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SUBSCRIPTION BUSINESS MODEL AND ITS POTENTIAL IN THE
AREA OF ECO, ORGANIC AND ANIMAL FRIENDLY PRODUCTS
IN FINLAND

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The aim of this thesis was to create understanding of the subscription business model potential in the area of eco, organic and animal friendly products in Finland.

In the theoretical part advantages, disadvantages, drivers of profitability and trends of the subscription business model were analysed. Various elements of the subscription business model were examined with the help of business model canvas and value proposition canvas.

Primary data was collected by conducting a survey among existing and potential customers of the case company. 274 responses were received in total, of which 39 from existing and 235 of potential customers. The survey was conducted in November 2015 and the data was analysed same month.

The research allowed to construct an optimal value proposition design and integrate it into the subscription business model canvas. The findings in this research can be used when studying subscription commerce and subscription business model potential in similar industries.

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1 INTRODUCTION

Subscription commerce offers a business model in which consumers subscribe to periodically receive a monthly box of products and samples. It can contain food or beauty products, outdoor gear or household items, virtually anything that a company is willing to promote and sell. This way a company gets returning customers through subscription (one, two, three month subscription, or one year) and attracts new customers by offering element of surprise and a decent price to value ratio. Subscription business model can also serve as a promotion tool for manufacturers, which might be willing to lower the price for their product samples to get them inside a popular subscription box and tried by end customer.

Subscription commerce is booming in USA and UK but is not yet unfolded in Finland. This research is focused on tailoring the subscription business model specifically for the Finnish market and discovering its potential for a case company.

1.1 Research background and motivation

When I started to think about my thesis topic, I wanted it to contain several elements – serve an ethical purpose, be connected with the service design, deal with Finnish market and make me passionate about the whole research.

After brainstorming and narrowing my focus, I chose the subscription business model to be tailored for a Finnish case company as a service beneficial for the case company itself, customers and manufacturers.

I am particularly interested in subscription commerce both as a customer and as a business student because of the value and benefits it brings to all parties when the business model is made right. Among the benefits of having a subscription service developed are predictable revenue and developed customer relationships for a company, good publicity for manufacturers, and increased value for customers.

This research is a great opportunity to go deeper into the topic and use my knowledge in service development and business model design in order to discover the aspects of subscription commerce which are applicable to the Finnish market.

1.2 Case company

The case company for this thesis was chosen among those, which both serve an ethical purpose and have a potential to benefit greatly from the research. The cooperation was established with Ekolo Oy. Ekolo Oy is a Finnish company founded in spring 2004 with a focus on distribution of organic, sustainable, environmentally and animal friendly products. Ekolo Oy consists of a wholesale, retail shops and a webshop.

The case company sells organic foods as well as variety of cosmetic products such as make-up, skin- and hair-products, household equipment, cleaning and washing products, books and gift cards. Such variety of products allows to appeal to a greater number of customers and at the same time increases the importance of tailoring the subscription business model according to customers' needs.

1.3 Research objective

Main objective of the thesis is to create understanding of the subscription business model potential in eco, organic and animal friendly products in Finland. Furthermore this thesis aims to get insight into the value creation for customers and shaping subscription services for the case company according to its customers' wants and needs.

1.4 Research question

Ideas for new products to be introduced inside the next subscription box can come from a great number of sources – suggestions from subscribers, direct emails from

manufacturers, company's own searching (reaching to new brands and products through the Internet search, attending conferences, product trade shows, etc.). Ideas can be overwhelming and sometimes controversial but the main point is to satisfy customers' wants and needs and provide unique value proposition.

In order to achieve that, this research is focused on the following question: what is the optimal value proposition design of the subscription business model for the case company?

2 RESEARCH METHODOLOGY AND DATA COLLECTION

2.1 Research process

Research process began with testing ideas about thesis topics through reviewing theoretical sources and deciding, which topic is more relevant for this research. When the topic was defined, the most important resources were collected. A plan for the thesis was developed, its objectives, questions and benefits for potential case companies were defined. After that several companies which suited my requirements were contacted and cooperation with the case company was established. Familiarization with research methods and tools for business students deepened my theoretical knowledge about the topic and allowed to design a survey aimed to gather the most relevant data for this research. Data analysis followed, and results were implemented into the subscription business model canvas for the case company.

2.2 Research methods and data collection

Business studies are very practice oriented, that's is why thesis should bear higher practical relevance as well as higher theoretical and methodological rigour. While methodology refers to the theory of undertaking the research, methods refer to techniques and procedures used to obtain and analyse data. This therefore includes questionnaires, observation and interviews as well as both quantitative (statistical)

and qualitative (non-statistical) analysis technique. (Saunders 2009, 3) The theory of undertaking the research consists of background theory, focal theory, data theory and contribution. Background theory refers to the wider disciplinary grounding of the research, signalling what is and is not important in terms of determining the focus of the study and the domain within which a contribution will be made. Within this, focal theory refers to the establishment and the analysis of the nature of the problem and sets out exactly what is to be researched, moving from the general to the specific, creating hypotheses or research propositions in the light of the arguments and work of others and indicating how this study will develop new propositions, data and conclusions that will advance the field. (Carsrud & Brännback 2014, 4) The background theory concerns familiarizing with the research field and this phase includes literature review. On the stage of the focal theory the nature and details of the problem are being established and analysed and the research focuses from the general to specific. The data theory is focused on relevance and validity of the data supporting the thesis, while exact form of the data can vary depending on the project nature (qualitative and / or quantitative data). The contribution part describes the knowledge gained through research which can be applied on practice and includes recommendations to the case company.

A holistic approach was applied in this research, because a business model itself is a complex system which requires to be viewed as a whole from different angles to be fully understood. Both primary and secondary data were collected and analysed.

Primary data was collected through observation and a questionnaire. The observation was participatory as different subscription services and monthly boxes were tried in order to see the subscription business model from customer's point of view. Numerous opinions and suggestions were received from many people who did not only decided to participate in the survey, but also willingly engaged into discussions about their previous experiences with familiar services and expectations they have about the possibility of implementation of such service. It gave some insights into how a subscription box should be shaped for the Finnish market, but cannot count as a structured observation.

The main part of the primary data collection was a survey in a form of a questionnaire which collected qualitative and quantitative data from both existing and potential customers of the case company. It clearly demonstrated preferences of the target audience and gave answers to the research questions.

Secondary data was used mainly in the theoretical section of this thesis and required variety of sources: primary (emails), secondary (books, journals, and web publications), and tertiary (encyclopedias, dictionaries). The main theoretical concepts were derived from the books “Business Model Generation” and “Value Proposition Design” written by Alexander Osterwalder and Yves Pigneur. These books are complimentary to each other and provide theoretical knowledge and practical tools for generating and adapting business models and creating an optimal value proposition design, which allows to adapt a business model to particular requirements of the case company. Another important theoretical source was a book “This Is Service Design Thinking” by Marc Stickdorn and Jakob Schneider, which described the process of service development and marketing of services that improve customer experience and allow to stand out of competition. Articles from The International Journal of Electronic Commerce Studies and The Journal of Business Models provided vital insights into business model development and adaptation to certain markets.

Collection of the secondary data started from the general level and allowed to get acquainted with the topic and then was narrowed down to the parts most relevant for this thesis. The theoretical sources were gathered in digital and physical libraries. Gained sources did not contradict but rather supplemented each other providing deeper insight into the topic.

2.3 Reliability of the research

The question of reliability looks at the consistency of the research technique. Does it regularly produce the same result, regardless of the topic it is analyzing? The primary interest here is the replicability of the research technique. (Gaber 2010, 13) This means that a reliable research will yield same results even if it was performed by

other researchers and on another sample group. Results of the questionnaire would be the same regardless of who sent it. Reliability can be affected by too small group of questioned subjects, that's why in order to increase reliability and representability of this research, it was decided to run it both among existing and potential customers.

2.4 Validity of the research

Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility. In other words, validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. (Dhawan & Sanjeev 2010, 89) This research was meant to answer questions related to customers' wants and needs about the subscription box from the case company and include a survey which provides a good understanding of the current situation.

3 SUBSCRIPTION BUSINESS MODEL

3.1 Introduction

Osterwalder (Osterwalder 2004, 15) formulates the following definition for business models: A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams.

The business model concept helps ameliorating the design, planning, changing and implementation of business models. Additionally, with a business model approach companies can react faster to changes in the business environment. Finally, the

business model concept improves the alignment of strategy, business organization and technology. (Osterwalder 2004, 21)

The subscription commerce market has been rapidly growing over the last few years. After success of New-York city based Birchbox founded in 2010, which sends its customers around five samples of beauty products on a monthly base, the subscription business model got adopted by many companies. Subscription commerce nowadays is represented in any industry which allows home delivery to an end customer. The most popular areas include beauty and makeup products, foods and snacks of all kinds, organic products, kids' crafts and hobbies, pet products. While such large areas attract attention of the majority of subscription companies, others focus on filling small niches, be it razors, geek products or Japanese candy.

There are two different types of subscription commerce. First type is convenience commerce, which is based on the idea of replenishing regularly used products by automatically receiving new items over certain period of time. For example, this can be socks, pampers, pet food, etc. Second type is discovery commerce – it allows consumers to discover new products or brands, of which they might not heard otherwise, and try samples.

The most popular subscription commerce model nowadays comes in a shape of a subscription box. Customers subscribe to receive products delivered to them on a certain day of the month. Certainty about delivery date is important feature because it helps to build up curiosity and expectation, as in most cases consumers do not know exactly what will they find inside their new box. The idea can be described as a gift to oneself, or as a treat in case of a box containing both products received on a regular basis plus some surprise items. There is also a possibility to order a subscription box to be delivered to someone else as a surprise present. Some companies use such approach to market their subscription as a way to take care of elderly parents who customers cannot visit personally as often as they want.

Despite the fact that consumers and businesses can not rely on sensory marketing in a context of a subscription box, four other factors play a decisive role in the purchase decision. First, one of the first factors to consider is the practicality of delivery,

which provides comfort and convenience to consumers without constraints. Then, we see the customization of the box considering to the customers. Customers particularly appreciate when the box is the height according to their needs, where the products are adapted to their specificities. In addition, the box by subscription offers a scarcity effect; brands never offer twice the same products and also produce limited editions. If the consumer does not want to feel frustrated, it will buy the box. Finally, the surprise effect received by the consumer upon receipt of its box is a very important factor for this type of consumer. There is indeed a risk to like or dislike a product but the customer has the feeling that it receives a surprise, which increases its enjoyment. (Lentillon & Russo 2015, 79)

Customers usually can subscribe for a week, half a month, month, six months or a year in most cases. Prices vary between 10-50 euro. Subscription commerce businesses often highlight, that the value of their box always exceeds the price. This can be achieved by putting samples of the products inside a box, as samples are spread by manufacturers almost for free. Another way is to use products which are in excess in stock. The best way is still negotiating with manufacturers as a well-balances subscription business model benefits all three involved parties: the company, its customers and manufacturers at the same time.

3.2 Advantages

Any attempt to better understand business model creation and transformation means relating them to the practices—visioning, strategizing, performing, and assessing—that illuminate the exploration and exploitation of the opportunities and advantages of the business. (Ahokangas & Myllykoski 2014, 12) Subscription business model has a list of advantages that make it attractive both as a service for existing company and a core around which a company is built.

One of the biggest advantages of the subscription business model is predictability. Customers subscribe for a month or more, get billed steadily and receive their products on the same day every month. A company at the same time gets predicted revenue and can plan its actions accordingly. A company which can solidly claim

how much it will earn in next month and after attracts investors easier than a company with only assumptions. Another facet of predictability of the subscription business model is volume of orders predictability. Subscription shows demand for next month and it makes inventory management much simpler, which can be crucial for industries dealing with products with short lifetime, like fresh foods or flowers. Predictability of demand reduces wastage drastically, helping to save resources for the company, avoid excessive products in storage and keep the company activity sustainable for the environment.

Subscription business model provides an advantage for customers in a form of convenience and time saving. Replenishing regularly used products with predictable consumption (like toothpaste, pet food, morning cereal, etc.) relieves customers from mundane tasks, and adding value to a monthly box keeps customers satisfied and loyal.

Customer loyalty can be supported through another advantage of the subscription business model – developed customer relationship. Many subscription businesses allow customers to create personal profile and express their preferences, thus letting companies satisfy customer wants and needs better. There are two types of loyalty: the pre-purchase satisfaction (between the purchase decision and the purchase itself) and the post-delivery satisfaction (between the purchase itself and the use of the product). (Chen & Chang 2003, 556) Subscribers become company's clients for at least a month and give feedback after receiving and unpacking a monthly box. This allows to find out which brands and products they prefer, what they would like to see in the next subscription box and what was disappointing. Jason Fried and David Heinemeier Hansson spoke about turning customer base into audience in their book *Rework: All companies have customers. Lucky companies have fans. But the most fortunate companies have audiences...* Instead of going out to reach people, you want people to come to you. An audience returns often – on its own – to see what you have to say. This is the most receptive group of customers and potential customers you'll ever have. (Fried & Heinemeier Hansson 2010, 170) Waiting for one month for a subscription box to arrive builds up curiosity and expectation, pushing customers to follow the company on social media to get hints on what is coming. This advantage of subscription business model allows to turn customer base

into audience and constantly stay in touch with existing customers while attracting potential customers.

Important subscription commerce advantage is low customer retention spend. At the heart of any contractual or subscription-oriented business model is the notion of the retention rate. An important managerial task is to take a series of past retention numbers for a given group of customers and project them into the future to make more accurate predictions about customer tenure, lifetime value, and so on. (Fader & Hardie 2007, 76) Customers usually subscribe for more than one month which allows a company to make more accurate predictions, reduce efforts in keeping them interested in company products via marketing tools and save resources.

Subscription commerce provides advantage also for vendors in a form of publicity. Clients find new samples or full-sized products of new brands, get to know them and tell friends. If they like it, they come for more and may become new loyal customers. As a result, vendors willingly provide their products to be inside a subscription box to reach more customers and raise publicity.

Subscription commerce is booming in USA and UK nowadays, but is only coming to Finland. At this point the subscription business model has an advantage of novelty which results in lower competition and low cost of publicity. Several first companies adopting subscription model in a shape of a monthly box will be quickly getting market in Finland and spread fast due to word of mouth. Companies following them might need to avoid large scope of products and focus on niche areas.

3.3 Disadvantages

The subscription business model is based on contracts. The fact that some potential customers are afraid of contracts and obligations can make them reluctant to try and subscribe to new service. Customers are afraid to be charged for products they no longer like or forgot to unsubscribe. The fear of contacts can be overcome by letting customers pay in advance and only for a certain amount of months, avoiding undesired charges in the future.

Maintaining value of a monthly box can be a challenge, because repetitive products or brands will soon get customers bored and unsubscribed. Failure to find balance between delivering favorite customers' brand on a regular basis and giving repetitive impression can result in substantial customer loss.

Tools for increasing each customer's value are scarce comparing to transaction-by-transaction retailers and are often limited to decreasing the subscription box cost price and increasing number of customers.

Subscription business model is adopted by a growing number of companies which results in competition and over-saturation of the market. Subscription commerce boom was followed by appearance of tools available in the Internet, which let anyone set up a subscription box business very fast. This means a low entry barrier and pushes any company involved into subscription commerce to be more competitive and seek unique value proposition they can provide.

3.4 Drivers of profitability

A key driver of profitability in subscription commerce is retaining customers and minimizing subscription cancellations. This is especially important for companies which rely on subscription model as their core business model and not just an additional service. A longer average subscription means greater customer lifetime value and lower acquisition cost per customer.

Cost of customer acquisition is a vital driver of profitability and in case of subscription business model it can be lowered through the word of mouth, celebrity endorsement (especially popular is sending a monthly box to a video blogger and letting him or her review it in the next video, thus immediately reaching wide audience for a cost of just one subscription box). Creating a viral video can take some time and effort, but pays off by promoting subscription business among great audience worldwide, attracting customers from abroad. Novelty of subscription business model itself can attract customers and help to spread the word of mouth.

Another key driver of subscription commerce profitability is that a subscription box may partly or entirely contain product samples, which are supplied by vendors for free or for a very low cost.

3.5 Trends

The main trend in subscription commerce is a fast expansion of this business model. Many existing companies proceed to adopt this kind of service to enhance sales, acquire returning customers and raise company publicity. Other businesses are built entirely around subscription business models. Customers get used to the idea of receiving monthly box of surprises and go as far as getting several different subscriptions. Larger and older companies are oriented into wide and general areas of products (foods, cosmetics, liquor, stationery, etc. and include vast variety of products) while newer and smaller subscription businesses strive to fill a small specific niche (bacon, Cape Cod souvenirs, rare pumpkin products, etc.). Finding out and meeting customers' expectations, wants and needs is vital for retaining subscribers.

Subscription commerce inspired a range of dedicated software platforms built by software developers solely for the purpose of the subscription services. Such platforms are affordable, versatile and easy to use. Each such platform includes three key components: a website with a shopping cart, a recurring billing management system and a payment gateway. Many platforms also include analytics instruments which are vital for planning and marketing.

Another trend is that some companies stop using subscription business model. For example, ShoeDazzle started as subscription business allowing its subscribers to get any item from the website for monthly payment of \$39.95. Now ShoeDazzle reached 10 million members and decided to allow anyone to buy from the website in any amount without any subscription.

4 BUSINESS MODEL CANVAS

A Business Model Canvas is a useful tool for describing, analyzing, and designing business models. It was developed and popularized by the book *Business Model Generation* (Stickdorn 2010, 208) and its authors Alexander Osterwalder and Yves Pigneur.

A business model describes the rationale of how an organization creates, delivers, and captures value. (Osterwalder & Pigneur 2010, 14) A business model can best be described through nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems. (Osterwalder & Pigneur 2010, 15) Osterwalder and Pigneur use a business canvas as a blueprint to sort out the nine building blocks of a business model and establish connections between them.

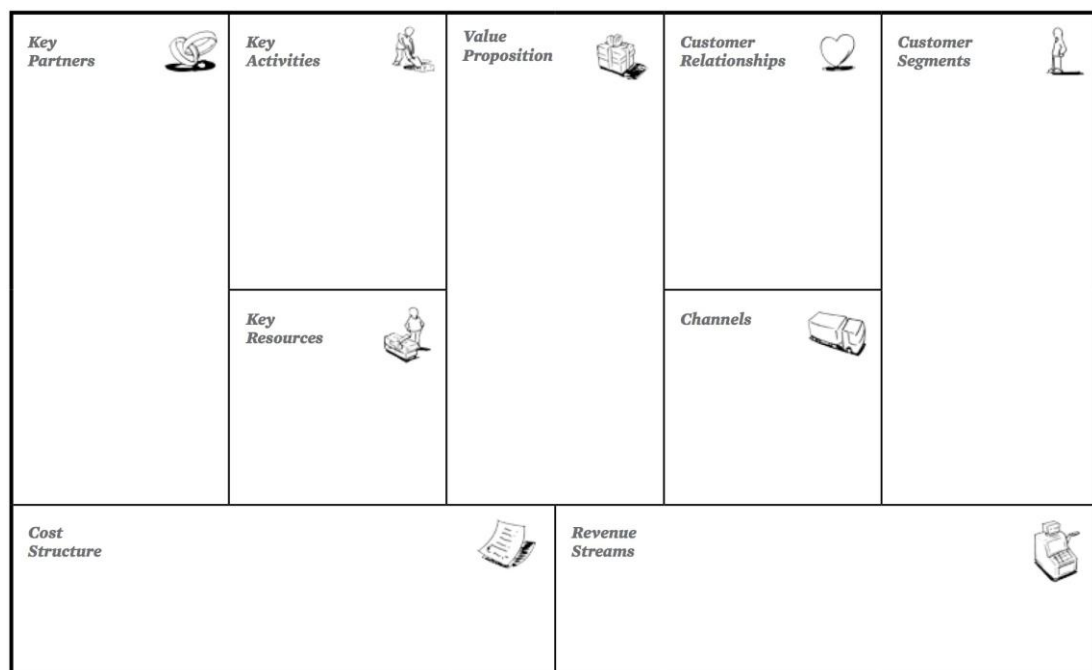


Figure 1. Business model canvas

4.1 Key Partnerships

The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work. (Osterwalder & Pigneur 2010, 38) Key partnerships of companies always vary by industry and in case of eco, organic and animal friendly products these are buyer-supplier relationships to assure reliable supplies. The case company already has established connections with existing suppliers and a long history of cooperation. Implementing a subscription service will expand the partner circle and present new key partners.

4.2 Key Activities

The Key Activities Building Block describes the most important things a company must do to make its business model work. (Osterwalder & Pigneur 2010, 37) The main key activity of subscription commerce is problem solving. Customers' problems which can be solved by subscription business model include replenishing of regularly used products, getting goods at certain time, paying a reasonable (and reoccurring) price for greater value, creating and delivering gifts, trying out new products and brands which can be otherwise unavailable in regular stores.

4.3 Key Resources

The Key Resources Building Block describes the most important assets required to make a business model work. (Osterwalder & Pigneur 2010, 34) The key resources are represented by human and intellectual resources. Curating and assembling a subscription box, delivering value which exceed the price, keeping customers not only satisfied with a received box but also excited about the next one, and monitoring new brands requires a lot of effort and creativity. Personnel can have a major effect on how customers experience the provided service, therefore it is recommended to devote effort to training and motivating staff. (Lovelock 2007, 25)

4.4 Value Proposition

The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment. The Value Proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. (Osterwalder & Pigneur 2010, 23) Value in subscription business model is based on accessibility and a reasonable recurring price. Accessibility is provided by convenient and simple online subscription and a reasonable price can be determined by research among existing and potential customers of the case company and providing value which exceeds the price. Unique value proposition is what allows to stand out from growing competition and includes also balanced contents of a subscription box (to satisfy maximum customers by delivering the kind of products they want and brands they are interested in), the effect of surprise and novelty, convenient delivery frequency, possible individualization, additional options like using a subscription box as a present to someone else, etc.

4.5 Customer Relationships

The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments. (Osterwalder & Pigneur 2010, 28) Customer relationships in the subscription business model are driven by customer acquisition and customer retention and rely on automation and self-service in order to decrease costs. Encouraging and analyzing feedback is another vital part. Developed customer relationships in the subscription business model are promoted by the nature of subscription itself – customers remain customers not just for a brief moment of purchase, but at least for a month or often half a year. This allows a company to study their customers better, get more feedback, build and support customers' community and inspire commitment. The commitment exists and survives when the customer considers the relationship to be important. Commitment has a significant influence on customers' behavioral intentions online; committed customer recommends online service to other customers and friends and give positive word of mouth about services. (Noor 2012, 285)

4.6 Channels

The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. Communication, distribution, and sales Channels comprise a company's interface with customers. (Osterwalder & Pigneur 2010, 26) The channel in a subscription business model canvas is a website and possibly a mobile phone and tablet application. A website or an application should be easy and convenient to use, provide information about the subscription box contents, highlight the promise of the value exceeding the price, and offer maximum payment options.

4.7 Customer Segments

The Customers Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve. (Osterwalder & Pigneur 2010, 20) Customer segments in subscription business mode canvas are represented by the mass market which is targeted by the majority of companies in order to build a large customer base and generate significant recurring revenue, and the niche market, where fewer companies focus by offering a certain kinds of products of a certain quality. Unlike the mass market oriented companies, niche market focused companies' activities are not based on price competition.

4.8 Cost Structure

The Cost Structure describes all costs incurred to operate a business model. (Osterwalder & Pigneur 2010, 40) The subscription business model has significant fixed costs including capital investment, marketing, supply chain management, packaging, delivery, etc., and little to no variable cost for every additional customer, providing sufficient economies of scale to expand company's business.

4.9 Revenue Streams

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment. (Osterwalder & Pigneur 2010, 30) The revenue streams in the subscription business model are represented solely by recurring payments made by customers, which makes keeping the number of unsubscribed customers to a minimum a key success factor.

4.10 Subscription business model canvas

The nine block of the subscription business model united result in a subscription business model canvas. The canvas gives an overview for the business model and serves as a base for designing the optimal value proposition.

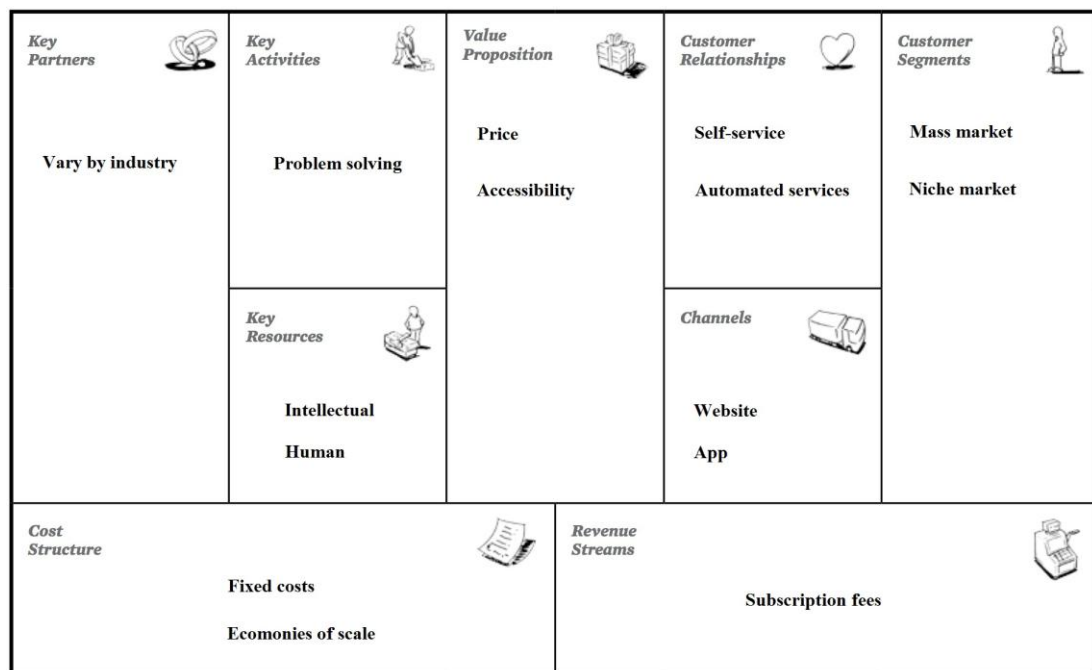


Figure 2. Subscription business model canvas

5 VALUE PROPOSITION DESIGN

5.1 Introduction

When the product service systems or service-product hybrids are developed it's not only about what kind of services are co-created with users but also about what the service's role is within the organization's business model. When designed and considered well, the product service systems and service-product hybrids detailed here can make key contributions to the overall value proposition and desirability of the products offered by an organization. (Stickdorn 2010, 61) A unique value proposition is what allows a company to stand out from competition and in case of subscription commerce – to attract and keep maximum subscribers.

Jason Fried and David Heinemeier Hansson (Fried & Heinemeier Hansson 2010, 138) spoke about standing out of competition in their book *Rework: There is a great way to protect yourself from copycats: Make you part of your product or service. Inject what's unique about the way you think into what you sell. Decommoditize your product. Make it something no one else can offer.*

An optimal value proposition design will let the case company to unfold the potential of subscription business model in the area of eco, organic and animal friendly products in Finland.

5.2 Value proposition canvas

Value proposition design process was best described by Alex Osterwalder and Yves Pigneur in their book "Value Proposition Design". The design process is based on business model canvas and has own canvas integrated into it. The Value Proposition Canvas has two sides. With the Customer Profile you clarify your customer understanding. With the Value Map you describe how you intend to create value for that customer. You achieve Fit between the two when one meets the other. (Osterwalder & Pigneur 2014, 67)

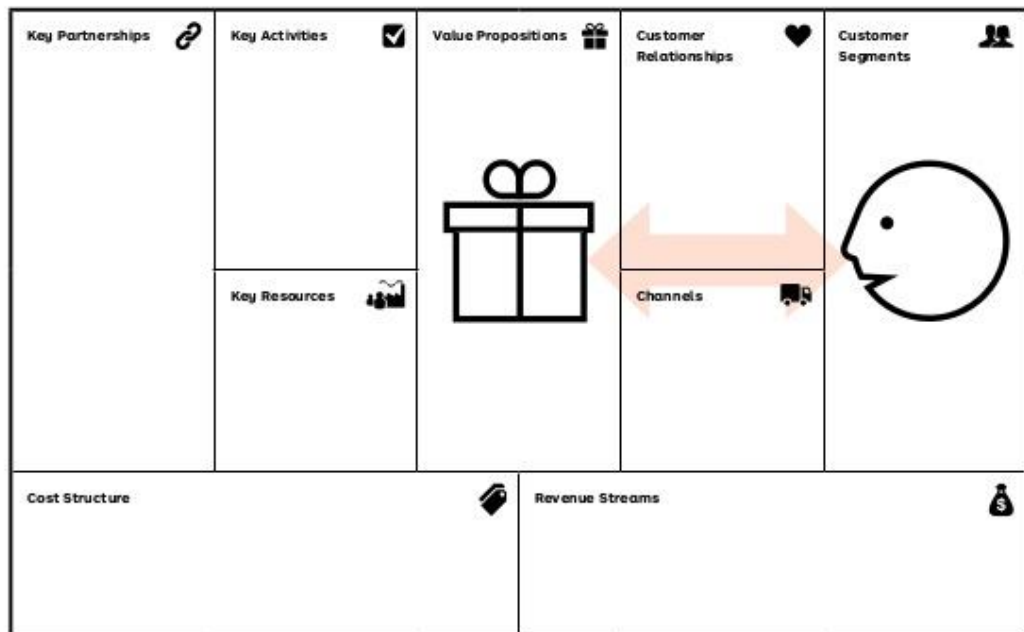


Figure 3. Fit

A value proposition is designed by a company to attract more customers and includes the set of value proposition benefits, while customer profile design is based on customer characteristics which are assumed, observed and verified in the market.

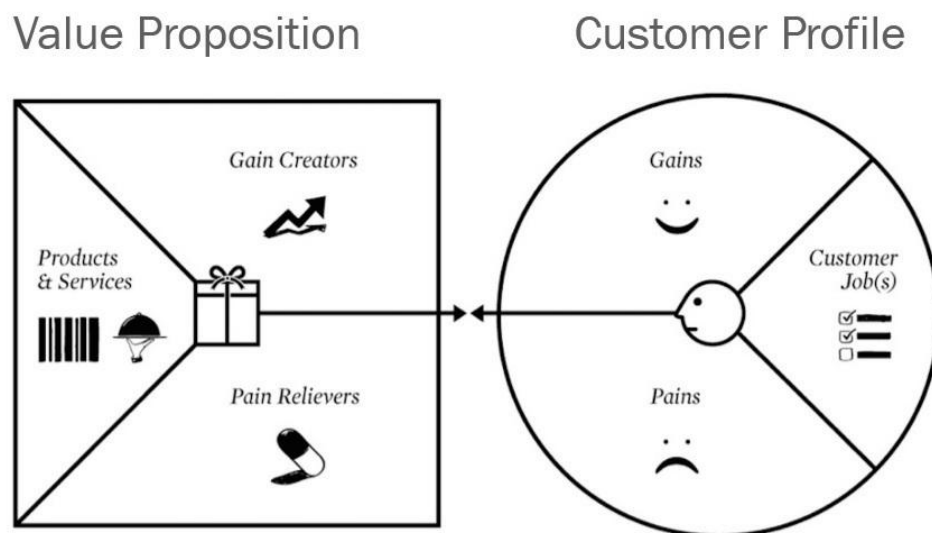


Figure 4. Value proposition and customer profile

5.3 Optimal value proposition design

Value Proposition breaks into three blocks which contain answers to customers' problems. This allows to break the main research question (what is the optimal value proposition design of the subscription business model for the case company?) into sub-questions for better understanding of the subscription business model potential in the area of eco, organic and animal friendly products in Finland, which is the objective of this research.

Gain creators describe how products and services create customers gains. Gains describe the outcomes and benefits customer want. Some gains are required, expected, or desired by customers, and some surprise them. (Osterwalder & Pigneur 2014, 88) Gains of the customers of a subscription service include reasonable pricing with the value of the subscription box exceeding the price. This poses a questions in this survey:

- What price of subscription box suits you most?

Trying out new products in new ways is another customer gain in subscription business model with the next question concerning novelty of the subscriptions box in Finland and is aimed to measure the awareness of such concept in Finland:

- Have you heard before about subscription boxes?

Products and services block focuses of doing customers' jobs as a part of value proposition design and lists all the products and services a value proposition is built around. Jobs describe the things customers are trying to get done in their work or in their life. A customer job can be the tasks they are trying to perform and complete, the problems they are trying to solve, or the needs they are trying to satisfy. (Osterwalder & Pigneur 2014, 79) Customers' jobs in the subscriptions business model include replenishment of regularly used products and trying out new products. This poses a question about product ratio in the subscription box which would appeal to most customers of the case company, both existing and potential:

- What products are you most interested in?

Pains describe anything that annoys your customers before, during, and after trying to get a job done or simply prevents them from getting a job done. (Osterwalder & Pigneur 2014, 84) Pain relievers describe how products and services alleviate customer pains. Case company's customer pains which can be relieved by the subscription business model include repetitive ordering, which poses a question about optimal frequency of the subscription box delivery:

- How often would you like to receive your subscription box?

Another customer pain includes inability of a customer to devote time and efforts to choose or create a gift for someone else and to deliver it personally. This research includes also a question aimed to find out the demand for ordering and delivering the box to someone else:

- Would you like to order a subscription box as a surprise present to be delivered to your friend or relative?

Answers to these sub-questions will allow to create Fit between the Value Proposition and Customer Profile. Striving for Fit is the essence of value proposition design. (Osterwalder & Pigneur 2014, 161) Fit is what creates the optimal value proposition design and will help to unfold the potential of subscription business model in the area of eco, organic and animal friendly products in Finland.

6 DATA GATHERING AND ANALYSIS

6.1 Data gathering objectives

The main objective of the data gathering for this thesis is to shape the subscription business model to fit best into Finnish market and unfold its potential by meeting

customers' wants, needs and possibilities though designing the optimal value proposition design. Data gathering process was conducted in a form of a questionnaire and targeted main variables in subscription commerce, such as frequency of delivery, product ratio, purpose of ordering (for oneself or as a present to someone else), and price. One of the main objectives is to measure responders' awareness of subscription commerce and find out if they already have some subscription for monthly boxes.

6.2 Questionnaire

A survey requires a sampling technique in order to get the most relevant results. The main population's characteristic of subscription boxes' users include computer literacy and ability to be contacted via email. The need to restrain population sample in order to get the most relevant results implies non-probability, judgmental sampling.

Non-probability sampling is a sampling technique where the samples are gathered in a process that does not give all the individuals in the population equal chances of being selected... Judgmental sampling is more commonly known as purposive sampling. In this type of sampling, subjects are chosen to be part of the sample with a specific purpose in mind. With judgmental sampling, the researcher believes that some subjects are more fit for the research compared to other individuals. This is the reason why they are purposively chosen as subjects. (Website of the Explorable 2009) It was decided to conduct a survey for this thesis in a form of self-administered internet-mediated questionnaire. Such form of a survey possesses attributes which are crucial for this thesis' case making an online questionnaire the optimal solution in getting relevant results.

Computer literacy and ability to be contacted via email are crucial characteristics of the population sample in this research. Another important attribute of the population sample is confidence that the right person has responded, which is high in case of using email. The case company sends a monthly newsletter to its customers and decided to include this survey into one of the letters, allowing to target existing

customers precisely. As for potential customers, this attribute may be a bit lower, because an Internet-mediated questionnaire is geographically dispersed and though the research targeted only people currently residing in Finland, few non-residents might have responded as well.

Internet-mediated questionnaire has large sample size and is fast to be made reachable by potential responders. Large size of sample is balanced though by variable response rate, 30% reasonable within organizations / via Intranet, 11% or lower using Internet. (Saunders 2009, 364)

The length of the questionnaire did not exceed one page in order to increase convenience for responders and response rate. Time required for completing the questionnaire was no more than few minutes, time taken to complete data collection was three days.

6.3 Data gathering tool

There are many tools available for data gathering. Google forms suited best for this thesis research, because of several crucial attributes. Firstly, it provided possibility to run a self-administered internet-mediated questionnaire for free. Secondly, it allows to change design and layout to make a questionnaire more appealing for responders and keep the case company identity (the logo of Ekolo Oy was added into upper part of the questionnaire form, on the foreground of a neutral picture provided by Google Forms). Thirdly, Google Forms allows to see responses immediately and automatically organizes them into tables in Excel sheets, which reduced a chance of mistake in results' calculations to zero.

6.4 Results

The questionnaire was sent to existing customers inside the case company's monthly newsletter, while the questionnaire for potential customers was published in social media. 274 responses were received in total, of which 39 from existing and 235 of potential customers of the case company.

Existing customers		Potential customers	
Finnish	English	Finnish	English
39	X	207	28
		Total from potential customers: 235	
Total: 275			

Figure 5. Number of responses

The questionnaire included 5 questions.

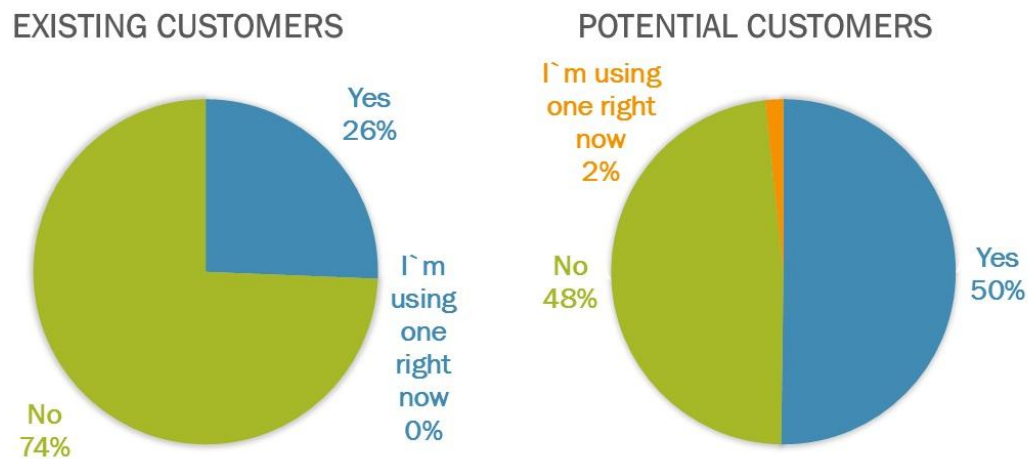


Figure 6. Response percentage from the survey question: Have you heard before about subscription boxes?

The only significant difference between existing and potential customers was awareness of subscription commerce in a form of a monthly box. 74% of existing customer have never heard about it and 0% had subscribed before to a familiar service. At the same time, 50% of potential customers have knowledge about subscription box and 2% are using one at the moment. This demonstrates the need to educate customers about such service and demonstrate advantages compared to overseas subscriptions.

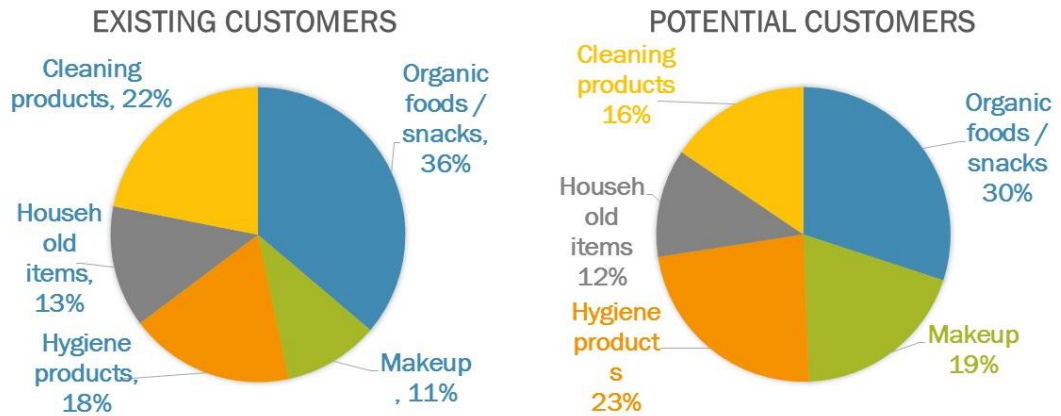


Figure 7. Response percentage from the survey question: What eco products are you most interested in? (multiple choice)

The ratio of interest in certain products was almost the same in both groups resulting in 36% for existing and 30% for potential customers, putting organic foods and snacks on the first place. It is followed by hygiene products, which 18% of existing and 23% of potential customers want to see inside their monthly box. Familiar results demonstrated cleaning products: 22% of existing and 16% of potential customers want them. Only 11% of existing customers want makeup products to be included, while 19% of potential customers are interested in it. Household items attract least customers but still this category is fairly represented: 13% of existing and 12% of potential customers.

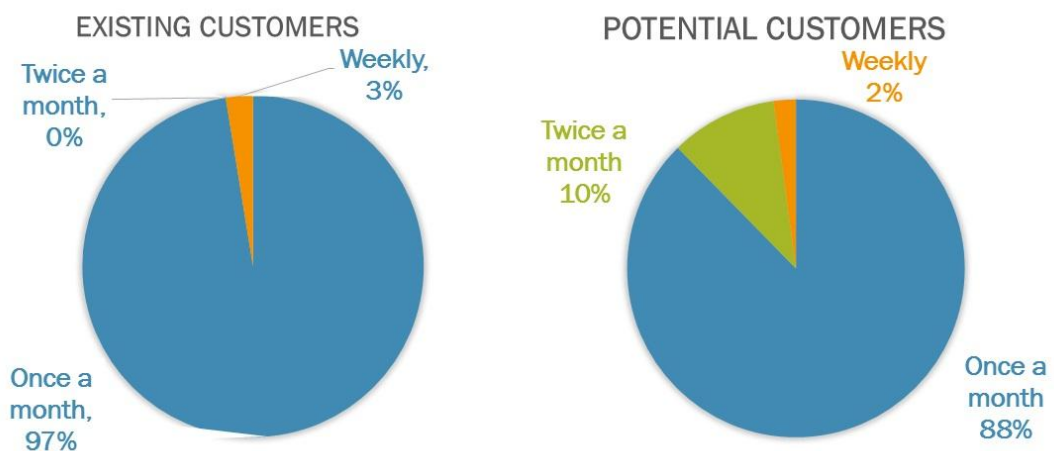


Figure 8. Response percentage from the survey question: How often would you like to receive your subscription box?

Results of the survey clearly state that the overwhelming majority of responder prefers to receive their subscription box once a month with 97% of existing and 88% of potential customers supporting this frequency of delivery. Yet 10% of potential customers would like to receive their subscription box twice a month and only 3% existing customers and 2% potential customers would prefer weekly delivery.

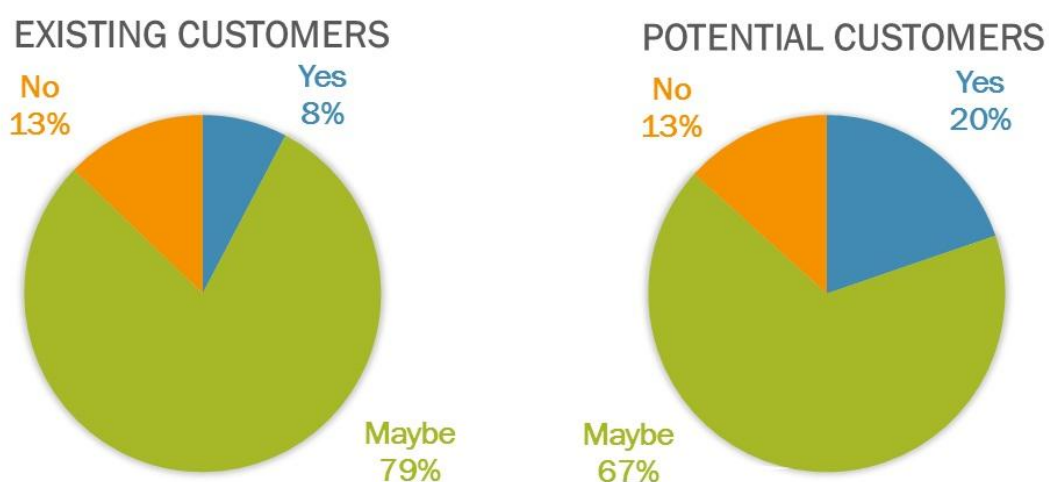


Figure 9. Response percentage from the survey question: Would you like to order a subscription box as a surprise present to be delivered for your friend or relative?

A great majority of respondents are open to the idea of ordering a subscription box to someone else as a present. 8% of existing and 20% of potential customers are ready to do it and 13% of existing and 13% of potential customers do not want to order subscription box to someone else other than themselves.



Figure 10. Response percentage from the survey question: What price of subscription box suits you most? (value of the box is always bigger than price!)

Most respondents prefer a price of €20 for a subscription box – 67% of existing and 78% of potential customers. A substantial part of respondents prefer a price of €30 – 28% of existing and 20% of potential customers. Only 2% in both categories chose a price of €40 and only 3% of existing customers are open to the price of €50 while almost 0% of potential customers are ready to pay that price.

6.5 Analysis

Summarizing the results of this survey from both existing and potential customers, we can see what an optimal subscription box should be in order to unfold the subscription business model potential in the area of eco, organic and animal friendly products in Finland.

Low awareness of subscription business model among existing and potential customers requires the case company Ekolo Oy to put emphasis on marketing and customer education. Low awareness also points out novelty of subscription commerce to Finnish market, which gives Ekolo Oy an advantage of seizing a greater market share, effectively use word of mouth and acquire greater number of new customers with a potential to become returning and loyal customers.

Analysis of what product groups customers want to see inside a subscription box yielded familiar results for existing and potential customers. Average product ratio looks as follows:

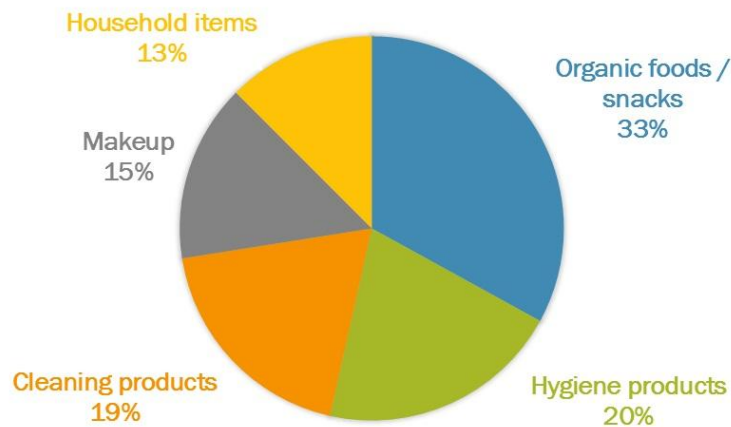


Figure 11. Product ratio built by combining responses from existing and potential customers to the survey question: What eco products are you most interested in? (multiple choice).

The main focus should be on organic foods and snacks with average of 33% of a subscription box contents. Hygiene products should take around 20% and almost same volume should be taken by cleaning products – 19%. Makeup products should represent 15% of a subscription box content and 13% - household items.

This is an ideal average box contents ratio to which Ekolo Oy should aspire when launching its subscription service to reach better results in meeting customers' wants and needs. In order to improve customer satisfaction, Ekolo Oy can introduce personalized customer profile where a customer can express expectations of his or her next box, allowing Ekolo Oy to curate it personally for him or her. In order to make process of individualization simpler, Ekolo Oy can arrange customers into groups with familiar interests and wants. Such individual approach and responsiveness to customers' feedback will enhance the potential of subscription business model in the area of eco, organic and animal friendly products and get Ekolo Oy more loyal customers.

The overwhelming majority of responders want to receive their subscription box once a month. It's the most popular frequency of delivery in subscription commerce and can suit well Ekolo Oy as it allows enough time to prepare subscription boxes for its customers. 10% of potential customers prefer to receive a subscription box twice a month and this demand can be met on special occasions like time around Christmas and Juhannus, or any other important holiday during which Ekolo Oy can deliver extra box. This extra box can be ordered by customer to someone else as a present, it can be just extra box to oneself but in any case it will help to improve and maintain customer relationship.

Potential of the subscription business model in the area of eco, organic and animal friendly products in Finland lies not only in receiving a monthly box, but also in ordering it for someone else. This survey clearly shows that around 70% of respondents are open to this idea and 13% are sure that they want to use their subscription is such a way. This data gives Ekolo Oy an opportunity to market their subscription service with such idea in mind. This will allow to stand out from competition and provide greater value for customers.

Most respondents chose price of €20 and €30. Ekolo Oy can use this knowledge and charge an average price of €25 for a subscription box. To gain flexibility in pricing, Ekolo Oy can develop a range of different boxes with different value and price to satisfy more customers and increase revenue. Potential customers to whom existing monthly price seems too high can be offered a discount in exchange for a longer subscription.

Integration of the results into Value Proposition Canvas as a part of the Business Model Canvas demonstrates the optimal value proposition design for the case company to unfold the potential of the subscription business model in the area of eco, organic and animal friendly products in Finland.

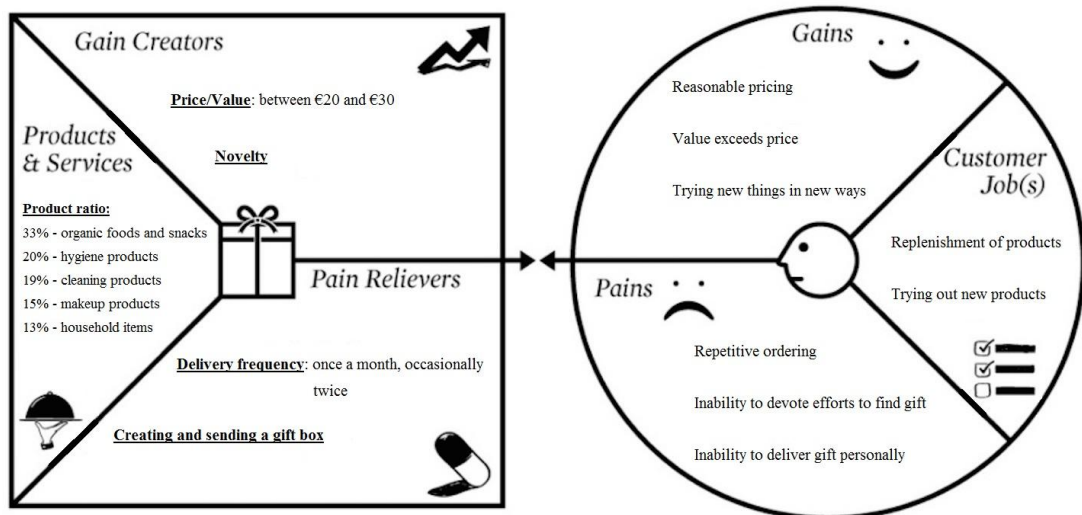


Figure 12. The optimal value proposition design

6.6 Suggestions to the case company

The subscription business model in the area of eco, organic and animal friendly products in Finland has a significant potential and demand. In order to unfold this business model's potential, Ekolo Oy can use data from this research in order to shape an optimal subscription service for its customers, both existing and potential ones.

Wide audience and novelty of the subscription business model in the area of eco, organic and animal friendly products in Finland can serve as a strong base in initial implementation of the model. Ekolo Oy can surpass growing competition and offer more value to customers if it eventually implements personalized profiles for subscribers and puts effort in getting customer feedback. Option of sending a subscription box to someone other than the subscriber will find a positive response in Finnish market.

Finland has a strong vegan community which is constantly growing. During this research Finnish vegan communities demonstrated genuine interest in the idea of a monthly subscription box with eco, organic and animal friendly products inside. The questionnaire got massive response and sparked many discussions, where potential customers expressed their thoughts and welcomed the idea of implementation of the

monthly box. My suggestion for Ekolo Oy would be to keep connected with such communities as they are primary source of new customers, generate word of mouth and have a potential to turn from customer base into customer audience.

Getting longer subscriptions from customers is vital in revenue and order predictability and can be increased by introducing discount entry points: free first month or lower price for total amount of ordered subscription boxes.

Another suggestion would be to create a subscription service with an option of using the English language. While most potential customers of the subscription service of Ekolo Oy are Finnish, there are many English-speaking residents in Finland and some of them responded to English version of the questionnaire. This shows a potential to attract more customers and stand out of competition.

The survey in this research demonstrated, that significant potential of the subscription business model in the area of eco, organic and animal friendly products in Finland can be used by Ekolo Oy to attract more customers and increase revenue.

7 CONCLUSION

The market of a subscription box is booming in USA and OK and is becoming a new way of distribution and selling products. The subscription business model can be applied in various areas like food, fashion, hobbies, etc. and meet different customers' interests as well as solve their problems and relieve pains. The surprise effect attracts customers and keeps them subscribed, vendors supply a subscription box with products for a low price or even free and thus reach a wide customer base and increase brand publicity. A company can build a customer audience around a subscription service, get more feedback and increase the number of returning and loyal customers.

The subscription box market is very profitable and attracts new customers, while being fragmented and characterized by a low entry barrier. A strong competition makes value proposition design a vital component of the subscription business model which allows to stand out of competition and seize a greater market share.

The purpose of this thesis was to create understanding of the subscription business model potential in the area of eco, organic and animal friendly products in Finland. After observation and studying the literature regarding the business model, value proposition and their elements, the outcome is the knowledge about demand and potential of the subscription business model, suggestions from the case company's existing and potential customers, and the optimal value proposition designed for the case company as an integral part of the subscription business model.



The survey in this research didn't focus on customer segmentation and I suggest that for another research. The research shows that the subscription business model in the area of eco, organic and animal friendly products in Finland has a potential and therefore future researches should perhaps focus on implementation issues in a longitudinal empirical research. Empirical longitudinal research on the subscription business model generation and transformation issues would increase understanding of this business model's potential. The findings in this research can be used when studying subscription commerce and subscription business model potential in similar industries.

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APPENDIX 1

Edit this form

Kysely asiakkaille

Kartoitamme parhaillamme uutta ideaa tilauslaatikko-palvelusta asiakkaillemme ja tarvitsemme mielipiteenne siitä, minkälainen palvelu kiinnostaisi teitä. Tarkoituksena on, että tilauslaatikon tilaajana saat kuukausittain paketin, jonka tuotteiden arvo on suurempi kuin hinta. Paketti voi sisältää hygieniatuotteita, pikkupurtavaa ja monia mukavia yllätyksiä. Tarvitsemme nyt mielipiteesi tehdäksemme tuotteesta täydellisen! Vastaamalla tähän yhden sivun kyselyyn saamme arvokasta tietoa siitä, kuinka voimme muokata tilauslaatikko-palvelusta toiveidenne mukaisen! Kyselyssä on viisi kysymystä ja aikaa vastaamiseen menee alle minuutti. Kiitämme sinua osallistumisesta kyselyyn!

Oletko kuullut ennen tilauslaatikosta?

Kyllä

Ei

Tilaan tällä hetkellä

Mistä ekotuotteista olet eniten kiinnostunut? (monivalinta)

Luomuelintarvikkeet / välipalat

Meikit

Hygieniatuotteet

Taloustavarat

Puhdistusaineet

Kuinka usein haluat vastaanottaa tilauslaatikon?

Kerran kuukaudessa

Kaksi kertaa kuukaudessa

Viikoittain

Haluaisitko tilata tilauslaatikon toimitettavaksi yllätyksenä ystävälle tai sukulaiselle?

Kyllä

Ehkä

En


Mikä hinta sopisi sinulle parhaiten? (Tilauslaatikon arvo on aina suurempi kuin hinta!)

20 €

30 €


40 €

50 €

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APPENDIX 2



ekokauppa
EKOLO
luomua, kasvisruokaa,
monimuotoisuutta

[Edit this form](#)

Questionnaire

We are currently mapping out a new idea of a subscription box to our customers and now we need your opinion on how to make it perfect for you! The idea is that as a subscription box subscriber you will receive a surprise box monthly containing our products - with a value greater than price! By answering this short questionnaire we will be able to create the perfect subscription box for you. Answering the questionnaire will take less than a minute. We thank you for taking the time to participate - let's together make the box perfect!

Have you heard before about subscription boxes?

- Yes
- No
- I'm using one right now

What eco products are you most interested in? (multiple choice)

- Organic foods / snacks
- Makeup
- Hygiene products
- Household items
- Cleaning products

How often would you like to receive your subscription box?


- Once a month
- Twice a month
- Weekly

Would you like to order a subscription box as a surprise present to be delivered for your friend or relative?

- Yes
- Maybe
- No

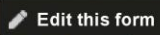
What price of subscription box suits you most? (value of the box is always bigger than price!)

- 20 €
- 30 €
- 40 €
- 50 €

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APPENDIX 3



Kysely

Hei! Kirjoitan opinnäytetyötä tilausliiketoimintamallista, joka käsittelee eko- ja eläinystävällisiä sekä orgaanisia tuotteita suomessa. Kehittelen ideaa tilauslaatikosta, jossa arvo, mysteerisyys ja yllätys ovat kaikki kaikessa!

Tarkoituksena on, että idean toteutuessa voit rekisteröityä tilauslaatikon tilaajaksi ja saada kuukausittain paketin, jonka tuotteiden arvo on suurempi kuin hinta. Paketti sisältää hygieniatuotteita, pikkupurtavaa ja monia mukavia yllätyksiä. Tarvitsemme nyt mielipiteesi tehdäksemme tuotteesta täydellisen. Ole ystävällinen ja vastaa tähän viisi kysymystä sisältävään kyselyyn ja anna meidän suunnitella tilauslaatikko-palvelu toiveidesi mukaiseksi!

Oletko kuullut ennen tilauslaatikosta?

- Kyllä
- Ei
- Tilaan tällä hetkellä

Mistä ekotuotteista olet eniten kiinnostunut? (monivalinta)

- Luomuelintarvikkeet / välipalat
- Meikit
- Hygieniatuotteet
- Taloustavarat
- Puhdistusaineet

Kuinka usein haluat vastaanottaa tilauslaatikon?

- Kerran kuukaudessa
- Kaksi kertaa kuukaudessa
- Viikoittain

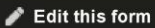
Haluaisitko tilata tilauslaatikon toimitettavaksi yllätyksenä ystävälle tai sukulaiselle?

- Kyllä
- Ehkä
- En

Mikä hinta sopisi sinulle parhaiten? (Tilauslaatikon arvo on aina suurempi kuin hinta!)

- 20 €
- 30 €
- 40 €
- 50 €

APPENDIX 4



Questionnaire

Hello! I'm writing my thesis about subscription business model in the area of eco, organic and animal friendly products in Finland.

I'm testing an idea of subscription box - all about value, mystery and surprise! You can subscribe to receive a special box each month with products for value bigger than price. Inside you may find beauty and hygiene products, snacks, and many other nice surprises. I need your opinion to make this box perfect! Please answer this short five-question survey and help to design the perfect subscription box for you!

Have you heard before about subscription boxes?

- Yes
- No
- I'm using one right now

What eco products are you most interested in? (multiple choice)

- Organic foods / snacks
- Makeup
- Hygiene products
- Household items
- Cleaning products

How often would you like to receive your subscription box?

- Once a month
- Twice a month
- Weekly

Would you like to order a subscription box as a surprise present to be delivered for your friend or relative?

- Yes
- Maybe
- No

What price of subscription box suits you most? (value of the box is always bigger than price!)

- 20 €
- 30 €
- 40 €
- 50 €