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Action Plan to Tackle an Aggressive Competitor in C2C Online Marketplace Business

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Preface

For the past eight years I have been able to closely observe and contribute to the rise of the peer economy, also known as the sharing economy. The phenomenon that started from novel online auctions and email bulletin boards is now taking over the world by allowing practically anyone to start selling items, renting property or sharing rides by using simple smartphone applications. To me there is something revolutionary in the way how those applications, consisting only of a few lines of code, basically enable millions of people to reclaim the lost culture of peer-to-peer trading from the established retailers and service providers. It is also fascinating to see how the companies owning the peer-to-peer online marketplaces can build their business models on those same fragile lines of code and make billions of Euros in the process.

I sincerely believe that peer economy is not a fad, but a megatrend that deserves to be researched accordingly. Therefore I felt very motivated in writing this Thesis about the practical side of online marketplace business, hoping it will help future studies on the peer economy. The study also made me better understand the background and the overall competitive impact of the new online marketplace business models.

I want to acknowledge the talented individuals who supported and guided me through the writing process. Principal Lecturer Thomas Rohweder (DSc), Head of Master's program in Industrial Management Marjatta Huhta (DSc) and Senior Lecturer Zinaida Grabovskaia (PhL) from Helsinki Metropolia University of Applied Sciences helped to reflect upon my ideas and offered many valuable comments and advice. Also the case company informants, who are not identified here for confidentiality reasons, were always helpful and showed how the ideas work in practice. Finally, I am very grateful to my family for their understanding and support, when I balanced between work, studies and parenting. Thank you all for making this Thesis possible.

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<p>This Thesis focuses on business model innovation in consumer-to-consumer (C2C) online marketplace business. The C2C industry has constantly grown since the early days of the commercial Internet of the 1990's into a global megatrend, evaluated worth hundreds of billions of Euros. Despite the world wide rise of the C2C industry, there is still relatively little literature available about the business models behind the successful C2C online marketplaces, making it an interesting research topic.</p> <p>The objective of this Thesis is defining an action plan for a local C2C online marketplace to tackle an international competitor that aggressively extends its market share and is therefore threatening the case company. The study is conducted as action research, combining the best practice in customer segmentation, building competitive customer value proposition and business modeling with the analysis of the case company and the competitor.</p> <p>The output of this Thesis is a practical action plan for the case company. The action plan defines the key targets, key actions, key performance indicators and a schedule for the case company to regain the market leader position in the online marketplace business. Instead of general recommendations, the action plan suggests practical ways for taking advantage of the unique characteristics of the case company and emphasizes market creation as an alternative approach for head-to-head competition against the competitor.</p> <p>The case company can benefit from the results of the study by building better understanding in customer segmentation and selecting the primary customer group, creating a competitive and unchallenged customer value proposition and by utilizing its unique characteristics to best align its business model with the surrounding market.</p>	
Key Words	C2C, online marketplaces, electronic commerce platforms, customer segmentation, customer value proposition, market creation, business modeling, business model innovation, B2B2C electronic business model.

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1 Introduction

As the Internet constantly reaches new audience and is more accessible via personal easy-to-use smart devices, it simultaneously sprouts out a vast range of businesses that would have been unimaginable just a decade ago. One of the most promising new field of online business is the consumer-to-consumer (C2C) economy, also known as the share economy. It allows normal people around the world to buy, trade, sell or rent almost anything online with each other, thus creating an alternative source of supply that bypasses old-fashioned retailers, service providing companies and even complete industries. Successful companies such as Airbnb, eBay and Uber all work with a C2C online marketplace model, where instead of providing actual end-products themselves they focus on providing the tools and platforms for regular people to make transactions with each other. Although the size of the C2C industry is not measured as a whole, the public funding figures of the new C2C online marketplaces can be used as a yardstick to estimate the growth rate. Uber that enables C2C taxi services has raised total of \$2.8 billion investment capital by 2015, Airbnb that offers C2C lodging rentals is evaluated worth \$10 billion and eBay that provides C2C trade with consumer items operates with a market cap worth \$71 billion.

Although new technology plays a leading role in the rise of the C2C economy, it is not the Internet, smart-devices or the technological advance alone that creates economic value. Instead, the economic value of any technology remains latent until it is commercialized in some way via a business model (Chesbrough 2010: 354). In order to understand the recent business innovations, companies try to understand the theory behind modern business modeling. The business model spells-out how a company makes money (Rappa 2010). An online auction, for example, is not a business model, but a pricing mechanism for a larger context (Osterwalder 2004: 15). A business model supports that mechanism by identifying the primary customer, defining the problem it solves and describing the resources, processes and capabilities needed to generate profit.

The growth of the C2C economy naturally attracts new entrants that challenge the established C2C online marketplaces. As customers have several similar services to choose from, differences in the way rivals interact with their customers are becoming more and more important (Vandenbosch and Dawar 2002:42). This thesis analyzes such

competition between two consumer-to-consumer (C2C) online marketplaces: an established market leader and an aggressively expanding competitor. The outcome of this Thesis is an action plan for the case company on how to sharpen its current business model and customer value proposition (CVP) to best react to the competitive threat in question. It is based on interviews, analysis and documents on the case company and its competitor, as well as on recent literature about business model innovation, building differentiating customer value propositions and finding the right target group of customers.

1.1 Business Context and Case Company Background

The C2C business in general is built on business models that define how the C2C service providers are able to monetize the transactions between consumers. The oldest established C2C online marketplaces have started as simple news groups and then grown organically into global online shopping centers, contributing annually hundreds of billions of Euros worth in gross merchandise volume. The leading C2C online marketplaces usually operate on scalable business models that involve charging a sales commission or a listing fee from the sellers that use the marketplace, thus being able to grow alongside their customer-base. This Thesis focuses on exploring such business models and the customer value propositions that enable sustainable economic growth.

The case company is a middle-sized C2C online marketplace operating in the Nordic countries and specialized in general products, such as electronics, apparel and furniture. The case company is owned by a large European media corporation, being one of the many electronic commerce services the corporation provides. In 2013 there were over 260 000 items sold on the case company C2C online marketplace for a total sum of €76 million.

The C2C online marketplace provides both online auctions and fixed-price sales for consumers. It currently has nearly 2 million registered users that use the marketplace for online shopping and selling. The C2C online marketplace is also open for business sellers, who can list items for sale for free, but pay a sales commission for actualized sales. In addition the case company also sells online advertising on the C2C online marketplace.

By positioning itself as a C2C online marketplace localized only in a narrow geographical area, the case company was able to hold its market leader position in one country for nearly 15 years. However, in 2010 a rival European media corporation launched a competing C2C online marketplace, which started aggressively growing its market share. In 2013 the competitor's website had more visitors and page views than the case company, and it publicly announced that it had become the local market leader. The case company is currently exploring options to regain the market leader position in the business.

1.2 Business Challenge, Objective and Outcome

The business challenge of this Thesis is to find a way for the case company to win against the aggressively expanding competitor. In order to do that, the Thesis needs to analyze both the competitors in the market concerning their business concept, potential for sustainable growth and their choice of primary customers. Best practice will be utilized to explore customer segmentation, customer value propositions and business models. Based on the market and best practice for business modeling an action plan will be built on how to sharpen the business model and customer value proposition of the case company.

The action plan consists of defining key targets, key actions for each target, key performance indicators (KPI) and finally a time schedule for each target. The action plan relies on both best practice found in relevant literature as well as data. The case company informants will also be interviewed and the feedback and insight collected will have an impact on the action plan. Therefore the outcome of this Thesis is an evaluated action plan suggesting clear steps for the case company to tackle the competitor.

2 Method and Material

This section defines the research methodology of this Thesis and describes how relevant information is collected and analyzed.

2.1 Research Design

The chosen research approach for this Thesis is action research, due to the practical nature of the business challenge. Compared to a case study approach, which typically begins with a researcher's interest in a particular set of phenomena, an action research begins with issues and concerns within a practical situation, with which the action researcher interacts (Blichfeldt and Andersen 2006: 4). Action research also emphasizes the importance of both scientific contributions and the solving of practical problems, involving some aspects of collaboration between researcher and client (Grønhaug and Olson 1999: 9). Action research is therefore an ideal approach for building a practical action plan for a case company that is mutually interested in developing itself, as is the case with this Thesis.

The structure of action research process is cyclical. It consists of a pre-step, in which the context and purpose of a project are identified, and four main steps: constructing the issues included in the process, planning action, implementing the plans and finally evaluating the outcomes of the action (Coghlan and Brannick 2014: 9). The evaluated outcomes can then be used to design the next research cycle, which follows similar pattern of steps.

The structure of this Thesis follows the five-step research process as defined by Coghlan and Brannick (2014). The first step (Sections 1 and 2) sets the objective and explains the context and purpose of this Thesis. The second step (Section 3) defines the key issues into a conceptual framework, based on the best practice found in relevant literature on competitive business modeling, customer value propositions and customer segmenting. Relying on that conceptual framework the third step (Section 4) analyzes the current business models and customer value propositions of the two competing case companies and draws a summary of their strengths and weaknesses. In the fourth step (Section 5), an action plan is built for each weakness area identified, while embedding the current strengths in to the guidelines. The fifth and final step (Sections 6 and 7) concludes the research by evaluating the proposed action plan, improving it according to

feedback and finally highlighting the practical implications of the Thesis that can help to begin a new research cycle.

The structure of research and data collection of this Thesis is presented in Figure 1 below.

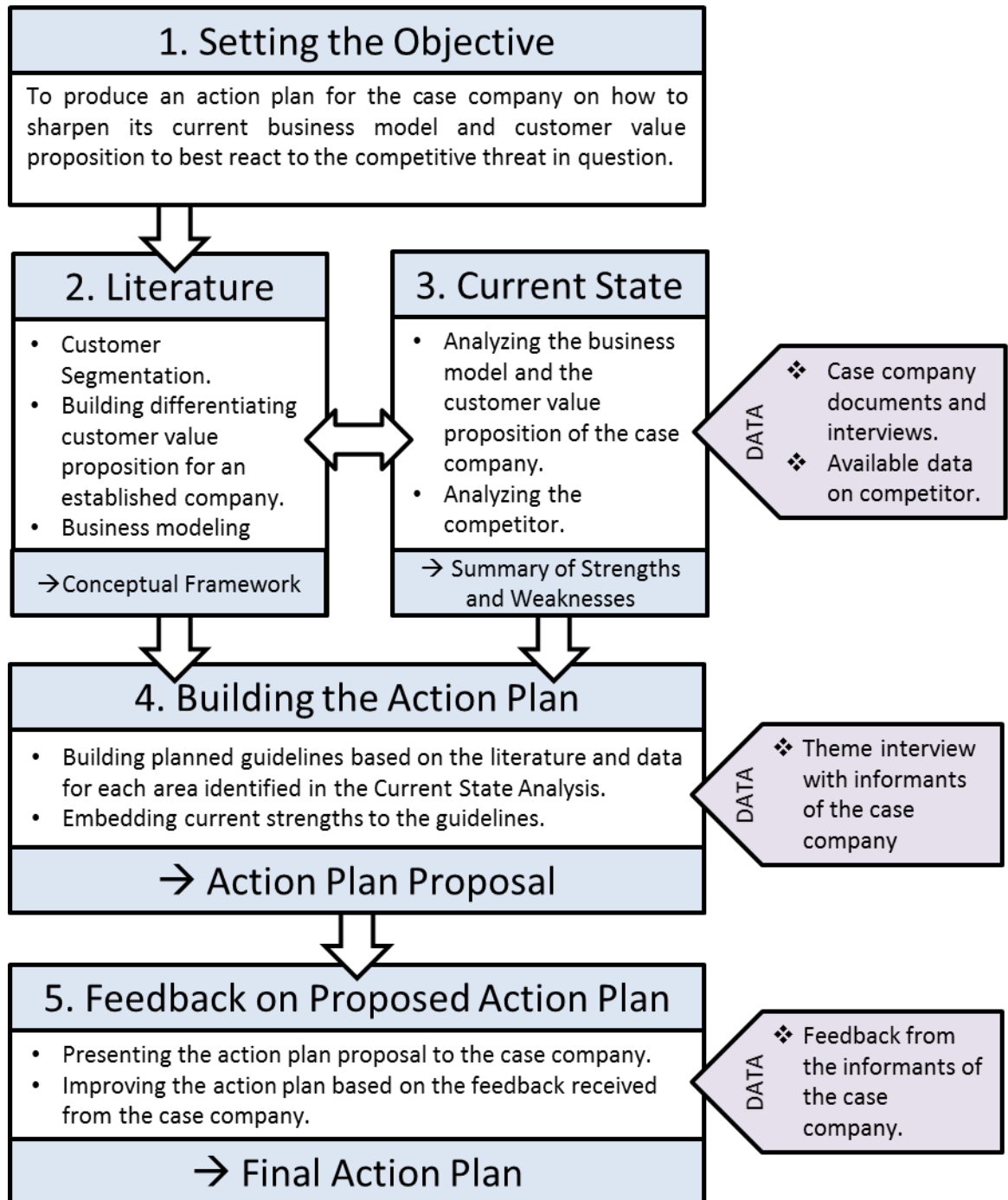


Figure 1. Research design phases and data collection points in this Thesis.

Figure 1 summarizes the content, output and order of each step in the research design. As seen from the figure, setting the objective is followed by literature review. It defines the conceptual framework used in the current state analysis, which summarizes the strengths and weaknesses of the case companies. The current state analysis is followed by an action plan proposal and finally the final action plan, which is the output of this Thesis. Both the title and output of each phase is highlighted in order to illustrate the flow of the study. The pointed boxes on the right-hand side of Figure 1 represent the data collection points of the study, where data is acquired from the case company informants, private and public documents and databases and benchmark data.

The best practice for this Thesis is drawn from recent literature about business modeling, business model innovation for established companies, building differentiating customer value propositions and defining primary customer groups. The sources include books, articles and academic journals. The key findings form the conceptual framework of this Thesis, defined in Section 3.

2.2 Data Collection

As summarized in Figure 1 above, data for this Thesis is collected in three steps. First, when analyzing the current state of the case company; second, when building the action plan, and third, when gathering feedback about the plan from the informants of the case company. The data collection structure can be seen below, in Tables 1 and 2.

Table 1. Data collection step 1.

Resource	Description
Case Company Documents	Status Reports Management Letters Internal Analysis Online Performance Reports
Case Company Informants	Interview With Manager A Interview With Manager B Interview With Manager C
Competitor Documents	Case Company Insight on Competitor Competitor's Website Investor Information Government Databases

As seen in Table 1, the case company is analyzed by using internal company documents and qualitative interviews with internal informants working in managing positions in the case company. The internal documents used for the study include status reports, management letters, internal business figures and outcomes of business analysis, with an emphasis on facts. The interviews are conducted in several sessions, first by identifying the general topics in several group interviews and then expanding the detail of interviews in personal qualitative interview sessions.

The customer value proposition of the competitor is analyzed by researching the public information found on the competitor's C2C online marketplace and by utilizing the benchmark analysis conducted by the case company analysts. The review of the business model and the strategic aim of the competing C2C online marketplace are based on the investor information found on the competitor's corporation web site. Additionally, the public records in government databases provide the exact reported figures about the profitability and revenue structure needed to analyze the performance of the competitor's business model.

The second and third data collection steps consist qualitative interviews with the case company informants. The goal of the interviews is first of all to understand the nuances of the current operating environment of the case company, while building an action plan proposal. The interviews also provide an opportunity for the case company informants to comment the findings.

Table 2. Data collection step 2 and 3.

Step	Description	Case Company Informants	Date and Duration	Documented as
2	Collecting data to support the decisions made for the action plan.	Manager A Manager B Manager C	9 Feb 2 h	Field notes
3	Collecting feedback from the action plan proposal to validate the business assumptions and further adjust the final action plan.	Manager A Manager B	14 Apr 1,5 h	Field notes

Table 2 above shows the detail of data collection and also illustrates the characteristics of action research: the case company informants interact with the researcher, by providing data to both support and argue the findings before applied into the final action plan.

2.3 Reliability and Validity Plan

The validity of research is known to rely on three aspects of quality, as defined in recent research (Yin 2003; Quinton and Smallbone 2006): construct validity, external validity and reliability. The purpose of construct validity is to demonstrate that a research indeed measures what it claims to be measuring. According to Yin (2003), three tactics are available to increase construct validity. The first is the use of multiple sources of evidence, the second tactic is to establish a chain of evidence and the third tactic is to have the draft research reviewed by key informants.

External validity is an assessment of whether the results of the study could be applied to other contexts and situations and to what extent it may be possible (Quinton and Smallbone 2006: 129). It is closely related to reliability, which assesses whether the research generates same results if repeated. In action research, however, such analytical generalizations and search for causal models is often replaced by the concept of transferability of the findings (Blichfeldt and Andersen 2006: 8). According to Näslund et al. (2010) rigor of action research is therefore based more on discussion about aspects related to the validity and the reliability of the research, rather than solely relying on traditional concepts of validity and reliability.

To ensure validity, this thesis plans to start from a clearly defined business context, objective and outcome. The structure of the Thesis will strictly follow the action research logic, making the individual steps easy to identify and evaluate. The emphasis will be placed on rigorous data collection from multiple sources, in form of interviews, documents and benchmark data. The draft of findings and conclusions will also be reviewed and commented by the case company informants before publishing the final results.

The analysis and conclusions of this Thesis will rely on both the best practice from recent literature and the available data. In practice, the data collected will be validated by the case company informants and analyzed based on frameworks defined in relevant literature, while paying attention to details and evaluation of alternative explanations.

Finally, the reliability of this Thesis is planned to be improved by triangulating the data collection, thus decreasing the odds and effects of errors when analyzing the data. Similarly, the data collection will rely on several rounds of interviews and asking the same

things more than once in order to verify the key findings. The interview results will be analyzed, coded and logged as field notes, and the relevant documents will be stored in order to retrieve and audit the research data later. The integrity and progress of the research project in general will also be observed in regular stage-gate meetings, where each research step of the research is reviewed by a peer-group of thesis workers and instructors.

3 Best Practice on Competitive Business Modeling

This section discusses the findings from best practice for building a competitive business model for an established company. The section is divided into three sub-sections, starting from best practice of customer segmentation, then focusing on discussing building a distinctive customer value proposition, and finally defining a competitive business model.

3.1 Customer Segmentation

Recent literature emphasizes the importance of customer segmentation for both new and established companies. Johnson et al. (2008: 54) suggests that choosing the target customer makes the first step when building a new business model or innovating an existing business model for a company. Simons (2014: 50) specifies that the choice of the primary customer amongst other potential customers defines the whole business of a company. Moreover, a practical analysis by Bain & Company (Markey et al. 2006: 3) shows that a successfully tailored product and service offering to a desirable group of customers, the so-called customer segment, can post even three times larger annual profit growth compared to companies that fail to target the right customer segments.

Instead of thinking the market as a target, where a company decides which customer segments to serve and expects customers to arrive, some researchers and business practitioners suggest that a company should consider the market as a forum, where customers choose the right company for their needs (Prahalad and Ramaswamy 2004; Sau Ling Lai 2010). Therefore modern customer segmentation relies less on the actual customers and their demographics and more on the actual needs of the customers (Yankelovich and Meer 2006; MacMillan and Selden 2008; Bayer and Taillard 2013). Christensen et al. (2007) recommend a company to start customer segmentation from identifying those needs, and then segmenting customers accordingly. That way companies can see the both the size and growth potential of their customer segments.

The challenge in choosing the customer segment amongst many, however, lies in assessing whether the choice is right. Recent research emphasizes focusing on customer segments that match the existing capabilities of the company and offer the greatest direct and indirect profit potential (Markey et al. 2006; MacMillan and Selden 2008). Simons (2014) adds a third dimension to this assessment by arguing that the primary customer

group should also reflect the perspective, culture and traditions of the company. Such focus is necessary in order to leverage the energy and creativity of its people in service to the customers. The abovementioned approach to identifying the primary customer is summarized in Figure 2 below:

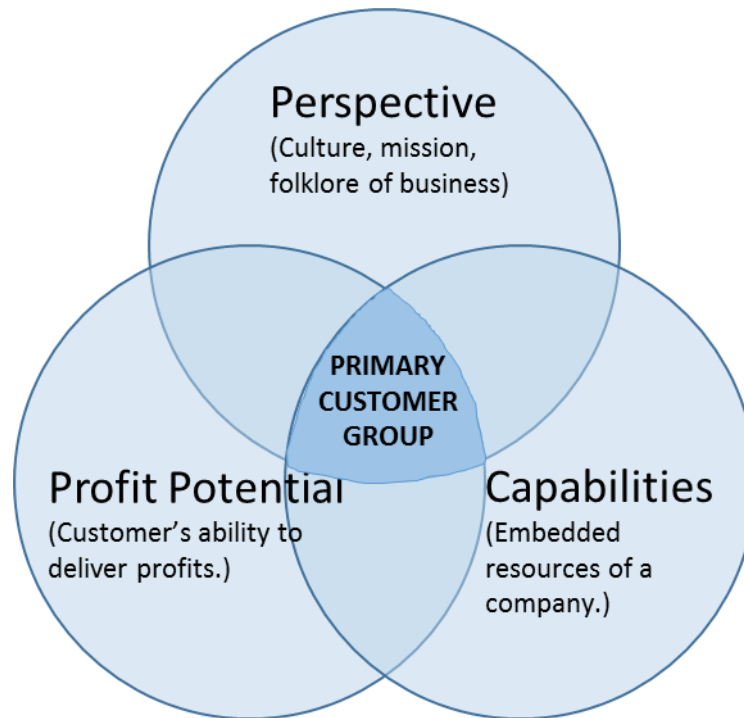


Figure 2. Identifying the primary customer (Simons 2014: 53).

Figure 2 shows three different dimensions that can be used to assess which is the best primary customer for a company. The overlapping part in the middle represents the customers that fit the culture and tradition of the company, match the capabilities of the company and have profit potential. While it is not always possible to find large enough a group so distinctly and narrowly defined, a company can use the definition of a primary customer to identify a customer segment that shares most of the attributes of the identified primary customer (Markey et al. 2006: 4). Several companies therefore have identified a primary customer group instead of just single primary customers.

Identifying and choosing the primary customer is seldom a one-time event. The evolving competitive environment requires reorienting an existing business model accordingly, or even selecting a different primary customer (Simons 2014: 54). As the changes in a market can be both rapid but subtle, even a company with an established customer base

can regularly analyze and reorganize its customer information base in order to stay ahead the competition (Lin et al. 2004; Markey et al. 2006; MacMillan and Selden 2008; Simons 2014). Large companies that seek out growth only by expanding to new markets, territories or acquisitions but fail to focus on their customer segments risk being pushed aside by competitors with a clearly defined primary customer and a business model explicitly designed to satisfy that customer (MacMillan and Selden 2008; Simons 2014). A market-leading company is however expected to have deeper knowledge of the needs and profitability of the existing customer segments than any potential competitor has, the so-called incumbent's advantage (MacMillan and Selden 2008: 111). Using that advantage helps a company to focus on right customer segments, while simultaneously blocking emerging competitors and generating substantial growth.

Summing up, identifying the primary customer allows a company to focus its resources on the most profitable customers (Simons 2014). A company can target either individual customers or focus on larger customer segments, consisting of customers that share the attributes of the identified primary customer (Markey et al. 2006: 4). Instead of segmenting customers traditionally by demographics, recent research recommends focusing on the different needs of the customers (Yankelovich and Meer 2006; MacMillan and Selden 2008; Bayer and Taillard 2013). A company can then assess the customer segments by evaluating the customer's ability to generate profit, the capability needed to serve the customer and whether the customer fits into the perspective of a company (Markey et al. 2006; MacMillan and Selden 2008; Simons 2014). The choice of the primary customer can also be regularly evaluated and adjusted according to the changes in customers' values, behavior and needs (Lin et al. 2004; Markey et al. 2006; MacMillan and Selden 2008; Simons 2014).

3.2 Building Customer Value Propositions

A customer value proposition establishes the important need to be fulfilled for the primary customer, and outlines the offering that fulfills the need (Johnson et al. 2008: 52). A properly built customer value proposition forces a company to focus on the offerings that are valued by the customers (Anderson et al. 2006: 92). After a company understands what the customer needs, it can proceed by constructing a business model fulfilling that need at a profit.

Recent research (Christensen et al., 2007; Johnson et al., 2008; Bettencourt and Ulwick, 2008) suggests that established companies can discover new growth opportunities by focusing on the job a customer is trying to get done. To clarify, a job is the fundamental problem a customer needs to resolve in a given situation (Christensen 2007: 38). By understanding the job and all its dimensions companies are able to craft better customer value propositions (Johnson et al. 2008: 52). As with choosing the primary customer, a company that aims to getting several jobs done is at risk of being overrun by competitors that only focus on getting one job done properly. Hence Johnson et al. (2008: 54) argue that the precision of concentrating only on one job is the single most important attribute of a customer value proposition. The challenge, however, is to find out the job that is valued by customers.

Christensen et al. (2007) determine a hierarchy that consists of three places to look for the jobs-to-be-done. The first step in the hierarchy is researching the patterns of how current customers actually use the products and services. Insights of customers trying to use the products and services to get unintended jobs done can help the company to modify its customer value proposition. The second step of the hierarchy involves analyzing the customers of competing companies. The goal of the analysis is pinpointing the differences that make customers choose the competing service. The third step in the hierarchy is exploring ways to overcome the barriers that hold people from getting certain jobs done, such as access, cost and complexity of the available services. Christensen et al. (2002) describe such improvements as disruptive innovations, which can quickly overtake competitors by creating a new and unexpected market.

In addition, conventional market-research tools, such as interviews, surveys and data analytics can be used to find out new solutions for a known job-to-be-done. A company can select a practical approach by identifying the product and service attributes that the customer values (Simons 2014: 53) or aim for understanding the broader context of functional, emotional and social experiences that are required to get the job done (Christensen et al. 2007:43). Bettencourt and Ulwick (2008) recommend even more intensive approach, where companies think of jobs as processes instead of solutions, by deconstructing every customer job into the so-called job map. The job map defines every element of the job-to-be-done from the planning, preparation and confirmation to the actual execution of the job and finally the post-execution steps, which ensure the job is successfully carried out. By mapping the whole process, a company may be better able to identify

what customers are actually trying to get done at every step, instead of what they seem to be doing.

To specify other elements of customer needs can be more time-consuming. For such situations both Simons (2014) and Christensen et al. (2007) recommend systematic dialogues with primary customer groups, new-product testing, where a company develops its products with primary customers, and ethnographic studies, where a company accompanies customers in their ordinary activities to understand the extent to which various products meet consumer needs. However, Kim and Mauborgne (2005) argue that customers' view of better value proposition often tends towards getting more of the currently offered services for less money. To overcome that limited view a company can pursue market creation. The concept of market creation is to create new market space by pricing against substitutes and alternatives that noncustomers are currently using, instead of pricing against the competition within an industry (Kim and Mauborgne 2015: 73).

When pursuing market creation, a strategy canvas tool can be used to clearly see compare a company's offerings to the factors that the industry and competitors currently invests. An example of strategy canvas can be seen in Figure 3.

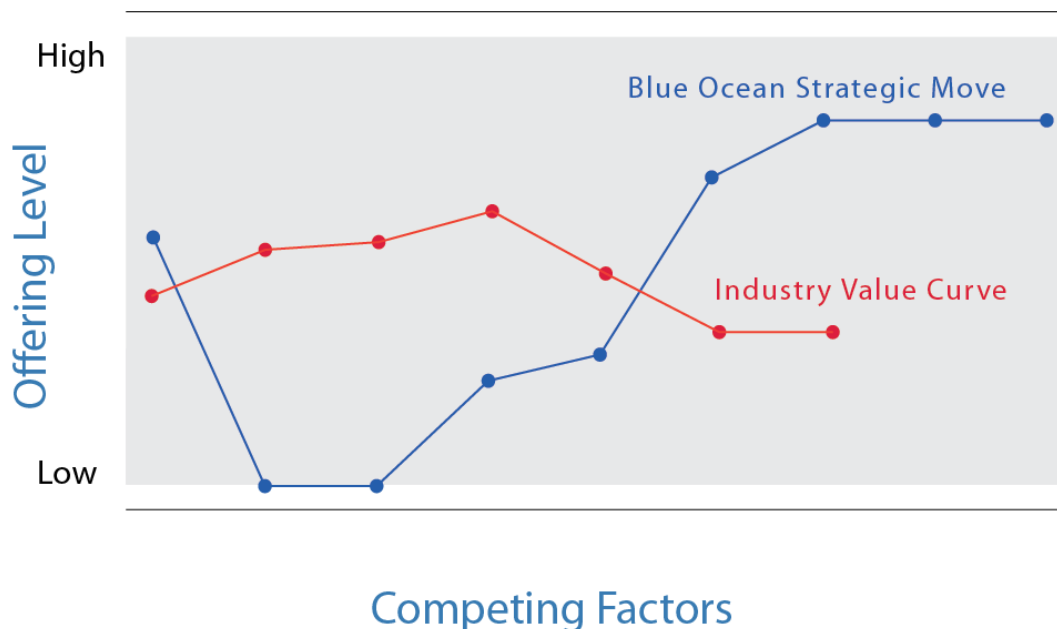


Figure 3. A strategy Canvas (Kim and Mauborgne 2015).

Figure 3 explains how companies can use strategy canvases when visualizing their key competitive factors and benchmarking their customer value propositions against competitors and industry standards. The red curve in Figure 3 represents the industry standard customer value propositions. It is contrasted by the blue curve, representing an alternative customer value proposition. The dots on both curve represent different factors the industry currently competes on in products and services. As seen from the figure, the offering level of the blue curve is inferior in several factors compared to the red curve. However, the blue curve is generally stronger in the factors that are weak on the red curve. Most importantly, the blue curve reaches factors beyond the red curve. According to Kim and Mauborgne (2005), those uncontested factors are the “blue ocean”, an analogy that describes the vast, deep and unexplored market space. The fundamental idea is to build a unique value proposition with differentiation and cost-leadership, instead of directly challenging competitors traditionally by offering more for less. This idea is related to the strategy for dealing with the competitors.

For defining a strategy canvas, Kim and Mauborgne (2005) use the so-called four actions framework. The framework consists of four elements, pictured in Figure 4 below:

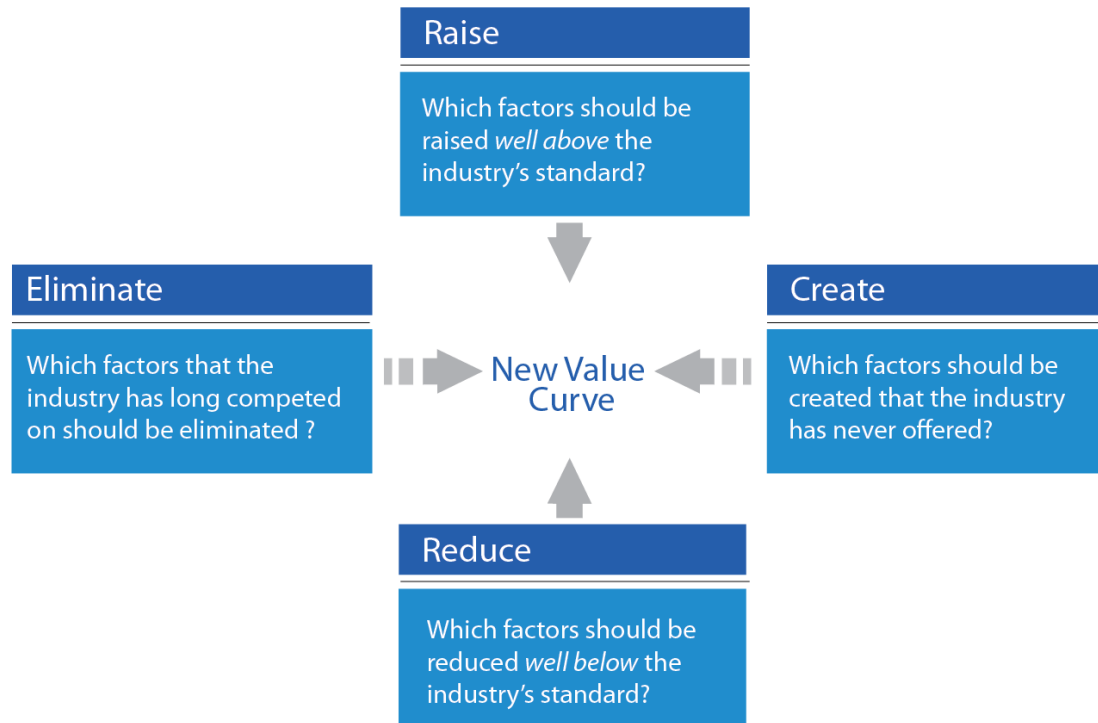


Figure 4. Four actions framework.

As seen in Figure 4, the framework aims to build new value curve on a business model canvas, by eliminating, reducing, raising and creating the competitive factors of a company. *Elimination* step encourages a company to discontinue investments in factors that no longer provide interesting value proposition for customers. Similarly, the *reduction* step challenges a company to determine whether it could decrease investments in some areas that are considered necessary but not as core business. The *raise* step pushes a company to identifying and selecting key factors of its value proposition that would benefit from additional investments. Finally, the *create* step helps a company to discover entirely new sources of value by creating new demand and shifting the pricing of the industry (Kim and Mauborgne 2005:113). The changes can then be applied in a new value curve that visualizes the new value proposition of a company.

The factors identified on the value curve of a company can be used to form a customer value proposition for the company. The optimal number of factors to include in the final product or service offering can be argued. Kim and Mauborgne (2005) emphasize focus, divergence and a compelling tagline. Also the recent literature on business modeling favors simple yet effective customer value propositions. Anderson et al. (2006: 94) suggest a model where the customer value proposition of a company consists of one or two proven points of difference that make the offering superior to the next best alternative. Johnson et al. (2007: 55) emphasize a precise customer value proposition that focuses on getting one job done, and preferably disrupts the established competition. Similarly, Simons (2014: 54) offers “the rule of one”, where a company chooses only one primary customer, or splits into separate units that each focus on one primary customer, so that the customer value proposition stays as focused as possible.

Summing up, the best practice for building a customer value proposition involves both analyzing the need of a customer as well as determining how to fulfill that need. In order to create a competitive customer value proposition, a company can either focus on offering more of the currently offered services for less money or pursue market creation, by systematically searching for alternative uncontested market space. Strategy canvas and the four actions framework can be used as tools for assessing both the current state of the industry and the potential of the alternative market. Instead of focusing on several things at once, the recent literature favors creating a simple but compelling customer value proposition.

3.3 Business Modeling

As a customer value proposition defines how to reach the chosen primary customer, a business model defines how the customer value proposition is supported by other corporate structures. A business model can be described as “a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money” and as “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, in order to generate profitable and sustainable revenue streams.” (Osterwalder 2004: 15) In other words, a business model can be defined as “the method of doing business by which a company can sustain itself” (Rappa 2010). In general, the form of a business model varies from simple one-sided markets, where companies make profit by purchasing tangible goods and selling them to established markets with a price exceeding the costs of operation, to more complex multi-sided business models with several simultaneous operations and revenue streams. The variations are nearly unlimited, as business models evolve with the changing business environment.

New business models can themselves represent a form of innovation and are likely a result of an intensive iterative design process (Teece 2010: 176). Carefully built business models are also the strongest barrier against disruptive competition (Wessel 2012: 60). Therefore analyzing the structure of a successful business model can be highly beneficial for both the companies entering new markets and the companies defending a market leader position. The additional benefit of business model planning is that it clarifies how all the elements of a company business model fit into a working whole (Magretta 2002: 90). In fact, very few companies even know their existing business model well enough to leverage or change their core business (Johnson et al. 2008: 52). Thus visualizing its business model can help a company understand its own business.

One way of visualizing a business model is to draw a picture of the individual components of a business model and explain their functions and interactions. Relevant literature defines over 40 such components (Shafer et al. 2005: 200). However, in order to guarantee a smooth implementation of business visions and alignment between the different groups, companies require a very clear communication of concepts and understandings between the implicated parties (Osterwalder 2004: 16). Therefore it is often enough to

concentrate only on the key components of a business model. Companies may also utilize various templates that guide them further in visualizing their business models. One of them is the business model canvas by Alexander Osterwalder (2010). The business model canvas offers a set of nine key building blocks for a business model, presented in the following figure:

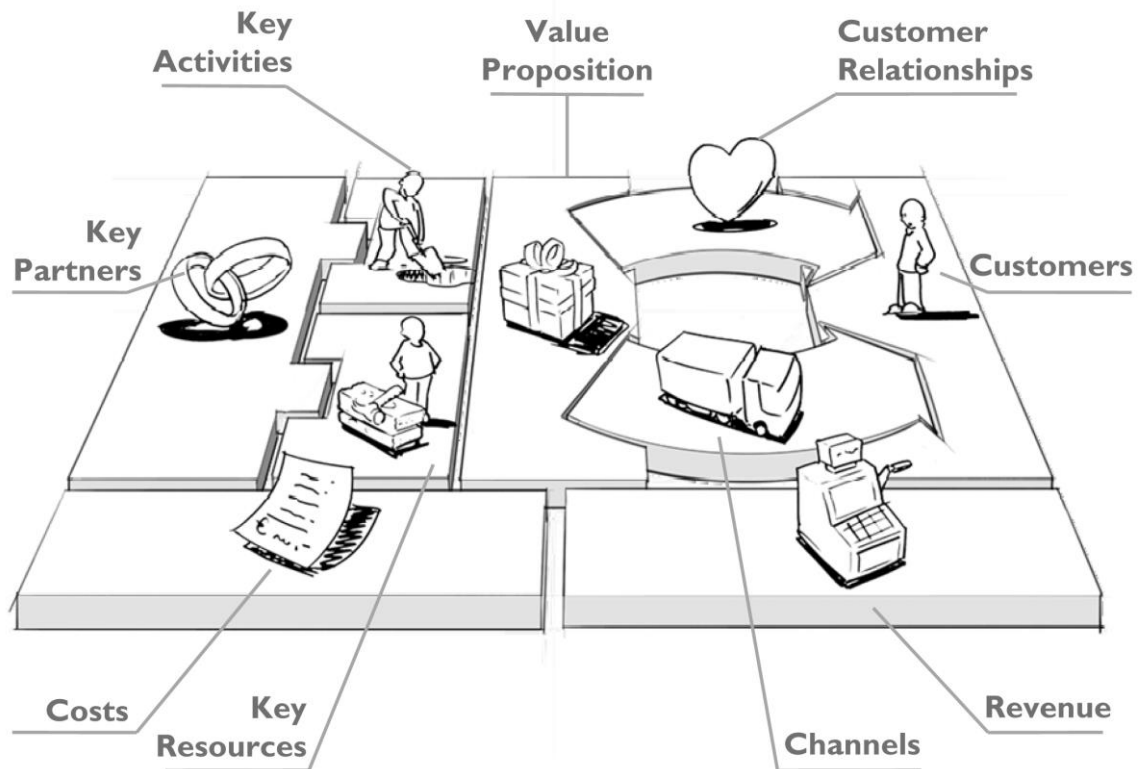


Figure 5. Business model canvas (Osterwalder and Pigneur 2010).

Figure 5 shows the simplified structure of a business model, divided into nine building blocks. The *customer value proposition* is positioned in the middle of the canvas, tying together the other blocks. In short, the customer value proposition defines what the company is offering and what is its core service or product. The arrows pointing right from the value proposition block describe the *channels* for communicating and reaching the customers as well as *customer relationships* that define the type of interaction customers prefer. Osterwalder also emphasizes the need for companies to define the *customer segment*, as visualized in the right side of the business model canvas.

The left hand side of the business model canvas describes the internal processes of a company. On the top are the *key activities*, which can include making, selling and supporting a product or service. Below it are the *key resources* that can be financial, human, intellectual or physical. The *key partners* block on the far left describes the stakeholders and their motivations to participate in the business model.

The *cost* and *revenue* streams of the business model are pictured underneath the other processes. The costs block represents the expenditure needed running a company, acquiring resources and working with partners. Accordingly, the revenue block represents all the means company makes money, be it one-time payments or recurring payments, dividends, fees, royalties or licenses. Together they form a foundation for the other building blocks.

The business model canvas is a simplified description of a complex concept, but it can be effectively used to understand, analyze and communicate the key parts of a business model. In established companies it works as a tool for clarifying an existing business model and helping the employees to understand the purpose of the company. Thus the business model canvas is already used around the world in organizations, such as Ericsson, Deloitte and IBM (Osterwalder 2010: 15). In addition to thinking through the internal business model of a company, a business model canvas can also be used as a tool for analyzing competitors and innovating new alternatives.

The limitation of the business model canvas is that it does not describe how to deal with external forces and changes. The same can be said about business models in general: according to Magretta (2002: 91), a business model only explains how the pieces of a business fit together, but dealing with competition is strategy's job. However, Osterwalder (2004:17) points out that a business model actually is the strategy's implementation into conceptual money making logic. I.e. a business model translates the vision and strategy of a company into an actual customer value proposition. Osterwalder's logic is visible in Figure 6 below:

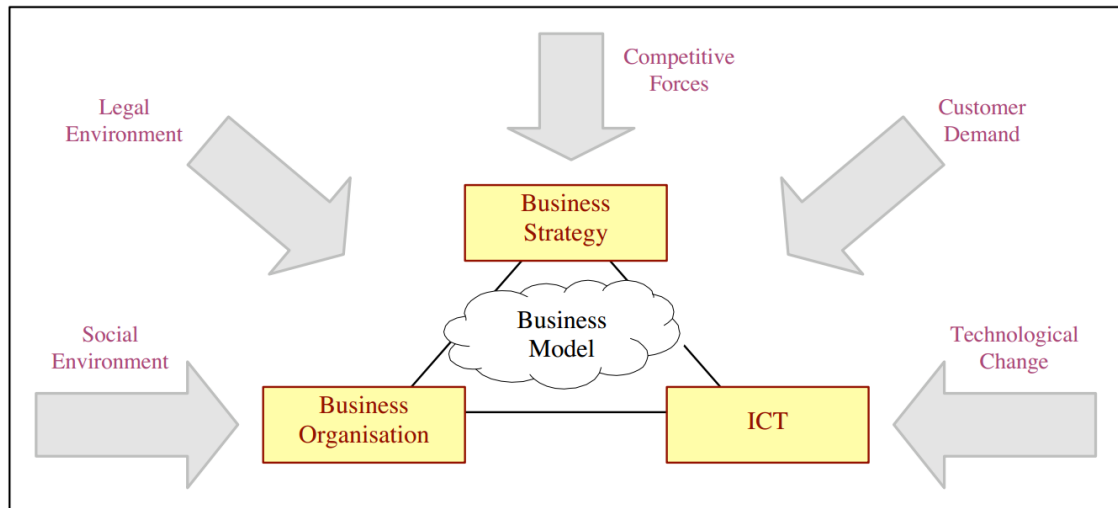


Figure 6. The role of a business model in a company (Osterwalder 2004: 16)

As seen in Figure 6, companies are affected by changes in social and legal environment, competition, customer demand and technological innovations. Changes in business strategy, infrastructural changes in business organization and technological changes in ICT all reflect to the business model, and vice versa. Therefore business models can be thought of having a strategic aspect, even though they do not define the actual strategy of a company.

Following the logic of external forces constantly shaping the business model of a company, no business model can be considered complete. Instead, business models are constantly tested and iterated (Shafer et al. 2005: 205). In recent relevant literature that kind of activity is referred as business model innovation, which is increasingly used in established companies as an alternative or complement to product or process innovation (Amit and Zott 2012: 41). The idea is to adjust business model performance first, before investing too much into optimizing single features, products and details.

Johnson, Christensen and Kagermann (2008: 57) list five strategic circumstances, when an established company often requires business model innovation. Firstly, the opportunity to address large groups of potential customers through disruptive innovation, which provides cheaper, less complicated and more accessible solutions for customers. Second, the opportunity to build a business model around new technology or bringing new technology to a new market. Third, to shift a focus of an industry from its products and customers to actually fulfilling the needs of its customer. Fourth, the need to defend

against low-end disruptive competitors. And finally, the need to respond to changing competition.

The purposeful design and structuring of business models is a key task for company executives (Amit and Zott 2012: 48). In order to fully utilize business model innovation, the managers and directors are recommended to systematically map a) the new needs to be satisfied, b) the activities needed to satisfy the needs, c) the link between the activities, d) the resources needed for the activities, e) the new value proposition and f) the new revenue model (Amit and Zott 2012: 47). Addressing those six questions can help company executives purposefully structure the activity system of the company. Weill and Woerner (2013) propose a similar reality check for the managers of a company, where a company first analyzes the business value of its current business model, then determines how those dimensions are expected to look three years from now and finally compare the expectations to the budget for next year. Both methods emphasize the importance of engaging the executives of a company to actively participate in business model innovation, by focusing on the actual model instead of the details.

To conclude, a business model defines how a company sustains itself. As the business environment evolves due to competition, legislation and innovations, the performance of the business model will be affected. Thus it is important for companies to be constantly aware of the structure and content of their business model, so that they are able to adapt to the current situation, take advantage of new opportunities or create a completely new market. The structure of a business model can be understood and communicated by visualizing it. One of the simplest and widely used tools is a so called business model canvas, which visualizes both the internal and external key building blocks of a company, and explains how revenue is generated through those building blocks. Companies can also gain deeper understanding of the market by visualizing the challenging and dominant business models of their industry. The best practice on business modeling also emphasizes focusing on business model innovation before investing in optimizing details.

3.4 Conceptual Framework

The conceptual framework of this study consists of three main steps: a) identifying the primary customer group, b) building a competitive customer value proposition and c) the best practice for business model innovation. The three steps comprise a process that

can be used as a tool for innovating the business model of an established company. As a side note, the framework also recognizes the iterative nature of business model innovation by adding a fourth step of continuous improvement, as suggested by Johnson et al. (2008) and Simons. The conceptual framework is visualized below, in Figure 7.

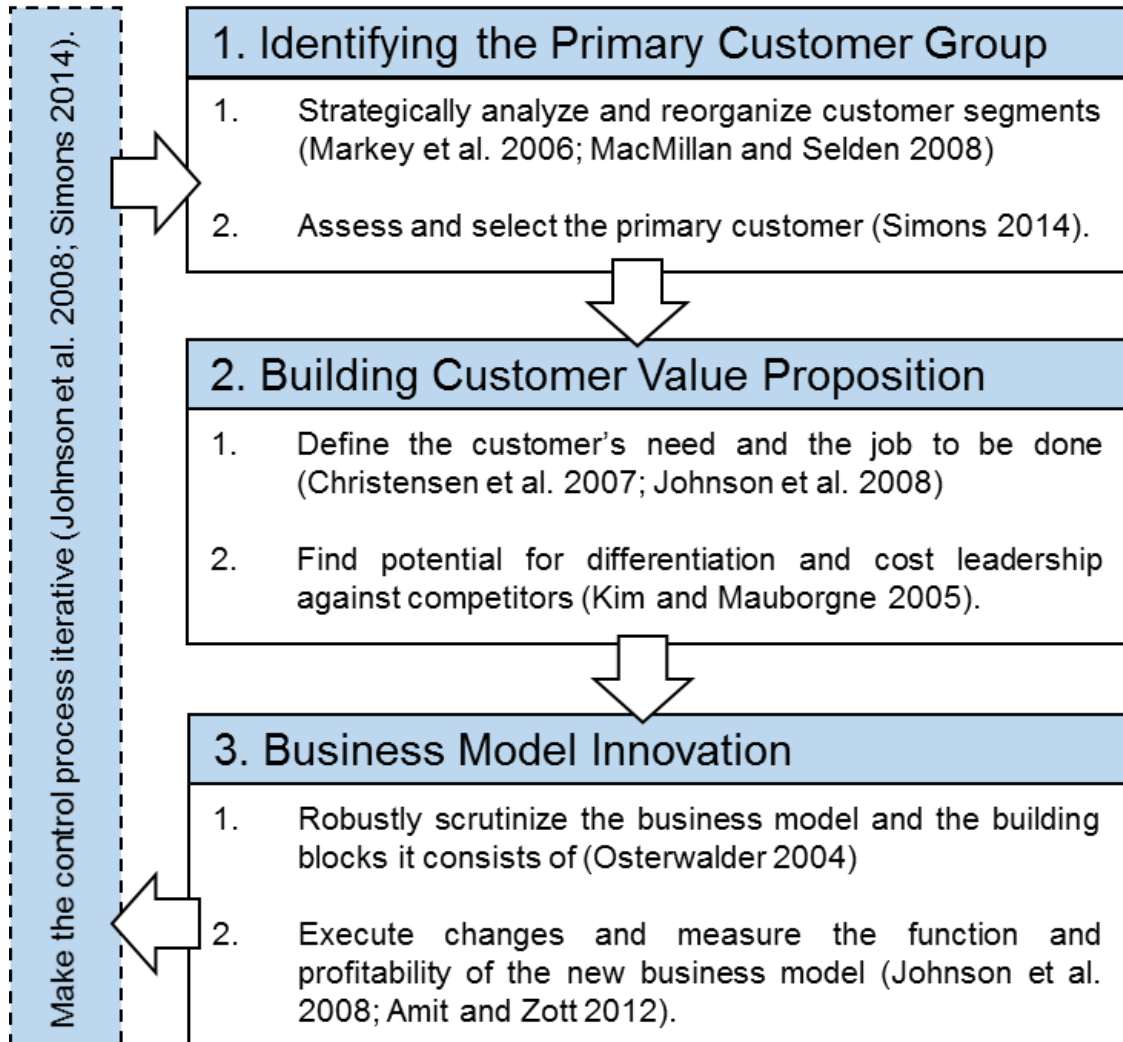


Figure 7. The conceptual framework of this study.

As shown in Figure 7, the first step concentrates on identifying the primary customer group. It consist of best practice for understanding the function of customer segmentation (Markey et al. 2006; MacMillan and Selden 2008), as well as the best practice in assessing and selecting the primary customer group for a company (Simons 2014). The assessment of the primary customer can be done by using the diagram of three dimensions, presented by Simons and detailed in Figure 2 earlier.

The second step focuses on the best practice for building a competitive customer value proposition. It describes the job-to-be-done approach used for defining both the customer needs and the company's offerings fulfilling those needs as presented by Christensen et al. (2007), Johnson et al. (2008) and Bettencourt and Ulwick (2008). The concept of market creation by Kim and Mauborgne (2005; 2015) defines the model and tools for assessing the existing customer value proposition of a company and finding a new uncontested market space, the so-called blue ocean.

The third step connects the chosen customer segment and the customer value proposition into the larger concept of a business model, which describes how a company can sustain itself. The business model can be analyzed using the business model canvas model by Osterwalder (2004) and improved by aligning the individual building blocks of the business model to support the chosen customer value proposition. A company may also take advantage of the five strategic circumstances for business model innovation, as defined by Johnson et al. (2008) and evaluate the benefits of a new business model by using the six key questions defined by Amit and Zott (2012). As profitable business is the best early indication of a viable business model (Johnson et al. 2008: 59), the conceptual framework also highlights the importance of measuring the effects of business model innovation and adjusting it according to the changes in the market.

4 Current State Analysis

This section analyzes the current state of the case company. The analysis aims at finding the strengths and weaknesses of the case company, thus forming a starting point for business model improvements.

4.1 Findings of Data Collection 1

The data collected for the current state analysis consists of multiple elements: interviews with the case company informants, internal documents of the case company, details of the competing C2C online marketplace as found on the competitor's web site as well as the available documents, figures and information about the competitor. All qualitative interview data presented in the current state analysis is anonymized in order to conceal the identity of the case company informants.

The first step of the current state analysis focuses on using the data collected from the case company informants and the internal documents to identify both the strength and the weakness areas of the case company's business model. The framework used to analyze the findings is the business model canvas by Osterwalder (2004). It allows reconstructing the business model into nine key building blocks that can then be analyzed both individually and as a part of the complete business model. Similar reconstruction is then conducted for the competitor's business model, based on the available data. Lastly, the current state analysis is concluded by comparing the findings of both the case company and the competitor, summarizing the strengths and weaknesses and finally identifying the key areas of attention needed to produce an action plan for the case company.

4.2 Analysis of the Case Company's Business Model

The case company enables C2C commerce, but operates with a more traditional business-to-consumer (B2C) and business-to-business (B2B) approaches. The C2C online marketplace only works as a technical platform for customers to buy and sell items with each other. All content and transactions on the C2C online marketplace are generated by customers, including placing an item for sale, making the payment and finally either delivering the item or shipping it to its destination. The case company handles neither the actual payments nor the items sold on the C2C online marketplace. Instead, it taps into the volume of C2C transactions in form of sales commissions, where the sellers pay

a 4.9% fee to the case company for successful sales. The case company also provides premium B2C services for active sellers who require additional features for selling, more visibility for their items on the marketplace or delivery services sold directly on the C2C online marketplace. Additionally the case company provides online advertisement solutions for B2B customers who want to place their ads on the C2C online marketplace.

The C2C online marketplace platform is an important asset for the case company, but according to the business modeling literature, it is only a part of much larger context:

An online auction, for example, is not a business model, but a pricing mechanism, and, as such, part of a business model (admittedly sometimes a dominant part of the business model) (Osterwalder (2004: 15).

The actual business model of the case company has multiple layers built upon the existing C2C online marketplace, designed to serve several customer groups at the same time on common platform. In order to understand the structure of the case company's business model, it can be disassembled into individual building blocks by using the business model template tool by Osterwalder and Pigneur (2010):

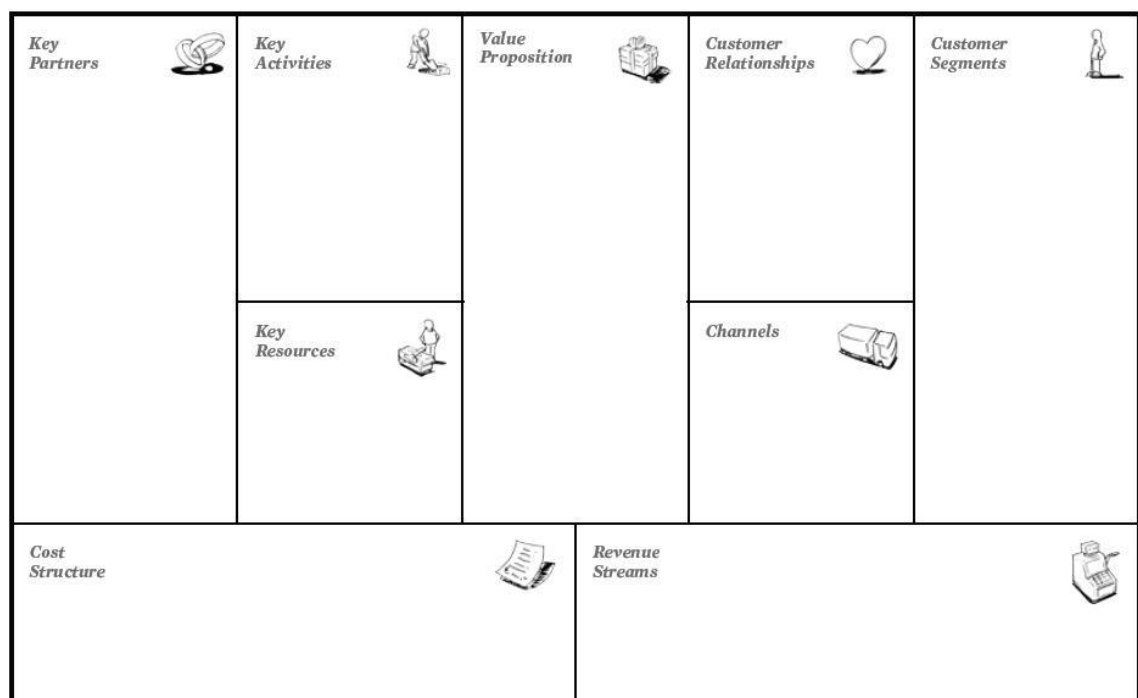


Figure 8. Business Model template by Osterwalder and Pigneur (2010).

The business model template seen in Figure 8 helps visualizing both the building blocks of the case company's business model and the relations between the building blocks.

The structure of business model canvas is used to analyze the characteristics of the case company, emphasizing the choice of the primary customer group and customer value proposition, but also taking into consideration the building blocks supporting those elements.

4.2.1 Customer Segment

The first element to be defined is the customer segment of the case company. During the interviews with the case company informants a total of four specific customer groups within two main customer segments were identified and summarized in Table 3 below:

Table 3. Identified customer groups of the case company.

Main Customer Segment	Specific Customer Group	
Consumer Customers	Consumer buyers on the C2C online marketplace, looking for inexpensive second-hand goods or items that are hard to find elsewhere.	Consumer sellers on the C2C online marketplace, looking for ways to dispose unnecessary items for a profit.
Business Customers	Business sellers and retailers using the C2C online marketplace as an alternative for standalone online store.	Advertisers targeting consumer buyers in the middle of their purchase process on the C2C online marketplace.

Table 3 shows how customers are segmented into two main customer groups: consumers and businesses. Each main group can be further separated into two sub-categories, defining the specific needs of the end-customers of the case company.

Firstly, consumers can either use the C2C online marketplace for selling items or for online shopping. The sellers can choose whether they use an online auction method or fixed pricing for selling their items. The buyers respectively can either participate in auction bidding or purchase items right away, similarly to online retail stores. The C2C online marketplace is free for consumers to use, but in order to make transactions, the users are required to register their contact information on the marketplace. Customers who sell over 50 items per year are considered professional, and must pay a 4.9% sales commission for their sales. According to the case company internal statistics, the majority of customers are actually consumers using the marketplace for free.

Second, the business customers can be divided as sellers that actually sell items on the C2C online marketplace and as online marketers, who want to advertise on the different sections and situations provided by the C2C online marketplace. Unlike consumers, the business sellers always have to pay the sales commission in order to use the C2C online marketplace. Although the business users are not as numerous as consumers, they are responsible for the majority of items posted for sale on the marketplace.

According to the case company informants the prioritization between the customer groups is difficult. While consumer buyers generate the majority of transactions on the C2C online marketplace, they provide little direct revenue. In comparison, the business sellers and advertisers generate the majority of direct revenue in form of sales commissions, premium seller services and advertisement banners. However, the business customers cannot operate without the active community of consumer buyers. The interviews with the case company informants reveal that this kind of dual-sided nature is typical of online marketplaces. However, it may result to an inability to choose the primary customer, as has happened in the case company. In practice, consumer customers and business customers are treated equally important. From business modeling perspective the case company has only one customer segment that includes all of its registered consumer sellers, consumer buyers, business sellers and online advertisers.

4.2.2 Customer Value Proposition

The core of the business model is the customer value proposition, positioned in the middle of Figure 8. It defines the offering that fulfills a specific need of a customer group (Johnson et al. 2008: 52). Considering the amount of the primary customers, the case company has developed a multi-sided customer value proposition to address each customer group simultaneously. The case company informants were able to identify four different variations of the current customer value proposition, summarized in Table 4 below.

Table 4. The identified customer value propositions of the case company.

Customer Group	Customer Value Proposition	Features
Consumer Buyers	Shop secondhand or hard-to-find items and cheap consumer goods safely online.	<p>Purchases and bids can be made anonymously, with a single click, similarly to online retail stores.</p> <p>The security is increased by registration, strong online authentication mechanism and a peer-review system, where buyers and sellers publicly rate each other with positive or negative rates, thus increasing the odds of identifying the reliable sellers.</p>
Consumer Sellers	Earn extra money by selling items easily online, either by using an internet auction model, where the highest bidder gets a chance to buy the item, or simply by asking a fixed buy-it-now price.	<p>Selling is anonymous, relying on trust generated by the peer-reviews.</p> <p>Sales can take place all the time and do not require separate negotiations or waiting for a phone call from a potential buyer.</p> <p>Additional features and 3rd party shipping services can be purchased directly from the marketplace.</p>
Business Sellers	Rent an online store on the C2C online marketplace that already has plenty of potential customers, and use simple electronic commerce tools for selling consumer goods online.	<p>Multiple items can be automatically posted for sale by using a special application user interface.</p> <p>Items can be marketed within the marketplace by purchasing additional listing upgrade products.</p>
Advertisers	Reach active online shoppers in the middle of their purchase process by buying targeted online advertisement on the C2C online marketplace.	Advertisement can be targeted to the single transactions or interest areas on the marketplace or distributed across the corporate network.

Table 4 shows how each customer group is addressed with a unique customer value proposition and a set of features supporting that value proposition. As seen in Table 4, the C2C online marketplace functions as a hub for several operations. Similarly with the choice of the primary customer groups, the customer value propositions are considered equally important in the case company. The advantage of the multi-sided customer value proposition is its ability to target several customer groups at the same time, making it

less dependable on the changes in any particular customer group. The disadvantage according to the case company informants comes from the conflicting needs of the different customer groups. For example the online advertisers prefer intrusive forms of advertisement, while the buyers and sellers on the marketplace prefer a view with no advertisement. Therefore developing new features on the platform often requires compromising and occasionally even results into solutions that have negative impact on some of the customer groups.

4.2.3 Channels and Customer Relationships

In order to reach different customers, the case company actively manages relationships with each customer group. Table 5 below shows the established relationships and the channels through which the customers are reached, as defined by the case company informants.

Table 5. Customer relationships in the case company.

Main Customer Group	Relationship	Channel
Consumer customers	<ul style="list-style-type: none"> • Building and supporting the online community • Customer support for buyers and sellers • Crisis management through the online channels. 	<ul style="list-style-type: none"> • Discussion forum on the C2C online marketplace • Social media channels: Facebook, Twitter, Pinterest, Instagram, Google. • Direct marketing via email and SMS • Regular newsletters • Online advertisement • Word of mouth.
Business customers	<ul style="list-style-type: none"> • Sales negotiations with advertisers • Making agreements with business sellers • Hosting events for companies on how to use the case company C2C online marketplace for selling and marketing. • Educating companies about the future of eCommerce. 	<ul style="list-style-type: none"> • Regular customer visits by the B2B sales team • Regular press releases and key note events about the concept C2C economy, with an emphasis on the case company services. • Partner programs and campaigns with companies providing services for online shopping and selling.

Table 5 above reflects the multiple customer value propositions the company has. All channels and relationships are needed in order to reach and serve the chosen primary customers. According to the case company informants the broad focus was not initially intended, but is rather a result of organic growth in an uncontested market. Instead of focusing on a single customer segment the case company adapted a horizontal growth model, seeking out new markets, territories and acquisitions.

Although the case company has succeeded in growing in several areas, its current broad business model is very demanding to maintain and upkeep. In Table 5 the case company informants pointed out separate customer support, marketing and sales teams, required for sustaining the business model. From marketing point of view the plethora of customer segments requires extensive resources in order to reach each customer group effectively with a clear message.

4.2.4 Key Partners, Activities and Resources

The effects of the broad scope in customer segmentation and value propositions are also visible in the internal processes of the case company. The partners, key activities and key resources of the business model are visualized in the left-hand side of the business model canvas, as seen in Figure 8 earlier. The case company informants were able to identify the following structure:

Table 6. Key activities, resources and partners.

Key Activity	Key Resources	Key Partners
Platform maintenance and development.	<ul style="list-style-type: none"> • C2C online marketplace platform. • Mobile applications. • Software developers and product designers. • Servers, bandwidth, software licenses and tech. infrastructure. 	<ul style="list-style-type: none"> • Online community • External designers and developers • Third-party service providers for logistics services, online payments, banking and strong user authentication.
Community building	<ul style="list-style-type: none"> • Consumer marketing • Tools for analyzing and measuring customer satisfaction • Customer support 	<ul style="list-style-type: none"> • External media agencies • External media monitoring services
B2B sales support	<ul style="list-style-type: none"> • Internal sales team • Tools for CRM, invoicing and managing the online advertisement solutions. • B2B marketing 	<ul style="list-style-type: none"> • Corporate key account managers • Sales support and assistant teams.

Table 6 shows the internal processes of the case company. Even though there are only few key activities, they all require substantial amount of resources in order to run. According to the case company informants, the work load is too intensive for the current resources. The broad scope of primary customers also makes prioritizing difficult.

The key activities are also difficult to outsource, because they are unique to the C2C online marketplace. Therefore the case company benefits little from the centralized sales and marketing functions provided by the parent company, since they are more focused on newspapers, magazines, news sites and other news corporation products.

4.2.5 Cost Drivers and Revenue Streams

The case company generates direct revenue by selling advertisement space on the C2C online marketplace, by charging 4.9% sales commission from the total sales revenue of the professional sellers and by offering premium features, such as parcel delivery services and listing upgrades that highlight the seller's ads on the marketplace. According to the annual report of the case company, the advertisement sales equals the other sales

of the C2C online marketplace. However, the advertisement sales also requires a dedicated sales team, while the sales commissions and other premium features work on a self-service online platform, thus being more profitable in general.

The cost structure of the case company consists of salaries, development costs and the corporate overhead, including the infrastructure costs and the centralized technology, marketing and sales costs. According to the internal reports of the case company, the costs do not exceed the revenue streams. Thus the case company can be considered to be profitable. However, the cost structure is not considered optimal, and the case company currently strives for savings by cutting budgets and dismissing employees from their jobs.

4.2.6 Business Model Canvas of the Case Company

To summarize the key findings, Figure 9 below represents a simplified model of the business model of the case company:

Partners	Activities	CVP	Relations	Segments
External developers, media agencies, payment & logistics providers. Media sales team, sales assistants, management & administration. Customer Data & Analytics team, corporate strategy unit.	Platform development and upkeep.	Easy C2C transactions online for free.	Community building and support.	Consumer buyers and sellers online. Business sellers and advertisers looking for ways to reach online shoppers.
	B2B sales	Premium B2C sales tools for retailers on the marketplace.	Sales visits.	
	Performance analysis	Targeted Online Advertisement solutions for B2B customers.	Corporate-level co-operation.	
	Resources		Channels	
	Staff, C2C online marketplace platform and the online community.		Marketing and social media, press releases, partnerships. B2B seminars and keynote events.	
Costs		Revenue		
Salaries, platform development, external marketing & sales operations and corporate overhead costs.		Sales commissions, premium service fees, media sales and partnerships.		

Figure 9. Current business model of the case company.

As seen in the center of Figure 9, the case company has multiple customer value propositions that target multiple customer segments described in the rightmost field of the business model canvas. The mixture of several primary customer groups and value propositions is reflected all over the different building blocks of the case company's business model. The fields on the upper right-hand side show several activities and channels for reaching the primary customers. Similarly, the left-hand side of the canvas shows the internal operations, where the case company aims to handle several activities with multiple partners with limited resources. The bottom row shows how the plethora of activities affects the costs and revenue streams: although the additional activities bring in new revenue, they simultaneously generate new costs and add more complexity to the already crowded business model of the case company.

4.3 Analysis of the Competitor's Business Model

Analysis of the competitor and its business model is limited to publicly available data and research conducted by the case company. However, the accessible data is rich in details, defining the core principles of the competitor's business, a part of the strategy behind different choices and even accounting details. Despite the lack of interviews with the case company, the available material can therefore be used to create a rough sketch of the competitor's business model. That perceived model can then be compared to the case company's business model in order to pinpoint the key differences.

4.3.1 Competitor Background

The competitor is an international media corporation, ranked as the third most influential C2C online marketplace service provider in the world. According to the competitor's website, the online marketplace operations are not limited only in one geographical area, but operates in four continents and in 29 countries with a similar marketplace concept. It therefore differs from the case company that only focuses on the domestic market. According to the operating segment analysis conducted and published on the competitor's web site, the competitor claims having reached the market-leader position in several European countries. The competitor has also published a future report, dated 16th of October 2014 and describing the competitor's growth intentions and ambitions. According to the future report, the competitor has rapidly gained a solid foothold in similar markets than the case company currently operates by using similar tactics it is currently using

against the case company, making the threat formidable from the case company's point of view.

The competitor's strategy and tactics for penetrating established markets is broadly described in the future report and also in several publicly available presentations that are shared on the common SlideShare online platform. The general strategy is divided into four phases: launch, startup, traction and establishment. The launch and startup phases focus on disrupting the established online marketplaces with aggressive pricing, simplified user experience and marketing measures. When the foothold is gained, the company moves to the traction phase that focuses on building customer loyalty and introduce early monetization models. The final step is establishing the business by taking advantage of the market leader position and monetizing selected parts of the service. According to the public seminar material, dated 6th of February 2014 the competitor already estimates operating in the traction phase in the market against the case company.

The competitor has successfully generated a loyal customer base in relatively short amount of time. Figure 10 below visualizes the change in customer activity in form of monthly unique visitors, measured with a third-party auditing tool:

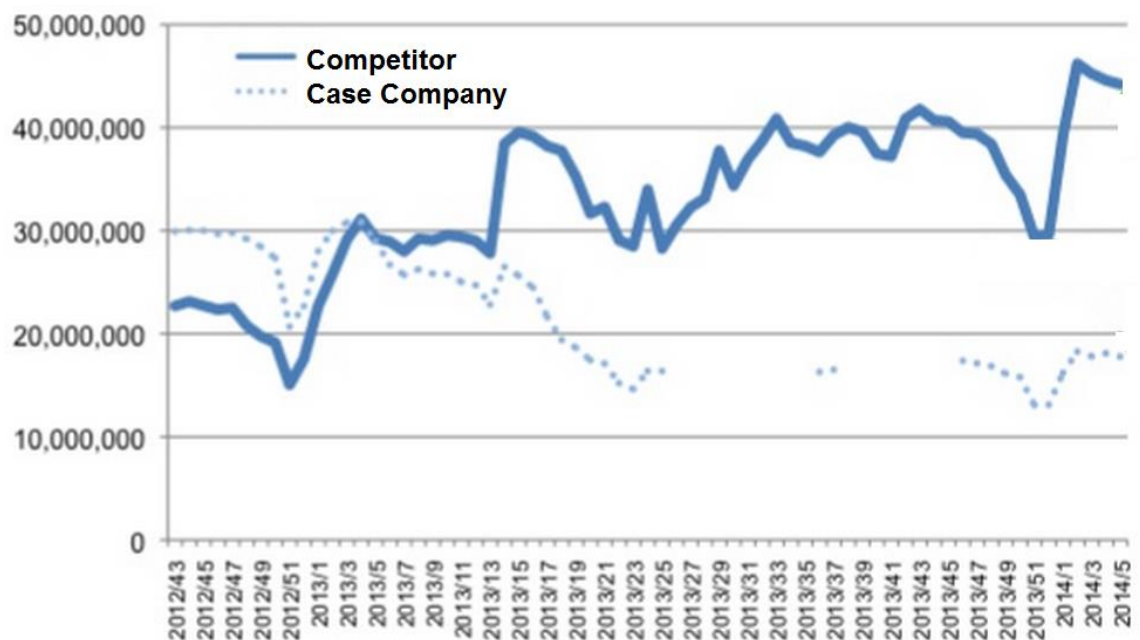


Figure 10. Number of unique visitors on the competing C2C online marketplaces.

As seen in Figure 10 above, the competitor has gained a significant advantage against the case company. According to the case company analysis the gap can be partly explained by the competitor's significant investments in marketing. However, because the companies and their services are not identical, other reasons may apply as well.

The current market situation is described in Table 7 below. It shows the comparison of the current key figures between the two competing C2C online marketplaces:

Table 7. Comparison of key figures.

Key Figure	Case Company	Competitor
Monthly Unique Visitors	800 000	1 400 000
Active items for Sale	1 700 000	700 000
New Items Per Week	800 000	100 000
Items Sold Per Year	2 500 000	2 000 000
Gross Revenue in Euros (total value of sold items)	76 000 000	Not Available

Table 7 shows the current difference between both C2C online marketplaces. The competitor has significant advance in the amount of unique monthly visitors, but not as active sellers than the case company. On the other hand, even though the sellers place more items for sale on the case company's C2C online marketplace, the amount of sold items per year is not significantly higher, compared to the competitor. Therefore the competitor can be estimated having superior customer base and better sales conversion. The last row on Table 7 shows the value of annually sold items on the case company's C2C online marketplace. Notably the competitor is unable to provide as specific figure because the prices are not agreed on the competitor's marketplace.

The reason for the rapid growth of the competitor can be searched in its business model. Similarly with the case company, the business model of the competitor also expands beyond the actual C2C online marketplace. The publicly available data on the competitor can be used to create a rough draft of the estimated business model and also its strengths and weaknesses.

4.3.2 Customer Segment and Value Proposition

The customer value proposition and segmentation are in the core of business modeling, which makes them an ideal starting point when analyzing the competitor's business model. According to a presentation dated 27th of December 2014 the core factors of the customer value proposition are a) C2C business, b) reliability, c) ease-of-use d) collection and e) locality. The competitor's customer value proposition reflects those factors by promising: "a free, fast and easy-to-use marketplace for consumers, where one man's trash becomes another man's treasure." The clear focus on C2C business is visible in a presentation dated 6th of February 2014, claiming that: "96% of the transactions on the marketplace are made by normal consumers". The collected data supports the argument that the case company is rigorously following the best practice in customer segmentation and customer value propositions. Additionally, the promise of free, fast and accessible service can all be considered disruptive innovations (Christensen 2002: 23).

In practical level, the competitor's C2C online marketplace functions as a more traditional classifieds service. The features and core mechanisms of the marketplace are also a source of data, making it easier to outline the competitor's actual offering and compare it to the case company's offering. The differences between the customer experiences on the competing C2C online marketplaces is illustrated below in in Figure 11.

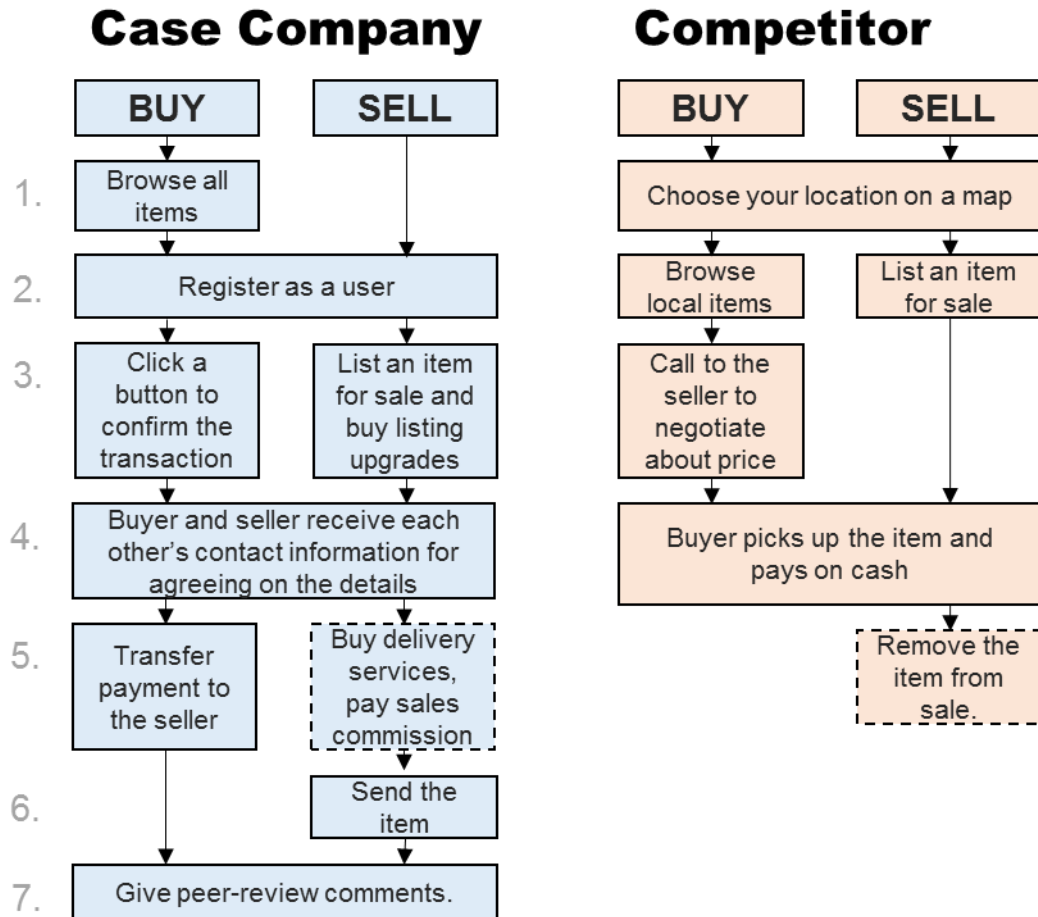


Figure 11. Comparison of workflows between the competing C2C online marketplaces.

Figure 11 shows the flowchart of both the purchase and the sales operations on the competing platforms. The actions that are color coded with blue background represent the case company, whereas the actions with orange show the actions of the competitor. The fields with dotted borders describe optional events in the workflow, such as purchasing voluntary premium services or removing items from the public listings of the online marketplace. By comparing the case company's flow on the left to the competitor's flow on the right, the case company appears to be more dependent on the platform. The customers are required to use the platform intensively in order to finish a transaction. In comparison, the competitor only uses the platform as a catalyst for connecting the sellers with the buyers, without providing any additional services for payments, logistics or increasing trust on the marketplace. While both approaches appear sustainable, the case company's model provides more opportunities for engaging value co-creation with the end-users. However, the lack of involvement in the competitor's model can also be interpreted as a sign for simplicity and ease-of-use.

To further clarify the differences of the competing platforms, the core mechanism of the platform are compiled into Table 8 below:

Table 8. Comparison of features between the competing C2C online marketplaces.

Mechanism	Case Company	Competitor
Browsing	By default, the customers browse the entire catalogue of items for sale. Each item listed for sale in fixed price is guaranteed to be for sale on the announced price. Online auction items are guaranteed to be for sale on the finishing price of the auction.	By default, the customers are only shown items from their own location. The items listed for sale are not necessarily available, but may already be sold when a user sees them. All prices are asking prices instead of fixed prices or auction prices.
Buying	In order to purchase an item, customers must register an account for the marketplace. Registered customers may then purchase items or bid in auctions by clicking a button. No interaction is needed with the seller, until the sale is confirmed and final.	The platform encourages users to contact the sellers directly, either via telephone or via email. No registration is needed. The buyer then negotiates about the price with the seller.
Selling	In order to sell an item, customers must register an account for the marketplace. Registered customers may place any number of items for sale on the marketplace. Listing an item for sale is free, but if the number of sold items exceeds 50 within 12 months, the customer then has to pay sales commission of 4.9% for each additional sales.	In order to sell an item, customers must register an account for the marketplace. Registered customers may place any number of items for sale for free.
Reliability	Reliability is based on public peer-reviews that help customers to identify trusted and suspicious sellers. In addition, customers are encouraged to authenticate their identities by using a strong 3 rd party authentication method similar with online banks.	Reliability is based on curation of content. In practice the ads posted on the marketplace are pre-screened and infringing items are filtered. The marketplace highlights the reliable nature of face-to-face transactions, in comparison to shipping and mailing.
After Sales	Customers are expected to give feedback (peer-review) to each other after every transaction. Customers can also purchase shipping services with discounted pricing directly via the marketplace.	Customers are expected to remove the sold items from the marketplace listings after the sales are confirmed.

Essentially, both companies offer an online platform for users to buy and sell items online with each other. However, the competitor's marketplace has significantly less features and content and appear to emphasize local face-to-face deals. Limiting the customers view only on the local items for sale makes the available content easier to browse and filter. The ability of deciding about the prices over a telephone conversation simplifies the competitor's model even further, by eliminating the need to register an account. Also,

by favoring face-to-face deals the competitor has been able to overcome the issue of trust in online sales.

The more straightforward approach of the competitor also reflects a larger trend in electronic commerce, where the popularity of internet auctions in general is diminishing, as consumers exchange novelty and the initial thrill of competitive bidding to more professional routines and rules of traditional electronic commerce services (Molesworth & Denegri-Knott 2008: 377). However, it can be argued that the competitor itself has similar advantage of novelty compared to the much older case company, what may also affect the preferences and behavior of the customers. Whichever the case, the competitor seems to have an emotional advantage in its customer value proposition.

Summing up, the competitor's C2C online marketplace offers speed and convenience in favor of trust and other features of the C2C transaction value chain, such as payment, shipping and peer-reviews. In practice, a seller can place an ad in minutes with a smartphone just by taking a photograph of the item for sale. Interested buyers close-by can then see the item and call back to the seller to ask more details and negotiate about the price. The deal can then be made face-to-face, without waiting for bank transfers or delivery companies. However, the simplified model does not fit equally well for professional sellers with multiple items on sale simultaneously and who cannot afford to constantly negotiate about the prices on phone. Similarly, it is very difficult for buyers to shop further than from their own area, because the competitor does not use a peer-review mechanism similar to the case company. The simplified website also leaves little space for advertisement and few possibilities for the marketplace provider to interact with the customers.

4.3.3 Channels and Customer Relationships

The focus on consumer customers can be seen in the competitor's marketing efforts. According to the competitor's website it targets especially students, young families and senior citizens. Younger audience is reached via online channels, such as Google, Facebook, YouTube and Twitter, while television and radio are as channels for reaching customers with more traditional preferences. The competitor has also been able to build an active online community that has over 200 000 members on its Facebook page. Managing the community enables the competitor to gain important insight from its primary customers. The case company analysis estimate that the competitor has ten times bigger

marketing budget than the case company. The analysis is based on the financial statements of the competitor that show the annual expenditure.

Analysis of the actual market material shows that the competitor aggressively advertises how it differs from the case company. The advertising banners on the competitor's website repeat three core messages: a) the competitor has no online auctions, so customers do not have to wait for auctions to end to make purchases, b) the competitor does not require online registration for buying or selling, but instead everything can be negotiated and agreed upon a phone call and c) the deals between consumers can be made face to face, meaning that actual transaction is fast and seemingly reliable.

Notably, the competitor is especially well presented in mobile platforms, which are fast becoming the most popular way of using modern C2C online marketplaces, while the case company is mostly focused in a desktop applications, designed for home computers and laptops. A public analysis of the future of C2C market, published by the competitor on the 1st of December 2014, highlights the importance of mobile devices as a gateways to C2C online marketplaces. According to the analysis, the competitor is investing in developing a total of three different mobile applications and a mobile friendly website in order to fortify its position in mobile channels. In comparison, the case company supports only one mobile platform.

4.3.4 Key Partners, Activities and Resources

The competitor operates with a local team of experts in the target country, while the strategy and funding comes from the parent company. According the competitor's website, it currently employs approximately 7200 people in 26 countries. Even though the local team operates independently, the global assets can provide economies of scale in developing both the business model and the technical platforms. In a presentation about digital transformation, published on the 10th of May 2014, the CEO of the competitor emphasizes scalability and as one of the key factors behind success:

It's not about being big in the local market anymore – it's about scale and exploitation to build enough value through new business models and revenue streams.

Scalability allows all the subsidiaries to use the same software and applications in every market area the competitor enters. Only the front-end is translated into a local language

and the available feature set is adjusted to best respond to the needs of the local customer segment. While common technical solutions, expansion strategy and business modeling may limit the available options for customizing local C2C online marketplaces, they also save resources and allows fast centralized development.

As another form of scalability, the competitor also relies heavily on local partners. Software development is mostly outsourced to external consultants and online advertisement sales are handled by media agencies. By outsourcing everything but the business core, the actual business model seems light and easily manageable. It also allows scaling the resources up or down according to the current situation of the market and ongoing internal projects.

4.3.5 Cost Drivers and Revenue Streams

The most unclear part of the competitor's business model is its revenue stream and estimations of future growth. Currently there are few premium services offered for consumers and companies. One of them is a low-priced listing upgrade service that allows sellers to highlight their ads on the C2C online marketplace to be better found by the potential buyers. Another clearly visible product is the limited set of online advertisement on the competitor's desktop and mobile applications, sold by external partners. According to the investor insight report, the reason for the low level of monetization is an intentional part of the competitor's strategy to secure its foothold in an emerging market. The case company analysis back up that argument, by identifying that by offering services for free the competitor is able to disrupt the pricing and the established principles of the current market.

The absence of monetization can be seen in the financial statement of the competitor in a form of loss worth over €4 million for the financial year of 2012 and even bigger loss worth €5 million for 2013. In practice the competitor sustains itself only by external funding. According to the competitor's stakeholder report, the extended investment phase is required in order to unfold long-term growth potential. However, the competitor's future report highlights the fact that similar disruptive strategy has been used to gain market leadership in four other European countries.

4.3.6 Business Model Canvas of the Competitor

By combining the findings concerning the competitor's background, current market situation and business model building blocks it is possible to sketch a rough draft about the competitor's business model. Starting from the core of the business model, the competitor has been able to define a narrow group of primary customers, as recommended Simons (2014), and formulate a customer value proposition that is both clear in defining the job to be done while including elements of a disruptive innovation, as described by Christensen et al. (2007). The data shows that the competitor has a capable online platform and expertise to run it, forming the basis for internal operations. According to the available data and analysis the competitor also successfully utilizes customer relations and expands the customer base by investing heavily in marketing, new channels and community building. The sketch of the perceived business model can be seen in Figure 12 below:

Partners	Activities	CVP	Relations	Segments
Parent company.	Marketing and customer service.	Localized and easy-to-use C2C online marketplace for consumers who have a simple need to buy or sell online, but are short on time, money and/or computer skills.	Content curation and active customer service.	Busy parents with small children and other casual users who want to negotiate about prices on telephone and close the deals in face-to-face transactions. Categories: consumer goods, cars, real estate and jobs.
Software development companies.	Platform maintenance.		Building the online community.	
Media agencies.	Resources		Channels	
	Local experts.		Extensive online marketing on Google, blogs, Facebook and Twitter. Traditional ads on TV and radio.	
	C2C online marketplace platform.			
	Parent company funding.			
Costs		Revenue		
Salaries, platform development, external operations, extensive marketing costs.		Zero profit during the long-term investment period.		

Figure 12. Competitor's business model canvas.

As seen in Figure 12, the weakest link in the competitor's business model is profitability, or rather lack of it. Unlike recommended by Johnson et al. (2010), the customer value

proposition is not backed by a definitive “profit formula”, making the purpose of the business model unclear. However, the data collected about the competitor’s market penetration strategy refers to increasing customer traction instead of generating profit. It could be argued that the competitor’s business model is in fact successful, since the competitor has assumed the market leader position in target market in less than five years after its launch, almost doubled the number of unique users compared to the case company and created an active online community with 200 000 members.

4.4 Strengths and Weaknesses of the Case Company’s Business Model

Table 9 below summarizes the findings in both the strengths and the weaknesses of the case company’s business model, when compared to the competitor and the best practice of business modeling.

Table 9. Strengths and weaknesses of the case company's business model.

Focus Area	Strengths and Weaknesses
Choice of the Primary Customer	<ul style="list-style-type: none"> - The case company has multiple different customers but not a clear primary customer group. - Consumer customers are lost to the competitor who offers them cheaper, easier and faster solution for C2C sales. + The amount of customers is substantial. The current customers are also very active, using the C2C online marketplace on average 13 minutes at a time, which is a sign of strong commitment.
Customer Value Proposition	<ul style="list-style-type: none"> - The customer value proposition is fragmented and targets several different customer groups, instead of focusing on a single customer group with an explicitly defined job-to-be-done. - Customers have conflicting interests, making it difficult to create a customer value proposition addressing all defined customers at once - The core attracting factors for the current customers are not completely understood and tested. + The concept of a reaching consumers across the country via automated C2C online marketplace appeals to especially to the business sellers who are too busy to negotiate every deal over the phone and are therefore less likely to use the competitor's service. + Offering online advertising solutions on a C2C online marketplace is a unique value proposition in the target market.
Other Elements of the Business Model	<ul style="list-style-type: none"> - Managing multiple simultaneous processes burdens the business model and creates conflicting issues within the case company. - Little overlap in chosen customer groups requires building separate back-end processes for each individual customer group, thus further increasing the consumption of resources. - Limited resources require compromising with development issues when the focus is unclear - The compromises on the technical platform do not fully appeal to any customer. + The business model is profitable and revenue is stable. + The case company is supported by a large corporation. + The technical platform enables interaction with customers.

Table 9 above highlights the key issues with the case company's current business model. Compared to its competitor, the case company has difficulties in three main areas: firstly, the definition of the primary customer group is unclear. Second, as the primary customer is many, the customer value proposition appears fragmented and unclear. Thirdly, the case company has difficulties managing its complex business model.

It can be argued that the problems of the internal key activities are a reflection of the broad scope in customers and value propositions. While the competitor targets a very

narrow customer segment with a well-defined customer value proposition, the case company appears to offer “everything for everyone”. In its attempts to improve profitability the case company is reluctant to letting go of any existing revenue stream. However, the broad focus can be perceived as a loss of focus to the customers. Therefore, by offering a clear value proposition about an easy to use local C2C online marketplace for casual consumers with little time or skills, the competitor has been able to both penetrate the unfocused market and to convert the casual consumers into customers.

Summing up, fundamental changes have started in the case company’s customer base. The case company informants confirm that their C2C online marketplace has organically shifted towards selling to professional customers, since the casual users have moved their business elsewhere. The future of the case company looks uncertain. Therefore, actions need to be suggested on improving the business model of the case company. Suggestions for improvements are discussed in the next section.

5 Building Proposal for the Case Company

This section merges the results of the current state analysis and the conceptual framework by building a proposal of the action plan for the case company.

5.1 Findings of Data Collection 2

In order to build a valid action plan, the reliability of background data is confirmed and verified by the case company. Thus the data collection for this proposal building phase consists of qualitative interviews with informants working in managing positions in the case company. The interviews were based on both the conceptual framework of best practice in business modeling and the findings regarding the strengths and weaknesses of the case company's business model in comparison with the competitor. Instead of direct citations the data is presented in anonymized format in order to conceal the identity of the case company informants and the origin of the comments.

The results of the interviews is organized in three sections, following the structure of the conceptual framework defined in Section 3. The goal is three-fold: firstly, to support the assumption that in order to tackle the competitor the case company needs to define a primary customer group. Second, to construct a customer value proposition targeting the chosen primary customer group. Third, to evaluate the effects that the reoriented customer value proposition has on the business model of the case company. The findings and recommendations are summarized at the end of this section as an action plan proposal.

5.2 Proposal Draft

The current state analysis of the case company and its competitor provides a starting point for creating an action plan for business model innovation. The competitor has a more focused customer value proposition and it is disrupting the market with a simplified C2C online marketplace service. At the same time the case company is losing market-share and having difficulties in defining a customer value proposition. According to the best practice of business modeling, the changing competition and the need to defend against a disruptive competitor can be interpreted as signals for starting business model innovation (Johnson et al. 2008; Amit and Zott 2012). The conceptual framework of this Thesis defines the best practice for the case company to innovate its business model in three steps: first by redefining the primary customer group, second by building a new

customer value proposition that specifically targets the needs of the chosen primary customer group and finally aligning the business model with the updated customer value proposition.

Step 1. Selecting the Primary Customer

The controversy between the best practice in customer segmentation and the case company's broad choice of primary customer is apparent. Instead of focusing on a clearly defined primary customer group, as recommended in the recent literature (Markey et al. 2006; Johnson et al. 2008; Simons 2014), the case company considers all its customers to be primary customers. The interviews with the case company reveal that the broad scope of customers is an unintended result of organic and uncontested growth. Expanding to new markets, territories and customer segments was considered profitable for the case company at a time when there was little competition in the market. However, the recent appearance of the competitor disrupted that growth in form of highly focused customer value proposition that targets the consumer segment of the case company.

While the extended focus on multiple different customer groups has been profitable for the case company, such focus also requires extensive resources to sustain itself. Marketing, sales, development and customer service must support several customer groups instead of just one, through different channels and with different value propositions. The current state analysis reveals that the case company is managing a very large stack of different operations with very limited resources. According to the case company informants, the situation leads to compromising in all areas, which is problematic when striving for attention of the same customer group for which the more focused competitor is striving.

A systematic way to identify potential candidates for a primary customer is to assess them in three dimensions: perspective, capabilities and profit potential (Markey et al. 2006; MacMillan and Selden 2008; Simons 2014). Perspective describes how well the customer would fill the values of the company. Without shared perspective the company will be unable to leverage its full potential in customer service (Simons 2014: 51). Capability refers to company's ability to fulfilling its value proposition to customers. Lastly, the profit potential is an assessment of which customer group has best ability to deliver profits for the company. Using the three-dimensional assessment framework, the current

situation of the case company can be illustrated as a matrix, comparing the customer groups identified in the current state analysis in abovementioned way:

Table 10. Assessing primary customer for the case company.

Customer Group	Perspective	Capability	Profit Potential
Consumer Buyers	Good	Good	Low
Consumer Sellers	Good	Good	Average
Business Sellers	Average	Good	Good
Business Advertisers	Low	Average	Good
Corporate Analysts	Low	Good	Low
Corporate Subsidiaries	Low	Average	Low

As shown in Table 10, the consumer buyers and sellers fit the company perspective of providing an active C2C online marketplace and the case company has the needed capabilities for serving both customer groups. However, according to the financial reports of the case company, the consumer customers are not as profitable as business customers that provide substantial profit via sales commissions and other paid services. Advertisers appear as an opposite to consumer customers, having good profit potential but requiring heavy maintenance and operative investments and fitting poorly to the idea of providing an online marketplace.

Notably, Table 10 only assesses the existing customer segments of the case company. By limiting its focus on known customer segments the case company is best able to leverage its deep insight into the needs, profitability and preferences of those customer segments, also described as the incumbent's advantage (MacMillan and Selden 2008; Jones et al. 2008). Exploring new customer segments may open up new growth opportunities, though, but would cede the incumbent's advantage to competitors.

Based on the assessment, the case company has an option to choose from roughly two customer segments: the consumers that are closest to the perspective of the case company or the businesses that are more profitable. The best practice in business modeling highlights profitability as the indication of a viable business model (Johnson et al. 2008:

59). Thus, the business customer segment appears as a more favorable choice than the consumer customer segment.

The interviews with the case company informants support the argument. Firstly, the interviewees point out that most of the business sellers on the marketplace are actually small or medium-sized companies with few or zero employees. Second, many business customers have actually started as consumers, selling on the C2C online marketplace, and later expanding their hobby as a full time job by utilizing the tool they feel is the most familiar and thus easiest to use. The C2C online marketplace functions as a gateway for consumers to start an actual online business Third, for several business sellers the C2C online marketplace is the only channel to reach customers. While the marketplace platform is initially designed for pure C2C trade, companies like individuals can use it to reach large amounts of online shoppers very cost-efficiently. In comparison to commercial ecommerce platforms, the C2C online marketplace is easier to use, has nearly all core features for professional sales and most importantly has the marketing aspect built-in, since the company's products appear for sale on the marketplace that already has a relatively large and established customer base.

Step 2. Defining the Customer Value Proposition

Currently the case company offers a combination of multiple value propositions to consumers, business users and internal stakeholders. The current offering includes a C2C online marketplace for consumers, advertisement solutions for online marketers, business services for retailers and data mining and traffic funneling for corporate subsidiaries. There is little overlap between the actual offerings, making it difficult to compile them into a one definitive customer value proposition. The current customer value proposition of the case company does not follow the best practice found in business model literature. Instead of targeting a customer group with a service explicitly designed to get a certain job done, as recommended by Christensen et al. (2007), Johnson et al. (2008) and Bettencourt and Ulwick (2008).

Narrowing the choice of the customer segments into one primary customer group would help the case company to build a distinctive customer value proposition for that group. The needs of the business customers, identified in the current state analysis, can be further analyzed in order to find the unique job to be done for the case company, as seen in Table 11:

Table 11. Identifying the new job to be done.

Customer Segment	Customer Types	Job-to-be-Done	Current Offering
Consumer customers	Consumer sellers Consumer buyers	Sell excessive consumer goods online. Buy unique items or second-hand goods online.	Free C2C online platform with basic tools for buying and selling online.
Business customers	Small and medium-sized businesses Online advertisers	Market and sell products directly to consumers at the place and time of purchase decision.	Professional platform for online sales and targeted consumer marketing.

Table 11 combines the business sellers and the advertisers into one segment, because they both have a common interest in reaching consumer buyers in the middle of their shopping spree. The case company informants are also more confident in selecting a segment that is not too narrow. The profit potential of the business customer segment is also considered promising. However, the case company informants estimate that focusing on the more specific needs of the different business customers requires more insight and testing with practical solutions.

In addition to identifying the important need to be fulfilled for the primary customer group, the case company must also define the offering that fulfills the need (Johnson et al. 2008: 52). A detailed analysis will help the case company to analyze the current market and identify the factors that appeal to the primary customer and differ from the competing offerings. Based on the current state analysis of both the case company and its competitor, and the insight of the C2C online marketplace trends from the case company informants, a following strategy canvas was drafted to identify the factors that the industry competes on and where the competition currently invests:

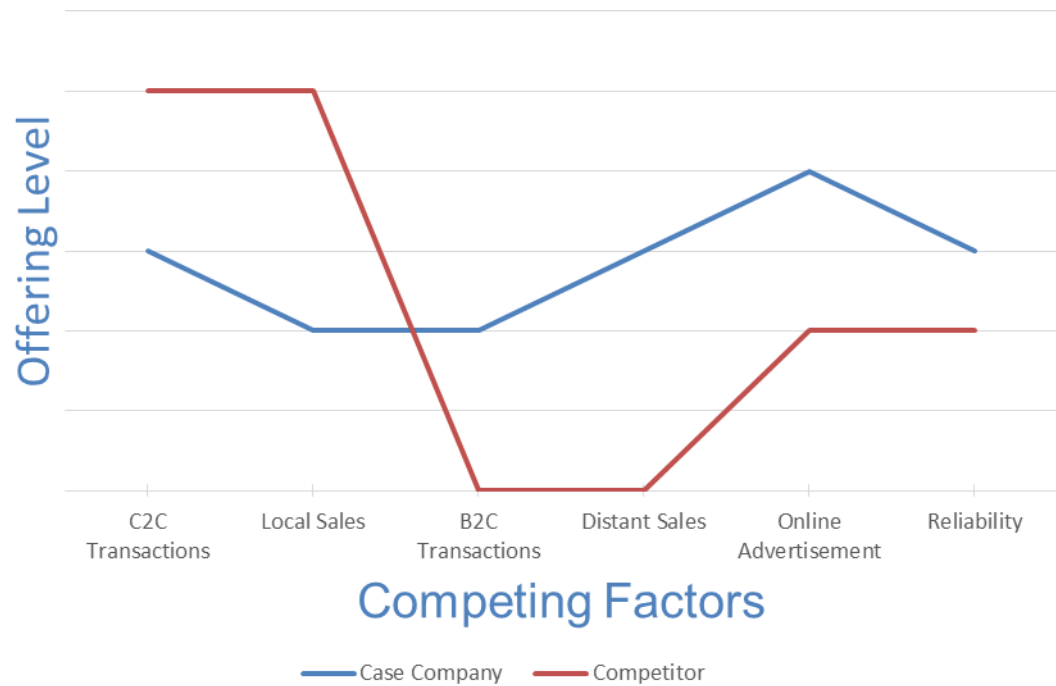


Figure 13. Strategy canvas diagnostic of the C2C online marketplaces in the target market.

Figure 13 describes the current offerings and features of the competing C2C online marketplaces. The range of factors of competition and investment are seen on the horizontal axis, while the vertical axis shows the level of offering that the customers receive. The relative performance of the case company and the competitor is visualized as so-called value curves, illustrating the estimated level of investments in all relevant competitive factors for both companies. The blue curve represents the case company, while the red represents the competitor. The shapes of both curves are based on the current state analysis and the data collected in qualitative interviews with the case company informants.

As seen in the strategy canvas, the competitor's customer value proposition offers to solve a clear problem for a narrowly defined customer segment: providing a local C2C online marketplace for consumers who want to buy or sell online, but only if they can make the sale face-to-face with another consumer. The level of investment in C2C market, local focus and the ease of use is therefore estimated higher than the case company, but falls short in other areas against the case company. However, because the competitor has more focused customer value proposition, it can more efficiently use its resources to cultivate and develop its core offerings. Meanwhile the case company has

divided its resources between multiple customer groups, making it vulnerable to the specialized competitor when competing in the C2C market, but still a market leader in the B2B and B2C markets. In terms of Kim and Mauborgne (2005), the C2C factor seen in Figure 13 can be considered as a red ocean of fierce competition, while the area of business-focused marketplaces is a largely uncontested blue ocean. The case company therefore faces a decision, whether to focus on the direct red ocean competition or to shift its focus to the alternative blue ocean market space.

According to the case company informants, while beating the competition is considered strategically important, operating in a red ocean requires heavy investments in marketing and development of the C2C online marketplace. The competition is estimated to affect profitability, a key performance indicator for the case company. Shifting the focus to blue ocean market space is therefore seen as more viable option. The view is supported by best practice in recent literature that recommends companies reorienting their strategic focus from competition to alternatives.

In order to create a new value curve, the case company can reconstruct the customer need by using the Four Actions Framework by Kim and Mauborgne (2005). The framework is built on four key elements used to challenge the current strategic logic of the industry: selecting factors to be raised well above the industry's standard, creating new factors that the industry has never offered, analyzing which factors could be reduced well below the industry's standard and which competitive factors could be completely eliminated. Reducing and eliminating investments in factors the industry has long competed on helps sharpening the business model of the case company, and can be therefore considered the most important actions of the Four Actions Framework (Kim and Mauborgne 2005: 113). New investments should simultaneously focus on creating new demand, while keeping the cost structure low.

The Four Actions Framework analysis for the case company can be seen in Figure 14 below:



Figure 14. Reconstructing the customer value proposition with the Four Actions Framework.

Figure 14 shows the actions proposed for the case company in order to craft a new value curve. The proposal is based on interviews with the case company informants and the best practice in market creation and building customer value proposition. It suggests shifting focus from the compromised C2C market into new uncontested area of business-oriented online marketplaces. In practice, investments in C2C operations should be discontinued or moved into supporting business-oriented features, in order to create a customer value proposition that targets the business customers of the case company. The changes are estimated to result in a new value curve, seen in Figure 15 below:

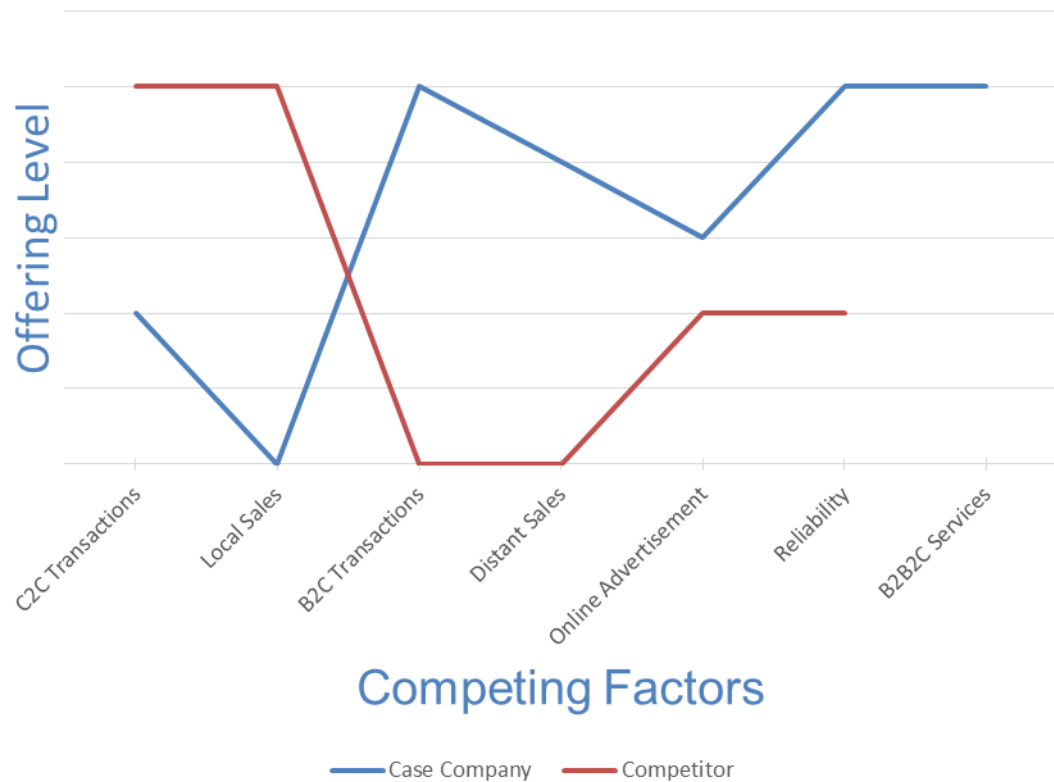


Figure 15. Proposal for market creation for the case company.

In Figure 15 the blue curve represents the case company's new approach against the competitor, represented by the red curve. In comparison to the strategy canvas in Figure 8 earlier, the case company has voluntarily reduced investments in the most competed areas of C2C transactions and local sales while correspondingly increasing investments in B2C and B2B services as well as the distant sales. The goal of the new value curve is to attract the business customers, which is the proposed primary customer group for the case company.

The findings and analysis about the customer's needs and the actual offerings designed to fulfill those needs can be condensed into a new customer value proposition. Instead of focusing on a marketplace that offers everything for everyone, the case company offers an online marketplace for small and medium-sized businesses who want to cost-efficiently reach online shoppers without investing in premium electronic commerce platforms or consumer marketing.

Step 3. Building the Business Model

The best practice in business modeling describes a framework, where every building block of a business model is designed to support the explicitly defined customer value proposition (Osterwalder 2004; Shafer et al 2005; Jones et al. 2008). In comparison, the current state analysis of the case company reveals a business model with multiple simultaneous processes, each supporting a different customer value proposition. Although the case company is currently able to generate profit, managing the internal processes and conflicts requires more resources than the case company is able to invest. Therefore sharpening the existing business model can be argued to be a necessary step in order to survive the competition.

Interviews with the case company informants also revealed another challenge in business model innovation. In addition to tackling the competitor, the case company has a strategic goal of increasing the profitability. Therefore all changes that would result in lowered profitability or require significant investments will not be easily approved.

Relying on these earlier assumptions about customer segmentation, value proposition and market creation, a draft of a possible business model innovation was built by using the business model canvas framework by Osterwalder (2004):

Partners	Activities	CVP	Relations	Segments
External developers	Platform development and upkeep.	B2B2C online marketplace for small and medium-sized businesses that want to reach online shoppers without investing in premium electronic commerce platforms or consumer marketing.	Community building and support.	Consumers searching for items that are only sold by local small and medium-sized companies.
Payment providers			Educating individuals to become professional sellers.	
Logistics providers	Resources		Channels	Business sellers looking for a cost-efficient and easy way to reach online shoppers.
Local companies	Staff, B2B2C online marketplace platform and the online community.		Partner programs	
Online communities.			Marketing	
			Social media communities	
Costs		Revenue		
Staff salaries		Service fees for business sellers		
Marketing and development costs.		Affiliate fees from partnerships.		

Figure 16. Proposed business model for the case company.

The business model draft in Figure 16 is built around a customer value proposition that offers an easy to use online marketplace for business users for reaching consumer customers. The chosen customer segment seen on the right side of the canvas consists of small and medium sized businesses that are looking for cost-efficient ways to reach consumers online, but lack resources of skills required for implementing a separate electronic commerce platform into their existing business core. The case company provides both the sales platform and the online shoppers, and is committed supporting the business customers with their everyday problems. Internally, the case company focuses on transforming the C2C online marketplace into a business-to-business-to-consumer (B2B2C) marketplace. Since the majority of technical features already exists, the key activities include a) making the online marketplace easier for business users to operate and b) efficiently connecting the consumer buyers with business sellers. Compared to the existing model, the business model proposal has fewer internal processes, making it

both more manageable and more cost-efficient, while focusing on generating revenue in the form of service fees from the business customers.

5.3 Summary of the Action Plan Proposal

In order to create a customer value proposition that can benefit from the best practice of business modeling, the case company can choose a primary customer and align its customer value proposition with that primary customer group. Since the competitor has already created a successful disruptive value proposition for the C2C market and gained market leader position there, it is recommended for the case company to create an alternative market by selecting a different customer segment. According to the data and analysis, the business-customer-focused market for online marketplaces appears uncontested and more profitable in general. In addition, the case company has the incumbent's advantage over the competitor in that particular customer segment.

Most of the business sellers on the marketplace are actually small or medium-sized companies with few employees. Many of them have started as consumers, selling on the C2C online marketplace, and later expanding their hobby as a full time job. (Informant B)

The new customer value proposition of the case company targets small and medium-sized businesses that have little or non-existent online presence, but are interested in electronic commerce. The actual offering is an online marketplace that focuses on connecting business sellers with consumer buyers. Business users will be able to open a personalized shop-in-shop inside the online marketplace, use the familiar user interface and tools to import their whole inventory for sale on the online marketplace and take advantage of the economies of scale provided by the online marketplace when purchasing logistics services. Most importantly, the business users automatically reach millions of potential buyers on the online marketplace. Consumers on the other hand are able to buy items that are not available elsewhere or become professional sellers themselves.

The case company already has an established customer base of active business users as well as a critical mass of buyers who prefer to purchase from businesses. That way the new business model would get a head start against the competitor. (Informant A)

Furthermore, changing the customer segment and the customer value proposition requires changing the business model of the case company. The proposed business model is based on a B2B2C structure, where the case company acts as a middleman between

the business sellers and the consumer buyers on the online marketplace. Profit is generated in form of service fees that the business sellers pay in order to be able to operate on the online marketplace and reach the masses of online buyers without separate marketing investments. In exchange the case company invests in marketing the marketplace to online shoppers, providing customer service and developing the technical platform according to the needs of the business customers.

Although we agree with the urgency of relieving the complexity of the current business model, the management is reluctant to letting go of the established sources of revenue. The new business model must therefore be able to cover the losses caused by quitting the excessive processes. (Informant B)

Considering the abovementioned findings and analysis, a following action plan structure is proposed for the case company:

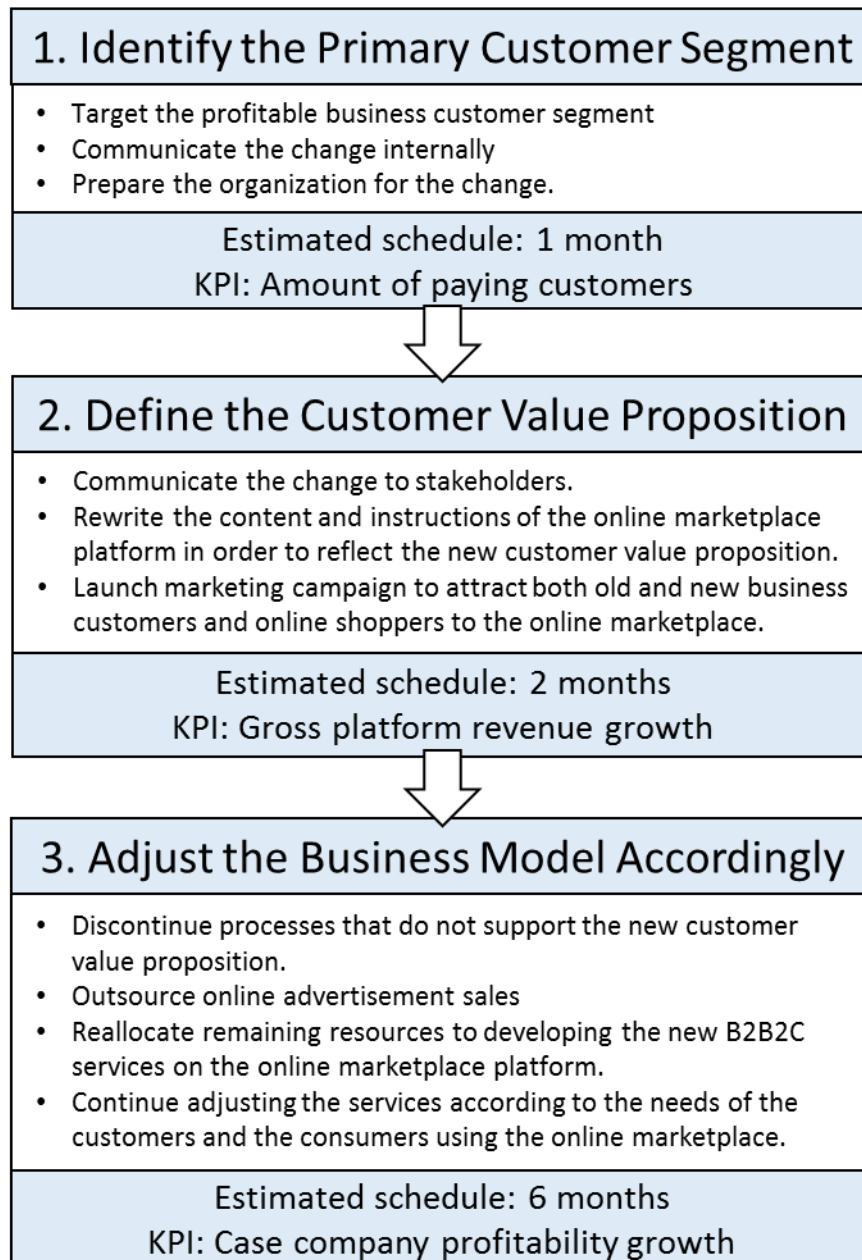


Figure 17. Action plan proposal for tackling an aggressive competitor in C2C online marketplace business.

Figure 17 defines the key targets and key actions for each target. It also includes key performance indicators for evaluating the execution of the action plan and an estimation of the time schedule of the changes.

6 Validation of the Proposal

This section discusses the validation of the assumptions of the proposed key steps for the case company. The outcome of this section is a revised version of the final action plan, defining the next steps for the case company to tackle the competing C2C online marketplace.

6.1 Findings of Data Collection 3

The third and final data collection step involves presenting the action plan proposal to the case company, validating the assumptions with the managers of the case company and collecting feedback about the potential strengths and weaknesses of the proposal. The feedback is collected in a form of a qualitative interview. The results are then analyzed and used to further adjust, clarify and fine tune the final action plan, which is the output of this Thesis. Findings out of the scope of this study are not included into the action plan, but labeled as potential topics for future research. Similarly with the previous data steps, the evaluation data is also anonymized in order to conceal both the origin of the comments and the identity of the case company informants.

6.2 Feedback Received

The case company informants raised several questions and points of interest concerning the proposed action plan. The suggestions were discussed together and the conclusions of the discussions were mutually agreed.

The top concern for the case company informants was the future market position of the competitor. By moving into the B2B2C business model the case company would voluntarily leave the current C2C market space with all its benefits for the competitor. However, there are three reasons to support the decision. Firstly, there are several other emerging competitors in the C2C market space, making the market space both volatile and unpredictable. Second, the current business model of the competitor is unprofitable, as found out in the current state analysis, making it costly for the competitor to try maintaining the market leader position against other competitors. Third, by moving to the B2B2C market space now, the case company is able to get a head start in an uncontested and profitable market, thus building its incumbent's advantage and generating new growth.

Other issue highlighted by the case company informants relates to a spin-off project conducted by the case company in 2012. Similarly to the suggested business model, it focused on building an online marketplace platform for business customers. However, the goal of that project was to establish a new brand and build a separate platform instead of using the existing one. Also, the focus was on high quality brands and large business customers instead of small and medium-sized companies. According to the case company informants the previous project was discontinued due to lack of support from sellers, who did not want their luxury brands to be associated with the low-level brand of an online marketplace, and lack of buyers, who did not find their way to the new online marketplace site. In contrast to the previous project, though, the proposed business model is built around the strong existing brand, unique products from small and medium-sized companies and a platform with significant number of existing users. Since the proposal is not trying to build up the user base from zero or to compete against global brands and international retailers, it can be estimated to be better able to avoid the pitfalls of the previous project.

The case company informants also recommended practical improvements for the actual online marketplace platform. Although determining the features of the new platform are not included in this study *per se*, the informant's recommendations affect to the nuances of the proposed customer value proposition, and are therefore taken into consideration when evaluating the capability of the business model to support such features.

Firstly, the case company is already serving business customers and although the market is profitable, there is little growth potential with the current set of offerings. Therefore the change defined in the action plan requires adding practical tools and new functionality on the actual marketplace platform, in order to attract more business customers and activate the existing ones. The most critical functions listed by the case company informants are online payment, inventory management and marketing tools. Integrated online payment features help sellers to manage orders, which is currently an issue according to the case company informants, since the majority of items is paid via direct bank transfers without reference numbers. Similarly, by adding support for external inventory management software, the case company would eliminate the need for manually updating the inventory logs when items are sold and shipped out. Additionally, the marketing services that are currently built on promoting single items on the marketplace listings could be extended in order to allow companies to promote also their brands and selections.

Second, in order to preserve the current consumer buyers, the case company informants suggest further developing the product hierarchies, search functionality and other features that help consumers find what they are looking for on the online marketplace platform. This is due the fact that business users often want to put their whole inventory for sale, which makes it hard for buyers to find any specific items amongst the millions of items.

Third, the selection plays an important role in the success of the new online marketplace. The items for sale on the online marketplace must be unique and interesting in order to attract buyers. Therefore the case company suggests a model where the content is actively curated, by promoting the interesting items and filtering the items that do not attract buyers. The most successful sellers could also be rewarded with lower service fees, in order to increase their commitment on the case company.

The overall response to the proposed action plan was positive. Since the implementation of the action plan depends on the case company, addressing the above feedback was considered a top priority when building the final action plan. By implementing the recommended adjustments the action plan proposal will then be turned into the final action plan, including both the top level targets as well as detailed actions needed for reaching them.

6.3 Final Action Plan

Based on data collected from the case company and its competitor and the best practice on business modeling, a following action plan is proposed for the case company in order to tackle an aggressive competitor in C2C online market:

Table 12. Action plan for tackling an aggressive competitor in C2C online marketplace business.

Key Targets	Key Actions	KPI	Schedule
Identify the primary customer segment	<ul style="list-style-type: none"> The case company chooses the business customer segment as its primary customer group. The change in customer focus is communicated internally. The case company prepares for the change, by determining new tasks and responsibilities to the managers and other members of the team. 	Amount of paying customers	1 month
Communicate the customer value proposition	<ul style="list-style-type: none"> The case company formulates a new customer value proposition: It provides an active B2B2C online marketplace platform for small and medium-sized businesses that want to sell consumers goods online, but lack the knowledge and resources needed to use expensive online marketing and complex electronic commerce platforms. The new value proposition is communicated to stakeholders and updated to the online marketplace in order to reflect the new approach of the case company. The case company launches a marketing campaign to attract both old and new business customers and online shoppers to the online marketplace. 	Gross platform revenue growth Customer loyalty, retention and churn	2 months
Adjust the business model accordingly	<ul style="list-style-type: none"> Processes that do not support the new customer value proposition are discontinued. Online advertisement sales is outsourced in order to maintain the focus on the primary customer group, while still generating revenue from online advertisement sales. Remaining resources are reallocated to developing the new B2B2C services on the online marketplace platform: online payment, inventory management, online marketing tools, simplified shopping features and content curation. The business unit continues adjusting the services according to the needs of the customers and the consumers using the online marketplace. 	Case company profitability growth Net promoter score	6 months

As seen in Table 12, the tree *key targets* in chronological order are a) determining the business customers as the primary customer group, b) determining the new customer value proposition to be an online marketplace platform for professional sellers and communicating it publicly and c) eliminating the unnecessary internal processes and focusing

only on the functions that support the new B2B2C business model. The detailed actions for reaching each target are explained in the *Key Actions* column. Similarly, the *Key Performance Indicators* column defines the metrics that can be used to evaluate the success of the actions. Lastly, the *Schedule* column presents the estimated time needed in order to carry out the key actions, if the case company has access to the current resources.

Instead of tackling the competitor in head-to-head competition, the action plan presents an alternative route to regaining market-leadership. It combines the incumbent's advantage of existing customers with the concept of market creation and business model innovation, allowing the case company to move from the contested C2C market space into the more prospective B2B2C market. Since the action plan is already evaluated and validated with the case company informants, it is ready to be used as is. However, the action plan acknowledges the risks in moving into an uncharted market space. Thus it recommends relying on the key performance indicators when analyzing the current state of the change, but also provides flexibility to modify the actions and time tables according to the most recent changes in the economic environment.

7 Discussion and Conclusions

This section concludes the Thesis by summarizing the findings, validating the results of the study and by suggesting directions for further study on the subject.

7.1 Summary

This Thesis focused on creating an action plan for tackling an aggressive competitor in C2C online marketplace business. The case company is a local online C2C marketplace that was losing its market share to an international competitor. In order to help the case company to respond to the competition, this Thesis presented a practical action plan with key targets and activities needed to regain the market leader position.

The research approach of this Thesis is action research. It started by defining the business context, the case company background, the business challenge and the objective of the Thesis. The second step was to create a conceptual framework of best practice in customer segmentation, customer value proposition and business modelling. The conceptual framework was then used as a tool for analyzing the current state of the case company and its competitor. Data for the current state analysis was collected from internal and external documents, public databases, competitor analysis and interviews with the case company informants.

As a result of the current state analysis, the study identified the strengths and weaknesses of the case company's current business model. The findings of the data collection indicated that the case company has a large customer base and it is able to generate profit, unlike the competitor. However, the case company had not defined a primary customer group. Instead, the case company had adopted a multi-sided business model that was targeting two million unique customers at the same time. Without an explicitly defined primary customer segment, though, the case company's internal processes conflicted, compromising the current business model and allowing the focused competitor to enter the market.

By combining the conceptual framework with the results of the current state analysis, this study showed different routes for practical business model innovation. Interviews with the case company informants helped clarifying the case company's goals and assessing the customer segments, value propositions and the competitive factors of the current market. As a result, an action plan proposal was drafted for the case company, outlining

the key targets, key actions and key metrics needed for innovating the business model. Instead of confronting the competitor in head-to-head competition, the action plan proposal presented market creation as an alternative approach to achieving uncontested market-leadership.

The practical action plan includes three targets. First, it proposes selecting the business customer segment as the primary customer segment, since it is simultaneously the most profitable but the less contested segment. Second, the action plan proposes sharpening the customer value proposition. The proposed customer value proposition is to provide an active business-to-business-to-consumer (B2B2C) online marketplace platform for small and medium-sized businesses that want to sell goods to consumers online, but lack the knowledge needed to use complex electronic commerce platforms and the resources needed for expensive online marketing. The proposition therefore takes an advantage of the critical mass of existing customers by connecting it to the prospective business customer segment. The third and final step involves the case company to adjust the business model according to the new primary customer segment, by discontinuing processes that do not support the new customer value proposition and reallocating the resources to developing the new B2B2C online marketplace. The estimated schedule for implementing the actions is nine months, if only existing resources are used. The results of the action plan can be measured with five key performance indicators: the amount of paying customers, gross platform revenue growth, customer retention, the growth of profitability and the net promoter score.

The action plan proposal was evaluated together with case company informants, who validated the assumptions made in the study and helped adding details to the action plan proposal. The proposal was then finalized into the final action plan with detailed next-steps and a schedule for implementation. The three key targets identified in the action plan were a) determining the primary customer segment, b) creating an uncontested customer value proposition and c) innovating a business model that is capable of supporting the customer value proposition and the choice of the primary customer.

7.2 Managerial Implications

The action plan presents a chronological list of recommended actions for the case company to innovate its business model. The execution of the plan, however, requires an

approval from the upper management of the corporation. The case company will therefore negotiate with the parent company in order to align the execution of the action plan with the overall corporate strategy. The action plan will also be presented to the subsidiaries and the stakeholders of the case company, who may yet contribute to the details and schedules.

The case company will also agree about the velocity of the execution of the action plan. The schedule included in the action plan estimates the time needed for reaching each target with the current resources. However, additional resources assigned in each development phase or action may increase the velocity of the execution. It is therefore recommended for the case company to internally evaluate and decide the urgency of each action and agree on both the individual responsibilities as well as the team responsibilities before executing the plan.

The action plan also provides key performance indicators that can be used to assess the success when pursuing the key targets and actions. The case company will therefore set target values for each key performance indicator in order to be able to evaluate the results and performance of each action. It is also recommended to use other metrics and diagnostics in order to observe other consequences, possible side-effects and unexpected results when executing the action plan.

7.3 Evaluation of the Thesis

This final section evaluates the Thesis, by comparing the final outcome to the original objective and by discussing the validity, reliability and generalization of the study.

7.3.1 Outcome vs. Objective

The objective of this Thesis was to define an action plan to improve the business model and the customer value proposition of the case company against an aggressive competitor in C2C online marketplace business. The outcome was a practical action plan that recommended changes in the primary customer segments, the customer value proposition and the internal processes of the case company. The competitive aspect of the action plan was addressed with a market creation approach, which is expected to allow the case company to abandon the head-to-head competition between the C2C online mar-

marketplaces and instead strive for both cost-leadership and differentiation in an uncontested B2B2C market space. Although the outcome therefore extends the focus beyond C2C online marketplaces, the objective in general can be considered achieved.

The challenges of this study were related to the characteristics of online marketplace business. Firstly, as there is still little research available about online marketplace business models in particular, the conceptual framework of this thesis relies more on generally accepted best practice about customer segmentation, value propositioning, market creation and business modeling. This approach also supports the concept of business model innovation, which recommends focusing on the overall design of the business model before optimizing the details (Amit & Zott 2012: 49). Secondly, the dual-sided nature of the online platform included a dilemma in defining the primary customer segment. The platform needs both buyers and sellers in order to function as intended, making it difficult to focus on only one customer segment. In this study, the choice of the primary customer group was based on an assumption that the case company has already reached the critical mass of customers needed to produce enough supply and demand on the marketplace. Therefore the case company is expected to be able to adjust its focus towards the most profitable customer segment, the business customers, without completely losing its ability to facilitate transactions between buyers and sellers. Since this study did not focus on validating that assumption, though, the final action plan still recommends paying attention also to the consumer buyer segment for good measure.

7.3.2 Reliability and Validity

This study relied on the validity and reliability plan defined in the Section 2.3. The purpose of the plan followed the best practice in recent literature in ensuring that the study measures what it claims to be measuring, evaluates the rigor of the sources of data and information and assesses whether the results of the study could be applied to other contexts and situations and to what extent it may be possible.

In order to increase the validity, this study used multiple sources of data, including internal and external documents, public databases and interviews with the case company informants. Similarly, the best practice in recent literature was also drawn from several respected sources. The reliability of this Thesis was improved by triangulating the data collection in three steps: first, by collecting available documents about the case company and the competitor, benchmarking the competitor and interviewing the case company

informants. Second, by interviewing the case company informants in order to collect data to support the decisions made for the action plan. Third, by collecting feedback from the case company informants about the action plan proposal, in order to validate the business assumptions and finalize the action plan. Additionally, the integrity and progress of the study in general were observed in regular stage-gate meetings with a peer-group of students and instructors.

Action research approach was selected as the research approach for this study, since it was expected to help solving practical problems in collaboration between researcher and the case company. However, action research was also known to limit the generalizability of the results of the research (Blichfeldt and Andersen 2006: 5). Accordingly, this Thesis focused on solving a practical real-life business challenge instead of trying to create universal knowledge. The analytical generalization of findings and the framework of ideas brought into study were however built in a way which allows repeating them in similar research. According to Coghlan and Brannick (2014), the cyclical structure of action research would benefit from such research cycles, making the research more effective and the results more accurate. Additional research cycles could therefore be recommended as follow-up actions to be conducted either by the case company or another researcher.

The number of interviewees was considered a limitation. As seen in the Section 2.2, the interviews were conducted with only three case company informants. However, the informants can be considered reliable experts of C2C online marketplace business in the target country. To ensure the validity and consistency of the interview findings, the key issues were asked more than once in different occasions. In addition, to add to the reliability of the interview data, the findings were cross-analyzed with internal company documents when available. Customer research and customer interviews were excluded from this research on purpose, based on the assumption that the case company did not yet have a clear definition of its primary customer.

The conceptual framework of this Thesis draws from best practice described in general business literature and research, instead of focusing specifically on the currently scarce material about C2C online marketplaces. It could be argued, though, that the C2C electronic commerce should altogether be treated as a distinctive research stream, separate from traditional business-to-consumer (B2C) forms of electronic commerce (Jones and Leonard 2007: 50). However, since the case company's role in C2C online marketplace business also involves aspects of B2C and B2B businesses, it was considered feasible

to rely on more general best practice instead of focusing only on the characteristics of C2C business. Moreover, from the case company's point of view the C2C online marketplace is not considered a business model per se, but a pricing mechanism of a business model (Osterwalder 2004:15).

In conclusion, online marketplaces provide an unconventional view on modern business modeling. By offering a marketplace for people to buy and sell with each other online, a company has potential to create completely new global supply to a market. To illustrate, the online marketplace introduced in this Thesis was found out to be able in competing against online retailers by selling consumer goods worth €76 Million every year – without ever actually seeing the goods or having any inventory. However, the dependency on active sellers and buyers on a marketplace is also the weak point of a marketplace's business model. Without a critical mass of active users, the business model withers and dies. Therefore companies strive on understanding how to innovate a business model in order to attract committed buyers and sellers to the marketplace. Although current research cannot give a specific answer to that question yet, practical studies like this Thesis contribute to the overall understanding of the topic, and thus help for their part to discover the best practice of online marketplace business.

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Appendix 1: List of Interview Questions for Data Collection 1

Topic	Questions
Business Challenge	<ul style="list-style-type: none"> - Background of the informant? - Involvement in business and operations? - Personal experience on the competitive situation? - Specific examples of how the competitor's operations affect the informant's work? - Facts about the background of the current situation?
Identifying Strengths and Weaknesses	<ul style="list-style-type: none"> - Informant's insight on the strengths of the case company and the reasons behind them? - Informant's insight on the weaknesses of the case company and the reasons behind them? - Informant's insight about the competitor's strengths and weaknesses? Fact-based reasons for the successes/failures? Estimations?
Key Concerns	<ul style="list-style-type: none"> - Specific key concerns about the business challenge, competitor and the weakness areas?
Analysis	<ul style="list-style-type: none"> - Defining the areas for improvement: why should a situation to be fixed and how could it be done? - Analyzing further, are there recognizable patterns for reasoning? - What evidence supports the reasoning?
Best Practice	<ul style="list-style-type: none"> - How has the case company previously handled similar situations? Examples? - Informant's recommendation for a guideline to follow in the current situation in solving the key concerns? Grounded decisions or estimations?
Development Needs	<ul style="list-style-type: none"> - What additional development needs has the informant discovered? - How could the case company prepare for similar challenges in the future?

Appendix 2: List of Interview Questions for Data Collection 2

Topic	Questions
Proposed Key Targets	<ul style="list-style-type: none"> - General comments on the findings and the proposal - Comments on the customer segmentation proposal - Comments on the customer value proposition proposal - Comments on the business model innovation proposal - Arguments - Improvements - Recommendations.
Proposed Key Actions	<ul style="list-style-type: none"> - Comments on the practical implementation of the new primary customer segment - Comments on the practical implementation of the new customer value proposition - Comments on the practical implementation of the new business model and the steps needed to innovate the current business model
Proposed Key Performance Indicators	<ul style="list-style-type: none"> - Comments on the measurement and the priorities for evaluation. - Comments on the measurement possibilities, e.g. the fitness of current measurement tools.
Proposed Schedule	<ul style="list-style-type: none"> - Estimate a realistic schedule for implementing the action plan. - Suggest alternatives.

Appendix 3: List of Interview Questions for Data Collection 3

Topic	Questions
Final Key Targets	<ul style="list-style-type: none"> - Evaluation of the final customer segmentation proposal - Evaluation of the final customer value proposition proposal - Evaluation of the final business model innovation proposal
Final Key Actions	<ul style="list-style-type: none"> - Evaluation of the implementation actions of the new primary customer segment - Evaluation of the practical implementation actions of the new customer value proposition - Evaluation of the final implementation actions of the new business model and the steps needed to innovate the current business model
Final Key Performance Indicators	<ul style="list-style-type: none"> - Evaluation and comments on the suggested metrics and performance indicators.
Final Schedule	<ul style="list-style-type: none"> - Evaluation and comments on the suggested schedule.
Conclusion	<ul style="list-style-type: none"> - Comments on the study - Evaluation of the process - Validation of the final action plan in general and specific comments on further areas of development.