business should invest the necessary to meet these needs. Nowadays there are in the market templates nearly ready as observed in Figure 9 to be personalized and which does not sacrifice on the professional aspect, adapting it to different budgets that a SME business might have.

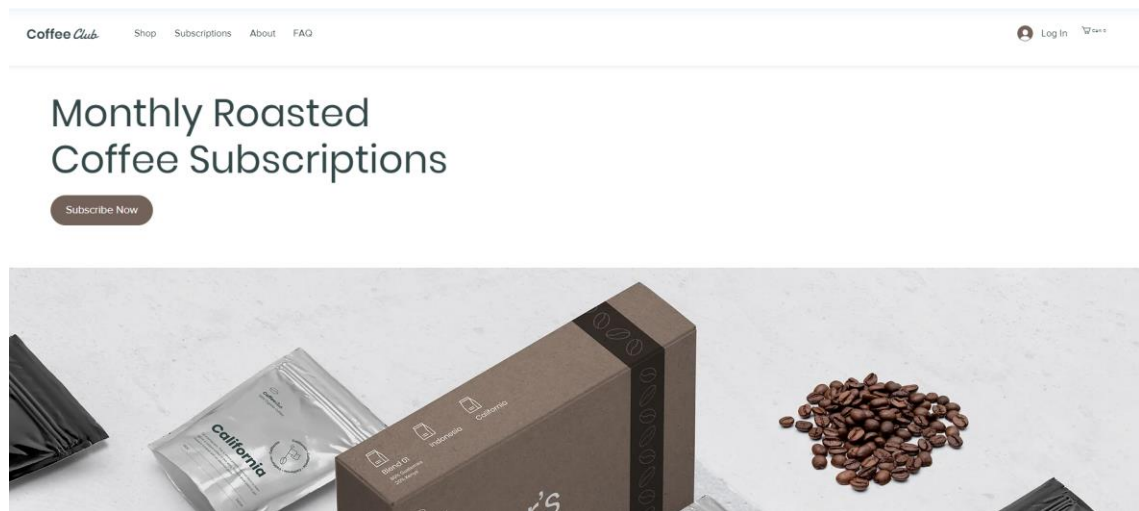


FIGURE 9. Landing page template of a coffee subscription (WIX 2022)

Plus, Wix offers in-built CRM tools and system with a website when contracting a premium (WIX 2022). This option can be sufficient for a starting business while at the same time enabling the business to offer customers a personalized service.

7.3 Acquisition

Acquiring new customers might be challenging for businesses at the beginning of their operations and maintaining the existing ones is crucial to a subscription business model and the author believes they should not be mutually exclusive.

Chapter 5 described the high level of digitalization and use of internet among Finns. Therefore, to start acquiring new customers, a business could make use of online targeted marketing in social media, where potential customers could be led to a website with promotional discounts for new subscriptions. In combination with a more traditional method such as advertising in newspapers or magazines where the value proposition can be expressed but also for example with an incentive such as promotional discounts on first purchases and trials of the service and product.

Finns showed inclination to obtain information from members of their inner circle like friends or family to purchase a new brand or different coffee along with visiting a local store (Figure 10) and as reported in McKinsey's article (2021) customers will most likely recommend a product that has aroused positive feelings during the post sales phase or has met their expectations.

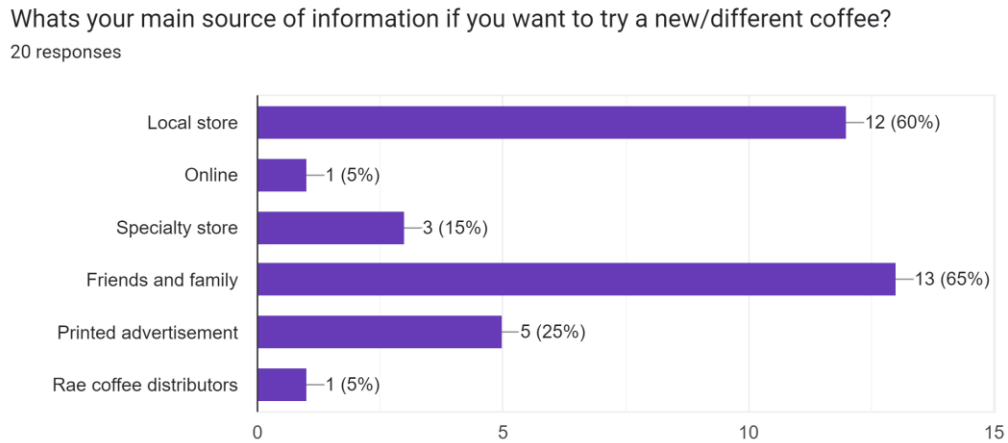


FIGURE 10. Source of information to buy new or different coffee

For those reasons, the aftersales phase should be taken as one of the main drivers to acquire new customers, for instance encouraging existing customers to recommend the product in exchange of benefits such as points for a free package of coffee or an additional coffee election when reached certain number of referrals.

7.4 Customer retention

Suhr Hansen (2014, 40) states that one of the first actions in this step is to develop an effective way for customers to communicate with the business about their subscriptions. While on a subscription-based model and online selling many actions from carried out by business are automated and interpersonal communication is reduced, it is however possible to communicate preferences.

One way to achieve this and found in Suhr Hansen's model (2014, 40) and Baxter's book (2020, 17) is to allow consumers to make changes to the characteristics of their subscription in a simple and straight forward way when they consider it as necessary.

The characteristics Finnish consumers as caretakers in Chapter 5 expressed by strong closeness for traditions and coffee consumption as a social activity should be taken into consideration when developing strategies to communicate the benefits of the product to create a loyal relationship.

Additionally, it is considered important that customers have a direct reach with the business in case of eventual problems and difficulties, for that reason the need of establishing a phone line or email address where customers can communicate their dissatisfaction.

7.5 Customer expansion

While consumers of coffee in Finland have shown a fixed tradition once they found the right coffee option for them, they are predisposed to try new alternatives. A subscription business model offers a stable provision of goods chosen by the customer. However, to avoid the risk of losing the sense of novelty and increase customer expansion, new different options available should be communicated permanently by the company.

This customer expansion could be achieved as described in chapter 7.3 by offering customers a different coffee option to try out, for instance: when completing a goal such as referring the business to others or after a certain number of purchases. It would not only benefit to the business sales but also give the customer novelty and renew their interest. Through getting access to free samples of new products to get consumers attracted to them, too.

Similarly found in the interviews and secondary data, some of the participants expressed a positive attitude towards purchasing a coffee brand labelled as premium, despite the different flavour experienced. From the surveyed group, 47

percent of participants responded to have bought premium coffee for their own consumption and 38 percent with the purpose of giving it as a present (Figure 11).



FIGURE 11. Premium coffee purchase

It would be important that the customer have access to the range of products found outside of their subscription and the option to add an extra product to their already subscribed package.

7.6 Customer win-back

“Even though you ought to put a lot of effort into retaining existing customers, customer churn is an unavoidable aspect of any subscription business.” (Suhr Hansen 2014, 50) Customers will terminate their subscription for a variety of reason, while the aim is to reduce it, regaining these customers should be considered equally important.

Some reasons for Finnish consumers to terminate their subscription is the product or service not meeting their expectations, although those expectation might change over time. Therefore, regaining those customers could be attempted through constant communication of new products or services, either by personalised emails or other data gathered in the system. Coffee consumption has been explained as part of different traditions and special occasions in Finland, these

dates could be used as potential days for the business to communicate new products to its past customers to regain them.

7.7 Analytics

“Key Performance Indicators (KPIs) are the critical (key) quantifiable indicators of progress toward an intended result. KPIs provide a focus for strategic and operational improvement, create an analytical basis for decision making and help focus attention on what matters most” (KPI n.d.).

Suhr Hansen (2014, 58–59) describes it in another way, subscription performance indicators (SPIs), these are some of the indicators which will be best suited to assessing the state of the business:

- Number of subscribers
- Average revenue per subscriber
- Number of new acquisitions
- Cost per acquisition
- Conversion
- Upgrading/Downgrading
- Customer churn
- Customer lifetime value

Although the listed SPI's could be considered as necessary in a subscription business, ultimately it will depend on factors as the system capabilities to collect data by the business or the manpower assigned to these tasks.

It is important that a business develop the culture of constant improvement, set goals for growth, and maintain track of them to implement new initiatives (Suhr Hansen 2014, 50).

8 CONCLUSION AND RECOMMENDATIONS

This research aimed to explore on the viability of an online coffee subscription business in Finland to offer Finnish consumers coffee with different flavours. For this, understanding Finnish consumers habits regarding coffee and online shopping were key to achieve the objective proposed. Based on the primary and secondary data gathered, it could be concluded that convenience and familiarity are important factors for Finnish consumers to choose certain coffee brand and buying online.

The results suggested that Finnish consumers would favour to adopt new coffee options providing that these are not distant in flavour to their regular options. Additionally, high level of digitalization, existing habits of online shopping and a growing trend of subscription businesses would benefit businesses establishing an online coffee subscription by offering Finnish customers new products with similar characteristics, simultaneously adding premium categories and products.

The primary and secondary data gathered was central to answer these questions, while primary data was consistent with the literature previously created around the topic, it was possible to understand people's feelings and confirm trends already happening in e-commerce and subscription business growth.

One limitation within the research was the number of participants in the study, the number of interviewees was limited and not all the age groups were represented in the interviews. This could limit the application of the results and conduct to wrong conclusions if applied to all group ages however it is believed that the present research could be used as a starting point for further and larger studies.

The interview language used was English. In general, Finnish people have an outstanding level of English. However, to express feelings using a secondary language, could be a limitation preventing people to express fully compared to using their mother tongue.

It would be recommended further research considering a deeper approach on the psychological perspective of Finnish consumers preference to get information mainly from friends and family to try a new coffee instead of a professional advice. Also, it could be beneficial to entrepreneurs and companies in the coffee business to explore more on the benefits that a subscription model can bring to them specially in Finland.

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APPENDICES

Appendix 1. Questions for open interview

1.- what do think about the flavour of this coffee?

➔ If answered only "good or bad" - What did you like/dislike about this coffee?

2.- What expectations did you have before tasting it? How much did it meet your expectations?

3.- What differences did you find compared to coffee you usually drink?

4.- What occasions do you think this coffee would be suitable for?

5.- How do you feel about changing your usual coffee for these ones?

Appendix 2. Coffee utilized in qualitative interview

- 1) Coffee Saron. - dark roasted arabica coffee of intense flavour.



- 2) Coffee Castellani. - medium roasted arabica coffee



2 (2)

- 3) Coffee Algarrobo. - Coffee produced from Carob seeds, does not contain caffeine, and possess different nutritional values associated to the plant it originated from.



Appendix 3. Online shopping and Coffee preferences Survey

1. Gender

Mark only one oval.

- Male
 Female
 Other
 Prefer not to say

2. Age

Mark only one oval.

- 18 - 24
 25 - 30
 31 - 35
 36 - 40
 41 - 45
 46 - 50
 51 +

3. How often do you buy products/services online?

Mark only one oval.

- Sometimes
 Often
 Rarely
 Never

4. What features of an online store are most important when buying online?

Tick all that apply.

- Varied payment method
 Different delivery options
 Easy buying process
 Detailed product description, images
 Reviews
 Other: _____

5. Are you currently subscribed to any product or service?

Mark only one oval.

- Yes
 No

6. If Yes, what kind of products or services?

Tick all that apply.

- Digital content i.e. music, series, movies, ebooks
 Beauty and personal care
 Meal-kit packages
 Magazines and newspapers - physical
 Clothing
 Grocery items
 Other: _____

COFFEE PREFERENCES

This section explores partly habits and preferences in buying ground roasted coffee, which is understood as coffee beans that have been roasted, ground and brewed before being consumed. In the following questions named as "coffee"

7. What coffee brand do you usually buy?

Tick all that apply.

- Juhla Mokka
 Kulta Katriina
 Löfbergs
 Paulig
 Herkku
 Other: _____

8. How often do you buy a different coffee brand or type?

Mark only one oval.

- Sometimes
 Often
 Rarely
 Never

9. What's your main source of information if you want to try a new/different coffee?

Tick all that apply.

- Local store
- Online
- Specialty store
- Friends and family
- Printed advertisement
- Other: _____

10. Have you bought premium coffee for your own or to give it as a gift?

Tick all that apply.

- Yes, for my own
- Yes, to give it as a gift
- No, I have not in any case

11. What do you consider before buying certain coffee brand?

Tick all that apply.

- Roasting level
- Brand
- Price
- Package
- Flavor
- Sustainability
- Other: _____

THANK YOU