



Scribd case study:

Commercial Viability of the E-book Subscription Business Model

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Title: Scribd case study: Commercial Viability of the E-book Subscription Business Model

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Abstract

Modeled after media subscription giants Netflix and Spotify, Scribd is a subscription e-book service based in San Francisco, United States. Despite the highly evaluated potential of the business model, Scribd came across significant problems due to a combination of a pay-per-read payout model and all-you-can-read pricing model; these issues led to a few unpopular decisions such as reducing content selection and eventually changing the subscription terms.

In presence of a powerful and prosperous competitor such as Amazon that has a direct analogue to Scribd, Amazon Kindle Unlimited, Scribd has to choose growth strategies that will allow it to add value to the product for current and potential customers. The two possible strategies discussed in this case study are an international expansion to Germany and a domestic market expansion through the premium segment. The case study provides relevant data to assess each strategy and gives background information about the company and the industry in order for students to analyze the case and decide on the most attractive strategy to follow.

Resumo

Modelado como os gigantes de serviço de assinatura de mídia como Netflix e Spotify, Scribd é um serviço de assinatura de e-book baseado em São Francisco, Estados Unidos. Apesar de o modelo de negócio ter grande potencial, Scribd encontrou problemas significativos devido a uma combinação do seu modelo de pagamento "pago por leitura" e modelo de precário "tudo o que consegue ler". Estes problemas resultaram em decisões pouco populares, como a redução do conteúdo disponível, e a eventual mudança dos termos de assinatura.

Na presença de competição potente e próspera como a da Amazon, que tem um serviço equivalente em Amazon Kindle Unlimited, Scribd tem que escolher uma estratégia de crescimento que o vai possibilitar de adicionar valor ao produto para clientes existentes e potenciais. As duas estratégias possíveis que são discutidas neste caso de estudo são uma expansão internacional para o mercado alemão, e uma expansão no mercado doméstico através de um segmento "premium". Este caso de estudo disponibiliza dados relevantes para avaliar cada estratégia, e fornece informação de fundo a cerca da empresa e a indústria, para que os alunos possam analisar o caso e decidir qual estratégia será a mais atrativa para seguir.

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Introduction

Subscription models gained substantial popularity in the last years and aroused high expectations of their profitability. However, the viability of the business model proved to be dependent on different factors, such as type of content, target market, payout and pricing models. To negate the consequences of unfavorable business model conditions and the presence of a strong competitor, companies can adapt different strategies to achieve growth, such as, for instance, international expansion or product line extension to cater for the premium segment.

The following case study allows instructors to introduce the subscription business model and these two types of strategies to students and provides them with a real-life example of an e-book subscription service Scribd to illustrate the topics in question. The case study consists of two parts. The first part provides a detailed overview of the company and industry background, analyzes the variety of business models in this competitive field and strategies followed by Scribd until May 2016, and discusses the commercial viability challenges faced by Scribd. It also presents the two alternatives available to the company as of that moment, which are international expansion to Germany and launching a premium version of subscription. The second part is a teaching note for instructors, containing a literature review of the topics discussed, recommendations on how to use the case study and a discussion guide based on proposed case questions. The suggested analysis uses a variety of studies and frameworks, such as research on subscription models and social aspect of web services to derive recommendations on enhancing Scribd's value proposition; entry market choice factors and CAGE distance framework to assess the feasibility of entry to the German market; environmental and organizational contingencies, and Ansoff matrix to aid understanding of the proposed strategic options. Qualitative and quantitative analysis is expected to be applied by the students in order to complete the analysis and solve the dilemma.

Scribd case study

Introduction

As the sun was setting outside Trip Adler's, Scribd's Chief Executive Officer, office window in San Francisco, California, and he finished all his urgent tasks for the day, his thoughts drifted towards the big strategic questions that were daunting on him for months. It was May 2016, and Scribd was three years into the e-book subscription business, facing fierce competition, navigating the complex market by trial and error, and finding new ways to stay afloat. Adler and his team already had to make some tough decisions: recent measures of changing to semi-limited subscription model solved the previous year's pressing problem of heavy readers draining margins, however at a cost of public discontent and brand equity damage. Still, there were clearly other unexplored opportunities that could help Scribd reach long-term financial sustainability, foreign markets unexamined, and some domestic market segments untapped. Scribd had to rethink its segmentation and pricing policies if it wants to survive in this cutthroat market, thought Adler: it was time to make another move.

Trip Adler grew up in Palo Alto, California, and inherited his entrepreneurial streak from his father, John R. Adler, neurosurgeon, innovator and entrepreneur. Trip attended Harvard University right in time to catch a start-up fever: among his fellow students were Mark Zuckerberg and Dustin Moskovitz, whose success with Facebook ignited a wave of new Harvard-born companies. When Zuckerberg dropped out to move to Silicon Valley to complete his project, Adler was so inspired by his dedication that he was contemplating doing the same as soon as he decided on the startup concept; however, that did not happen and he graduated in 2006 (Wall Street Journal, 2008). After university, he experimented with a few start-up ideas: a ride-sharing service, an advertisements website for college, and a social network called "Rate-your-happiness." However, after toying with these ideas, Adler settled on a social publishing company, Scribd, as he saw the most potential in this concept.

The Biography of Scribd

Founded as a document-sharing platform by Adler and his classmate Jason Friedman in 2007, for six years Scribd was a platform for storing and sharing user-generated content, such as legal documents, academic papers, student notes and school projects and much more. Adler got the idea from his

father, who mentioned in a conversation that he could not publish his academic paper in a medical journal and did not know how to make it public otherwise. The startup was launched from Adler's apartment in San Francisco and backed by Y Combinator, Charles River Ventures, and Redpoint Ventures. In 2009, Scribd made a first step into the e-book business, signing a deal with Simon & Schuster, a major publisher, and opening Scribd Store to sell e-books, at the moment through a pay-per-read model.

In 2013, Scribd's focus shifted to an e-book subscription service. Starting with HarperCollins and Simon & Schuster, the company started making inroads with the Big Five publishers to build a service with extensive selection of e-books. In Adler's words, "Our goal at Scribd is to become every reader's personal digital library with our innovative subscription model." Indeed, Scribd was not as much of an innovative product, as an innovative pricing model, offering unlimited e-book reading for a monthly charge of \$8.99. The content was packaged in a well-designed smartphone/tablet app. By 2016, Scribd was available on Apple, Android and Kindle Fire devices, as well as the web, and a user could log into the app on different devices which sync the user's reading progress between each other.

Scribd was also trying to build a community around its product, publishing blog articles and book recommendations and actively managing a Facebook page. Going along with the trend of services customization Scribd offered a user personalized recommendations on what to read, both hand-picked by editors and created algorithmically based on what the user read and searched for. To make more quality suggestions, Scribd divided books in smaller, non-traditional categories with witty names such as "Non-fiction is the new black", "Dark Days & Tumultuous Times", "Wealth in Our World", etc., inspired by Netflix film categories. A description page of each book in the library also showed suggestions of related titles and books from the same categories.

Words, Words, Words: The English-Language Book Market

As of 2016, most book titles in English language were published in the USA, followed by the UK. The USA was also the world's largest publishing market in terms of market value: €29.48 billion in 2014 (International Publishers Association, 2015), accounting for 26% of the global book market and thus being the most lucrative market for most publishing companies. However, many American publishers started turning their heads abroad: the English-language market was growing around the world, and

companies like Macmillan and Harper Collins saw many opportunities to make money in new markets. Harper Collins, for instance, opened offices abroad, signed contracts with local distributors and made their books available to print on demand as a part of their expansion strategy (Library Journal, 2013).

The most prominent publishers in the US were commonly known as “Big Five”: Penguin Random House, Hachette, Macmillan, HarperCollins, and Simon & Schuster. They were not necessarily the biggest global publishers, but the most important ones for consumer book market, since they mostly published general interest books, targeted the widest audience and distributed their books in the widest and most visible channels. Big publishers were arguably better off in the existing market where distribution was increasingly dominated by Amazon because of their negotiating power with distributors, economies of scope and scale for printing and managing the processes, and a better choice of the content to publish which stems from prestige of their name. Competitiveness of the market called for efficiency and aggressive strategies, and mergers were often believed to be the way to do it (Library Journal, 2013).

The long-drawn debates about paper books vs. e-books were growing quieter as it was becoming obvious that both formats were there to stay. E-books became an essential part of the reading ecosystem, and they continued to gain market share globally. After the initial phase of tremendous growth: 15.4% on average in 2010-2015 (IBISWorld, 2015), by 2016 e-books were reaching the maturity stage of the product life cycle; however, adoption rates varied from country to country depending on local market characteristics. The US, where e-books accounted for 13% of the total book market, were pioneering e-book adoption, followed by the UK with 11.5%, whereas other countries lagged far behind (Rüdiger Wischenbart, 2014). While the total US book market was shrinking, e-book sales were remaining flat, with the e-books published by major publishers declining and self-published ones growing (Fortune, 2015). Amazon and other independent self-publishing platforms were effectively taking intermediators out of the equation, allowing authors to get their books to readers faster and cheaper. Digital transformation affected the entire industry and posed many challenges before the publishers and distributors, forcing them to adapt to keep their relevance in the changed publishing climate.

Hunger Games: Subscription Model in the Entertainment Industry

Scribd was often dubbed as “the Spotify for books”, and this analogy was far from being incidental or singular. The 2010s saw huge rise of “all-you-can-eat” flat fee subscription services designed to cater for the tastes of new consumers who valued convenience and wide choice above all. The biggest of those, Spotify in music and Netflix in the video industry, turned into household names, and new companies bringing the unlimited consumption subscription pricing model to other fields were inevitably compared to these entertainment industry superstars. With 81 million subscribers and \$6.77 billion in revenue for Netflix (Netflix, 2016; Statista, 2016) and 30 million paid subscribers and \$1.22 billion in revenue for Spotify (Sisario, 2015; Statista, 2016), little wonder that their business model just cried for being copied. Unlimited access to huge libraries of content for \$9-10 seemed like a good deal to many consumers, first in the US and later in the rest of the world.

The main characteristic of subscription models is that the consumer purchase is repeated automatically, without the hard work companies usually have to do to bring a customer back to the store; therefore if the service offered was being perceived as good value for money, customer loyalty was gained easily. As a consequence, the customer lifetime value in the companies with this business model was rather high and customer acquisition costs only had to be paid once. One of the important implications of this model was increased stability and predictability, which led to higher certainty in business decisions and confidence in future revenues. Subscription services counted on high consumer inertia (a conscious effort is required to cancel the subscription) and low usage for individual consumers in certain time periods, leading to higher margins in these periods. Another important consideration ensued from the payout model usually used by these companies: whereas customers paid a flat fee, services paid to copyright owners per song played or movie watched: this combination led to reliance on light, casual users to subsidize heavy users. The tricky part for the companies then was to find consumers who would consume little content but would consider that they got enough value to be willing to pay a flat fee.

Quick growth and still-to-be-explored growth opportunities of subscription were supplemented by a slowdown of traditional purchases of digital products. For instance, in music industry CDs and downloads had given way to streaming, which by the time accounted for 34.3% of sales in the US (Recording Industry Association of America, 2016). Apple iTunes store had seen 13% to 14% decline in sales worldwide in 2013 (Wall Street Journal, 2014), which led to them launching their own streaming service Apple Music. Amazon also adopted a course towards subscriptions with two products: Prime for music and video, and Kindle Unlimited for books. The new consumer often

preferred to rent and not to buy and instead of owning music, videos and books chose subscription services which allowed her to have access to this content whenever she wanted. This fundamental change in consumer behavior posed some tricky questions before content rights owners and presented lots of opportunities to the aggregator services.

Subscription services mostly used tiered pricing models. Spotify had adopted a freemium model: it had a free plan, premium plan for \$10, 50% discount for students, and family plan (full price for the first account, 50% off each extra account). Netflix plans started from \$7.99 for streaming on one screen in standard definition, and there were also options like \$9.99 for 2 screens with HD available, and \$11.99 for 4 screens with HD available. In addition, various DVD add-ons to the plan were offered. Thanks to the variety of plans, Netflix covered a very wide customer base with different watching preferences and purchasing power. It seemed that tiered pricing model was the way to go for subscription services since it helped target specific customer segments more effectively.

Great Expectations: Subscription Model in the E-book Market

With e-books being a staple of the digital entertainment industry along with music and videos, it was only a matter of time before the subscription model was going to be tried in this field. E-book subscriptions were started by niche publishers: Harlequin with its romance titles, Baen books and Angry Robot with science fiction, Disney Digital Books and Sesame Street eBooks for children. For a while it had been argued by industry observers that a subscription service could only be viable if it targeted a very specific consumer in its niche (Shatzkin, 2012).

However, some saw bigger potential in the model. Several companies rushed into the new market in 2013-2014, fighting against skepticism in the book industry, which was known for its conservatism. Initial concerns slowly dissipated as the growing number of subscribers showed that consumers are attracted by the convenient flat fee and variety these services offer. Though all-you-can-read e-book subscription market remained small, estimated at only 5% of book consumers (Stolper, cited in Wikert, 2015), the interest towards the new business model among public and industry analytics was huge. Adoption of e-books streaming services fell in line with general trends of consumer behavior and rise of the subscription economy. New consumers read when it was convenient for them, often in short bursts, such as during their commute, and wanted to have instant access and a convenient

format of the book; another key selling point of e-book subscription services was a wide selection of books to choose from.

E-books subscription services were becoming a legitimate distribution channel for publishers' backlist titles, i.e. older titles that had been published some time ago and were not carried by major bookstores anymore. Backlist titles were considered a backbone of publishing business and a source of steady and predictable stream of revenues, accounting on average for 60% of a publisher's sales and (Publishers Weekly, 2012). Therefore, subscription services opened up new opportunities for publishers to expand their backlist reach. After initial hesitation all the Big Five Publishers entered this part of the market, starting with HarperCollins, followed by Simon&Schuster (S&S) and then the rest of them. Scribd and Oyster were the first services to get a deal with major publishers, signing HarperCollins in fall 2013 and S&S in spring 2014.

Think and Grow Rich: Scribd's Business Model

Scribd's licensing terms varied by publisher, ranging from pay-per-read to pool licensing terms. Most of the items, however, were pay-per-read, which along with non-exclusive contracts made the service worthwhile for publishers. In fact, that was the main selling point when Adler and Friedman convinced publishers to make their books available: the publisher basically did not have anything to lose. When a user read a certain percentage of the book (cutoff was rumored to be around 10%), Scribd paid out a royalty fee which was estimated to be as high as an e-book wholesale price, which averaged at 70-80% of the retail price (Shatzkin, 2014). The service also worked as a marketing channel for publishers, allowing their titles to be discovered by more people. It is Scribd that bore all the costs and risks: publishers got easy money and visibility.

Furthermore, Scribd also drove a lot of backlist distribution. Backlist titles were pointed out by Adler as a significant part of Scribd's success as they were essential both for publishers who had limited opportunities to distribute them through traditional channels and for readers who could not usually buy them easily. Another advantage for the publishers was that as part of some contracts Scribd provided data on users' reading habits for their titles, which could give valuable insights for future decisions (Digital Book World, 2014). While Scribd had to dip into its pocket every time a reader immersed herself in a book, a user enjoyed an unlimited number of books for a flat fee of \$8.99 a month. The fee was paid by a credit card and membership was renewed automatically until

cancelled. Convenience and large choice of books without any hidden costs was what made the service attractive to consumers.

Due to the combination of a flat fee revenue model and pay-per-read payout terms, profitability of Scribd depended on light, casual users who did not represent much cost to the company. Just as with gym subscription model, the best customer for a subscription service was the one who paid regularly but read just one book a month or chose public domain books, which cost nothing to the company. However, whether there were enough casual readers to subsidize heavy users' consumption, remained a question. From a consumer's point of view, if you read one book a month or less, \$8.99 monthly fee hardly seems like a good deal; these conditions would only seem attractive if you read two or more – but in this case a consumer became unprofitable for the service. Finding a way around this road-block remained the biggest problem for Scribd, and that challenge was what kept Adler awake at night; however, the problem did not seem to have an easy solution.

War and Peace: Competitors Overview

For two years, the closest rival of Scribd and the one it was most compared to was Oyster. Oyster launched in 2013 and offered unlimited e-book streaming for \$9.95 a month, until it was sold to Google in September 2015 and shut down several months later. Oyster was available only in the USA and only on web and as an iOS app, and this lack of flexibility was partly the reason for Oyster's failure along with the business model challenges similar to what Scribd was facing. The margins were not enough to sustain the business, and fierce competition required a more differentiated offer than Oyster could make.

July 2014 saw an entrance of the book trade giant into subscription services, with Amazon launching Kindle Unlimited (KU). If nothing else before, that proved the future of the subscription model to the skeptics: the book giant was not known for poorly thought out business moves. However, publishers' and public concerns close-to-monopolistic position of Amazon in book retail were transferring to this niche too: with its resources, established customer base and connections to publishers, Amazon started this race with a considerable advantage. Seeing the rise of Scribd, Oyster and its likes, Amazon responded very aggressively and very early. Less than a year after the launch, Kindle Unlimited led the way in the subscription market with a market share of 60% in April 2015 (Stolper, cited in Wikert, 2015), leaving little space to Scribd and other competitors. In two years' time, Kindle

Unlimited grew its library to over 1.2 million titles, a number similar to Scribd's. Amazon KU was winning the battle despite the fact that it fared worse than Scribd in terms of selection: a lot of offered books were from independent authors or self-published titles and there were no books from Big Five publishers available.

The biggest distinguishing feature of the Kindle Unlimited business model was the limited payout fund the size of which varied month to month and totalled \$12 million as of May 2016 (Amazon Kindle Direct Publishing, 2016). Money in this fund went towards the authors' royalties according to how many pages of their books had been read by users in the previous month. Predictable payouts and revenue streams helped Amazon better plan the service's financial future and ensure profitability, and the cap Amazon put on authors' earnings ensured that fast customer acquisition did not lead to negative profitability, unlike in Scribd's case.

Competition in the e-book subscription market got intense in the previous two years and most likely, that was not the end of it: it was speculated that Apple is planning to make a move into books subscription services too. These rumors were fueled by Apple's recent acquisition of Booklamp, a textual analysis software startup (Observer, 2014). There was a number of strong local players in the other countries too. Spanish company 24symbols was one of the pioneers in an e-book subscription playing field; lately, a new local competitor, Nubico, appeared in this market. The German market enjoyed a strong presence of Skoobe, founded by the two leading publishing houses of the country, Bertelsmann and Holtzbrinck. One of the most interesting examples was the Russian service Bookmate, whose success in the domestic market led to the decision to expand to Turkey, Southeast Asia and Latin America. Bookmate operated with good judgment in what was considered to be difficult markets with moderate purchasing power and rampant piracy. One of the key success factors of Bookmate was extensive market adaptation: in every country, it aimed to be perceived like a local service. This was accomplished by offering relevant local titles, collaborating with national writers, and executing country-specific social media management. Scribd could also borrow a page from Bookmate in how it leveraged social aspect of reading, making subscribers feel like they joined a book club. Users connected to each other through their Facebook or Twitter friends lists and could follow other people. They could also create their public topical bookshelves and recommend books to each other; bookshelves of famous people like writers, journalists and actors got featured on the homepage. Making the solitary activity of reading more interactive proved to be a selling point for many users. In fact, Bookmate's co-founder Simon Dunlop considered social aspect to be so

important that he argued that an e-book subscription business model simply could not be viable without a social reading experience realized in a service (Dunlop, 2014).

The Sound and the Fury: Diversifying by Adding Audiobooks and Comics

Scribd was growing fast thanks to its constant efforts to increase relevance for its existing and potential users, both by depth and breadth of product offering. By 2015, the service had signed contracts with all the Big Five publishers, and the number of titles available went over a million. In November 2014, answering the numerous requests of their readers, Scribd added more than 30.000 audiobooks to their library. From then on, they continued updating their audiobooks range and promoting this format of book consumption inside the app (for instance, offering audiobooks together with e-books in the general search instrument). Some audiobooks were available in Scribd for the titles which were not available as e-books due to specific publishers agreements, so this format also brought readers a wider selection.

In 2015, Scribd launched two new verticals, comic books and sheet music, as a part of strategy of appealing to new segments of readers by diversifying content offered. To serve readers of science, technology and medicine literature, Scribd added titles from Elsevier, one of the leading academic publishers. To attract families with children, Scribd constantly expanded their children's e-books and audiobooks selection, the most recent of which was adding educational Sesame Street series.

Catch-22: A Financial Sustainability Problem

It was little wonder that the unlimited consumption "buffet" model attracted some very hungry readers who read dozens of books a month. While at first Adler and his team found this interest exciting and proving that Scribd's pricing model answers consumer needs, these appetites soon turned out to be difficult for Scribd to cater for. With pay-per-read payout model these readers cost the company more than they paid, and threatened Scribd's profitability.

Reluctantly, Adler had to admit to himself that the company made a few strategic mistakes. Trying to extend the selection and to make the service more appealing to customers, they attracted some users they could not afford. One such mistake was an exclusive agreement with the leading romance

publisher, Harlequin, in the end of 2014. Scribd added thousands of romance titles and actively targeted romance readers only to later discover that they read more voraciously and bit into the margin more than the service could pay for (Smashwords, 2015). Another one was the partnership with an audiobook technology producer, Findaway World, in November 2014 which allowed Scribd to add 30,000 audiobook titles to its library, at the time when Amazon KU had only 2,300 and Oyster had none. Not only was it a larger number than any of the competitors offered, but it also included frontlist titles from major publishers. The bold move convinced many people to subscribe to Scribd, but quickly proved to be unsustainable: with a price of an audiobook on average four times higher than an e-book (The Digital Reader, 2014), heavy audiobook listeners only incurred losses. In a hindsight, Adler had to admit that it would be more rational to do it like Kindle Unlimited: start with a smaller number of titles and grow it slowly.

To restore commercial viability of the venture, Scribd made several attempts at troubleshooting: margin-draining power readers had to go. In June 2015, they pulled out most of their romance titles to shake off power readers that romance lovers are. Another plunge was taken in August 2015: Scribd cut off unlimited audiobook component of the subscription and confined users to one title per month. Additional audiobooks could be purchased for \$8.99 each. These actions provided partial and temporary resolution of the sustainability problem, however for the long term more drastic measures had to be taken.

The Metamorphosis: Changing the Business Model

With heavy competition from Amazon Kindle Unlimited, print books and pay-per-read e-book stores, margins drained by voracious readers, it became obvious that with the current pricing model Scribd could not achieve sustainability anymore: all-you-can-eat buffet had to go. The new membership conditions were announced in February 2016 and rolled out in the following month. From that moment, \$8.99 membership included access to 3 e-books and 1 audiobook per month, as well as unlimited access to 150,000 books (mostly public domain), and also to Scribd Selects, a rotating collection of books and audiobooks handpicked by the editors. Access to sheet music and documents remained unlimited. Limited content could be accessed by redeeming credits, each month 3 e-book and 1 audiobook credits added to a user's account. Monthly reads could also be carried over to the next month if not used, with a maximum of 9 e-book and 3 audiobook titles. To ease the transition and mitigate inevitable negative reaction, Scribd doubled the credits available in the first month.

The decision was made after a lot of number-crunching and long and heated debates inside the company. In theory, the change was believed to help the company achieve long-term sustainability and efficiency, allowing Scribd to have more high-quality, expensive titles on their list, formerly only available for separate purchase, and for this reason being beneficial to light readers. Cutting off heavy readers decreased the average consumption per user and, since the price stayed intact, increased price margin. However, it was still unclear whether it would result in a short-term loss in customer base and what would be the magnitude of that loss. According to Scribd's data, these changes only affected 3% of their readers (Scribd, 2016). However, the news caused fierce negative reaction from existing users, as new conditions were seen as giving less value. Even though the majority of users did not actually read more than 3 books, they wanted to have this opportunity; therefore it served as a selling point for Scribd. The change affected Scribd's brand image and value proposition: service actively marketed as the one providing unlimited reading was not unlimited anymore. Consumers' discontent, though seemingly irrational, was in line with psychological findings: the human brain is generally averse to losses and they cause negative emotions even when insignificant (Tversky & Kahneman, 1981).

Scribd's communications team handled the change with delicacy, empathy and good sense. A few posts were rolled out in the blog and newsletters to explain the changes made, the reasoning behind them and how they would affect the readers. "We hear you" was the message Scribd communicated to its readers, answering the complaints and questions on the website and social media, maintaining the friendly and humorous style the company uses in its communications. However, despite the promises of seamless transition, the technological execution of the change was far from perfect. The books saved in user's virtual libraries were reported lost, monthly credits for books not shown on the account. Poor execution only aggravated public outrage, leading to burst of negative user comments and harsh critique in industry media.

It was becoming obvious to Adler and his team that in a cutthroat market with an unfavorable payout system and a competition from a Goliath which is Amazon, Scribd was having trouble to prove its advantage to the reading public. For the last year, they only saw Scribd cutting back on their options and imposing more limits. Attempts at straightening out the business model and reaching sustainability resulted in negative publicity and customer loss. The ideal solution for Scribd would be finding more light readers to sign up, so that revenue growth exceeded payout growth. However, for these customers paying for a subscription service felt like an unnecessary spend and they preferred to buy singular books elsewhere, and there seemed to be no easy way for Scribd to convince them.

Brave New World: Considering Expansion to Germany

In light of failing to reach sustainable growth Adler had to search for other opportunities, and one of them was international expansion. Unlike Oyster, Scribd made its service available internationally from the very beginning, but they never actively marketed it outside of the United States: foreign readers amounted to a negligible percentage of users and most of them came to using the service through word-of-mouth or organic search results. Nor did Scribd make an attempt to diversify the content for foreign readers by adding books in different languages. As of 2016, Scribd had limited appeal to international audience, since most people preferred to read books in their native language and not in English. However, thought Adler, this lack of an attractive proposition at the time translated into a promising growth opportunity: if Scribd localized its content for a new market and positioned itself successfully there, it would be able to reap significant profits. With most of the companies going after English-language readers, it could be lucrative to chase the “long tail” of the market (Anderson, 2004).

Because of the industry specifics, market boundaries were defined more by language than by country borders: marketing expenses involved significantly less costs than obtaining rights to the content in another language in the first place. An expansion market choice was not to be taken lightly: it had to be a language that had high number of speakers and which was spoken in countries with a developed reading culture, publishing infrastructure, and a high consumer purchasing power. Books are not goods of prime necessity; so a paying consumer was usually a consumer with a medium to high disposable income.

One area on the map Adler’s eye caught on was Russia and surrounding Russian-speaking countries. With 162 million native speakers, a rich reading culture and immense interest for national and translated authors, this market was hard to ignore. However, Scribd’s research disproved the initial excitement. The economic downturn, high political instability and weakening of the rouble impaired Russian consumers’ purchasing power. Moreover, Russian users were not very conscientious: 86% of Internet users in Russia do not pay for legal content and prefer to download it for free from pirate websites (Eset Russia, 2016). The situation was even worse for books: in different estimates, only 5-7% of Russian e-book users downloaded them legally (J’Son & Partners, 2014). To aggravate the situation, there was already a strong local subscription service Bookmate with 1.5 million users in Russia and CIS and other 1.5 million in the rest of the world. With an established well-localized and integrated to the national market competitor and some of the publishers bound by exclusive

contracts with Bookmate and a pay-per-read e-book store Litres, there was not much room for Scribd left.

Adler's attention was also drawn to the German-language market, i.e. Germany, Austria, Switzerland, Luxembourg and Liechtenstein. It looked like a promising market, with more than a quarter of readers reading digitally and still lower e-book usage than in the US (Bitkom, 2014), thus showing room for growth. Moreover, the level of English was very high in these countries (English First, 2015), so Scribd would be more attractive to consumers there since they would have access to books in both English and German languages. Naturally, there was already a local competitor present: Skoobe was found as a joint venture of the two largest publishing companies in Germany and had been operating since 2012.

Infinite Jest: Considering Premium Product Extension

Another opportunity worth looking at for Scribd was getting back power readers who were lost with the latest changes by offering them a more expensive premium subscription offer that suits their needs. Targeted, tiered products could help Scribd reach a larger audience and contribute to the growth of the business. The service users themselves had been mentioning in the social media that they were willing to pay more for better membership conditions (AppStore, 2016). Adler already posed the question about the premium product before Scribd managers: what could Scribd offer to be relevant to these demanding and costly users to justify the price premium? However, the answer evaded him. Competing with Amazon KU that offers unlimited reading for \$9.99 – essentially the same price as Scribd membership that only included 3 e-books and 1 audiobook – seemed implausible.

A tiered pricing model had already been tried and tested by other subscription services. Bookmate, the Russian e-book library, had employed the tiered pricing system from the launch. A standard subscription cost €6.99 in the EU and included books in the selected language, except some business books, new additions, frontlist titles and bestsellers. The premium subscription for €9.99 included all those higher-priced titles and also gave access to all the books in other languages. In Russia, Bookmate's home market, the two types of subscription cost 169 and 269 roubles (€2.3 and €3.65) respectively, and when the premium option was introduced, 40% of the service users chose to upgrade their subscription. This data suggested that once a user made the decision to subscribe to a service and to pay for reading convenience, price was secondary (Bookmate, cited in Slon.ru, 2015). If

these observations could be applied to Scribd's readers, pondered Adler, this would mean that willingness to upgrade to a premium subscription could be stimulated by offering sufficient features, and price sensitivity would not be a problem.

Writing a New Chapter: Conclusion

Adler realized that with a relatively small team and limited resources, Scribd could not pursue all the options at once and had to concentrate the research and product development efforts on the opportunity that would yield more financial gain and contribute to long-term growth. The question was, which one would that be? Expanding into the German market would require significant resource investment, local hires, and contracts with local publishers. Going after premium users would call for consumer research and behavioral segmentation, developing a new offer and doubling marketing efforts, which could still be done by the existing team. International expansion would be a totally new territory as Scribd has had no previous experience in it, but it got Adler excited as any big challenge did. However, he did not want to pour resources into it if there still was a domestic segment untapped by the current Scribd offering which could be reached with smaller expenses.

Following Bookmate's steps and adding a social component to reading also seemed like a very promising strategy to Adler. In the words of Bookmate's Andrey Baev, only 10-15% of their subscribers were real bibliophiles, the rest saw reading as one of leisurely activities and valued convenience and social aspects of the service more than content (Bookmate, cited in Slon.ru, 2015). For Scribd shifting the focus away from content in such way could be a solution for what they had been struggling with for a long time: finding a way to attract casual readers. Naturally, Scribd's marketing communications would also need to be adapted in line with the new strategy to emphasize the convenience and social nature of the service rather than content. Adler was reflecting on making Scribd more social already for a long time: this is what led him to acquire Librify, a social e-reading and retail platform with "book-of-the-month" offers. Adler planned to use Librify's social functionality and relationships with reading communities in Scribd to provide the users with reading experience which would allow them to communicate more within the service (Digital Book World, 2015).

Social e-reading experience could serve as a differentiating factor from other e-book subscription services, as well as from other ways of acquiring books. It also had the advantage of stimulating

customer loyalty: once a user developed social ties to a certain community inside the service, he would more likely be willing to stay on the service. Adler's thoughts jumped onto international execution of this idea: the social aspect inevitably had to be local, but as most of the Scribd's users live in the US and the international consumers used the service exactly as it is offered in the domestic market, that would not be a problem for the time being. Scribd could benefit from localization in other large English-speaking markets, such as the UK and Australia, however that would also require hiring local staff with knowledge of the market landscape in these countries. Adler believed wholeheartedly that despite the daunting presence of the book trade giant Amazon, Scribd still had large capacity to grow and conquer readers' hearts, but it would require thought-out and robust strategic decisions by him and his team. Important decisions had to be made that would affect Scribd's future: not only the company's profitability, but ultimately its survival was on the line, thought Adler uneasily. He decided to meet with Scribd's managers the next day to lay out the existing options before them and listen to their concerns and considerations. He was sure that with the data they already have, and some additional research and discussion within the team they would be able to arrive at the optimal solution.

Teaching Note

Introduction

The Scribd case-study was prepared by Anna Mezhova under the supervision of Professor Paulo Marcos and within the scope of the Marketing Case Studies dissertation seminar at Católica-Lisbon School of Business and Economics. The case was written to serve as a teaching tool, intended to be used by instructors in order to illustrate particular theoretical models and guide class discussion to achieve set learning objectives. The data provided in the case can be used by students to imitate real-life decision-making in marketing and strategy departments of companies. The case is not intended to serve as endorsement, source of primary data, or illustration of effective or ineffective management. The case is based on open-source data about actual experiences and events.

Synopsis

Scribd is an e-book subscription service which, until March 2016, offered unlimited reading and was often referred to as “Spotify for books”. However, an unfavorable payout model and strong competition took their toll on financial viability of the venture, and Scribd had to make several unpopular decisions to restore its profitability. Because of the customer loss which followed these changes, it was crucial for the company to find new sources of growth.

This case focuses on discussing the potential strategies Scribd could adopt to grow its business and deciding which one is more feasible for the company’s future. The company might choose between international expansion (Germany is suggested because of its substantial market potential) and product line extension by launching a new membership type for heavy users.

Suggested Assignment Questions

The following questions are suggested to guide the students through the case study and help them structure their analysis to find a solution to the presented dilemma:

RQ1: How can adding social features to the service help Scribd attract more diverse and casual readers that would read 2 books a month or less? How exactly can Scribd leverage the social aspect?

RQ2: If Scribd makes a decision to expand to another market, what factors does the company have to take into account when choosing which market to expand to? Evaluate the German-language market according to the chosen criteria. Using the CAGE framework, perform qualitative analysis of distance between the USA, Scribd's home country, and Germany. Which of the CAGE framework dimensions are more relevant and which less relevant for the e-book industry?

RQ3: If Scribd makes a decision to add a premium version of subscription, what should be taken into account to make it financially sustainable? Is it possible to launch an unlimited version of the subscription under current market conditions? What features could be added to the subscription in order to effectively target the heavy readers segment?

Q4: Classify these two opportunities: (1) expanding into German-language market with the localized offer and (2) adding a premium subscription – using the Ansoff matrix and comment on their strategic fit. Analyze the advantages, disadvantages and risks for each alternative, taking into account both the market environment and the company's capabilities.

Teaching Objectives

The presented case study has the following teaching objectives:

1. To familiarize students with subscription business models for digital content services
2. To help students understand the dynamics and competitive landscape of the e-book subscription market
3. To highlight the importance of a social dimension in web-based services
4. To illustrate the process of analyzing a potential market for international expansion using a variety of market-, industry-, and firm-based factors
5. To present students with tiered pricing models and aid in understanding the conditions under which launching a premium subscription might be viable
6. To shape understanding of types of growth alternatives available to companies, as well as pre-conditions, risks and benefits associated with each of them

Use of the Case Study

Scribd's case study is intended to provide undergraduate and graduate students with a realistic business scenario, allowing them to imitate the process of strategic decision-making inside a company and analyze factors which may influence these decisions. Instructors may use this case study to address such study topics as international expansion, potential market analysis, tiered pricing models, the social aspect in web services, and marketing strategy choice.

The case study was designed for a 90-minute lecture. In order for students to be prepared for a class discussion, instructors may ask students to answer the suggested assignment questions presented above, or they may adapt the questions to the specific needs of the course.

Literature Review

Subscription Business Models, E-services Adoption

Revenue models of e-commerce Web services can be categorized into three main types: advertising, subscription, and transaction models (Enders, Hungenberg, Denker, & Mauch, 2008). Though the majority of the e-services used to rely on advertising in the previous decade, consumers are becoming increasingly willing to pay for content, and many companies are shifting their business models towards the ones with paid content, many them subscription-based. While revenue in advertising-based models is driven by website traffic and in transaction models by consumer trust, for subscription models willingness to pay is the primary revenue driver, which stems from unique customer value provided by the service (Enders et al., 2008). Higher-income and more educated consumers have been found to pay more for online content, which can possibly be explained by higher opportunity costs of their time spent on information search (Punj, 2013). In Horng's study (2016), paying behavior for subscriptions was found to be positively influenced by a user's length of experience with the e-service and her financial resources.

With subscription services becoming more and more popular in other media industries, it was only a matter of time before the model was expanded into e-books. E-books have become an essential part of the reading ecosystem, providing the publishing market with incremental sales which would not have happened in the absence of the e-book offering in the market (Li, 2015). E-books subscription services still need to be explored in academic research; in the absence of the studies specific to this market, research on music and film subscription services as well as social networking sites with paid

subscription can be used as a proxy for consumer motivation to adopt such services, though such approximation certainly has its limitations.

Adoption of legal digital content libraries is often influenced by the subjective norm in consumers' social circles: family, friends, peers and other influencers: if the user's significant others disapprove of illegal downloading and consider usage of a digital subscription service a desirable behavior, the user is more likely not to engage in illegal downloading behavior and use a legal digital content library instead (Kwong and Park, 2008). Word-of-mouth has been found to have significant impact on an e-service adoption and customer loyalty towards it (Srinivansan, Anderson and Ponnnavolu, 2002; Thatcher and George, 2004). In Kwong and Park's study on digital music services (2008), other significant factors of adoption were found, such as are perceived usefulness, perceived ease of use, perceived service quality and perceived behavioral control. Bounagui and Nel (2009) identified perceived usefulness, enjoyment and trust as the most important variables influencing purchasing behavior online in the case of paid online music downloads. In Horng's paper (2012), factors affecting willingness to pay for subscription to online services were grouped into three factors: general service characteristics (essentiality, differentiation, desire fulfillment), Web 2.0 factor (usage frequency, security concern, interacting intensity) and Web 1.0 aspect (convenience, ease of use, added value, perceived service quality, perceived fairness).

International Expansion and Entry Market Choice

International market selection (IMS) is the first part in export strategy (Root, 1994); this decision may have significant impact on the company's success abroad. Systematic IMS has positive impact on the company's strategic position and export performance, whereas wrong choice of target countries can lead to subpar results (Ayal and Zif, 1978; Chetty and Hamilton, 1993; Papadopoulos and Denis, 1988). Companies that select their target international markets systematically have higher export performance over those that choose them ad hoc (Brouthers and Nakos, 2005). However, in practice companies often make these decisions without systematic analysis due to lack of managers' experience in this type of research, difficulties in gathering data for analysis and lack of proven methods to effectively choose a target market (Papadopoulos and Denis, 1988).

Among the extensive body of theoretical research and operational frameworks related to IMS, there is no universal agreement on choice criteria for target countries for international expansion.

Papadopoulos, Chen and Thomas (2002) view this choice as a tradeoff between demand potential and trade barriers existing in the market. Market potential is considered to be one of the key variables in IMS both by academic researchers (Malhotra and Sivakumar, 2011) and by export managers in the companies (Robertson and Wood, 2001). To estimate market potential, macroeconomic factors are used, such as GDP per capita, disposable income growth rate, population composition and growth, exchange rates, and purchasing power parity (Khanna, Palepu and Singha, 2005), often supplemented by product-specific variables (Wood and Robertson, 2000). Other proposed factors of market selection are intensity of competition in the industry in the evaluated countries (Johanson, 1997), customer receptiveness (Johanson, 1997; Cavusgil, 1997), institutional environment and political stability (Root, 1987), cultural factors (Johanson and Wiedersheim-Paul, 1975), geographic proximity of the home and host country (O'Farrell and Wood, 1994). Summarizing the vast amount of potentially important factors for IMS, Johnson, Scholes and Whittington (2008) argue that market selection should be based on market attractiveness, multidimensional measures of distance and expected competitors' reaction. Several multidimensional measures of distance have been proposed, however the CAGE distance framework (Ghemawat, 2001) is considered to be one of the most comprehensive and useful in practical decision-making; it is reviewed in more detail below. There are also firm-related selection criteria that should be included in the analysis preceding the market selection, among them are company's resources and capabilities (Wernerfelt, 1984), social capital in form of information, market knowledge, networks and contacts (Ellis, 2000; Peng, 2001), company's market orientation (He and Wei, 2011) and international experience (O'Farrell and Wood, 1994).

CAGE Model

The CAGE distance framework, introduced by Pankaj Ghemawat in 2001, is one of the most comprehensive and influential models used to evaluate differences between countries, taking multiple dimensions into account. Unlike the majority of country-analytic models that concentrate on unilateral measures and analyze countries independently of each other on certain scales, CAGE framework offers a tool for the country-pair comparison. Bilateral attributes capture the idea of distance between countries which translates into the measure of difficulty with which international trade relations can be established. CAGE model is mostly used to measure distance between a company's home country and a country where the company is looking to start its international operations. Ghemawat suggests that CAGE framework can be used for both qualitative and

quantitative analysis: in the latter case, distance measure may be used as an adjusting factor for measures of market size and potential when evaluating attractiveness of markets for international expansion through country portfolio analysis, a tool commonly used to assess target markets potential (Perlitz, 1985). According to Ghemawat, this factor can dramatically change a company's assessment of relative desirability of potential markets and thus significantly influence its decisions.

Distance between two countries is measured along four dimensions: cultural, administrative, geographical and economic. Even though these dimensions may be intertwined, they nevertheless should be analyzed separately since each of them implies different challenges and opportunities for a company considering international expansion. Despite the main focus of the model being on bilateral attributes, Ghemawat argues that some unilateral measures consistent with the four dimensions also have to be taken into account since they can influence the attractiveness of the market and ultimately advisability of expansion. The attributes underlying these core dimensions are listed in the table below:

The CAGE framework at the country level

| | Cultural distance | Administrative distance | Geographic distance | Economic distance |
|---|---|--|---|--|
| Country-pairs (bilateral) | <ul style="list-style-type: none"> - Different languages - Different ethnicities; lack of connective ethnic or social networks - Different religions - Lack of trust - Different values, norms, and dispositions | <ul style="list-style-type: none"> - Lack of colonial ties - Lack of shared regional trading bloc - Lack of common currency - Political hostility | <ul style="list-style-type: none"> - Physical distance - Lack of land border - Differences in time zones - Differences in climates and disease environments | <ul style="list-style-type: none"> - Rich-poor differences - Other differences in cost and quality of - Natural resources - Financial resources - Human resources - Infrastructure - Information or knowledge |
| Countries (unilateral or multilateral) | <ul style="list-style-type: none"> - Insularity - Traditionalism | <ul style="list-style-type: none"> - Nonmarket or closed economy - Extent of home bias - Lack of membership in international organizations - Weak institutions; corruption | <ul style="list-style-type: none"> - Landlocked geography - Lack of internal navigability - Geographic size - Geographic remoteness - Weak transportation or communication links | <ul style="list-style-type: none"> - Economic size - Low per-capita income |

Source: Ghemawat (2007)

An important characteristic of CAGE framework is its adaptability to a particular industry being studied. Ghemawat highlights that the relative importance of dimensions varies significantly from

industry to industry. The impact of a particular difference dimension depends on product’s culture sensitivity, level of differentiation, submission to government control, raw materials and final produce’s physical characteristics and ease of their transportability, cost structures, distribution patterns etc. (Ghemawat, 2007).

The CAGE framework at the industry level: correlates of sensitivity

| Cultural distance | Administrative distance | Geographic distance | Economic distance |
|--|--|--|--|
| Cultural differences matter the most when: <ul style="list-style-type: none"> • Products have high linguistic content (TV programs) • Products affect cultural or national identity (foods) • Product features vary in terms of: <ul style="list-style-type: none"> • Size (cars) • Standards (electrical equipment) • Products carry country-specific quality associations (wines) | Government involvement is high in industries that are: <ul style="list-style-type: none"> • Producers of staple goods (electricity) • Producers of other “entitlements” (drugs) • Large employers (farming) • Large suppliers to government (mass transportation) • National champions (aerospace) • Vital to national security (telecommunications) • Exploiters of natural resources (oil, mining) • Subject to high sunk costs (infrastructure) | Geography plays a more important role when: <ul style="list-style-type: none"> • Products have a low value-to-weight or bulk ratio (cement) • Products are fragile or perishable (glass, fruit) • Local supervision and operational requirements are high (many services) | Economic differences have the biggest impact when: <ul style="list-style-type: none"> • The nature of demand varies with income level (cars) • The economies of standardization or scale are limited (cement) • Labor and other factor cost differences are significant (garments) • Distribution or business systems are different (insurance) • Companies need to be responsive and agile (home appliances) |

Source: Ghemawat (2007)

Further analysis may be conducted to include characteristics of the company, since the relative importance of dimensions may vary according to a company’s sources of competitive advantage and business model characteristics, among others; however, these implications are not discussed in Ghemawat’s article.

Differentiated Marketing Strategy. Tiered pricing

Identifying buyer segments with different needs, wants and purchasing preferences and consequent adoption of a differentiated marketing strategy, where a company attempts to appeal to two or

more different marketing segments with a unique product and a marketing strategy tailored to each segment, has long been used by companies in search of increasing their products' relevance to consumers (Kotler, 1980). Whereas an offering with the greatest average popularity may not appeal strongly enough to consumers to make a purchase, differentiated marketing strategy leads to greater attraction of particular target segments to the company's products designed for the respective segments (Holbrook and Holloway, 1984). Differentiated marketing is likely to be used when the nature of products/services allows the company to modify their features; when a product is mature and faces strong competition; and when the market has distinct segments that have different needs, tastes, and react differently to marketing appeals (Moschis, 1994). This type of strategy created more total sales across segments and helps the company achieve stronger position within each segment; however, it is also associated with higher costs of doing business due to additional expenses on product development, marketing plans design and distribution management (Kotler and Armstrong, 2008). Related to the concept of differentiated marketing is tiered pricing model, which suggests that different segments are charged different price points for the specific versions of the product (Cohen and Ramaswamy, 1998). Flexibility in pricing often becomes possible due to prevalence of fixed costs in products cost structure, since they can be allocated arbitrarily.

Strategy and Competitive Response. Ansoff Matrix

A competitive strategy with a good strategic fit for the company requires an optimal match of environmental and organizational contingencies (Zajac, Kraats and Bresser, 2000), where environmental contingencies refer to technological, regulatory, competitive and general environmental contexts, and organizational contingencies include strategic context, organizational structure, organization resources and capabilities (Hutzschenreuter and Israel, 2009). Organizational performance is another key contingency in competitive strategy research and is considered separately from the latter two categories (Hutzschenreuter and Israel, 2009).

Ansoff (1957) designed a strategic framework for organizational decisions and identified four growth alternatives for businesses; later, this tool became widely known as the Ansoff matrix. Ansoff defined product-market strategy as a combination of a product line and the missions that the products are supposed to fulfill. Ansoff further classified the product-market strategies based on whether the company is expecting to grow its business by catering for existing or new market, and whether the

product offering already exists or a new one is created specifically to achieve growth. The result is classification into four types of strategies, described in the table below.

| | Existing product | New product |
|------------------------|---|--|
| Existing market | <p>Market Penetration</p> <p>Increasing sales without the change of the original product-market strategy. Becomes possible through increasing sales to existing customers or expanding customer base in the existing market.</p> <p>Emphasis on competitive pricing, marketing communication, loyalty schemes.</p> | <p>Product Development</p> <p>Increasing sales through development of products with new and different characteristics, catering to the same market.</p> <p>Emphasis on research of consumer needs and effective product development through product modification, line extensions, or genuine product innovation.</p> |
| New market | <p>Market Development</p> <p>Increasing sales through finding new customers in different markets in terms of geography, demography, etc. The product can undergo some modification process to better suit the needs of the new target market.</p> <p>Emphasis on accurate and effective segmentation necessary to identify actionable and attractive market segments.</p> | <p>Diversification</p> <p>Increasing sales by departing simultaneously from the current product strategy and the choice of the market. Generally requires new skills, techniques and facilities.</p> <p>Emphasis on thoughtful strategic choice of the new market and product in line with the company's core competences.</p> |

Despite the clear distinction between these types of strategies, these are not mutually exclusive options: in his paper, Ansoff noted that often a business must follow several routes at a time in order to be successful and respond adequately to its competitors. However, simultaneous pursuit of several strategies may be hindered by resources or organizational capabilities limits: in this case, a company needs to evaluate its options carefully to choose the best strategy given its goals, mission, existing circumstances and resource limitations.

Analysis and Discussion

This section of the teaching note is intended to guide the class discussion, using the information presented in the case study and relevant frameworks mentioned in the literature review to gain insights into the desirable way of action for Scribd. It is recommended that the instructors use the suggested assignment questions to lead the discussion in the classroom.

Q1: How can adding social features to the service help Scribd attract more diverse and casual readers that would read 2 books a month or less? How exactly can Scribd leverage the social aspect?

Sample answer:

Scribd can leverage the social aspect by stimulating word of mouth (WOM) and adding opportunities for social exchanges to the service. Increased word of mouth can increase brand awareness and thus help attract a wider reading public than those who were originally interested in the product. Adding opportunities for social exchanges is beneficial in another way: it would help to attract new users whose primary motivation of buying a subscription is not consuming content, but rather affiliation with a desired social group in which Scribd is already being used; therefore, they would have lower intensity of reading.

Reading is a solitary activity; however, it is also a behavior that adds to a person's social currency, makes him/her look smart and knowledgeable in other people's eyes, and people are prone to sharing information that help them make good impression on others (Berger, 2013). In line with this finding, users who share information about the fact they are reading with Scribd are likely to benefit from higher respect from their peers and at the same time help raise awareness about the product. This word of mouth can be stimulated using triggers in the app itself and in Scribd's communication vehicles, such as the following:

1. Referrals

Scribd offers one free month for a user who invites a friend to read; a friend gets two months for free. Appealing incentives is only one part of an effective referral program, awareness among users is just as important. Scribd could increase referrals volume by making sure all users know about the referral program, for instance, present this information to a user in a pop-up in the app, as a section of the home page on the website or remind about it in a newsletter.

2. Creating tools and triggers for sharing in social media

Users sharing their activity in social media can increase the brand's visibility and social acceptance. As of now, sharing possibilities on Scribd exist, but they are far from being visible and straightforward. It is not sufficient to just rely on users' initiative to share: effective tools and triggers should be created. Readers need to be reminded that they have opportunities to share with pop-ups in the app: for instance, when they highlight a passage in the book or when they finish or rate the book, the service may suggest to create a post consisting of the selected quote, user's rating or review of the book with the link to the book's page on Scribd's website. The resulting posts that appear in users' social networks should be aesthetically pleasing and varied in their format, otherwise these tools will not create sufficient stimuli to share. It is important that reminding is executed carefully in order not to impair user experience; optimal frequency may be determined by focus group studies and A/B testing.

3. Social media management

Sharing information can be also increased through traditional social media management techniques: brand pages offering highly engaging and shareable content. Scribd made some attempts to increase engagement, revamping its blog in May 2016. However, engagement rates both on Facebook and Twitter remain very low: in May 2016, a Facebook post with maximum engagement received only 14 likes among the 429115 Facebook page fans, which corresponds to 0.003% engagement rate. Scribd should make conscious efforts to create content more relevant to its consumers, stimulate discussion and create incentives to share community posts.

Another strategy involves changing the service to become more social and requires more significant changes. Scribd already had experiments with introducing a social feed; however, in December 2015 this feature was removed. Listed below are several possible ways of introducing a social aspect into Scribd's user experience and building a community around the product:

1. Public blogs

One of the ways to make reading more social is to give opinion leaders opportunities to interact with readers by providing them with designated blogging space inside the platform. Influencers can include writers, publishers, critics and other public figures relevant to the

target audience. Blog materials can include book recommendations, reviews, announcements about new releases etc. Blogs can be useful in increasing the time a user engages with the service, helping a user to discover new books and thus make the experience more enjoyable, boosting Scribd's reputation because of its connection with influential public figures, and raising brand awareness if a blog owner advertises his/her blog outside of the service.

2. Stimulating communication between users

To fully leverage the potential of social exchanges, Scribd has to adopt some features of social network services, which may include opportunities for users to add friends or follow interesting people, curate a user's own social feed to receive updates, for instance, on what people in his/her network are reading, liking and highlighting. This can enhance the user's experience in several ways, such as discovering new content which otherwise they would not see or find worthwhile, increase sense of connection to other people by increasing frequency of interaction and finding new mutual interests, enhancing quality of communication with people in the user's social network by offering new topics to discuss.

3. Book club option

Book clubs have traditionally been a means to turn a private activity of reading into a more social one by creating a space for discussion and sharing reading experiences and impressions. Though readers nowadays have more opportunities to express their thoughts online, book clubs remain an important part of reading experience for a certain group of readers. Scribd could cater to this segment by providing a function of creating a book club's designated space within the service with the functionality of signing up members, announcing the next book selection and holding live discussions about the chosen books. Scribd can also provide consultations to the book clubs' administrators on the choice of books: data on members' past reading available to Scribd can help make more accurate recommendations.

Q2: If Scribd makes a decision to expand to another market, what factors does the company have to take into account when choosing which market to expand to? Evaluate the German-language market according to the chosen criteria. Using CAGE framework, perform qualitative analysis of

distance between the USA, Scribd's home country, and Germany. Which of the CAGE framework dimensions are more relevant and which less relevant for the e-book industry?

Sample answer:

To make an informed decision about market expansion, various factors have to be evaluated, such as macroeconomic indicators and other factors related to market potential, intensity of competition, specific Industry- and product-related factors and firm's resources and capabilities.

| Type of factor | Factor | Analysis |
|--|--|---|
| Market attractiveness and ease of doing business | GDP per capita and its growth rate | GDP per capita in Germany was last recorded at \$47773 in 2014, or \$46400 in PPP; annual growth in 1992-2016 averaged 1.33% (Worldbank, 2014). |
| | Disposable income | The average household net-adjusted disposable income per capita is \$31252 (OECD, 2014). |
| | Population composition and growth | Population of Germany is 81.9 million inhabitants, 73.9% of which live in urban areas. German population has relatively high level of education: 86% of adults aged 25-64 have completed upper secondary education (OECD, 2014) |
| | Institutional environment and political stability | Germany has strong institutions (Fitch Ratings, 2016), one of the highest indices for transparency worldwide (Transparency International, 2014), and a high level of political stability: it is placed 37 th out of 191 in The World Bank's Political Stability Ranking (The World Bank, 2014). |
| | Trade barriers | The firms from the USA and Germany historically have had extensive trade and investment relations with no significant trade barriers. |
| Intensity of competition | Main competitors, their characteristics and consumer attitude towards them | The main competitor in Germany is Skoobe, a service that allows users to borrow up to two titles for 30 days for a €9.99 month charge. Characterized by wide selection of recently published books and a good design. 80% of the service users consider the quality of their catalogue "very good" (PublishersWeekly, 2015). |
| | Competitors' resources and connections to suppliers | Skoobe is a joint venture of two leading German publishers, and so possesses direct access to content suppliers. Some of the contracts might be exclusive to Skoobe and prohibiting from lending the content to other companies. |
| Industry- and product-related | Reading culture and language preferences | Reading culture is strong in Germany, with a very long publishing history in the country (Rüdiger Wischenbart, 2014). Studies show that 76% of adults read books (Bitkom, 2015). Books have long been an important part of national culture and are viewed by professional communities as a cultural, not consumer good (European |

| | | |
|---------|---|---|
| factors | | Parliament, 2016). Germans prefer to read in their native language: titles in English account for only 1% of top 100 bestselling titles. |
| | E-book prevalence | E-book usage is relatively high: e-books account for 5% of the market (Rüdiger Wischenbart, 2014), but not as high as in the USA, which shows there is still much growth potential. The format acceptance is growing: in 2015, 25% of adults read e-books, which is 4 p.p. more than 21% in 2013 (Bitkom, 2015). Laptop/PC and smartphone are the most popular means to read e-books with 41% and 38% respectively (Bitkom, 2015). 21% of e-book readers share their reading experiences online (Bitkom, 2015). |
| | Smartphone and mobile internet penetration | Smartphone market is booming in Germany with sales of 25.6 million units and 4.7% growth in 2015 (Bitkom, 2015). Smartphone penetration accounts for 64.4% of mobile phone users (eMarketer, 2015). Mobile Internet penetration is estimated to be 65.8% of mobile phone users (eMarketer, 2015). |
| | Attitude towards illegal content and piracy, willingness to pay for legal content | The copyright infringement laws are reinforced stricter and end users are forced to pay fines more often than in other European countries or the US (TorrentFreak, 2016). |
| | Customers' habitude to services with subscription model | The habitude to subscription services is still significantly lower than in the US: 12% of Internet users use music subscriptions comparing to 23% in the US (Ipsos MediaCT, 2013). 35% of all Internet users use video-on-demand services, among which subscription services are predicted to experience the most rapid growth: 50% annually till 2019 (Goldmedia, 2014). Furthermore, 16% or readers are interested in e-book subscription services (Bitkom, 2014), and this number is likely to rise with new players coming to market. |
| | Industry regulations | VAT on e-books is fixed at a standard 19% level, whereas print books enjoy a reduced 7% rate of VAT (European Commission, 2016). |
| | Firm-related factors | Company's resources and capabilities |
| | Market knowledge, networks and contacts | Scribd does not have any specific market knowledge related to the German market or a network in this country; local staff would need to be hired in order to obtain local market knowledge. |
| | Company's market orientation | Scribd is truly a market-oriented company, focused on discovering and meeting needs of their consumers, ready to adapt their product in order to do so more effectively. |
| | International experience | Scribd never actively marketed its products internationally and does not possess any international experience. |

Sample analysis of distance between the USA and Germany with CAGE framework

| | Differences between the USA and Germany |
|----------------|--|
| Cultural | <p>Different language and ethnic composition Different reading culture and preferences Similar religious beliefs, resulting in similar society norms and values</p> <p>Unilateral: Germans' broad-mindedness, openness and interest in other cultures Regional differences in culture resulting in different regional consumer preferences</p> |
| Administrative | <p>Historically close political and security relationship between the USA and Germany Significant trade and investment relations between firms in the USA and Germany</p> <p>Unilateral: Germany's openness to international trade economy and membership in international organizations Germany's strong institutions and transparency</p> |
| Geographic | <p>Significant physical distance Difference in time zones</p> |
| Economic | <p>No significant differences in economic development: household net-adjusted disposable income per capita of \$31252 in Germany and \$41355 in the USA (OECD Better Life Index, 2016) More equal distribution of income in Germany: quantile ratio of 4.7 compared to 9.8 in the USA (United Nations Development Programme, 2015)</p> <p>Unilateral: Germany's large economic size and market potential Relatively high per-capita income in Germany</p> |

Furthermore, applying CAGE framework at the e-book industry level, the conclusion can be made that four discussed types of differences vary in their relative importance. Specifically, geographic distance does not have much hold on the industry due to the intangible nature of digital products. Geography then is only important for management problems such as communication between the headquarters and the foreign subsidiaries. It can be argued that economic distances matter only on a broad level of developed/developing country: since books are not a necessity and there are free ways to read often available, demand for e-books is only sustainable for consumers with available disposable income to spare. However, other economic factors such as economies of scale, distributions systems and labor factors are not very significant in this industry since the production

costs of an e-book are secondary to royalties and marketing expenses, and distribution occurs directly through smartphone apps and websites.

Conversely, cultural differences are highly relevant to the industry because of the high linguistic content of the products and strong connection of books to cultural and national identity. Reading habits and tastes vary drastically across the countries, and significant adaptation based on local market knowledge normally has to be carried out before international expansion. Administrative distances' importance is less obvious since e-books do not belong to a category of staples or goods important to national security; however, governments often make an effort to protect national publishing industries as essential to the countries' cultural identities. For instance, France imposed tight regulations on e-book distribution and pricing in 2011, under which e-book subscription services essentially became illegal (Loi n°2011-590 du 26 mai 2011). In case of countries with less strict laws and regulations administrative distances carry less importance: they only have to be taken into account when evaluating the ease of making contracts with local publishers if that is a part of the company's expansion strategy.

The results of the analysis show that Germany is indeed an attractive opportunity for American companies. Historical ties of the USA and Germany, high economic development level, and absence of strict regulations in the e-book industry would facilitate Scribd's expansion to Germany. However, high importance of cultural distances and high variance of regional cultures can present certain challenges to Scribd. If the decision to expand was made, comprehensive market research would have to be carried out to obtain country-specific knowledge about consumers' reading habits and preferences.

Q3: If Scribd makes a decision to add a premium version of subscription, what should be taken into account to make it financially sustainable? Is it possible to launch an unlimited version of subscription under current market conditions? What features could be added to the subscription in order to effectively target the heavy readers segment?

Sample answer:

It is clear that there is a heavy readers segment in the market, not attracted to the offering of 3 books + 1 audiobook monthly limit. However, under the current payout system it is not feasible to

offer an unlimited option, since the price would have to be high for the revenues to cover the royalties: for a user to consider an unlimited option, their average consumption has to be *at least* higher than 3 books per month. If we assume that current average Scribd subscriber reads about 1.5 books per month, that would mean that the unlimited subscription would have to cost *at least* two times more than a standard (so, at least \$17.98) to keep the margin on the same level. Keeping in mind that there is an Amazon KU product in the market that offers unlimited reading for \$9.99, which Scribd's unlimited version would inevitably have to be compared to, the prospects of an unlimited Scribd's subscription do not seem very promising.

One possible way to bring an unlimited version to life is to agree to new payout terms for this segment: for instance, royalties for books read by unlimited subscribers would be paid from a limited monthly fund, whereas the payout model for the books read by standard subscribers stays as it is. That way, the subscription could be competitively priced and at the same time financially viable. Scribd has a significant competitive advantage against Amazon in the quality of books they offer, which would allow Scribd to price their unlimited subscription option higher than Amazon KU's \$9.99.

Another option for a premium subscription would be offering more books, but still a limited number (for instance, 5 or 6), and adding other features, relevant to the heavy readers segment, such as early access to new books and front-list titles, services of a personal online "librarian" who would provide a personal reading plan or specific recommendations on demand. Additional market research has to be carried out to identify relevant needs of the consumers in this segment.

Q4: Classify these two opportunities: (1) expanding into German-language market with the localized offer and (2) adding a premium subscription – using the Ansoff matrix and comment on their strategic fit. Analyze the advantages, disadvantages and risks for each alternative, taking into account both the market environment and the company's capabilities.

Sample answer:

The strategic alternative of expanding into the German-language market with the localized offer belongs to quadrant III of the Ansoff matrix and falls under the definition of a **market development strategy**. This categorization suggests that this strategic alternative is supposed to increase sales

through expanding the customer base by gaining customers in the new market. Choosing a strategy that falls under this category would also suggest some modification of the product to better suit local tastes of the consumers in the new market; therefore, this strategy implies local market knowledge, which can be achieved by extensive market research and local hires. The second strategic alternative of adding a premium subscription option belongs to the category of **product development strategies**, catering to the existing market with an offer with different characteristics. If the company decides to execute this strategy, emphasis should be put on understanding consumer needs and preferences in order to design a product that would be appealing to target consumers.

For the two proposed strategies, students may consider the following advantages, disadvantages and risks, summarized in the table below:

| | Strategic alternative 1: International Expansion | Strategic alternative 2: Premium Subscription |
|----------------------|---|---|
| Advantages | <ul style="list-style-type: none"> • Attractiveness of the German-language market due to its widespread reading culture, favorable economic situation, high rate of smartphone adoption, positive attitude towards paid subscriptions and willingness to pay for legal content • Raising brand awareness in Europe and a consequent increase in sales of English-language book subscriptions in this region | <ul style="list-style-type: none"> • The strategy can be pursued with existing resources without additional hires • Strengthening the competitive position in the domestic market, gaining customers in a currently untapped market segment and raising brand awareness in the US • Opportunity to cater for the needs of heavy users who dropped out after the membership policy change. Scribd having their personal details would mean lower customer acquisition costs for this segment. |
| Disadvantages | <ul style="list-style-type: none"> • Significant resources investment is required • It is necessary to open a local office and hire local staff, which leads to additional management and coordination challenges • Lack of international expansion experience in Scribd's competences • Presence of a strong local competitor, Skoobe, with good connections to the leading publishers | <ul style="list-style-type: none"> • Strong competition from Amazon Kindle Unlimited with an unlimited reading offer for \$9.99, highly attractive to power readers • Lack of trust and undermined reputation among the heavy readers in the domestic market due to the change in membership conditions and the perceptions of Scribd offering insufficient value for money |

| | | |
|--------------|--|---|
| Risks | <ul style="list-style-type: none"> • Inaccurate estimation of the market potential • Mismatch of the product offering with the local consumers' needs and expectations • Poor fit of the local strategy adopted by the subsidiary with the core strategy of the company • Local publishers' unwillingness to collaborate due to their agreements with Skoobe | <ul style="list-style-type: none"> • Inability to create a sustainable differentiated positioning to compete effectively with Amazon KU • Insufficient size of the target segment interested in and willing to pay for a premium subscription |
|--------------|--|---|

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Appendix

Scribd app screenshots





Source: Scribd Android app

Big Five Publishers revenues

| Rank by revenue worldwide | Company | Parent company | Parent country | Revenue, \$m, 2014 | E-books, % of revenue |
|---------------------------|----------------------|-------------------------|----------------|--------------------|-----------------------|
| 1 | Macmillan | Holtzbinck | Germany | \$1640 | n/a |
| 5 | Penguin Random House | Bertelsmann AG, Pearson | Germany, UK | \$4046 | 20% |
| 8 | Hachette Livre | Lagardère Publishing | France | \$2439 | 10.3% |
| 16 | Harper Collins | News Corp. | US | \$1434 | 22% |
| 30 | Simon & Schuster | CBS | US | \$778 | 23.2% |

Source: *Publishers Weekly* Global Ranking 2015

Public comments after the change in subscription conditions

| |
|---|
| “They are continuing their trend of giving less value <...> While I believe that I seldom went over three books a month with Scribd, just knowing that I could was a big selling point for me. I'm out.” (jhowell, MobileRead forum) |
| "I've been going mad with all of the changes. Lost well over 100 books that I was reading in the last 15 months. Most of those lost were read more than 60%," (SoSadScribdUser, ebookevangelist.com) |
| It's a shame, but Scribd is just not worth it anymore. (foreverfan39, AppStore) |
| I would pay twice as much for a true unlimited, growing, thoughtful catalogue. Current subscription now offers no value, zero utility. (idiotwithzen, AppStore) |

Source: compiled by the author

Key economic and demographic indicators for Germany

| Indicator | Value |
|---|-----------|
| GDP per capita | \$47773 |
| GDP per capita annual growth rate | 1.33% |
| Disposable income | \$31252 |
| Population | 81.9 mln. |
| % in urban areas | 73.9 |
| Population growth rate | -0.18% |
| % of population who completed secondary education | 86% |

Source: compiled by the author

Reading habits and mobile usage in Germany

| Indicator | Value |
|---|-------|
| % of adult population who read books | 76 |
| Titles in English, % of bestselling books | 1 |
| E-books, % of the | 5 |

| | |
|--|------|
| market revenue | |
| Adults who read e-books, % of the population | 25 |
| Smartphone penetration, % of mobile phone users | 64.4 |
| Mobile Internet penetration, % of mobile phone users | 65.8 |

Source: compiled by the author

Preferred means of reading e-books in Germany

| Device | % of readers who prefer to read on this device |
|-----------------|--|
| Notebook/Laptop | 41% |
| Smartphone | 38% |
| E-reader | 34% |
| Stationary PC | 21% |
| Tablet computer | 20% |

Source: Bitkom, 2015.