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FINDING THE RIGHT REVENUE LOGIC FOR DIGITAL PLATFORM

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1 INTRODUCTION

The purpose of this bachelor’s thesis is to get acquainted with how B2B companies should establish their revenue logic and what factors should be highlighted when offering the digital platform to customers. The research in platform-based solutions has increased, especially in the B2C perspective, but less in B2B markets. The platform economy is continuously growing, and over the last few years, companies that have utilized platform-based solutions have quickly risen to the top companies in the world (Kenney & Zysman, 2016). Cusumano (2010) stated that the traditional competition is changing towards competition between platforms. Digital platforms radically change in how we work, socialize, create value in the economy, and compete for the resulting profits (Kenney & Zysman, 2016). Nevertheless, B2B companies have to plan their revenue logic for their digital platform due to it provides an essential answer to the central question that every company needs to be aware of: how we produce value for our shareholders and stakeholders (Gassmann, Frankenberger & Csik, 2015). Setting revenue logic in the B2B market is challenging as many factors to influence the price, such as the tightness of customer relationships, environmental factors, and economic factors.

The enhanced competitive environment has increased pricing competition between companies, and customers in their procurement process will find it easier to cut down on alternative service providers with just the wrong pricing. Rationally, customers prefer to opt for the most cost-effective solution if alternative solutions from other service providers have identical features. However, finding the revenue logic that maximizes the benefits for both parties is challenging (Daskalakis, Deckelbaum & Thzamos, 2012). It is difficult for companies to find out what kind of pricing strategies competing companies have offered to their customers. Gawer and Cusumano (2014) approached the subject through the organization strategy that companies first should create a clear vision of their platform solution.

This bachelor’s thesis has been done in cooperation with Valmet Technologies Inc., where we have brought the revenue logic of digital platforms in the B2B market to the point of view as concretely as possible. This bachelor thesis aims to find out what kind
of revenue logic should be used and what are the most important factors to enable the creation of added value for both the client and the company itself.

1.1 Research question

The research question for this thesis is:

How to find the right revenue logic for a digital platform?

To get a reliable and broad answer for the research question, the question is first examined from the perspective of different areas, as several factors influence the success of the digital platform. The case study shows how the case company, Valmet Technologies Inc., built its strategic revenue logic. The case study aims to clarify to readers what features should be considered when planning revenue logic.

1.2 Research constraints

The purpose of this thesis is to find out how companies can find the right revenue logic for a digital platform in the B2B market, but in some cases, comparing them to the consumer market. The reason for the constraint of B2B markets is the impulsive behavior of the consumer market and its broad offering of digital platforms. Also, in the consumer market, platforms are generally more open to the audience.

The third constraint for the bachelor thesis is that digital collaboration tool concept will be used in the case study part. The digital collaboration tool has the same meaning as the digital platform. The reason for the constraint is that the case study company has its terminology, and the digital platform has a different meaning inside the company.

1.3 Definition of key concepts

To improve the comprehensibility of research in this chapter, the key concepts often found in the study are briefly presented. These key concepts include revenue logic, revenue model, digital platform, two-sided market, and direct and indirect network
effects. In chapter two, these fundamental concepts are explained in detail to the reader.

Revenue logic: The revenue logic answers the question about different ways and possibilities of the company generate profit with a commodity (Hammarberg, 2014).

Revenue model: The revenue model is an operational description of how the revenue is collected from customers or partners.

Digital platform: Seppälä et al. (2015) state the digital platform as following: “Digital platform means IT systems that add value to different actors – users, providers, and other shareholders across organizational boundaries. For platforms, it is typical that different players create, provide, and maintain complementary products and services for different distribution channels and markets within the framework of common rules and user experiences. The typical feature of the platform is to bind and attract different players to the platform with the economic benefits of their networking effects.”

Two-sided market: A two-sided market, also known as a two-sided network, is an economic platform usually with two different groups, the producers and the consumers, that provide each other with network benefits (Armstrong and Wright, 2007; Nocke et al., 2007).

Direct and indirect network effects: When a new network user influences the value of a product or service to existing users of a product or service, it is called a direct network effect. As the market grows and as the supply of complementary products increases, it is referred to as indirect network effect. (Seppälä et al., 2005.)

1.4 Structure of the research

This bachelor’s thesis is a five-part literature review, the first of which leads the reader to the topic of the research. The second chapter, “Theoretical framework,” where the literature review first discusses revenue logic and business model as separate concepts to give readers a clear picture of their definitions. Once these concepts are found, it is easier for the reader to understand how revenue logic is related to the business model
and the company’s operations. The end of the second chapter focuses on the digital platform concept and its strategy: what is the definition of a digital platform, what it contains, and how companies should build their platform strategy.

The third chapter of the literature view is a method chapter that gives the reader an idea of how the research has been carried out. The fourth chapter focuses on opening research questions through the case study method. The chapter begins by opening the case study company’s background and its digital collaboration tool’s content. After that, this chapter gives the reader information about how the companies should set their revenue logic to a digital platform in B2B markets.

The last chapter, the fifth chapter of the study, summarizes the literature view with the help of conclusions. This chapter contains two sub-conclusions: theoretical conclusion and business conclusion. The fifth chapter summarizes the most relevant aspects of the bachelor thesis that the reader should perceive in order to understand the whole study.
2 THEORETICAL FRAMEWORK

This chapter focuses on economic theories of revenue logic, business model, digital platform, two-sided market, network effects, and digital platform strategy. Also, this chapter takes note of pricing the platform.

2.1 Revenue logic

The use of revenue logic as a term has become more common in the last two decades. There are many views and definitions for revenue logic in literature, depending partly on the approach. Although there are several views of revenue logic, there are plenty of common features. In general, the revenue logic is combined with a vision, which is the part of the business model that contains a strategic description of revenue sources and how the business generates profits (Sainio & Marjakoski, 2009). The revenue logic answers the question about different ways and possibilities of the company generate profit with a commodity (Hammarberg, 2014).

In practice, revenue logic is a description of a company’s revenue sources, business revenue, costs, and pricing (Nieminen, 2009). Besides, the revenue logic aims to identify and understand products and services as well as their selling methods (Afuah, 2004). To get a better understanding of revenue logic as a term, we go through the concept of a business model because the revenue logic is one of its subdivisions.

2.2 Business model

Regarding the academic research perspective, the concept of a business model is relatively new due to the literature has not found a common definition. Zott et al. (2011, p. 1) stated that “business model scholars do not agree on what a business model is, and the literature is developing largely in silos, according to the phenomena of interest of the respective researches.” Also, the information society is changing the traditional view of the business model. The business model plays an important role when companies are planning their revenue logic due to revenue logic is an only subdivision, but the business model clarifies the whole core concept of the company’s operations and strategy.
According to Magretta (2002, p. 4-5), a business model is a story that tells how the company works. A business model explains who generates value and how to make a profit out of it. Like stories, business models can be rewritten, though they are always based on something previously written while Rajala et al. (2001, p.37) describe the business model as an action plan which is derived from the strategy and aimed at achieving the company’s strategic goals with its product and service offering in a particular market. Bocken, Short, Rana, and Evans (2014) focuses on their research defining the business model in a way which the company deals with value creation and value achieving. Achieving or acquiring value is the way a company gets to profit from its business. Similar to Bocken et al. definition, Gassman, Frankenberger & Csik (2015) have developed a business model framework that consists of four central dimensions: the Who, the What, the How, and the Value (Figure 1).

![Figure 1. The magic triangle of business models (Gassmann, Frankenberger & Csik, 2015)](image)

These dimensions, as shown in Figure 1, are all connected, forming a business model for the company. At the heart of the business model lies the recombination and creative imitation of 55 business model patterns – a powerful tool to break out of the box (Gassmann, Frankenberger & Csik, 2015). The choice of the business model determines how much the company will earn; a poor choice can lead to low profits, a good choice to superior profits (Baden-Fuller & Haefliger, 2013).
2.3 Revenue logic as a part of the company’s operations

The significance of revenue logic has increased in business planning (Rajala et al., 2001). It provides an essential answer to the central question that every company needs to be aware of: how we produce value for our shareholders and stakeholders (Gassmann, Frankenberger & Csik, 2015). One of the several models which describe the revenue model in the company is Sainio’s & Marjakoski’s model (Figure 2). Sainio’s and Marjakoski’s model presents revenue logic’s connection to a business model, revenue model, and business strategy (Sainio & Marjakoski, 2009).

Figure 2. The conceptual framework of the study (Sainio & Marjakoski, 2009).

According to Sainio & Marjakoski (2009), the revenue logic does have a strategic matter in the company’s operations, and it contains a description of how the business generates profit. The revenue model is an operational description of how the revenue is collected from customers or partners. The revenue model can be considered as a synonym for a pricing strategy that is responsible for the implementation of the revenue logic with the strategy chosen in practice. Pricing decisions have a direct impact on revenue, and, as a result, they play a crucial role in the company’s strategic
planning (Kapur, Pham, Kumar & Anand, 2012). Business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish the business goals and to secure a competitive position in the market.

Rajala et al. (2007) studied revenue logic in mobile game manufacturers and brought up that the strategic channel choice affects revenue logic options. They acknowledged the central role of mobile operators as distributors affecting the revenue logic through their negotiation power. Therefore, the strategy does play an important role in defining the company’s revenue logic and its formation. Determining revenue logic is primarily a matter of assigning value to the customer because the customer pays the value of the product. The price paid by the customer is the starting point for the amount of profit. According to Osterwalder and Pigneur (2010), there are several ways for a company to generate revenue: Fixed, subscription-based, licensing fees, and the choice of price mechanism can have a significant impact on the revenue logic. For implementing a successful revenue logic, the company should also pay attention to costs. Johnson et al. (2008) mention that it is recommended to divide costs into direct and indirect costs due to those that affect directly to revenue logic.

### 2.4 Digital platform

Digital platforms’ have become more relevant to economic growth since many corporations are now offering platform solutions. Cusumano (2010) has stated that business is moving to competition between platforms. According to Kenney and Zysman (2015), the platform can be defined for seven categories based on their model and purposes.

1. Platforms for platforms
2. Platforms that make digital tools available online and support the creation of other platforms and market places
3. Platforms mediating work
4. Retail platforms
5. Service-providing platforms
6. Platforms that act as financial intermediaries
7. Platforms that support social and political organizations
Seppälä et al. (2015) state the digital platform as following: “Digital platform means IT systems that add value to different actors – users, providers, and other shareholders across organizational boundaries. For platforms, it is typical that different players create, provide, and maintain complementary products and services for different distribution channels and markets within the framework of common rules and user experiences. The typical feature of the platform is to bind and attract different players to the platform with the economic benefits of their networking effects.”

2.4.1 Two-sided market

A two-sided market, also known as a two-sided network, is an economic platform usually with two different groups, the producers and the consumers, that provide each other with network benefits (Armstrong and Wright, 2007; Nocke et al., 2007). The two-sided market also includes involving actors in action through successful pricing (Rochet & Tirole, 2006). It is a meeting place for two or more sets of agents who communicates through an intermediary or a platform (Jullien, 2005; Evans & Schmalensee, 2008). The term “market” in a two-sided market refers to goods (or services) that provide a physical or virtual platform in which mutually different user groups interact with each other (Evans et al., 2006).

Armstrong & Wright (2007: 353-354) mentions that the third agent, a two-sided platform, connects the two groups of the market, creating a two-sided network on the market. The two-sided platform interacts with both groups of the network and allows direct interaction between groups through the services it produces, while also internalizing the network effects of interchange between groups. According to Hagiu & Wright (2011), direct interaction is a prerequisite for defining the market as a two-sided market.

The focus in the two-sided market is the platform that facilitates direct interaction between producers and customers while trying to generate profits or at least cover their costs and creating value for both parties. For example, in the housing market, Airbnb is a platform that has to attract rent-seekers to get landlords to give its apartment in the use of rent-seekers. The parties’ decisions affect the outcome of the second party, typically through the externality (Rysman, 2009). In general, a platform operating a
two-sided market can be assumed to arise in a situation with externalities and where transaction costs prevent the internalization of this external impact directly between the parties. The platform provides technology to solve the external impact in a way that minimizes transaction costs. (Evans & Schmalensee, 2007.) Therefore, the positive externality causes the value of the platform for the agent raise by the broadest possible participation of the other group on the platform, as it provides the agent with a more versatile supply of exchange-generating exchange opportunities (Caillaud & Jullie, 2003:310).

Figure 3. Two-sided platform on the left and the traditional linear model on the right. (Hagiu, 2007).

As seen in Figure 3, any transaction causes an affiliation to the platform, and because the participation of another group increases the demand of another group, the agents can be seen as inputs in the platforms’ production for another group of the platform (Eisenmann et al., 2006; Rysman, 2009).

2.4.2 Direct and indirect network effects

The network effect in economics means a situation where the benefit to a person of using a platform depends on the number of others using the same platform. In the case of a positive effect, each new consumer will increase the benefit to the already existing consumers and the overall value of the platform. A classic example of networking
effects is a phone which usefulness largely depends on how many people you can call with it. (Seppälä et al., 2005.) As seen in Figure 4, a new network user influences the value of a product or service to existing users of a product or service, and it is called a direct network effect. As the market grows, and as the supply of complementary products increases, it is referred to as an indirect network effect.

Figure 4. Platform network effects.

An increase in the number of people using the same product causes direct network effects, such as a modern online service. Typical examples of direct network effects are online services, which trigger feedback loops and exponential growth. A, for example, the more people who use WhatsApp, the more valuable the smartphone is to each owner since people do want to be involved in the social groups. (Katz & Shapiro, 1985.) Kats and Shapiro stated that indirect network effects, on the other hand, involve instances that lack direct network effect; for example, the software is more plentiful and lower in price as the number of computer users increases.

According to Shapiro & Varian (1998), network effects are typically positive, whereby the value of the service or product to other users increases when additional users join the network. However, when it comes to the indirect network effect, negative network effects can occur. Liebowitz and Margolis (1994: 138) mentioned about negative indirect network effect as: “if a group of breakfast-eaters joins the network of orange juice drinkers, their increased demand raises the price of orange juice concentrate, and thus most commonly effects a transfer of wealth from their fellow network members.
to the network of orange growers”. In its simplicity, a negative network effect creates negative feedback.

Positive and negative indirect network effects are comparable, but positive is a bit more complex (Liebowitz & Margolis, 1994). An increase in usage of one product or network leads to an increase in the value of a complementary product or network on the side of the network, which can, in turn, increase the value of the original. As, for example, a computer buyer is interested in other buyer’s decisions to buy the same computer because the number of applications to the computer is a growing function of the number of buyers (Katz & Shapiro, 1985: 424). Katz & Shapiro (1985) also point out that the benefits of an agent’s network are subject to uncertainty before joining the network, as agents may not know the exact size or quality of the network. It leads consumers and producers to decide to join the platform based on their expectations.

2.5 Digital platform strategy

In many cases, the existing organization of economic activity has been disrupted by digital platforms by resetting entry barriers, changing the logic of value creation and capture, repackaging work, and often repositioning power in the economic and network system (Kenney & Zysman, 2015). Long-term competitiveness with all kinds of industrial companies depends on the success of product or service development. Cusumano (2010) stated that business has moved to competition between platforms. Changing towards a platform solution, it should be noted that business processes have to change also, whether top management commitment is often considered to be the most important – it must initiate and support changes (Ranganathan & Dhaliwal, 2001).

To start a successful platform business, the company should create a vision, how the technology or service can become a vital part of a broader business ecosystem. It is necessary to identify companies that can provide complementary products to the platform. They need to build an open or modular architecture to facilitate third-party innovation, and carefully manage ecosystem relationships that are mutual benefits for each party. It is essential to share the vision and rally complementors into co-creating an ecosystem together. (Gawer & Cusumano, 2014.) According to Rysman (2009), in
the platform business, it may be easier to start by serving only one party, and once the company has gained a foothold in the market, turning a strategy into two-sided can be more manageable. Success-oriented platform companies in areas such as programming, payment systems, portals, and media, and the internet must get both sides of the market to their platform (Rochet & Tirole, 2006).

Still, et al. (2017) have figured out the eight basic elements that they have visualized in canvas mode, utilizing Sorr 2016 and Korhonen et al. 2017 to take critical perspectives into account. The eight elements are as shown in figure 3: Users, Value, Producers, Network effects, Revenue logic, Management practices, Supporting and filtering collaboration, and Ensuring collaboration. Business opportunities arise not only from providing complimentary services but also from refining and combining the information generated through interaction in a new way. Also, enabling users to interact and even create a sense of community creates added value on platforms. (Still et al., 2017.)

Figure 5. Platform Economy Canvas (Still et al., 2017).

In platforms, value creation is based on the interaction of actors in the ecosystem’s platform and the creation of innovations, utilizing the platform’s “new” market. In the traditional value creation chain, the company tries to sell the created value to the customer. In the two-sided platform, the purpose is to enable value creation between
the various actors in the platform and charge some or all parties involved in the participation or value of the platform, such as shared turnover. (Still et al., 2017.)

2.5.1 Pricing the Platform

In traditional competition, prices are determined mainly by the marginal cost of producing an extra unit, and in industries with high barriers to entry, the margins are more liable to be portly. In two-sided networks, the platform providers have to set a price for each side, factoring in the impact on the other side’s willingness to pay. (Eisenmann et al., 2006.) According to Rysman (2009), prices below marginal cost or even negative prices should be considered in a two-sided market. A platform might charge a price below cost on one side if those agents have a significant price elasticity, and their participation attracts a larger number of participants on the other side who are relatively priced inelastic (Rysman, 2009).

In the two-sided networks have a “subsidy side,” that is, a group of users who, when attracted in volume, are highly valued by the “money side,” the other user group. The goal is to generate “cross-side” network effects: If the platform provider can attract enough subsidy-side users, money-side users will pay handsomely to reach them. Platform provider’s challenge with pricing power on both sides is to determine the degree to which one group should be encouraged to swell through subsidization and how much of a premium the other side will pay for the privilege of gaining access to it. (Eisenmann et al., 2006.)

Setting a price for the platform, the attention is mostly on network effects. Eisenmann et al. (2006) state that to make the right decisions about pricing correctly, platform providers have to look at the following factors:

1. Ability to capture cross-side network effects
   Platform provider have to make sure that the participants is not able to assist one side to trade with a competing platform provider “money side”, or otherwise the giveaway will be wasted.

2. User sensitivity to price
Platform provider has to subsidize the network’s more price-sensitive side and to charge the side that increases its demand more strongly in response to the other side’s growth. For example, everyone can read PDF files with Adobe Acrobat, but the writers have to pay for it.

3. **User sensitivity to quality**
   Rather than charge the side that strongly demands quality, you charge the side that must supply quality. For example, in video games, the console makers work as a platform and their customers, players, demand high quality. That is why the platform provider demands high quality from game developers.

4. **Output costs**
   When each new subsidy-side user costs the platform provider essentially nothing, pricing decisions are more straightforward. This will be the case when the giveaway takes the form of a digital good such as a software program. However, platform providers must be careful, when a giveaway product has appreciable unit costs because it can quickly rack up large losses.

5. **Same-side network effects**
   Sometimes it is recommended to deliberately exclude some users from the network. Platform provider must be able to assess the possibility of a negative effect on the same side of the network, which it occurs can be very strong. In many markets, sellers are pleased with the less competition they have. This can also happen on the buyer side when the products are scarce. Buyer do not want to compete with the other buyers.

6. **User’s brand value**
   All users of two-sided networks are not created equal. The participation of “marquee users” can be important for attracting participants to the other side of the network. Marquee users may be big buyers, like the government.

According to Eisenmann et al. (2006), if certain users have a particular need, then focusing on a niche can lead the platform to specialize in serving those needs. It is reasonable to support the user group that is more sensitive to price and to charge more from the side whose demand is growing. However, if the company has a monopoly position, then the pricing does not matter. The following chapter describes the most used revenue models in digital platform solutions.
In digital platform solutions, there are available many revenue models that can be implemented. When implementing a revenue model, the maximized value creation for all parties should be noted.

Freemium has been considered to be one of the most significant business models in the market where the Internet plays a vital role (Marín de la Iglesia, Labra Gayo & Anderson, 2009).

Freemium pricing is based on that a product, such as a mobile game, is offered for free, but gaming is limited to a specific time limit or a certain amount of in-game functionality. By paying a fee, players can access the entire game without any restrictions (Marchand & Hennig-Thurau 2013). It is common that the platform provider first tries to increase its user base, and then start generating revenue from the users.

In the subscription model, the customer pays a subscription fee to use the service for a certain limited time. (Ojala, 2012). It is not uncommon for sites to combine free content with “premium” (i.e., subscriber-only or member-only) content. Subscription fees are incurred regardless of actual usage rates. Subscription and advertising models are frequently combined. (Rappa, 2004.)

Pay-per-use means that the customer charges the software to the measured usage; for example, how much software is used. Thus, there is a unit with a fixed price, and the customer is charged periodically. The measurement unit can be based on how long the software is running, how many times the key subprogram is called, the number of processed events, or a combination of these. For software vendors, the pay-per-use model makes it possible to diversify their customer base. In other words, the software can be available to smaller customers who may not have sufficient financial resources to buy a traditional software license. (Ojala, 2012.)
3 ACQUISITION OF EMPIRICAL MATERIAL

In this bachelor thesis, qualitative research is used as a research method because, as the aim of the research is to illustrate how revenue logic formation has been seen within a case company. The aim is to study the subject as comprehensively as possible. For qualitative research, it is common that the cases will be handled uniquely, and the material is also interpreted accordingly. Besides, favoring a person as an instrument for collecting information is also common. Qualitative researchers rely more on his/her observations and conversations with his/her subject than on the information acquired from the literature. (Hirsjärvi et al., 2009.)

In qualitative research, the human world and the social world are at stake. The goal is to reach people’s descriptions and experiences of reality. Interview as a data collection method is a good way to get data from people’s experiences. Characteristics of qualitative research, the study aims at a comprehensive understanding and generalization of the results obtained. As the research plans are changed according to the circumstances, and the research is carried out flexibly, the research plan can also take a new form during qualitative research. (Hirsjärvi et al., 2009.)

A case study is used as a research strategy for data acquisition. Case study means a research method that aims to explore only one or a few subjects in-depth such as organization (Saarela-Kinnunen & Eskola, 2015). The characteristic of the case study is that detailed information is provided on the individual case. One of the main methods of qualitative research is an interview. The interview is a hypothetical, knowledge-based research interview, so the interviewer does not have any expectations about the results of the interview. A semi-structured interview was used as an interview method. In a semi-structured interview, the interview is based on pre-planned questions that the respondent can answer in his own words (Hirsjärvi et al., 2009).

The acquisition of empirical material is based on interviews with key employees of three companies. (Appendix 2) The research process started by contacting the key employees interviewed in the study from three different companies, Valmet Technologies Inc., Deloitte, and Roger Studio Inc. The chosen companies represent
different industries, and the target customer groups are different. The interviewees were selected on the basis that they both have unique expertise in their field, so they complement each other.

Valmet Technologies Inc. was chosen as a case company because it has recently launched a new digital collaboration tool, Valmet Customer Portal, which significantly improves customer experience by combining all Valmet’s modern online services. Valmet is the leading developer and supplier of technologies, automation, and services for the pulp, paper and energy industries. Valmet’s net sales in 2018 were approximately EUR 3.3 billion, and it employed about 12 000 professionals around the world. Pekka Moisio, Vice President of Process Management, is the first informant in the research. Pekka has worked at Valmet for 22 years, mainly focusing on sales management.

Another company interviewed in the research, Roger Studio Inc., is building unique customer experiences for global companies by using the best parts of design and technology to transform the ways companies serve their customers. From the outset, Roger Studio has been service designing Valmet Customer Portal, so they have extensive expertise in how the features work, and what value it generates for the customers. Milla Sumelius, Chief Design Officer, and Tia Sistonen, Senior Service Designer, were the second informants in the research.

The third informant, Tuuli Kirkkomäki, has a broad experience in management consulting. Tuuli’s management consulting career started at Arthur Andersen, where she worked for four years. The latest company she has been working with is Deloitte, mainly focusing on management consulting, and earlier responsible for marketing and sales development.

The interviews were held in June and July in 2019 at the business premises. The total number of interviewees was four, and it took about an hour for one interview, and the transcribed text was nine pages long. The material can be considered reliable as it is collected directly from the people who have significant experience in creating customer value and the concept of revenue models.
4 RESEARCH RESULTS

This chapter first introduces the case company Valmet Technologies Inc, and its new digital collaboration tool, Valmet Customer Portal’s content. After the introduction, the results of the interview are reviewed based on a ready-made interview template. (Appendix 1) The interview template has a total of eight questions related to revenue logic and its elements that make the revenue logic to be successful. In the last chapter, the future development of Valmet Customer Portal’s prospects will be described.

4.1 Case company

Valmet’s roots go back to the 1750s, and today Valmet has 220 years of industrial experience. Valmet shares were listed on the Nasdaq Helsinki in 2014 after the first trading day at EUR 6.65, after which it has grown steadily to reach its peak at EUR 25.14. Valmet is a leading global developer and supplier of technologies, automation, and service for the pulp, paper and energy industries. Valmet’s net sales in 2016 were approximately EUR 2.9 billion and in 2018 approximately EUR 3.3 billion. In 2016, Valmet employed a total of 12012 professionals, and in 2018 it grew to 12528.

4.1.1 Digital collaboration tool’s content

Valmet Customer Portal is a collaboration space that brings Valmet’s expertise and online services into one platform to make working together with customers more accessible than ever before. In Valmet Customer Portal, customers and Valmet’s experts can collaborate, share information, and innovate together in real-time. Valmet Customer Portal is bringing a new dimension to Valmet’s collaboration with customers and making the services experience even better. The Customer Portal provides a reliable space for making joint development plans and innovating together.

The Customer Portal is continuously being developed further with new services and features that are based on customer feedback. In the first phase, the following five online services are available in the portal.
Expert Community helps customers to find the right answer easily to their issue. Customers can see who is part of their Valmet team. They can chat, start a group discussion, search for a solution, or contact Valmet Performance Center. (Valmet, 2019.)

In Opportunities, customers see the status of their development plan called Shared Roadmap with defined actions. Results of the actions can be followed up, and learnings and related new ideas can be shared between Valmet and customer teams as well as inside the customer’s company. (Valmet, 2019.)

Through Learning, customers can build their teams’ capabilities and competences. They can see their selected courses, follow the progress of their teams’ training program, as well as search for courses, and sign up. (Valmet, 2019.)

The Operations Panel is a customers’ view of Valmet Industrial Internet applications and services. Through dashboard views, customers can quickly get the right information to follow up on their operations KPIs and the progress of their business targets. (Valmet, 2019.)

Through eStore, the e-commerce platform, you can search, verify, and purchase needed spare and wear parts fast and easy by using parts lists and illustrations. Using it results in lower spare part inventory need and repair cost. It also provides quick access to technical documentation.” (Valmet, 2019.)

4.2 Revenue logic

The revenue logic research questions related to the informant’s view of how revenue logic should be established. The first question focused on the revenue logic’s content of what factors should be noted when planning its digital collaboration tool’s revenue logic. Every informant had a slightly different approach to the subject. However, some perspectives had similar answers to other informants. It can be said that the results of the report and the informant’s view on revenue logic and its elements are met mainly.
From the perspective of revenue logic, informants shared a standard view of what should be noted when planning the revenue logic. For example, Pekka’s answer to the first interview question (Appendix 1) highlighted the customer perspective of using the Valmet Customer Portal.

“The customer value should be the key thing when thinking of revenue logic. In the case of Valmet Customer Portal, the content has to be high-quality. Customer Portal should contain easy-to-use and good services that the customer’s colleagues are willing to use too. It is important to provide so valuable content so valuable that it makes the user’s addicted.”

Milla and Tia approached from the same perspective, highlighting the importance of the customer’s thoughts. However, the importance of internal user’s thoughts was mentioned too.

"Does it require effort from the customer? The Portal should be easy-to-use for the customers, and there should not be any extra costs. Costs like implementation costs. So, the customer would be at the center, but also the internal users play a vital role. The Customer Portal should not be too hard for Mill Sales Managers – they already have many tasks to do.”

By reflecting the first interview question, and the literature part of this thesis to the second interview question (Appendix 1) about the pricing of the Valmet Customer Portal, the informant’s answers were slightly different. All the informants agreed that the Portal itself should be free for everyone, at least at the beginning, but the content inside the Customer Portal costs. According to Tuuli, Valmet should have three different customer segments when implementing revenue logic to the Customer Portal.

“It is important to think about where the customer is willing to pay. If the Portal could work for everyone at the basic level, where the customer would be able to see the Valmet contacts in Expert Community, buy spare parts from eStore, or see the Learning courses. I do not see the customers willing to pay very much on this level. However, if there would be wider module content, for example, if the customer prefers annual planning in the Opportunities
module together with Valmet, this could be included in the agreement as a new contractual clause, so you could think about some usage-based pricing. Furthermore, if you go to the highest level, the customers would also get the Operations Panel enabled. Here you could use the usage-based pricing or even from the value your customers get by using the Operations Panel. However, in the beginning, it might be wise to offer this module free to the customer.”

Pekka, on the other hand, approaches the pricing subject from a customer need perspective. His views can be related to Tuuli’s view that the Valmet Customer Portal can be included in existing agreements as a new contractual clause. Also, Pekka gave his opinion about revenue logic.

“In some form, it should be open to all, but the content cannot be the same for everyone — the content costs. Also, the digital collaboration tool should be free because we have given many free services to our customers, and the customers expect to get it for free. The customer needs are different, but approach as needed. It can be agreement-based or provide the content based on a specific need. What comes to revenue logic, it should be measured from different key performance indicators such as customer experience, customer value, market growth, efficiency, and profitability. The Portal itself should not have any price tag on it.”

Milla’s and Tia’s approach to the second research question was more like a combination of Pekka’s and Tuuli’s views. According to Milla and Tia, there should be two customer segments, but the Customer Portal itself should be free at the beginning, and later set a license price for it.

“The customers should be divided into two different groups: Agreement customers, and the customers with a specific need. Customer Portal could generate income from the agreements or when the customer buys for a specific need. eStore and Learning modules should be available to everyone. For the Operations Panel and Expert Community, cross-selling, pay-per-use, and subscription revenue models should be considered. Furthermore, of course,
there should be a free trial so that the customers can see, is it beneficial to use the Customer Portal.”

After combining informants’ answers about the revenue logic’s factors and pricing the Customer Portal, the Customer Portal works a communication tool that connects and advertises the latest services such as Industrial Internet inside the Portal. The revenue logic of Customer Portal consists of customer satisfaction and value, efficiency, and profitability. Profitability contains each modules’ revenue model and the sales that have been done outside of the Customer Portal, but the Customer Portal has affected the sales.

Table 1 Revenue model for each module

<table>
<thead>
<tr>
<th>Module</th>
<th>Opportunities</th>
<th>Expert Community</th>
<th>Operations Panel</th>
<th>Learning</th>
<th>eStore</th>
<th>Platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue model</td>
<td>Pay per use</td>
<td>Frequent [documents]</td>
<td>Frequent, pay per use (first use)</td>
<td>Frequent, pay per use (causes)</td>
<td>Frequent, pay per use (spares)</td>
<td>100% discount</td>
</tr>
<tr>
<td>Available</td>
<td>Higher, Highest</td>
<td>All</td>
<td>All</td>
<td>All</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Benefits</td>
<td>You pay for your need</td>
<td>Everyone can get a new solution quickly to their problem</td>
<td>There’s no unnecessary costs / customers pay only for true value</td>
<td>Improves interest in other modules</td>
<td>Improves interest in other modules</td>
<td>No entry barriers, and easier to set a price tag in the future</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>Can cause frustration to customer if &quot;unnecessary actions&quot;</td>
<td>Experts solve customer challenges without a fee</td>
<td>Measuring value-based can be hard</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Two customer segments: Agreement customers, Customers with specific needs

<table>
<thead>
<tr>
<th>Revenue model</th>
<th>Subscription</th>
<th>Frequent [documents]</th>
<th>Frequent, pay per use (first use)</th>
<th>Frequent, pay per use (causes)</th>
<th>Frequent, pay per use (spares)</th>
<th>Free trial / Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available</td>
<td>Agreement</td>
<td>All</td>
<td>Agreement</td>
<td>All</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Benefits</td>
<td>Stable revenue</td>
<td>Can cause frustration to customer if &quot;unnecessary actions&quot;</td>
<td>Can cause frustration to customer if &quot;unnecessary actions&quot;</td>
<td>Improves interest in other modules</td>
<td>Improves interest in other modules</td>
<td>No entry barriers / Stable revenue</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>If customer wants to decline this, it can lead to denying the other modules</td>
<td>Can cause frustration to customer, offers has given advice earlier on for free</td>
<td>Hard to measure / More revenue could be generated if no subscription based</td>
<td>-</td>
<td>-</td>
<td>Can be hard to set a price tag in the future / Hard to time the implementation of subscription</td>
</tr>
</tbody>
</table>
As seen on Sheet 1, there were two different strategic approaches of how what the customer's segments are and what are the revenue models for the modules. The first strategic approach preferred three customer segments: Basic, Higher, Highest. The lowest level segment, Basic, has services with the Freemium revenue model. The key is to make Basic level customers improve their interest in other modules. The second level segment, Higher, contains all the Freemium modules and Opportunities module. Opportunities’ revenue model is based on pay per use. The third level segment, Highest, contains all the modules, including the Operations Panel. The Operations Panel’s revenue model is either pay per use or value-based. The platform is offered with a 100% discount, so later, it can be possible to set a price tag for the platform.

The second strategic approach preferred two customer segments: agreement customers and customers with specific needs. Compared to another strategic approach, Expert Community Learning, and eStore will be free just like on another approach, but the customers can now sign a single agreement that allows using all the modules. Expert Community module now has several revenue models such as pay per use for ticketing, subscription for accessing user club, and freemium for the documents. Opportunities’ and Operations Panel’s revenue model is changed to a subscription-based model. The platform is free at the beginning, but in the future, it can be changed to subscription-based.

4.3 Network effects

As repeatedly mentioned in this bachelor thesis, digital collaboration tool revenue logic’s one of the most important things is the network effects. In the digital collaboration tool, value creation is based on the interaction of actors in the ecosystem, utilizing the platform’s “new” market. While in the traditional business, the company tries to sell the created value to the customer.

When asking the informants of how Valmet can get their employees and customers to use the Customer Portal, the answers were similar to each other. Every informant agreed that the Customer Portal would not be useful unless there are people from the
internal and external side using the Customer Portal. For example, according to Pekka, the Customer Portal should make users’ work more accessible.

“To get the people to use the Customer Portal, first of all, it should contain valuable content. Processes should be digitized so that it would save people’s work time on things; they previously had to do manually. However, it is important to focus on internal users and get them to use the Customer Portal. Once they have confirmed that Customer Portal is a good thing, it will be much easier to offer the Customer Portal to customers.”

Tuuli’s approach was similar to Pekka’s approach, but the importance of involving people in development was highlighted. Also, following the customer experience was one of the key elements.

“The operating models and processes must be in order because the existence of the Portal itself does not ensure that the customers will use the service. You have to find a way to serve the customer. The Customer Portal needs to add value to the customer. The first element you should do is track the customer’s user experience, what interests them, and how they experience using it. However, the customer also has to be helped to use the service. It is also important to inform the customer about the content and its benefits. To get the internal users to use the Customer Portal, Valmet should focus on awareness of the Portal, and involving people from different areas in development. When internal people are committed to the Portal, it is easier to start offering the Portal to customers.”
5 CONCLUSIONS

This chapter brings together all the research data based on the conclusions drawn from the research. The first subchapter presents the conclusions of the study theoretically, and the third subchapter presents the conclusions of the students from a business management perspective. The last subchapter justifies further research proposals.

5.1 Theoretical conclusion

This bachelor thesis has mapped and described the role of the digital platform and its revenue logic’s formation in the current business to the business market environment. The study aimed to answer the question “How to find the right revenue logic for the digital platform.” In practice, this has been done by exploring the content of the digital platform and its strategy. The research has been conducted as an integrative literature review that first opened the definitions of key concepts, and then responded to the research question by compiling information gathered from the literature and integrating modeling to describe the use of digital platforms.

A digital platform is a diverse phenomenon, so it has not been possible to answer the research question from a single perspective. The research showed that to start a successful platform business, the company should pay attention to the creation of vision, information technology architecture, and share the vision to the users of the ecosystem. The literature highlighted that the stakeholders have a crucial role to play in the success of the digital platform. Without investing in stakeholders, the company’s revenue logic would be worthless. The content must be high-quality and somehow valuable to users, or otherwise, the users would not use the digital platform. The research provided information that platform provider should focus on: network effects, user sensitivity to price and quality, output costs, and user’s brand value. Thus, the success of digital platforms can be influenced by focusing on network effects and the quality of content.

The use of digital platforms inside the B2B companies is still rather new, which is why there are not that many academic researches. For this reason, the theory and the key concepts of the subject are not fully established. In this study, it has been desired to
create conceptual concepts and theory as well as to model the missing features of previous research in the digital platform such as strategy. The features of the models used in the thesis have previously been studied mainly as separate topics.

5.2 Business management conclusion

The research showed that offering the digital platform in B2B markets is not entirely similar to B2C markets, but the companies can benefit from benchmarking the B2C digital platforms in their operations. In addition, the digital platforms’ revenue logic in machinery or forest industry can also have the same elements as in the B2C platform, but mostly the digital platforms in the B2B market work as a collaboration tool. The integrated review shows that companies should highly focus on the content of the platform and the network effects.

The empirical part of the study showed that revenue logic is dependent on the industry the companies are working. Companies that operate in, for example, machinery or forest industry, the digital platform’s revenue logic consists more on the value-added to the customer, such as customer satisfaction, efficiency, and new orders received by using the platform. One of the revenue logic’s parts is profitability, which subdivisions are the content of the Valmet Customer Portal. The profitability consists of four different revenue models, such as subscription, freemium, pay per use, and value-based.

The digital platform in the machinery industry works more like “content, collaboration, and communication tool,” which improves the customer experience. Therefore, it is recommended to offer the customers a 100% discount or free trial for the usage of the platform to avoid making entry-barriers to customers to use the platform itself. To get the customers to use the Customer Portal, the content must provide value to customers and to internal users. To enable network effects to generate more users, Valmet should focus on internal users first by increasing the awareness of the Portal and involving people from different areas in development. When internal people are committed to the Portal, it is easier to start offering the Portal to customers.
5.3 Research constraints and topics for further research

Because the research is conducted as an integrated literature review, its results in B2B markets were limited due to the number of previous researches. Most of the researches focused more on B2C markets, and the B2B markets did not get that much attention. In this study, the literature dealing directly with the subject was studied extensively and literature related to the subject. The literature on revenue logic was very limited due to the researches used “revenue model” and “pricing” as a synonym for the revenue logic. In the literature, there were some discrepancies between the findings, which may also contribute to the research’s reliability. However, the literature used in this bachelor thesis had some investigation business cases related to value creation and digital platforms. Besides, an integrated literature review gathers its theory part data from previous researches, so it increases the reliability of this research.

The integrated literature review fits well to answer this bachelor’s thesis research question “how to find the right revenue logic for a digital collaboration tool.” The empirical study pointed out that offering digital platform solution to customers in B2B markets can be more difficult due to network effects are more restricted than in B2C markets.

Due to the platform economy is making a significant impact on how businesses will operate in the future, an exciting topic for further research would be on how artificial intelligence will affect in revenue logic and pricing decisions. When data is continually being generated more, data related to customer behavior is also increasing. Companies would surely be interested in how companies can input their customer data into artificial intelligence algorithms that, in return, output suggestions of pricing decisions to that specific customer.
REFERENCES


APPENDICES

Appendix 1. Theme interview

1. For how long have you been working for company X, and what are your main responsibilities?
2. How long have you been involved in the Valmet Customer Portal project?
   - Do you have any experience in digital platforms from the past?
3. What has been the most interesting thing in Valmet Customer Portal project?
4. What has been the most challenging thing in Valmet Customer Portal project?
5. What factors Valmet should take into account when thinking about the revenue logic for the Valmet Customer Portal?
6. How should the Valmet Customer Portal be priced?
7. Should any of the content to be purchased by just a few clicks?
8. How do you get the customers to use the Valmet Customer Portal?
9. Should there be customer segments, or should Valmet offer the Valmet Customer Portal’s content based on the customer needs?
10. How Valmet can get Valmet employees to use the Valmet Customer Portal?
11. Should the Valmet Customer Portal be open to all customers?
    - How about the suppliers?
12. What kind of costs will the Valmet Customer Portal cause when Valmet offer it to the customers?
13. What has been the feedback from the pilot customers?
14. What is Valmet’s competitive advantage?

Appendix 2. Interviewees

<table>
<thead>
<tr>
<th>Date</th>
<th>Interviewee</th>
<th>Company</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.6.2019</td>
<td>Milla Sumelius</td>
<td>Roger Studio</td>
<td>Chief Design Officer, Partner</td>
</tr>
<tr>
<td>19.6.2019</td>
<td>Tia Sistonen</td>
<td>Roger Studio</td>
<td>Senior Service Designer</td>
</tr>
<tr>
<td>1.7.2019</td>
<td>Pekka Moisio</td>
<td>Valmet Technologies</td>
<td>Management</td>
</tr>
<tr>
<td>1.7.2019</td>
<td>Tuuli Kirkkomäki</td>
<td>Deloitte</td>
<td>Management Consultant</td>
</tr>
</tbody>
</table>