

# Implementation of the subscription business model in the world of e-books



## Master thesis

Name: Yordanka Ivanova

MSc International Business

Date of submission: 01.12.2016

Supervisor: Steffen Brenner

Number of pages: 40

## Abstract

The subscription business model is a new part of the marketing and with rapid temps have been adopted by many industries. The subscription services generate the revenue through the advertisements, and through the customers. The user's participation on the platform depends on the pricing strategy of the service. Four significant pricing model are described: free of use, freemium, subscription model (monthly fee) and dynamic pricing. The data were collect from the UB Reader app. The data collection consists the pricing strategy of the app, the revenue, and the information about the consumers. The analysis of the data shows that the preferable pricing model among the users is “free of use.”.

**Table of content**

**1.Introduction ..... 6**

1.1. Scope of the Thesis..... 6

1.2Research aim, objectives and research question.... 7

1.3 Thesis outline..... 10

**2.Research Background.....9**

2.1 Essential outline for subscription services.....9

2.2 Price and pricing strategy for information goods....10

2.2.1 Subscription based pricing.....12

2.2.1.1 Optimal pricing .....14

2.2.1.2 The freemium pricing model.....14

2.3 Consumers as the key driver for the subscription services....15

**3. Methodology.....17**

3.1 Introduction to the research.....17

3.2 Research Approach.....18

3.2.1 Deductive approach.....18

3.3 Research design.....19

3.3.1 The philosophy behind the research.....19

3.3.2 Quantitative method.....	20
3.3.2.1 Regression analysis.....	21
3.3.2.2 The research process.....	21
3.3.2.3 Ethical issues.....	22
3.4 The “center of the research onion.”.....	23
3.4.1 Exploratory study .....	23
3.4.2 Research Strategy.....	23
3.4.3 Time horizon.....	26
3.4.4 Reliability and Validity of the study.....	26
3.4.4.1 Validity.....	26
3.4.4.2 Reliability....	26
3.4.5 Data collection.....	27
<b>4. UB Reader.....</b>	<b>29</b>
4.1 Key elements of the UB reader’s business model.....	29
4.2 Freemium model.....	30
4.3 The participation of the user in the service.....	3.1
<b>5. Result and discussion.....</b>	<b>33</b>
<b>5.1 Pricing and revenue.....</b>	<b>33</b>
<b>5.2 The participation of the user in the service.....</b>	<b>37</b>
<b>6. Conclusion.....</b>	<b>41</b>
<b>6.1 Interpretation of the results.....</b>	<b>41</b>

**6.2 Limitations .....45**

**6.3 Future research.....46**

**7. References .....47**

# **1.Introduction**

The subscription business model is a new part of the marketing which with rapid temps have been adopted by many industries. Daily with the development of the technologies and the information services, the gap between the retailer and the consumer became smaller. One of the main reason is that information is “costly to produce but cheap to reproduce.” (Shapiro, Carl, and Hal R. Varian, 1999) From the days when main efforts were the creation of a physical product to a digital, now the main goal of the companies is the ability to offer for the consumers the already digitalized goods as a service. The potential for the businesses is to reach the extensive amount of users in return for the monthly or yearly fee to keep them as active users on the platform. Particularly every already digitized product could be transformed into such kind of a flat platform- from music Spotify, through movies Netflix and books-Amazon.

## **1.1. Scope of the thesis**

Companies wich offers subscription services have two options for generating the revenue- through the advertisements, and through the customer. The main goal of the subscription-based platforms is to stand out of the competition and make the user choose them instead of the other similar subscription services. Users on their side, need time with the platform to decide if they want this information. For that reason, the companies suggest to the user's free trial period. If the consumers decide that they be satisfied with the services and if they want the best from it, they could continue to use the service if they pay a fee. The fee could be monthly or yearly. The well-known standard among the consumers is that they use the price as an indicator of product quality. (Monroe, 1990) Among the free content available online, there must

be added value of the subscription services to make consumer feel that is worth paying for. (Wang et. al 2005)

On the other side of the coin are electronic books. With rapid terms, the e-book industry enters the market of the e-book and adopt business models which are already used by the informational goods services. The performance of the pay-per-use mechanisms depends on the chosen price strategy of the company. Pricing is sensitive to consumer usage patterns and heterogeneity. (Chen et. al. 2001)

This thesis will investigate under which circumstances the subscription model could be implemented in the e-book services and if this business model is relevant for the e-book industry. To reach the aim, the research chooses a representative company- UB reader. The UB Reader is an application which provides the opportunity to the users to read their e-books. The app also has an available virtual library, where users could found good collection of books for a reasonable price.

**The rationale** of the thesis is to investigate how relevant are the subscription models in the e-book industry.

**The motive** of the study is to investigate the subscription services, which topic is new to the academic world, the nature of the research is **exploratory** and provide marketing theories to give the essential for understanding the topic.

## **1.2 Research aim, objectives and research question.**

This study build of knowledge of the implementation of the subscription services in the e-book digitalized platforms, tempt to provide the basic research on the phenomena. Hence this paper intends to find out

when the subscription services implementation is optimal for the information goods. To proceed above the written, the research question which the thesis will follow is:

**Under which conditions is the introduction of a subscription based offer for information goods optimal?**

The main objectives of this research are to:

1. Identify under which circumstances the subscription business model is optimal for the e-book platforms.
2. To show with the linear model the relation between the variables in a way to answer the research question.

### **1.3 Thesis outline**

This thesis is structured as follows: Introduction emphasizes the problem statement and the motivation behind the topic, describes the problem statement, the research question, and the objectives. The second chapter: **Research background**, collected the previous research on the marketing theory of the price, revenue, and consumption. The third chapter: **Method**, described what kind of step have taken to through the investigation of the problem. Fourth chapter: **UB Reader**, present the data findings and present information about the app and its owner. In fifth chapter: **Data Findings and Discussion**, are present the results of the data, two forecasting revenue model are created. In the Sixth Chapter: **Conclusion** have submitted the recommendation, observation, and assumptions about the topic. Limitation and future research have described.



## **2. Research Background**

Previous research has examined several phenomena related to the research question of the study. There is rapidly growing literature on the pricing strategy of the information goods, which indicates the optimal pricing, the subscription fee, the relation between the subscription services and consumers. All together those theories give a complete picture on the pricing on flat rates.

With fast grows, the development of the Internet and technologies developed new tendency- Software as a service. Those services adapted different pricing strategies about the service which they offered. The literature review of this thesis will focus its findings mainly on the subscription, freemium and dynamic pricing models. Meanwhile, the behavior of the users is another key aspect for the formulating the price of the services.

### **2.1 Essential outline for subscription services.**

Eurich et al. (2011) explained in the most accurate way the meaning of streaming services. They noted that the opinion of the companies is that the consumers interested not in the product but the services. They gave a variety of examples which are reasoning their views, such as: “customers want the coffee but not the coffee machine; they want the compressed air but not the machine to compress the air, and they want the hole in the wall but not the drill.”

Similarly, to the music streaming platforms, e-book streaming platforms could be seen as service. The consumer does not buy the e-book and for that reason do not have any rights to it. “Instead, the customer uses a service which specified by the characteristics immateriality and the no-actual-principle, which means that production and consumption happen simultaneously. This characteristic is due to the

integration of the user (as an external factor) into the production process.” (Chesbrough and Spohrer 2006; Rai and Sambamurthy 2006, cited by Doerr et al. (2010)).

Positive examples of companies which switch to the subscription-based business model are Spotify and Netflix. Nowadays, the consumer value to use the products or services without owning them drives the companies to switch on the subscription services. But not every switch to subscription business model could be successful and is risky to think that the company could reach the same success as Netflix and Spotify. (Fortune, 2014 (cited by Helo et al. 2016))

## **2.2 Price and pricing strategy for information goods.**

The providers of digital information goods are unsure how to price and market the goods, for that reason they are struggling with a variety of revenue models. (Bakos and Brynjolfsson, 2000)

Formulating the pricing strategy for information goods is complex. In contrast to the physical goods which are having fixed cost, their variable cost is measurable, and profit margins could be used to price product, the cost of the information goods is trivial once when the product was developed, and that marginal cost of each copy is almost zero. Once the product enters the market, the IT companies are not selling a product, but the product serial number. Clients are paying the fee and then purchase all the function of the software. (Sharpio and Varian, 1998) With the information goods, it is not possible to predict the quality of the product which means that there is information “asymmetry.” (Linde, 2009)

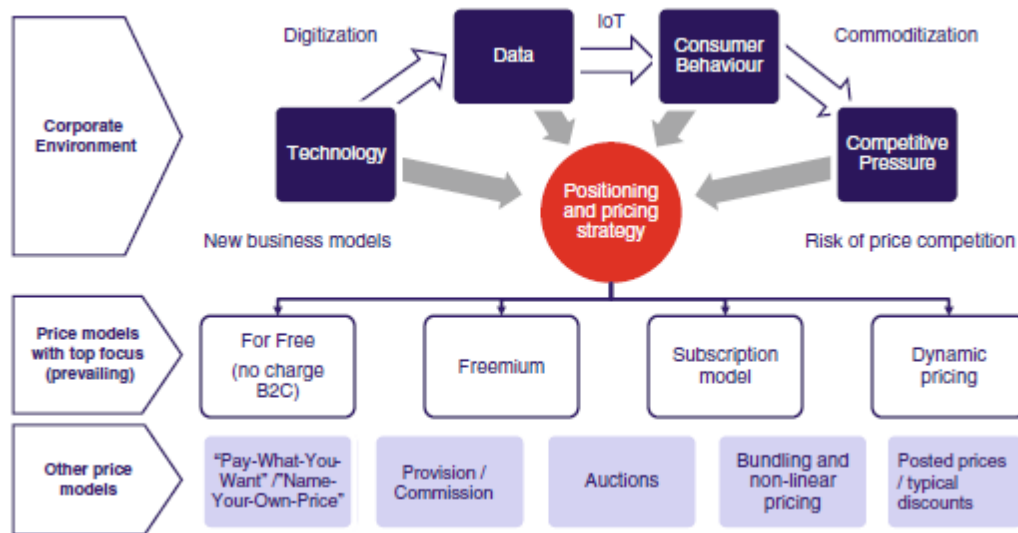


Fig. 1 Impact of a changed corporate environment on the pricing model. (Krämer and Kalka, 2016)

According to the Kindstrom and Kowalkowski (2014), the pricing capability is essential for generating the revenue models. The authors claim that charging mechanism for the new service product should be required in the early stage and sometimes existing goods and services should change their existing revenue models.

Krämer and Kalka (2016) Fig.1, examined the insinuation of digitalization on pricing models and decisions and gives some examples from different industries such as music, media, and retail. They focused their research mainly on four pricing models: **the subscription model and dynamic pricing, free of charge or offering, the freemium model**

### **2.2.1 Subscription based pricing**

The subscription method which includes a monthly or yearly payments it is well-known before the digital age. The underlying price of the flat price is a disadvantage in the physical world. “Consumption must be limited at all costs.” (Krämer and Kalka, 2016)

The user pays for a service or a product at the flat rate in fixed period. The subscription-based aids are for the consumer and the producer. The subscription model is simple and straightforward to adopt and generate flat revenue for the company. Besides the subscription-based pricing has the potential to generate higher profit for the vendors, because the subscription for a longer period is more expensive than a one-time fee. The customer is satisfied with the services because they do not need to pay for the full license and in that way, they commit their selves to a long relationship with the vendors. However, consumers are individual users, and the demand is large, and the value of the information goods varies. Additionally, the effective price strategy could be adjusting by the firm for the different customer to optimize the product life circle. (Yao, 2012) Dynamic pricing is a variation of the price over time. On days when the company’s expectations are to have some clients with more purchasing power, the price will increase, and it will reduce in times of weak demand. (Krämer and Kalka, 2016)

Danaher (2002) developed a model based on the subscription- based telecommunication services, and he found out that the drivers of the model are usage and retention. He figured out that the fee for subscription has some affect on the usage, but much stronger is the affect of retention. Fischer et al. (2012) presented the concept of “subscription-based forecast queries.” The main characteristics are the horizon and threshold-based. They focused the research on optimizing the horizon-based notifications and reducing

the notification length to “avoid resending many values if a threshold-based notification occurs.” They optimized that notification to reduce the cost of the subscriber.

One of the biggest advantages of the subscription services is that they offer to the customer’s price security, which on its side is a factor for customer loyalty. There is a risk for the service provider “if the consumption growth is stronger than expected, accompanied by an increase in the variable costs.” (Krämer and Kalka, 2016) One of the best benefits which subscription can bring to the organization is growing its valuation as reported revenue is considered to boost the value of a company for potential buyers considerably. (Helo et al. 2016)

#### **2.2.1.1 Optimal pricing**

Krämer (2015), suggests the extended definition of optimal pricing. “This should include the customer willingness to pay as well as taking into account the effects on customer loyalty and future gross margins generated by individual customers regarding customer lifetime value.”

In his model, Yao (2012), find out that optimal price decreases during the life cycle for higher renewal rate when the renewal rate should be fixed at each stage. If there are more stages which priced the product, the total revenue is greater. His analysis demonstrated that the total revenue decrease in demand elasticity to price, but the increase in consumer retaining rate and base market. Information goods with the lower demand of elasticity to the price and higher renewal rate required for the dynamic pricing strategy. Also, the information goods with lower renewal rate and appropriate investments in each stage could also decrease in the price monotonically.

The work of Dahner (2002) examine the optimal pricing of the subscription services, but he focused his findings on the communication products. According to him the number of available subscription services which are including a dual pricing system of monthly access fee increase occasionally. The usage of this services depends on the absolute and relative price of the dual system. If the pricing in the market it is recommended, it will be difficult to set the price for a new unknown service which can be compared with an existing one.

### **2.2.1.2 The freemium pricing model**

The “freemium.” pricing model is successfully adapted into newspapers, music, publishing, and much more. Once the software is developed, the distribution cost is zero contrasting to the goods- based products. This kind of a model do not offer a free trial or do not include the trail period because the product is always free. If the users decide to have the more qualified type of services, they could switch their accounts to “premium.” (Helo et al. 2016) The model where the price of the product or services is zero, but there is a possibility for the user to extend it is called freemium. In contrast, the price model which depends on the user willingness to pay is subscription model and dynamic pricing model. This model brings two different customer groups. The first one is satisfied with the service of the free content and continues to use it; the second group has the need to use more of the services and for that reason upgrade its account to the playable version of the service. The important factor for the success of such type of services is that the correlation between the users who pay a subscription fee and those who use the service for free is correlated. Another key factor when measuring company value is the customer base. (Krämer and Kalka, 2016)

### **2.3 Consumers as the key driver for the subscription services**

The consumer characteristics drive the profitability of subscription and advertisement business models. (Punj and Lett, 2015)

With the rapid development of the technology, it was improved the searching algorithm, increased the data transfer rates, the capacity of the user also increase, and all these factors motivate the consumer and participants on the market to question the efficiency of the pricing connect-time strategy. The power of the online vendors, increased and the data producer start use them to access the large markets which vendors owns. Those factors let the revenue from the print products to decrease, but in contrast, the income of the information goods increase with rapid terms. One of the important aspects of the purchasing information online is that the consumer usually paid when it is retrieved or after it is retrieving as against printed information in which consumer should pay in advance. (Jain and Kannan, 2002) Besides the willingness of the consumers to pay and the reaction on the different pricing models, drives the behavioral aspects such as “perceptions and preferences.” The perception of the consumer in different pricing strategies could give the additional opportunity to the companies to be diverse from the competition. Nowadays in many business and markets, the customer loyalty became a key factor. (Krämer and Kalka, 2016) Punj and Lett (2015) focus their research on the tendency to pay for online content when there are many available free services. They found out that the consumers who have the propensity to pay for online content do so for a smaller fee, and ironically the users who are not much connected with such kind of services are paying a larger amount of the online content. Another interesting

observation is that the users do not want to pay much for online content, but on the other hand, they ignore the advertisements which generate the revenue of the “freemium” business model.

There are two types of firm which are connected with information business- information producers who developed the database and vendors who provide access to this data bank. Together with customers who use that information, vendors and developer are pricing the information products. The online servers charged a connect-time pricing, where consumer pay based on the time spent connected to the database. (Jain and Kannan, 2002) In the actual market settings, when new one replaces one consumer drop the services. (Dahner, 2002)



## **3. Methodology**

### **3.1 Introduction to the research**

The structure of the method part of this study will follow the “research onion” (Saunders et al. 2008) (Fig.2). The research of this thesis starts with the second layer of the onion- approach. Later, the study continues with the third middle layer- choice, which clarifies the strategy of the research. In the very end of the chapter, it is defined the role of the researcher.

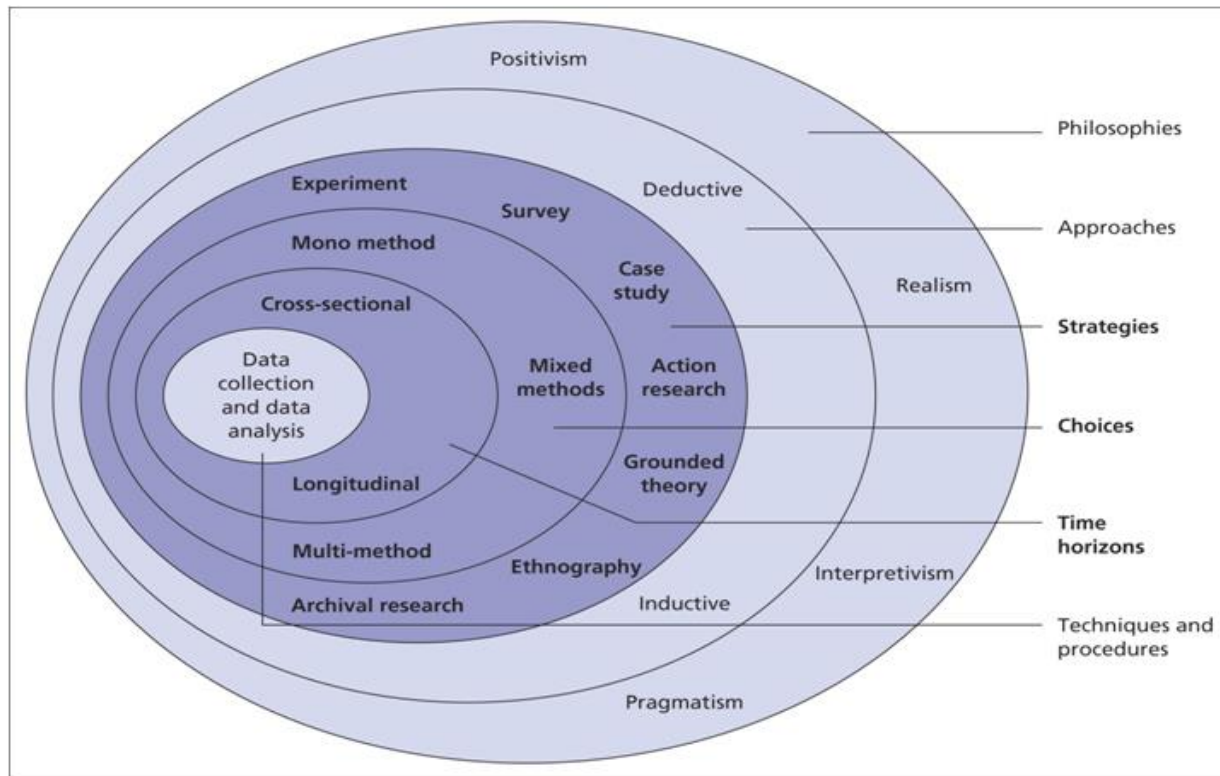


Fig. 2 The research “onion” adopted from Saunders et al. 2008

## 3.2 Research Approach

### 3.2.1 Deductive approach

The deductive approach involves the testing of the theory (Saunders et al. 2008)

Robson (2002) suggested five stages of the deductive research progress:

---

#### 1.Hypothesis testing – the relationship between two or more variables

---

---

**2. How will the variables be measured?**

---

**3. Testing the operational hypothesis- that could involve one or more strategies**

---

**4. Examine the outcome of inquiry**

---

**5 If it is necessary to modify the theory because of the findings.**

---

The research follows the quantitative method present in the case study. The data results in the case study are significant, and they provide the answer to the research question.

### **3.3 Research design**

The experimental approach to research is more often deductive, which means that the research goes from theory to data findings.

#### **3.3.1 The philosophy behind the research**

This pilot study adopted the Realism philosophy which claims that objects existed independent in the human mind. Realism is a branch of epistemology which underpins the collection of the data and understanding of it. The first type of realism is direct realism where the **ontology** says: “what you see is what you get.” The second one is called critical realism, and the researcher view of nature argues what our experience are sensations- the images of the real world, not the things directly. When we observe something, we do not stop only to things which are visible for our eyes; we are also using and our other senses to receive the whole picture. Bhaskar (1989, cited by Sounders et.al, 2009 ) argument is that

researcher can understand “only what is going on in the social world if we understand the social structures which what have given to rising to the phenomena which we are trying to understand.” Epistemology of the realism observes the phenomena which provide the data and facts. Otherwise, phenomena create sensation which is opened to critical realism. The research view of the value or with other words **axiology** is based on the worldviews, and experience. Data collection techniques for this research are **quantitative**. (Sounders, Lewis 2009)

### 3.3.2 Quantitative method.

*Quantitative research is ‘Explaining phenomena by collecting numerical data that are analyzed using mathematically based methods (in particular statistics).’*

(Aliaga and Gunderson, 2002, cited by Muis, 2004)

The research question which was formulated from the beginning of the research process could conclude that this research is **truth-seeking**. (Gray, 2014)

**Under which conditions is the introduction of a subscription based offer for information goods optimal?**

The type of the research question is **correlative** because for the research is important the relationship between the variable X and Y. The scientific research identifies why the condition or event occur. The causes are called independent variables (X), and the result is dependent variables (Y). It is not necessary the change in on of the variables to lead the change to another. (Gray, 2014)

### 3.3.2.1 Regression analysis

The regression analysis is concentrated on the relationship between the explained and explanatory variable. That, not necessary mean that there is a causation between the variables and the independent variable is the cause and the dependent variable-effect. “Regression analysis **could predict or forecast** the mean value of the dependent variable given the value of the independent variable beyond the sample range.” (Hobdari, 2011)

The coefficient of determination  $r^2$  measure “goodness of the fit” and give information how well the estimation regression line, fit the actual Y values. “ $R^2$  measures the proportion or percentage of the total variation in Y explained by the regression model.” The  $R^2$  have two properties:

- It is not negatively quantity
- Its limit is  $0 \leq r^2 \leq 1$  since an explained sum of squares cannot be greater than the total sum of the square. An  $r^2$  of 1 is a “perfect fit.”, an  $r^2$  of zero means that there is not the relationship between X and Y variable. (Hobdari, 2011)

### 3.3.2.2 The research process

Specifically, within the context of the study, the objectives of this research are to:

1. Identify under which circumstances the subscription business model is optimal for the e-reader platforms.
2. To show in the statistical model the relation between the variables in a way to answer the research question.

To reach the aim, the study will use the data from the app UB reader, which was provided by the authorization of the MobiSystem company. The data includes total revenue from users and advertisement which is split over the period 2012-2015. The data consists the information about the users and their locations.

### 3.3.2.3 Ethical issues

For this research, the data which is collected from MobiSystem company were prearranged with the manager of the company, who knows the research question and the parameters which were settled. I as a research asked only for the data which is needed to answer the research question. That make the **access to data cognitive**. The access of the data is produced through the **existing** contact. After a couple of days received the approval of the company that I can obtain their data to conclude the research. For example, information about the revenue after taxes was not provided by the enterprise because of the private policy.

The communication with the manager was through Viber, and the data were received as an Excel document.

### **3.4 The “center of the research onion.”**

#### **3.4.1 Exploratory study**

The purpose of the research is to bring out from the findings “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Robson, 2002) Exploratory study is important in a way to clarify the importance of the problem.

#### **3.4.2 Research Strategy**

This thesis tempts to investigate how the e-books adopt the flat rate model and to understand if this model is good enough for the e-book service. To answer the research question, the data findings are present from the single case company. Hence, the study will conclude the findings with the use of the descriptive statistic and discuss the results.

#### ***Case study***

The definition of the Case study in most accrued way is introduced by Robson (2002: 178, cited by Saunders et. al 2008) who define it as a “strategy for doing research which involves an empirical investigation of the particular contemporary phenomenon within its real-life context using multiple

sources of evidence.” According to the ability to answer the question such as “why,” “what” and “when” the strategy which is used to conclude a case study could be explanatory and exploratory. The data findings could include interviews, documentary analysis, survey, and observations.

As Yin (1981) noted, the case study does not imply the use of the particular type of evidence. An important note is that many believe that case studies are the result of the participant or ethnographic observation, but many studies concluded without using these methods.

The research strategy investigates “a contemporary phenomenon in its real- life context, especially when the boundaries between phenomenon and context are not clearly evident .” (Yin, 1981)

Triangulate sources of data are initial for the case study, which means that the data in the **quantitative method is collected by other.**

The description of the case study must be holistic and should include “myriad dimensions, factors, variables, and categories weaved together into an idiographic framework” (Patton, 1990: 387) The design process of the study determinates how the study will be construct- as a single case or multiple cases. The three possible studies according to Stake (2005) are:



- Instruct study, to better understand the particular case
- Instrumental- to provide insight into an issue or create generalization
- Multiple case studies- when some cases studied jointly to understand the appear phenomena.

Yin (2003, cited by Gray, 2014) noted four case strategies such as single case study v. multiple case study and holistic case study v. embedded case study.

When a researcher wants to represent the critical or unique case, concentrate the research on a single case study. In a way to conclude a single case study the second aspect is the unit of analysis- holistic or embedded case study. (Gray, 2014)

This study concentrated its findings only on the UB Reader, which is the representative of the companies using subscription service. The research will present the key factors such as financial statements, market justifications, and customer profiles. Considering the theory of **embedded case study**, the research it will represent not only the essential for the company but also it will also track logical- sub units on the market on the information goods.

As the main point for this study is to answer the research question and to give more precise information about the topic, the study considers the theory of embedded case study because it will use multiple units of analysis. From the side of the theory, the single case study is also known as a mentoring program, and the process is similar to the mentors and mentees in the real-life situation. (Gray, 2014)

### **3.4.3 Time horizon**

The determination of the time horizon is the research question. The study could be **cross-sectional or longitudinal**. The choice depends on the purpose of the research.

Longitudinal research is the capacity to study change and development. Observation of the events over time gives to the researcher the ability to measure of the control over the variables which are being studied. The period is 2012-2015, and the data which is observed is the revenue from the clients and advertisement. (Gray, 2014)

### **3.4.4 Reliability and Validity of the study**

From proper statistical interpretations to be made, based on the data any research tool must be valid and reliable. There are four treats of the reliability: the subject of the participant error, subject to participant bias, observer error and observer bias. (Gray, 2014)

#### **3.4.4.1 Validity**

To confirm validity, a research instrument must measure what is intended to measure. The reliability in the quantitative research can be defined as eight types: face, internal, external, criterion, construct, content, predict and statistical validity. (Gray, 2014)

Internal validity refers to the correlation question where is observed cause and effect and to extend to what conclusion could be drawn. In this study, the validity of the regression is proved with the value of the  $R^2$

### 3.4.4.2 Reliability

The reliability is an indication of consistency between two measures of the same thing. This measure could be:

- Two separate instruments
- To similar halves of an instrument
- The same instrument applied on two occasions
- The same instrument administered by two different people

There are two linear regression models in the research. They attempt to forecast the future revenue of the company from advertisements and consumers. The both regression models are presented in Chapter 6. To predict the forecast, the first estimation was to find the  $r^2$  and to see if there is a relationship between X and Y- Year and Revenue. Three tests were done for the both models. To predict the  $r^2$  were with the scatter plot which estimated the value of  $r^2$  with linear, logarithmic and exponential regression. The estimations show that the  $r^2$  in the exponential regression gives more close results for to 1, for that reason the model is good for forecasting.

### 3.4.5 Data collection

Quantitative data

It refers to all the data and can be a product between different research strategies. Quantitative data can be range from the sample counts such as the frequency of occurrence to the most complex data such as

T-score, price or rental cost. The techniques to present the quantitative data are range from simple tables, diagrams to the most complex statistical models to establish a significant relationship between different variables. (Sounders; Lewis, 2009)

The variables which were used for this study are continues, which aim is to measure the range of values, connected to the indicators: sales and revenue form advertisement.

The quantitative data in the case study should present “meaningful events.” It is also based on tabulation between a different organizational event which is coded for each case study. (Yin,1981)

## **4. Case study: UB Reader**

The platform UB Reader is used as a case study for reviewing the implementation of the subscription service in the app providing access to e-books. The first step of the research is to explain what is the characteristic of the UB Reader. The second step is to present the key findings such as revenue, the fee for the service, the number of the users in total and split by countries. The data findings are presented with descriptive statistics, and the forecast models for future revenue is done based on a linear regression.

### **4.1 Key elements of the UB reader's business model**

The UB Reader app is a product of the company MobiSystems, which was found in 2001. The company was listed in the Inc.500's "as one of the fastest-growing US companies for 2014". The MobiSystems is a developer of the "award winning mobile app- OfficeSuite which was a Google Play Editor's choice for the top app in the business category." Also, OfficeSuite was calcified as a "Best office app for Android," by Pc Magazine Editor's choice. Other products of the company are File Commander Premium, Oxford and Collins Dictionary's and UB Reader (MobiSystems, 2016)

The UB Reader is an application for Android which allows to the user to read e-books. The company developed the platform in 2011, and after a year the app was available on Google play. It was a natural addition to the other products of the company. The main goals of the app are the people could be able to read electronic books at any places on their devices such as phones and tablets. The distribution of the service is through mobile channels such as Google play. The application easily could be pre-loading on the different devices.

## 4.2 Freemium model

Throughout the development of the digital technologies, many new business models, products and pricing model appeared. The “freemium” model is a combination of “free” and “premium” which is the superior business model among the smartphone developers and startups. (Kramer and Kalka, 2016)

The UB reader adopted this business model since the creation of the app. The users download the platform for free and with the installation of the app they receive one book as a compliment to the use of the app. The users of UB reader could import their books on the shelves, but also have the possibility to choose a book from the reader library according to the significant price. As every free online service, the application also generated the revenue of the advertisement. However, if the users eventually want more additional extras, they need to pay \$5 for the one upgrade, one time. The premium model allows to the user to have access to additional extras such as:

- Text-to- speech- gives the opportunity to the user to listen to its favorite book
- Shortcuts to book- the favorite title could be add on the home screen
- Lock books- protection of the books with password
- Ad free- enjoying the reading without an ad

The revenue of the platform is formulated by the advertisement and the sales. The revenue for 2012 is estimated to \$16400 wich was earned only by the fee of the customers. For 2015, the app generated the revenue mostly of the advertisement wich reaches the amount of \$125 000.

The calculation about the users which is using “freemium.” could be precisely estimated only for the period 2012-2014. The reason is that in 2015 the developer of the platform decided to introduce the subscription monthly and yearly fee for the service. For the amount of \$1 per month and \$5 for a year, users could read with its extras which were mentioned before text-to-speech, ad-free, lock to the books and shortcuts to the books. The subscription pricing last two months, September and October, because it can be observed that the revenue for August which was \$7000, rapidly fell to \$2000.

#### 4.3 The participation of the user in the service.

Since the UB reader was presented in 2012, the customers were 10 000. Just for one year, the users were multiplied 20 times. A few years later the total app users became 1 965 000.

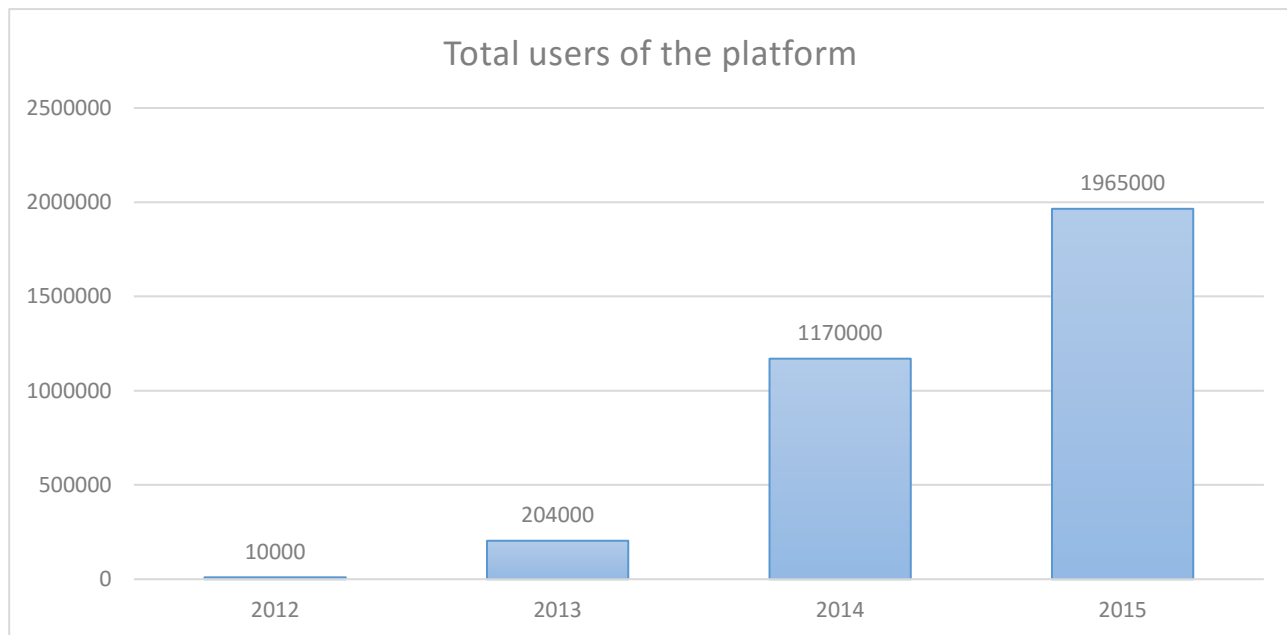


Fig.3 The grow of the customers.

The biggest percentage of the UB users is concentrated in the United States (23.80%). They are followed by Germany (13.71 %). It is observed that the biggest usage of the app is in the region which the company does not have particular information (29.12 %) (Fig. 4)

The assumption is that the UB app is used mostly in places where Amazon is the leader in the e-book market, who covered all the variation of the supply from buying to downloading and subscription. One of the possible reasons is that the product is a 'bridge,' between the consumers and the e-books. Still, Amazon is the leader in the e-book market, who covered all the variation of the supply from buying to downloading and subscription.

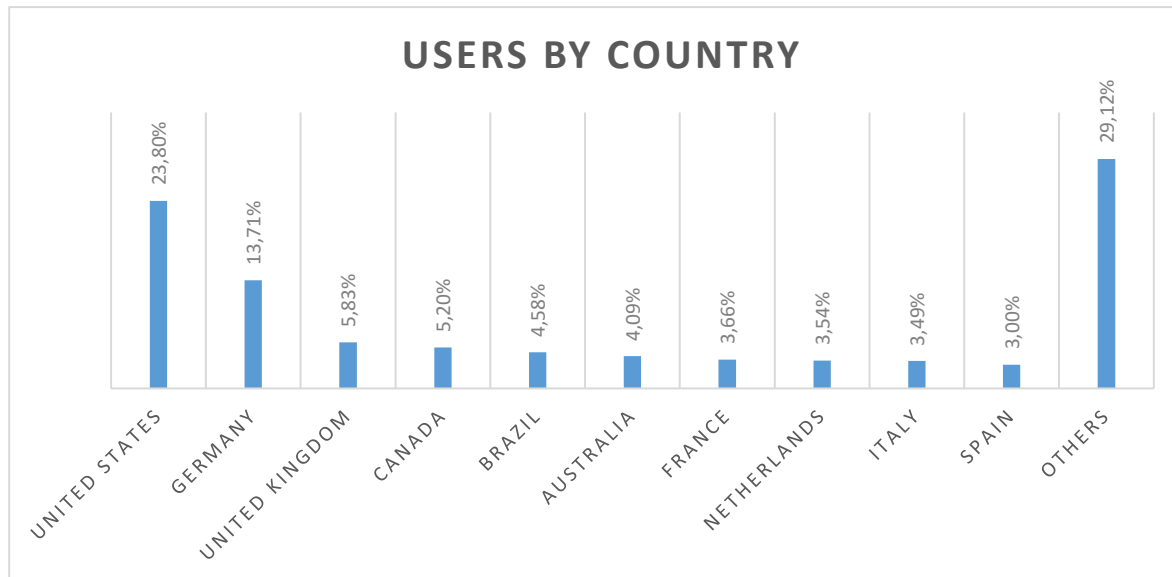


Fig. 4 Users split by countries.



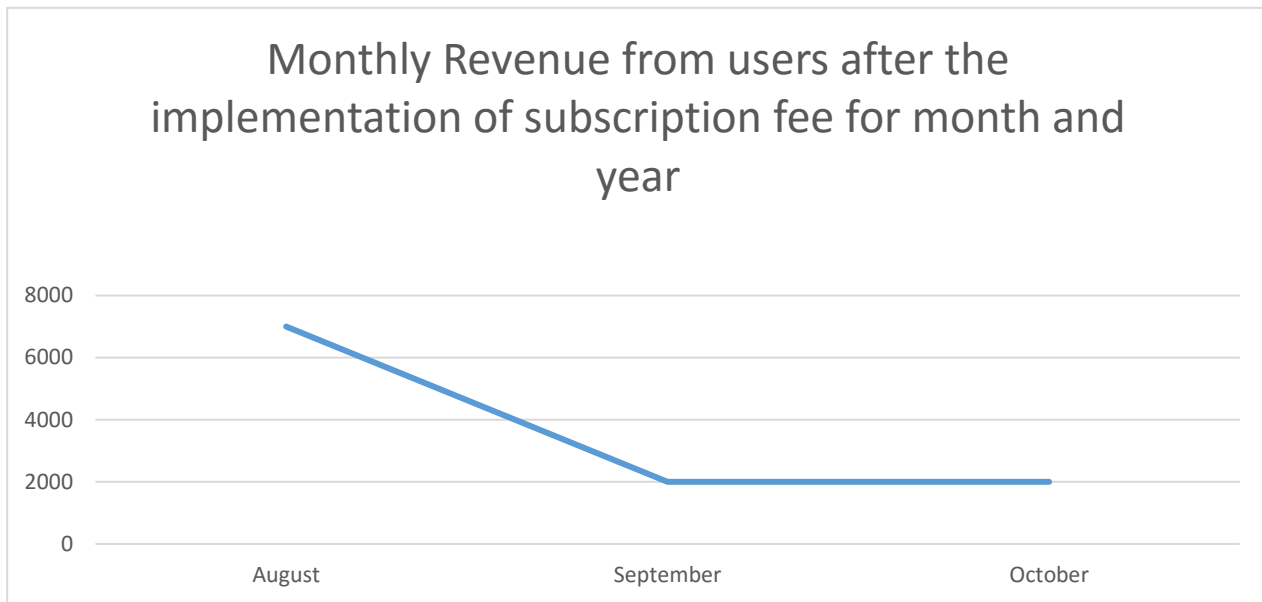
## **5.Results and Discussion**

The data findings on the UB reader are based on the key segments of the literature review. The theory of the pricing of the informational goods is logically connected with the company case which could give a complete picture of this research. The need of the case study is to follow the changes in the key factors such as revenue, advertisement, and users. The app UB reader combined those key elements and with its nature, it could be concluded that it is a representative of the e-book streaming platforms.

### **5.1.Pricing and revenue**

Yao (2012) noted that the effective price strategy could be adjusted by the firm for the different customer to optimize the product life cycle.

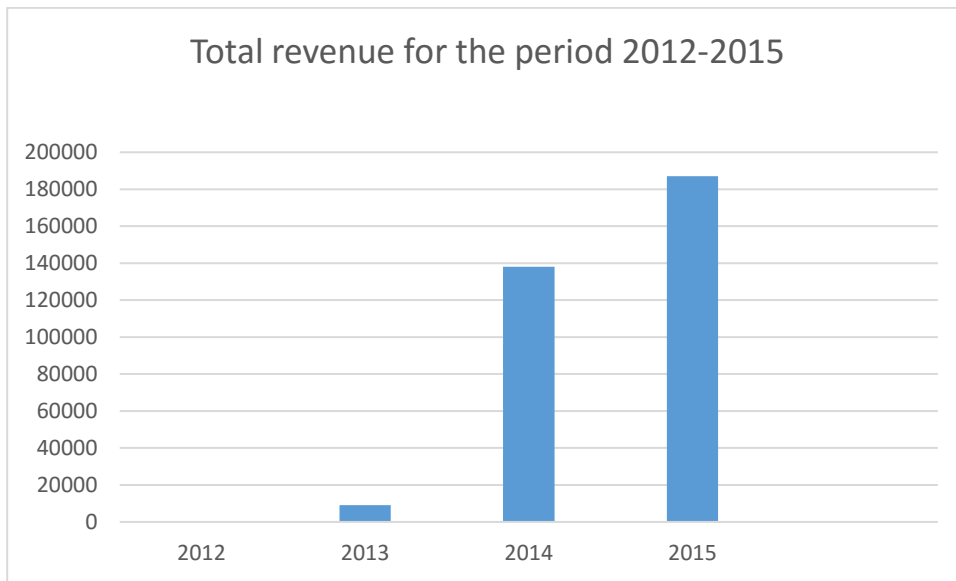
The effective price strategy is observed in the UB reader app when the platform decides to change the pricing model and to accept that users should pay \$1 per month and \$5 per year. The testing period was only two months but was enough for the company to see that the subscription fee is not efficient for the app. From \$7000 in August the revenue of the app declines to \$2000 for September and October (Fig.5)



*Fig. 5 The revenue of the reader after implementation of the subscription fee.*

According to Yao (2012), the subscription-based pricing has the potential to generate higher profit for the vendors because the subscription for a longer period is more expensive than a one-time fee. The customer is satisfied with the services because they do not need to pay for the full license and in that way, they commit their selves to a long relationship with the vendors.

The UB reader successfully implements the one update- one payment and find out that for this model is efficient to the nature of their business. It could be clearly observed in the fig which summarizes the revenue of the company for the period 2012-2015 (Fig.6)



*Fig. 6 Total revenue of the platform*

The income of the UB reader is generated from users and advertisement. For the first year, the app released only on the subscription fee. The generated income was \$1640 in 2012; that means the active users who prefer to pay for the extra upgrade were **328** for the whole year. The interesting observations are concluded for 2014, where the revenue from the consumer was \$65 000 and the revenue from ads- \$73 000. The values were close, but in 2015 the situation is different, the revenue from consumer decrease, but the income of the ads increases to \$125 000. (Fig 7.)

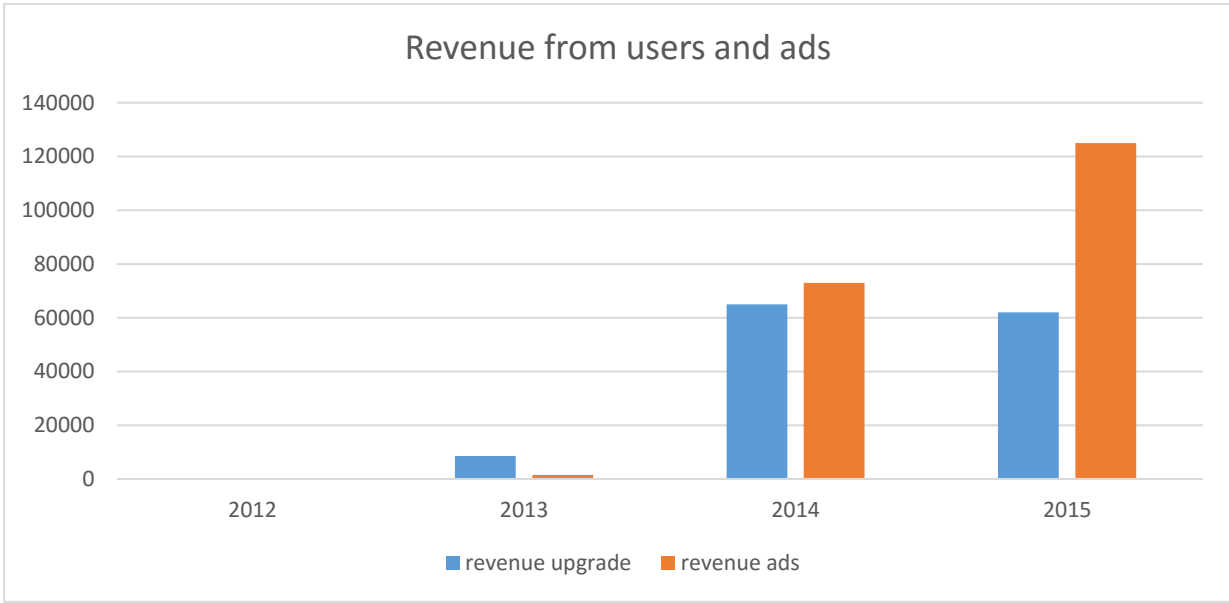
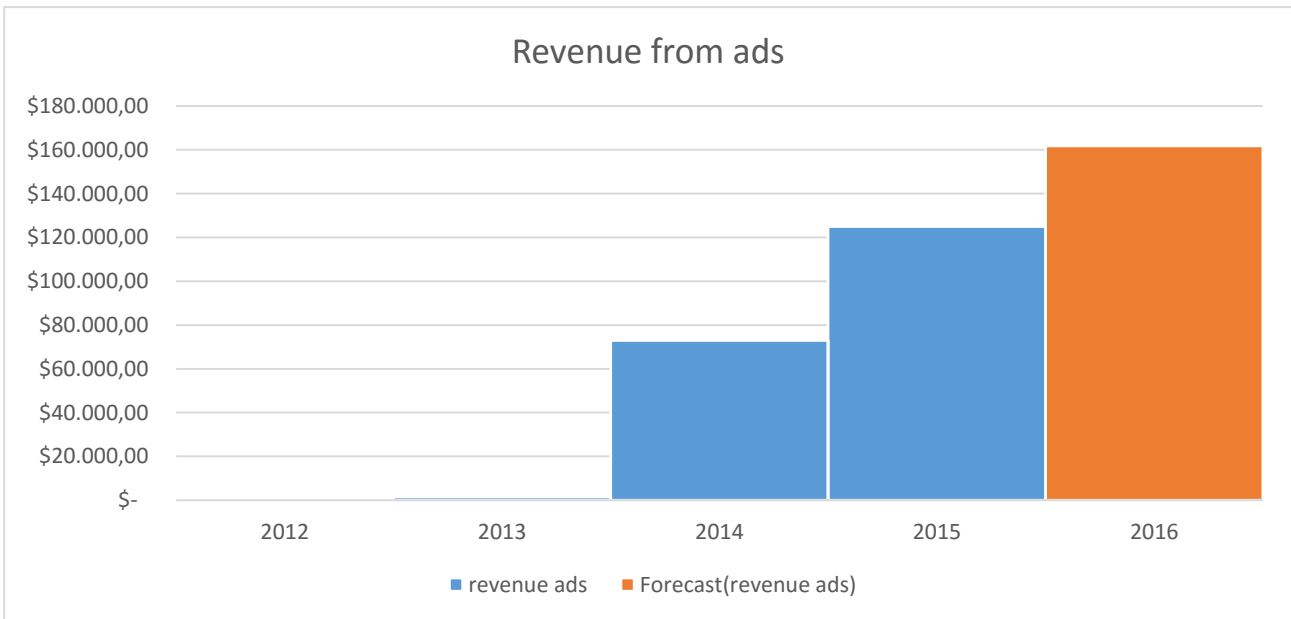


Fig. 7 The revenue from fee and ads.

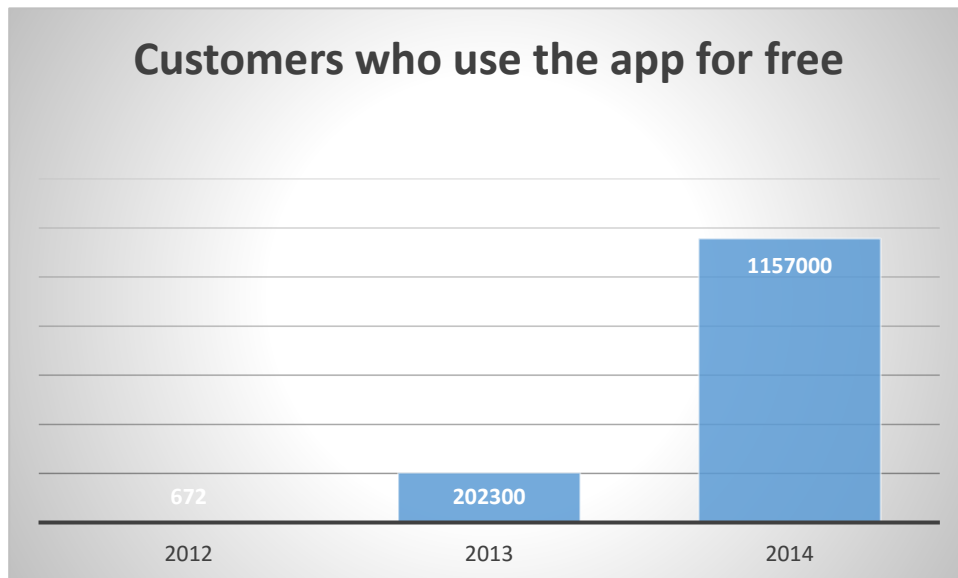
The forecast estimations show that for 2016 the income from advertisement will increase to \$164,768. The company will generate \$39,768 more than 2015.



## Model. I

### 5.2 The participation of the user in the service.

With the given data of the total users of the platform and total sales, it concluded an estimation, what is the number of the users which download the app for free. It was observed that the users who pay fee were 328 in 2012, from here, it could be concluded that the app had 9672 users who use it for free.(Fig. 8) The data findings are only for the period 2012-2014, because of the change of the pricing model in 2015.



*Fig. 8 The user who use the app for free for the period 2012-2014*

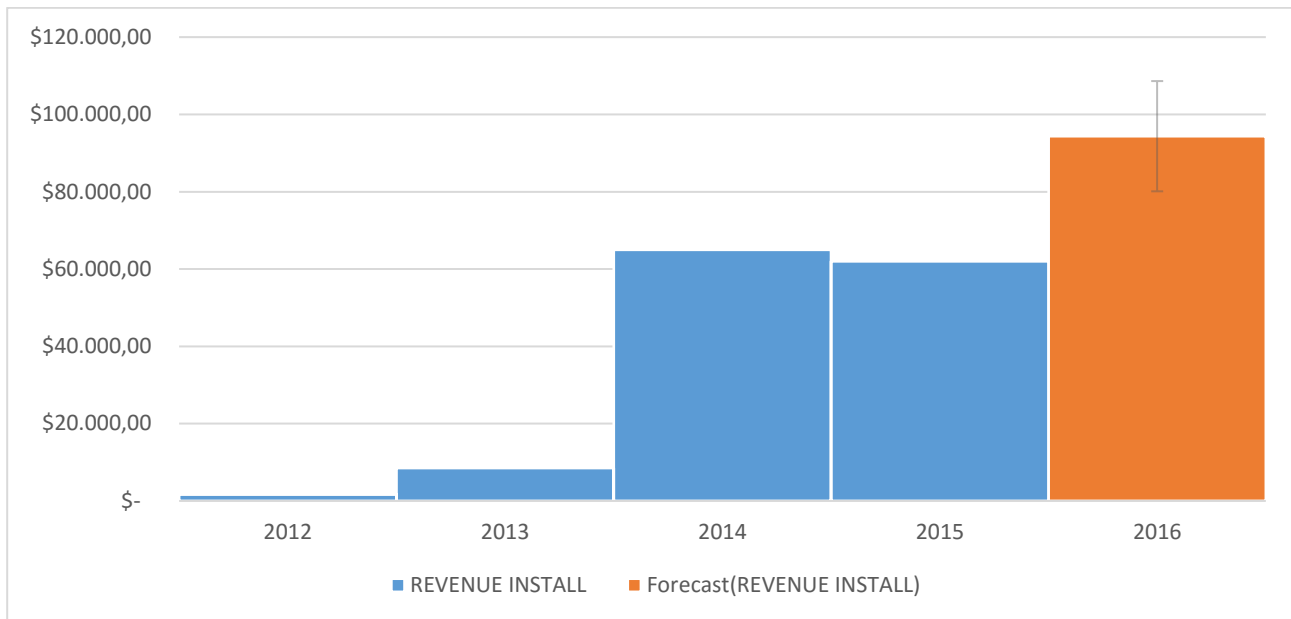
From the start of the company until now the total amount of users increase, but still, customers prefer to use the app for free. This could be because of the content of the service. The e-books are time-consuming. People have different reading abilities, but it could be done an assumption that one book could be read

around a week. This time could not be compared with the time which people spent to listen to a song or see a movie.

Another reason also could be that consumers are satisfied with the look of the free app, and they do not feel hesitated about the appearing advertisement. If the company work on the more additional service which consumer could receive after paying the fee, probably the freemium model will work in the future. According to the monthly and yearly subscription fee, they were implemented in the right time. Based on the total amount of the revenue in 2014 (\$ 138000)

According to the data findings, two model are present to show the estimation of the future revenue of the company. The best regression model was reached with exponential regression, shows value 0.8911 which is close to 1 and that demonstrates the relationship between Y and X. This estimation shows that this relation will give reliable forecast analysis.

year	revenue inst
2012	\$ 1.640,00
2013	\$ 8.500,00
2014	\$ 65.000,00
2015	\$ 62.000,00
Linear	0,8199
logarithmic	0,8199
Exponential	0,8911



#### Model. II Revenue forecast from users for 2016.

The forecast for 2016, pointing out that revenue for the consumers will increase to \$94,367. To make an assumption about the market is relevant when the price of the product is known. In our case, the price is \$5. As the revenue is formulated from the consumer, the valid assumption could be that the app will bring 188734 active users in 2016.

The future expectation about the revenue of the company shows that revenue will increase. The important observation is the fact that, the app will increase more the income from the advertisement instead of the user's accounts. That means two things:

1. The users still prefer to download the app and use it for free. If the revenue from the advertisement increase that means the platform is attractive to them.

2. The estimation about the future revenue shows that potential users of the platform which prefer the playable version of the service will increase, but still they would not be more than the consumer who uses it for free.

The results in findings show that the consumer prefers the use the UB Reader for free, instead of paying a subscription fee. One of the possibilities is because they already pay for the e-book, and they do not need more expenses. We should take in mind the pirate sites wich provide the e-books for free. The use of such site is also a determinate role in the desire to the user to pay for an e-reader.



# 6. Conclusion

## 6.1 Interpretation of the results.

As this thesis have the deductive approach for the research: from the research question to the theory findings, the main goal is to answer the research question which is:

**Under which conditions is the introduction of a subscription based offer for information goods optimal?**

The key elements of the theory, method, and findings of the research are summarized to respond the research question.

The thesis investigates the subscription services for e-books to understand the business model and to observe if it is relevant to this service. The collected theory express the pricing strategy in the subscription services and separate them into different groups. Krämer and Kalka(2016) noted four pricing models: **the subscription model and dynamic pricing, free of charge** or offering, **the freemium model.** Kindstrom and Kowalkowski (2014), claim that charging mechanism for the new service product should

be required in the early stage and sometimes existing goods and services should change their existing revenue models.

The user pays for the service at the flat rate in fixed period. The subscription model is straightforward and easy to adapt and generate the revenue for the company. Besides such subscription pricing has the potential to generate higher profit from vendors because the subscription for an extended period is much expensive than a one-time fee. It should be taken in mind that consumers are individual users, their demand is large, and the value of the information goods differs.

The observation which Punj and Lett (2015) done that the consumers who have the propensity to pay for online content do so for a smaller fee, and ironically the users who are not much connected with such kind of services are paying a larger amount of the online content.

There are two types of firm which are linked with information business- information producers who developed the database and vendors who provide access to this data bank.

The UB Reader is associated with the information business as a vendor who provides access to the data bank- which is a virtual library. That makes UB reader representative from the other subscription companies for e-books. With the raw data which were collected from the manager of the MobiSystems- the company which owns the UB reader app, I did two models to see the future revenue of the company to 2019. The first step was to find the  $R^2$  to see if there is a relation between the two variables Y and X. The data were organized in two columns - Year and Revenue and with the scatter plot was found the value of  $r^2$  with linear, logarithmic and exponent regression. For Model 1, closest value to 1 was estimated with exponent regression and was equal to 0.8314 which was the nearest value to 1 and presents

the close relation between Y and X. After the graph about the future income from consumers for the period 2016-2019 is shown in the data findings. The same steps were taken for the Model 2.- revenue from advertisement.

The data findings are key for the rationale of the thesis because give the answer to the research question:

**Under which conditions is the introduction of a subscription based offer for information goods optimal?**

To proceed above the written, from the theory and findings, could conclude that the observation showed that when there is an option for choice between the free and pay service, most of the users are satisfied with the free variation of the product. From the data, findings were observed that most of the users of the UB Reader are settled in United States, United Kingdom, and France where Amazon is the key player. From the side of the consumer who pays for the content of their books, probably paying an additional subscription fee for the reader is a lot. UB app vendors know that, and after the trial period of the subscription, they changed the pricing model again to a one-time fee.

One of the most important facts in the subscription based platforms for the information goods is the client. The presence of the many users is the key role of every subscription service. UB Reader attracts many customers in 2014, for that reason decide to implement the subscription based payment. The experiment shows that for two months company start to loose with the biggest temps. That came because the amount of the clients which the reader have, already pay the needed fee of \$5. The monthly and yearly subscription were implemented to attract new users.

Unfortunately, for the new services the subscription business model is not relevant to attract new consumers. The moment where users decide to relay to the platform is delicate and depends on of the content of the server. The platforms which provide access to the e-books with subscription still could not be in the direct competition with the platforms which offered a subscription for movies and songs. There are few reasons:

- 1. Time-** reading is time-consuming, one book could be read approximately about the week, and this depends on of the reading skills of the users.
- 2. Investments-** Unfortunately, the amount of the investments in the book industry could not be compear with the investments in movie and music industry. The reason again is the time consuming. The authors spent an enormous amount of time to write a book. They could not rely on the already produced copies, such as the movie industry that can afford to filmed many of the books.
- 3. Competition-** The diversity of the competition in the movie and music industry is well-known. The amusements which are easy to perceive are preferable in the 21<sup>st</sup> Century.

The e-book subscription services such as UB readers should invest more into the interface of the server. The content on the library should guarantee quality and diversity of the bestsellers. The users should be attracted to the platform, and the easiest way is with free trial period. This trail period is the key factor, who drives the consumers to decide if they will use it or not.

## 6.2 Limitations

This thesis encounters some limitations.

- The main topic of the thesis is to investigate the subscription business model implement in e-books. The representative of such subscription service is a company which provides access to the e-books. The e-book library of the app do not belong to the app, for that reason relevant data about the books and their price could not retrived in this research.
- The next limitation was observed in the models. To forecast the revenue from users and advertisement, I start to build a regression model, unfortunately, due to technical difficulties with Excel the model could not be present in the desired form. Instead, the forecasting model was done by the Excel. The future revenue of the consumer could not give the relevant results due to the factor that consumers are individual users, their demand is large, and the value of the information goods differs. The forecasting analysis also could be limited due to the lack of the experience of the researcher.
- Time is another reason for the limitation of the study.

### 6.3 Future research

This study should be treated as a pilot study, and future research could be based on the theory and the method. Future research could be done from the perspective of the consumers. Their answers will value knowledge of the companies which decide to introduce the subscription model for e-books. With such data findings, the research which adopted the quantitative method will bring more accurate results. The data for this research **is personal and could not be used for the future research without the awareness of the enterprise.** However, the results of the investigation show that the beneficial condition to change the pricing model could not be in a way to attract new consumers. The data findings indicate that the expected revenue of the advertisement for 2016 again will be dominant, against the revenue of the consumers. Still, the subscription for the e-books is not attractive to the users. If the UB reader introduces the subscription fee to the consumers who already use the services, probably the results will be different. The users who participate in the platform are a key segment, and the company should think about the proper way to introduce the monthly or yearly fee to them. Hence, they already paid the fee of \$5; possible pricing scheme for them could be to pay \$1 for a month in the future. In that way, the app will not only rely on the new users but also will increase the yearly revenue from those who are already in the database. Of course, there is a risk of the negative feedback in Google Play, possible decline to use the platform and find the alternative way for reading.

## References:

- Bakos, Y., & Brynjolfsson, E. (2000). Bundling and Competition on the Internet. *Marketing science*, 19(1), 63-82.
- Carlborg, P., Kindström, D., & Kowalkowski, C. (2014). The evolution of service innovation research: a critical review and synthesis. *The Service Industries Journal*, 34(5), 373-398.
- Chen, Y., Fay, S., & Wang, Q. (2011). The role of marketing in social media: How online consumer reviews evolve. *Journal of Interactive Marketing*, 25(2), 85-94.
- Danaher, P. J. (2002). Optimal pricing of new subscription services: Analysis of a market experiment. *Marketing Science*, 21(2), 119-138.
- DQ., Wang, Z., Mukhopadhyay, S, Y. A. O. (n.d.). Dynamic pricing strategy for subscription-based information goods. Retrieved from <http://link.springer.com/article/10.1057/rpm.2010.48>
- Eurich, M., Giessmann, A., Mettler, T., & Stanoevska-Slabeva, K. (2011, August). Revenue Streams of Cloud-based Platforms: Current State and Future Directions. In *AMCIS*.
- Gray, D. E. (2013). *Doing research in the real world*. Sage.
- Helo, Angappa Gunasekaran, Anna Rymaszewska, P. (1990). [Pricing Decisions: From Ownership to Subscription]. Retrieved from [http://link.springer.com.esc-web.lib.cbs.dk/chapter/10.1007/978-3-319-40430-1\\_9](http://link.springer.com.esc-web.lib.cbs.dk/chapter/10.1007/978-3-319-40430-1_9)
- Hobdari, B. (2011). *Research method for business students fifth edition* (2nd ed.). New York, US: McGrowth- Hill Custom Publishing
- Jain, S., & Kannan, P. K. (2002). Pricing of information products on online servers: Issues, models, and analysis. *Management Science*, 48(9), 1123-1142.

Krämer, F., Schmidt, K. M., Spann, M., & Stich, L. (2015). Delegating Pricing Power to Customers: Pay What You Want or Name Your Own Price.

Krämer, A., & Kalka, R. (2017). How Digital Disruption Changes Pricing Strategies and Price Models. In *Phantom Ex Machina* (pp. 87-103). Springer International Publishing.

MobiSystem. (n.d.). UB app. Retrieved from <https://www.mobisystems.com/>

Linde, F., Kock, M., & Gorges, A. (2012). Network effects of digital information goods: a proposal for the operationalization of direct and indirect network effects. *International Journal of Business Research*, 12(3), p1.

Muis, K. R. (2004). Personal epistemology and mathematics: A critical review and synthesis of research. *Review of educational research*, 74(3), 317-377.

Miller, RL & Brewer, J 2003, *The a-z of social research*, SAGE Publications, Ltd, , [Accessed 21 November 2016], doi: 10.4135/9780857020024.

Mills, AJ, Durepos, G & Wiebe, E 2010, *Encyclopedia of case study research*, SAGE Publications, Inc., Thousand Oaks, CA, [Accessed 21 November 2016], doi: 10.4135/9781412957397.

Mazumdar, T., & Monroe, K. B. (1990). The effects of buyers' intentions to learn price information on price encoding. *Journal of Retailing*, 66(1), 15-33.

Patton, M. Q. (1990). *Qualitative evaluation and research methods* . SAGE Publications, inc.

Punj, G. (2015). The relationship between consumer characteristics and willingness to pay for general online content: Implications for content providers considering subscription-based business models. *Marketing Letters*, 26(2), 175-186.

Robson, M. J., Leonidou, L. C., & Katsikeas, C. S. (2002). Factors influencing international joint venture performance: Theoretical perspectives, assessment, and future directions. *MIR: Management*



*International Review*, 385-418. %20Edition)/Cover%20&%20Table%20of%20Contents%20-%20Research%20Methods%20for%20Business%20Students%20(5th%20Edition).pdf

Shapiro, Carl, and Hal R. Varian. "The Information Economy." *Information Rules: A Strategic Guide to the Network Economy*. Boston, MA: Harvard Business School, 1999. N. pag. Print.

Saunders, M. (n.d.). *Research method for business students fifth edition*. Retrieved from [http://ebooks.narotama.ac.id/files/Research%20Methods%20for%20Business%20Students%20\(5th](http://ebooks.narotama.ac.id/files/Research%20Methods%20for%20Business%20Students%20(5th)

Stake, R. E. (2005). Qualitative case studies.

Smith-Doerr, Laurel, and Walter W. Powell. "17 Networks and Economic Life." *The handbook of economic sociology* (2010): 379

Wang, C. L., Zhang, Y., Ye, L. R., & Nguyen, D. D. (2005). Subscription to fee-based online services: what makes consumer pay for online content?. *Journal of Electronic Commerce Research*, 6(4), 304.

Yin, Robert K. "The case study crisis: Some answers." *Administrative science quarterly* 26.1 (1981): 58-65.

