A business model approach to Web 2.0

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Abstract

This thesis investigates and offers insides on how businesses can monetize elements of Web 2.0. Further, the thesis is focused on the combination of Web 2.0 elements with conventional commerce.

Despite the increasing interest in Web 2.0, the main discussion in scientific literature is on the technical side. Web 2.0 however facilitates new ways of interacting, communicating and doing business. The thesis reviews exiting and acknowledged theory on the study of Web 2.0. The theory on Web 2.0 is used in order to build the fundament of the research and develops an understanding of the phenomenon of Web 2.0. A contribution is made to the theoretical and conceptual groundwork of Web 2.0.

As the analysis of how to monetize Web 2.0 further requires a fundamental logic of how to generate profits, the thesis studies business models. Despite the increasing interest in business models, the research is at a relatively early stage. In turn the thesis contributes further to the study. The thesis develops a theoretical framework in order to utilize the existing theory.

Additionally, the thesis integrates the studies on Web 2.0 and business models. The thesis develops a categorization of different Web 2.0 business models. Based on the framework as well as casual relationships and variables found in the existing theory, the thesis progresses a hypothesis in the form of a business model proposition.

Subsequently the adequacy of the framework is tested as means to explain the findings. The thesis uses a case study on the daily deal business model to test the hypothesis and contribute to the practical and theoretical understanding of how to monetize Web 2.0.

Finally the thesis concludes the following: Combining elements of commerce with Web 2.0 generates great potential for its monetization. Crowdsourcing and user generated content can leverage the customer relationship and support the segmentation. Further, social networks and applications are of great value to the distribution channel. As Web 2.0 treats the users as co-developers and relies on various affiliate models, business models gain from their partnership network. Businesses can use Web 2.0 for their core capabilities as well as for the value configuration. User generated content, crowdsourcing and network effects can further decrease the operating costs. Business can generate various revenue streams out of Web 2.0. As businesses integrate Web 2.0 elements successfully across all sectors of their business model, they can create a value proposition. The business can in turn commercialize this value proposition in order to monetize the elements of Web 2.0.

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1   Introduction and research design

1.1   Introduction

After the dot-com bubble bursted in 2001, many people concluded that the web was overhyped. However, the bubble and the consequent shakeouts marked a turning point for the web. Shakeouts are common for all technological revolutions and typically define the point at which a prevalent technology is taking over. Successful businesses show their strength and their separation develops an understanding of what distinguishes successful business models from unsuccessful ones.

Web 2.0 provides many possibilities for all types of organizations. The revolution of Web 2.0 comes with new ways of doing business, revolutionizing established principles of business and enabling entirely new business models.

This chapter is dedicated to the introduction and research design of the thesis. Firstly the scope and problem formulation of the thesis are laid out. Consequently, the aims and objective of the research as well as the research strategy are illustrated.

1.2   Scope and problem formulation

Short product life circles, global markets and tough competition shape the hostile business environment on the web. The competitive, rapidly changing and increasingly uncertain environment of the web resolves in complex and difficult business decisions. Nevertheless, new information and communication technologies offer organizations alternative ways of doing business and generate profits.

Web 2.0 is often discussed in the media. Currently the main discussion is on the technical side. Despite the potential to commercialize Web 2.0 there is a deficit in the understanding of how these elements can be turned into a profitable business model. Consequently there is a great demand for researchers to analyze the business side of Web 2.0.

The previous described development led to the following Research Question: *How can businesses monetize elements of Web 2.0?*

The complexity of the research question needs however a more narrow focus in order to develop an accurate understanding as well as practical significance. Further, there is a great potential for businesses to combine Web 2.0 with conventional elements of commerce. The thesis focuses hence on the monetization of Web 2.0 elements, which are combined with traditional commerce.

1.1 Aims and objectives of the research

Initially the thesis aims to offer insides on how businesses can capitalize out of Web 2.0. In that regard, the thesis seeks to reach clarification and develop a fundamental understanding of the phenomenon of Web 2.0. The thesis aims to contribute to the theoretical and conceptual groundwork of Web 2.0. As the analysis of how Web 2.0 can be monetized further requires a fundamental logic of how to generate profits, the thesis aims to develop knowledge about business models. The research on business models however is at a relatively early stage. In turn the thesis seeks to contribute further to the study. Additionally, the thesis aims to integrate Web 2.0 and business models. Consequently, the thesis seeks to answer the research question and contribute to the practical and theoretical understanding of how business can monetize elements of Web 2.0.

1.2 Research strategy

Based on the previously stated research question, the thesis develops a theoretical framework which is in turn used to analyze the research question. The thesis starts with a literature review to describe the phenomenon of Web 2.0. In the following the thesis studies business models, based on carefully selected and acknowledged literature. The thesis analyzes the key elements of business models and their interlinked relationship. Further the thesis elaborates the place, role and use of business models. Consequently, the study on business models serves as a theoretical framework for the study. Based on the literature review the thesis states casual relationships between Web 2.0 and business models. The framework serves as a basis for deducting a hypothesis in the form of a business model proposition. In order to answer the research question as well as empirically test the hypothesis the findings are applied using a case study.

The following paragraph clarifies the research philosophy as well as the chosen methodology. Afterwards, the data gathering method and the organization of the thesis is mapped out.

1.2.1 Research philosophy and methodology

The first part of this chapter acknowledges Johnson and Clark (2006) and is dedicated to the philosophical commitments made through the choice of the research strategy.

The research philosophy for this thesis is a mixture of interpretivism and realism. Rich insights into the complexity of the situation are lost, if such complexity is reduced entirely to a series of law-like generalizations. Inerpretivism seeks to understand the subjective reality and meanings of participants in a social phenomenon. The approach of an interpretivist is to understand business situations as complex and unique which are a function of a particular set

of circumstances and individuals. Realism seeks to understand if objects exist independently of our knowledge of their existence. The essence of realism is defined as; what the senses show us as reality is the truth. Furthermore, objects have an existence independent of the human mind. The philosophical position is that there is a reality independent of the human mind. (Saunders, Lewis, Thornhill, 2009, pp.114-116).

Regarding the research process, the thesis is an explanatory study using the deductive approach. Explanatory research amounts to the study of causal relationships between variables in order to unravel complicated entanglements. Hence in this thesis, theoretical propositions are laid out prior to the data collection. The thesis reviews exiting and acknowledged theory in the form of a literature review on Web 2.0 and business models. The existing theory is used in order to build the fundament of the research. Additionally, behavioral variables concerning the use of Web 2.0 as well as their monetization will be analyzed. The method used in this thesis is the approach of a business model concept. The thesis predicts patterns of outcomes based on theoretical proportions to explain the expected findings.

Additionally the thesis develops a theoretical framework in order to utilize the existing theory. Based on the framework as well as casual relationships and variables found in the existing theory, the thesis progresses a hypothesis in the form of a business model proposition. Subsequently the adequacy of the framework is tested as means to explain the findings. The thesis uses a case study to test the hypothesis.

As a case study is a method of empirical investigation of a particular contemporary phenomenon within real life context, it is chosen as the most valid strategy. The choice of a single case of one business model, routes from the nature of the research and the significance of the chosen case. Furthermore, there is a strong relation of the research findings to existing theory. The business model is however used by various companies. Hence two companies based on the same business model are analyzed. The choice of non-standardized (qualitative) research interviews routes from the ability to collect a rich and detailed set of data. Furthermore the choice of face-to-face interviews adds to the context in which answers of the interviewee are stated.

Any choice of research methods has their advantages and disadvantages. However, the choice is a commitment to the quality of the research design. The researcher has to be aware of the consequences of the chosen methods.

A limitation to the thesis is the fact that the process of defining the term Web 2.0 is still ongoing and its boundaries are not clearly defined. Since Web 2.0 is a living process it is difficult to define the status quo. Technical aspects of Web 2.0 are left out of the thesis. Furthermore, the study of business models is a rather young research domain and it must still prove its relevancy in terms of contribution. Furthermore, the lack of standardization in semi-structured interviews leads to concerns about reliability and bias. However, due to the complex and dynamic environment of the research topic, the flexibility of semi-structured interviews enables the thesis to explore the complexity of the topic. In order to limit bias, the interviews where characterized by open questions and appropriate wording. Furthermore, questions where formulated in a neutral tone. Additionally, due to the fact that Web 2.0 is a dynamic and living phenomenon the non-standardized research methods reflect the time they where collected in, a situation that is subject to constant change. A replication of the findings is hence unrealistic.

Web 2.0 business models rely on vast amounts of different logics and combinations of several models. The choice of a single case bares many limitations concerned with representativeness and generalization. Furthermore, the qualitative nature of the research cannot be used to make generalizations. (Sounders, Lewis, Thornhill, 2009, pp. 318-353)

There are further several limitations in regard to the case study. Groupon was chosen due to its significance to the daily deal business model and the combination of Web 2.0 elements with traditional commerce. However, the company is currently filing for an Initial Public Offering and is hence currently obliged to a quiet period. Company officials are barred by regulation from discussing anything about the firm with outsiders. It is hence currently impossible to interview organizational members of Groupon. As only two interviews could be conducted, the thesis might further lack adequate scope. The thesis seeks to balance this limitation with secondary data interviews. Furthermore, the practical application of the business model might differ between daily deal business models. This constitutes as a limitation to the case and hence to the testing of the hypothesis.

1.2.2 Data gathering method

The approach used for the data collection for this thesis is data triangulation. The thesis is based on the collection and analysis of both secondary-, and primary data.

The list of secondary data includes scientific articles and books. Additionally non-scientific articles from the internet- and newspapers are included. Secondary data is mainly for the

literature review on Web 2.0 as well as the theoretical and conceptual background of business models.

The foundation of the case study is carefully selected primary and secondary data. The secondary data consists of written documents such as notices, minutes of meetings, reports to shareholders such as IPO prospectus, correspondence, transcripts of speeches and administrative and public, books, journal- magazine- and newspaper articles. Additionally financial reports and market statistics are used. Quantitative data comprises furthermore from data found in the organizational database of Copenhagen Business School, survey data supplied by Groupon as well as statistics. Furthermore, non-written, material such as voice and video recordings are used.

The primary data consists of qualitative and hence non-numeric data. Semi-structured interviews are used to answer questions for the case study concerned with what, how and why. Semi-structured interviews are conducted with a list of topics, which have to be covered. In the process of the interview, an informal conversational flow is maintained in order to foster a free flow of conversation as well as a feel of ease with the interviewees.

The data used for this thesis is critically evaluated before being included in the paper.

1.2.3 Organization of the thesis

Based on the previously described research strategy the following chapters progress as follows.

- **CH.2** • Chapter 2 analyzes the phenomenon of Web 2.0 and provides the groundwork for the thesis.

- **CH.3** • Chapter 3 studies business models and serves as a framework.

- **CH4** • Chapter 4 combines the findings of the previous chapters and concludes with a hypothesis in the form of a business model proposition.

- **CH.5** • Chapter 5 consits of a case study in order to test the hypothesis and answer the research question.

- **CH.6** • Chapter 6 provides the final conclusion. Further it provides a perspective and direction for further research.

Figure 1: Organization of the thesis

2 Web 2.0

The aim of this chapter is to analyze the phenomenon of Web 2.0. In order to answer the research question, this chapter will develop a fundamental understanding of Web 2.0. Thus, the chapter will begin with a historical background to give further reference to the context in which Web 2.0 needs to be seen. Thereafter the thesis will draw on the actual phenomenon of Web 2.0. Afterwards the thesis will define the term and ultimately the chapter will emphasize the main factors of Web 2.0. To clarify, this paragraph is divided in six subsections analyzing each factor in further detail.

2.1 Historical background of Web 2.0

Web 2.0 resolved after the bursting of the dot-com bubble in the fall of 2001 marking the end of Web 1.0. (Razmerita, Kirchner, Sudzina, 2009, p. 1026) Consequently, this development marked a turning point for the web. The general perception of the previous described events was that the web was overhyped. However, the bursting of bubbles and consequential shakeouts are a common feature of all technological revolutions.

The companies that had survived the bursting of the bubble seemed to have common features. (O'Reilly, 2005, p. 1) Those companies as well as the companies founded in the aftermath of the crash resemble the idea of Web 2.0. (Razmerita, Kirchner, Sudzina, 2009, p. 1026) The concept of "Web 2.0" began with a conference brainstorming session in October 2004, between O'Reilly and MediaLive International. Dale Dougherty, Vice President of O'Reilly Media, stated that instead of having "crashed", the web was going to be more important than ever.

2.2   The Web 2.0 phenomenon

Web 2.0 enables new approaches for the creation, management and distribution of knowledge. Web 2.0 introduces new concepts and tools bringing a more social aspect to the Internet. Social Networks such as Facebook and MySpace as well as applications such as Twitter and Skype, not only change how individuals interact and socialize, but the entire customer relationship. In the case of Wikis they even change the way knowledge is generated and distributed.

The transformation from the static nature of Web 1.0 to a Web where user generated content and share knowledge resembles the Web 2.0. The users of Web 2.0 tools are not only passive consumers of provided information but rather contribute actively to its content. (Razmerita, Kirchner, Sudzina, 2009, p. 1026)

The emergence of Web 2.0 does not correlate with a specific technical innovation. From a technical aspect, existing protocols and computer languages are simply combined in a new way. Nevertheless, a maturing of the fundamental technology, such as peer-to-peer technology, web-services, semantic web as well as new script language, enables the Web 2.0 communities. Communities based on file sharing for example are enabled by peer-to-peer technology. Web services and semantic web enables the integration and combination of different services and applications. Due to new script language, bandwidth efficient applications are enabled. The essence of this development is the reduction of exchanged data between the client and the server. As a result the user experience is significantly improved and applications are becoming user-friendly as well as user-centered. Hiding technical details and mark-up languages empowers even technical inexperienced users to create and edit content on the web. (Hoegg, Martignoni Meckel, Stanoevska- Slabeva, 2006, pp. 5-6)

The concept of software in the cloud has enabled many possibilities for small companies with only few resources. Startup companies based on Web 2.0 application are defined by exorbitant growth rates, using network effects not only to build user communities but also to

build and learn from their contributions. Web 2.0 applications encourage their users to participate and contribute to the content. When the user community grows, the application becomes more valuable. This development shows great possibilities for businesses to capitalize out of user generated content and implement crowdsourcing as a source of R&D. In the sense of Web 2.0, crowdsourcing resembles the collective work. The value of this work exceeds that provided by the individual participants. (Christopher, 2007, pp. 7-8)

Among others, the cause of this change can be shown by the following raw demographic and technological drivers: World wide, one billion people now have access to the Internet. Furthermore, nearly 50 percent of all U.S. Internet accesses are via constant available broadband connections. Additionally, mobile devices outnumber desktop computers by a factor of two. Those drivers are combined with the fundamental laws of social networks and lessons from the first decade of the Web. (Musser, O'Reilly, 2006, p. 4)

2.3   The term Web 2.0

At present, there is no exact scientific definition of the term Web 2.0. However, the term Web 2.0 resolved out of a brainstorming between Tim O'Reilly and Media Live International. Web 2.0 evolves around the following principles. The web and the network are used as a platform for application. Web 2.0 applications leverage the intrinsic motivation of the network. Updates in the form of scheduled new releases disappear within the Web 2.0 since services are continually improved and further developed. Data becomes the most valuable asset and hence database management is the core competency of Web 2.0 companies. Control of data can be the company's main competitive advantage. Harnessing collective intelligence as a form of crowdsourcing is a common source of how content is generated. Users are trusted as co-developers and the content gets hence more valuable the bigger the user community grows. Instead of selling software as a product, Web 2.0 companies offer it as a service and users pay either direct or indirect. Another feature of Web 2.0 is that applications are not limited to the PC as a platform as well as the fact that software is not platform specific. User interfaces are lightweight and can be snapped together and become mashable with other services. (O'Reilly, 2005, p.3)

Web 2.0 technologies include Wikis, Blogs, RSS Feeds, Aggregations, Mashups and Social Networks. Web 2.0 is however not limited to them. It has to be seen rather as a philosophy or trend instead of being associated with a specific technological standard. Maximizing collective intelligence is the objective of most Web 2.0 services. Collective intelligence is the knowledge that is distributed within a group. Collective intelligence adapts to changes in the

environment or general opinion. Web 2.0 applications try to maximize this knowledge by leveraging out of the participation of the individuals within the network. Formalizing the interaction between the users is characteristic for Web 2.0. Applications offer a platform for the users to interact. The application determines hence also the form of interaction within the network. The dynamic nature is characteristic for Web 2.0 services and therefore resembles an interactive development process. Information enrichment such as ratings influence the Web 2.0. The Spectrum of content considered as information is very broad and includes video, data and text. Content is in constant development and enriched through metadata, annotations and history. Transparent and sustainable provision as well as creation and sharing of information build the bases for Web 2.0. The provider of the application determines the format of information. Information is supposed to be shared amongst as many users as possible. Though, the way information is created and shared within Web 2.0 applications is one of its main distinguishing factors. (Hoegg, Martignoni Meckel, Stanoevska-Slabeva, 2006, pp 12-13)

In the following the term Web 2.0 will be understood as the business revolution in the computer industry using the web and the network as a platform for applications. Web 2.0 applications harness the principles of network effects, user participation, user generated content and crowdsourcing.

2.4 Main factors of Web 2.0

Web 2.0 combines economical, social, and technological trends that collectively form the basis for the next generation of the Internet. Web 2.0 is a more mature and distinctive medium of the web. Factors such as user participation, openness, and network effects characterize Web 2.0. (Musser, O'Reilly, 2006, p. 4) The following paragraphs will further analyze the main factors of Web 2.0 and help to gain more knowledge of the phenomenon.

2.4.1 The role of the user

A great attribute of Web 2.0 is user participation; web communities can help to further identify the phenomenon of Web 2.0. Web communities unify their users through a common objective or interest such as seeking and finding friendship as well as relevant information. The users benefit from complex services offered by the community for various social creation of content. Those services present different possibilities and methods of participation and interaction within the community. The number of active users and the intensity of their participation determine the actual quality and size of the communities' knowledge pool. Its form of participation influences the culture within the community, furthermore the users

acceptance and loyalty are depending on it. In order to achieve high participation, the community has to lower its entry barriers. However, this can also result in a low quality of the content. The users base their decision to participate on the perceived effort as well as the expected benefit from it. When users decide to participate in a Web 2.0 community, they invest time and effort to prepare and publish content such as Audio (Podcasts), Text (Blogs) and Video (YouTube). The user's reason to take on this effort, lays in the intrinsic motivation to establish a reputation as well as to initiate a profitable discussion or exchange of thoughts. The users can contribute to any kind of third party content by evaluating, recommending, linking and meta tagging third party content and thus determine the quality of the service. (Hoegg, Martignoni Meckel, Stanoevska- Slabeva, 2006, pp.7-9)

In order to describe the nature of systems that are designed for user contribution, Tim O'Reilly uses the term architecture of participation. He further notes, that the Internet and the World Wide Web have this participatory architecture in spades. Any application designed around communications protocols is intrinsically designed for participation. The fundamental architecture of hyper linking ensures that users create the value of the web. Furthermore, users help to build the value of the shared database. By pursuing their own interest, they build collective value as an automatic byproduct. (O'Reilly, 2004)

The biggest indicator of success for Web 2.0 applications is the number of its users. Participation is fostered by viral marketing and user-to-user advertising. The users become partly responsible to increase the user base. Users are encouraged to invite their peers in order to make the application more valuable. Application commonly exert pressure on the user in order lead them to participation. An increasing and active user base will consequently attract more users and their content will add value to the application. Thus, the size of the community gathered by the Web 2.0 application determines the quality of its content. The previously explained architecture of participation works as a cycle, where success generates use and use will generate success. The value of Web 2.0 services evolves with user participation and is rather limited to it. Furthermore, a critical mass of users will also be decisive for the feasibility of certain revenue models. (Isaías, Miranda, Pífano, 2009, pp. 356-358)

Web 2.0 refers to applications that are based on the principles of collaboration and sharing of information as well as content centering on the user and their social interaction. (Girieud, 2008, p. 183) User-generated content (UGC) is one of the main contributors to the rise of the

so-called participative web. UGC comprises various forms of media and creative work such as written, audio, visual and combined material.

There is no commonly agreed upon definition of user-generated content and similar terms such as user-created content are common. However, UGC can be characterized by the following principles: (I) content that is publicly available over the Internet, (II) content reflecting a certain amount of creative effort (i.e. users add their own value to the work) as well as (III) content generally created outside of professional routines and practices. While UGC originally has no institutional or market context, there is a trend towards monetization of UGC from the user-side. (Wunsch-Vincent Vickery, 2007, pp. 4-9) User generated content enables a rich user experience. Furthermore this rich user experience encourages the exchange of collaborative information as well as its aggregation and editing. (Nath, Singh, Iyer, Ganesh, 2010, p. 23)

UGC contains formats such as text, photo images, music/audio and video/film. Web 2.0 users create content such as texts in the form of poems, novels, quizzes and jokes and share them with a like-minded community. Hence amateur authors are able to spread work and receive feedback from the community. Photos are advanced in aggregation and search via tagging, user-implements indicator and recognition software. User-generated audio content, created by users, varies widely from mixes of several songs, self-created music to radio-like broadcasting shows available for subscription (podcast). User-generated or -edited video content has taken three primary forms on the web. Home made content comprises home videos and short documentaries, remixes as well as hybrid forms of self-produced and pre-existing content. An alternative but rather popular category of UGC is represented in the exchanged information to advise on purchases, travel and other knowledge areas. This category is referred to as information and knowledge commons. Contributors submit opinions and critique to Internet based bulletin boards. However the discussion topics are not limited to product reviews and are used to exchange or present information concerning a very broad range of topics.

Uploading and sharing of audio and video files is enabled in a way that is easy, fast, cheap and available for the general public. (Fuchs, 2011, p. 289) By hiding technical details and mark-up languages, Web 2.0 applications matured in user-friendliness. The development of the web empowers non-technical users to create and edit content on the web. (Chen, 2009, p.175-177) Hence users are empowered to contribute, develop, rate, collaborate and distribute to the already existing content on the web. Economical drivers behind UGC are embedded in lower costs and increased availability of broadband Internet connections as well as tools for

the creation of UGC. Furthermore, commercial entities are increasingly interested in providing the infrastructure for UGC. This development includes the long tail economics such as mobile operators, telecommunication service providers, traditional media publishers and search engines. In addition, possibilities to finance UGC sites are increased through the availability of venture capital and other investment possibilities. (Wunsch-Vincent Vickery, pp. 7-14 2007)

Open standards as well as the philosophy of open source foster the paradigm of user-generated content. (Chen, 2009, pp. 175-177) The Internet is increasingly embedded in the people's live, users draw on new Internet applications to express themselves through UGC. The development is further encouraged by the shift towards younger age groups with substantial information and communication technology skills ("digital natives") with a willingness to engage online and with less hesitation to reveal their personal information online. Changing media consumption habits of Internet users are defined by an increasing desire to create and express one self as well as more interactivity than on traditional media platforms. (Wunsch-Vincent Vickery, 2007, pp. 4-14) Users engage and create UGC for several different reasons. Generally users receive retribution for the invested time and effort creating and managing content, by feeling as a part of the community and having accomplished something. Furthermore, when users have the possibility to engage in interesting debates, gaining prestige and having access to the exchange of information made possible by the collective effort they receive retribution. (Isaías, Miranda, Pífano, 2009, pp. 356-358)

Additionally there is a rise of new legal means to create, edit and distribute content on the web fostering the availability and diffusion of UGC. Consequently search engines and UGC platforms enable searches within creative commons-licensed content and allow other users to use, edit and create new content. A rise in flexibility relating to licensing and copyright schemes allows easier distribution, copying and creation of UGC. Increasing end user licensing agreements, granting copyright to users for their content, is a significant factor in the process of encouraging user-generated content. (Wunsch-Vincent Vickery, 2007, pp. 4-14)

2.4.2 Crowdsourcing

A synonym for crowdsourcing defined by Business Week is 'milking the masses for inspiration'. (Hempel, 2006) The term crowdsourcing is a combination of crowd and outsourcing. Thus crowdsourcing means outsourcing a task to a crowd of people. Companies or organizations using crowdsourcing are taking a function which was once performed by

employees and source it out it in the form of an open call to a large undefined network of people. Crowdsourcing can be carried out as peer-production but is often also undertaken by sole individuals. The open call format and the wide network of potential laborers is the crucial prerequisite. Companies mass-produce the ideas generated by individuals, for its own gain. Enabled by the web, companies aggregate millions of disparate, independent ideas in the way markets and intelligent voting systems do. Crowdsourcing leverages the web for collective universal intelligence, constant enhancement, coordination in real time and results in the effective mobilization of skills. The web is the essential technology in order to realize crowd wisdom and flex a mass of users into productive laborers. (Brabham, 2008)

Addressing the crowd in the form of an open call means that potential contributors are not pre-selected. If selection occurs at all, it happens only a posteriori. Crowdsourcing offers access to multiple and complementary information and data. The complementary input from the crowd has to be pooled by the organization. The Individual input has very little value per se but the amount of the complementary input brings value to the firm. Crowdsourcing gives access to individual problem solving skills, from which the client firm is led to choose from. (Schenk, Guittard, 2009)

Applications focused on multimedia sharing such as Flickr (photo) and YouTube (film) represent crowdsourcing at its simplest form. The websites act as an intermediary between amateur producers who upload files and users out of the general public. In the case of amateur- or hobby- producers of content, publishers are usually rewarded with little or no fee for their work. The work is driven by intrinsic motivation in the form of taking pride from the approval that comes from rankings and the number of clicks. (Anderson, 2007, p.17)

2.4.3   Data and content

The amount of data, which is generated and used, is an ever-increasing process in our age of information. Many Web 2.0 companies try to offer a way out of the "datafication".

A great element of the essence of Web 2.0 is resembled in the use of open standards, software based on open source, free data, reusing data as well as working in a spirit of open innovation. Web 2.0 applications make use of the information in its own vast databases that services help to populate. Similar to open source software, Web 2.0 is starting to have an effect on the perception of intellectual property rights. The role of copyright is an obvious example for this development. The creators of content, who do not rely on being paid for their contribution, choose to give up some of their copyright protections. Furthermore, Web 2.0 applications aggregate data on a large scale and distribute it with far reach. Hence such systems may

republish the original data for which the intellectual property rights have been assigned. There is a difference between "real" and "fake" sharing of data within Web 2.0. YouTube for example never gives its users an easy way to actually get their hands on the content, which someone else has uploaded. (Anderson, 2007, pp. 18-26)

Internet applications are increasingly backed by a specialized database. Hence seeking to own a unique and hard-to-recreate source of data realizes competitive advantages. (O'Reilly, 2005, pp. 10-15) As commercial companies collect and aggregate data on an "epic scale", the trend towards openness has to be seen in context. The value of software is proportional to the scale and dynamism of the data it helps to manage. Controlling the access to data, rather then the data itself represent the real value. Google for example has the same raw data as the web itself, but they have added intelligence to the data to enable an easier search. Database management and networking have evolved as core competencies. Much of the data is indirectly aggregated from the users as a side effect of ordinary use of major Internet services and applications. Certain classes of core data such as location, identity, calendaring of public events, product identifiers and namespaces are of significant importance.

Services such as Google, Amazon and eBay are "learning" every time they are used. Amazon records the users buying decisions and combines them with its database and subsequently mines and shifts this data in order to provide targeted recommendations. Amazon and the like are considered as long tail aggregators tapping on consumer wisdom. Furthermore, the data is made available to developers, who recombine it in new ways.

(Anderson, 2007, pp. 18-25)

Content is one of the main drivers of participation. Web 2.0 applications try to generate a need among its users to keep up with the other members of the community and create traffic to the provided content. Hence, the applications propel their users to keep their content updated and constantly add new information. The users synchronized role of content creators and consumers is the origin of the dynamism and continuous improvement of the content. Content grows as a result of a critical mass of users and their collective activity. As a premise, it is essential for the users to identify themselves with the
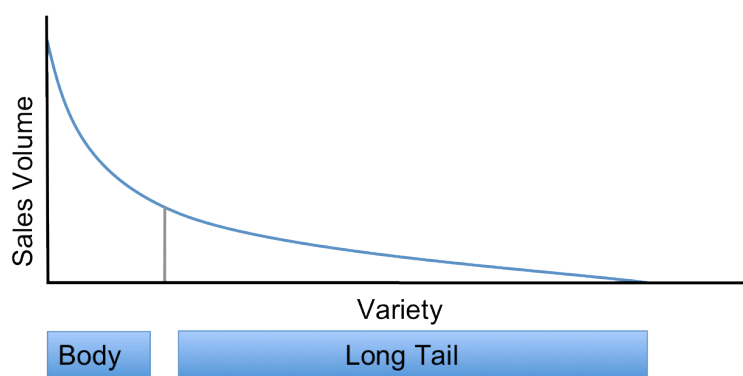

Figure 2: The long tail

available content. (Isaías, Miranda, Pífano, 2009, pp. 356-359)

It is important to underline that, users want to be offered a variety of products and services, including content. In this regard, the term long tail economics is a currently discussed trend. The long tail is a shift in economy and culture away from mass markets to variations of small niche markets. The trend vanishes the 80/20 Rule (i.e. 20 percent of products account for 80 percent of sale and usually 100 percent of the profits). The long tail economics emerged parallel to the phenomenon of Web 2.0 and was popularized by Chris Anderson of Wired magazine in 2004. The long tail is a retail strategy focusing on niche markets at the tail of the demand curve, instead of a relative small number of hits (mainstream products and markets) at the head of the demand curve. Figure 2 portrays the demand curve. Large sales volume and low variety characterizes the head of the curve and a large variety of products and relatively small sales volume the tail. As the costs of production and distribution fall online and the constraints of physical shelf space and other limitations of distribution fall, the rules of commerce change. Consequently the need for "one-size-fits-all" products vanishes and narrowly targeted goods and services can be as economically attractive as mainstream fare. (Anderson, 2006, pp. 7-53) The same principles apply for content such as video, news and music. The essence of the long tail is that, the aggregate size of the vast amount of small markets in goods that individually don't sell well enough for traditional retail and broadcast distribution may rival that of the existing and traditional mass markets. (Anderson, 2005) In regard to content, Web 2.0 applications use some of the same drivers. Web 2.0 applications commonly provide services or content that is not usually found on mainstream websites. Web 2.0 applications offer specialized content, based on a market or area not explored by marketers in the past. (Isaías, Miranda, Pífano, 2009, pp. 356-359)

2.4.4 Network effects

The network effect describes the economic and social effect of adding new users to a service based on the Internet. Web 2.0 applications are build on interaction between its users and an increase in value as the user group of the network grows. The market position of a product or service benefits significantly once the network effect begins to build and hence customer awareness increases. The network effect describes the value of a service to a user. This value arises from the number of people using the service. The network effect captures the value enhancement, which occurs as the number of users increases. The reason for this effect strives from the potential links between users, which increase as a new person joins the network.

Many of the network effects of Web 2.0 applications can be described by what is known as Metcalfe's law. Metcalfe's law has previously been used to explain the growth of many technologies ranging from phones, cell phones and faxes. Furthermore in can be applied to web applications and online social networks. It is rather obvious that if users join a Web 2.0 application, the connectivity increases and if people can link to each other's content, the value grows at an enormous rate. When Metcalfe's law is applied to Web 2.0, it becomes clear that in most of the Web 2.0 sites that use tagging, the network effect is not primarily coming from links between content and tags. Given the social constructs within Web 2.0 applications, the value of the network effect is coming from the links between people. The links arise from the interactions, while the applications are used. However, the density and connectivity of this social network graph is more obvious for social networking sites then for the content space. For sites like Flickr and YouTube, this effect is less obvious, but it is still the primary value source. However, in order for the network effect to be relevant, there needs to be linking between the users. If the web was simply a collection of pages filled with content, it would not have the value it has today. The growth of the web strives from the fact, that in principle Web pages can link to any other page. (Hendler, Golbeck, 2008, pp. 16-17) David Reed (2001), further claims that the value of the network grows exponentially to the number of connections. The argument is that in a largely connected network, such as a social networking Web site, the value is in the creation of subgroups and the number of these subgroups grows exponentially with the size of these sub networks. (Reed, 2001, pp. 23-24)

A new product is more likely to be successful in the long-term if it gains popularity through early adoption. This phase is characterized by social phenomena such as 'word of mouth' and 'tipping point' as well as the tendency among humans to 'herd' with others. New Web 2.0 services rely heavily on network effects for their adaptation, due to their social nature. (Anderson, 2007, pp. 20-21) In order to create essential network effects and leverage them, Web 2.0 applications try to attract a large number of participants and cause interaction among them. Web 2.0 application use the interactions enabled by the network in order to develop customer driven innovation, maintain market orientation, address customer concerns and develop the product-service mix. (Nath, Singh, Iyer, Ganesh, 2010, p. 23)

2.4.5   The Web as the platform

The revolution of Web 2.0 results from the paradigm shift in the computer industry from the PC to the web as the platform. (O'Reilly, 2006, p.1) Previous to the era of Web 2.0, software applications were simply running on the user's PC conducted by its operating system. Under

the principles of web as a platform, applications run within the browser window, communicating with the network and remote servers. (Anderson, 2007, p. 27) Web applications involve at least two computers: the hosting server and the one hosting the browser. (O'Reilly, 2005, pp. 2-14)

As a consequence of web as the platform, the emphasis shifts from the software to an application providing a service. Furthermore, Web 2.0 services are constantly updating and remain in a state of constant evolvement. (Anderson, 2007, p. 27)

3   Theoretical framework: Business model

The following section is dedicated to outline the concept of business models. In addition, the chapter is aimed to establish the conceptual and theoretical roots for the framework. The chapter will take a closer look at the business model literature. In order to better understand the context of business models, the chapter starts with the historical background of business models. Thereafter, the thesis studies different definitions of the term in the relevant literature. Afterwards the most relevant components of business models are listed. The place, role and use of business models within organizations are subsequently analyzed. Chapter 3 forms the theoretical framework and basis for the discussion in the following chapter.

3.1   Historical background of business models

The popularity of the term business model is a rather young phenomenon. In the scientific research, the term appeared for the first time in an academic article in 1957. Subsequently the term business model was mentioned in the title and abstract of a journal in 1960. The term rose in popularity towards the end of the 1990s and was most frequently used from the 1990s onwards. It is notable, that this development correlates with the advent of the Internet in the business world. (Osterwalder, Pigneur, Tucci, 2005, pp 6-7) The previous described trend can also be seen in figure 3. The graph shows the interest in the business model concept. As seen in the graphic, the interest has dramatically increased from 1995 onwards. Furthermore, the figure indicates that academic research on business models seems to lay behind practice.

The search by Zott et al., used the EBSCOhost database and distinguished between academic and journalistic outlets between 1975 and 2010. PAJ identifies articles published in Academic-Journals, PNAJ represent those published in non-Academic Journals. (Zott, Amit, Massa, 2010, pp. 4-5)
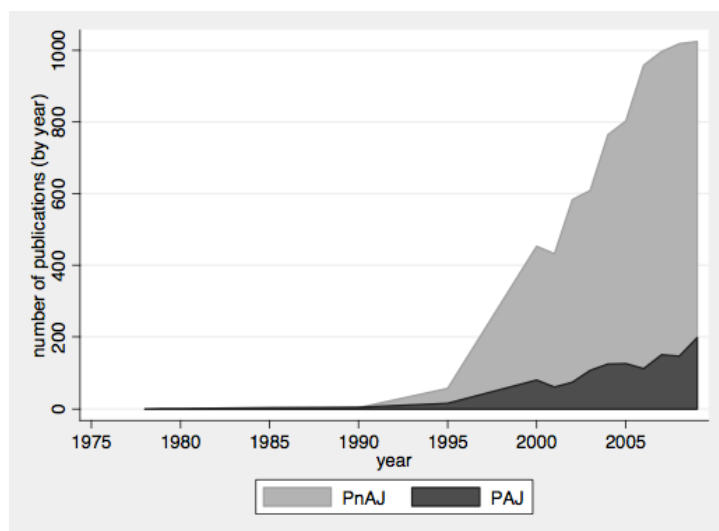
Figure 3: Business model articles between 1975-2005 (Zott, Amit, Massa, 2010, p.5)

As one of the great buzzwords of the Internet-boom, business models were widely perceived in a negative context. In the hyped environment of the 1990s, a company searching for funding or even going for an IPO did not need a strategy, or a special competence or even an established customer base. All it needed was a web-based business model, promising exorbitant profits in an undefined future. Many investors, entrepreneurs and executives bought the fantasy, raised a lot of capital to fund flawed business models and lost a lot of money at the burst of the bubble.

As an inevitable effect of the previous described events the business model fell quickly out of fashion again. However, the fault lies not with the business model itself but with its distortion and misuse. A good business model is essential to every successful organization, regardless if it is a new venture or an established organization. (Magretta, 2002, pp. 3-4)

3.2   Definition of the term business models

The term business model is loosely defined in the literature. Business models are widely used but rarely defined. (Mansfield, Fourie, 2003, p. 39) According to Timmers, the term business model is not consistent within the scientific literature and often differs in its usages. Furthermore, authors frequently do not even give a definition of the term. (Timmers, 2000, p. 32) The expression is often used for various factors such as parts of a business model, types of business models, concrete real world instances of business models or concepts. This however is not a business model in itself but rather a pricing mechanism, customer and distribution model and as such part of the overall business model. (Osterwalder, Pigneur, Tucci, 2005, p.

8) Due to the previous described events, the thesis will list the most cited authors definitions of the term business model.

A model has to be seen as an abstract representation of reality. The model defines a set of entities and their interlinked relationships. Consequently, a business model describes the linkage between a firm's resources and functions with the micro- and macro- environment. The business model is based on contingencies, perusing to find an optimal mode of operation for a specific situation in a specific market. Furthermore, the business model strives for value creation, driven by environmental developments and infrastructural opportunities. (Mansfield, Fourie, 2003, p. 39)

The term business model describes the key components of a given business. (Hedman, Kalling, 2003, p.49) Reflecting the operational and output system of a company, a business model captures the way the organization functions and creates value. (Wirtz, Schilke, Ullrich, 2010, p. 274) The essence of a business model is the strategy of an organization and its practical implications. (Chen, 2009, p. 170)

Amit and Zott view the business model as expressing the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities. A business model thereby includes the design of the transaction content, structure and governance. (Amit, Zott, 2001, p. 511)

Afuah and Tucci see a business model as a method by which firms build and use its resources. The firm's business model consists of components, their intertwined linkages and dynamics between them. (Afuah, Tucci, 2001, pp. 4-8)

According to Timmers, a business model represents the architecture for the product, service and information flow, including a description of the various business actors and their roles. Business models include an explanation of the potential benefits for various business actors. Additionally, the sources of revenue are characterized. The business model defines the target customer and their values as well as how the enterprise delivers those values at an appropriate cost. Consisting elements of the business model are customer value proposition, a profit formula, key resources and key processes. Choices concerning compensation practices, procurement contracts, location of facilities, the extent of vertical integration as well as sales and marketing initiatives are further elements of the business model. (Casadesus-Masanell, Ricart, 2011, pp. 102-106)

Chesbrough and Rosenbloom note, that the business model is the heuristic logic, connecting the technical potential with the realization of economic value. (Chesbrough, Rosenbloom, 2002, p. 529)

According to Morris et al., business models represent a set of interrelated decision variables in the areas of venture strategy, architecture and economics to create sustained competitive advantage in defined markets. (Morris, Schindehutte, Allen, 2005, p. 727)

Teece states, that a business model articulates evidence (such as logic and data) supporting a value proposition for the customer. Furthermore, the business model provides as a variable structure and costs for the enterprise delivering that value. (Teece, 2010, p. 179)

As described in the previous chapter, the various definitions of the term business model are very diverse. The definitions level from a simply defining the business model as a use of resources supplied by Afuah and Tucci (2001) to rather broad definition, describing the business model as a form of architecture by Timmers (2000). A common denominator across the various definitions, is the logic of doing business. In respect to the previously listed and described definitions, the thesis acknowledges the definition of the term business model by Mansfield, Fourie (2003) for its theoretical framework.

3.3   Main components and illustration of business models

The previous chapter introduced various definitions for the term business model. Equally important to the definition of business models are its components. This chapter will summarize the main contributions by the most frequently quoted authors. At the end of the chapter the findings will be summarized in a chart.

The components of the business model include customers, competitors, offering, activities and organization, resources, supply of factor and production inputs. Furthermore, the model includes longitudinal process components to cover the dynamics of the business model over time and the cognitive and cultural constraints that managers have to cope with. Additionally, there are causal relations between the previous mentioned components. (Hedman, Kalling, 2003, pp. 52-53) According to Morris et al., business models consist of six fundamental components; Value proposition, customer, internal processes and competencies, external positioning, economic model and factors related to personal/investor. (Morris, Schindehutte, Allen, 2005, p. 727)

Johnson et al., state that business models consist of four strongly dependent elements; customer value proposition the profit formula, key resources and key processes. The customer value proposition (CVP) and the profit formula define the value for the customer as well as

the company. Respectfully, the key resources and key processes describe how the value will be delivered to the customer and the company. Any changes to one of these four elements affect the resulting business model as well as the other elements. The success of the business model depends on the stability of the system.

Customer value proposition can be understood as helping the customer to solve a fundamental problem in a given situation. The CVP defines the target customer, the main problem as well as the offering. Additionally to the actual product or service, the offering also includes the distribution. (Johnson, Christensen, Kagermann 2008, pp. 52-54) This requires a definition of what the product offering will be and in what form a customer may use it. (Chesbrough, Rosenbloom, 2002, p. 534)

The profit formula defines how the company creates value for itself while it provides value to the customer. In detail the profit formula consists of the following aspects: A revenue model, defining how much money can be made (price times volume). The volume can be thought of in terms of market size, purchase frequency, ancillary sales and the like. Furthermore, the cost structure is an important factor, defining how costs are allocated. It includes direct costs, indirect costs as well as economies of scale. The cost structures main drivers are the costs of the key resources required by the business model. An additional factor of the profit formula is the margin model. Given the expected volume of the product and cost structure, the margin model is the contribution needed from each transaction to net the anticipated profit level. Furthermore, the resource velocity defines how fast inventory and assets need to be turned over as well as to what extend the resources need to be utilized in order to support the expected volume and achieve desired profits. The resource velocity includes lead times, throughput, inventory turns, asset utilization and the like. Key resources are the required assets to profitably deliver the value proposition to the targeted customer. The focus is on those elements creating value for the customer as well as the company. Key processes are operational and managerial processes, which allow the organization to deliver a value proposition. Ideally those processes are saleable as well as successfully repeatable. Key processes include product design and development, sourcing, manufacturing, marketing, HR and IT. Key processes furthermore include the company's rules and metrics such as margin requirements for investments, credit terms, lead times and supplier terms. Additionally, key processes include norms such as opportunity size for investments, customer approach and channels. (Johnson, Christensen, Kagermann, 2008, pp. 52-54)

A business model consists of several sub-models. The sub-models include the sourcing domain, specifying which resources go into a company. Furthermore, value generation and value offering i.e. the transformation of the resources into marketable products or services. The distribution of products and services as well as how revenues are generated and obtained from business partners are further domains. (Wirtz, Schilke, Ullrich, 2010, p. 274) In its simplest conceptualization, a business model consists of a set of managerial choices and their consequences. Business models contain policy-, asset- and governance-choices. Policy-choices determine an organization's actions across all its operations. Asset- choices relate to the tangible resources a company deploys. Governance-choices refer to how a company arranges decision-making rights over the policy- and asset-choices. (Casadesus-Masanell, Ricart, 2011, pp. 102-106) Furthermore, the business model outlines the position in the value chain, offered products and their pricing. (Chen, 2009, p. 170)

The choices that are made during the design process of the business model should deliver consequences that enable an organization to achieve its goals. The choices made by executives during the creation process of a business model should complement one another and reflect consistency. Furthermore, a good business model should be able to sustain its effectiveness over time by fending off threats of imitation, holdup, slack and substitution. A substantial part of a business models consists of the interaction with similar as well as dissimilar business models. (Casadesus-Masanell, Ricart, 2011, pp. 102-106)

The firm's economic model is a core element of its business model. The main purpose of the economic model is to provide a consistent logic for earning profits. Furthermore, the economic model has four subcomponents. The first subcomponent is concerned with extend to which the cost structure is dominated by fixed versus variable costs. Furthermore the economic model is concerned with the firm's market opportunity and internal capacity in terms of their emphasis on higher or lower volumes. The third subcomponent of the economic model is the margin of the firm. The last subcomponent is the firm's revenue model. Furthermore the flexibility of revenue sources and prices are of concern to the economic model. (Morris, Schindehutte, Allen, 2003, pp. 729-732)

As mentioned earlier, the following chart shows a summary of the contribution to the study of business model components by some of the most frequently quoted authors.

Author	Year	Key components of the business model
Hedman, Kalling	2003	Customers, competitors, offering, activities and organization, resources, supply of factor and production inputs, longitudinal process, cognitive and cultural constraints

Morris, Schindehutte, Allen	2005	Value proposition, customer, internal processes and competencies, external positioning, economic model and factors related to personal/investor.
Johnson, Christensen, Kagermann	2008	Profit formula, key resources, key processes
Wirtz, Schilke, Ullrich	2010	Sourcing domain, value generation and value offering, distribution of products and services, generation and obtained of revenue
Casadesus-Masanell, Ricart	2011	Policy-, asset- and governance- choices

Table 1: Main components of business models

As the previous chapter indicated, the understanding of the most relevant business model components is very diverse in its nature. The variety ranks from a set of six fundamental components such as described by Morris et al. (2005), to set of choices supplied by Wirtz (2010). A common denominator is the focus on the creation of value.

The thesis acknowledges the findings by Osterwalder (2004, 2010) as well as Morris et. al (2003) of them main components and illustration of the business model for the theoretical framework. The following graph shows a generic overview of a business model and the interlinked relationships between the components. The following figure describes 9 building blocks, showing the money earning logic of the company. The nine building blocks further cover the main areas of a business: offer, customer, infrastructure and finance. Furthermore, the figure illustrates the relationship between the building blocks.
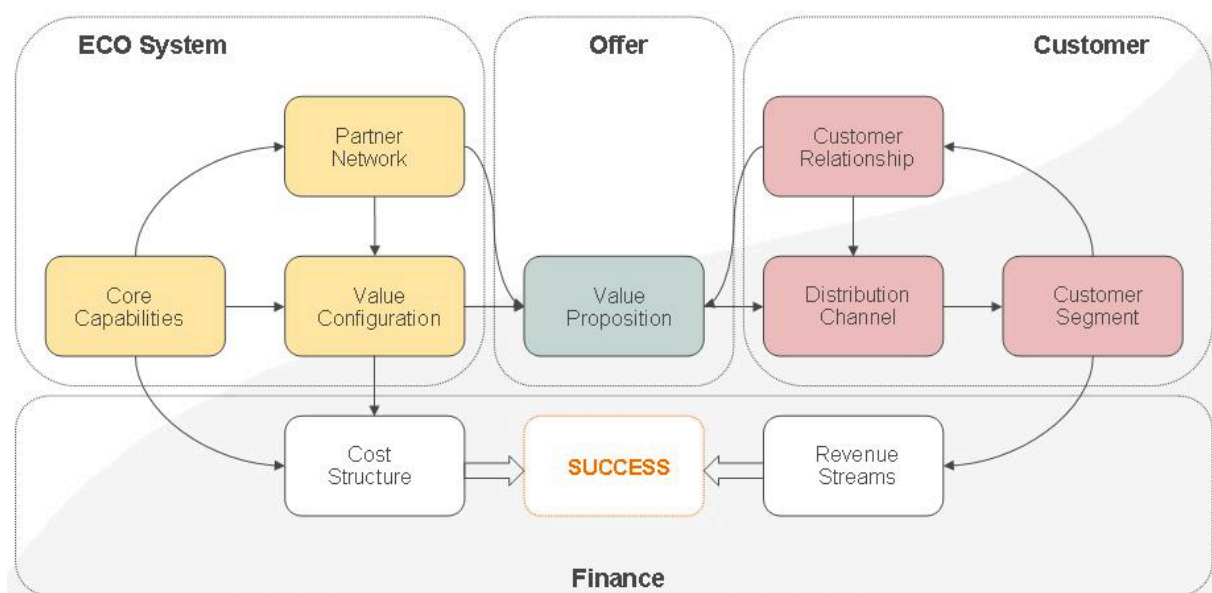

Figure 4: Generic business model overview (van Oosterhout, 2007)

The offer serves the question of what business the company is in, the products and the value propositions offered to the market. The value proposition can be understood as how items of value, such as products and services, are packaged and offered to fulfill customer needs. Additionally, the value proposition describes the collection of products and services, supplied by the organization, that are of value to the customer. It seeks to solve the customer's problems and satisfy customer needs. (Osterwalder, 2004, pp. 42-49) The value proposition enables the business. Further, the creation of value provides a justification for the business entity. Decisions are designed to solve the nature of the product/service mix and the position in the value chain and how the offering is made available to the customers. The creation of value contains choices of the following: primarily products/ primarily services/heavy mix, standardized-/customized offering, broad line-/medium breadth-/narrow line offering, deep lines-/medium depth-/shallow lines offering, access to product/product itself/product bundled with other firm's   product, internal manufacturing or service delivery/ outsourcing/ licensing/reselling/value added reselling, direct distribution/indirect distribution (if indirect: single or multichannel) (Morris, Schindehutte, Allen, 2003, pp. 729-732)

The customer interface covers the element of the company's target customers, how it delivers the products and services, and how it builds a strong relationship with them. Each of the parts of the question represents a subsection of the customer interface. The customer segment or target customer, describes who the company delivers value to. The organization can serve a single- or several customers. The distribution channel is a means of getting in touch with the customer. The relationship describes the kind of link a company establishes between itself and the customer. (Osterwalder, 2004, pp. 42-47) The question of who the customer is in the value proposition focuses on the nature and scope of the target market. The customer base of the firm as well as the position in the value chain has to be defined. The geographic dispersion of the customer as well as their interaction requirements has significant impacts on how an organization is configured.

The infrastructure management part of the business model answers how the company efficiently performs infrastructural or logistical issues. Furthermore it answers, what kind of partnership agreements the business will engage in or what kind of network it will be part of. The infrastructure management element is divided in 3 building blocks of the business model. The first element is the value configuration, which describes the arrangement of activities and resources that are necessary to create value for the customer. Further elements are the core capabilities, which describe actions that are necessary in order to create value for the

customer. An alternative word for core capability is core competency. The development and enhancement of the firm's core competence enhances the firm's role in the external value chain. Consequently, the core competency also becomes the focus for the internal value chain. These competencies are at the core of the business. A firm can attempt to build competitive advantage around one or several competencies. The last element of the infrastructure is the partner network, describing cooperative agreements between two or more companies in order to create value for the customer. (Morris, Schindehutte, Allen, 2003, pp. 729-732)

The last area of the business model is the financial aspect, which is further divided in cost structure and revenue model. The cost structure represents all the means employed in the business model in terms of money. Additionally, the Revenue Model describes the way a company makes money through a variety of revenue flows. The financial aspect is furthermore concerned with the sustainability of the business model. (Osterwalder, 2004, pp. 42-47)

3.4 Place, role and use of business models within the company

The thesis acknowledges the findings by Osterwalder (2005) of them place, role and use of the business model for the theoretical framework. Outlining the building plan, the business model allows the design and realization of the business structure and the systems that constitute the operational and physical form of the company. Business models are situated between the business strategy, business organization and technology or ICT (information and communication technology) element of the organization. The following figure shows the business model triangle. The business model is the conceptual link, forming a triangle between the domains.
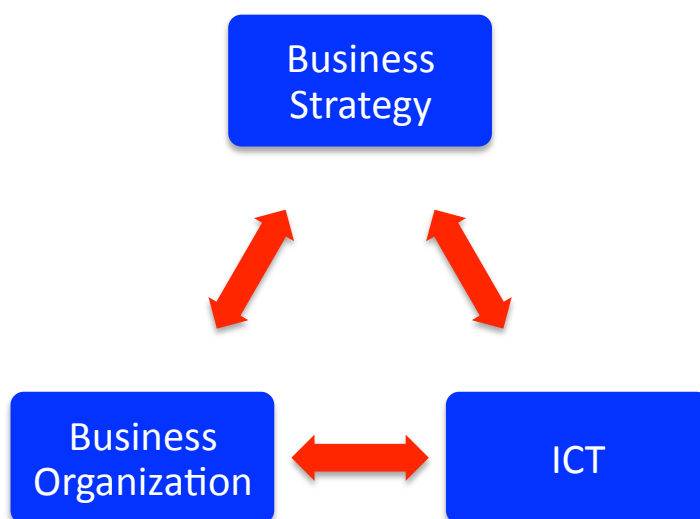

Figure 5: Business Model Triangle

The three different elements look at the business model from different angles and on different business layers. To analyze the different elements in further detail will not be part of this thesis due to the focus of the thesis. However, the business model and strategy element address similar issues but on a different business layers. In that regard, the business model implements the strategy into a conceptual blueprint of the company's money earning logic (i.e. the vision of the company). Further, its strategy is translated into value propositions, customer relations and value networks.

Similar to the previously described strategy layer, the business organization layer addresses similar issues as the business model from a different angle. As an indicator for the interlinked relationship, questions concerned with the different organizational approaches rise with changes in the business model. A good understanding of the infrastructure side of a business model further leads to an optimized business organization. The precise definition of infrastructural aspects of a business model moreover supports various business processes.

The ICT element of the business model represents information technology used for the company. Due to the connection between technology and innovation, the ICT element is strongly interlinked with the business model.

Furthermore, the business model is constantly subject to pressures from the external environment. The pressures entail competitive forces, social change, technological change, customer opinion and the legal environment. The external pressures are illustrated in the following figure.

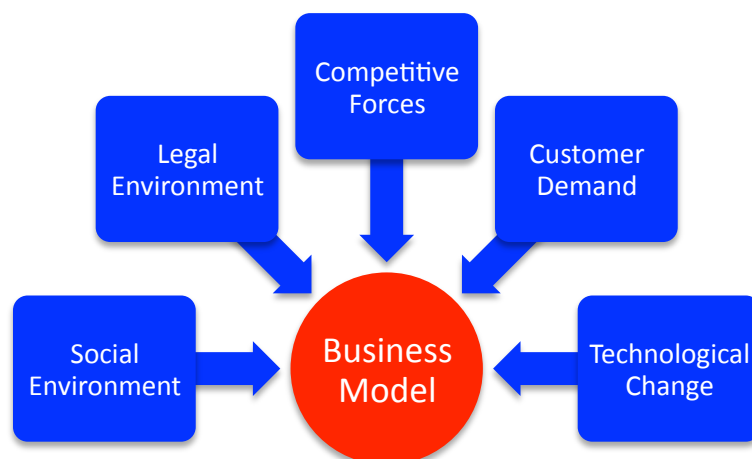Figure 6: External pressures on the business model

The general role of business models lies within the field of the business logic. Consequently, it is concerned with the understanding and sharing, analyzing, managing and patenting of all its aspects. Business models help to capture, visualize, understand, communicate and share the logic of a specific business. The Business model implements the organizations strategy

into a conceptual blueprint of the company's money earning logic. In this sense, the business model is implemented through organizational structures, processes and systems.

A further area of contribution of the business model is managing the business logic of the company. As modern business models are increasing in complexity, the relationships between the different elements as well as the decisive success factors are not always immediately observable. Organizational forms designed to increase productivity and to manage an exponentially expanding number of products and processes are further drivers of complexity. Because of the mechanism generating diversity, the decomposition of the integrated company and the formation of business networks contribute to the complexity. Furthermore, organizations are increasingly facing the environmental risk of uncertainty. The degree of complexity in an environment has a positive relation to the unpredictability of situations. By conceptualizing, business models help to represent reality in a structured, simplified and understandable way. Furthermore, highlighting important issues, business models help to identify and understand the relevant elements in a specific domain and the relationships among them. Additionally, formalizing business models and being able to express the business logic in a more tangible way clearly helps executives to communicate and share the understanding of a business among all stakeholders. This capability is particularly important for the dialogue between people with a different educational background. Business models can furthermore be used for simulations in order to face uncertainty.

Business models contribute in analyzing as well as improve measuring, observing, and comparing of the business logic of a company. Furthermore, the business model helps to identify the relevant measures in order to improve an organizations management.

In order to track and observe environmental changes affecting the business logic, a structured approach to the business model is necessary. With little additional effort the business model can be presented graphically using conceptualization to capture the essence of the business models. Visualization can substantially increase the degree to which humans can successfully process complex information.

Different businesses are only comparable if they are understood in the same way. Hence, a structured approach allows companies to compare their business model to those of their competitors. As an effect of comparing the business model to businesses in different industries may provide new insights and foster innovation.

A business model enables companies to react faster to environmental changes. In dynamic industries, changes in environment occur quite often; hence companies decide to adopt a new

business model or to change the existing one. To go from one point to another is much easier when the decision makers are able to exactly understand, express and show what elements they want to change. In this case, capturing and visualizing the business model improves its planning, changing and implementation.

As discussed earlier, business models can be observed, compared and help to define measures. Hence business models can improve decision-making.

Business models describe possible future states of a company and can therefore help to promote innovation and increase competitive advantage. Thus simulating and testing business models cannot predict the future, it is a way of doing low-risk experiments without endangering an organization. As a result the organization will be better prepared for the future.

Besides the previous described aspects, business models play an important role in the legal domain. Business processes and even entire aspects of the business model can be the fundament of a legal patent. (Osterwalder, Pigneur, Tucci, 2005, pp. 19-25) Treated as intellectual property, business models can be the subjects of patenting. (Morris, Schindehutte, Allen, 2002 p. 734)

4   Web 2.0 business model proposition

The purpose of this chapter is to integrate the previous chapter on Web 2.0 and business models. The thesis will develop a Web 2.0 business model proposition. In the first chapter, the thesis will present categorizations of various business models on the Web. In the following the thesis integrates the findings by illustrating Web 2.0 business models. Further the role, place and use of Web 2.0 business models are analyzed.

4.1   Categorization of business models on the web

Web 2.0 is an emerging and growing phenomenon; hence business models are constantly evolving and shifting. As previously noted, Web 2.0 companies additionally combine several business models as part of their overall strategy. (Chen, 2009, pp. 170) Due to this development categorization is rather difficult. Nevertheless it is important to try to categorize the different business models in order to get an overview of common practice.

Online business models commonly revolve around some of the following principles. (1) Online merchandizing, serving very specialized niche markets and generating large revenue due to economies of scale. (2) Online information services where customers usually pay per document, subscription or sponsors pay for the set up of the project. (3) Online access, where

services are treated as commodities with customers paying for metered usage or subscriptions play on economies of scale. (4) Online advertisement, commonly used by companies such as free e-mail services and search engines. This business model requires significant site traffic and revenue is generated per impression or order from businesses or brokers. (5) Business models revolving around efficient customer support and internal documentation. Competitive advantage derives around the principles of more, better and faster to enhance business operations. Revenue is generated due to cost cutting by taking advantage of the speed and interactivity of the web. The strength of the model revolves around personalized customer service at all hours of the day, with better documentation, communication and training within the organization. The company builds on the relationship with the customer, increasing customer satisfaction by eliminating the time spent in an actual store and therefore reducing opportunity costs.

According to Rappa (2008), business models on the web can be further categorized into nine generic models. The models classify companies among the nature of their value proposition or the way revenue is generated. Rappa's nine business models are Brokerage Model, Advertizing Model, Infomediary Model, Merchant Model, Manufacturing Model, Affiliate Model, Community Model, Subscription Model, and Utility Model/On-Demand Model. In the following chart, the models are defined and further subcategorized. Some business models are exemplified by a prominent example.

Model	Subcategories, example	Description
Brokerage Model	Market Place Exchange, Business Trading Com-munity, Buy and Sell Fulfillment, Demand Collection System (Priceline.com), Auct-ion Brokers (eBay), Transaction Broker (PayPal), Distributor, Search Agent, Virtual Marketplace (Amazon)	Brokers are market makers, bringing the buyer and seller together and facilitate the transaction. Brokers act in Business-to-Business, Business-to-Consumer and Consumer-to-Consumer markets. The Broker Model generates revenue by charging a broker fee on every enabled transaction.
Advertizing Model	Portal (Yahoo), Per-sonalized/Niche- Portal, Classifieds (Craigslist), User Registration model, Query-based Paid Placement (Google), Contextual	As a generalized portal, the high volume of traffic makes advertizing profitable for companies and enables further diversification of site services. The success of personalized portals is based on the value of information derived from user personalization.

	Advertising (Google) / Behavioral Marketing, Intromercials, Ultramericals	
Infomediary Model	Advertising Networks (DubbleClick/Google, Glam Media), Audience Measurement Services (Nielsen/ NetRatings), Incentive Marketing model (Groupon/Deal of the day model), Metamediary	This model builds on the value of the data about consumers and their buying habits. When the information is carefully analyzed and used to target marketing campaigns the data gets extremely valuable. Consumers can also be provided with useful information about the web sites in a market segment that competes for their money.
Merchant Model	Virtual Merchants / e-Tailer (Amazon), Catalog Merchants, Click and Mortar (Barnes & Noble), Bit Vendor (iTunes by Apple)	This model generates revenue with classic wholesale and retailing of goods and services with sales either based on list prices or auction.
Manufacturing Model	The Purchase Model, Lease Model, License Model, Brand Integrated Content Model	This model uses the web to allow manufacturers to reach buyers directly. The distribution channel is hence compressed to benefit the supply chain. Efficient and improved customer service and a better understanding of customer preferences are the fundamentals of this model.
Affiliate Model	Banner Exchange Model, Pay-Per-Click Model (Google AdWords), Pay-Per-Lead, Pay-Per-Action, Pay-Per-Impression, Cost-Per-Engagement, Revenue Sharing	This model provides purchase opportunities for potential customers, wherever they may be surfing on the web. It offers financial incentives to affiliated partner sites, that provide purchase-point click-through to the merchant.
Community Model	Open Source Model, Open Content Models (Wikipedia), Public Broadcasting, Social Networking Services (Facebook, Linkedin)	The backbone of this business model is user loyalty. Social networks for example use this model to leverage its users high investment in both time and emotion. The users visit the site continually, and hence provide the model with advertising, infomediary or specialized portal opportunities. Subscription fees for a premium membership can also be charged to access the community. Further more additional products or services can be sold to make the model

		profitable. Voluntary contributions are an alternative source of funding.
Subscription Model	Content Service Model (Netflix), Person-to-Person Networking Service, Trust Services Model,	In order to generate revenue, the Subscription Model charges a user fee to access to the website. High value-added content is therefore essential to justify the fee.
Utility Model/On-Demand Model	Metered Usage Model, Metered Subscription Model	This Model meters the customers use rate of the provided service. The success of the model depends on the ability to charge by the byte, including micropayment options.

Table 2: Classification of business models (Rappa, 2008)

Rather important categories of Web 2.0 business models are platforms. Platforms serve the purpose to initiate communities for its users. By using the platform, users are able to express themselves, find an audience, create new content and find persons interested in the same content. In other words, platforms provide the necessary tools to enable its users to create, store, manage and share their content. Most platforms are open for users to join and are dedicated to a specific group of users. (Hoegg, Martignoni Meckel, Stanoevska- Slabeva, 2006, pp.7-10)

According to Wunsch-Vincent and Vickery (2007), platforms have a wide range of different types and can be sub characterized as follows. The following chart characterizes the most common platforms.

Model	Description
Blog	A blog is a type of webpage, displaying date-stamped entries in reverse chronological order and is regularly updated. The displayed content consists of text, images, audio, video, as well as a combination. Among others, Blogs serve the purpose of delivering and sharing information. Blog hosting servers remove the technical burden of maintaining a hosting account and a software application. Hence bloggers don't need to install blogging software on a server in order to blog. Blogs are commonly used as a launch pad to share other UGC content such as referring to other blogs, music or discuss user-created videos.

Wikis and similar text-based collaboration formats	Wikis are websites allowing its users to collectively add, remove and edit text based content. The content can be changed instantly by the users on the web. Furthermore the content can be formatted with a simple tagging language. The initial author of an article allows other users to collectively edit the content. Consequently, the vast number of readers and editors decrease mistakes within the wiki. Furthermore there are several sites providing wiki hosting enabling users and communities to create their own wiki for various purposes.
Group-based aggregation and social bookmarking	This model consists of group-based collection and rating of specific links to content such as articles and media. The links are tagged, rated and usually commented on by the users. This model builds on the web users and their opinions and knowledge.
Podcasting	Podcasting revolves around audio content and its publishing, subscription, syndication as well as push technology. The information provider chooses which files are offered in a feed and the subscriber can subsequently choose among the various available feed channels. The software is known as an aggregator or podcast receiver.
Social Networking Sites (SNS)	SNS enables its users to connect to friends and colleagues, in order to send mails or instant messages, blog, meet new people and to post personal profiles displaying information about them selves. Profiles include content such as photos, videos, images, audio, and blogs. SNS sites can be dedicated to a specific topic, sharing of knowledge or purchases of products and services.
Virtual world content	Users subscribe to virtual world content that is created in the context of a 3D digital environment. Virtual environments provide their users with a scripting language and integrated development environment, enabling them to create their own content in the form of building new objects. The users are often permitted to keep the associated intellectual property rights to their created content.

Table 3: Characterization of platforms (Wunsch-Vincent, Vickery, pp.18-20, 2007)

4.2   Illustration of Web 2.0 business models

Chen (2009) suggests, that innovation does often not rest in the technology or product, but in the business model. As old principles no longer work in new economies, business reach the limit of old models with respect to complexity and speed. Previous models often morph into the new models and the value drivers remain the same.

The following paragraph will apply the model by Osterwalder, 2004 to the phenomenon of Web 2.0. As mentioned earlier, the model is divided in 4 building blocks to analyze an organizations money earning logic.

One of the main areas of the business model is the offer or value proposition. The previous mentioned long tail plays a significant role in the Web 2.0 business model. Web 2.0 business models penetrate various small niche markets at the tail of the demand curve.

As noted in chapter 2 in regard to Web 2.0, the fundamental architecture of hyper linking ensures that users create the value of the web. The aspect of value configuration is hence strongly intertwined with the role of the user/customer. By pursuing their own interest, users help to build the value of the shared database and collectively build value as an automatic byproduct. The customer/user has an outstanding role within the Web 2.0 business model. As mentioned throughout chapter 2.4.1, Web 2.0 business models rely on an architecture of participation. Hyper linking ensures that users, who are pursuing their own interest, build collective value as an automatic byproduct. The user bases of Web 2.0 business models are furthermore the biggest indictor of success. Businesses foster participation by viral marketing and user-to-user advertising. As previously mentioned, Web 2.0 applications exert pressure on the user in order to lead them to participation. Further the users are partly responsible to increase the user base, by inviting to invite their peers in order to make the application more valuable. The previously explained architecture of participation or network effect works as a cycle. The success of Web 2.0 applications generates use and the use will in turn generate success. Furthermore, a critical mass of users will also be decisive for the feasibility of certain revenue models. Crowdsourcing adds further to the previous described development of the user/customer. Web 2.0 business models leverages the web for collective universal intelligence, constant enhancement, coordination in real time and resulting in the effective mobilization of skills. Functions are sourced out it in the form of an open call to the user network of Web 2.0 applications.

The obvious distribution channel for Web 2.0 application is the web. The distribution comprises channels such as social-networks, -media, -bookmarks, blogs, widgets and gadgets,

browser extensions and search engines. The combinations with rather traditional distribution channels represent a great potential for business models. As previously mentioned, the costs of production and distribution fall online. Furthermore the constraints of physical shelf space and other limitations of distribution do not apply to Web 2.0.

Partner networks play a for example a significant role in the previous described affiliate advertising models. As part of the business model, sites direct traffic to an associated website and receives either a transfer fee or a part of the profits from sales. (Isaías, Miranda, Pífano, 2009, pp. 360-361) As previously analyzed, Web 2.0 business models source various tasks out to the user. Hence the users are involved in the development process of the core competencies.

Different revenue models have been described previously in chapter 4.1, however most commonly used revenue strategies include the combination of different models. Since Web 2.0 emerged parallel to the open source development, where access to information is free and software is open, the commercialization of Web 2.0 services is a rather new trend. Users have expectations of free access and the generation of revenue is becoming a very pertinent issue. A prominent challenge of Web 2.0 business models is that the growing number of users is often not translated into increased revenue. The choice of the suitable revenue model is an important step in order to suit challenge of obtains the critical mass of users as well as generation of profit. (Isaías, Miranda, Pífano, 2009, pp. 360-361)

4.3   Role, place and use of Web 2.0 business models

In the following, the thesis will apply the findings by Osterwalder et al. (2005). The chapter will apply this to Web 2.0 business models, based on the findings in chapter 2 and 3 of this thesis. As seen in the figure 5 and described in chapter 3.4, business models form a triangle between the business strategy, business organization and ICT. Furthermore, they are subject to external pressures such as competitive forces, social change, technological change, customer opinion and the legal environment.

In respect to Web 2.0 business models, the ICT element plays an essential role within this triangle. As previously mentioned, Web 2.0 does not correlate with a specific technical innovation. However, the element is characterized by a maturing of the fundamental technology as well as the combination of existing protocols and computer languages in a new way. Due to this development, the user experience is significantly improved and applications are becoming user-centered and improved in its user-friendliness. Hence, technical inexperienced users are enabled by Web 2.0 technology to create and edit content on the web.

In regard to the findings by Chen, (2009), Web 2.0 companies commonly combine several business models as part of their overall strategy. As part of their business strategy, Web 2.0 business models treat users as co-developers. Furthermore crowdsourcing and user generated content is a main factor for Web 2.0 companies. Seeking to own a unique and hard-to-recreate source of data realizes competitive advantage for Web 2.0 business models. In that sense, the focus is on certain classes of core data. However, the control of access to data, rather then the data itself represents its real value. Hence, collecting and aggregating vast amounts of data are essential elements of Web 2.0 business strategies. The scale and the dynamism of the data and application helps to manage are proportional to its value. A prominent strategy is to aggregate data indirectly from the users as a side effect of ordinary use of the provided services and applications.

Web 2.0 business organizations are shaped by the elements of Web 2.0. As previously mentioned, the concept of software in the cloud brings many benefits for small companies with only few resources. Web 2.0 business models source research and development out to its own users. Leveraging the elements of UGC and crowdsourcing, brings significant advantages for lean organizations. As a consequence of using the web as the platform, business models provide a service rather than produce software. This development has significant impact on the business organization. However, the provided applications have to be backed by a specialized database. Web 2.0 applications require vast databases to make use of the information that the services help to populate. As an effect of the previous described progress, database management and networking have evolved as core competencies.

As previously mentioned, the business model is in constant exposure to external forces of the environment. The following paragraphs will explore the environment of Web 2.0 business models.

As Web 2.0 focuses on the user, they face a dilemma between ease of use and flexibility. User generated content calls for simplicity in accessibility and use of the Web 2.0 application. Thus the technology needs to limit the flexibility of the applications and hence restrict the creative generation of content. (Isaías, Miranda, Pífano, 2009, pp. 357-358) Technological change in the external environment is characterized by the availability of personal computers, high bandwidth Internet access as well as smart phones with access to the web. Furthermore, the concept of software in the cloud positively influences the demand for financial resources. As previously mentioned by Osterwalder et al. (2005), due to the connection between technology and innovation, the technological element is strongly interlinked with the business

model.

The ICT and strategy element of the business model triangle is subject to pressures from the external environment, concerned with customer demand. As previously mentioned, Web 2.0 applications are very user-centered. Within Web 2.0 applications, users have furthermore synchronized roles of content creators and consumers. UGC does not only demand the business model to trust users as creators of content, but as trust works in both ways, users also need to trust the application. In that sense, privacy settings are an important issue. As some content is private and the users only want to share it with a limited number of people, they need to feel that their data is protected and that they have the power to decide what is public content and what is not. (Isaías, Miranda, Pífano, 2009, p. 356)

Furthermore, the content gets more valuable the bigger the user community is. Hence, Web 2.0 business models are particularly exposed to changes in customer demand. As crowdsourcing relies on users as co-developers, Web 2.0 applications are dependent on a vast user base. As the content developing users are external stakeholders, the business model is significantly exposed to changes that affect their customer base. However, as users are trusted as co-developers Web 2.0 applications are able to react faster to changes in customer demand. As previously mentioned, collective intelligence adapts to changes in the environment or general opinion. Furthermore, many Web 2.0 applications enable their users to contribute to any kind of third party content by evaluating, recommending, linking and meta tagging any kind of third party content and thus determine the quality of the service. As previously described there is a high level of innovation within Web based business models and not being up to date on technological development is a constant threat to Web 2.0 business models. Furthermore as Web 2.0 emerged out of the bursting of the Internet bubble and the failure of Web 1.0, the threat of being overmastered by new trends and developments is ever present.

The number of users is one of the best indicators of success for Web 2.0 applications. As Web 2.0 applications highly depend on viral marketing and word of mouth recommendation the application is exposed to the users cooperation to increase the user base. As previously noted, a critical mass of users not only determines the quality, value of the content but also the feasibility of revenue streams. Web 2.0 business models however are limited to facilitate the development process of content. As Web 2.0 applications have very limited value in itself, they are vastly exposed to user participation. As users will not feel included if the content does not relate to them, or if they're excluded from a service, it is essential for Web 2.0 applications to provide content that users are able to identify themselves with. Using

advertisement in order to generate revenue can have a negative impact on the image. Additionally to the previously described development, as information within Web 2.0 becomes fluid rather than static, applications have to respond to the new emerging demands of users. (Isaías, Miranda, Pífano, 2009, pp.355-360

As mentioned earlier, competitive forces are an external factor influencing the business strategy. There is a rapid business dynamic and pace of change in product life cycles, production processes and structural makeup of the Web 2.0 segment. The so-called industry clock speed is essentially driven by technology and competition. Hence the duration of competitive advantage is very limited in its nature and bound to the organizations ability to react to change in order to keep up with the industry clock speed. As each computing cycle has seen market leaders being replaced by small startups, Web 2.0 is not an exception. Competition pressures established firms to constantly pursue profits through capturing new markets by expansion or introduction of new products and technologies. As noted before, long-term success for new products depends on early adoption. As Web 2.0 is highly fragmented, market share is won quickly and lost slowly. As previously mentioned, the early adopter phase is characterized by intense competition. Due to the social nature of Web 2.0 applications, they are heavily exposed to network effects for their adaptation. If companies take no notice of the previously described change in the users role and their consuming patterns within Web 2.0 they will certainly be left behind as others use the user base to increase their competitive advantage. Business models are in need to update the underlying technology and utilities, at the constant risk of losing competitive advantage. (Isaías, Miranda, Pífano, 2009, pp.356-361)

As part of the previously mentioned external effects on the business model, the legal environment has significant influences on the business organization and strategy. The legal environment of Web 2.0 business models is dominated by the legal debate concerned with copyright law. As mentioned earlier, the rise of new legal means of content on the web fosters the availability and diffusion of user generated content. Laws governing data protection and data security are a constant threat of the environment. As Web 2.0 business models rely heavily on customer information, the introduction of new privacy laws could consider a specific business model illegal. Furthermore, as Web 2.0 business models rely on publishing content supplied by external stakeholders, businesses are exposed to legal clauses concerned with the censorship of the published data. As Hoegg et al. (2006) propose, a legal obligation to review user contributions, would for example conclude the need to set up centralized

reviewing mechanisms as a protection against law suites. This would impose additional costs and would become a major obstacle for the open and free culture of Web 2.0 communities.

Additionally, business models are exposed to tax regulations threatening the competitiveness of their value proposition. However, Web 2.0 business models based on UGC are encouraged by a rise in flexibility relating to licensing, copyright schemes as well as increasing end user licensing agreements. As mentioned before, the creators of content on the web choose to give up some of their copyright protections.

The social environment characterizes the business organization of Web 2.0 business models.

However, changes in external environment of Web 2.0 business models are shaped by the vast availability of PCs, smart phones and low cost of broad band interment access. Furthermore, the Internet is increasingly embedded in people's lives. Internet users draw on new applications to express themselves through UGC. The rise of younger age groups with substantial skills in information- and communication technology, a willingness to engage online and with less hesitation to reveal their personal information online encourage this development further. Additionally, media consumption habits of Internet users are constantly changing. Further, users have an increasing desire to create and express themselves. As described earlier, Web 2.0 business model combine economical, social, and technological trends to profit from those environmental changes.

Open standards, software based on open source, free data, reusing data as well as working in a spirit of open innovation is a great element of the essence of Web 2.0.

Additionally to the previously described factors relating to the findings by Osterwalder et al. (2005), there are several more factors Web 2.0 business models are exposed to. Software as a service constitutes a large part of Web 2.0 business models. The diversity of services in respect to manufactured goods is another factor of external pressure. Furthermore, due to the fact that modern business models outsource all non-essential business and progressively rely on partnerships, Web 2.0 business models are subject to additional external factors.

5 Case study: The daily deal business model

In order to answer the research question, the following case study will investigate the daily deal business model. The purpose of this case study is to explore the existing theory and apply the findings of the previous chapters. The case study will furthermore test the business model proposition from chapter 4 and apply the framework from chapter 3.

To begin with, the thesis will deliver a brief introduction of the selected case companies. In the following the thesis will evolve an overview over the origins and most dominant factors of

the business model. Afterwards, the case applies the previously developed framework and analyzes the business model in further detail in order to answer the research question. Finally, the case study ends with a conclusion.

5.1   Case selection

There is a vast amount of successful, unique and very interesting Web 2.0 business models. As previously discussed, the various Web 2.0 business models have significant differences. Furthermore, companies commonly combine parts of several business models as part of their overall strategy. Reliable generalization based on a single- or even multiple case studies is hence almost impossible. Many business models however fail to monetize the elements of Web 2.0 adequately in respect to their vast user base as well as their immense traffic rates. However, in order to answer the research question and test the hypothesis, the case study will be based on a rather extreme, critical and unique case: the daily deal business model. Daily deal sites combine economical, social and technological trends. Collectively these elements form a business model characterized by vast rates of growth as well as revenue. Furthermore, many companies around the globe use the same business model. However, Groupon has populated the daily deal business model. Additionally the company is currently the most successful competitor in the industry in respect to growth and revenue. Groupon is one of the fastest growing Internet sales businesses in history. The company recently rejected a \$6 billion acquisition offer by Google in order to stay independent and filed for an Initial Public Offering on June 2nd 2011. The choice of Groupon for the case study seems obvious in regard to the strong link to the daily deal business model.

As there are vast amounts of companies based on the daily deal business model, the case study is including an additional company in the case study. Groupon had not been present in the Danish market until the third quarter of 2011. Several clones, relying on the same business model, are currently dominant in the market. Sweetdeal was chosen in order to analyze the competitive market. As Sweetdeal originates from Berlingske Media, an established local media company with several investments in different web platforms, they are very well suited to serve the local market and are amongst the most dangerous competitors for Groupon. Like most of the daily deal sites, Sweetdeal is based on the same business model and is using the same fundamentals. In regard to the previous described development, the chosen companies are very suitable to answer the research question.

Company	URL
Groupon	www.groupon.com

Sweetdeal	www.sweetdeal.dk

Table 4: The chosen companies and their URL

5.2   Setting the stage

As a mix between coupon discount and group buying, the daily deal business model is not an entirely new phenomenon. Offline, the principle of group buying exits in the form of buying clubs, co-ops as well as employee clubs. Since the emergence of the Internet, group buying has existed online on several websites such as Mercata and Letsbuyit. Furthermore coupons are one of the earliest tools used by merchants to pool or aggregate different customers together for volume purchasing. Coupons have been around for over a century, but have gone out of fashion. Coupons have further existed on the Internet and once they became digital, the retailers started to use online coupons as a mean of advertisement. (Hameed, 2011) During the economic downturn, retailers were increasingly willing to offer discount codes to their customers in order to encourage spending. (Draper, 2011, p. 3) The concept of the daily deal business model emerged in 2001, when the French entrepreneur Jacques-Antoine Granjon founded Vente-privee.com. (Scherr, 2010) The daily deal business model is a type of e-commerce, offering local products or services for a short period of time at a steep discount. The business model brings merchants and customers together by leveraging group buying. There are several terms describing this business model. The variations include deal of the day, social coupon and private sale.

The most prominent deal site, Groupon, launched in November 2008 in Chicago. At the moment, Groupon features daily deals in more than 400 markets and thousands of cities around the world. (Groupon Press Kit) Groupon emerged out of a company called The Point, a platform dedicated to social action. The Point lets anyone organize a campaign by asking others to give money or take action as a group to empower charitable courses. The platform enjoyed great success, however like many Web 2.0 sites it lacked solid revenue streams. As Groupon's founder and CEO Andrew Mason notes, the motives behind starting the new project, was to find a business model. (Groupon, 06/02/2011, p. 1)

Groupon's revenue in 2010, just two years after its foundations, was $713 million up from $30 million in 2009. However, this year's sales are on track to be even stronger. Worldwide the company has over 8,000 employees, up from 37 employees just two years ago. It further has 83 million subscribers, who purchased 28 million deals in the last quarter. After several very successful financing rounds, Groupon has recently raised $ 1 billion in a single round of venture capital. On June 2, Groupon filed for an Initial Public Offering trying to raise another

$750 million, revealing skyrocketing sales but ironically steep losses. Remarkably, due to the vast amount of money invested in the aggressive growth, Groupon is not actually earning money. It lost $413 million in 2010 and lost almost $114 million just in the first quarter of 2011. (Pepitone, 2011) The previous described development shows the great potential of Web 2.0 elements in a business model, if they are monetized in the right way. As previously noted, there is a vast amount of daily deal sites. The most prominent one in the Danish market is Sweetdeal. Sweetdeal is founded by Mik Strøyberg as a spin off by the local Media company Berlingske Media. Currently Sweetdeal is present in Denmark, Norway, Sweden, Holland and Poland. (Interview with Mik Strøyberg, Sweetdeal)

5.3   Illustration of the daily deal business model

The following passage will apply the framework developed in chapter 4. To start with, the case study will illustrate the daily deal business model using the previously outlined framework applying the building blocks of the business model to show the money earning logic of the deal of the day business model. The building blocks cover the main areas of a business: offer, customer, infrastructure and finance.

5.3.1 Offer

When Venture Capitalists invest in a company they primarily analyze whether the company produces a product or service that consumers will be enthusiastic about. (Interview with Niels Vejrup Carlsen, Seed Capital) Daily deal business models offer their subscribers a daily discount to a variety of products and services with local merchants. Popular offers include deals at local restaurants, fitness centers, clothing stores and spas. However, the deal does not actually close or become available until a minimum number of people have committed to buy it. The merchants set the actual number when a deal closes. Daily deal business models offer consumers an alternative route to discounts while providing small-business owners with guaranteed revenue and a flood of new customers. Although they are referred to as coupons, the deals sold by Groupon and the like, actually operate more as a discounted gift cards than as traditional coupons. Generally the coupons are not valid online, hence shoppers have to go into the merchants store to cash them in. (Draper, 2011, p. 4)

At its starting point in 2008, Groupon concentrated on offering one deal per day for all customers within a metro-wide local area. Goupons CEO Andrew Mason says: "The model was built around our limitations: We had a tiny community of customers and merchants." As the number of merchants requesting to be featured on a daily deal grew faster, Groupon started offering niche-merchant daily "side" deals. These side deals appeared below the fold,

and where much smaller. In addition, Groupon introduced deal personalization, which will be further analyzed in the paragraph on customer relationship. As of today, Groupon primarily addresses worldwide local commerce markets in segments like leisure, recreation, foodservice and retail. Groupon has offered deals involving over 140 different types of businesses, services and activities that fall into the six broad categories identified in figure 8. The following chart shows the percentage of deals Groupon has offered worldwide across the categories services, retail, health & beauty, food & drink, event as well as activities. The allocation presents the first quarter of 2011. (Groupon, 06/02/2011, p. 1-2)

Figure 7: Deals offered by Groupon in Q1 2011

Value proposition

In regard to the value proposition business models need to offer a product or service that solves a real problem in a specific market, with a significant value proposition. (Interview with Niels Vejrup Carlsen, Seed Capital)

As previously mentioned in paragraph 5.2, as an effect of the economic downturn, retailers had increasingly offered online discount codes to their customers in order to encourage spending. As an immediate response, websites popped up across the Internet where customers could share discount codes. Marketers felt they had lost some control over their discounts. The ability to share the discount codes online had shifted power away from retailers to the consumers. However, the deal of the day businesses found a way to gain back the power associated with the coupons. (Draper, 2011, p. 3)

The value proposition provided by social coupons has further advantages for the merchant. Groupon highlights, that they bring the brick and mortar business of local commerce to the Internet, by creating a new way for local merchants to attract customers and sell goods and services. (Groupon, 06/02/2011, p.1) Traditionally, local merchants have tried to reach their

consumers and generate sales through methods like the yellow pages, direct mail, newspaper, radio, television, online advertisements and promotions. These methods required a tremendous investment upfront. Many small and local businesses are unable to raise enough capital to finance the marketing activities. Furthermore the return on investment is fairly hard to calculate. Daily deal sites however require no upfront fees and promise a guaranteed flood of paying customers. Mosler says that Groupon represents an entirely new way of advertising. Traditionally companies would pay for advertising up front with no way to predict how effective their promotion will be. Groupon however gives businesses exposure even if the deal does not go through. The daily deal model generates a tremendous amount of value for the local merchants, with every marketing effort going directly towards a paid customer. Furthermore the merchant receives a volume guarantee, as he only has to pay out the discount if a certain level of paying customers signs up for the deal. Whether or not a single person buys the offered deal, the merchant is getting featured in a newsletter to a community of local shoppers. In that regard, the merchant's cash outlay is zero and the flow of cash is unidirectional (i.e. payments are only going from Groupon to the merchant).

In order to drive long lasting value, Groupon thrives to deliver new customers who have the potential of becoming regular customers. As Groupon's research shows, 22% of its customers make a repeat visit to a business after using their coupons. (Scherr, 2010) Mobilizing consumers who for example attempt to eat solely of Groupon deals is not part of the strategy. Furthermore, when cashing in the deal, users generally tend to spend 50% more than the value of the actual deal. (Coburn, 2010) When customers are paying 50% for a product or service, they are more likely to make an additional purchase. (Interview with Mik, Støyberg)

The logic behind collective or group buying is that groups are able to negotiate a better price by buying in bulk while businesses benefit by selling more of their stock. (Draper, 2011, p.1) Further, deal of the day sites provide a value proposition to the ultimate customer. Groupon provides their consumers with savings and help them discover what to do, eat, see and buy in the places where they live and work. According to Groupon, they have provided their worldwide customers since the launch in 2008 with savings worth $2 Billion. (Groupon, 06/02/2011, p. 1) At Groupon, discounts offered to the customer range between 40-90% with an average of 60%. However Mason says the criteria is not as much the percentages, however it needs to be the best deals that the business owners have ever run. Ultimately the customer trusts Groupon, that they will not find the same deal for a better price on the web. (Stacoviak, 2010) Mason says: "For every business we feature, we pass on seven," (Scherr, 2010)

At the same time, the featured deal will provide the customer with an experience. (Stacoviak, 2010) As Julie Mossler comments: "Customers look to us to get them off the couch and introduce them to something new […] For a lot of people, the discount is more of a catalyst or excuse to do something you wouldn't normally do," In addition to the deep discounts, customers are provided with product/service information. Consumers have the opportunity to discover services and products that they otherwise wouldn't have know about or tried. (Palmer, 2010)

5.3.2 Customer

The relationship between the merchant and the consumer is strongly interlinked with the value proposition. The value proposition offered by deal of the day business models depends on the quality of the provided service and support. In that regard, Mik Strøyberg says, at Sweetdeal the local sales force further work as business developers. Hence, customer relationship management is of significant importance. Strøyberg ads, "we are trying to build a relationship and try to make their business grow bigger and stronger. […] We are thinking about the supplier because if they will suddenly turn against the deal of the day solution, then we have nobody to turn to." (Interview with Mik Strøyberg, Sweetdeal) The same development can be seen at Groupon. As Groupon is selling a second parties product, the merchant has the upper hand in any deal negotiations. (Mourdoukoutas, 2011) Previously the main focus was on the closing of deals, fostering one-time promotions. However helping merchants to grow their businesses is key to the sustainability of the daily deal businesses. Groupon's director of operations Ryan Miller says, "If we are out there and working with businesses and helping them better understand how to be successful, then we are successful." Now, Groupon believes in spending more time in the trenches, sitting down and talking to business owners to figure out what their needs are. Groupon is helping advertisers face challenges, which particularly occur for merchants that don't have the business know-how to maximize their potential. (Marszalek, 2011)

"An important aspect about the Web 2.0 product is that you use the social graph of users in some way. You can use it as a marketing tool. To spread your product virally or in some other way use social mechanisms enabled by players like Facebook, Linkedin or that type of service. [And in other words] leverage network effects, directly". (Interview with Niels Vejrup Carlsen, Seed Capital) Mason notes that the deals offered by Groupon are inherently social. Chances are that the users want to share their experience with their peers. The users use communication tools such as Twitter and Facebook to share the deals. Groupons website

and mobile applications enable the consumers to push deal notifications to their personal social networks. The integrated tool Facebook Connect, allows consumers to find deals that may interest them by geographic region while logged into their Facebook account. Thereby, the users have the opportunity to share interesting deals on their Facebook news feed, where others can pick up on them and comment on their purchases. (Calderón, 2010) Social web and viral marketing create a network effect business, which makes this model highly attractive. Groupon gets more of its traffic from Facebook than from any other site, including search engines like Google. This fact is a significant cost advantage. (Carpenter, 2010) The value of the network effect is coming from the links between the consumers, arising from the interactions using these applications. As previously explained, Metclafes law explains this with the social constructs within Web 2.0 applications.

Collective buying relies heavily on network effects. (Coburn, 2010) Adding a minimum and maximum of customers to the deal foster these network effects. The idea behind offering a deal only for 24 hours is a widely used method in traditional advertising. The time pressure may cause consumers to make impulsive decisions rather than sifting through the available information on the specifics of the deal. (Draper, 2011, p. 7) Groupon describes the network effect as a vicious circle. According to the company, scale in the consumer market provides scale in the merchant market and vice versa. In further detail Groupon describes this development as follows: On the consumer side, increased relevancy enables the offer of several daily deals. Hence, purchases increase by targeted subscribers and thereby demand for Groupons is increased. The same development can be seen on the merchant side. By increasing the merchant base, the number and variety of deals offered to the consumer increases. This drives higher subscriber- and user traffic and thus promotes greater merchant interest in offering deals through the marketplace, which creates a network effect. (Groupon, 06/02/2011, p. 71)

Web 2.0 applications commonly make their users partly responsible to increase the user base by inviting other users. In order to offer deals that fit the consumers' preferences, Groupon launched a business suggestion tool, which leverages the previously mentioned Web 2.0 element of crowdsourcing. The tool enables the subscribers to suggest places that they would like to see featured in a Groupon deal. Groupon further uses a customer referral program to support the previous mentioned network effects. (Draper, 2011, p. 7) The referral program, gives a ten-dollar credit to everyone who brings in a new customer. (Stocoviak, 2010) A similar development can be seen on the merchant site. Groupon is selling a second party

product or service. The actual task of fulfillment of the voucher is sourced out to the crowd. Groupon is further testing a new feature called Groupon Stores. This tool allows merchants to create pages similar to the ones provided by Facebook, where fans can follow them and access deals. The businesses can add their own deals, bypassing Groupon's long waiting lines in each city. (Axon, 2010)

Groupon and other deal of the day businesses further provide a discussion board for people to ask questions or comment on deals. Groupon's discussion board fulfils the three previously described criteria of user-generated content. Furthermore, the users are unified through a common interest and encouraged to participate and create content. By providing the forum for discussion, they can monitor the content and respond quickly and direct to the user concerns and complaints. (Draper, 2011, p. 7) As mentioned in chapter 2.4.1, the number of active users and the intensity of their participation determine the quality of Web 2.0 communities. The architecture of participation works as a cycle, where an increasing and active user base attracts more users who will in turn ad to its value. The consumer's participation is based on the perceived effort, the entry barriers and the expected benefit. As users contribute to any kind of third party content they determine the quality of the service. Groupon's market position benefits significantly once the network effect begins to build and the customer awareness increases.

As previously described in chapter 2.4.1, the biggest indicator of success for Web 2.0 application is the number of its users. For Groupon, the best indicator of their users is represented it its subscriber base. Groupon's viral marketing efforts and user-to-user advertisement helped them to grow their subscriber base. As a result, between June 30, 2009 and March 31, 2011 Groupon's subscriber base increased from 0.2 million to 83.1 million subscribers worldwide. The following chart below shows the number of subscribers as of the end of each quarter from June 30, 2009 to March 31, 2011:
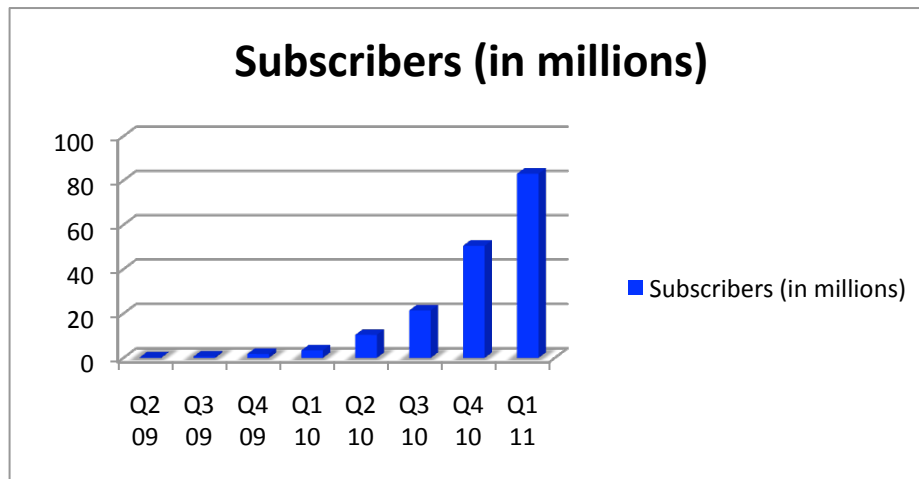
Figure 8: Groupons subscriber base

Mason says: "Today, we are pursuing models of reinvention that would not be possible without the critical mass of customers and merchants we have achieved." (Groupon, 06/02/2011, p. 2) Furthermore, a critical mass of subscriber is also decisive for the feasibility of revenue models.

Customer segment

In order to benefit from long lasting success, segmentation is very important for deal of the day business models. Each customer who redeems a voucher represents a different level of profitability for the local merchants. Ideally, local merchants want to reach new customers who generate recurring business. However, in addition to those high-value customers there are two other types: customers who are highly price-sensitive and only spend money because of the deep discount as well as existing customers who would have originally purchased at full price, but gain the benefit of a deep discount. (Summer, 2011)

According to Groupon however their customers aren't like the traditional coupon clippers. 77 percent of the users are women, with full time work and about half of the users are single. Further, about 50% earn over $70,000 a year and 29 percent earn more than $100,000. (Palmer, 2010) An online survey conducted by the consulting firm Accenture in 2011, confirms this trend. The survey showed that of American households with annual income of at least $150,000, 54 percent are signed up for a deal of the day site. Further, the participation rate drops to 27 percent when annual household income falls to $35,000 or less. (Wong, 2011) Groupon mainly relies on a relative small number of hits for mainstream products and markets at the head of the demand curve. Even though Groupon features a rather wide range of different deal segments, they avoid the obscure corners of any particular product niche. This strategy of offering deals for the masses comes with large sales volume but a rather low

variety. However, as an effect of the in chapter 2.4.3 described long tail, competitors are creating deal of the day boutiques with specialties like eco-friendly products, outdoor adventures and pet supplies. (Bruder, 2011) As described by Anderson (2006) the costs of production and distribution fall online, hence small deal of the day sites benefit from the vanished limitations of distribution. These competitors are targeting their offer at the tail of the demand curve with a large variety of products with relatively small sales volume. The competitive forces for deal of the day business models will be further analyzed in the next paragraph.

In order to address the concerns listed above, Groupon introduced deal personalization. Groupon's CEO Andrew Mason says, the company increased its investment in technology and released deal targeting. This program enables Groupon to feature different deals for different subscribers in the same market, based on their personal preferences. In addition to providing a more relevant customer experience, Groupon is able to manage the flow of customers and open the marketplace to more merchants. (Groupon, 06/02/2011, p. 2) Before Deal Personalization, Groupon could only handle 100 daily deals. Hence they had to turn down seven businesses for every one they featured. Deal personalization however enables Groupon to offer several side deals. In addition to featuring the smaller businesses Groupon now offer more niche items, such as candles, ghost tours, and handmade jewelry. Prior to deal personalization, Groupon had a hard time to for example decide between these niche deals and a restaurant deal. (Hill, 2010)

In practice, deal personalization works as follows. Based on calculations that attempt to predict the deal each consumer would prefer, Groupon sends different deals to consumers within the same local area. Among other things, Groupon filters the deals a subscriber sees based on their gender, buying history and interests. Groupon suggests that their offer will reduce the pressure on individual retailers and through efficient targeting sends consumers deals from retailers they are more likely attracted to. While consumers can access any of Groupon deals on their website, only one deal is actually sent to their email inbox each day. (Draper, 2011, p. 5) Mosler said, deal personalization allows Groupon to "showcase hidden gems." Mosler further explains: "The more you interact with our site, the more we will be able to predict what you're looking for." As previously described in chapter 2.4.1 user interaction is prominent feature of Web 2.0. Users contribute to the product. Julie Mosler further says that deal personalization is addressing the biggest consumer concern with daily deals. The primary reason for consumers not to buy deals, is that the consumer want to be

offered deals that are relevant to them. Deal personalization is a huge opportunity to Groupon, as their goal is to retain customers. In contrast to being able to suit the average customer, Groupon wants to suit every customer. Mossler notes, that Groupon customers profits from discounts at niche businesses that have not been discounted in the past. (Draper, 2011, p. 5)

Distribution channel

Daily deal business models rely on a multi channel distribution strategy. Groupon distributes their deals directly to the consumer through several platforms: a daily email, websites, mobile applications as well as social networks and applications. Each day Groupon emails their subscribers deals, targeted by location and personal preferences. (Groupon, 06.02.2011, pp. 79-80) Groupon has about 15 million e-mail addresses and nearly all of which are under one year old. Consumers are encouraged to leave their addresses while registering on the website. (Heine, 2010) The featured email contains one headline deal with a full description of the deal. Often the email further contains links to other deals of which all are available within a subscriber's market. A subscriber who clicks on a deal within the daily email is directed to Groupon's website to learn more. (Groupon, 06.02.2011, pp. 79-80) A big factor when it comes to the success of a deal is the editorial voice. Strøyberg says "the copywriting is everything when it comes to daily deal sites." The same development can be seen at Groupon. (Interview with Mik Strøyberg, Sweetdeal)

The reason for the distribution of deals by email was particularly important in Groupon's early days. Convincing users to come back regularly to the website requires very compelling deals every single day. However, by offering an email newsletter, Groupon only had to have enough good deals to keep users from unsubscribing. (Ha, 2010)

Daily deal business models use their website as a portal for the consumer to purchase deals. The application is running in the consumers' browser window, daily deal sites are using the web as their platform to distribute deals. Although the vast majority of Groupon's revenue comes from existing subscribers, purchases from unregistered consumers on the website constitute a significant part of the revenue. As previously described, the website further provides opportunities for user engagement with the Groupon community. Those opportunities on Groupon's web platform include a blog maintained by the employees, forum in order for subscriber to meet with others to redeem Groupons at a particular location, a collection of digital photos from subscribers and reward programs for referring new subscribers.

Groupon's consumers are further enabled to access deals through various mobile applications.

By leveraging the elements of Web 2.0, distribution channels are not limited to the PC anymore. These applications enable the consumers to browse, purchase, manage and redeem deals on their mobile devices. Further, the mobile applications feature deals that are offered based on the location of the subscriber. (Groupon, 06.02.2011 pp. 79-80)

In respect to viral marketing, business models use this, to spread or market their message efficiently and with relatively few funds or for free. (Interview with Niels Vejrup Carlsen, Seed Capital) As previously mentioned, Groupon publishes their deals through various social networks. The notifications are adapted to the particular format of each social networking platform. Groupon's website and mobile application interfaces enable the consumers to push notifications of the deals to their personal social networks. (Groupon, 06.02.2011 pp. 79-80)

The same development can be observed at Sweetdeals. Social media plays an essential part in the distribution of deals. Strøyberg says the way Sweetdeal uses social media is not that different for permission marketing. Sweetdeal can monitor the opening rates of each link as well as how many clicks actually lead to closed sales. Further, every time the company posts something, they can see how many comments or shares a post generates. The benefit of social media for Sweetdeal is that if a consumer tells a friend to buy a deal, he is more likely to listen. However if the message comes from an advertiser it is not that reliable. Strøyberg says, "Friends telling other friends is always much more valid." (Interview with Mik Støyberg, Sweetdeal)

A different channel used by deal of the day business models like Groupon is the utilization of various online affiliates. The affiliates display and promote Groupon deals on their websites. Groupon has agreements with several large online brands to distribute deals among their user base. Affiliates earn a commission when their website visitors purchase Groupons through their site. The commission rate varies depending on whether the customer is new or existing and the website's overall sales volume. Commissions are further offered to affiliates when they refer a customer to Groupon. Additionally, Groupon uses various customer loyalty and reward programs to leverage crowdsourcing, build brand loyalty and provide customers with incentives to buy Groupons. When customers provide a referral to a new subscriber or participating in promotional offers, they receive customer credits that can be redeemed for awards such as free or discounted goods or services in the future. (Groupon, 06/02/2011, p. 2)

5.3.3 Infrastructure/Eco system

Partner network

Deal of the day business models rely on broad networks of partnerships. The partnership

includes their featured merchants, consumers, affiliates and several acquired businesses. When Groupon partners with a merchant in order to offer a deal for its products or services, the merchant receives an agreed upon percentage of the revenue from each Groupon sold. (Groupon, 06.02.2011 pp. 7-79) As previously mentioned Groupon further uses its relationship with the consumer for crowdsourcing. The company partners with its consumers in order to find new subscribers and new deals. Their customer referral program helps the company to find new subscribers through its existing customers. After a successful referral, the consumers are granted credits, which they can redeem for free- or discounted goods or services in the future. Further, Groupon partners with the consumer through their deal suggestion program, sourcing tasks of local deal scouting out to the consumer. (Groupon, 06.02.2011 pp. 7-79)

As previously mentioned, Groupon additionally utilizes various online affiliates to display and promote Groupon deals on their websites. Groupon has agreements with several large and small online brands to distribute their deals. Prominent online affiliates include eBay, Microsoft, Yahoo and Zynga. Other partnerships allow the daily deal business to distribute deals to their partner's user base.

Groupon has further entered into several acquisitions and agreements with local partners in order to expand the international presence. Typically, the core assets that Groupon gains from an acquisition is a local management team, new subscribers and merchant bases, to which Groupon then applies their expertise, resources and brand to scale the business. (Groupon, 06.02.2011 pp. 7-79) Groupon intends to acquire competitors who rely on the same business model, which have already done the hard work of establishing local followers. Groupons president and COO Rob Salomon says: "We're building by partnering" (Underwood, 2010)

At Sweetdeal, the partnership with Berlingske Media has benefited the business significantly. According to Mik Strøyberg, Sweetdeal was firstly able to benefit finically from the back up, however there are further benefits from the established media relations. Due to the fact that Berlingske Media has an existing reader base, Sweetdeal was able to leverage the existing E-mail database. Berlingske Media further has 54 local newspapers reaching 3.8 million Danes a month, which Sweetdeal was able to use for its marketing. Further Sweetdeal was able to gain credibility due to the fact that they where backed up by Berlingske Media. (Interview with Mik Strøyberg, Sweetdeal)

Value configuration

Customer loyalty represents a challenge for the value configuration of daily deal business

models. Mason says, "nothing would be as crucial to our long-term success as happy customers and merchants. We put our phone number on our printed Groupons and built a huge customer service operation". Further Groupon has a completely open return policy, which means that customers receive a refund if they are unsatisfied. The reason for this policy is that market success comes as a side effect of customer satisfaction. (Groupon, 06/02/2011, p. 3) Sweetdeal has a similar policy. For the merchants, the consumers have no value if they don't come a second time. Hence, the merchants have to treat the customers better if they are only paying half price. The same goes for unsatisfied customers, hence Sweetdeal has the same no questions asked, all money returned policy as Groupon. Strøberg says, "because we know if we start screwing up the customers, everything will drop down." (Interview with Mik Strøyberg, Sweetdeal)

Many consumers, who buy the offered daily deals, redeem the coupons without spending anything extra or returning to the business. The merchant is left with a loss after splitting the revenue with the coupon distributor. According to Strøyberg, it is hence very important to Sweetdeal to let the merchant know about the significance of how they treat the customers. Sweetdeal consults the merchants to offer additional products or services to their customers in order to make up sells and generate a higher return on investment.

Groupon also sees the importance of up sells. In order to foster its value configuration, Groupon introduced in October 2011 a customer loyalty program. The program grants consumers who spend enough money to qualify for the reward, an additional discount to the previous deal. Merchants who join the service set a spending target for customers to hit before they qualify for an even steeper discount. The system further makes it simple for merchants to monitor the customer loyalty. (Liedke, 2011)

Groupon previously mentioned business suggestion tool, leverages the in chapter 2.4.2 described Web 2.0 element of crowdsourcing. In the form of an open call, Groupon is milking the masses for inspiration, maintaining market orientation and customer driven innovation. Groupon is trying to outsource the task of local deal scouting in part to the masses. Subsequently, Groupon will try to produce the ideas for its own gain. Mason says: "We created this tool in order to get the feedback of the community. […] We will see if the crowd ends up being right about whether those businesses end up being successful Groupon features." (Stocoviak, 2010) Due to the fact that contributors are not pre-selected, Groupon will have to select them a posteriori. In a sense of O'Reilly (2004), as Groupon applies the business suggestion tool they implement an architecture of participation. The consumers take

part in the production of the service by suggesting deals. The deal suggestions root from the intrinsic motivation to receive deals that fit their consumption habits. By perusing their own interest, the consumers build collective value as a by-product. Crowdsourcing enables Groupon to leverages the relationship of the customer. (Draper, 2011, p. 7)

Core capabilities
By June 2011, Groupon has offered 1000 daily deals to 83 million subscribers across 43 countries and has sold to date over 70 million Groupons since its launch in 2008. As Groupon says, reaching this scale in about 30 months required a great deal of operating flexibility. In order to create value for the consumer and merchants, deal of the day business models have broad set of capabilities. Instead of offering the same deals every day, Groupon's value to the customer is built on the quality of the merchants as well as an offer characterized by exciting and unique experiences for the consumer. Customer satisfaction is further fostered by the companies open return policy.

Groupon further spends a lot of money in order to acquire new subscribers. Groupon is also in a constant stage of reinvention. As previously mentioned, Groupon's business model started by offering only one deal per day in each market. However as demand grew bigger Groupon modified its business model and invested in technology in order to introduce deal targeting. This enabled Groupon to feature more merchants, manage the flow of customers and offer niche deals to their subscribers. Deal suggestion, and customer referral tools further include the consumer in the development process of the core competencies. With Groupon NOW, Groupon is further pursuing models of reinvention in order to follow the mobile trend. As previously mentioned, Groupon NOW introduces an additional distribution channel to the business model and enables the company to offer its deals over mobile applications directly to the subscriber. (Groupon, 06.02.2011, pp. 1-5)

5.3.4 Finance

In order to track its performance, Groupon uses among other metrics gross profit, adjusted consolidated segment operating income, or adjusted CSOI, and free cash flow. Groupon believes gross profit is the best proxy for the creation of value, because it reflects the value of their service to the merchants. Further metrics include free cash flow, which is used in order to maintain long-term financial stability. Free cash flow amounts to the generated cash after the costs on marketing, wages and benefits, capital expenditures and other items are substracted. Free cash flow further reflects changes in working capital. In 2010 and the first quarter of 2011, Groupon generated a free cash flow of $72.2 million and $7.0 million,

respectively. A third metric to measure Groupon's financial performance, is Adjusted Consolidated Segment Operating Income, or adjusted CSOI. This metric is Groupon's consolidated segment operating income before new subscriber acquisition costs and certain non-cash charges, which would otherwise not indicative of future operating expenses. CSOI is Groupon's operating profitability before marketing costs incurred for long-term growth. In 2010 and the first quarter of 2011, Groupon generated an adjusted CSOI of $60.6 million and $81.6 million, respectively. (Groupon, 06/02/2011, pp. 2-7)

Revenue stream

Once the value proposition and the customer are defined in the business model, the question is how can the company monetize this? (Interview with Niels Vejrup Carlsen, Seed Capital) In regard to Groupon and the daily deal business model, revenue streams are as follows. The daily deal business model generates revenue through a commission on the successful placement of their deals. (Groupon, 06/02/2011, p. 2-7) According to Groupon, they split the generated profit from a sold deal roughly at 50% with the merchant. However, if the offering of a deal is significantly attractive for Groupon, they do deals for less than half of the revenue. In the second quarter of 2011, Groupon's average share was 39 percent. (Conlin, 2011) The following example illustrates the revenue stream. The consumer is for example offered a massage valued at $100 for $50. Groupon and the merchant would split the $50 between each other at an agreed rate of 50%. Groupon commission would in turn be $25 per sold deal.
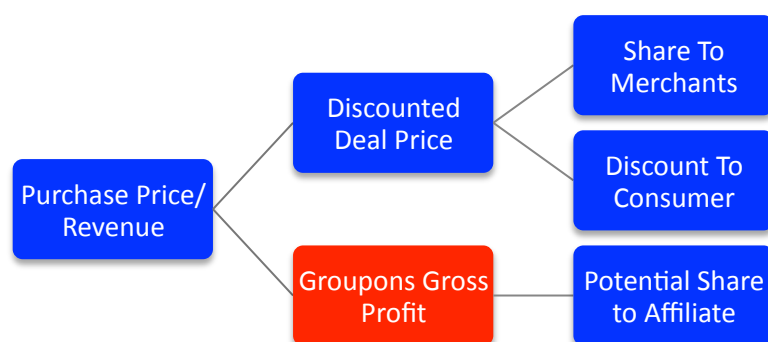
Figure 9: Revenue Stream

Figure 10 further illustrates the revenue stream generated from the positive placement of deals. The purchase price amounts to the money collected by Groupon from the sale of a specific deal. The purchase price is then split in the discounted deal price and the gross profit to Groupon. Groupon's revenue might be divided up with additional parties, such as affiliates, that played a role in the promotion of the deal. The discounted deal price is further split in the share to the merchant and the discount to the customer.

A further source of revenue for Groupon is the fact that some of the buyers never cash their deals in. Under these conditions, Groupon will keep the funds. (Coburn, 2010) As for the compensation of the parties involved, the merchant makes up for its cost of the discount through sheer volume of sales or by the up sales of additional goods not included in the deal. The consumer gets discounted merchandise or services. Further the deal site is compensated by its cut of the promotion. (Schiller, 2011)
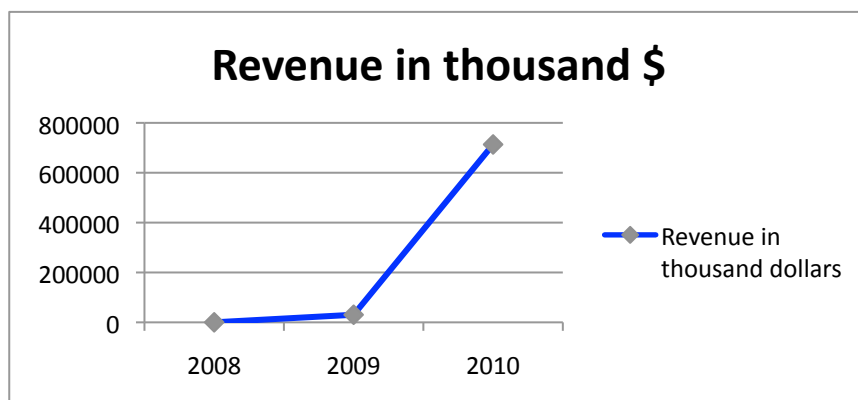
As of January 2011, Groupon has sold 22 million Groupons in North America (Groupon Press Kit) Groupon has increased

Revenue in thousand $

Figure 10: Groupons revenue in thousand dollars, expected per share dollar

its revenue from its launch in 2008 from $94.000 to 713,365 in 2010. Just in the first quarter of 2011, Groupon has generated $644.7 million in revenue. Figure 11 displays the increase in Groupon's revenue from 2008 to 2010. The data for each year ended on December 31. (Groupon, 06/02/2011, p. 2-7)

However, the average revenue per Groupon has fallen over the years. Further, on individual subscriber level, Groupon's revenue has been falling as well. However, the overall increase in Groupon's revenue can be directly attributed to the increasing number of Groupons sold. Further, this number was driven by subscriber growth in the existing markets as well as the companies' entry into new markets.

Allocation of Revenue in 2010, in % of total
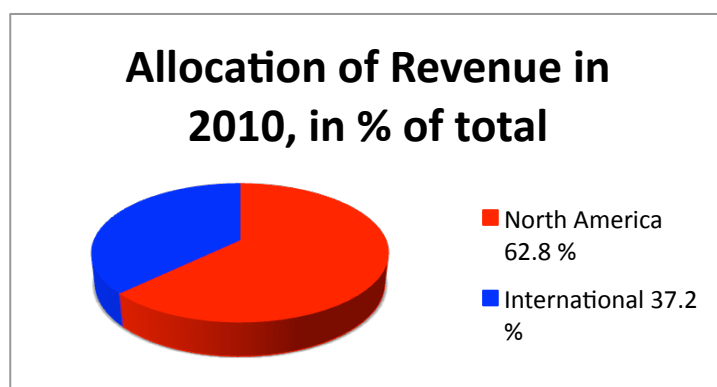
■ North America 62.8 %

■ International 37.2 %

Figure 13: Allocation of Groupons Revenue

As of 2010, which is just two years after it's founding in Chicago, 37,2% of Groupon's total revenue comes from its international sales. Figure 13 visualizes the allocation Groupon's revenue in 2010.

Those numbers have to be seen in context with the fact that Groupon offers hyper local deals. However,

this development routes from Groupons strong investments in international expansion as well as aggressive acquisition strategy. (Groupon, 06/02/2011, p. 52)

Cost structure

There are various costs associated with the operation of this business model. Among others the costs include applicable taxes, website development costs, customer refunds and obligations related to credits earned for customer loyalty and reward programs. Further, costs of revenue consist of the amounts paid to and accrued for the merchants associated with the sale of its deals. (Groupon, 06/02/2011, pp. 9-46) As previously mentioned, due to Groupon's crowdsourcing and viral marketing activities the site gets most of its traffic from the social network Facebook. Furthermore, Groupon is already a synonymous for deals of the day. (Carpenter, 2010)

The costs associated with the offering or distributions of deals to existing subscribers are in comparison not significant. However Groupon's subscriber acquisition costs are of significant importance to the profitability of the business model. In order to increase its revenue and achieve profitability, Groupon acquires and retains subscribers. Groupon characterizes its online marketing expenses as subscriber acquisition costs. (Groupon, 06/02/2011, p. 46) In 2010, Groupon has increased its spending on advertising and subscriber e-mails from $4.5 million one year earlier to $263.2 million. Further, the cost of adding subscribers has risen. Groupon argues that the cost is worth it and highlights spending $18 million to add about 3.7 million subscribers in the second quarter of 2010. (De La Merced, 2011) Respectively, Groupon has spent $179.9 million on online marketing initiatives relating to subscriber acquisition for the first quarter of 2011. The company further expects to continue to expend significant amounts to acquire additional subscribers. (Groupon, 06/02/2011, p. 46)

Success/profit

Forbes Magazine has named Groupon the fastest growing company ever. The company is on pace to generate $1 billion in sales faster than any company in history. (Steiner, 2010) As previously described in this thesis Groupon has vast amounts of revenue, leading to a large gross profits. In the first quarter of 2010 Groupon generated a gross profit of $280.0 million. Furthermore merely in the first quarter of 2011 they generated $270.0 million in revenue. (Groupon, 06/02/2011, p. 3)

Groupon has generated revenue in the first quarter of 2011, which is more than 200 times what it was in the same period in 2009. However, its losses have been rising statically. Groupon has invested vast amounts of its funds into customer acquisition. As previously

mentioned, these investments have increased the subscriber base from about 2 million in the beginning of 2010, to over 83 million by March 2011. However, this comes at an immense cost. The heavy investments in growth have turned the companies' gross profits into steep losses. (Lee, 2011) Groupon net losses have risen from $1,341 million in 2009 to $389.6 million in 2010 and $102.7 million in the first quarter of 2011. Taking the losses into consideration, the question of sustainability might arise. Groupon however recently cut back on its biggest expense, Marketing. Hence Groupon's operating loss decreased from $101 million in quarter 2 of 2011 to $239,000 in quarter 3. (Blodget, 2011)

However, Groupon will continue to invest in order to increase its subscriber base, the number and variety of offered deals as well as expand its marketing channels, its operations, hire additional employees and develop a new technology platform. Furthermore, as previously discussed, Groupon's revenue growth is slowing. Hence the issue of sustainability of the business model might arise.

Groupon however sees this development as an investment in long-term growth. Groupon pursues growth, regardless of what they observe as short-term consequences. Mason highlights: "We spend a lot of money acquiring new subscribers because we can measure the return and believe in the long-term value of the marketplace we're creating." (Groupon, 06/02/2011, p. 2-12) Groupon's strategy is based on the fact that the rising customer acquisition costs are financed through the flow of revenue of the acquired customers. However, this requires Groupon's existing customers to purchase multiple deals. Groupon's customers are indeed buying subsequent deals even if they are doing this at a declining rate. (Sinsky, 2011)

The valuation of the three-year-old company is tremendous, however it varies significantly. As of the unproven industry and Groupon's vast growth, the valuation underlies a great extend of uncertainty. In June 2011, Groupon's valuation was at all-time high of $25 billion. (Conlin, 2011) On November 03, 2011, the day of Groupon's listing on the Nasdaq, the company was valued at $12.7 billion. None of the above mentioned is to suggest that Groupon is not a great success story. The stock offering is the largest for an Internet company in the United States since Google was listed on the stock exchange in 2004. (Rusli, 2011)

5.4 Role, place and use of the deal of the day business model

In the following, the thesis will analyze the Role, place and use of the deal of the day business model. The paragraph will analyze the interlinked relationship between the daily deal business model, business strategy, business organization and technology or ICT (information

and communication technology) of the organization. Consequently, the pressures to the business model from the external environment will be analyzed.

5.4.1 Business strategy

As previously described, the same business model is commonly used by a variety of companies. As a firm's strategy is however individual, Groupon is striving for competitive advantage through it's strategy. In order to seek differentiation, deal of the day models pursue different strategies.

In its early days, Groupon took a rather email-centric and less technologic approach to its business model. This approach however was shaped by its constraints. Mason further said, Groupon only featured one deal a day because the company did not have the resources to support more. But those constraints forced the company to take a more creative approach in designing its business model. (Ha, 2010) Groupon found an innovative way to combine discounts at a variety of marketplaces with social networking aspects. Further as previously described, Groupon follows a strategy of integrating their customers in various parts of their business model. Mason says, well written and engaging content is a key part of convincing users to keep reading about new shops that they might never have heard of. (Ha, 2010)

Groupon is further perusing an early and aggressive globalization strategy by acquiring strategically positioned "Groupon clones" around the world. The strategy is to acquire regional understanding of cultural nuances and local preferences through the takeover of previous rivaling businesses. Furthermore Groupon is trying to acquire the established relationships with local merchants and introduce best practices after the acquisition. (Underwood, 2010)

Groupon does not intend to pay out dividends to its investors. However, it will invest its revenue in future growth. As Groupon's business scales over time and becomes more established in a greater percentage of its markets, they intend to decrease marketing expenses. (Groupon, 06.02.2011, pp. 30-47)

Like most local competitors, Sweetdeals strategy is to apply Groupon's already proven business model to its local market and achieve competitive advantage through the hyper local presents and origins of the company. Further, the strategy is to integrate the daily deal business model within the established media group from Berlingske Media and benefit from established media relations. Sweetdeal further differentiates it self through offline presence. (Interview with Mik Strøyberg, Sweetdeal)

5.4.2 Business organization

Groupon has divided its business operations into several core functions. Groupon currently employs 410 city planners, who identify merchant leads and manage deal scheduling to maximize deal quality and variety within the markets. Once a contract is signed, one of Groupon's 277 merchant service representatives initiates the first of several communications with the merchant to introduce the merchant to the tools to provide and plan for Groupon redemptions through expiration. Customer relations are further handled by 825 customer service representatives, who can be reached via phone or email 24 hours a day, seven days a week. Furthermore, the information technology team consisted of 253 employees. The IT team focuses on the design and development of new features and products, maintenance of the websites and development and maintenance of internal operations systems. Groupon employs 925 employees in its editorial department. This department is responsible for creating editorial content on the daily deals as well as additional content featured on the website. Each deal that Groupon features goes through several stages to ensure that the deal description meets the standards for accuracy, quality and editorial voice. After offer details are reviewed the editorial staff verifies the accuracy of the deal and its value. Furthermore the editorial staff drafts a full description of the deal, which is passed through voice editing and copy editing before being launched. (Groupon, 06.02.2011, pp. 80-82) There is a great amount of effort and cost, which has to be put into newsletters. The global scalability of this issue might arise as a problem. (Interview with Niels Vejrup Carlsen, Seed Capital) Groupon penetrates smaller markets out of centrally placed offices. In the case of Denmark, Groupon manages its activity out of its Berlin based offices and publishes the deals from its London office. For the hyper local aspects of its business model this might arise as a problem, which represent an opportunity for local competitors such as Sweetdeal. (Interview with Mik Strøyberg, Sweetdeal)

Internally, Groupon is using Web 2.0 applications to scale its business and power its current services. Rather than relying on its own complex internal systems infrastructure, Groupon uses cloud-based services to control its business, keep the website running and increase the deal flow. Cloud based services further allow the company to quickly expand its bandwidth and processing power at a moment's notice. Due to the fact that Groupon is a web tool combined with actual local commerce, it is crucial to keep the site accessible for all stakeholders. Groupon uses Customer Relations Management (CRM) software hosted in the cloud to coordinate its deals and sales force. Groupon's employees can access deals at

different stages online and ad comments and remarks. Furthermore, Groupon approves every deal that they publish on cloud-based services in various markets. Further its team of writers uses the service to craft the descriptions of each deal. Groupon employees are further enabled to comment about a deal, make suggestions or changes and keep up-to-date on what is going on throughout the cloud based services. Groupon's editorial team crafts the descriptions for each offered deal on the companies website. The information is added into its cloud based CRM software and can then be published directly on the website. The advantages of this solution, is that deal information and assets are accessible within the cloud for future access or reference. Because Groupon is based in the cloud, data can be collected not just from the local web browser but also from mobile devices. According to Groupon, they will further add cloud-based tools that will enable its agents in the field to digitally sign contracts and other documents. This will reduce the amount of overhead and transfer time. (Warren, 2011)

However, Groupon is trying to leverage the crowdsourcing element of Web 2.0 in order to vanish problems concerned with saleability. By introducing the previously described business suggestion tool, Groupon is trying to outsource the task of local deal scouting which currently has to be done by the local city planners to the network of consumers.

5.4.3 ICT/Technology

As daily deal business models are using the Web as their platform to distribute deals, ICT has a quite important role in their business model. As previously mentioned, data is of significant importance to Web 2.0. Daily deal business models have the opportunity to collect extensive information about their users. Digital markers are used to collect information about the users online activity. Groupon is provided with detailed information about a user's online behavior. Personally identifiable information is used to provide information about products and contests, improve marketing efforts and create an enjoyable, tailored experience. The media-buying ecosystem is increasingly focused on the buying and selling of digital reputations. This practice enables the creation of profiles of individuals that are as specific as possible so that marketers can target users with relevant content. Groupon is using their customer's addresses to offer different deals. Groupon is building its customer database and will continue to find ways to leverage the customer data to provide its users with more relevant deals in order to incline the profitability of its business model. (Groupon, 06.02.2011)

Groupon employs technology to improve the experience offered to subscribers and merchants, increase the purchase rate for subscribers and enhance the efficiency of their business operations. Groupon uses a common technology platform across North America. Groupon

plans integrate this platform as a part of their integration of best practice. The platform includes business operations tools to track internal workflow, applications and infrastructure to serve content at scale, dashboards and reporting tools to display operating and financial metrics for historical and ongoing deals, and a publishing and purchasing system for consumers. Data centers host the public-facing websites and applications, as well as back-end business intelligence systems. Antivirus, firewall, detection tools and patch-management technologies are used to protect and maintain the systems located at the data centers. A component of Groupon's strategy is to continue developing and refining the technology. Substantial portions of Groupon's resources are spent to develop new technologies and features and to improve the core technologies. (Groupon, 06.02.2011 pp. 80-81)

5.4.4 External pressures on the daily deal business model

The following passage analyzes the pressures from the external environment to the daily deal business model.

5.4.4.1 Competitive forces

The environment of daily deal business models is a very busy space. Groupon has popularized the entire space. However as previously mentioned, the French Bon-privé has developed the business model before Groupon. (Interview with Niels Vejrup Carlsen, Seed Capital) The early adopter phase of an innovation demand curve is characterized by intense competition. Due to the simplicity of the underlying technology, the easy sell to merchants and the strong demand makes the deal of the day business model relatively easy to copy. (Underwood, 2010) As there are no significant entry barriers competition continuously increases. The daily deal business model is very easy for consumers and local business owners to grasp. However, this is also a reason why it has been copied perhaps more than any other online service on the web. (Underwood, 2010) Andrew Mason noted that Groupon's strict policy of limiting deals to one per day is enabling the business models clones to survive. Further, the overwhelming demand from merchants led in turn to nine-month waiting lists in some markets. Hence merchants were left unfilled which contributed to hundreds of Groupon clones around the world. (Groupon, 06.02.2011, p. 2)

While Groupon remains the industry leader with close to 80 percent of the market share, other businesses have varied their approach to attract customers. For example, a number of competitors do not require a minimum number of purchases before the deal is closed. Further differentiation through the focus on specific geographical markets is common in the daily deal space. (Draper, 2011, pp. 3-4) The Danish Sweetdeal is differentiating itself on the merchant

site of the business model. With Groupon, merchants receive payment first after the merchants are handing in the vouchers. As the coupons lasts a year, merchants can wait up to a year after the deal is in order to receive payment. With Sweetdeal however, merchants receive 70-75% of the payment after 14 days after the deal is done. (Interview with Mik Strøyberg, Sweetdeal) Groupon is trying to differentiate themselves through the quality aspect of their deals. As Mossler notes, due to Groupon's size they are able to exert more stringent quality control. Statistically Groupon is turning seven businesses away for every featured deal, because merchants don't meet the quality standards, (Palmer, 2010) However, the differentiation between the various deal of the day businesses is on the level of the merchant. On the consumer site the offer is the same. (Interview with Mik Støyberg, Sweetdeal) Mason says, in addition to benefits for the consumer experience, deal targeting helps Groupon to diminish a reason for clones to exist. (Groupon, 06.02.2011, 2011, p. 2)

Groupon is positioned as an alternative to traditional forms of marketing for small business owners. (Stocoviak, 2010) Hence, a bigger threat of competition thrives rather from local media companies incorporating aspects of Groupon into a large user base. (Coburn, 2010) Strøyberg ads, that the advertising background of publishing companies is a threat to Groupon. In the case of Sweetdeal, their mother company Berlingske Media has various E-mail addresses from their users. Sweetdeal had hence very low customer acquisition costs in respect to Groupon. Further Berlingske Media reachs 3.8 million Danes a month, through local newspapers and various forms of communication. Last but not least, they can rely on vast amounts of funds from their existing businesses. Strøyberg further notes the reason Groupon is having a hard time going into new markets such as Denmark is that they rely heavily on online advertisement. However, they have no local presence such as radio and newspaper. Do to the hyper local elements of the business model, local presence is necessary. What Groupon's local competitors have done, is actually copying Groupon's business model and implementing it in their own country. As Groupon is trying to operate on a different turf, difficulties arise due to the fact that they are not hyper local. (Interview with Mik Strøyberg, Sweetdeal)

Groupon's strategy of globalization in the competitive environment involves the best-positioned competitors in the international market. (Underwood, 2010) COO of Groupon Rob Solomon estimates the deal of the day market worth $1 trillion worldwide and says that this strategy allows the company to quickly to become the biggest player in the market. Groupon

board member Efrusy ads, Groupon looks at clones as an opportunity. Groupon is able to pick out the best positioned businesses and save a lot of time. (Underwood, 2010)

The following table shows the most significant differences and similarities between Groupon's and Sweetdeal's business model.

Business Model	Groupon	Sweetdeal
Offer	Discounts to services, retail, health & beauty, food & drink, event as well as activities, side deals, deal personalization	Discounts to services, retail, health & beauty, food & drink, event as well as activities, side deals, deal personalization
Value proposition	Discounts, guaranteed revenue/customers, no upfront investment, exposure, product/service information	Discounts, guaranteed revenue/customers, no upfront investment, exposure, product/service information
Customer relationship	Crowdsourcing, network effects, business development, through user-to-user/viral- marketing, network effects, customer referral program, deal suggesting, Groupon store, discussion board	Crowdsourcing, network effects, business development, user-to-user/viral- marketing, network effects, merchant receives 70-75% of his share 14 days after deal
Customer segment	Broad segmentation through deal personalization and side deals	Offer to niche markets through side deals
Distribution channel	Web as platform, email, mobile applications, social networks and applications, affiliate, consumer referral program, strong online presence	Web as platform, email, offline presence, affiliates from Berlingske Media
Partner network	Merchants, consumers, affiliates, acquired businesses	Merchants, consumers, affiliates, Berlingske Media
Value configuration	Open return policy, consulting the merchant, business suggestion tool	Open return policy, consulting the merchant
Core capabilities	Broad and targeted offer, growth through acquisition, reinvention	Local presents, established media relations
Revenue stream	Ca. 50% commission based on positive placement of deal, not redeemed Groupons	Ca. 50% commission based on positive placement of deal
Cost structure	Taxes, website development, customer refunds, customer loyalty, reward programs,	Taxes, website development, customer refunds, offline marketing, merchants receive 70-

	merchants share, high online marketing costs, subscriber acquisition	75% within 14 days
Success/ profit	Large growth, great revenue, losses because of acquisition costs	Profit
Strategy	Globalization through growth and acquisition, crowdsourcing, best practice and scalability	Apply proven business model to local market, integration within media group, offline presence
Organization	Satellite offices	Local office
ICT	Web as platform, data on a large scale, mobile apps	Web as platform, data on a large scale

Figure 11: Differences and similarities between Groupon's- and Sweetdeal's business model

5.4.4.2 Social change

Groupon is competing with local companies who have a better understanding for the local culture. When social changes occur Groupon has a disadvantage when it comes to sensing social changes and react to them.

Sales seasonality can affect the business of Groupon as well as the featured merchants. As Groupon's growth stabilizes, these seasonal fluctuations may become more evident. Seasonality may cause varying requirements of working capital cash flow. Groupon is further exposed to fluctuations in currency exchange rates and interest rates. Current uncertainty in global economic conditions could adversely affect Groupon's revenue and business. Further, due to the global nature of the internet, foreign countries might be able to regulate Groupon's transmissions or levy sales, income or other taxes relating to their activities. (Groupon, 06.02.2011 pp. 20-24)

5.4.4.3 Technological change

Groupon's business depends on the development and maintenance of the infrastructure of the Internet. Groupon relies on the network backbone with necessary speed, data capacity and security as well as the timely development of complementary products in order to provide a reliable Internet access and service.

The business model of selling coupons over the Internet is dynamic and relatively new. Hence also subject to rapid changes. Groupon further depends on continuing growth of online commerce. (Groupon, 06.02.2011, pp. 20-22)

5.4.4.4 Customer opinion

Individuals' media consumption and spending habits continually change. This development is

even more relevant with young and highly educated consumers who are the bulk of Groupon subscribers. (Marszalek, 2011) As the daily deal business is highly dependent upon messaging services, if Groupon's subscribers decline to open their messages, the revenue and profitability would be adversely affected. Groupon business depends on a strong brand, if Groupon receives unfavorable media coverage, the ability to expand their base of subscribers and merchants will be impaired and their business and operating results will be harmed. Merchants or consumers may broadly determine that they no longer believe in Groupon's value proposition. Hence Groupon's success will depend on their ability to successfully adjust their strategy to meet the changing market dynamics. (Groupon, 06.02.2011 pp. 10-14)

5.4.4.5 Legal environment

Groupons represent a new product category. In many countries it is unclear whether Groupons are considered gift cards, gift certificates, stored value cards or prepaid cards. The application of certain laws and regulations are uncertain, evolving and could be interpreted in ways that could harm Groupon's business. Different regulatory requirements may limit or prevent the offering of Groupon's services in some jurisdictions or prevent enforceable agreements. Government regulation of the Internet and e-commerce is an evolving process. Negative effects of changes could hence impede the growth of the Internet or other online services. Further it is not clear how existing laws apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. Further Groupon is exposed to evolving requirements concerned with the disclosure and product terms and conditions, including expiration dates and permissible fees of their Groupon.

Groupon protects their proprietary technology and relies on a combination of trade secrets, copyrights, trademarks, service marks, trade dress, domain names and patents to protect their intellectual property. (Groupon, 06.02.2011, pp. 82-84) However threats to Groupon's intellectual property are of less concern to the business model. The core technology is difficult to protect and the application of it represents the real value. Hence, in the case of Web 2.0 technologies, it is rarely the case that IP protection is necessary. (Interview with Niels Vejrup Carlsen, Seed Capital) New tax treatment for Internet commerce might for example adversely affect the commercial use of Groupon's services as well as the financial results. (Groupon, 06.02.2011, pp. 82-84) As Groupon is present in many different geographical areas, they are exposed to a diversity of tax regulations. In its merchant agreement, Groupon shifts the tax compliance burden to the merchant. Groupon is booking

the entire deal transaction as its revenue and treats the payouts to the local merchants as cost of goods sold. Hence tax authorities could say that Groupon is the retailer and should be responsible for remitting taxes on the entire transaction. As it would be easier for the local authorities to target Groupon for the tax compliance than a vast amount of local businesses, any country in which Groupon has a physical presence could go after them. (Agrawal, 2011)

The costs and expenses associated with defending any actions related to additional laws and regulations as well as payments of penalties, judgments or settlements could adversely impact the profitability of Groupon. (Groupon, 06.02.2011, pp. 82-84)

5.5 Conclusion to the case study

Daily deal business models have taken an existing product and applied it to social, economic and technologic trends. For the daily deal business model, the case study confirmed the great potential of Web 2.0 combined with traditional elements of commerce. As previously described, the money earning logic of daily deal business models takes the brick and mortar business and combines it with elements of Web 2.0. The innovation of the business model is the way in which consumers are connected online with local merchants and the monetization out of the matchmaking.

Groupon simplifies its business model as a local e-commerce marketplace. However, as Chapter 4 claimed, Web 2.0 business models commonly combine elements of several business model categories. Daily deal business models provide incentives in the form of coupons to customers. As a market maker, daily deal businesses further bring buyers and sellers on a business-to-consumer base together. A commission is charged for each transaction, daily deal businesses enable. Further, daily deal sites commonly integrate affiliate marketing in their business model. As most daily deal business models, Groupon allows third party websites as well as consumers to be compensated for the referral of customers. Hence, daily deal business models entail among others elements of the infomediary model, the brokerage model and the affiliate model.

The business model proposition stated that Web 2.0 business models rely on network effects. The case study showed how the minimum and maximum of customers for each deal, leverages network effects. Additionally, the relationship between scaling consumer- and merchant market generates network effects. A further claim of chapter 4 was that Web 2.0 business models benefit from the long tail. The case study has shown, that deal personalization and side deals enable Groupon to penetrate various small niche markets at the tail of the demand curve. The business model proposition further stated that users ad to the

collective value by using hyperlinks. The case study showed that the consumer's link deals to their social network and hence build on the value proposition of the business model. Their motivation roots from the need to mobilize further consumers in order to fulfill the minimum criteria of the deals.

The case study has further confirmed the importance of the partner network for Web 2.0 business model. Among the previously described affiliate network, the case study highlighted the partnerships with the user. As users are trusted as partners for deal suggestion and customer referral, daily deal business models react faster to changes in customer demand. The consumer relationship is leveraged in order to propose the value proposition. Consequently this value proposition is monetized.

However, the daily deal business model is currently at a determining stage. The success of Groupon will determine the perception of sustainability associated with the business model. Groupon has to prove whether it can turn its steep growth and vast revenue streams into long-term profitability.

6   Conclusion and discussion

The final chapter of this thesis returns to the research question. Consequently, the answer is formulated in this chapter. Furthermore, the findings and their limitations are discussed and areas of further research are suggested.

6.1   Conclusion

The previously stated research question of the thesis set out to answer was:

How can businesses monetize elements of Web 2.0?

An explanatory study with a deductive approach was chosen in order to answer the research question. Inspired by data triangulation, the thesis is based on the collection and analysis of both secondary-, and primary data.

In order to develop a fundamental understanding, chapter 2 analyzed the phenomenon of Web 2.0 and its historical background, defined the term and analyzed its key elements. The chapter was based on a carefully prepared and selected literature review. Web 2.0 emerged as a more mature and distinctive medium from the bursting of the dot-com bubble in 2001. Consequently Web 2.0 formed the basis for the subsequent generation of the Internet. Web 2.0 combines economical, social, and technological trends. In a sense of Tim O'Reily (2004-2006), the thesis characterized Web 2.0. Web 2.0 uses the web and the network as a platform for application. Consequently applications are not limited to the PC as a platform and the

applications are not platform specific. Web 2.0 further leverages network effects. Additionally, as updates disappear Web 2.0 applications are continually improved and further developed. Harnessing collective intelligence, users are in turn trusted as co-developers. Further, data becomes the most valuable asset. Web 2.0 companies offer software as a service. The subsequent chapter reviewed business models seeking to analyze how to achieve monetization. Business models where analyzed based on carefully selected and acknowledged literature. The chapter started with the historical background, consequently several definitions of business models where illustrated. The thesis acknowledged Mansfield and Fourie (2003) to define business models as an abstraction of reality, characterizing a set of entities and their interlinked relationships. Further the business model is the linkage between the firm's resources and functions with the environment. Driven by environmental developments and infrastructural opportunities, the business model pursues to find an optimal mode of operation for a specific situation in a specific market, striving for value creation. Further, chapter 3 reviewed the literature for key components of the business model and their interlinked relationship. The business model was subdivided into components to cover the business areas of the offer, customer, infrastructure and finance. The areas were further divided into the following 9 building blocks: Value proposition, customer relationship, customer segment, distribution channel, partner network, value configuration, core capabilities, cost structure, revenue streams and success/profit. Additionally the business model place, use and role of the business within the triangle of business strategy, business organization and technology were studied. The triangle was found to be the subject to external pressures, rooting from the social and legal environment, competitive forces, customer demand and technological change. Consequently, the chapter served as the theoretical framework in order to utilize the existing theory.

Chapter 4 contributed with a categorization of different Web 2.0 business models. Based on the framework as well as casual relationships and variables found in the existing theory, chapter 4 integrated the previous chapters and stated casual relationships. Further the chapter developed a hypothesis in the form of a business model proposition. The framework served as basis for the deduction of the hypothesis.

In order to answer the research question as well as empirically test the hypothesis the findings were applied using a case study on the daily deal business model. The case study confirmed the great potential of Web 2.0 combined with traditional elements of commerce. Further the trend to combine elements of several Web 2.0 business model categories was acknowledged.

Additionally, the case study confirmed that Web 2.0 business models rely on network effects as well as benefit from the long tail. Further the analysis of daily deal sites highlighted the importance of the partner network for Web 2.0 business model as well as the fact that users ad to the collective value. The case study eventually confirmed that the consumer relationship is leveraged in order to propose the value proposition, which is in turn monetized.

Consequently the case study answered the research question for the chosen business model as follows: Daily deal business models bring the brick and mortar business to the web, by offering discounted goods and services from local merchants online. The platform for the offering is the web, which is not limited to the PC. Daily deal sites target the offer based on long tail economics by leveraging the users data and enabling crowdsourcing. The data is indirectly aggregated from the users as a side effect of the ordinary use. Further the application learns every time it is being used. In addition to the distribution through newsletters, daily deal sites use social networks and applications as their distribution channel. Daily deal sites leverage the intrinsic motivation of the customer to generate network effects and distribute deals. Consequently, daily deal sites generate revenue from a commission on the successful placement of a deal.

Finally the thesis concludes the following: Combining elements of commerce with Web 2.0 generates great potential for its monetization. Crowdsourcing and user generated content can leverage the customer relationship and support the segmentation. Further, social networks and applications are of great value to the distribution channel. As Web 2.0 treats the users as co-developers and relies on various affiliate models, business models gain from their partnership network. Businesses can use Web 2.0 for their core capabilities as well as for the value configuration. User generated content, crowdsourcing and network effects can further decrease the operating costs. Business can generate various revenue streams out of Web 2.0. As businesses integrate Web 2.0 elements successfully across all sectors of their business model, they can create a value proposition. The business can in turn commercialize this value proposition in order to monetize the elements of Web 2.0.

6.2 Perspective and direction for further research

As stated in the research philosophy a verification of a hypothesis is not enough to confirm it. Furthermore, as the case study focused merely on the daily deal business model, general findings about Web 2.0 business models are limited. Further, even though daily deal business models commonly rely on the same fundamentals, the practical application of the business

model can differ to a great extend. Hence, the findings of the case study are limited in its ability to generalize.

However, scholars and practitioners have highlighted the great potential of Web 2.0 for commercial purposes. Further the importance of research in the field of business model theory has been acknowledged. Researchers have developed theoretical knowledge into the field of Web 2.0. However the main focus of analysis is on the definition of the term as well as more technical aspects of the phenomenon. The implications and possibilities of Web 2.0 for businesses however are a relatively unexplored research field. Additionally, the studies on business models are pioneering and provide detailed insights into the money earning logic of organizations. However, the scientific literature on business models is at a relatively early stage of its investigation.

The thesis contributes in various aspects to scientific research. The study supports the theoretical and practical understanding of the fundamentals of Web 2.0. Additionally, the research on business models is promoted as the most important aspect of business models and their design have been demonstrated. Aspects of Web 2.0 and business models where further integrated and analyzed for their monetization. The case study on the daily deal business model has further contributed to the understanding of one of the currently most discussed business models on the web. Further, the case study has showed how businesses can monetize Web 2.0 elements by combining them with traditional commerce.

The thesis has highlighted great potential for research on the business model side of Web 2.0. Further, Groupon is currently at an essential stage of its product life cycle. After the current enormous phase of growth, Groupon will eventually enter a maturity stage of it is product. Hence, Groupon will have to prove whether they are able to create sustainable value and turn its large revenue streams into solid profits. As for future research, this will be interesting starting points. Repeated experiments would be of great value in order to strengthen or falsify the research findings. A replication of the daily deal case study could be further carried out with a population of business models in order to analyze if the results would differ. Further detailed studies of the various Web 2.0 business model would provide an alternative perspective to the conclusion stated above.

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APPENDICES

Question catalogue

The questions asked in the interviews where based on semi structured interview. However, in the following, the thesis will present a collection of the questions asked in the interviews.

Questions asked to Niels Vejrup Carlsen:

What do you consider as Web 2.0?, So leveraging network effects?

What is the main use of a business model and what elements does business models entail?

Coming back to the value proposition. How would you say organizations could deliver a value proposition out of the elements of Web 2.0?

You mentioned earlier revenue streams. How can Web 2.0 companies generate revenue streams?

How do you see Web 2.0, in regard to the exposure to external forces?

Would you say that innovation lies within the technology or the business model?

Groupon has a vast amount of copy cast, how do you see this development?

Questions asked to Mik Strøyberg:

How would you characterize Sweetdeals situation in the competitive market?

Would you say Sweetdeal has a competitive advantage in Denmark?

What exactly is the benefit of being a company within Berlingske Media?

So for the merchant the Sweetdeals offer is different, would you say that there is also a different offer or value proposition for the user or customer?

What kind of elements of Web 2.0 would you say are part of Sweetdeals business model?

How would you describe your relationship with the merchant?

What is your policy with unsatisfied customers?

Do you invest some of the money that you earned from deals?

What are some of the costs associated with offering a deal?

How much do you invest in marketing?

Is scalability a problem for daily deal business models, because you always need local people?

Interview transcriptions

Interview with Niels Vejrup Carlsen, SEED Capital Denmark

Date:

30.09.2011

Company name:

SEED Capital Denmark

SCION·DTU Forskerpark Diplomvej 381 (DTU)

2800 Kgs. Lyngby, Denmark

Name and position of the interviewed:

Niels Vejrup Carlsen, Investment Director

_____

Web 2.0

Sebastian Schröder: What do you consider as Web 2.0?

Niels Vejrup Carlsen: I am not a big fan of buzzwords like Web 2.0. But some of the qualifying criteria, I would say are: User generated inputs, where you in some aspect try to incorporate your broad user population in creating either content or creating the service or the value that you want to provide to others. This could be crowdsourcing aspects. It could be user generated input like for example Tustpilot where the users are making the rating of companies. User generated input going also from specific co-creation to blogging.
To try to summarize: That users are an integrated part of the product. Creating the value either by contributing to this service or the product in itself or by contributing content directly. So that's one aspect. The other aspect is the social networking aspect. Where again we go out to the users. An important aspect about the Web 2.0 product is that you use the social graph of users in some way. That you can use it as a marketing tool. To spread your product virally or

in some other way use social mechanisms enabled by players like Facebook, Linkedin or that type of service.

Sebastian Schröder: So leveraging network effects?

Niels Vejrup Carlsen: Exactly, Web 2.0 products are leveraging network effects, directly. To me, that is another important qualifying criteria of Web 2.0. I am trying to think whether there are other qualifying aspects (…) To me those are two very important aspects. Of course, to define Web 2.0 is rather difficult. That's why I have a little bit of a problem, when people say: You know Web 2.0, what is that exactly? It's a gradual process. There is also a trend towards mobile, social based commerce. Is that also part of Web 2.0? Or is that 3.0 or what is that actually.

Business model

Sebastian Schröder: What is the main use of a business model and what elements does business models entail?

Niels Vejrup Carlsen: The main use of a business model (…) let me begin at another place. Lets say when ever we look at a case, project or company and need to decide whether we want to invest in them. We look at the team. Can they execute? Does this product solve a real pain in the market of some sort with a value proposition that is significant? VC's often say: Is this a product that will thrill people. Is it something that people will buy or some customers will buy? Now we are getting to it. So once you have a value proposition for some kind of customer, defined in some way. To me, the business model is basically to make sure that, once I have defined who my customers actually are. How do I make money of them? To me this is a very simple definition of a business model. (…) At the end of the day, ten years ago in the dot come boom you would say: As long as you grab land and get some users it doesn't really matter if you can make money of them. You could say in some cases. We are looking at things a little bit like that. But we always look, how can we in the end game make money of this. You are not going to exit a case or sell a case, except in very rare circumstances, unless there is actually documenting that you can actually make money of your users. So if you for example sell a Telco company to someone. They buy it per user with some value, because they can make money of those users. (…) If Trustpilot is sold, which we hope at some point, it will be sold to people who will value either the fact that a lot of users are using it, or the fact

that a lot of companies are buying the service. Most likely because companies are buying the service, because that's how you can make money of this.

Web 2.0 business models

Sebastian Schröder: Coming back to the value proposition. How would you say organizations could deliver a value proposition out of the elements of Web 2.0?

Niels Vejrup Carlsen: That is also a very abstract question. (…) It is a little bit difficult to answer broadly. There are very interesting things about the concept of Web 2.0 with aspects like social networks, viral aspects, crowdsourcing or user engagement. If you use those mechanisms correctly you can scale a service quite efficiently. Because you can attack the long tale in some ways, be it long tale of consumers or businesses, by using some of these mechanisms. In respect to the viral spread: You can use this, with relatively few money or for free, to spread your message or market it efficiently. In respect to whether the Web 2.0 aspects actually contribute, themselves to the value proposition, I am a little bit uncertain. (…) For example, we have a company called Syncrowd. They use input from the community. Right now the input is on the food industry. The food industry has a major problem, whenever they launch a product 92 percent of the products will fail within a year because they really have not grasped or sufficiently understood what their users actually want. So we are trying to help them to gain a better qualitative understanding of their users, by having users tell about their own private life. Normally, lets say if you are Arla and you want to create a new yoghurt. You would maybe use ethnographers or anthologists. They would go into the field. They would go and interview or sort of be the fly on the wall with families. Lets say they would absorb for six month or three month how users interact in daily life. And then from those observations they would sort of distill and say we have sort of the DNA of those users. Can we use this sort of as input to our innovation process because we now know the habits of those users? What this company does instead, is that they say why don't you take a picture of your own personal life. A task could be: Show me a picture of your fridge. What's in the fridge? So they take a picture and they upload it. Instead of having an ethnographer walking around for six month, we ask our community to supply pictures of their daily lives. From those pictures we distill a report or some insights that Arla could use to develop their new product.

In that sense, the crowd or crowdsourcing is an integral part of the value proposition. But the value proposition has nothing to do with the fact that it's a crowd. The value is that you have

set of pictures show an inside into the consumers daily live that will enable me to develop better products. To me Web 2.0 technologies can be used as a tool to achieve a value proposition but it is not an integral part of the value proposition. It is not a value proposition in itself. I mean it does not go for all cases and it can be proven wrong in many cases. (…) When we look at a cases we often see that this company has a product that would solve a real pain and the way they either market that product or the way they create this value proposition is by using some of the Web 2.0 methods or technologies, but its not necessary the value proposition in itself.

Sebastian Schröder: You mentioned earlier revenue streams. How can Web 2.0 companies generate revenue streams?

Niels Vejrup Carlsen: I think that ties on to what I mentioned earlier. In a company like Trustpilot Web 2.0 aspects such as the user generation of ratings of a companies quality in customer service is an example. In Trustpiot's case the core value is that it is an independent rating of a companies customer service. If you go into this company you can say I can trust this company to provide me with a decent service because you know 9.000 out of 10.000 customers have had a fantastic experience with this company. However the way Trustpilot makes money is not necessary of this rating service but its actually providing a service to the companies that work with those reviews. Companies subscribe to Trustpilot in order for Trustpilot to help them to manage this media. For example a company like cykelkongen.dk would become a partner of Trustpilot because they say we know that we will be reviewed on the Internet regardless. Can you help us to make sure that everybody is encouraged to review, not only those that have a negative bias towards the company. You have to do something proactive as a company. The barrier to review is relatively high. So only those that are really pissed of would actually review your company. You might have 10.000 unsatisfied customers but none of those will actually review you unless you ask them to. But you might have one unsatisfied customer and that guy will review you. So basically Trustpilot provides a service, that actually all customers that have used cykelkongen are encouraged to review the service, both negative and positive. Over time it would provide a better and statistically correct picture of the companies customer service instead of just having random reviews out there provided by people that are pissed of with the situation. If you have 10 percent of all your customers reviewing you both positive and negative they will form a better and more correct picture of the customer service of this company. To put a very long story short, the service that

Trustpilot provides to the companies is actually more a partnership or technology service and is not necessarily directly linked to the Web 2.0 aspects.

It is a relatively abstract question so I am trying to figure out how to answer this correctly, but the revenue is not necessarily linked to the crowd or the users. But the service is of course based on the fact that you have this crowd that provides you with the value proposition. I actually think that Web 2.0 are just technologies and methods to implement good business models or good value proposition. But they are just new kind of tools.

Sebastian Schröder: How do you see Web 2.0, in regard to the exposure to external forces?

Niels Vejrup Carlsen: If you look at the technology, it would not be affected in anyway differently from other parts of technology. In my opinion, this is very difficult to answer broadly.

Sebastian Schröder: Would you say that innovation lies within the technology or the business model?

In many of these cases I would clearly say that the innovation lies within the business model. If you look at some of the Web 2.0 technologies or methods, these are by now very well known, of course vaguely defined. But it will be aspects like crowdsourcing, user generated content and input, blogging and social networking. I mean you have those components, but what can you do with them? I mean we rarely see companies that say we have found a completely different way of social networking for example. But we see many cases for example where we say: Well we have this fantastic product and we use social networking methodologies to market this in really clever way to implement this value proposition in a very clever way. It is more like tools to me.

Getting back to what I said originally, many of the software or mobile cases where we use Web 2.0 technologies, it is rarely the case that IP protection is necessary. Because the core technology is difficult to protect. It is the application of it that is interesting. If you for example take a company like Trustpilot. There is nothing in Trustpilot that you can patent. What they do is they have some input and then calculate the rating. I mean the only thing that they could potentially patent, that for example Google has, is the rating algorithm. But that is not a very advanced algorithm.

Groupon

<u>Sebastian Schröder:</u> Groupon has a vast amount of copy cast, how do you see this development?

<u>Niels Vejrup Carlsen:</u> Yes they have tons of competitors and it's a space that is now very busy. Groupon is sort of the player that has popularized the entire space. If you look for example at the French Bon-privé, they where there before Groupon. And I think many other players have been there before Groupon. I think Groupon has been clever going big and attracting huge amounts of capital in order to become very big, quickly. But other then that, I don't think that there product is necessary a lot smarter or better then many of the other players. I am not an expert on that issue, but I think there are between 600 and 700 competitors within this space. It is a huge space with lots of players. It has also been a bit of discussion about Groupon lately. I think whether their business model is a good one, still needs to be shown. As far as I recall they don't make a lot of money and there are burning a hell of a lot of money on growth. But they also need to document that they can actually provide lasting value to their customers, in my opinion. One has to be a little bit careful about saying that. But I am a little bit skeptical with the respect whether Groupon is actually worth its valuation. If you look at any market, there will be tons of local competitors and right now I fail to see why Groupon? Lets say you have the Danish Groupon. Is it really interesting: Why should a Danish Groupon be better then Sweetdeal or some of the other Danish deal site? There is not necessary any value in the fact that its Groupon. I fail to see economies of scale. Is it an advantage of the Danish Groupon that Groupon is a huge international company? Or is it not? Of course you have the brand, but any of these deals that they provide are hyper local deals. For example some tanning salon, or beauty parlor, or bookstore, or 7/11 in Vesterbro or some place. And you know if Sweetdeal has good media relations and are clever at marketing themselves they would be able to compete within the Danish space, for example, against Groupon. And that would be the case at any market they will go into.

We then end up with that Groupon has the financial power to market them selves really hard in the market. But once you then have done that the question is, is it worth it? Will they in the long run be able to generate the revenue that pays of the investment in marketing or maintain its position. To me that is the big question. (…) as far as I recall Groupon takes quite substantial revenue cut from the deals that they serve. So if it's a pizza parlor or whatever, they maybe pay 30% of what they generate to Groupon. How often will you do that as Pizza parlor? I mean you loose money if you do that all the time. So it's a one shot. I mean they will gain some customers and then hopefully gain more from those customers because they come

back to them. So Groupon is not necessarily something that businesses, that subscribe to Groupon, would keep using. I am not sure if they would do that, it will be interesting to see. I think there are some fundamental things that those deal sites need to address. Another thing is, they even say themselves: You have to look at the amount of effort that you have to put into newsletters. Whenever they send out those mails there is nothing auto generated. They manually edit these mails. So if you send mails to your local Groupon users: that mail will have been manually edited by Groupon's staff to make sure that these deals are attractive, relevant and well presented. That is a lot of effort, manual power and cost every time you send out an email. How to scale that globally, I am not sure how to scale that globally, I am not really sure how to do that.

Sebastian Schröder: So scalability is a problem?

Niels Vejrup Carlsen: Yes. I think they do have a scalability problem. (…) It comes down to the area where they could then compete aggressively. This would be, if there are actually economies of scale. Once you are then big, you can outperform the others. But in a local market, economies of scale do not really help you. How do you then compete? It will be interesting to see. I mean it is a hugely interesting space. I mean: social buying and all that, is fantastic! So Groupon is here to stay or companies like that. The Value proposition to the user is really good and significant. So I am not arguing against the model but I think the way Groupon is doing it (…) It will be interesting to see if they have to change it.

Interview with Mik Strøyberg, Sweetdeal

Date:

18.10.2011

Company name:

Sweetdeal Berlingske Media

Pilestræde 34

1147 København K

Name and position of the interviewed:

Mik Strøyberg, former Head of Consumer Sales and founder of Sweetdeal

_____

<u>Sebastian Schröder:</u> How would you characterize Sweetdeals situation in the competitive market?

<u>Mik Strøyberg:</u> One of the reasons why Groupon is afraid of publishing companies is the advertizing background. They can actually offer advertizing. Lets say a company goes out and makes a lot of deals and they go and brake even on all their deals and they get advertizing for like $ 10.000 and they know that they get some kind of value. If they just brake even on their deals than they have to make all their customers come back at least one more time. And that is just a bad business. That is also the reason why they have to treat all the customers much better if they are paying half price, because they are nothing worth if they don't come a second time.
Groupon is having a hard time going into the Danish market. This is because they are using AdWords and display ads. They are high on SEO but that's it. There is no outdoor, there is no radio, there is no newspaper, there is no endorsement…. And that's super cool if you are in Chicago and you are a startup that everybody knows. But not if you are in another country where you have to go hyper local and where only one out of a hundred knows you, then it is super difficult…. and they are having a very tough time in Denmark.

<u>Sebastian Schröder:</u> Would you say Sweetdeal has a competitive advantage in Denmark?

<u>Mik Strøyberg:</u> Yes, everybody knows Sweetdeal and they know that it is Danish as well. When customers are going to buy something they can see that Berlingske Media is backing them up. It is getting advertized in their local media. Berlingske Media has 54 local newspapers so when you are living in Frederikssund or Kolding or some place like that, there is Sweetdeal for all kind of local areas. If you go to Randers you can see Sweetdeal on the stadium. You don't see that with Groupon. Groupon is like McDonalds so you would rather go to Joe and the Juice. Its just, that's how you do hyper local business. So what the local competitors have done, what Sweetdeal has done and what Downtown has done is actually to do the same then Groupon but in their own country. Groupon is trying to operate on a different turf and that is so difficult, because they are not hyper local. The reason why deal of the day solution is great is because it is hyper local.

<u>Sebastian Schröder:</u> What exactly is the benefit of being a company within Berlingske Media?

Mik Strøyberg: First of all, Berlingske Media has various E-mail addresses from their users. That is a big benefit! They reach 3.8 million Danes a month. Which is almost everybody. That is a big advantage! They are reliable because they are a newspaper, so everybody is behind them. They have several Radio stations. And they also have some money for back up. And then we did something else then the other competitors in order to make Sweetdeal the one that is going to survive in Denmark. I had some choice when I started up and one of the choices was, when you use a site like Groupon or Downtown and you are a local restaurant and you make an agreement with Groupon or Downtown, you get your money when you send in the vouchers. With Sweetdeal you get your money when the deal is done. So you get 70-75 % right away. So if only 50 % use the coupon it is a good business for you. With Downtown your coupon lasts a year, so it can take up to a year until you get your money. This is a huge advantage for a lot of these restaurants. Because they get right away some money in their hands, they can pay of rent or even do new marketing campaigns.

…. Lets just say we made a deal with Joe and the Juice and they sold for like a $ 100.000 on the first day. Then we will wait 14 days and we will hand them 70% of the $ 100.000.

Sebastian Schröder: So for the merchant the Sweetdeals offer is different, would you say that there is also a different offer or value proposition for the user or customer?

Mik Strøyberg: For the customer there is no real difference.

Sebastian Schröder: You mentioned that Sweetdeal promoted its deals differently then Groupon.

Mik Strøyberg: If you take all the companies Sweetdeal is making deals with like color or tide or D'Angleterre. We have those companies again and again. With Groupon it is more difficult because a lot of the customers can't see the value. Because they see that they brake even but it is not that good. Lets say we make a deal with Joe and the Juice. We tell them that it is really important that you get the customer to stay. A Sweetdeal customer is more worth then a normal customer. When they come in with their voucher you have to give them a smile and say that they are more then welcome. If you don't do this, you fail. We have a lot of purposes, our sales people are not just working in sales, they are also business development people. They are helping them and say when you want to get a value out of this, you have to tell the customers that they can also get a special offer on a second product in order to make some up sells. If you make up sells on 60% of the customer, you have a lot higher return of investment.

Groupon and Downtown just try to close deals. We are thinking about the supplier because if they will suddenly turn against the deal of the day solution, then we have nobody to turn to. So it is also about having the right market. That is why it is difficult if you have like 50 competitors on the Danish market where it's only 5 million people. That's a bit hard.

Sebastian Schröder: What kind of elements of Web 2.0 would you say are part of Sweetdeals business model?

Mik Strøyberg: The way we use social media for example is not that different for permission marketing. If you have for example 100.000 mails and you send them out to 100.000 people who want an offer. You have an opening rate for example 50% that takes you down to 50.000 and then you have a buying rate of 0.8 % maybe. We do the same with social media. Every time we post something, we can see the opening rates. How many responses and how many actually buy. Lets just say that the strength of social media likes is half the price of a permission mail, then you can say, you can go out and buy likes for like 5 cents a piece because we know that our return on investment on one like is about 50 cent and we are doing the same with permission. If one permission is worth like 50 cent, then we can go and almost buy for the same. Just to make sure we scope it up. Social media is cool because if I tell you to buy something, it is more likely you are going to do it. If an advertiser tells you the same its not that reliable. It is the same with as with all other Web 2.0 effects. Friends telling other friends is always much more valid.

Sebastian Schröder: How would you describe your relationship with the merchant?

Mik Strøyberg: We are communication all the time and we are trying to make sure that we can make new deals. It is all about circulating customers in the stores. It is all about how many customers you can get down to your store. The way we are helping is that we are trying to tell them, how do you see the average value of a customer. When you look at it in a month, has it turned bigger? It depends on the business but then they have to count all the customers and they can do that by looking on how many purchases they had and what the average revenue they get. Instead of looking at the total revenue, they have to look at the average revenue. Because when people are coming with something they have paid 50% for then they are more likely to buy something else as well. For example if you get a free ticket for a concert, then you buy more beer. That is just how it is. And we are helping them to make sure that people are actually doing this. Making sure that when it is like a facial treatment or

massages, when the customer leaves them then they have booked a new time. A customer should never leave without scheduling a new time. We are trying to build a relationship and try to make their business grow bigger and stronger. And at some point they will need us again because they need new customers. The staying, paying customers are treating them with the same loyalty effect.

Sebastian Schröder: What is your policy with unsatisfied customers?

Mik Strøyberg: The policy is no questions asked. Everything we do in customer service at Sweetdeal is with no questions asked, all money returned. Because we know if we start screwing up the customers, everything will drop down. With Sweetdeal everything is sweet, if you write to Sweetdeal then you will get you money returned. If the coupon is valid for a year and you type in after 14 month that you haven't signed in than we would still give you the money back.

…We had some incidents where people didn't like their food or they didn't like their facial and they wanted their money back that is the only time we can't give the money back. But usually we always give the money back. We have saved money aside for the customers who want to return their coupon.

Sebastian Schröder: Do you invest some of the money that you earned from deals?

Mik Strøyberg: We made from August last year to August this year around 150 million DKK with Sweetdeal. We used this money to make new verticals like for example smart drop, which is recycling of mobile phones. We are just making different types of verticals.

With Sweetdeal we also went into Sweden, Norway, Poland and Holland. Now we are in 92 cities in Europe. We took all the experience we made in Denmark and then took it to Sweden and Norway and then Poland and Holland.

Sebastian Schröder: What are some of the costs associated with offering a deal?

Mik Strøyberg: At first you can say that having an ad in a newspaper has a certain form of value. We also have some merchandize. But that is about it. Then we have a service department of course but it is not that big. Something like 3 student workers sitting for 8 hours a day.

Sebastian Schröder: How much do you invest in marketing?

Mik Strøyberg: In marketing it depends. In all cities we have one sales representative and then we have five marketing employees for Denmark and then we have 3 copywriters. It would be really cool though if we had like one copywriter for each day for each deal. Because the copywriting is everything when it comes to daily deal sites. This is also what Groupon is saying.

Sebastian Schöder: Is scalability a problem for daily deal business models, because you always need local people?

Mik Strøyberg: You have to in invest in it. You take Groupon, they have their copywriters sitting in London and they have their Marketing people sitting in Germany doing the Danish market. That is not that hyper local.

Sebastian Schröder: Would you say this strategy can work?

Mik Strøyberg: We have to wait and see. They have been in the market for like 2 month now…. I don't believe in it.