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Business model innovation

-the case of Communication Ltd

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Preface

This thesis has been a fun and interesting journey, but also stressful at some points. Without certain people this thesis would not have been able to exist. I would therefore like to first and foremost extend my thanks to Communication Ltd and the two interviewees for their participation along with given materials and interesting discussions that has enabled me to write this thesis. I would also like to give my thanks to my supervisor Martin Löfgren, for his time and support, but also his wisdom and opinions throughout the whole process of the thesis.

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Summary

In today's competitive market, a well-integrated business model can play an important role for a competitive advantage. One tool to create business models is the business model canvas. This method is used by many big organizations, and among these users is Communication Ltd. They are currently working on changing their focus from product to service. This change requires some big changes in the company's business models, revenue streams and in their value proposition.

The goal of this thesis is to analyse new possible revenue streams and also investigate if these could be of use for Communication Ltd. To reach this goal this thesis uses a theoretical base along with empirical data such as interviews, secondary data and a study of revenue streams in external markets.

The conclusion reached in this thesis is that going from a product focus to a service focus requires structural changes in revenue streams, but also a clear communication of the value an organization is offering their customers. Furthermore for an organization to meet future customer needs, new types of revenue streams must be implemented. One solution to this could be for an organization to offer different types of memberships where different values are bundled together deepening on what the customers' demands.

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1 Background and introduction

This section includes the definition of the problem as well as the purpose and objective of the thesis. Initially a short presentation of the company is given, followed by a discussion of the problem.

Communication Ltd is an alias for the company participating in the case study of this thesis. The company was founded in the late 19th century and has since then grown to become the world-leading provider of telecommunication equipment. Their products and services are used in over 180 countries and approximately 40 percent of the world's mobile traffic passes through their networks. Today Communication Ltd is in the process of changing their focus from product to service, along with a development of their current business models.

The word business model and what it means has really expanded during the last decade. To have a good and well integrated business model has become a big priority for many companies world-wide. There are several methods for constructing a business model, however this thesis will focus on one of them: The business model canvas by Osterwalder & Pigneur (2010).

1.1 Discussion of the problem

Today, Communication Ltd is in the process of changing their focus from product to service. Communication Ltd is also looking in to start charging for these new services and how to charge for the existing services, since some of these have been free of charge before. This change of focus will probably affect the structure of the different departments that exists inside Communication Ltd today. Some departments may have to work together or even merge into one new department. Communication Ltd reviewed their business models in 2008, they had at that time nine different business models. These business models were used by the different departments depending on which type of product and/or service the department were providing. An interesting topic to investigate is what has happened with these business models since 2008. Has there been any changes in the business models? If so, has there been any steps towards a service focus? Did Communication Ltd face any complications during the implementation of these steps etc.?

When a comparison between the nine existing business models were made, their revenue streams differed a lot form each other. It is therefore interesting to see

what type of revenue streams are used today and if Communication Ltd has added new or removed old revenue streams. To create new service based revenue streams can be difficult. If the different departments inside Communication Ltd should work together, what type of revenue stream should be used? Since they differ today it is not clear what type that should be used or what type that best suits Communication Ltd.'s business. An organization must ask itself, "For what value is each customer segment truly willing to pay?" (Osterwalder & Pigneur 2010:30). Should Communication Ltd charge per hour or per use? Or should a onetime payment be used? Of course the type of revenue streams used are depending on what type of Value Propositions and Customer Segment that are at focus, but when it comes to services the Revenue Stream becomes more unclear than it used to be for products. Since revenue streams for products almost always have been a one-time payment, it is of interest to see how other organizations solved this problem in other markets. Maybe their revenue streams can be modified and adapted to Communication Ltd. Even if these organizations exists in a completely different market their revenue streams can still become effective for Communication Ltd.

A change from product focus to service focus means a lot of changes inside the organization as well. The changes of the revenue streams may affect the business model and Communication Ltd may come to change their business models as well. If so, how should these business models be constructed and more integrated? How should Communication Ltd organize themselves to create these integrated business models, according to Zott and Amit (2010) and their framework? To change their business models can be both positive and negative for the company. According to Chesbrough (2010) business model innovation has its obstacles. However, business model innovation can also bring great value when done right. Maybe the new business model can bring new business opportunities to Communication Ltd. This may be exactly what they need in order to find the right service focus they want. The new model can also open up for new customer segments, partners and channels. Here, Communication Ltd have the possibility to run across an entire new market or a unique partnership that can generate new value to them.

1.1.1 Problem definition

Communication Ltd is in the process of changing their focus from product to service. This may require that the different departments must work together to be able to offer a service. Looking at the review from 2008 the revenue streams used in the business models differs a lot from each other. This causes a problem in terms of what type of revenue stream should be used in future collaboration between the departments. Another problem that may arise is how a firm should organize itself to meet the new requirements from the new types of revenue streams. Based on this problematization the following questions have been chosen:

- What has changed in Communication Ltd.'s business models since the last review in 2008?
- What revenue models currently exist in Communication Ltd and what could future revenue models look like?
- How should a firm organize itself to deliver outcome based revenue models?

1.2 Purpose and objective

Based on these questions the purpose of this thesis is to create a theoretical base to understand both the creation of business models and its boundaries. Then, the theoretical base is used along with the empirical material from Communication Ltd to analyse new possible revenue streams for Communication Ltd and how these should be developed to fit in to their business models.

The objective of this thesis is along with the theoretical base and empirical data to analyse possible ideas for future revenue streams for Communication Ltd. Another objective for this thesis is that it should act as a source of inspiration for Communication Ltd and their future work on the change in focus from product to service.

2 Theoretical framework

In the following section of the thesis the theoretical framework is presented. Central concepts such as business model, business model canvas and business model innovation are described.

The word business model is a fairly new concept that has grown during the last decade. The literature has clustered up in different groups depending on the authors' interests (Zott et al. 2011). After a review of existing literature Osterwalder (2005) came to the conclusion that the usage and understanding of the word business model is very wide. A general definition of a business model is non-existing today. For example Osterwalder and Pigneur (2010:14) defines a business model as: "The rationale of how an organization creates, delivers, and captures value". Zott and Amit (2010:214) have the following definition of a business model: "The content, structure, and governance of transactions designed to create value through the exploitation of business opportunities." A third example of a business model definition is the one created by Chesbrough and Rosenbloom (2002) and is more detailed. The definition consists of six parts and these parts present the function of the business model. The function is to show the value proposition, identify a market segment and revenue generation, define the structure of the value chain, detail the revenue mechanism, calculate the cost structure, explain the position of the company in the value network and finally formulate the competitive strategy.

This is just some of all the definitions of the business model that exists today. Many of these definitions share common concepts or buzzwords. Value is one of these concepts, almost every definition contains the word value or create value, and another concept frequently used is customer or customer segment. To summarize the different definitions, a business model is a tool for an organization to reach and offer value to their target customers. This includes partnerships, channels and internal resources or activities. This is the definition used in this thesis.

2.1 Business model canvas

One method to create business models are the business model canvas. The canvas is used as a guide to construct and implement business models and strategies to an organization. The canvas consists of nine different blocks that covers the main areas of a business. In this thesis the main focus will be on two of these blocks, value proposition and revenue streams, however to get a full understanding of Communication Ltd.'s business models all the building blocks will be presented shortly. The blocks are:

- Customer Segments (CS).
- Value Propositions (VP).
- Channels (CH).
- Customer Relationships (CR).
- Revenue Streams (R\$).
- Key Resources (KR).
- Key Activities (KA).
- Key Partnerships (KP).
- Cost Structure (C\$).

Based on these nine building blocks the organization develops a strategy that becomes implemented throughout the entire organization (Osterwalder & Pigneur 2010).

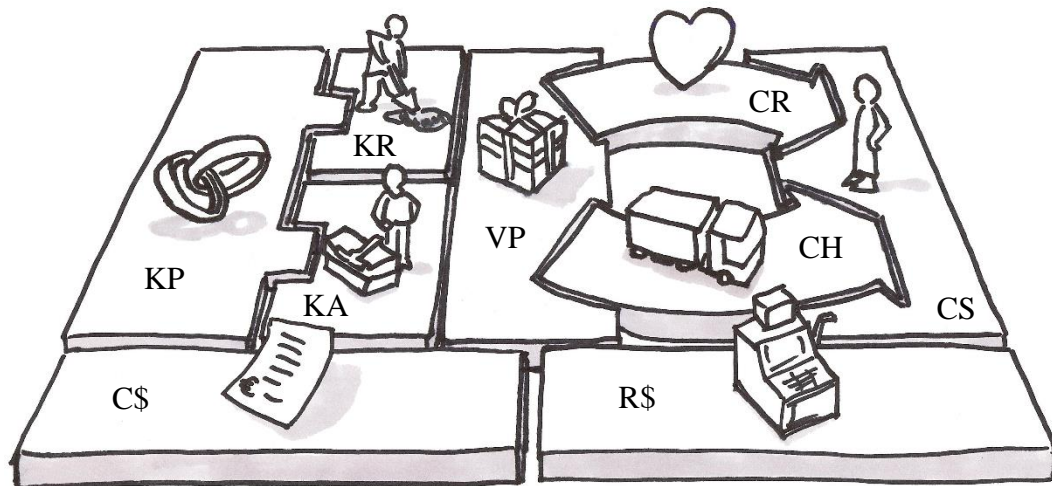


Figure 1. The business model canvas. (Osterwalder & Pigneur 2010:18)

2.1.1 Customer segments

This is the heart of any business model and also where to start in order to create one. The organization must first decide what market and which customer segment they want to serve. A customer segment consist of customers with similar needs, behaviour or characteristics (Osterwalder & Pigneur 2010). An

organization can focus on more than one customer segment depending on how many or which types of products and/or services they offer. Some examples of Customer Segments are mass market and niche market (Osterwalder & Pigneur 2010). In the mass market the organization focus on a large group, while in a niche market the focus lies on a very small group that demands specific and tailored services and/or products.

2.1.2 Value propositions

After an organization has decided on which customer segment they want to serve, they must now look into how to meet the needs and how to create value for the customers in that segment. This is done through value propositions. Here an organization determines which products and/or service they will provide in order to create value to its customers. This value can be quantitative or qualitative both these includes various types of elements (Osterwalder & Pigneur 2010). It is with these elements value is created for the customers. Some because they help the customers to measure differences or similarities between products and/or services. Others by meeting certain needs among the customers in the chosen segment. One of these elements is price, here some organizations create value by offering the same products and/or services but to a lower price. In this way they can reach out to a new customer segment that are difficult for their competitors to reach (Osterwalder & Pigneur 2010). Design is another important element for an organization to create value, but it is also a difficult element to measure. However a good design can help an organization's product to stand out from similar products made by competitors. Other examples of elements can be performance or customization. Performance has been a traditional way to create value and by tailoring products and/or services the organization can reach even more customers (Osterwalder & Pigneur 2010).

2.1.3 Channels

Here the organization decides how the customers can purchase their products and/or services and in what way the organization will deliver them to the customers. The channels are also used to raise more awareness among the customers and to let the customers value the organizations value proposition (Osterwalder & Pigneur 2010). The organization can use their own channels such as sales force or own stores. If the organization does not have own channels they can use partner channels such as partner store or wholesaler. Using own channels give higher margins, but costs more. The partner channels

give low margins, but helps the organization reach more customers (Osterwalder & Pigneur 2010).

2.1.4 Customer relationships

It is important for an organization to establish customer relationships. Different customer segments can demand different types of customer relationships therefore organizations often need to have a mix of them in order to satisfy their customers (Osterwalder & Pigneur 2010). One type of customer relationship is personal assistance. Here the customer can communicate directly with one of the employees in the organization. The opposite to this type of relationships is self-service, here the organization provides the customers with all the necessary tools and software for the customers to help themselves (Osterwalder & Pigneur 2010).

2.1.5 Revenue streams

If the heart of a business model is the customer segment, then the revenue streams are the arteries (Osterwalder & Pigneur 2010). The organization must according to Osterwalder and Pigneur (2010:30) answer the question: “For what value is each customer segment truly willing to pay?”

By answering this question the organization can create one or more revenue streams for their customers. There are a couple of different types of revenue streams. The most common type is asset sales, this means that the organization sells ownership rights to physical products (Osterwalder & Pigneur 2010). This type of revenue stream also generate a onetime payment from the customer. Other revenue streams may generate several payments from customers. One example of this type is subscription fees. Here the organization sells continuous access to a service. Another example is usage fee, the more a customer use the service the more money he or she pays the organization. It is common that an organization uses a mix of different types of revenue streams (Osterwalder & Pigneur 2010).

2.1.6 Key resources

An organization needs key resources in order to create value for its customers along with keeping their customer relationships and to reach their target market (Osterwalder & Pigneur 2010).

There are four categories of key resources (Osterwalder & Pigneur 2010):

- *Physical*: here are all the physical assets included such as buildings, vehicles and machines.
- *Intellectual*: brands, patents and copyrights are some examples of intellectual resources.
- *Human*: human resources is something every organization needs. However in business that are knowledge-intense or creative human resources are especially important.
- *Financial*: financial resources, lines of credits and financial guarantees is central in some types of business models.

2.1.7 Key activities

Like key resources there are some important activities an organization must do in order to manage the following: create value, reach markets and keep relationships to its customers. For an organization to function successfully they must know what type of key activities that are important for them to meet the needs from their Customer Segments. The key activities are categorized in three different categories: production, problem solving and platform/network (Osterwalder & Pigneur 2010).

2.1.8 Key partners

Osterwalder and Pigneur (2010) mention four types of different partnerships an organization can be included in:

- Strategic alliances between non-competitors.
- Cooperation: strategic partnerships between competitors.
- Joint ventures to develop new businesses.
- Buyer-supplier relationships to assure reliable suppliers.

Which type of partnership an organization chooses depends on the motivation that lies behind the need to create the partnership. It is common that competitors create strategic alliances in one part of the market segment and compete against each other in another part (Osterwalder & Pigneur 2010).

2.1.9 Cost structure

Here an organization looks at the costs they face in order to operate according to the business model. There are two different types of focus in the Cost Structure building block (Osterwalder & Pigneur 2010). The organization can be either cost-driven or value-driven i.e. either the organization focuses on reducing costs or the focus lies on value creation.

2.1.10 Focus for the thesis

The focus for this thesis as mentioned before lies in the two building blocks revenue streams and value proposition, since these two blocks are very important during a shift in focus from product to service. This change may require new types of revenue streams along with a value proposition that consists of both products and services. For an organization to handle such a change in focus these two building blocks must be developed.

2.2 Previous research on business model innovation

In order for an organization to stay ahead of its competitors, the managers must work continuously with their business models. A good business model along with a mediocre idea can create more value than a good idea along with a mediocre business model (Chesbrough 2010).

In his report, Chesbrough (2010) mentions three different cases that may occur after an organization has developed a new innovative technology; the new technology fits in the current business model, the business model can make use of the new technology through licensing or the new technology does not have an obvious business model. In the last case an organization is forced to change its current business model in order to extract any value from the new technology. Chesbrough (2010) also argues that organizations today can create the same amount of value from developing an innovative business model as they gain from developing an innovative technology. To develop a business model regularly can generate more or new value. Günzel and Wilker (2009) state that a business model is dynamic and often changed after new products and/or services reach the market. Osterwalder et al. (2005) state that every business model is exposed to external pressure and is therefore in need of change. While Cavalcante et al. (2011) also state that the business model indeed is flexible, but only to a certain point. The business model is flexible until the new processes that have been added or removed seriously changes the existing core processes of the current business model. At this point, the existing business model is replaced with the new one (Cavalcante et al. 2011). A change in business models has been observed by Günzel and Wilker (2009) and is explained in their complexity curve. This curve shows that the original business model used at the launch of a product and/or service was very simple, but after a period of time organizations changed their business model to a more complex one. After an additional period of time the business model was changed once again to a more simple structure (Günzel & Wilker 2009).

Both Osterwalder et al. (2005) and Chesbrough (2010) mention advantages with business model innovation. Osterwalder et al. (2005) state that the possibility for organizations to compare their business models against competitors is created. It is also possible to compare business models with organizations in totally different markets which is a way to create and promote business model innovation. While Chesbrough (2010) talks about the importance for an organization not only to develop new business models, but also to start experiment with them. Since a new technology that at first sight does not look like a profitable venture can generate much value if placed in the right business model.

2.2.1 A business model framework

In their work, Zott and Amit (2010) also argue of the importance for an organization to change and develop its business models since the technology, the market and the customer needs always changes. Zott and Amit (2010) have created a framework for how an organization should work in order to change and develop their business models from an activity system perspective. This framework consist of two parts: design elements and design themes shown in table 1 (Zott & Amit 2010).

Design elements	
Content	What activities should be performed?
Structure	How should they be linked and sequenced?
Governance	Who should perform them, and where?
Design themes	
Novelty	Adopt innovative content, structure or governance.
Lock-In	Build in elements to retain business model stakeholders.
Complementarities	Bundle activities to generate more value.
Efficiency	Reorganize activities to reduce transaction costs.

Table 1: Framework for activity system design. Adopted from (Zott & Amit 2010).

If an organization should develop or change their business model they need to know what type of activities the new business model acquires. They also need to know how these activities should be connected to one another. Finally organizations need to know who should perform these activities. Besides who, Zott and Amit (2010) also ask where? They mean that all activities do not need to be done by the organization or inside its walls. Some activities can be outsourced.

Along with the three design elements Zott and Amit (2010) also present four design themes. Novelty is all about how an organization should work, adopt and control their new activities. Here the authors use Apple as an example and how they switched focus from only hardware to both hardware and software when they introduced their iPod along with iTunes. The lock-in themes are all about the ways an organization can make its business model contributors involved in their business model. An example the authors use here is Facebook, many of Facebook's members have put a lot of their time to personalize their pages, and this has formed strong impediments to switching to other similar services (Zott & Amit 2010). Complementarities are when an organization can gain more value to pack some activities together rather than performing them separately. An example the authors mention is the diamond business, by performing activities such as polishing and distribution within a single business more value is created when the organization can tailor stones to meet their customer needs. The last of the themes is efficiency, here an organization focus on reducing transaction costs by becoming more efficient in its activities i.e. making them more effective and skipping unnecessary intermediaries. These are just some examples of how an organization's business model design has been shaped according to the design themes. Often the new or changed business model is very different from the existing one. The new business model has also created new value to the organization (Zott & Amit 2010). Along with the framework, Zott and Amit (2012) have created six key questions managers should ask as they consider business model innovation:

- What perceived needs can be satisfied through the new business model?
- What novel activities are needed to satisfy these perceived needs?
- How could the required activities be linked to each other in novel ways?
- Who should perform each of the activities that are part of the business model? (company, partner or customer)
- How is value created through the novel business model for each of the participants?

- Which revenue model fits with the company's business model to appropriate part of the total value it helps to create?

The authors state that these questions along with the framework should help managers see their own organization's characteristics more clearly. To help them see beyond traditional groups of partners, competitors and customers. It is important to see the whole picture instead of focusing on small parts. As Zott & Amit (2012:49) state "When you innovate, look at the forest not the trees."

2.2.2 Business model a competitive advantage

Mitchell and Coles (2003) talk more about business model innovation and how it can be used as competitive advantage in their report. They compare it to the type of false game used by a soccer player to get around his or her opponents. When an organization shifts focus by changing or developing its business model their competitors will continue to follow the old focus and may lose the head start to a new potential market (Mitchell & Coles 2003). The authors also state that the strongest organizations in business model innovation are those who on regular basis work with developing and changing their business models. The elements that according to Mitchell and Coles (2003) are included in business model innovation are *who*, *what*, *when*, *why*, *where*, *how* and *how much*. In order to replace an existing business model the organization must change four or more of these elements (Mitchell & Coles 2003).

These seven types of elements can also be connected to Zott and Amit's (2010) framework and the six key questions (Zott & Amit 2012). *What*, *how much* and *why* falls under activity system content. While *how* falls in under activity system structure. Last *who*, *when* and *where* fall in under activity system governance. These seven elements can also be connected with the business model canvas that is explained by (Osterwalder et al. 2010), where all the elements can fit in the nine building blocks that the business model canvas consist of.

2.2.3 Obstacles of business model innovation

There are however some obstacles that make business model innovation difficult. In his conclusion, Chesbrough (2010) identifies some barriers and offer a solution to these. First of all, organizations may find it difficult to change their existing business model since it has become safe and familiar. This obstacle has also been observed by Gebauer et al. (2012). In their report, the authors define it as a familiarity trap. According to Gebauer et al. (2012) the familiarity trap can cause pathways-dependent and avoidance of unfamiliar service businesses. The

second obstacle observed by Chesbrough (2010) is that organizations do not differ from mistakes and failures, learn from the mistakes and avoid the failures. The last obstacle Chesbrough (2010) mentions is that experimentation of business models often needs the involvement of several departments inside the organization (e.g. engineering, marketing and finance), by involving these different departments the question of who is in charge arises. This problem has also been identified by Zott and Amit (2010) in their framework for activity system governance.

To reconnect with the previous explanation of business model innovation barriers, Gebauer et al. (2012) identify other traps besides the familiarity trap. The maturity trap is a trend to support the mature and established ways of providing services. The other trap is the propinquity trap, when an organization tends to sense and size service opportunities from direct customer needs rather than from downstream customers in the value chain (Gebauer et al. 2012).

2.2.4 Business model change or change models

Günzel and Wilker (2009) are tracking patterns in business models' life cycles. Their report reveals two different types of patterns; pattern of development and pattern of structure. In their first part of the result, the development pattern Günzel and Wilker (2009) present three types of change models that were discovered and gives the following definition of a change model "A change model is the core logic how a ventures business model changes over time to remain profitable in a dynamic environment." (Günzel & Wilker 2009:9)

The first change model identified is realization models, which is used to maximize profit from the existing operating logic. Followed by extension models, this type of change model is used when an organization wants to expand and take new markets. The last change model identified by Günzel and Wilker (2009) is the reemerging model, here the organizations existing business model is replaced with a new one.

Cavalcante et al. (2011) present similar types of change models in their report, only they divide them into four:

- Business model creation, new processes is created.
- Business model extension, new processes being added.
- Business model revision, exiting processes is changed.
- Business model termination, existing processes being ended.

Günzel and Wilker (2009) have focused their change models in different areas such as entering new markets or replacing existing business models. While Cavalcante et al. (2011) focus more on processes inside the business model, by replacing, adding new or remove old ones. However, as previously stated by the authors the existing business model will cease to exist if its core processes is changed too much. A new business model will then replace the old one.

2.3 Summary

The definition of a business model varies among authors, however to have a well-functioning business model can create a lot of value to an organization. It is also a good way to create a competitive advantage. One method to create these business models are the business model canvas. This method is used by many big organizations such as Communication Ltd, Volvo and IBM (Osterwalder & Pigneur 2010). The model consists of nine very visual building blocks. This report focuses mostly on two of these. The value proposition building block i.e. how an organization creates value to its target customer segment. The revenue streams building block, how the target customer segment pays for the value created by the organization. Once the organization has created a business model it is important to continue to develop it. This importance for an organization to continuously work and develop its business model is shared by several authors (Osterwalder et al. 2005; Chesbrough 2010; Zott & Amit 2010). By using business model innovation, an organization can not only create competitive advantages, but also learn how to extract more value by conducted experiments on its business models. However, business model innovation has its obstacles. An organization can only change and develop its business model to a certain point. If the organization changes the core activities to much the old business model is replaced by a new one (Cavalcante et al. 2011). Replacing an existing business model is sometimes necessary, but this process may be difficult for organizations if the current business model has become to safe and familiar (Gebauer et al. 2012).

3 Method

In this section the method of research is presented which is the basis for the thesis. The section also describes how the collection of data has been made.

A thesis can be executed either by using a qualitative method, a quantitative method or even a mix of both, since these methods have different strengths and weaknesses (Holme & Solvang 2008). However, in this thesis a qualitative method is used, since a qualitative research is most relevant when the previous research about the area is minor (Ghauri & Grønhaug 2005). The area of focus in this thesis is both minor and a bit uncertain. This since there is no exact procedure on how to create a business model or new types of revenue streams. In a qualitative approach it is the individual's interpretation of the situation that is of interest for the researcher (Bryman & Bell 2011). The authors also state that the perception of those being studied e.g. what they see as important and significant provides the focus for the researcher. The approach also helps the researcher to gain a deeper understanding of how the respondents observe the problem (Jacobsen 2002). In a qualitative approach the researcher collects "soft" data, such as interviews, documents and analysis (Patel & Davidson 2011). Both data and documents provided by Communication Ltd and interviews have been used in order to collect the required data needed.

Before any data was collected, a study of previous research about business models and business model innovation was made, along with a research of relevant theories and models. The material for the study consisted of both scientific articles and books. To have a mix of these areas is favourable since the material written in scientific articles often are the latest in its area while in material from books the area has been developed in its fullness (Patel & Davidson 2011). The study has also focused on the business model canvas, since Communication Ltd.'s business models have been created using this method. The research on the business model canvas has been consisted of a book by Osterwalder and Pigneur (2010). This in order to get a deeper understanding for how this type of business models are created and how they function inside an organization.

In order to support the presented theories a thesis needs empirical support. A case study on Communication Ltd was therefore conducted together with the qualitative approach. According to Yin (2003) a case study are ideal to create this empirical support, since questions starting with how and why must be asked to solve the problem. Communication Ltd are currently in the process of

changing their focus from product to services. Furthermore Communication Ltd has also focused on free to fee projects, which also is of interest for this thesis.

Once the theoretical study were finished a comparison of the nine business models currently used by Communication Ltd was made. The comparison was conducted using secondary data provided by Communication Ltd. Analysis of secondary data is a good method to use when the access to primary data is limited or the researcher are interested in earlier studies in the same field or situation (Bryman & Bell 2011). It is essential to have in mind that when using secondary data it is important to control the reliability of the data. It can be hard to check under what circumstances the primary data were collected and its original purpose (Jacobsen 2002). Examples of secondary data is public documents, news articles or literature (Patel & Davidson 2011). The secondary data provided by Communication Ltd consisted of a review of their business models made in 2008. The document explained the nine business models, how these models were used and which products and/or services were connected to the models. The document also included a description of how these models had been constructed and what definition Communication Ltd used to define what a business model is. With the help of the theoretical study and the study of the business models a discussion of the problem were written, this discussion led to a formulation of the problem that consists of the three questions seen in the introduction.

3.1 Interviews

Besides the document provided by Communication Ltd, interviews have also been made. Since in a qualitative approach, interviews are often used as a tool to collect empiric data. The purpose with a qualitative interview is to discover and identify properties in how the respondent perceives the problem (Patel & Davidson 2011). However interviews are often time consuming and the numbers of respondents are therefore often quite low (Jacobsen 2002). In this thesis two interviews were made, and the interviewees were two employees at Communication Ltd and worked in areas of interest for this thesis. One of the interviewees has previously worked with projects with the purpose to start charging for services that was offered to their customers for free in Vietnam i.e. free to fee projects. The other interviewee is currently working on Communication Ltd.'s business models.

The degree of openness of an interview can differ from fully open to a very structured interview. Which degree of openness an interview should have depends on the type of information the researcher wants (Bryman & Bell 2011). In this thesis the interview with the free to fee project were very open. Here the employee told the story of the project and an interview guide with a few support questions were used. In interview number two, a more structured interview guide were used. However both interviews followed a semi-structured approach. Since this allows the researcher to understand the respondent's thoughts of the problem and also gives information in how the respondent describes a specific situation around the problem (Patel & Davidson 2011). The interviews were conducted face-to-face in respective interviewees' offices. This was a location chosen by the interviewees. Both the interviews were recorded, because it helps the interviewer with the evaluation of the interviews. However recording interviews may also constrain the interviewees (Ejvegård 2009). In this case both the interviewees were asked about the recording before the interview was made. By giving the interviewees a choice to record or not may give less constrains to the interviews. The interviews have been transcribed before they were summarized and analyzed in the thesis.

3.2 Validity and reliability of this thesis

The goal here is of course to establish a reliable thesis. This since it makes the thesis useful for future research, but also because a reliable thesis creates a reliable result. A reliable result is especially important since the previous knowledge in this area are fairly minor. However even if it is close to unmanageable to control an area exactly as it is in reality, it still is important to be careful when managing information (Kirk & Miller 1986).

Both interviewees are knowledgeable in their areas and one of the interviewees was even in charge and made all decisions about the free to fee project. This makes the information gathered from the two interviews highly valid and reliable. However the information can be invalid if the interviewer interprets the situation wrong compared to the reality (Holme & Solvang 2008). In this thesis only one interviewer were present during the interview which may cause a slightly higher risk of misinterpretations compared to if more interviewers were present.

4 Empirical study

In this section of the thesis the empirical data collected during the project will be presented. The section starts with a study of the business models existing inside Communication Ltd today, followed by a presentation of the interviews. Finally a study of revenue streams in external markets through Spotify Ltd and Sunfleet is presented.

This section will start with a study of the business models that existed inside Communication Ltd at the review in 2008. The purpose of this study is to track how the business models are integrated and used in the organization, but also to track what type of revenue streams Communication Ltd used at that time. Furthermore the study is made to see how far Communication Ltd has come with their change of focus from product to service. This study along with the theoretical framework is the basis for the problem definition.

After the study of Communication Ltd two interviews will be presented. The interviews will give information about what has changed in Communication Ltd since the review in 2008. What type of revenue streams that exists inside Communication Ltd today. The interviews also gives information on projects about the change from giving services away for free to start charging for them and how these projects have been conducted in Vietnam.

The last part of this section is about what kinds of revenue streams exists in external markets. Here two organizations will be studied, Spotify Ltd and Sunfleet. These tow companies has been chosen because they offer their customers different services only and not any products. Besides this both Spotify Ltd and Sunfleet has built up their value proposition in different packages depending on the amount of value the customer wants. The way these two organizations offer their value to their customers is an interesting strategy that could be of future interest for Communication Ltd and their future revenue streams.

4.1 Study of Communication Ltd.'s business models

Communication Ltd has today a total of nine different business models that cover all their type of businesses from products and services to other types of projects. In their description of these business models Communication Ltd gives the following definition of what a business model is “A business model is a description of how the company creates, sells and delivers value to the customer.”

Under the application section Communication Ltd states that each unique business model must cover a complete chain from core capabilities to customers. Simple business models can also be linked and combined with more complex models. Furthermore, during a customer deal several of these business models may be used.

The different business models Communication Ltd has are the following:

1. *Operations project*, take over and/or run part of customer operation.
2. *Implementation project*, implementing a new value in customer network and/or business operation.
3. *Knowledge project*, specific knowledge applied on customer environment.
4. *Service product*, service with predefined scope.
5. *On demand product*, service provided from pre-established and operated centers.
6. *System product*, a configurable set of components.
7. *SW¹ product*, digital products.
8. *HW² product*, physical volume products.
9. *Technology licensing*, licensing of our knowledge to other company.

Communication Ltd has divided these business models in four different categories or portfolios: solutions, services, products and patent portfolio. Solutions covers business models 1-3, services covers business models 1-5, products covers business models 5-8 and patent portfolio consist of business model 9.

All of Communication Ltd.'s business models are created according to the business model canvas. Some of them may have changed or been developed over time into more complex models. The canvas model consists of the nine different building blocks mentioned in the theory, by focusing on these blocks individually a comparison between Communication Ltd.'s business models can be made.

In order to get an easier overview of Communication Ltd.'s business models table 2 will act as a complement to the following text. The table shows an overview of the nine different business models existing in Communication Ltd today. On the left side of the table the most common activities performed in each one of the nine canvas building blocks are displayed. On the right side of the table are Communication Ltd.'s nine business models showed along with which type of building block activity is performed in each of the nine business models.

¹ SW, short for software.

² HW, short for hardware.

Overview of Communication Ltd business models

Business model canvas building blocks	The business models								
	1	2	3	4	5	6	7	8	9
Customer Segment									
Business and technical buyers	X	X	X	X					
System designers/solution integrators					X	X	X	X	X
Value Proposition									
Outsourcing/-tasking of defined activities at defined risk	X								
Often combined with product deliveries		X							
Knowledge applied on customer situation			X						
Defined services				X					
Often sold as a part of a system					X	X	X		
Defined HW product								X	
Defined IPRs packaged in portfolios									X
Channels									
Own account team	X	X	X	X	X	X	X	X	X
Web	X	X	X	X	X	X	X	X	
Customer Relationships									
Continuous relations	X	X	X	X	X	X	X		
Events	X	X	X	X	X	X	X	X	
Revenue Streams									
Service KPI payments	X								
Project milestone payments		X	X						
Per delivered and approved service				X					
Per capacity fee					X				
Direct sales						X		X	
Subscription fee							X		
License fees									X
Key Resources									
Deep market and technical understanding	X	X	X						
Market understanding				X	X	X	X	X	
Technical knowledge					X	X	X	X	
Research									X
Key Activities									
Sales	X	X	X	X	X	X	X	X	
Product definition					X	X	X	X	
Licensing									X
Key Partnerships									
Knowledge/design partners	X	X			X	X	X	X	
Service centre's				X					
Specific subject experts	X	X	X						
Patent firms									X
Cost Structure									
Competence build	X	X	X	X					
HW/SW cost					X	X			
R & D							X	X	
Rights management									X

Table 2: An overview of the most common type of building block activities.

4.1.1 Customer segment

Throughout all business models nine different customer segments occur. The two most common customer segments is *system designers/solution integrators* and *business and technical buyers at operators and other direct approached customers*. The first is a target customer segment in five of the nine business models (models 5-9), while the second segment is at focus in four of the nine business models (models 1-4). Other types of customer segments that are used are *end-users directly*, *equipment manufactures* and *business users*.

4.1.2 Value proposition

Here the nine different business models have almost nothing in common with each other. This is not unusual since the different business models have different products and/or services. One of the few common value propositions found is that the business models 5, 6 and 7 share one in common, *often sold as a part of a system integration project*. Some of the other value propositions that occurs are *defined expansions and upgrades* or *new value implemented in customer network and business environment at defined risk*.

4.1.3 Channels

Only four different channels are used in the nine business models. These are *own account team*, *web*, *eBusiness portal* and *channel partners*. *Own account team* is the most common type of channel and is used in all nine business models. The second most common channel is *web* that is used in all of them except business model number nine.

4.1.4 Customer relationships

Similar to channels there are not many different types of customer relationships in the nine business models. The two most common are *continuous relationships* and *events*. These are used in 7 as well as in 8 of the nine business models. Other types of customer relationships are *partner training* or *technical magazines*.

4.1.5 Revenue streams

Like value proposition there are few common types of revenue streams among the nine business models. Most of the business models have an own unique type of revenue stream. However three different types of revenue streams appear two times in different business models these are *project milestone payment*, *direct sales* and *subscription fees*. Other types of revenue streams are *license fees*, *product delivery*

payments, instalment and initial fee. Furthermore, most of the different business models only have one type of revenue stream.

4.1.6 Key resources

There are eight different key resources used in the nine different business models. The three most common are *local capabilities*, *technical knowledge* and *market understanding*. Where the first two of the key resources are shared by four business models while the last is shared by five business models. Besides these three many of the other key resources have focused on different types of knowledge such as *SW* and *HW knowledge* or *system design knowledge*.

4.1.7 Key activities

There are many different key activities used in the nine business models. All in all, it is 24 different key activities. All the nine business models use from three up to six different key activities. The two most common are *sales and product definition*. Other types of key activities are *service definition and packaging*, *knowledge re-use*, *assembly* and *customer solution design*.

4.1.8 Key partnerships

Here the most common type of partnerships are *knowledge/design partners* followed by *specific subject experts* and *sub-component/ sub-system suppliers*. In total it exists 12 different types of key partnerships in these nine business models Communication Ltd uses.

4.1.9 Cost structure

In the last of the canvas nine building blocks Communication Ltd has 13 different types of cost structures in its nine business models. The most common is *competence build*, which exists in four of the nine models. Most of the different cost structures exist in two models, few of them exist only in one of the models. However, one similarity between the nine business models is that almost every one of them (6 of 9) have three kinds of cost structures. Besides the one already mentioned other types of cost structures are *risk costs*, *R&D*, *project costs* and *service delivery*.

4.2 Interview respondent A

The first of the two interviews that has been made has its focus on how free to fee projects have been conducted and implemented in Communication Ltd during a specific project in Vietnam. This interview was made with a respondent who were in charge of implementing a free to fee project in Vietnam. In the following text the respondent will be referred to as respondent A.

4.2.1 *Communication Ltd.'s change in service focus*

The interview started with an explanation of the background of how Communication Ltd started to focus on services by respondent A. In the modern day of Communication Ltd, they have started to understand that there was value in the services they delivered. When respondent A joined Communication Ltd everything was bundled together, the customer only paid one price that included all the HW, SW and services needed. They did at that time built telephone exchanges and all the services where free of charge. Most of the countries had telecommunication owned by the government who worked with long drawn processes.

“During that time it was not a huge amount of competition. Bundling was a quite acceptable way of doing business and we made good money.”

Respondent A also talks about the step up in competition that started in the late 80’s early 90’s. It was the mobile era that caused competition to really heat up according to respondent A. In the beginning of the mobile era most of the companies formed the mobile after the fixed lines and they still followed the same kind of principles as for the fixed telephone lines. Respondent A says that during the first generation of the mobilization Communication Ltd made good money, but then the profit margin where shrinking. In the 90’s Communication Ltd really started to be aware of that they actually provided all these services for free.

Respondent A states that defining what the customer get for the money he/she pays is important. Communication Ltd worked hard to make sure that all operators had a contract for customer support with Communication Ltd.

“From 1994-2000 we grew the service revenue by 500 % because we were focusing on getting proper contracts in place.”

During the time of change it was two areas that were in focus. The installation because it was manpower intensive and it took a long time, therefore the costs

needed to be covered. Second was the on-going support, because it required a 24 hour support with engineers on standby.

“Those two areas were really the first services we focused on and we were pretty successful.”

Towards the end of the 90’s respondent A was presenting the service numbers to the head of the marketing department, they were making 10% revenue in services but the head of the marketing department did not believe that the numbers was that low. Still respondent A points out that it had gone from 0% to 10% in the last few years. That made respondent A realize that Communication Ltd did not know themselves from a sales perspective and what the value was for those services they delivered.

“This taught me that you need to believe in the services and do hard work to implement these contracts to get the value.”

Respondent A also mentions that Communication Ltd must have a discussion with their operator today that is a lot different than the ones Communication Ltd used to have. If they are to present them with HW or SW, they sell that from a spec sheet³. When they sell the services they do not have spec sheets to use, respondent A says that it is all about trust where the customers trust Communication Ltd to deliver the promises they make. Respondent A also mentions that when Communication Ltd has a Salesforce used to selling products it takes a while for them to start talking in service terms.

Even further back in the history, Communication Ltd was a really strong product company even though their first services was HW repair, which they still do today.

“It is in our genes to focus on products, but now we made a tremendous impact on the business as a whole.”

Respondent A mentions that in their report from the last quarter services accounts for 42-43% of the total revenue. In year 2000 Communication Ltd puts all their service personnel together to be able to start sharing the same portfolio and year 2001 marked the start of the real service focus for Communication Ltd.

“We then really started to express the value the customer are getting. This was a start for the independence of the services from the products.”

³ Specification sheet, a technical document that explains how a certain product is planned to perform.

4.2.2 From free to fee projects in Vietnam

After this introduction to Communication Ltd.'s service focus, respondent A starts to talk about a free to fee project that was implemented in Vietnam. Respondent A went to Vietnam in 2006 and basically started the project from scratch.

“They were charging some for the installation, but that was it. Most services were given away for free. We really had to make the change from free to fee at that point.”

Respondent A mentions that in every market it is important to let the customers get used to pay for services, especially in developing countries where manpower is much cheaper. Respondent A says that in these countries the customers can have 6-10 people working for the same costs as for the cost of a service, i.e. they do not know the value of the services. Respondent A started to talk to the key account manager about starting to go from free to fee and how they should implement the project. The respondent talks about the conditions in Vietnam at that time:

“Everything were done through projects, they purchased in projects and they only bought one year of support at a time.”

What the customers did was that they let the support contract run out and then they had six months of negotiation. Basically Communication Ltd were giving their customers six months of support for free. This was the pattern to do business before respondent A stepped in.

“The customer knew that if they delayed the negotiation they got six months free support.”

Respondent A mentions a specific example when the respondent together with the key account manager negotiated with a customer about establishing a new contract, they sat down with the customer to talk about the specifics around the services and decided on a price. Then the customer immediately said they wanted a 10% discount. Respondent A answered that they were happy to give them the discount, but then the customer would have to sign a multi-year agreement. Respondent A knew at that point that the customer were not allowed to sign a multi-year agreement, this led to that the customer did not get the discount. Communication Ltd got the contract, not a multi-year agreement, but on the other hand they did not give any discounts either.

“This taught me that you have to stand up for the value and that there is a lot of value in support.”

According to respondent A the thing preventing Communication Ltd from going from free to fee was that they did not get a grip of what they were doing professionally and also they were not successful in convincing their customers that if they do not have an agreement Communication Ltd will not provide any services. Respondent A also mentions that the problem was that Communication Ltd had a history at that time to be a bit relaxed when it came to renew contracts because it was in general big contracts. Because of this the key account managers were afraid to upset their customers. Respondent A also talks about the importance of being professional and track the performance of the services they are delivering and also deliver them according to the agreement.

“Free to fee is an interesting journey and it is all about proving you can do it and stepping back and say now you have to pay for it and this is what it is worth.”

When asked if the respondent faced any complications during the implementation of the free to fee project the respondent answered that the biggest resistance came from their own organization.

“It is a job to convince the customers, but you have to convince your own personnel first.”

On the question about how the customers felt about these changes in services, the respondent answered that as long as others are following the same direction, even if some competition may be sneaky and still offer services for free it will work. However the customers will always try to get the value as cheap as possible or even free if they can.

In conclusion the respondent was asked how they detected the need to charge for services, the respondent answered that it was the role of the respondent as an operation manager to make sure the services was profitable. The respondent was at that time responsible for profiting and losses of the services.

“I was measured on the profitability of the services, which was the key.”

4.3 Interview with respondent B

The second interview has its focus on what has happened in Communication Ltd.'s business models since the review in 2008 along with the changes in revenue streams. The interview consists of questions following the nine building blocks from the business model canvas. The respondent in the interview will be called respondent B in the following text.

4.3.1 Customer perspective

When it comes to the questions about Communication Ltd.'s customer segments respondent B do not think there is any risk of losing a customer segment due to the change from free to fee. Respondent B mentions that it can be seen in the whole telecommunication industry that the customers already have gotten used to pay for most of the services that are combined with Communication Ltd.'s products. In most cases the customers have already gone through the change, but in some Communication Ltd still gives discount on the services. Respondent B also mentions that Communication Ltd has worked on this process to go from free to fee during the last decade.

On the question if other competitors offer similar type of services but for free, respondent B replies that they do not have any insight in what the competitors are offering when it comes to services.

On the question about Communication Ltd.'s plans to announce this change in services to their customers the respondent answered that the process of announcing these changes to the customers started in the late 90's. The respondent were not working at Communication Ltd at the time, therefore respondent B do not know how the plans were for telling the customers about the change.

4.3.2 Value communication

When asked if any changes in the value proposition must be made due to this change, the respondent talks about how they focused on communicating the value proposition. The communication process is an important area that Communication Ltd continuously are working on. Furthermore the respondent points out the importance of making it very clear to the customers what their value proposition is and what the customers actually are paying for. When the service are free the customers often have little or no expectations on the service, but when they start charging for the service the customer wants to understand what it is they are paying for.

“We need to be very clear on what the value proposition is and what we are doing for the money we are receiving.”

Respondent B also mentions that in the early days Communication Ltd was not very clear on what was included in the integration activities or in the customer support activities. The respondent thinks that Communication Ltd has reached

far when it comes to explaining the value proposition, but at the same time they have to work even more on the ability to communicate the value proposition from a customer perspective. The respondent states that the value proposition is quite often limited to monetary terms only. Respondent B means that the value proposition is much more than just the money. Today Communication Ltd also has established plans on how to introduce new services as well.

On the question if Communication Ltd needs to add more value to the service, the respondent answers that no big changes have been done. However respondent B thinks it has a lot to do with how they have communicated their value proposition.

“We have not necessarily added more value, but we have been more explicit in the value that we actually create.”

The respondent also argues for the importance of being very clear about their communication and setting the boundaries for what is included in each service. Communication Ltd can offer a variety of services to their customers, but they are always very explicit in their boundaries of these services.

“If you are not explicit in your boundaries of the value proposition the customer will expect a lot more.”

4.3.3 New revenue streams detected

On the question if new types of channels can generate new types of revenue streams, the respondent B thinks that channels often are a tricky question for Communication Ltd and that they have a very limited amount of channels. Communication Ltd reaches their customers basically through one channel only and that channel is the key account managers who are at hand for every customer. Communication Ltd does not have any reseller channel or direct sales channel, but they are currently building these type of channels. Respondent B mentions an interesting change in their channels that started in year 2000 when Communication Ltd started to work with system integrations. This project basically started with a customer problem which Communication Ltd started to create a solution for, as respondent B explains:

“Instead of Communication Ltd developing new technology, building a product and then pushing it towards a customer, we start with a customer problem and then build a solution around that.”

The respondent thinks that with system integration both new channels and new revenue streams have been introduced to the company, even if they still go through the key account managers they can be seen as separate channels. Because the new channels open new possibilities besides the relationship that the key account managers have.

“I think that system integration has introduced new revenue streams based on the changes in the way we manage our channels.”

The respondent also thinks that they need new channels to handle the change in services. This because Communication Ltd wants to move to new industries besides telecommunication. Respondent B explains:

“If we go to the media industry maybe they are not used to working with these types of account managers channels maybe they are used to internet sales type of channels. We need to build new channels for new industries as well.”

When the question is asked if Communication Ltd is concerned that the change in services will affect their customer relationships the respondent answers that there have been very few negative responses. Because as long as they manage to communicate what Communication Ltd is offering and what Communication Ltd charges for that value the customers will understand. The respondent states that the customers are fairly straight forward and use a common sense.

Communication Ltd has involved some of their customers to create new types of revenue streams, especially through their system integration model. Where Communication Ltd along with a customer creates a solution to a certain problem that lies inside the customer’s organization. Communication Ltd also uses that model to find new ways to work with their customers. The respondent also point out that the model even suits for areas where Communication Ltd does not have any own products.

Communication Ltd has already implemented new revenue streams for the services they charge for. Furthermore they continuously seek new revenue streams. The respondent mentions service offerings as a way to get in to new revenue streams. Communication Ltd also has ongoing projects to look for new revenue streams in other markets and what kind of revenue streams people already use.

4.3.4 Key resources and key activities

The respondent do think that Communication Ltd needs to create new types of key resources and explains it as follows:

“Yes, since the market changes from a customer buying the product to that we keep the product and the customer only buys what he or she uses, that requires new resources.”

Respondent B also mentions that with new key resources follow new key activities and the other way around. Communication Ltd needs to run the product for the customer as well as keeping it, therefore they need to charge the customer not based on the product, but based on with what the product provides the customer. Communication Ltd also needs to track what they actually are providing the customer and this requires both new resources and activities as respondent B explains:

“In the past we did not really care how much the customer used the product, but now we are charging per use, now it is really important for us to know how much the customers are using the product.”

This means a big difference in revenue as well. The new resources need to monitor the ongoing revenue generation. Furthermore the customer also needs to trust that Communication Ltd has the right resources and activities to do it correctly.

The respondent do not think that the new service view will require more administrative activities, rather more customer relationship management activities. Before Communication Ltd usually signed a contract and delivered the product, but today they have more focus on relationship management throughout the whole lifecycle of the product/service they deliver to the customer.

4.3.5 The importance of partnerships

On the question if respondent B thinks that the change in services will affect their partnership, the answer is no. However Communication Ltd does put themselves in a buying perspective and to buy new products in order to learn how it is done Communication Ltd can at a later stage sell that type of product themselves. The respondent is not concerned that their partners will raise their costs to Communication Ltd since Communication Ltd started to earn money from their services with the help of their partners.

The respondent thinks that partnerships have become more important for Communication Ltd when they started to work more extensively in the service business. 30 years ago Communication Ltd only had their own HW and SW and everything was designed and built by Communication Ltd. Today they are using external parties' products. It is the same with customer support, if they have external parties' products they need to have the support to handle these products.

On the question if respondent B thinks that the change in services will affect the cost structure, the respondent's answer is that the costs will increase, but the revenue will increase as well. Furthermore the new resource they must have in order to handle a service organization can be used in other situations as well. As respondent B explains:

"It introduces costs but it introduces a lot of flexibility as well. Because we can use the resource in other situations and in different areas."

4.3.6 The change in business models

At the end of the interview some overall questions were asked that covered more than just one of the building blocks. On the question if respondent B thinks that Communication Ltd needs to change their business models due to the change of services, the respondent answered that the models are changing considerably and that they should. Respondent B thinks that in the future the customers will demand more integrated models. The customers do not want to sign a contract just for services and another just for HW etc. As the respondent explains:

"Customers just want an outcome and they want us to produce that outcome."

Another question about the strengths and weaknesses of Communication Ltd.'s business models were asked. Here the respondent answers that their strengths are their capabilities and that Communication Ltd are capable of producing key resources, executing key activates and managing customer relationships. Their weaknesses however lies in their ways of being very distributed in the way they do all these things. Communication Ltd gives a lot of power to individual regions, it is hard for the HQ to say: this is the business model to use and build around a certain topic. The tricky part for Communication Ltd is how they should manage such a variety of business models and also how they should be able to adopt good strategies in one region into another region. According to the respondent this is what the HQ should mediate. As the respondent explains:

“Having a core business model with a variety of suggestions on that business model. If you go to the right in the model you have these risks and implications etc. That steering should come from HQ, but you should have the flexibility to choose from a large variety of different business models in the regions.”

The strength is that Communication Ltd has the capabilities to do that, but the weaknesses is how do Communication Ltd manage that core business model, and how do Communication Ltd manage the variety of that model.

Today Communication Ltd charges for all its services, but they still give discounts in some cases. In conclusion the respondent also thinks that outcome based revenue streams will have a big impact on Communication Ltd.’s future business models.

4.4 Revenue streams in external markets

As mentioned before a study on external markets has been made. This study consists of two organizations, Spotify Ltd and Sunfleet. Both organizations have developed a strategy for their value offerings containing different types of memberships. These memberships give different amount of value to the customer. Furthermore both organizations are working with fair amount of different types of revenue streams. It is an interesting strategy that may be of interest for Communication Ltd and their future revenue streams.

4.4.1 Spotify Ltd

Spotify Ltd is a music provider that gives their customers access to millions of different tracks. A customer gets access to their music library through their software. The customer can only stream the music, not download it. Spotify Ltd.’s revenue streams consist of different types of subscription fees. For an overview of Spotify Ltd business model see appendix 3. These three subscriptions includes different types of services:

The first subscription is called Free. This subscription is free of charge, but it has some limits. A customer can only access their music library form a desktop or a laptop and it has a time limit of 10 hours per month. This subscription is financed through ads and banners between the tracks.

The second type of subscription is called Unlimited and costs 49 SEK per month. This version is free from ads and banners. It has no time limit, but the customer can still only access their music library through a desktop or laptop.

The third and last type of subscription is Premium and costs 99 SEK per month. Like the Unlimited subscription, Premium is free from ads, banners and has no time limit. Besides this, a customer can also access the music library from a tablet or a smartphone. Another service included in the Premium subscription is the possibility to listen to tracks in an offline mode.

Spotify Ltd.'s revenues come from both advertising and subscription fees. Having a free subscription financed by ads and banners gives customers a chance to try their software and get familiar to it. The goal for Spotify Ltd is probably that all customers eventually shift from the free version to either Unlimited or Premium. By starting to use their free version customers may see the value and benefits using the Unlimited or Premium versions.

Since both the Unlimited and Premium version do not have a binding period the customer can choose to pay for only a month. During this month the customer becomes accustomed to having the extended services. Losing these services at the end of the month may raise their value in the eye of the customer and eventually the customer becomes a paying customer.

4.4.2 Sunfleet

Sunfleet are a carpool company and offers their customers an alternative way to own a car. Sunfleet's idea is easy access to different cars all around Sweden. All their customers only need to make a reservation for a car and Sunfleet takes care of the maintenance, inspection etc. Sunfleet has three different types of carpool solutions available for their customers:

- Open pool location, all members have access to all of the cars. The cars are located on easy and central places or sometimes close to organizations if it is suitable for the majority of the members.
- Semi-open pool location, this type of pool is often used by organizations. The cars are locked to the organization during work hours. The cars are open for all members the remaining time of the day.
- Closed pool location, the cars are locked to an organization at all time. Often used by organization in need of cars during all hours of the day.

Sunfleet has a couple of different revenue streams depending on which type of pool location and membership a customer chooses. They have both one-time payments and subscription fees. Sunfleet memberships also include both fixed and variable costs. For an overview of Sunfleet business model see appendix 4. Sunfleet has two different types of memberships that can be seen in table 3 along with the payments for each membership.

In the Enduring membership the customers pay a one-time connection fee of 395 SEK followed by a monthly subscription fee of 149 SEK per month. The enduring membership has a three months' notice. Besides these two, the customer also pays a start-up fee of 25 SEK. These are the fixed costs. A customer also pays a variable cost depending on time and distance traveled and type of car being used. The variable costs are divided in an hourly rate and a km-price. The hourly rate costs from 9 - 100 SEK an hour depending on which hours of the day a customer uses the car. However, Sunfleet has a maximum hourly limit that varies from 353 – 2400 SEK per day, also the km-price includes fuel. While the km-price vary from 1.9 – 5.25 SEK per km, depending on if the customer drives over or under 150 km. In this membership the customer also has the possibilities to use a car during a weekend for 389 – 549 SEK depending on which type of car it is.

In the Pay & Go membership a customer pays the same one-time connection fee of 395 SEK. The Pay & Go memberships has no subscription fees, but the start-up fee is higher, at 100 SEK. The variable costs are a bit higher than the Enduring membership. The hourly rate varies from 29 – 100 SEK per hour and the km-price varies from 2, 85 – 5, 25 SEK per km. In the table below both memberships and their payments can be seen.

	Memberships	
Fixed costs	Enduring	Pay & Go
Connection fee	395	395
Subscription fee	149	-
Start -up fee	25	100
Weekend rent	389-549	-
Variable costs		
Time (SEK/h)	9-100	29-100
Distance (SEK/km)	1.9-5.25	2.85-5.25

Table 3: Payments of Sunfleet's two different memberships.

5 Results & analysis

In the following section new ideas and solutions will be presented based on the empirical data. The empirical data will also be connected to the theoretical framework to act as a foundation for the result.

Since the review in 2008, Communication Ltd has worked a lot on business models, services and revenue streams. The product focus that could be detected due to the study of the most common building block activities has changed to a focus on service. New types of revenue streams have also been detected during the last couple of years inside Communication Ltd.

5.1 The change in communication Ltd.'s business models

When the nine business models existing inside Communication Ltd in year 2008 were compared, it showed more of a product focus rather than a service focus. This could be seen since the most common building block activities were product related. Communication Ltd also at that time used a lot of different revenue streams among their different products and services. The same goes for their value proposition. The value Communication Ltd offered and the types of revenue streams used were both very wide and pointed in many different directions at the same time.

However, during the second interview, respondent B mentions that a lot has changed in these business models since 2008. According to respondent B it is important that these changes have been made. This is good since the organizations that are working with developing their business models are the strongest (Mitchell & Coles 2003). Communication Ltd has come a long way in the change of their focus from product to service. As respondent A mentioned, it has been a lot of hard work, but today services consists of 43% of Communication Ltd.'s total revenue. Just by looking at the numbers Communication Ltd has done many major changes to be able to collect all the value in their services. These changes made by Communication Ltd can be connected to Zott and Amit (2010) and their framework. Communication Ltd has looked in to what activities they should perform and also who should perform them. In Communication Ltd.'s case, they have started working with external parties and their products and/or services. Communication Ltd does not make all their products by themselves anymore, some activities are outside the organization. The usage of external parties may also make the free to fee process smoother for both Communication Ltd and their customers, since it is

easier for the customers to pay for these type of services knowing that using consultants costs money. The external parties can easily be looked at as consultants for Communication Ltd. Furthermore these external parties have specialized knowledge on their type of products and/or services and knowledge are also a thing that nowadays costs a lot of money. Communication Ltd has also bundled some activities together according to the framework by Zott and Amit (2010), especially in their system integration model. In which Communication Ltd creates a solution to a customer problem and therefore not only offer certain products and/or services. Instead they create a unique solution to fit a certain customer problem. Communication Ltd is today also working from the other direction in the business model canvas. Instead of creating products and then offer them to their customers, Communication Ltd starts with the customer needs and creates solution to that problem. This way of working requires products, services and knowledge, something Communication Ltd must make sure to have and deliver in a good way.

5.2 Believes, communication and value

Looking more at the services and their value, respondent A argues for the importance of standing up for the value Communication Ltd is offering its customers. The respondent also states that it is of significance that the whole organization believes in the value Communication Ltd is offering. To sell services to its customers Communication Ltd must mediate the value of that service in a good way. To have a clear communication to the customers is also something respondent B talked about in the second interview. Respondent B states that Communication Ltd has worked hard on making this communication very clear. The respondent also mentions that sending a clear message to their customers are of great importance. Besides mediating the value respondent B also argues for the importance of setting distinct boundaries to the offered value, in order to communicate the service even more clearly. Looking at the theory many authors share these ideas of mediate a clear value. Osterwalder and Pigneur (2010) state that every organization must ask itself for what value is each customer segment truly willing to pay? If the organization cannot answer that question it will be hard to communicate that value to their customers. Also Zott and Amit (2010) ask a similar question, how value is created through the novel business model for each of the participants? In a novel business model it is important how the organization adopts innovative structure and governance. Therefore once again the need for the whole organization to believe and understand the value they are offering their customers are highlighted. This can

be seen in the interview as well, respondent A states that the biggest resistance to go from free to fee did not come from the customers, but from Communication Ltd itself. The organization must of course convince its customers, but the organization must convince its own personnel first. This shows that Communication Ltd was constrained by some sort of familiarity trap as well. The familiarity trap was presented by both Gebauer et al. (2012) and Chesbrough (2010) whom states that an organization can get stuck in its way of doing business, since this way feels familiar and secure. The way that Communication Ltd made business in Vietnam had become safe and familiar, when respondent A started to implement a free to fee project the familiarity trap caused a resistance among the employees. It is also possible that Communication Ltd got caught up in the maturity trap as well, since the way Communication Ltd gave away six months free support had become a mature and established way of providing services (Gebauer et al. 2012). The respondent was then forced to convince the employees in Vietnam before the respondent could talk to the customers. Therefore it is very important that everyone in the organization are on the same boat and understand the value Communication Ltd offers to its customers. If the organization communicates such a clear value it will help the customers to understand the whole value of that specific service. Furthermore the customers will understand what it is they are paying for and communication will probably ease the fact that the services may have been free of charge before. As respondent B mentions in the interview when an organization start to charge for a service the importance of what the customers get for their money increases a lot. The process of going from free to fee will probably go smoother for both the customers and the organization through good communication and if the organization has a value that is well implemented.

When going from free to fee respondent A mentions that it is of importance to focus on the basic services first. In Vietnam Communication Ltd choose to focus on installation and support services first. Because basically all services at that time were delivered for free and Communication Ltd gave away six months of support services for free during new negotiations, to start charging for installation and support was a natural starting point for respondent A. As the respondent points out in the interview support contains a great amount of value along with installation that is manpower intensive. Despite the situation in Vietnam, to start charging for the support services is probably a good starting point for any organization. Because of the value that lies in these services, but also since many organizations manufacture their own products, they are the

ones that have the most knowledge about them as well. Once the basic services are covered the organization can move forward and charge and offer for more integrated types of services as respondent A mentioned in the interview. This change from basic to more integrated services can be connected to Cavalcante et al. (2011) when they talk about the importance of change models and especially the business model extension. Since new processes have been added through the new services. However if the organization chooses to work with external parties and their products a good partnerships must be constructed. Respondent B mentioned this in the interview, partnership has become more important for Communication Ltd because of the involvement of external parties. Communication Ltd also places themselves in a customer perspective to fully understand how external products are working and how it is perceived through a customer's eye. This helps Communication Ltd to sell these types of products and/or services to their customers at a later stage. Once again this shows the importance of understanding the value the organization creates and offers to its customers.

5.3 New revenue streams

During the second interview respondent B talked about how new revenue streams have been detected through new channels, but also through new activities and resources as well. Respondent B mentioned system integrations services as an example. Here Communication Ltd creates a solution from an existing customer problem instead of the usual way where Communication Ltd is pushing new products towards the customers. This way of working may help the customers realise the value of the service even clearer, since they may get the feeling that Communication Ltd makes a solution just for them and that costs money. This makes the process from free to fee go smoother. This type of customer relationship has not only introduced new revenue streams, but new channels as well. Respondent B mentions that Communication Ltd still is limited when it comes to their channels, but point out the importance of having a variety of channels if an organization should expand to new markets. The idea to have a wide and flexible business model is shared by the authors as well. Zott and Amit (2010) for example state that since markets and customer needs changes an organization must develop their business models to keep up with that change. Furthermore both Osterwalder et al. (2005) and Chesbrough (2010) mention the advantages an organization can receive through business model innovation. To manage the changes in markets and customer needs can be hard for an organization to handle. As respondent A mentions, Communication Ltd

has always been a very strong product company and focusing on products is in their genes. However the respondent still thinks that Communication Ltd has made a tremendous impact on the whole business.

When the customer need changes from only demanding products to asking for more services Communication Ltd had to create both new activities as well as new resources. Respondent B explained this as the customers do not buy the product any more, instead Communication Ltd keeps the product and the customer only pays for what he or she uses from it. It is this change that requires both new resources and activities. To know how much of the product and/or services the customer uses has become very important for an organization to track, since it is the amount of usage the organization charge the customer for and not a one-time payment for the product. All these changes means that an organization must develop new types of revenue streams. The tricky question here is how they should charge their customers, the answer to this problem may be fund in external markets.

When looking at external markets and organizations such as Spotify Ltd and Sunfleet a variety of different revenue streams can be detected. Spotify Ltd uses different amounts of monthly fees depending on how many features the customer wants. While Sunfleet uses a mix of both fees and one-time payments. Here a customer must pay fixed costs such as monthly membership fees, but also variable costs depending on how far the customer wishes to travel with the car. Both Spotify Ltd and Sunfleet have created different kinds of memberships that includes different packages depending on the amount of features and usage the customer wants. All from just the basic services to a premium membership with a whole variety of features and possibilities. These types of revenue streams may be the kind Communication Ltd must implement to capture more value from their own services and/or products in the future and also to meet the new changes in customer needs. Maybe even Communication Ltd could create different memberships or packages depending on the customer needs. These packages could easily cover different segments of customers as well. Maybe this way of delivering value can help Communication Ltd to even reach new segments and markets as well. The customers want an outcome and they want Communication Ltd to deliver that outcome, here a membership solution may be just the thing to deliver this outcome to the customers.

5.4 Outcome based revenue streams

What is seen in both Spotify Ltd and Sunfleet is the use of different types of packages depending on the amount of usage. In other words both companies uses outcome based revenue streams, i.e., the customers only pay for what they use. As mentioned before respondent B thinks that outcome based revenue streams will have a big impact in future business models. Since customers today demand more services, companies must change their ways of delivering value to meet these new customer needs. Organizations must also be able to run many operations and products for the customers, since they are no longer interested in buying and running these operations themselves. Instead the customers only want to buy a function and only pay for what they use. Here an organization can use Zott and Amit (2010) and their framework to organize themselves to deliver this type of outcome. The questions such as what, how and who will become even more important to handle. If looking at the question who, it is important for the organizations to seek new types of partnerships, since customers may want more bundled and integrated functions. Then the organizations will not be able to meet these demands on their own. Here external parties must be involved and handle some of the activities required to meet the customer demands. Even the questions of what and how may require both new partnerships as well as new channels. Today cloud based services have become more popular, for an organization this means that to answer the question what, new types of resources and activities must be created to be able to deliver the value a customer needs. To use different types of packages which includes different types of services and different amounts may be a good solution for an organization to meet the new customer need. If Communication Ltd is able to meet this new demand and do so before their competitors it may help Communication Ltd to create the competitive advantage Mitchell and Coles (2003) argues for. Even if the business to business market not is as far in this new need as the end customer is, organizations still need to be able to deliver outcome based value. In the future more and more business to business markets will require outcome based revenue streams. To only buy products is soon to become old fashioned. Today the trend is that customers are all about services and they only want to pay for the amount of services they use.

6 Conclusion

In this section the project will come to its end by answering the three questions presented in the first section of the thesis.

Communication Ltd has made some major changes in their focus and business models since the review in 2008. Some of these changes are a closer relationships to the customers through their system integration services and how they mediate the value of their services to their customers. This change in focus can also be seen in Communication Ltd.'s total revenue where services accounted for 43% in the last quarter. Furthermore Communication Ltd has also worked with their value communication and to make sure the whole organization understands the value they are delivering to their customers.

Communication Ltd has also implemented new types of revenue streams primary because of their work with system integration services, but also because of a stronger customer relationship that follows with these types of services. These new revenue streams were implemented through the way Communication Ltd works with customer problems. The revenue streams that exist today use more fees rather than one-time payments.

When looking at external markets and organizations such as Spotify Ltd and Sunfleet it has been shown that both organizations are working with different kinds of memberships and value bundled together in packages in order to create even more value. To work with and use these types of revenue streams may be the right solution for organizations such as Communication Ltd to meet and cope with the new outcome based demand from their customers. The customers do not want to buy the products, only the services and value they are providing. Furthermore the customers only want to pay for the outcome.

Outcome based revenue streams will have a big impact in future business models. Therefore it is important that organizations today create the ability to deliver that value. Here an organization must focus on both close partnerships and well integrated relationships to its customers to handle this change. Not sell products, but services with integrated products requires an organization to change its structure and governance. Here the questions what, how, who and where become very important to keep track of and answer, in order to deliver the demanded value.

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Appendix

Appendix 1: Interview guide with respondent A

In this interview respondent A, is going to talk about a project within Communication Ltd where they went from service for free to service for fee in Vietnam. While respondent A talks about this some support questions will be asked.

Before implementation:

How did you detect the need for start charging for this service/services?

Has this type of projects been done before?

If so were they successful?

During implementation:

How did you choose what type of revenue streams to use?

Did you look at other organizations or markets revenue streams for inspiration?

Did you face any complications during the project?

After implementation:

How did you present this change for the customers?

How did the customers feel about this change?

Where there any reductions in sales because of this change?

How did the business model change after this change?

Appendix 2: Interview guide with respondent B

The structure of this interview is based on the business model canvas and its nine building blocks.

Customer segments

Do you think there is any risk that Communication Ltd will lose a part or a whole segment due to this change, because customers will turn to another provider that still offers the same service for free?

Do you have any competitors that offer the same type of services, but for free?

If so have these competitors any plans to start charging for services?

Do you have any plans on how these changes will be announced to the customers?

Value propositions

When Communication Ltd start charging for services, what type of changes do you think must be done to the value propositions?

Are there any plans for how Communication Ltd will clarify the actual value of the services Communication Ltd plans to start charge for? (To make it easier for customers to pay for the service that used to be free)

Do you think Communication Ltd needs to add more value to these services when the customers must pay for them?

Channels

Do you think new types of revenue streams can be detected by looking at new types of channels?

Has Communication Ltd in the past developed revenue streams by using their channels?

Do you think new channels are needed to handle the change in services?

Customer relationships

Are you concerned that start charging for services that used to be free may affect Communication Ltd.'s relationship to its customers?

Do you involve some of your customers in the development of new types of revenue streams?

Is it possible to create new services together with some of your customers? Along with new revenue streams that later can be used by the whole organization?

Revenue streams

Has Communication Ltd already implemented any new types of revenue streams for the services you charge for?

Are there any on-going projects to seek new types of revenue streams in Communication Ltd today?

Are there any projects today to look at how other organizations in other markets have solved their revenue streams for different types of services?

Do you think start charging for existing services will affect the income from existing revenue streams?

Key resources

Do you think Communication Ltd needs to create new types of key resources to handle the change in services?

Have you today already detect new resources needed for the change in services?

Key activities

Does the new service view require new types of activities? Or do you think some of the old ones need to be removed?

Will the new service view require more administrative activities?

Key partnership

Do you think this change will affect your partnership?

Do you think some of Communication Ltd.'s partners are going to raise their costs to Communication Ltd when Communication Ltd starts to charge for their services?

Do you think Communication Ltd needs new types of partnerships to manage this change in services?

Costs structure

How do you think these changes in services will affect Communication Ltd.'s cost structure?

Will more costs be added due to the change in service view?

Overall questions

Do you think Communication Ltd can keep their business models proximately as they are or do you think Communication Ltd must implement new types of Business models? Or even remove some of the old ones?

Do you think having nine different business models gives Communication Ltd any special strength or weaknesses?

Do you already today plan to change the current business models?

Does Communication Ltd plan to charge for all services or just new ones? And start charging for existing ones at a later stage?

How do you think outcome based revenue streams will affect Communication Ltd.'s current business models?

Appendix 3: Business model of Spotify Ltd

Key Partners Record companies Phone operators	Key Activities Marketing Contracts with record companies	Value Propositions Free version Unlimited version Premium version	Customer Relationships Long-term relationships	Customer Segments Mass market
	Key Resources People Contracts & Agreements		Channels Spotify.com	
Cost Structure Marketing Employees Record company payments			Revenue Streams Subscription fees Payments from ads and banners	

Figure 2, an overview of Spotify Ltd Business Model. Adopted from (Osterwalder & Pigneur 2010:44).

Appendix 4: Business model of Sunfleet

Key Partners Auto-dealer ships	Key Activities Marketing Investing in new cars	Value Propositions Open Semi-open Closed	Customer Relationships Long-term relationship with companies	Customer Segments Companies Mass market
	Key Resources People Contracts		Channels Sunfleet.com Advertising	
Cost Structure Insurance Marketing Maintenance		Revenue Streams One-time connection fee Monthly subscription fee Start-up fee Time and distance travelled fees		

Figure 3, an overview of Spotify Ltd Business Model. Adopted from (Osterwalder & Pigneur 2010:44).

