

# Industry transformation towards service logic: A business model approach

**Anna Viljakainen, Marja Toivonen and Maiju Aikala**

This is a working paper.

## Why this paper might be of interest to Alliance Partners:

This article tackles the issue of industrial transition into value- and service-based business, and offers a managerial tool on how customer value is turned into profitable business. It suggests a new business model construct based on the service-dominant approach that analyses customers as value co-creators, not as targets of selling. The aim is to depict the managerial opportunities to influence value co-creation. The article starts from the well-known business model canvas by Osterwalder, which is modified to include the active role of customers. The modification has been carried out step by step in four main components of a business model: the resources of a firm, value proposition, market characteristics and revenue model. The new construct points out the importance of the understanding of customer context and the fostering of collaborative interaction with customers. It also highlights an effectual way of using a firm's resources: one and the same resource can be more or less valuable depending on how it is used.

The new business model construct is applicable in both service and manufacturing firms. It is particularly useful in servitizing manufacturing, i.e. in the companies that include services in their total offering while having material products as their business core. The broadening repertoire of services contributes in these companies to the awareness of the significance of value co-creation. The empirical material of the article illustrates this development in the media sector, more specifically in magazine publishing. Companies in this sector increasingly aim to be present in their readers' life and encourage the emergence of communities that support the value creation of participants and function as platforms for idea generation.

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## Industry transformation towards service logic: A business model approach

Anna Viljakainen<sup>i</sup>, Marja Toivonen<sup>ii</sup> and Maiju Aikala<sup>iii</sup>  
VTT Technical Research Centre of Finland, P.O. Box 1000, 02044 VTT, Finland

This article contributes to the integration of two views that are relevant for the development of research in service management: the business model framework and the approach of service (-dominant) logic. Both approaches apply a value-based analysis, but until now the business model framework has focused on goods production and technological contexts. The integration with service logic brings to the fore the important role of customers and highlights the process of value co-creation. It broadens the application possibilities of business model thinking in service sectors, and supports the increasing customer-orientation in manufacturing. Also service logic benefits from this integration which pinpoints how customer value is turned into profitable business. Based on the literature, the article suggests a new business model construct consisting of four main components: value co-creation, resource integration, value proposition and configuration of offerings, and financial aspects. The application of this construct is illustrated in the publishing industry.

### Introduction

The perspective of value creation through the lens of the customer is becoming increasingly prominent in service research (Edvardsson, Gustafsson, & Roos, 2005). In addition to the analysis of services (plural) as offerings, there is a growing interest in service (singular) as a phenomenon whose core is the support provided by one party for another party's practices and processes. The approaches of *service logic* (Grönroos, 2006, 2011) and *service-dominant logic* (Vargo & Lusch 2004, 2008) have elaborated this perspective in particular. Both approaches emphasise that production and value creation are separate processes and value is created in customers' processes as value-in-use. Both approaches also recognise the phenomenon of *co-creation of value* and separate it from *co-production* – a service characteristic highlighted by several researchers (e.g. Gallouj & Weinstein, 1997; Lengnick-Hall, Claycomb, & Inks, 2000).

Some differences in emphases exist at a more detailed level: service-dominant logic (SDL) analyses co-creation of value as a ubiquitous phenomenon but restricts the role of the provider to value propositions (Vargo & Lusch, 2004). Service logic argues that co-creation depends on co-production: value creation belongs to the sphere of the customer in the first place, but via actual interaction the provider can become a part of customers' value creation processes (Grönroos, 2011). In this article, we mainly use the more straightforward expression 'service logic' but take the different



emphases into account when they influence our analysis and conclusions.

The value-based view, with service as a mediating factor in the process of value creation, opens up new opportunities for suppliers to develop their business strategies in ways that previously were unique to service firms only (Grönroos & Ravald, 2009; Grönroos, 2011). In recent years, the business model concept has gained ground as a way to concretise the most important components or 'building blocks' derived from and reflecting the strategy (Nenonen & Storbacka, 2010). The value-based view is a typical ingredient in business models: the aim of the description of the building blocks is to produce a proposition that can generate value for customers and thus for the organisation (Demil & Lecocq, 2010). However, researchers have noted that there is a need to strengthen the theoretical underpinning of the business model concept (Al-Debei & Avison, 2010; Fielt, 2012; Teece, 2010). In particular, systematic applications of service logic in business model design are only beginning (Grönroos, 2011). This is the first research gap that we aim to narrow in the present article.

Business models can be constructed in several ways. Demil and Lecocq (2010) identify two basic approaches: static models and transformational models. A *static* model focuses on a blueprint which coherently links together the core components and describes how an organisation functions and generates revenues. This kind of a model synthesises a way of creating value in a business; it assists managers to conceptualise the mechanisms of value creation and the different activities that their company employs to generate value. An alternative is a *transformational* approach, where the business model is regarded as a concept or a tool to address change, either in the organisation, or in the business model itself. This kind of an approach is important for the examination of *innovations, some of which can concern whole industries*. In the present article, the last mentioned approach is our starting point. We focus on the publishing industry, which is part of the media sector and interesting from the viewpoints of both business models and service logic. The business model thinking emerged along with the IT revolution (Fielt, 2012), which has essentially influenced publishing; however, this influence has not been analysed as a change of the industry's business model. A change towards growing value-orientation and service-based thinking is apparent in publishing. The industry is also 'servitizing' (Vandermerwe & Rada, 1988), i.e. companies provide service offerings in addition to material products.

Within the transformational approach, we follow the footsteps of Demil and Lecocq (2010) by reconciling the two aspects of this approach: we analyse *the change of the business model itself* and use this model as a tool to illustrate *the content of the change in a specific context*. We start from 'a goods-based' business model and examine how each of its building blocks should be modified when the theoretical principles of service logic are applied in them. Thereafter, we analyse the findings of our comparative case study to illustrate how the business model of the publishing industry has changed as the result of the adoption of value- and service-based thinking. We provide both a generic representation of a business model based on service logic and real world instances about its implementation in an industry (cf.



Demil & Lecocq, 2010). Thus, we also contribute to narrowing another research gap – verification of the business model approach via application (Fielt, 2012). We propose two groups of research questions to guide our work:

- (1) *How do the different building blocks of a business model change when service logic is applied instead of goods-based logic? Which aspects of service logic need specification to make this framework applicable as the basis of a business model?*
- (2) *What kinds of changes are going on in the business models of the publishing industry as the result of the adoption of service logic? How do these changes contribute to the understanding of service-based business models more generally?*

From now on, we have structured the paper as follows. In the second section, we analyse the literature on business models, first generally and thereafter focusing on service-based business models. In the third section, we develop our own model and discuss the specific issues that the application of service logic implies in each of its building blocks. The context and methodology of our empirical study will be presented in the fourth section and the results in the fifth section. We end up our paper with the concluding discussion which also includes suggestions for further studies.

## **Summary of the literature on business models**

Literature on business models started to accumulate in the mid-1990s along with the rise of the digital economy which changed the earning logic of companies in many ways (Ghaziani & Ventresca, 2005; Hedman & Kalling, 2003). However, the approach has older roots: discussion on the importance of a clear ‘business idea’ and its structural elements emerged almost twenty years earlier (Normann, 1977). In this section we first summarise the basic understanding of the business model construct and thereafter describe exercises that have aimed at combining service logic with business models.

### ***Basic understanding of the business model construct***

Research into business models has included a strong motivation *to develop the managerial activities of companies*. Several scholars have pointed out that every company has a business model, whether that model is explicitly articulated or not (Chesbrough, 2006; Teece, 2010). However, companies typically lack understanding into the dynamics and processes of business model development in general. If this lack is combined with unawareness of the company’s own business model, leveraging the model is occasional and change needs are not recognised. (Johnson, Christensen, & Kagermann, 2008)

Due to the managerial emphasis, profound analysis of the theoretical roots of the business model construct has been missing in many studies. However, the majority of them are implicitly linked to the frameworks of *strategic management and*



*entrepreneurship*. An example of systematic pursuit of combining these two research streams is the study by Amit and Zott (2001). This study identifies five theoretical approaches that have contributed to the business model thinking: the value chain framework, innovation theory, the resource-based view of the firm, strategic network theory, and transaction costs economics. While each of these approaches has examined value creation from a specific perspective, the business model construct can be used as a unified unit of analysis that captures value creation arising from multiple sources (*ibid.*).

Formulating the definition of the business model around *the value logic* has been typical in other studies, too (e.g. Afuah & Tucci, 2003; Chesbrough & Rosenbloom, 2002; Johnson et al., 2008). Some definitions emphasise value capture in terms of the revenue model or competitive advantage. This emphasis is clearly visible in the definition by Morris, Schindehutte and Allen (2005, 727): 'A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets'. Increasingly, however, the definitions highlight that customer value is a necessary precondition for the emergence of business value. The definition by Teece (2010, 173) exemplifies this view: 'A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value.' (For a broader comparison of various business model definitions, see Nenonen & Storbacka, 2010.)

A business model has been usually conceptualised as an activity system (Zott & Amit, 2010) that is made up of components, linkages between the components, and dynamics. Correspondingly, the actual construction of a business model has included the identification of *key components* as a central task. The way in which different authors structure the business model varies to some extent. For instance, Teece (2010) lists the following components: technologies and features to be embedded in the product/service, benefit to the customer, market segments, available revenue streams and mechanisms to capture value. Johnson et al. (2008) recognise customer value proposition, profit formula, key resources and key processes as four main elements of any business model. Despite these differences, the basic idea seems similar. As Seppänen and Mäkinen (2007) summarise, the components of business models have consisted of objects from both the demand and supply sides, such as *the resources of a firm, value proposition, market characteristics and revenue model*. We also apply this four-part division in the present article.

In addition, to tackle our research task – the inclusion of service logic in the business model – we need a more detailed framework that reveals the central issues and creates the basis for the structuration of the sub-elements within the four main constituents. This framework has to be flexible enough to allow new interpretations, and due to the complex bundle of possible variables, intuitive comprehensibility is important. Based on these criteria (cf. Bouwman, Faber, Haaker, Kijl, & De Reuver, 2008; Zolnowski, Semman, & Böhmman, 2011), we have selected the canvas model of

Osterwalder (2004, Osterwalder & Pigneur, 2010) as the starting point whose building blocks we modify towards service-based thinking (Figure 1). Because the model is strongly managerially oriented, we supplement our analysis throughout with other theoretical approaches. The model itself is not service-oriented, but recently some efforts have emerged to develop it in this direction. Before presenting our own suggestion, we review these efforts together with other studies which have aimed to integrate service logic with business models.

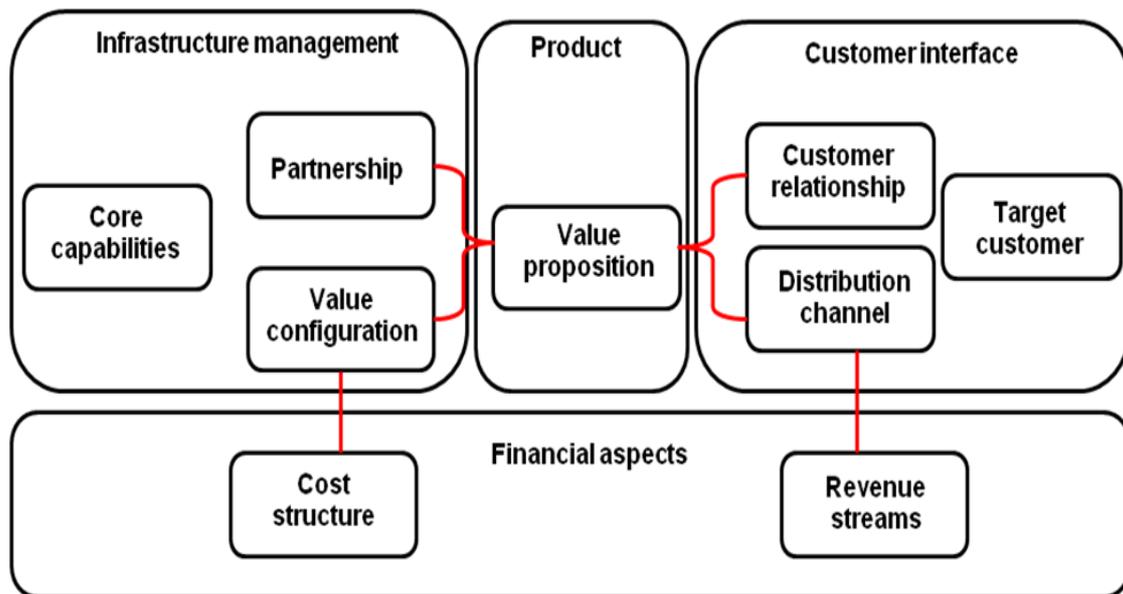


Figure 1. The original business model canvas (Osterwalder, 2004)

### ***Business models including a service perspective***

Business model constructs have been applied in the service environment, particularly in the context of IT services, but most models have lacked the attributes that are characteristic of service logic (Zolnowski et al., 2011). However, recently the first attempts to create such models have emerged. Most of them use the framework of service-dominant logic (SDL) developed by Vargo and Lusch (2004, 2008). We can identify two types of contributions: 1) conceptualising some of the foundational premises of SDL in the business model context and 2) developing a service-dominant logic-based modification of an existing business model construct.

The studies by Nenonen and Storbacka (2010) and Maglio and Spohrer (2013) exemplify the first approach. Both of them discuss the development of business models in a systemic context. In line with the general focus of SDL, a service system – consisting not only of the provider and customer but also of other stakeholders, (including competitors) – is seen as the locus for value co-creation. Nenonen and Storbacka (2010) aim at developing a business model that would be suitable for value co-creation in this kind of a networked environment. They rely strongly on the idea of *resource integration* that plays a central role in SDL. The model contains three types of components: design principles, resources, and capabilities. The design

principles guide the organisational capabilities in such a way that resources can be optimally integrated in the value co-creation processes. The authors specify further the proposed components in four dimensions: market, offering, operations, and management. As the result, the final configuration includes 12 interrelated elements. Maglio and Spohrer (2013) focus on the *value-proposition design*, which according to them can be seen as the systematic search for business model innovation: it enables adaptive advantages that improve existing offerings, create new offerings, or reconfigure the value-creating ecosystem. The argument derives from the view that the relationships between stakeholders in a service system are based on value propositions. At its core, a value proposition defines the pattern of shared access to resources among stakeholders over time (cf. Anderson, Kumar, & Narus, 2007). Besides resource types, stakeholder concerns and access rights, the improvement of service systems depends on symbolic processes of valuing and communicating (Maglio & Spohrer, 2013).

Whereas the above-mentioned approaches have started from one specific aspect in the SDL argumentation on which they have built a broader view, the modifications of existing business models have taken the whole model under the spotlight. Thereafter they have analysed the implications of service-based thinking to individual building blocks in a more or less detailed way. The canvas model suggested by Osterwalder together with his colleagues (Osterwalder & Pigneur, 2002a, 2002b, 2010; Osterwalder, 2004; Osterwalder, Pigneur, & Tucci, 2005) has been the starting point in these modifications – thus, the basic aim is similar to our approach. Two modifications have been presented recently: Fielt (2010) and Rampen (2011). They have not yet been published in academic journals, but as blog discussions. However, the authors have written academic papers on the background thinking of these models (Fielt, 2012) and the models have been analysed in academic conference papers (Zolnowski et al., 2011).

Fielt (2010) extends Osterwalder's model in a way that makes the role of customers and partners in co-creation more visible. The building block of customer segments (target customers) is divided into customers' activities and resources, and correspondingly, the building block of key partners is divided into partners' activities and resources. The cost structures of both customers and partners have been added as new building blocks. As a result, the number of sub-component grows from nine in the original model to thirteen in the revised version. In addition to the increase of complexity (cf. Zolnowski et al., 2011), *the nature of business model as a managerial tool becomes blur*. The new building blocks are first and foremost awareness-raising: they may motivate the focal company to take into account their customers and partners more carefully, but they do not tell much about the ways in which this should be done.

In the model suggested by Rampen (2011), the customer's experience is the central building block. The market characteristics are conceptualised in terms of customer's resources, customer's journey and customer desired outcomes. Also the other building blocks emphasise strongly the customer's perspective. The value proposition has been transferred to the same main block with key resources and key



capabilities and interpreted as the customer's interpretation of the company's promise. Key capabilities include understanding the customer's desired outcome and journey, and developing the company's own resources to improve the customer's experience. Key resources consist of the network or ecosystem required by the company to support customers. The cost structure and the revenue model are replaced with the total customer engagement value and customer value-in-use. The former refers to the value created for the parties involved (e.g. the customer's lifetime value and network value); the latter consists of the customer's perception of the realised outcome and journey in comparison to the desires and expectations.

This model goes even deeper than Fielt (2010) to the description of the prerequisites that the focal company has to understand in order to implement service logic. However, the secondary role of the company's own activities and interests – the removal of the revenue logic in particular – means that the model is no more an actual business model. This end result reflects a general challenge included in the integration service logic and business models: *the 'translation' of the phenomenon of co-creation into business thinking of the focal company*. A business model does not describe the phenomenon of co-creation, in which the focal company and its customers and partners are equal actors, but takes the perspective of the focal company. This perspective should, however, be enriched with insights about the essential role of customers and partners. We now move to tackling this challenge in our own alternative.

### **Suggestion for a new service logic -based model**

As mentioned above, the generally recognised main components of a business model are the resources of a firm, value proposition, market characteristics and revenue model (Seppänen & Mäkinen, 2007). In the construction of our own suggestion, we use them and the sub-categorisation of Osterwalder (2004; Osterwalder & Pigneur, 2010) as the starting point. The illustration of the model is also based on Osterwalder's canvas (2004); however, we have changed the positions of building blocks and added connecting lines between them to make their relationships explicitly visible. Our research task focuses on *modifying the contents of sub-categories to correspond the service logic*. We also modify the main components to some extent. Figure 2 presents our suggestion for a service-based business model.

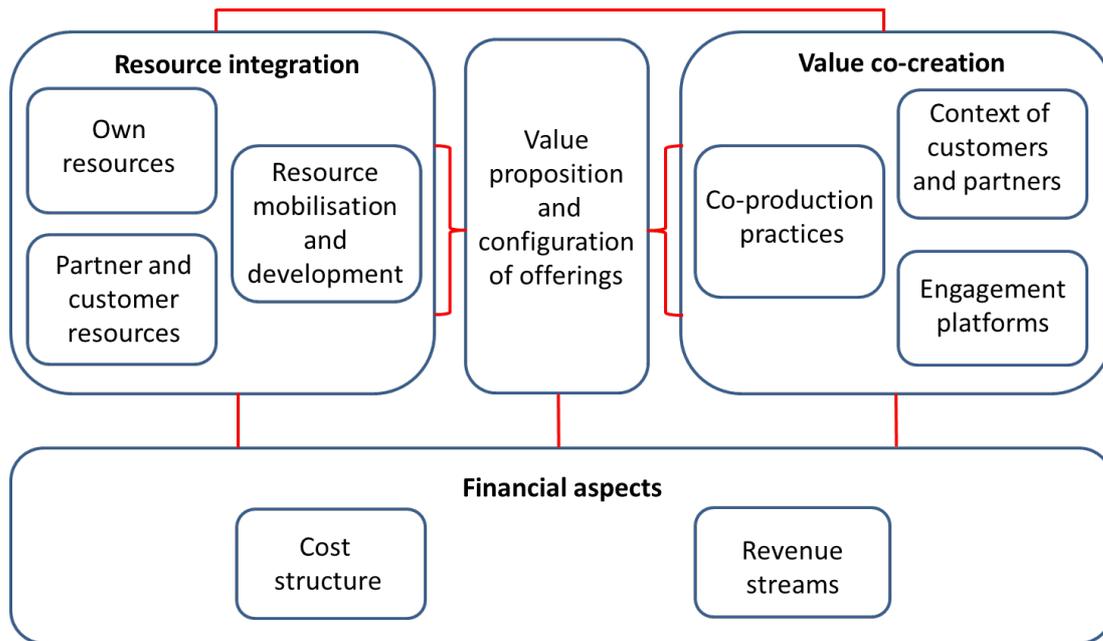


Figure 2. Integration of service logic with the business model construct

In our model, value co-creation and resource integration play a central role. In line with service logic (Grönroos 2006, 2011) and service-dominant logic (SDL – Vargo & Lusch 2004, 2008), we consider *value co-creation to be the core of market characteristics of the business model* and name this main component accordingly. Instead of the simple identification of the resources of a firm as the second main component, we want to highlight *the integration of resources*, which SDL has pointed out to be a central activity of all stakeholders involved in service relationships. Before the value can be realised, a single input has to be integrated with other resources (Vargo & Lusch, 2011). This means that the main components of value co-creation and resource integration are mutually interlinked, which we have illustrated with a connecting line in Figure 2.

The main structural change that we have made compared to Osterwalder's canvas is the location of *customers and various groups of partners as important actors in both value co-creation and resource integration*. The canvas model, like many other business models, is based on the value chain view in which resources ('infrastructure' in Osterwalder's terms) are the realm of the provider and its subcontracting partners whereas market characteristics ('customer interface' in Osterwalder's terms) concern customers and delivering partners (cf. Zolnowski et al., 2011). In our model, also customers offer resources to the provider and also subcontractors as well as delivering partners are value co-creators. On the other hand, we again highlight that the focus is not on the activities of customers and partners *per se*, but the model has to depict the managerial opportunities for the focal company to influence value co-creation (cf. Nenonen & Storbacka, 2010; Zott & Amit, 2010).

Within the main component of value co-creation, we identify the context of customers and partners, the engagement platforms and co-production practices as



the sub-components. They replace respectively the building blocks of target customer, distribution channels and customer relationships of Osterwalder's model. *The context of customers and partners* refers to the situational factors that determine the service-related experience and that the focal company has to understand (Lusch, Vargo, & O'Brien, 2007). This understanding enables customer analysis (e.g. segmentation) based on the use value of service, instead of the view that customers are targets to whom value is sold. A corresponding attitudinal change is included in replacing the distribution channels with *engagement platforms*. The concept has been introduced by Ramaswamy (2011) to describe the means that facilitate the co-creation of value by allowing on-going interactions among firms, their customers and network partners. The engagement platforms may revolve around the offering, websites, physical stores, private and public community spaces etc. *Co-production practices* describe the actual service process, in which the customer relationship is active: customers engage themselves with the firms' production processes (Lengnik-Hall et al., 2000; Auh, Bell, McLeod, & Shih, 2007). By referring to 'practices', we want to highlight that the amount and nature of firm-customer interaction, included in co-production, vary and should be discussed as part of the business model. Grönroos (2011) has pointed out that the utilisation of this interaction is a unique opportunity to the provider to influence the customer value.

The main component of resource integration in our model consists of own resources, partner and customer resources, and resource mobilisation and development. Deviating from Osterwalder's canvas, this component ('infrastructure' in Osterwalder's terms) includes the resources of all actors, but not value configuration which is an indispensable part of value co-creation. Instead of it, we consider necessary to add a sub-component which highlights *the using of resources and separates it from the having of resources*. SDL provides a good starting point for the discussion of different aspects of resource integration. In particular, it emphasises the importance of fostering knowledge and skills which it sees as fundamental sources of competitive advantage (Lusch et al., 2007). SDL is also closely linked to the approach of effectuation (Lusch & Vargo, 2012), which has developed a model of expanding cycles of resources. The model includes *an iterative process consisting of the identification of own resources and acquisition of stakeholder resources* (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). This process forms the basis, not only for the integration of resources for everyday business, but also for *the fostering of innovation*. Both SDL and effectuation highlight that any given resource can be more or less valuable depending on how it is used (Read et al., 2009; Vargo & Lusch, 2004). This argument is near to the resource-based view of the firm (Penrose, 1959; Barney, 1991) and to the concept of dynamic capabilities linked to it (Teece, Pisano, & Shuen, 1997).

Value proposition is located in the middle of our model – a solution seemingly similar to Osterwalder's canvas. However, whereas the original canvas relies on the value-chain thinking, we analyse *value proposition as a mediator in the continuous interaction between resource integration and value co-creation*. Positioning the value proposition in the middle also depicts its central role in the business model: value proposition crystallises the way in which the focal company aims to contribute to the



value creation of the customer, and consequently to generate value and new resources for itself (cf. Demil & Lecocq, 2010; Vargo & Lusch, 2011). In our model, *configuration of offerings is seen to be tightly linked to value proposition*. A similar linkage can be found in some canvas versions (Osterwalder, 2004) and in some of its service-based modifications (cf. Zolnowski et al., 2011). Following the argumentation of Ramaswamy (2011), we point out that the design of goods and individual services cannot be neglected even though the importance of co-creation is emphasised. A successful customer experience is based on carefully planned prerequisites that include, among others, a prototype of the co-production process (Edvardsson, 1997). In the main component of financial aspects, we have kept Osterwalder's original building blocks: cost structure and revenue streams. Discussion about financial issues (e.g. productivity or profitability) on the basis of service (-dominant) logic is only beginning. At a general level, the founders of SDL have recommended the increasing of efficiency through effectiveness instead of making efficiency primary (Vargo, 2009). Fiel (2012) has defined a service logic -based revenue model in more detail. According to him, this model consists of the economic considerations (possibly also non-financial ones) related to the bringing the customer, value proposition and architecture together. Fiel leaves open whether the model focuses on the way in which the focal organisation makes money or whether it includes the financial consequences to other organisations, too. We suggest the consideration of the total financial benefit gained by different stakeholders (to the extent it is possible to evaluate), but highlight again that the benefits of the focal company and of its customers and partners do not play an equal role in the business model – the former is primary but the latter essentially influences it.

### **Case context and methodology**

As mentioned in the introduction, the publishing industry is an interesting example of a change towards value- and service-based business models. Within this industry, we have carried out empirical research concerning magazine markets in particular. This research provides an illustrative application of our modified canvas model. In the present section, we first briefly describe our research context and thereafter the methods used in the collection and analysis of data.

### **Central characteristics of the magazine markets**

Several phenomena are today changing the logic of magazine markets: media convergence, changing media use habits, increasing global competition with new entrants, and the volatility of the advertising markets. Media convergence, i.e. the blurring boundaries between the sectors of media, telecommunication, and information technology, puts pressures to build strategic networks among organisations. Magazine publishers are entering into partnerships not only within the media sector, but also outside it (Küng, Picard, & Towse, 2008; Hsueh, Lin, & Li, 2010). Technological developments change the way people access information. The needs of consumers develop along with the growing opportunities, and the differing media-use habits cause fragmentation of audiences (Napoli, 2011, 2012). Media

convergence accelerates this trend.

Tightening global competition is another consequence of convergence. Big international players such as Google and Facebook take an increasing share of consumers' time, and advertisers' money (Picard, 2011). Consequently, advertising in the printed media is progressively transferring to online media. Here, the revenues are not sufficient to compensate for the decline in print. Advertisement spending is also highly sensitive to economic fluctuations. Decrease in advertisement income is a serious long-term threat for the viability of magazine publishers.

At the same time, there are factors that slow down changes. Especially large and old magazine publishers show typical features of structural inertia and resemble in this respect the newspaper business (Amburgey, Kelly, & Barnett, 1993). This business has revealed the risks of change: the mortality hazards rise when core changes are made (Dobrev, 1999). It is important to take into account that the history and path-dependency of actors have built the basis of their resources (Gulati, 1999).

Despite the contradictions of development, the magazine business is anticipated to change dramatically during the next decade. In our study, we focus on Nordic countries, where magazine circulations and readerships are yet at a high level. However, the magazine markets in Nordic as well as in other countries will experience gradual erosion due to increasing competition (Statistics Norway, 2010). The heavy-users of printed products are ageing and the younger generation appreciates less print media (Küng et al., 2008). Our study illustrates how magazine publishers aim to innovate new business models to survive amongst the changes.

### ***Data and Methods***

Qualitative research approach was chosen to study the subject in depth. Even though qualitative research implies subjectivity in describing and understanding the world, it is useful for examining phenomena that evolve and change (Gephart, 2004). We carried out a multiple case study which is particularly suitable in this kind of a research setting (Eisenhardt, 1989; Yin, 1994). Finding patterns of behaviour across organisations improves validity and enables some analytical (even though not statistical) generalizability (Kvale, 1996).

We conducted our study in two Nordic countries: Finland and Norway. The sample included ten case companies and two lobbying organisations. The companies represent both horizontally integrated media conglomerates and small- and medium-sized enterprises (SME's). Together they include all key players in the magazine markets of the above-mentioned countries; in other words, they are the largest publishers of consumer magazines in terms of circulations and readerships. All selected publishers also operate outside their home markets.

The main data consists of face-to-face interviews in the case organisations. The interviewees represented mainly the top management whose concern the issues of the business model are. In one company we interviewed two respondents, resulting



in the total number of thirteen interviews (nine from Finland and four from Norway). We applied a focused (semi-structured) interview method: the themes of interest were decided beforehand but within them the respondents were given a great deal of freedom (Bryman & Bell, 2011; Fontana & Frey, 2005). Our theme structure included general change mapping in the magazine markets, and more specific questions about the business model change and the transformation towards increasing service orientation. Each interview lasted from 60 to 90 minutes, and was recorded and transcribed. Archival and statistical data on the general change indicators – for instance, magazine readerships and circulations, audience and subscription sales, and magazine revenues – were used as supplementary material.

In the analysis and interpretation of the empirical data, we did not use a coding tool, but aimed to form a more holistic understanding based on the interviewees' responses. The quotations in the results section illustrate the level at which we picked up extracts from the material. Our technique was a modification of a matrix format, whose purpose is to derive meanings from data and reduce the amount of data (Huberman & Miles, 1994). Here, constructs are placed on one axis, and occurrences on the other, to enable the analysis of complex qualitative data. In our study, the building blocks of the business model formed the constructs and the expressions of the increasing service orientation formed the occurrences. We started the analysis using the original business model canvas (Osterwalder et al., 2005; Osterwalder & Pigneur, 2010), which we considered general enough to be compatible with service logic. Step by step – along with our deepening theoretical knowledge – we realised the existence of apparent contradictions that led us to develop a modified model.

Our analysis procedure followed the steps introduced by Bryman and Bell (2011). The set of interview transcribes was handled four times. In the first round, the material was read through to get a general picture (without making any interpretations). The second round focused on notes about the business model change and transformation towards increasing service orientation; the notes were placed in the above-described matrix using the original canvas (Osterwalder et al., 2005; Osterwalder & Pigneur, 2010). In the third round, we made the first revisions in the canvas model; the purpose was to solve the most apparent incompatibilities with the service logic that we perceived essential for the explaining of our empirical results. The fourth round consisted of a deeper theoretical analysis, the development of a more radically modified framework (presented in the third section of the present article) and the re-coding of data to enable an empirical illustration of this framework.

## **Research results**

In the reporting of our findings, we apply the structure of our service logic -based business model (Figure 2). The following sub-sections have been organised according to the four main components of this model; individual building blocks are discussed within the respective main component. In line with the transformational approach (Demil & Lecocq, 2010), we analyse *on-going changes towards service logic*,

not prototypical business behaviour. Due to the rich data, we have made a restriction in the analysis: collaboration with end-users (readers) is discussed in the context of value co-creation, whereas collaboration with partners (advertisers) is discussed in the context of resource integration.

### **Value co-creation**

Our study revealed increasing service orientation in the magazine markets regarding all three building blocks that we identified as the elements of value co-creation in our theoretical model. The emphasis on media experience reflects the awareness of the importance of customer context. Multiple channels and one story across them is the way in which magazine publishers foster engagement platforms. Empowerment of reader communities and interaction with them is an example of co-production practices.

The first building block – customer context – plays an important role in the magazine markets: our interviewees emphasised that *media experiences* have to be taken into account, not only in offering the ‘right’ content, but also in designing the use context to fit the customer’s mind-set. Magazines are increasingly developed to be present in their readers’ life and customer segmentation reflects this idea. For example, a Finnish magazine *Olivia* aims to solve problems of women in their early thirties: ‘Am I in the right profession?’ or ‘Do I want to have a child?’ or ‘Should I take a mortgage for the next thirty years?’.

The pressure to understand the customer context concerns the audience research, too: concretization, measurement, and monetization of the service experience have become central. The following quote elaborates the changing needs in audience research towards better customer understanding:

‘The consumer is increasingly put in the centre of research activity telling about his/her sentiments in the media use context. It gives us the qualitative aspects [...] We need to understand the depth of each media and their role in consumers’ everyday lives [...]’ (Director, magazine publishers’ interest group, Finland)

The importance of *engagement platforms* – the second building block of value co-creation – is linked to the increasingly active role of customers in shaping their experiences. In the magazine markets, the simultaneous consumption of various forms of media – media multitasking – is a specific feature that the publishers have to take into account. Our results indicate that building one story across many platforms is a way with which the publishers aim to promote a positive overall experience from the ever increasing array of media options. Fostering the customer contact also continues well beyond the actual product purchase from a retail store or telemarketing – in reading a printed magazine, engaging in the online community, or attending an offline event. Synchronization of different platforms also opens up doors for new consumer segments. For example, augmented reality application in printed media or online/mobile content may interest digital natives and bring

younger audiences.

Our respondents pointed out that publishers of legacy media are increasingly pushed to follow the rules of new media and *empower readers to become active in communities*. In other words, it is not enough to provide engagement platforms but the publishers also have to develop various co-production practices – the third building block of value co-creation. Via these practices, the publishers support the value creation of participants, and the communities on the other hand support the value creation of publishers: they function as platforms for idea generation and co-development. The following quote confirms the importance of interaction:

‘Magazine concepts live from conversations and connections between people. Concepts are the result of what people have achieved together.’  
(CEO, SME, part of Nordic media enterprise, Finland)

According to our interviews, crowdsourcing (as well as amateur professionalism and other manifestations of reader engagement) is becoming a norm when online and offline communities around media brands are being created. Crowdsourcing is a novel practice, which means that a part of the design work is outsourced to an unknown crowd on the internet (cf. Brabham, 2008). Online magazine communities are mostly based on the assumption that everyone can participate in content production, generating a more intimate relationship between the reader and the media brand. However, prominent bloggers with large audiences are also hired by media.

### **Resource integration**

Our study indicates that a strong brand is the core resource of the publisher. The other two building blocks within resource integration illustrate the basic ideas of service-dominant logic: partner resources are obtained from the ecosystem surrounding the company, and resource mobilisation and development reflect the approach of effectuation (cf. Lusch & Vargo, 2012).

*Strong content brands* were considered to benefit the company through the increase of commitment among both end-users and advertisers. The interviewees mentioned that multiple channels promote this commitment further. Besides the publisher itself, also customers benefit from strong brands. Based on them, customers can expect that their needs (such as relaxation or self-indulgence) become satisfied (cf. Ha, Janda, & Muthaly, 2010). The following quote confirms the increasing role of brands in the magazine business:

‘We don’t make magazines, we make brands. Our readers need to be in love with and committed to our brands. They need to trust our brands.’  
(Director of R&D, MNE, listed company, Finland)

On the other hand, our interviewees told that the significance of editorial content is diminishing among advertisers. This requires new ways of acquiring commitment



from them. Solution oriented practices have turned out to be successful. An example is a shopping guide app that encourages readers to make purchases on advertisers' websites. Similarly, print and digital magazines are supplemented with interactive technologies (such as the Shortcut application or a QR code) that guide readers to purchase the advertised product, see videos related to media content, or enter online music services. Traditional long-term contracts are also being replaced with shorter-term and agile collaboration that cost-effectively creates new business solutions.

*Ecosystems with border-crossing* are a central element in the second building block – partner resources. Our findings confirm that the publishing industry that has previously operated autonomously is opening up rapidly and starting to build strategic networks. Partners' products, services, channels, brands, and competencies are becoming potential resources. Magazine publishers are establishing new touch points and transferring from own to partners' channels to reach their fragmenting audiences. An example presented in our interviews is to compile information on TV programs to internet service providers. Another example is to license a magazine brand (e.g. the *Elle* magazine) from an international publisher, or to publish a title from outside the publishing business (e.g. the *Weightwatchers* magazine). Publishers also seek new opportunities from printing houses and paper producers. Finally, partnerships are formed between competitors (e.g. the cooperative agreement between Bonnier Publications and Microsoft's *MSN* portal).

In resource mobilization and development, new kinds of skills are emphasised and combined with *the effectual approach*. The core in skills development is increasing service-orientation (cf. Nair, Paulose, Palacios, & Tafur, 2012), which in the media context means a transfer from the authoritarian journalist power to the appreciation of skilful customer engagement. Our interviewees had also observed a change in the corporate culture, which is becoming more open: transparency in communication and work practices is fostered. The effectual approach (Read et al., 2009) was implicit in the description of a transfer from traditional R&D to more experimental innovation activities. Changes in the competitive environment force publishers to radically shorten the time-span of launching new products and services. The interviewees highlighted that media companies use many ways to foster innovativeness: people are rotated across editorial rooms and ideas are co-developed with readers and advertisers.

### ***Value proposition and configuration of offerings***

The first observation based on our interviews was that the role of value propositions is very important in magazine business. Secondly, the focus of these propositions is transferring from producing printed magazines to mass markets to answering specific customer needs and solving customer problems in niche markets – often in a co-productive way. Our respondents considered that the publishers are nowadays quite skilful in the development of attractive value propositions based on the segment-specific customer understanding they have acquired:



‘Magazines know their audiences so well and are so rigorously targeted, that it’s like they [publishers] are sending love letters to their readers [...]It’s a personal relationship without any distractions.’ (CEO, large family-owned Nordic media company, Finland)

The one and same value proposition is manifested in print products and product extensions, and increasingly in product-related services (cf. Zähringer et al., 2011). Thus, our results provide an illustrative example of a central argument of the service-dominant logic: products and services are vehicles for service provision (Vargo and Lusch, 2004, 2008). On the other hand, our study highlights that *the significance of material products and individual services does not disappear*. In magazine markets, expertise in the configuration of offerings is even more important than before, because customer satisfaction is pursued via multiple channels (cf. Seck & Philippe, 2011).

The interview notions on different media products and services can be summarised as follows: *the printed product* is a ‘lean-back’ medium – as opposed to ‘lean-forward’ interactive digital media – in building the story across platforms. *Print extensions* often include ‘daughter’ or ‘sister’ publications on a specific niche area to reach new audiences. Much emphasis in new launches is put on *online services*, which most often refer to online magazine communities operating under the same brand name with the printed product. Online communities are built using viral and social media channels, such as Facebook. Also *offline services* are gaining popularity. They reflect clearly the idea of providing an input to the value creation activity of the customer, as the following quote shows:

‘It’s necessary that we develop services for the readers. For example, for women in the middle segment [...] time is crucial. Then what about apps that give food recipes and a shopping list as a subscription based thing [...].’ (Director of R&D, large family-owned Nordic media company, Norway)

Other examples of offline services are doctoral consultation to health magazine subscribers, shopping evenings to fashion magazine subscribers, mobile clubs and applications, lectures, parties, sporting events etc. Event production is an essential practice in commercializing strong content brands.

### **Financial aspects**

The increasing service orientation also affects the financial aspects of magazine markets. This is reflected in the publishers aim to provide attractive value propositions to different audiences despite the growing cost pressures. These pressures are due to diminishing circulations and advertising revenues, rising paper and distribution costs, and the needs for up-keeping and renewing editorial systems. The following quote illustrates the challenges of *reconciling the value-driven and cost-driven business*:

'10-15 years ago the magazine market was a goldmine because of high circulations and advertising income. We have to try harder today, turn every stone to make little improvements all the way through.' (Director of R&D, large family-owned Nordic media company, Norway)

*Collecting the revenues of small streams* is typical in today's magazines and complies with SDL thinking about the ecosystems nature of markets. According to our study, brand licensing is becoming common both within the publishing industry and across the industry borders. Based on alliances, publisher's own website is used to drive traffic to another website. Selling magazines for companies that distribute them to their clients is also generalizing. Recycling old published content is a trend for which data banks and archives are built. Magazine publishers also aim to enrich and cash customer register data, which helps in targeting product and service offerings. These offerings may very well be from outside the publishing business – such as travelling services.

Additional revenue streams are sought based on the new forms of customer behaviour and collaboration with customers. Our interviewees expected that on-demand-printing becomes relevant, when consumers are able to tailor content based on their own interests, i.e. to create personalised magazines. The increased usage of e-reading devices and applications such as *Flipboard* that enable tailoring will accelerate this development. Another new practice revealed by the interviews was customer accounts that some publishers are building: customers pay an annual fee to access all products and online and offline services. In the online context, freemium services are a new type of offering in which part of the content is free and a premium is charged for advanced features (cf. Kangas et al., 2007).

### **Concluding discussion**

In this article, we have suggested a new business model construct based on the approaches of service logic (Grönroos 2006, 2011) and service-dominant logic (Vargo and Lusch, 2004, 2008) – for the simplicity reasons, we have used the expression 'service logic' when a clarification is not needed. In addition to value- and service-orientation that are the core of these approaches, we have focused on two research needs that have been identified in the literature: strengthening the theoretical basis of business model constructs and verifying them in practice. Correspondingly, our research questions concern both theoretical issues and application. We have applied our construct in the publishing industry, in which growing service-orientation is a topical phenomenon.

Our first theoretical question concerns the changes that should be made in the different building blocks of a business model when service logic is applied in them. In order to answer this question, we started with a summary of the basic understanding of the business model construct and thereafter described a few recently emerged exercises that have combined service logic with business models. We concluded that the generally recognised main components of a business model are the resources of a firm, value proposition, market characteristics and revenue model (cf. Seppänen &



Mäkinen, 2007). For a service-based model, we suggest that the component of market characteristics is replaced with *value co-creation*, and the resources of a firm with *the integration of resources*. In this way, the business model becomes firmly based on the core concepts of service logic and service-dominant logic. *Value proposition is a mediator* in the continuous interaction between value co-creation and resource integration.

For the detailed examination, we have used Osterwalder's canvas model (2004; Osterwalder & Pigneur, 2010) as our framework. However, we have replaced the value chain -thinking included in this model with a view according to which *customers and various groups of partners are important actors in both value co-creation and resource integration*. On the other hand, we agree with the authors who have highlighted that the focus is not on the activities of customers and partners *per se*, but *a business model has to depict the managerial opportunities for the focal company* (cf. Nenonen & Storbacka, 2010; Zott & Amit, 2010). Within the main component of value co-creation, we have identified the context of customers and partners, the engagement platforms and co-production practices as the sub-components. The importance of context and co-production is a core argument in service logic, whereas the engagement platforms are a new concept that we have adopted from Ramaswamy (2011). It replaces the earlier concepts of distribution channels and customer interfaces with a view that emphasises the active role of customers and stakeholders and highlights the facilitation of this role. The main component of resource integration in our model consists of own resources, partner and customer resources, and resource mobilisation and development. The first two sub-components are modifications of earlier business model constructs, but the third component is new. In line with service-dominant logic, and the effectual approach that has developed a model of expanding cycles of resources (Read et al., 2009), we point out that *resources are more or less valuable depending on how they are used*.

For our theoretical analysis, we also posed a question of which aspects of service logic need specification to make this framework applicable as the basis of a business model. We identified two bigger issues in addition to the general needs for further, more detailed research. First, it seems that the strong emphasis on service as a support provided by one party for another party's practices and processes has led to the neglect of goods and individual services. In our model, we have returned back to more traditional analyses of service logic (e.g. Edvardsson, 1997) and suggest that *configuration of offerings should be tightly linked to value proposition*. Second, analysis of the main component of *financial aspects of the business model* is only beginning in the service logic context.

The necessity of further work in both of these areas is a central finding in our empirical study, in which we mapped the changes that are going on in the business models of magazine publishers as the result of the adoption of service logic (the first part of the empirical research question). Thus, in addition to the illustration of our service-oriented business model construct, this study also provided insights for the understanding of service-based business models more generally (the second part of the empirical research question). The interviews indicated that *the broadening*



*repertoire of service offerings contributes to the awareness of the significance of value co-creation.* For instance, offline services (consultation, clubs, lectures, events) were seen as an important input for the value creation activity of the customer. All in all, a change towards growing value-orientation and service-based thinking was apparent among the interviewed magazine publishers. They aim to be present in their readers' life and encourage the emergence of communities that support the value creation of participants and function as platforms for idea generation. Simultaneously, financial issues – *reconciling the value-driven and cost-driven strategies* – turned out to be a big problem.

We have applied a transformational approach to the business model: we have analysed *the change of the business model itself* and used this model as a tool to illustrate *the content of the change in a specific context* (cf. Demil and Lecocq, 2010). Both aspects need validation in further research. Regarding the former, our research indicates that the integration of the views of service logic and service-dominant logic is beneficial in the development of the business model construct. Despite the apparent similarities, they emphasise different aspects. For instance, SDL opens up resource integration in particular, whereas service logic contributes to the analysis of co-production and the configuration of offerings. Continuing their integration at a more detailed level is one direction in which future research could be fruitful. As regards the applications, our case study should be validated both with bigger samples in the publishing industry and with new empirical studies in other industries.

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<sup>i</sup> Anna Viljakainen is Research Scientist at the VTT Technical Research Centre of Finland (VTT), her area of research being media business and the advertisement markets. She is a doctoral candidate at Aalto University Helsinki. Anna is also currently a visitor to the Cambridge Service Alliance

<sup>ii</sup> Marja Toivonen is Research Professor at the VTT Technical Research Centre of Finland (VTT), her specialty being service innovation and service business models. She is also Adjunct Professor at Aalto University Helsinki, where she teaches service development. She is a council member of RESER (European Association for Research on Services).

<sup>iii</sup> Majju Aikala is Senior Research Scientist at the VTT Technical Research Centre of Finland (VTT), her area of research being media use and user experience.