Content Subscription Models: Selling Information Goods over the Internet

Master Thesis Research Proposal

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Introduction

With the arrival of the internet the content industry, be it music labels, movie makers, book authors or newspapers, saw their business models dramatically shaken up. The internet as a new distribution channel decreased costs for distributing such “information goods”¹ to almost zero, changing the economics of the entire industry. Information good suppliers, most notably newspapers, suddenly saw themselves in a ultra-competitive market with marginal costs very close to zero. As a consequence, like classical economic theory would predict, many newspapers now compete against each other offering their products for free on the internet.

This revolution in the content industry has however also brought about new opportunities. As the markets changed while market leaders refused to move away from their out-dated business models, new players conquered the markets. Apple for instance transformed from a nearly bankrupt computer manufacturer into a major online content distributor.

New devices such as the Apple iPad or the Amazon Kindle are currently changing the way people consume information goods which may lead to recovery of the willingness to pay for content (Kaye & Quinn, 2010, p. 113-114).

It is in this environment of fast changes that getAbstract, a book summary producer and distributor, was founded in 1999. Targeted at large companies as well as individuals, getAbstract offers subscriptions for access to their vast and regularly updated library of book summaries. Customers have the option between a standard (“silver”) and a premium (“gold”) subscription. The subscription period reaches from six to twelve months.

As a company that provides book summaries, getAbstract is in a special position of having to rely on consent from publishers (due to their copyright). Since being featured on getAbstract can be a considerable promotion for a book, publishers generally do not deny consent. However, due to this special position, getAbstract is restricted in the manner it is allowed to sell their abstracts. For example, it is currently not possible for getAbstract to sell individual abstracts to customers.

¹ Varian (1998) defines information as “anything that can be digitized” (p. 3). An information good is therefore information as an “object of economic transactions” (Varian, 1998, p. 3). It is thus opposed to physical goods and services (Chang & Yuan, 2007b, p. 294).
**Problem Statement**

What distinguishes information goods from most physical goods is their high fixed costs and very low marginal costs of production. “Digital materials typically have the property that it is very costly to produce the first copy and very cheap to produce subsequent copies” (Varian, 1995, p. 1). The main challenge for content producers is thus to recover the high fixed costs of production with revenue generated from the produced content.

There is a plethora of different approaches how to achieve this goal. While some producers give out their content for free and in return sell access to their customers to third parties such as advertisers, others rent or sell their content individually, while still others offer packages, access to entire content libraries or subscription plans on a monthly or yearly basis.

These different approaches all have their distinct rationale and underlying strategies. For instance, for the approach of offering content for free, Bryce, Dyer & Hatch (2011) identify four basic strategies: up-selling (including the “freemium” model), cross-selling, selling access to customers (advertisement) and bundling free goods with paid goods.

For paid-for content, a major objective is to achieve price discrimination. Since every content producer is in a legal monopoly thanks to their copyright, the producer is partly protected from competition and can thus set prices higher than marginal costs (which in the case of information goods are close to zero) and differential pricing methods can be applied (Chang & Yuan, 2007b, p. 297). Two notable strategies to achieve differential pricing are “bundling” (see Varian, 1997) and “versioning” (see Bakos & Brynjolfsson, 1999).

All of these strategies have their distinct advantages and disadvantages and to choose the right model is often essential to the success of a business. It is therefore a matter of business strategy to make sure that the right subscription model is offered.

As getAbstract is not considering advertisement-based business models, such models will not be discussed in this proposed thesis. Instead, the focus will be set on paid content subscription models. Also, in accordance with getAbstract’s distribution model, the proposed thesis will focus mainly on the internet as a sales channel.

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2 “Subscription” is defined by the New Oxford American Dictionary (Mac OS X Dictionary software edition) as “the action of making or agreeing to make an advance payment in order to receive or participate in something”
Research Objectives and Purpose

Newman, Ridenour, Newman, & DeMarco (2003, pp. 178-179) offer a non-exhaustive list of possible research purposes. The two main purposes of this proposed thesis are the purpose of adding to the knowledge base (p. 178) and the purpose of understanding complex phenomena (p. 179). In particular, the three objectives of this the proposed thesis are as follows:

The first objective is to compare the most relevant existing content subscription models and, in particular, outline their advantages and disadvantages under different market circumstances. The goal is to find an explanation for these models’ past success or failure in both offline and online markets.

The second objective is to identify and evaluate current trends in this field. The evolution of the models themselves as well as the evolution of the market conditions will be examined.

The final objective of the proposed thesis is to derive recommendations for getAbstract from the preceding analysis.

Research Questions

The research questions for the proposed master thesis are thus derived from the above-mentioned objectives as follows:

• What are the models that exist in order to sell information goods offline and online?
• What are the advantages and disadvantages of these models and under what circumstances are they successful or not successful?
• What are current trends regarding subscription models and the content market?
• Considering the results of the preceding analysis, which content subscription models are most appropriate for getAbstract?

3 "Without having one’s purpose (or purposes) clarified, and without time to reflect on that purpose, one cannot have a question that will directly dictate the research methodology." (Newman, Ridenour, Newman, & DeMarco, 2003, p. 168)
Research Design

Since the purpose of this proposed thesis is to examine the topic of content subscription models in a holistic manner, and with different approaches, the methodological framework of the case study was chosen. As mentioned already, the main purpose of the proposed thesis is to add to the knowledge base and understand complex phenomena. According to Yin (2003, p. 2), this is exactly the desire out of which the distinctive need for case studies arises. The method of the case study allows for sources of very different types to be considered (Yin, 2003, p. 86) and evaluated in an iterative process (Eisenhardt, 1989, p. 541).

The proposed case study design is a holistic multiple-case study, thus a type 3 case study in Yin’s classification (2003, p. 39, 40): content subscription models from different content providers will serve as units of analysis.

The research strategy is qualitative (see Bryman & Bell, 2007, p. 28) and mainly explorative. However, the objective of the proposed thesis extends beyond a mere explorative research: Its aims also contain descriptive and explanatory elements. Yin (2003, p. 3) explicitly expresses the suitability of the case study for all three research approaches.

Unlike commonly assumed, a case study does not necessarily lack rigour (Yin, 2003, p. 10). For instance, Eisenhardt (1989, p. 533) structures the process of building theory from case study research in eight steps:

1. Getting Started
2. Selecting Cases
3. Crafting Instruments and Protocols
4. Entering the Field
5. Analyzing Data
6. Shaping Hypotheses
7. Enfolding Literature
8. Reaching Closure

The research design of the proposed thesis will be based on these eight steps:

Getting Started

As a first step – after having received the feedback to this research proposal – will be to finalize the research questions and if necessary apply changes to the research design.

Although Eisenhardt (1989, p. 533) advises against creating hypothesis and theory at this point of the process, in this research project, a literature review will be done at this early stage already. Yin (2003, pp. 14, 28) argues that a case study profits from prior theoretical prepositions to guide collection and analysis. Having
an understanding of the existing subscription models will facilitate selecting the cases.

**Selecting Cases**

In order to be able to identify a broad range of different subscription models, a list of as many possible case subjects and their respective subscription models will be compiled.

The main goal of this second step is then to select a small number of cases to be closely examined. A number of three to five cases is targeted. In accordance with the case study method, the cases will not be selected according to a sampling but to a replication logic (Yin, 2003, p. 47). This entails that the cases will not be picked at random but chosen carefully for their specific characteristics. Since only relatively few cases can be examined during this research project, theoretical replication (choosing cases with opposing characteristics) will be favoured over literal replication (choosing cases with similar characteristics).

**Crafting Instruments and Protocols**

Once the cases are selected, the instruments for the field research can be crafted. Multiple data collection methods will be used as is advised by Eisenhardt (1989, p. 537) and Yin (2003, p. 85). The instruments to be used depend largely on the cases selected in the previous step. For cases interviews are possible, this step includes preparing interview question catalogues; for cases other cases, this step includes observation protocols.

In this step already, the three principles of data collection of Yin (2003) will be taken into consideration: using multiple sources (p. 97), creating a case study database (p. 101) and maintaining a chain of evidence (p. 105).

**Entering the Field**

As suggested by Eisenhardt (1989, p. 533), data collection and analysis will be conducted in parallel and in an iterative fashion in order to save time and adjust data collection to emerging patterns.

As mentioned in the previous step, data should be gathered from a broad variety of different sources. Yin’s (2003, p.86) six sources of evidence will be used as guidelines.

**Analyzing data**

Since the topic of online subscription models touches upon different branches within economics and business studies, it seems reasonable to analyse this topic from the viewpoints of different branches. The same questions will be examined with methods from branches such as behavioural economics, game theory, mar-
Marketing and microeconomics. These different methods will be applied to achieve a holistic view of the different models and their consequences for businesses (within-case analysis and cross-case pattern search). A particular focus will be set on the comparison between successful models and failed models (cross-case pattern search).

It is important to note that the analysis is conducted in order to achieve an analytical generalization, not a statistical generalization (Yin, 2003, p. 32). The results of the analysis are therefore not as easily testable as quantitative data, but offer more depth. Yin (2003) responds to the lack of unambiguous criteria for interpreting findings as follows: “One hopes that the different patterns are sufficiently contrasting [...]” (p. 27).

**Shaping Hypotheses**

Shaping hypotheses is a highly iterative process (Eisenhardt, 1989, p. 541). As mentioned above, the underlying logic of a case study is replication. Hypotheses emerge as the data is analyzed and they are subsequently tested with the different cases: “If two or more cases are shown to support the same theory, replication may be claimed” (Yin, 2003, p. 32-33). In order to establish internal validity, it is crucial to set the focus on understanding the dynamics underlying the relationships (Eisenhardt, 1989, p. 542).

**Enfolding Literature**

An important step before the conclusion is to compare the results from the empirical case study data with the existing literatures. The results from the initial literature review will be revisited and supporting as well as conflicting literature will be taken into account.

**Reaching Closure**

After taking into account all the empirical data and literature, conclusions can be drawn and the research questions can be answered. In particular, considering the results of the study, recommendations for getAbstract will be made.
## Research Proposal

**Content Subscription Models: Selling Information Goods over the Internet**

### Research Schedule

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<tr>
<th>Month</th>
<th>March 12</th>
<th>March 19</th>
<th>March 26</th>
<th>April 2</th>
<th>April 9</th>
<th>April 16</th>
<th>April 23</th>
<th>April 30</th>
<th>May 7</th>
<th>May 14</th>
<th>May 21</th>
<th>May 28</th>
<th>June 4</th>
<th>June 11</th>
<th>June 18</th>
<th>June 25</th>
<th>July 2</th>
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1. **Getting Started**
   - Feedback meeting research proposal
   - Finalize research design
   - Prepare, sign research contract
   - Literature review

2. **Selecting Cases**
   - Research cases to be examined (exploratory)
   - Select cases to be examined

3. **Crafting Instruments and Protocols**
   - Write interview question catalogues
   - Observation protocols

4. **Entering the Field**
   - Data collection (interviews, observation, etc.)

5. **Analyzing Data**
   - Data analysis

6. **Shaping Hypotheses**
   - Shape hypotheses and compare with data
   - Formulate conclusions from data

7. **Enfolding Literature**
   - Compare results to literature review

8. **Reaching Closure**
   - Derive recommendations for getAbstract
   - Editing the final report

**Grading Criteria**

- Master Thesis 80%
- Presentation 20%
- China Study Trip 10%

**Schedule**

- March 12: Feedback meeting research proposal
- March 19: Finalize research design
- March 26: Prepare, sign research contract
- April 2: Literature review
- April 9: Research cases to be examined (exploratory)
- April 16: Select cases to be examined
- April 23: Write interview question catalogues
- April 30: Observation protocols
- May 7: Data collection (interviews, observation, etc.)
- May 14: Data analysis
- May 21: Shape hypotheses and compare with data
- May 28: Formulate conclusions from data
- June 4: Compare results to literature review
- June 11: Derive recommendations for getAbstract
- June 18: Editing the final report
- July 2: China Study Trip
Draft Table of Contents

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2 Literature Review
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      2.2.1 Versioning
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   2.3 Current Trends
      2.3.1 New Devices
      2.3.2 Internet Centralisation
      2.3.3 Towards Market Saturation

4 Case Studies of Success and Failure
   4.1 Findings from Case A
   4.2 Findings from Case B
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5 A Content Subscription Model for getAbstract
   5.1 Special Characteristics of getAbstract’s Business
      5.1.1 First-mover advantage, large existing library
      5.1.2 Niche market
   5.2 Current and Past Models in Use at getAbstract
   5.3 Recommendations for getAbstract

6 Discussion
Bibliography

This bibliography is structured into three sections: the first section lists papers and books regarding research methodology. The second section lists books (and e-books) and the third section lists scientific papers regarding content subscription models, information good pricing and other topics related to the matter of the proposed thesis.

Methodology


Books and e-books


Scientific articles and papers


