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# Thesis

AN ANALYSIS OF THE IMPACT IMPLEMENTING THE  
SUBSCRIPTION MODEL WHILE OFFERING PRODUCTS DIRECTLY  
TO CONSUMERS HAS ON SME COFFEE BUSINESSES IN THE  
NETHERLANDS.

MICHIEL VAN DER PAAL  
INTERNATIONAL FOOD BUSINESS  
PAT BURGESS

# Subscription Model Adoption in the Coffee Industry

Written by Michiel van der Paal

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Coached by Pat Burgess



## Preface and acknowledgements

This report is the final proof of proficiency (thesis) for my bachelor study International Food Business. The thesis is the last report of my 4 years of studying in which I aim to show in a structured manner that I am sufficiently skilled to close of my studies and start the working live.

The thesis is written by me, Michiel van der Paal, soon to be graduate from Aeres University of applied sciences. During my time here I have learned invaluable lessons, especially during my internships, and I am certain that I have obtained the necessary skills to start my career. Besides skills and lessons learned here, I have also created tons of good memories and made some friendships along the way that will be in my heart for a long time.

The topic of the thesis will be focused on the coffee industry in the Netherlands, SME's within the coffee industry, and how a subscription based business model can help improve business functions. The idea for the topic arose when I asked my friend, Glenn Coronel, if I could do research into a problem that he has to deal with within his company; but was not solely applicable to his business.

I would like to thank Glenn Coronel for giving me access and insights into his business; and coming up with the topic.

I would like to thank my coach Pat Burgess, he helped me set my view straight and also challenged me along the way to keep improving and adjusting where and when needed so that I could deliver what was requested.

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And last but not least, I want to thank Nicole Horsmans and Daan Harterink from Soof drinks, my 2<sup>nd</sup> year internship company; Jason Antony from VeganSupply.ca, my 3<sup>rd</sup> year internship company in Canada; and the Global Procurement Logistics & IT team from Jacobs Douwe Egberts, my 4<sup>th</sup> year internship company

### Acknowledgements

After the RPP, the materials and methods section has been altered on suggestion of the coaches.

## Summary

The aim of this thesis was to assess how business processes, particularly logistics and customer service, of an SME coffee retailer in the Netherlands are affected by the implementation of the subscription model while offering products directly to the consumer.

Omnichannel retailers are increasingly introducing subscription-based delivery services. However, little is known about the effects of the implementation on logistics and customer service processes particularly in small to medium enterprises. Therefore, the following main question was developed:

*What are the effects of adopting the subscription model in direct consumer channels of SME coffee retailers in the Netherlands?*

To research this, a case-study approach was chosen to obtain further in-depth information on the impact of SBDTC channels on logistical and customer service processes in (food) SMEs. The main method of research was in-person semi-structured interviews with the decision makers inside the company, as well as an open-ended non-standardized structured interview via e-mail with an expert in the field of subscription-based software.

The results showed that logistical processes are mainly positively affected by the subscription model adoption. Improved predictability led to savings in purchasing and inventory management. However, these savings are only made when properly executed. When this is not the case, the subscription model may be affecting the logistical processes negatively.

The results showed that customer service processes are hardly affected by the subscription model adoption. But it was revealed that SMEs, due to the lack of expertise, do not possess the resources required to optimally benefit from the customer data generated because of the subscription model adoption.

From this research it appeared that the subscription model effects on SMEs is significant. While some parts of the logistical process became more complicating, the logistical processes have been positively affected by the subscription adoption. The customer service processes have not been found to be affected by the subscription adoption. Generalizable activities to be done by an SME have not been found and is depending on the systems in use by SMEs.

The single case setting limits the appropriateness of the investigation to other institutions, however, the methods used in this study together with the general approach, are valuable contributions to a developing research subject which few have considered before.

Future studies should examine the extent to which SMEs can utilize customer data to optimally take advantage of e-commerce projects across business processes.

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# 1. Introduction

The success of the subscription model has altered the e-commerce or EC landscape. Numerous new and innovative businesses in a variety of industries are launching every week, focusing on the subscription model to provide a better customer experience and build loyalty (Hamano, 2017). Despite concerns as argued by Wiengarten, Lam, & Fan (2020) regarding the possible drawback of ecommerce initiatives, such as increased channel conflict and intensified price competition, which may hurt a company's future cash flows. Adopting an EC model does not only cause change to the demand side in terms of consumer behaviour but requires changes to supply chain structures and operations processes. According to OECD (2001) the entire cycle of business operations may be affected: production planning, logistics, inventories, and change of value-added components (such as compression of business operating cycles by the replacement of traditional intermediary functions, or direct integration of different activities in the value chain).

The need for new ways to engage comes from changes in consumer behavior, the channels used for shopping, and the technology that drives these channels. Consumers are increasingly demanding and self-aware, especially younger and higher-income shoppers, which bring challenges and opportunities for makers of packaged goods (Oliver Weyman, 2018). Traditional brick-and-mortar retailers have been valued as intermediaries to select and deliver products, but perception of this value is fading. Globally more people are turning to online channels to find what they are looking for at their fingertips and consumer packaged goods firms are finding other ways to reach consumers. New direct routes to market, with a wide spectrum of approaches, are helping companies put the consumer back at the heart of their strategies (Oliver Weyman, 2018), as is the case with the subscription model. Understanding the effects of the subscription model implementation could therefore help to prevent or reduce the associated costs.

**Scope:** E-commerce sales have grown significantly over the last two decades in all the main markets. The habits of consumers shopping online have rapidly changed as a result as well as the constant search of online retailers for new and more profitable business models offering more flexibility and alternative shopping experience for consumers (Marchet, Melacini, Perotti, Rasini, & Tappia, 2018; Emeç, Çatay, & Bozkaya, 2016). This includes offering online shopping, home delivery, and click and collect services as well as subscription pricing to allure more significant segments of customers, and to gain competitive advantage (Lagorio & Pinto, 2020).

**Purpose:** The purpose of this thesis is to assess how business processes, particularly logistics and customer service, of an SME coffee retailer in the Netherlands are affected by the implementation of the subscription model while offering products directly to the consumer. In an attempt to give SME coffee business owners who want to start with implementing a subscription-based business model valuable insights on the effects of the implementation on logistics and customer service processes.

**Limitations:** Focus on just the coffee industry as well as one country (the Netherlands)

**Keywords for Theoretical Framework:** subscription business model, the Netherlands, coffee, direct to consumer, food delivery retail

The structure of this thesis will start with a description of traditional versus online channel choice. Followed by a summary of the advances in the food delivery market; and an overview of this market in the Netherlands. Subsequently, the direct to consumer channel (D2C) is explained. A small overview of food and drink SMEs in Europe is given, after which the global coffee market is described as well as the preference of the Dutch coffee consumers. Lastly, subscription commerce is described and elaborated on. In Chapter 2 the materials and methods are discussed. Chapter 3 displays the outcomes of the research. In chapter 4 the results are discussed and in chapter 5 the research is concluded, and recommendations are given.

## 1.1 Online marketing and Distribution channels

A company that manufactures products has to deliver these to the customer. This can be by means of retail, mail order, wholesaling among others. The delivery of products to the customer is called distribution (Boekema, 2005). The stream through which the products flow is called the distribution channel. Sometimes companies use intermediaries to distribute their products. The number of intermediaries in between the producer and the consumer can differ, this is called channel length. Sometimes a company decides to not use intermediaries and deliver the product straight to the consumer, this is called direct distribution. In other cases, companies do decide to use intermediaries. When there is only one intermediary, people refer to a short, direct channel. When there are multiple intermediaries people refer to a long, indirect channel (Boekema, 2005).

Direct-to-consumer (or D2C) companies manufacture and ship their products directly to buyers without relying on the traditional channels or intermediaries as this allows D2C companies to sell their products at lower costs than traditional consumer brands, and to maintain end-to-end control over the making, marketing, and distribution of products (DiPietro, 2020).

Traditional channels are extremely efficient, because consumers do most of the labour-intensive work for the retailer: order picking in the store and transportation of goods to the home. Online retailers have to pay and train employees to do this work without error. On top of that, costs are made on IT, order management, after sale services among others. Distribution costs of online grocery shopping are twice the distribution costs of traditional food stores, in the case of low market penetration or sub-standard execution, this could increase even further (Botha, Bothma, & Geldenhuys, 2008).

### 1.1.2 D2C Benefits

DiPietro (2020) states the following direct to consumer channel benefits:

- Cut out the middle men - *Cutting out the enterprises in-between a business and the customer allows for all the profit to end up in the business' account as opposed to shares of the profit being taken by these enterprises.*
- Better connect with customers – *As a business is in direct contact with their customers, first party customer data becomes available and allows for the business to better anticipate trends and create customized experiences according to the individual's needs. Customer data has become one of the most important assets for digitally native brands.*
- Expand mindshare – Fast – *In traditional business models, establishing a local, regional, national or international presence could take years or even decades as companies would need to show success, build new relationships and expand to the next level. In the D2C model the 2 things needed are the product and a website to sell the product. Geographical boundaries are eliminated provided that the shipping capabilities allow for global delivery.*
- Full control over the brand – *3 of the 4 marketing P's (place, price, promotion) are controlled directly by the business' therefor allowing the business to tailor these to the customer's needs or in any case tailor these in such a way the business sees fit.*
- Be everywhere, all the time - *Whereas traditional supply chains require businesses to adhere to the policies of the enterprises in-between the business and the customer; and so making it difficult to e.g. beta-test a new product and get immediate feedback from customers or even expand to a different retailer. D2C utilizes various channels such as the site, social media, e-mail campaigns, CRM software etc. to get a 360-degree view of their (potential) customers and communicate with their consumer market. Taking advantage of both digital channels and physical outlets allows companies to successfully create an omnichannel formula that reaches a lot of people.*



### 1.1.3 D2C Challenges

#### *Last mile delivery (fulfilment)*

Capgemini (2018) found that consumers are not satisfied with the current state of last-mile delivery. The top causes are high delivery prices, unavailability of same-day delivery, and late deliveries; on top of this last mile is the costliest link in the supply chain. Reflecting fast-changing customer expectations, 40% of consumers now rank delivery services as a “must-have” feature for food and grocery purchases. And one in five consumers (20%) say they are prepared to switch retailers if delivery services are not provided. “The delivery and supply chain costs are much higher for online deliveries, leading to lower profitability.

#### *Customer churn*

Subscription providers are seeing a significant obstacle emerging: customer churn. This refers to the number of customers who stop paying for the subscription, or unsubscribe, during a given period of time. There are two forms of churn — voluntary and involuntary — and each represents a serious challenge to the subscription economy (Rogers, 2020).

Voluntary churn occurs when a customer, based on their experience with the subscription, consciously chooses to unsubscribe.

Involuntary churn occurs when a subscription ends due to a payment issue.

#### *Forecasting/Omni-channel experience*

Consumers now demand the convenience of shopping how, when, and through the channel they choose. This growing Omni-channel shift is both a challenge and an opportunity (FMI, 2019). The challenges to retailers are improving the accuracy of offline and online channels demand forecasting (competing for the same inventory), better managing offline and online customer’s needs, thus reducing the uncertainties of the Omni-channel retailing supply chain (Pereira & Frazzon, 2019).

#### *Shopper insights (tailoring offers to customer needs)*

Deeper data on the consumer drives enables the Digitally-Native Vertical Brands to stay closer to the customer than its brick and mortar driven peers, and the ownership of the brand end-to-end fuels more affinity for a vertical commerce brand than even the best e-commerce experiences. (IAB, 2018) However, according to Britzelmaier, Graue, & Sterk (2010) there is a lack of expertise within the companies to deal with the new kind of data analysis. Highly qualified people in the field of big data need both, technical IT knowledge and a well-developed business management understanding. Not many specialists like these are currently on the market and SMEs find them exceptionally hard to employ. The lack of specialist and increased awareness of big data also leads to another problem, high costs.

Studies show that an appropriate integration of multiple channels leads to a competitive advantage and channel synergies – such as sales growth, revenue increase – rather than channel cannibalisation (Marchet et al., 2018).

## 1.2 Food delivery in the Netherlands

Food delivery is not new, actually, the pedlars, hawkers and the Supermarket Riding Vans (SRV-wagens) who were active well into the seventies of the last century, showed that retailers were already delivering directly to the consumer well before the advent of the digital age.

Partially driven by the ageing of the digital natives, so-called Millennials and Generation Z, traditional brick-and-mortar stores started exploiting new, online-based business models to provide better services to customers: this includes offering online shopping, home delivery, and click and collect services to allure more significant segments of customers, and to gain competitive advantage.

The changes lead to new ways businesses can reach and supply their customers; ways that are made possible by technological developments. Click and collect services, subscription services and the rise

of home delivery could not have taken such a flight without modern communication technologies such as (mobile) internet (Bureau Stedelijke Planning bv et al., 2015).

Growing IoT acceptance and usage by retailers is likely to generate more consumer data, helping retailers and consumer companies to deliver more personalized experience to the next-gen shoppers (Deloitte, 2017). E.g. smart coffee machines that know how much coffee beans are left, for how long they will last and will send a notification to all people using the kitchen when beans are close to running out. Extending this service and sending the notification directly to the coffee bean supplier can create valuable insights for the supplier so that they can make sure they deliver a new batch of coffee before the last beans are consumed and the customer never runs out of coffee.

According to Food Service Institute Netherlands (2018) delivery is the fastest growing segment within the total Dutch food industry. In a time span of 5 years, total online food delivery turnover grew 400%. The online delivery market is divided in 2 segments: in 2018 delivery in Food Service (meal delivery) accounted for a slightly bigger share in the market with 54% (€1.7 Billion) of the total market value whereas delivery in Food retail (grocery delivery) accounted for 46% (€1.5 Billion) of the market value.

A study by ING (2015) suggested that by 2020 20% of all groceries sold in the Netherlands are sold through online channels, a 1000% increase from 2015. Even though the current market outlook shows that that prediction is false, the Dutch online grocery market is developing fast (Geluk, 2018). A study by Capgemini research institute (2018) showed that 40 % of consumers use grocery delivery weekly and this number is expected to climb to 62% in the Netherlands; delivery will become increasingly important as online ordering accelerates.

### 1.3 Delivery Food Retail in the Netherlands

As shown in figure 1 the majority of online food retail turnover goes to supermarkets: 1 billion euros (+ 40%), deep freeze delivery (25 millionm-7%), beverage delivery (227 million, + 12%), fresh box delivery (155 million, + 12.5%) and other (67 million +13%). The researchers argue: "The classic supermarket model of weekly shopping is coming under pressure." Wine delivery dominate the beverage delivery segment. Many consumers order wine via the internet. Nespresso also falls into this segment, which rose 12% in 2019 (Food Service Instituut,2019a).

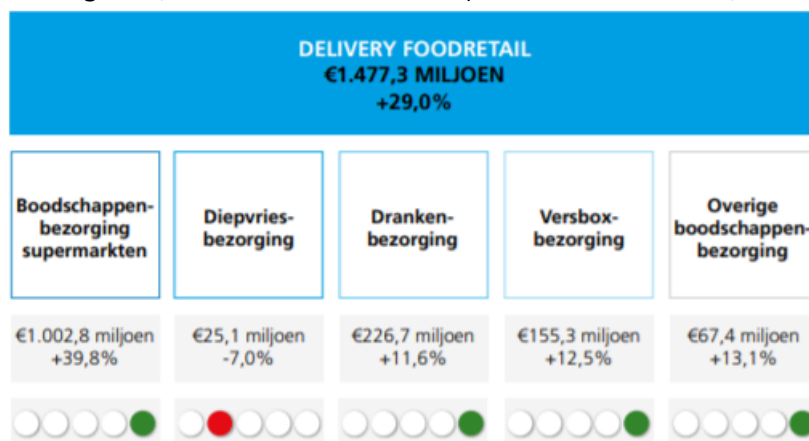


Figure 1 (Food Service Instituut, 2019a)

## 1.4 Global Coffee Market

According to different researches the global value of the coffee trade is estimated to be valued around 200 USD billion (Mordor Intelligence, 2019; Samper, Giovannucci, & Vieira, 2017). The coffee market can be divided in two categories: by product type or by distribution channel. There are 4 product types namely: Whole bean, ground coffee, instant, and coffee pods. There are 2 distribution channels which are on-trade/OOH and off-trade/AtHome. Within the off-trade/AtHome channel there are 4 groupings supermarket/hypermarket, convenience stores, specialist retailers and other distribution channels such as online retail.

The off-trade/AH channel accounts for the 45% (90 USD billion) of the total value and 65% of the total consumption value. (Samper et al., 2017) Around 75 USD billions of the off-trade/AH channel value is sold by the supermarket/Hypermarket grouping (Samper et al., 2017).

Exact data on how the remaining 15 USD billion is divided between the other groupings is not freely available, but one thing to be noted is that the grouping other distribution channels which includes online retail is expected to be the highest growing distribution channel. (Mordor Intelligence, 2019) This factor can be attributed to consumers around the globe, as consumers are increasingly moving toward online grocery shopping as it provides the leisure of browsing different offers and delivery of the products is very convenient, thus drawing more consumers.

## 1.5 The Coffee Industry in Europe and the Netherlands

Europe accounted for 33% of the global coffee consumption in 2018, amounting to 3,222 thousand tonnes of coffee (International Coffee Organization, 2019a). This makes Europe the largest coffee market in the world. Germany, France, Italy, Poland, Spain and the Netherlands are all large-sized coffee markets and accounted for 66.1% of the total European consumption (European Coffee Federation, 2019). The Netherlands accounted for 5.6% of total European consumption (European Coffee Federation, 2019). The Netherlands' per capita coffee consumption is one of highest in the world; with 8.4kg annually, the Netherlands is ranked 5<sup>th</sup> in top 10 coffee consuming nations (CBI Ministry of Foreign Affairs, 2019b).

The Netherlands is the sixth largest importer of green coffee beans in Europe, with a share of 6%. Its total imports reached 190 thousand tonnes in 2017. Imports between 2013 and 2017 increased at a high annual average rate of 26%, which is much higher than the average increase in Europe of +1% annually (CBI Ministry of Foreign Affairs, 2019a). The Netherlands is an important trade hub in Europe that re-exports many different products, including significant amounts of coffee. In 2017, the Netherlands was the fourth largest re-exporter of green coffee beans in Europe. Total Dutch re-exports amounted to over 21 thousand tonnes, almost €67 million. (CBI Ministry of Foreign Affairs, 2019a).

## 1.6 Subscription commerce

### 1.6.1 Explained

A study by ING (2018) defines a subscription as: an arrangement that facilitates regular delivery or long-term use of a service or product. The arrangement settles what the product/service is, frequency of usage/delivery, at what cost, and within what timeframe.

<i>Regular delivery or long-term use - The product or service is delivered frequently (mainly consumables) or available for 'long term' use (mainly services and durable goods). We distinguish long term good subscriptions from short term renting (like renting a bike for a day on holiday). Home rental and education were excluded in the survey, while public transport was included.</i>
<i>Frequency - The subscription contract settles delivery frequency (for instance one foodbox per week) or maximum usage (for instance maximum kilometers in a private lease contract).</i>
<i>Costs - The subscription contract settles cost structure (for instance basic fee + pay-per-use, pay per period or hybrid models) and price.</i>
<i>Timeframe - The subscription contract settles minimum (can also be zero) and maximum contract duration (if any) and cancellation policies.</i>

Table 3

The total size of the B2C subscription economy can be estimated at around € 350 billion (€ 130 monthly per household), around 5% of total European consumption is spend on subscription. The report distinguishes 4 types of subscriptions, namely durable goods (private lease cars), consumables goods (newspapers), information goods (Netflix, Spotify) and service subscriptions (internet, gym).

The study shows that there is room for further growth of subscriptions to tangible goods within younger target groups. The number of people that do not have a subscription but think about taking one, exceeds the number of people that currently subscribe, but think about churning. Coincidentally, of the 22% coffee drinkers aged 16-34 63% drinks coffee weekly; and of the 35% coffee drinkers aged 35-54 84% drink coffee weekly. Which is the same age range as the groups with the most potential for future growth of subscriptions to tangible goods such as coffee.

Additionally, people with high income are a target group for the growth of tangible goods subscriptions. However, low- and middle-income groups could still be an interesting target group. They show almost as much interest in taking on new subscriptions as high-income groups. And especially for them, subscriptions could make expensive and high-quality durable goods accessible such a coffee machines.

### 1.6.2 Why do businesses start subscription models?

Table 4 illustrates the drivers for adopting a subscription model and why/how offering subscription helps to achieve these drivers.

ING (2018)	To decrease costs	<ul style="list-style-type: none"><li>• A stable recurring revenue stream helps attract investors (lowering financing costs)</li><li>• Improved predictability makes it easier to facilitate Just-in-time (JIT) production, manage resources and inventory</li><li>• Improved predictability helps to reduce logistics costs</li></ul>
ING (2018)	To increase revenues	<ul style="list-style-type: none"><li>• People who cannot or are not willing to pay the purchase price may be willing to take on a subscription (lower financial threshold)</li><li>• Long-term recurring revenues exceed one-off sales per customer</li><li>• Long-term relationship/customer intimacy makes it easier to get to know customers and meet customer expectations with additional products and services</li><li>• Subscription model adds value for customer. They might be willing to pay a higher price.</li></ul>
ING (2018)	To improve sustainability	<ul style="list-style-type: none"><li>• Higher/better utilization and/or reuse of products</li><li>• Increase sustainable positioning</li></ul>

Table 4

As shown in Table 4 ING (2018) adoption of the subscription model can lead to a competitive advantage through enhanced predictability and recurring revenue, increased customer retention and potentially improved circularity.

### 1.6.3 Why do consumers take on subscription?

**Consumers look at price and added value.**

When opting for subscriptions consumer look at 2 sides.

1. What is the relative price of the subscription compared to a one-off transaction?
2. What extra value does the subscription add compared to one-off transactions?

**Added value can be multidimensional**

The added value differs per offering/offer and can be single- or multi-dimensional.

E.g. extra services, extra convenience, a reduction in transaction costs, the ability to get the latest model, the flexibility to up/downgrade, a lower environmental impact or a combination of the above.

**Expensive subscriptions can succeed if added value is high enough**

Generally, subscriptions that save money will attract customers. Expensive subscriptions will only be successful when the perceived extra added value is high enough. A combination of both has the highest probability of success.

**Added value of subscriptions differ for durable and consumable goods**

Both the value added and the price of subscription offerings are influenced by many drivers and will be explained in the next section.

A study by Tao & Xu (2018) argues one main advantage of using subscription services is convenience and comfort. Consumers can save time, reduced cost coming from the free shipping as well as the discounts offered by the subscription retailers, personal styling service, preview of the delivery and no-long term membership commitment requirement.

#### *Advantages*

**Convenience:** Participants perceived the convenience benefits from two perspectives, namely, Time saving and hassle free “it saves time for people who don’t have time to go to the mall and try on.

**Personalization:** Some valued the personal styling service in helping to obtain more fitted products. Others commented the physiological benefits for using personalized service offered by subscription service.

**Consumer excitement:** Some subscription services providers do not give the option for customers to preview the selection of items to be delivered, participants indicated that they would enjoy the potential excitement of receiving “surprise” products. Even if they previewed items online, participants revealed that waiting for a package is exciting.

**Opportunities to try new sales:** On one hand, consumers would be able to access to those styles that are not available in stores or online retailers. On the other hand, subscriptions services may give consumers the opportunity to try styles that they would typically not try.

**Opportunity for budget management:** Some participants thought using subscription services can help consumers to better manage their budget. Some mentioned that subscription services could help them reduce impulse purchases and change their shopping styles.

#### *Disadvantages*

**Ease of cancelling:** Some participants recognised the ease of canceling or temporary stopping the subscription. However, the process required action from the customer within a certain amount of days. After which the subscription would continue and the user was stuck with the subscription for another period.

**Missing social shopping experience:** One major area of concern was the missing social experience of shopping in a physical store. Missing fun of picking and trying-on products. Others did not like the e-mail communications from the service providers.

#### 1.6.4 Creating success in durable goods subscription

Table 5 illustrates an overview of the factors and suggestions that increase the chance of building a successful durable goods subscription model.

ING (2018)	Product type	<ul style="list-style-type: none"> <li>• Focus on maximum lifespan per product: <i>Design for circularity, focus on reuse instead of costs</i></li> <li>• Customers do not care/need to own. <i>For some products 'owning' has no intrinsic value for consumers</i></li> <li>• Does not lose relevance over time. <i>Products that are technologically obsolete over a few years have less reuse potential</i></li> <li>• Customers only use temporarily, <i>so purchase is a less attractive alternate</i></li> <li>• Have a high purchase price. <i>Provide access to people who cannot afford to buy the product</i></li> <li>• Can maintain high standards such as quality labels, guarantees of origin after first use</li> <li>• Is easy/cheap transport, <i>lowering costs</i></li> <li>• Is easy/cheap to refurbish, <i>lowering costs</i></li> <li>• Has low default and residual value risk, <i>lowering costs</i></li> </ul>
ING (2018)	Market type	<ul style="list-style-type: none"> <li>• Where regulations favor a subscription model: this can also differ from country to country</li> <li>• In which you have better access to the second-hand market <i>than customers</i></li> <li>• Where you can team up with existing players <i>to increase scale, generating scale advantages</i></li> </ul>
ING (2018)	Client relationship & usage of data	<ul style="list-style-type: none"> <li>• Beware of adverse selection: <i>do not accept every customer. Invest in proper credit checks upfront</i></li> <li>• Build a community, <i>interact with customers, to improve customer relationship and increase loyalty</i></li> <li>• Ask for feedback, <i>use the subscription as 'free' market research</i></li> <li>• Know where your product is <i>to reduce moral hazard: let customers know that their product is 'being watched'</i></li> <li>• Know how/when/how much your product is being used <i>to innovate with additional features or next-generation products or sell associated products and services</i></li> </ul>
ING (2018)	Financing subscriptions	<ul style="list-style-type: none"> <li>• Gain access to cheap financing <i>low financing costs drive costs down</i></li> <li>• Beware of interest rate risks <i>low</i> <i>Low interest rates and the fact that corporates face lower rates than consumers are part of the attractiveness of durable goods subscriptions. Effectively, companies offering subscriptions become credit providers for consumers. This means they also run interest rate risks.</i></li> </ul>

Table 5

For durables, the report found that the most valued aspects of a durable subscription for Europeans are avoidance of the risk of maintenance or repair cost; the ability to always have an up-to-date product; and the possibility of accessing a high quality product without paying a high purchase price.

### 1.6.5 Creating success in consumables subscription

illustrates an overview of the factors and suggestions that increase the chance of building a successful consumable goods subscription model.

ING (2018)	Product type	<ul style="list-style-type: none"> <li>• High usage predictability, <i>thereby reducing your costs while preventing oversupply.</i></li> <li>• 'High' transaction price per unit. <i>A subscription reduces the 'pain of paying' for consumers</i></li> <li>• High usage frequency. <i>This maximizes transaction costs reductions of subscriptions</i></li> </ul>
ING (2018)	Market type	<ul style="list-style-type: none"> <li>• Where there is not much online competition yet. <i>Be first and grow fast to generate scale advantages</i></li> <li>• That is not driven by discount offerings. <i>This reduces churning of price-sensitive customers</i></li> <li>• Where 'transaction costs' of one-off transactions are high.</li> </ul>
ING (2018)	Client relationship	<ul style="list-style-type: none"> <li>• Offer free trials <i>to get people 'hooked'</i></li> <li>• Communicate personally <i>to increase brand loyalty</i></li> <li>• Build a community, <i>interact with customers, to improve customer relationship and increase loyalty</i></li> <li>• Surprise customers <i>to increase loyalty</i></li> <li>• Constantly improve customer experience, <i>focus on simple processes and pricing</i></li> <li>• Offer maximum flexibility. <i>Locking in customers is not sustainable</i></li> </ul>
ING (2018)	Usage of data	<ul style="list-style-type: none"> <li>• Know how/when/how much your product is being used <i>to innovate with additional features next-generation products or services</i></li> <li>• Ask for feedback, <i>use the subscription as 'free' market research</i></li> <li>• Use data <i>to improve customer experience and increase loyalty</i></li> </ul>

Table 6

ING (2018) argues subscriptions can be more expensive than one-off purchases because additional services are included in the price. Time-constrained consumers are seeking the convenience that subscriptions offer. Automated subscriptions to consumables such as ink, flowers or food boxes, which reduce the time spent travelling, browsing and shopping can have a significant positive effect on mood. The potential for successful consumable subscriptions is slightly lower than for durables. From a consumer perspective, the sweet spot is high-usage frequency and predictability of a product combined with high transaction costs to get the product. such as transport hassle, at every purchase. This can increase the added value for consumers at acceptable costs. Consumers will be willing to pay only if added value is seen.

For consumables, such as razor blades, ink, added value comes from the convenience of not having to purchase items. As razor blades have a predictable life span, they can be sent at appropriate intervals; other consumables, such as toilet paper, have less predictable usage patterns while a surplus or deficit of the product is more inconvenient to the consumer. This shows that not all products are a fitting option for the subscription model.



The academic literature on SBDTC channels is limited. Table 9 shows the present research findings: while the establishment of Internet distribution channels generally benefits firms. There are no studies examining the impact of channel expansions in the context of SBDTC channels. Subscription-based revenue models are inherently different from traditional transactional business models in that they lead to recurring revenues and growing margins however, available research provides limited insights into their effectiveness (Fennell and Pasirayi, 2020).

Relevant Literature on Channel Expansions.

Study	Journal	Context	Factors							Key Findings
			Qual	Excl	Power	DV	Int	DTC	Sub	
<a href="#">Cheng et al., 2007</a>	Industrial Marketing Management	Event study of Internet channel launches for banks in Taiwan				CAR	√			Internet channels increase firm value.
<a href="#">Deleersnyder et al., 2002</a>	International Journal of Research in Marketing	Event study of online newspaper launches in the Netherlands and UK.				CAR	√	√		Internet channels additions increase firm value.
<a href="#">Geyskens et al., 2002</a>	Journal of Marketing	Event study of online newspaper launches in France, Germany, the Netherlands and UK.				CAR	√	√		Internet channels additions increase firm value.
<a href="#">Gielens &amp; Steenkamp, 2019</a>	International Journal of	Conceptual				N/A	√	√	√	Conceptual article on D2C and disintermediation.

Study	Journal	Context	Factors							Key Findings
			Qual	Excl	Power	DV	Int	DTC	Sub	
	Research in Marketing									
<a href="#">Homburg et al., 2014</a>	Journal of Marketing	Event study of channel expansions listed in the US, Germany and China.				CAR				New distribution channels typically increase firm value; however, market competitiveness and turbulence can reduce these effects.
<a href="#">Subramani &amp; Walden, 2001</a>	Information Systems Research	Event study of e-commerce announcements in 1998				CAR	√			Internet channels increase firm value. This increase is larger for B2C vs B2B, for tangible goods vs digital goods.
Current Study		Event study of subscription-based DTC channels in the paid TV industry	√	√	√	CAR	√	√	√	Announcements of Internet channel launches reduce firm value. Channel power, the quality and exclusivity of offerings help to offset these reductions in firm value.

Table 7

**Knowledge gap:** Extant research on subscriptions tends to focus on how moving from free (i.e., ad-supported) to fee-based subscriptions impacts revenues; however, it does not evaluate the impact of SBDTC channels. Furthermore, research examining Internet-based channel additions tends to focus on instances where firms previously sold their offerings directly to consumers as opposed to relying exclusively on intermediaries to bring their offerings to market. To address this literature gap, this research aims to explore the potential effects subscription model adoption has on SME coffee retailers in the Netherlands selling via the direct to consumer channel.

**Relevance:** This research aims to provide new insights into the adoption process of the subscription model from a business management perspective.

From a managerial perspective, businesses considering the adoption of the subscription model can use this research to help determine what the effects of adopting the subscription model has on the respective business.

**Objectives:** To provide advice/guidance to companies on the effect of subscription models.

### 1.7 Main question

What are the effects of adopting the subscription model in direct consumer channels of SME coffee retailers in the Netherlands?

### 1.8 Sub questions

1. How are logistical processes affected by the implementation of the subscription model while offering product directly to the consumers?
2. How are customer service processes affected by the implementation of the subscription model while offering products directly to the consumer?
3. Which activities must be done by a SME to implement a subscription model in the coffee industry?

## 2. Materials and methods

In this chapter the methodology will be discussed as well as the materials and methods per sub question. The methodology section describes the overall approach taken for this research, the materials determine the tools to collect the data and the methods section explain which data is used, how it will be used and when.

### 2.1 Methodology (research design)

A few studies Taylor (2017); Scholer (2018) recognize the likenesses between the coffee and wine industry. Therefore, this research employs a case study carried out within the wine industry adjusted to the coffee industry. This choice affects the data-collection strategy, Saunders, Lewis, & Thornhill (2009) argues that the case study strategy will be of particular interest if someone wishes to gain a rich understanding of the context of the research and the processes being enacted. The single case setting limits the appropriateness of the investigation to other institutions, however, the methods used in this study together with the general approach, are valuable contributions to a critical and developing research subject. Because it provides an opportunity to observe and analyse a phenomenon that few have considered before (Saunders, Lewis, & Thornhill, 2009).

This research adopts an empirical approach through a single case study. A case-study approach was chosen to obtain further in-depth information on the impact of SBDTC channels on logistical and customer service processes in (food) SMEs. The main method of research is semi-structured interviews with the decision makers inside the company. The researcher will also join the company for a week and visit all departments in the company to have a better understanding of the context and phenomenon under study. After the results of the interview for sub question 1 and 2 have been materialised, the results will be placed into the model for sub question 3 and analysed.

Figure 4 below illustrates the different phases of the research. In phase 1 the preparations for the interviews will be taken as well as the conducting of the interviews, in phase 2 the results will be analysed and applied in the model and in phase 3 the results are discussed and recommendations are formulated.

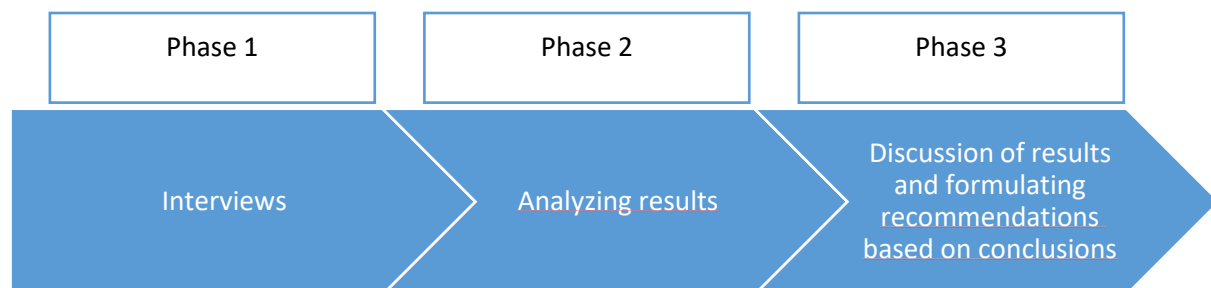


Figure 2

#### 2.1.1 CASE STUDY (Muñoz, Fernández, & Salinero, 2019)

The unit of analysis is the Dutch SME coffee retailer Caffé Coronel. Caffé Coronel is a family-owned business that sells coffee beans, coffee machines and maintenance products. The mission of the company is to bring the Italian coffee experience to the office/ at home. The brand's core business is B2B sales under the Caffé Coronel brand, the company already offers subscription pricing for this segment, but the company is aiming to expand its B2C sales under the Koffiystore brand by adopting the subscription model in this segment as well. The company is located in Blaricum, Noord-Holland, a central location in the middle of the Netherlands, where the company's showroom is as well as the

office. The company sources their beans from multiple countries, India, Brazil, Ethiopia, El Salvador and Costa Rica. The green beans are shipped to Italy, where a partner roaster roasts the beans according to the recipe of Tom Coronel Senior. From there on, the beans are shipped to the Netherlands and distributed onto the Dutch market.

The criteria used for selecting the case company were as follows:

- The case company needed to operate in the coffee retailing industry
- The case company needed to be an SME
- The case company needed to be in the Netherlands
- The case company needed to be in the proximity of the researcher's hometown
- The case company needed to be in the process of adopting the subscription model.
- The case company needed to be willing to open up their company to outsiders
- The case company needed to oversee their own logistics
- The case company needed to oversee their own customer service processes.
- The case company needed to have an online presence already.

Exclusion criteria:

The company also sold coffee machines, but these have been omitted from the research as the logistics were not overseen by the case company.

## 2.2 Materials for sub questions 1 and 2

### Interview Format

As the research tries to tackle the following open-ended complex questions and its objective is to provide advice/guidance to companies on the subscription models. It is deemed appropriate to use semi-structured interviews.

Non-standardised (semi structured and in-depth) interviews are used to gather data, which are normally analysed qualitatively, for example as part of a case study strategy. These data are likely to be used not only to reveal and understand the 'what' and the 'how' but also to place more emphasis on exploring the 'why'.

An interview will undoubtedly be the most advantageous approach to attempt to obtain data in the following circumstance: where the questions are complex or open-ended. A semi-structured or in depth-interview will be most appropriate for this type of situations.

As the data is based on meanings expressed through words, the data collected through the semi-structured interviews will not be able to be used to make statistical generalisations about the entire population since this is based on a small and unrepresentative number of cases as happens often with case studies and the analysis is conducted through the use of conceptualization. The data collected will be qualitative.

In **semi-structured interviews** the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview. The nature of the questions and the ensuing discussions mean that data will be recorded by audio-recording the conversation.

Additionally, to the interview questions discussed in the sub question sections. Questions about demographics of the company as well as questions about the expected changes because of the model. Deeper issues will be explored as they emerge.

The data will be analysed by qualitative content analysis where coded categories discovered in the interview transcripts will be inductively developed according to grounded theory techniques but also

drawing on the theoretical concepts wherever they will appear in the categories will evolve to conclusive states over iterative readings and will be grouped into data.

The themes will then be reviewed and key findings will be developed including findings regarding major influences and new trends.

*Sample:* The selected sample for the research is the case study organisation, in this case, Caff  Coronel as a whole.

### 2.3 Materials sub-question 3

For sub-question 3, an interview will be used to collect data to answer the sub-question. The interview consisted of open-ended non-standardized structured questions. The interview will be distributed via internet (e-mail). This is due to geographically dispersed locations of the respondents. The interview will consist of questions about the topic as well as some demographic questions about the respondent. The interview is done in English.

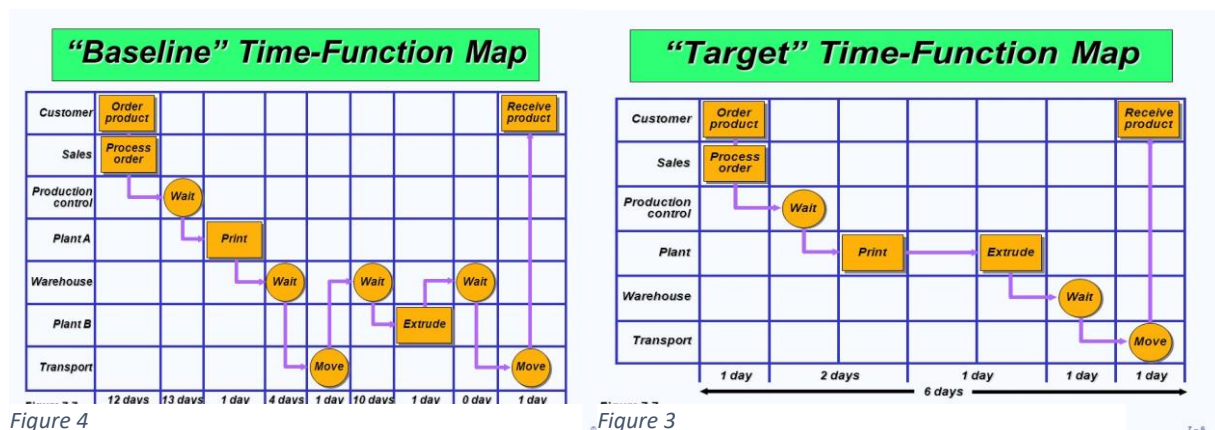
The first contact with the respondents is done through e-mail. The email towards the interview participants is written formally, an explanation of the research is included as well as an invite to participate in the research and an attachment where the participants can find the questions.

The interview aids in collecting all relevant data and assists in forming the answer to the research questions. The questions of the interview are formulated in a way that the interviewee gave information that is relevant to the research. The answers of the interviewee are analyzed after the interview. The findings of the interview are described in the results section.

In an attempt to identify similarities within the implementation practices of the subscription model, the interview will take place with an expert in the field of subscription-based software.

#### Time function map

An article by Luyar (n.d.) explains the time function map. The time function map is a process in a flow diagram with the added time on the horizontal axis. The tool is also called process mapping. The nodes indicate the activities and the arrows indicate the flow direction, with time on the horizontal axis. This type of analysis allows users to identify and eliminate waste such as extra steps, duplication and delay. It is also a communication tool, a business planning tool, and a tool to help manage the organization. The purpose of the time based process map is to represent the data collected clearly and concisely so that the critical aspects of the supply network can be communicated in an easily accessible way. It involves the gathering and organizing of facts about the work and displaying them so that they can be questioned and improved by knowledgeable people. Process maps aid in understanding by abstracting, using visual charting symbols consistently and masking unnecessary details.



### 2.2.1 Methods sub question 1

HOW ARE LOGISTICAL PROCESSES AFFECTED BY THE IMPLEMENTATION OF THE SUBSCRIPTION MODEL WHILE OFFERING PRODUCTS DIRECTLY TO THE CONSUMERS?

Figure 8 illustrates the steps taken to understand how logistical processes are affected by the implementation of the subscription model on the logistical processes.

Step 1 is interview setup (expert selection, question design, location selection. Step 2 is the hosting of the interviews. Step 3 is the analysis of responses through a conventional content analysis. Step four is the application of time function mapping to understand processes. Step 5 is the distribution and analysis of a follow up to the interview in the form of a Likert scale questionnaire (see appendix 2) for the experts.

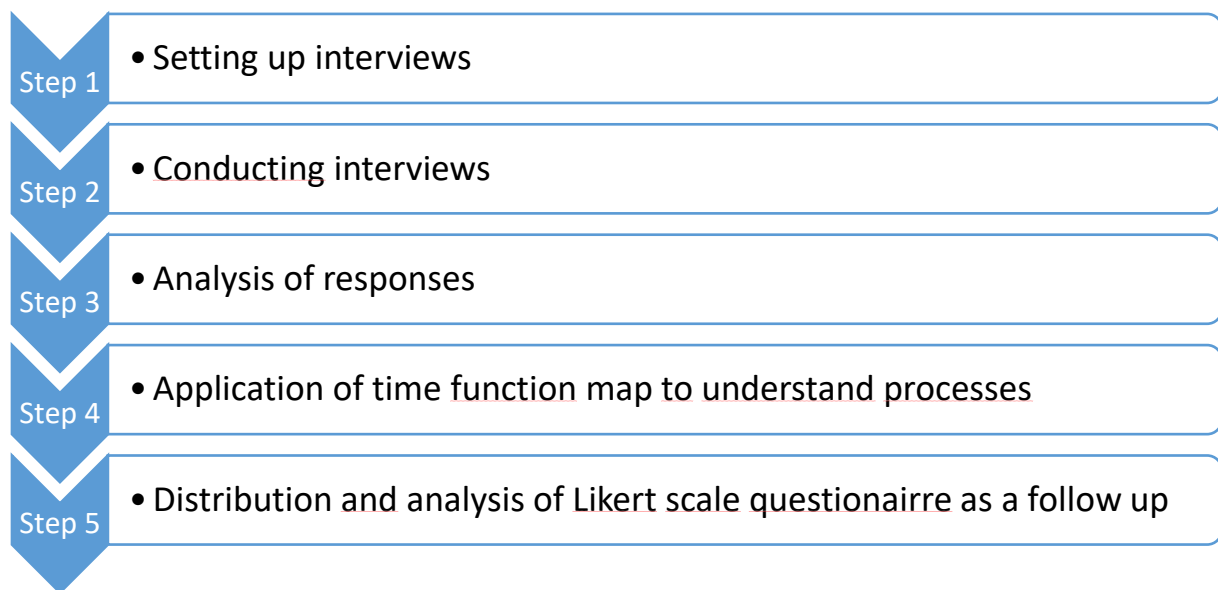


Figure 5

In the interview the following themes will be discussed.

Current logistical processes

1: How are your logistical processes currently organised?

Probe: Can you give me an example of the bottlenecks you often deal with?

Can you walk me through the order process?

2: Are your current logistical processes operating as you expect them?

Probe: Can you explain?

3: To what extent do the logistical processes influence the way you operate?

Probe: In what ways?

4: How do you think logistics can assist in gaining a competitive advantage?

Probe: Have you take measures to put this into action?

5: To what extent are the logistical processes integrated inside and outside the organization?

Probe: What are the perceived benefits from this?

What are the drawbacks?

6: How do you think the subscription model will affect these processes?

Challenges?

Benefits?



To analyze the data gathered from the proposed materials a time function map will be used (as shown in previous section). At first a base measure will be done (before the subscription model adoption) to map the current state of the logistical processes as is. Then after the subscription model is adopted, another measurement will be done to see what changed in between the period of the base and the new measurement. The differences between the base and the new measurement aim to visualize what has changed over the time period and provide insights on the changes that happened in order to see the effect of the adoption on logistical processes.

Internal company documents relating to logistics policies and practices were also analysed.

### 2.2.2 Methods sub question 2

HOW ARE CUSTOMER SERVICE PROCESSES AFFECTED BY THE IMPLEMENTATION OF THE SUBSCRIPTION MODEL AND OFFERING PRODUCT DIRECTLY TO THE CONSUMERS?

Sub question 2 applied the same approach as sub question 1. However, interview questions 7-12 are used. Other differences within this method include the focus on customer service processes.

Current customer service

7: How are your current customer service processes currently organised?

Probe: Can you give me an example of the bottlenecks you often deal with?

Can you walk me through the complaint process?

Challenges you are dealing with?

8: Are your current customer service processes operating as you expect them?

Probe: Can you explain?

9: To what extent does customer service influence the way you operate?

Probe: In what ways?

10: How do you think customer service can assist in gaining a competitive advantage?

Probe: Have you take measures to put this into action?

11: To what extent are customer service processes integrated inside and outside the organization?

Probe: What are the perceived benefits from this?

What are the drawbacks?

12: How do you think the subscription model will affect these processes?

Challenges?

Benefits?

## 2.3 Methods sub question 3

WHICH ACTIVITIES MUST BE DONE BY A SME TO IMPLEMENT A SUBSCRIPTION MODEL IN THE COFFEE INDUSTRY?

Figure 9 illustrates the steps taken to understand which activities must be done by an SME to implement a subscription model in the coffee industry.

Step one is interview setup (expert selection, question design. Step two is the distribution of the interviews. Step three is the analysis of responses. Step four is demonstrating the results.

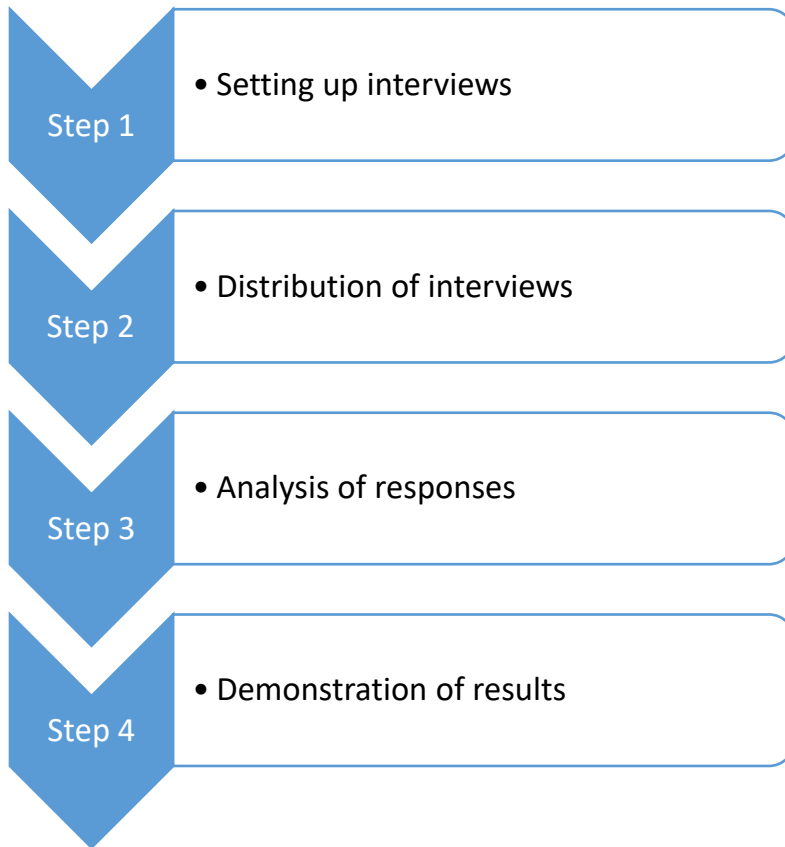


Figure 6

The following questions will be asked:

### **Subject questions**

Why did the organisation introduce the subscription model?

To what extent did business processes have to change due to the implementation?

What were the changes seen in the functional areas of the business, if any?

What were the changes seen in the non-functional areas of the business, if any?

In what ways did the implementation influence the business process?

What have you found to be the greatest needs in your organization for the implementation?

How are excitement and engagement created for a new subscriber?

What are the best practices for onboarding?

How is acquisition different when you are optimizing for lifetime customer value?

What disadvantages do your current members complain about most?

When someone is about to cancel, what are the best ways to save the relationship?

---

**Demographic questions**

What is your function?

For how long have you been working in this field?

---

### 3. Results

In this chapter, the results of the research are presented per sub-question according to the methodology which was used and presented in the Materials and Methods chapter.

#### Participants

2 individuals were invited to take part in the first interviews as these 2 individuals were the 2 associates within the case company. One individual was a female and the other individual a male. The associates were also brother and sister. Both the participants were in their early 30's and worked at the company for 5 years. The female focused on the B2C operations of the company, the back office, purchasing, shipments, administration, customer service and sales. The male focused on the B2B segment of the company, company- and product strategy, marketing, deliveries, customer service and sales. The interviews were held in-person at the office of the case company. During the interviews, the participant not being interviewed was in the same room as the interviewee but did not contribute to the interview. The interviews were voice recorded for transcription purposes.

The participant's stories both lasted 37 minutes on average, one participant's story lasted 36 minutes and the other participant's story lasted 38 minutes. The stories varied slightly in terms of personality and fluidity. One interviewee approached the questions from a more personal standpoint whereas the other interviewee approached the questions from a more holistic perspective.

Both these individuals have been chosen as they were the only 2 individuals working within the company. Naturally, they are thoroughly involved in all business aspects and have the knowledge on what is exactly happening inside the company. Therefore, they could provide a good image of the processes within the company and how these have changed throughout the adoption of the subscription model. Moreover, these 2 individuals were the decision makers within the business and this provided the opportunity to collect their opinions on the decisions they had made.

For the 2<sup>nd</sup> interview an individual was chosen who worked for a software as a service company for 2+ years. This individual could shed light on the implementation practices of the subscription-based model. The reason to opt for an individual with subscription experience in the software as a service industry (intangible goods) was to find out if there were overlapping activities that applied to the food & drink industry (tangible goods) as well.

### 3.1 How are logistical processes affected by the implementation of the subscription model while offering products directly to the consumers?

To answer this sub-question, the associates were asked to describe the logistical processes before the adoption of the subscription as shown in figure 12 below to get a baseline measurement. Then the changes that occurred due to the subscription adoption were discussed and processed into the target time function map to visualise the changes in the process.

Base Time function map

Customer	Order product							Receive product
Sales	Process order							
Coffee roaster Italy	Roasts and packs coffee							
Warehouse roaster	Waiting							
International logistics	Transport							
Warehouse transport company	Waiting							
Transport to Caffè coronel Warehouse	Transport							
Caffè Coronel Warehouse	Store							
Domestic transport	Transport							
Distribution centre	wait							
Transport	Transport							
Total days: 18	1 day	10 days	2 days	1 day	1 day	1 day	1 day	1 day

Figure 7 Baseline time function map

Figure 12 shows the process flow of the coffee beans from the manufacturer down to the customer. The time each activity takes is added on the horizontal axis.

The process is as follows: to begin with the Italian roaster keeps stock of the required packaging materials and the green beans. Then the process is started by the order sent per e-mail. The roaster roasts the coffee beans according to the recipe and packages the roasted beans. Afterwards the roaster palletizes the beans and store them for shipment. Next the company calls the transport

company who will collect the beans and deliver the shipment to the company's warehouse in Blaricum where the beans will be stored until needed. Subsequently, a customer orders product online and starts the order picking process. Then the order is packed and made ready for shipment. The decoupling point is in this phase of the process. The carrier in this case PostNL processes the order and lastly delivers the package to the customer.

When asked about the effects of the subscription, interviewee 2 stated that the subscription adoption complicated the order picking process. In her answer, it is stated how the processes changed within the order picking process.

"The subscription orders take more time. Before the adoption, an average order consisted of 6 bags of coffee beans in one box and that box is sent to the customer once. Now, the size of the orders is smaller (1 bag of coffee beans per order). To send the same amount of coffee to one customer you need 5x the packaging cost, 5x the delivery costs and spend 5x as much time."

According to interviewee 1 of the bigger changes in the process because of the subscription adoption was the decision to outsource the order fulfillment processes for the subscription orders.

"Logistically speaking, moving from 1 to 2 stock locations posed some challenges, especially with the Italians we work with. It happened that a product was thought to be in warehouse 1 when in fact it was in warehouse 2 and vice versa. Moreover, it happened that deliveries were sent to the wrong warehouse. However, the extra warehouse also created space in our own warehouse "

When interviewee 1 was asked about the advantage of using a fulfillment center for the subscription orders the following was stated: "because then you know every month when what has to be sent, and if someone else can do that, that will of course save us a huge amount of time; and the costs for fulfillment are just fine in relation to what we now spend if we pack it ourselves, except the numbers have to be there. But that is certainly a very interesting one, because again physical space is also not unlimited. Moreover, we have to pack less orders in our own warehouse."

Interviewee 1 implies that even though the adoption came with its own set of challenges it did positively affect the logistical process within the company.

When asked about the advantage of the subscription model interviewee 1's response was the following: "We can estimate more accurately how much we need to buy, because it sometimes happened that we had too much of one type and had bought too little of the other. Now, because we have a better view of what is going to be bought, we can make things run more smoothly such as for example, inventory and purchasing".

Target Time Function Map

Customer	Order product						Receive product
Sales	Process order						
Coffee roaster Netherlands		Roasts and packs coffee					
Warehouse roaster		Waiting					
Domestic transport			Transport				
Warehouse domestic transport			Waiting				
Transport to fulfilment party warehouse				Transport			
Fulfilment party Warehouse				Store			
Domestic transport					Transport		
Distribution centre					wait		
Transport						Transport	
Total days: 16	1 day	10 days	1 day	1 day	1 day	1 day	1 day

Figure 8 Target time function map

The new process is as follows: The starting point is now the Dutch roaster. The process is started by the order sent per e-mail. The roaster roasts the coffee beans according to the recipe and packages the roasted beans. Afterwards the roaster palletizes the beans and store them for shipment. Next the company calls the transport company who will collect the beans and deliver the shipment to the fulfilment party's warehouse where the beans will be stored until needed. Subsequently, the orders are forwarded to the fulfilment centre and this starts the order picking process. Then the order is packed and made ready for shipment. The carrier processes the order and lastly delivers the package to the customer. The decoupling point is in this phase of the process.

Due to the subscription adoption the total process time has decreased from 18 days to 16 days as shown in figure 13.

### 3.2 How are customer service processes affected by the implementation of the subscription model and offering product directly to the consumers?

To answer this sub-question, the associates were asked to describe the customer service processes before the adoption of the subscription as shown in table 7 below. Then, the changes that occurred due to the subscription adoption were discussed.

There are 4 different channels that a customer can use to approach the company as shown in figure 13. The channels are: Telephone, E-mail, chat and in-store. The type of questions differ per channel. In the E-mail the questions often involve broken machines. The chat is the most used channel and ephemeral questions are asked often in this channel. The telephone channel deals with complaints mainly. In-store the customers can see and try all the machines, test coffee beans and be advised on what to buy.

Customer service channels	TYPE OF QUESTIONS
E-mail	Broken machines
Live chat	Informative questions (differing from are you open? to which machine would you recommend)
Telephone	Complaints
In-store	Informative

*Table 8 Customer Service Overview*

When asked about the extent to which the current process was changed by adopting the subscription the following was said by interviewee 2: “The questions from the customer are somewhat different, not necessarily more or less questions but different. It is more about the subscription E.g. what does it consist of, what does it get me etc. than that people have a problem with ordering or something because that also happens” ....“and it could very well be so that when time comes and the subscription orders have a big share of total sales, that than the subscription customers have a separate channel to ask questions in”

Interviewee 1 said the following when asked about the changes in the customer service process:

“what I expect is that customers have questions about payments, that people go on holiday for a week or so while they were supposed to get a delivery and then ask now what? or that a customer was not home when the package was offered, that the coffee ran out before they are supposed to get a new delivery, can we skip a delivery as we still have enough, there is not enough money on the checking account, too much money was written off or they want to terminate the subscription”.

“but what happens if someone has a subscription and wants to receive coffee every 10th of the month, for example, but the customer is not at home that day, and the package is returned to us and



that customer looks at us, how do we deal with it? what are we going to do then? We can of course still send a package and that it will be delivered the next day. But then you make 8 euros extra costs, the other one is returned so that is also throwing money away so how do we ensure that we keep things like that as low as possible. That is really going to eat up the margin.”

Both the interviewees imply that the customer service process itself did not change yet, but they did point out that the questions of the customers changed. Interviewee 2 also stated that in the future there is a possibility that the customer service processes will change and that the customers who are subscribed can ask questions in a separate channel dedicated solely to the subscription customers.

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### 3.3 Which activities must be done by a SME to implement a subscription model in the coffee industry?

To answer this sub-question, 2 methods were used. Firstly, interviews were held with the associates. During the interviews, the associates were asked about how the subscription model affected the business operations. The answers of the respondents have been processed into the time function map. To assess the changes in the business operations the time function map was used. Furthermore, an interview with a subscription specialist was held. This interview was held through email due to geographical constraints. The respondent was based in Dublin, Ireland hence e-mail was deemed to be the most appropriate way to contact. During the interview, multiple questions were asked related to the implementation practices of the subscription model.

When asked about the steps taken to facilitate the subscription adoption the following was stated by one of the associates: “We work with a management information system, shopify. That is basically our webshop, in which we also have our private customers. This system does offer subscription payments but without automatic collection. Since we are operating in the Netherlands where only 20% of the people prefer to pay with credit card for online purchases, it is necessary to offer automatic collection. Therefore, we decided to implement a new system for the subscriptions called Recurly.” The associate indicates that the current management information system was not capable of facilitating the subscription adoption and a new management information system had to be selected.

When examining the difference between the base time function map and the target time function map, 2 differences are worth highlighting. First, the company decided to quit working with the Italian roasting company and is replaced by a Dutch roasting company. Secondly, as noted in section 3.1 the company started to use a fulfillment center to handle subscription orders. Accordingly, the company had to initiate both cases and select new suppliers.

When asked about the extent to which business processes had to change, due to the subscription model, the following was stated by the subscription specialist: “Since this was a quite new proposition, a new team had to be set up.” Indicating that an activity in the process was setting up a new team to manage the subscription.

On the question: How are excitement and engagement created for a new subscriber? The specialist mentioned that “a new subscriber is assigned to a relationship manager or renewal specialist; they guide the customers through the product and make a success plan to keep the customer engaged with the license.” ... “In depth training, personalized guidance and a keen relationship with the relationship manager help smoothen the onboarding process.” From the answer it can be derived that an onboarding plan needs to be prepared to ensure the customers remain engaged.

The activities found from the answers of the interview with the associates and the subscription specialist are summarized and displayed in the following table 8.

Selection of new Management information system (MIS)
Selection of new Dutch roaster
Selection of fulfillment center
Assignment of team
Creation of onboarding plan

Table 9

## 4. Discussion

In this section the results will be discussed as well as the methodology used to obtain the results. The limitations of the research are also discussed in this section.

The objective of this research was to provide advice/guidance to companies on the effect of the subscription model. The main objective of the research was then split into three sub-questions which would further explain the main question. The sub-questions were:

- How are logistical processes affected by the implantation of the subscription model while offering products directly to the consumers?
- How are customer processes affected by the implantation of the subscription model while offering products directly to the consumers?
- Which activities must be done by an SME to implement a subscription model in the coffee industry?

The chosen methodology for collecting the necessary data and answering the questions was qualitative research, structured in a narrative format. Semi-structured interviews were held with associates of the case study company. For these interviews, a general interview guide approach was used to ensure that the same areas of information were collected from each interviewee. Furthermore, an interview was distributed to a subscription expert. For this interview, standardized open-ended questions were used.

### Limitations

This study has potential limitations. First, the single case setting limits the appropriateness of the investigation to other institutions, however, the methods used in this study together with the general approach, are valuable contributions to a critical and developing research subject. Because it provides an opportunity to observe and analyse a phenomenon that few have considered before. Second, because case studies are based on the analysis of qualitative data a lot depends on the interpretation the researcher places on the information he has acquired. This means that there is a lot of scope for observer bias and it could be that the subjective opinions of the researcher intrude in the assessment of what the data means. The third limitation of this research the lack of previous research on subscription models in SMEs. This hinders the creditability and scope of the research.

#### 4.1 How are logistical processes affected by the implementation of the subscription model while offering products directly to the consumers?

The data collected to answer this sub-question was collected through semi-structured interviews with business associates of a Dutch SME coffee retailer and the use of a time function map. A total of 2 associates were interviewed during the research.

One of the topics during the interviews was logistical processes. The answers of the respondents were used to design the time-based process map. The purpose of the time-based process map is to represent the data collected clearly and concisely so that the critical aspects of the supply network can be communicated in an easily accessible way.

One interesting finding is that due to the subscription adoption the total process time has decreased from 18 days to 16 days as shown in figure 13. This result is in agreement with DiPietro's (2020) findings which showed that D2C companies maintain end-to-end control over the making, marketing, and distribution of products (DiPietro, 2020).

Another important finding was that the subscription adoption complicated the order picking process as the order frequency increased while the order size decreased. An increase in packaging costs, delivery costs and time spent on order handling was observed.

This result is in accordance with recent studies by Capgemini (2018) indicating that last mile is the costliest link in the supply chain and that the delivery and supply chain costs are much higher for online deliveries, leading to lower profitability.

The result is also in accordance with another study by Botha, Bothma, & Geldenhuys (2008) which demonstrate that distribution costs of online grocery shopping are twice the distribution costs of traditional food stores, in the case of low market penetration or sub-standard execution, this could increase even further.

Another important finding was that due to the enhanced predictability of the number of monthly orders, savings were made in the logistics process outside the order picking process. This result is in line with the result of a prior study done by ING (2018) which argues that improved predictability helps to reduce logistics costs.

It is interesting to note that the decision to outsource the order fulfilment process for the subscription orders proved quite challenging as products ended up at the wrong warehouse or stock levels were inaccurate between the 2 warehouses.

This result is in agreement with Pereira's & Frazzon's (2019) findings which showed that the challenges to retailers are improving the accuracy of offline and online channels demand forecasting (competing for the same inventory), better managing offline and online customer's needs, thus reducing the uncertainties of the Omni-channel retailing supply chain.

The findings in this study confirm that improved predictability makes it easier to facilitate Just-in-time (JIT) production, manage resources and inventory (ING, 2018). Interviewee 1 stated that prior to the adoption it used to happen that there were inaccuracies in the stock levels and that nowadays due to the improved visibility the inventory and purchasing processes are better aligned.

#### 4.2 How are customer processes affected by the implementation of the subscription model while offering products directly to the consumers?

The data collected to answer this sub-question was collected through semi-structured interviews with business associates of a Dutch SME coffee retailer. A total of 2 associates were interviewed during the research.

Questions 7 to 12 of the interview were focused on customer service processes. The answers of the participating associates were used to answer the sub-question. The reason for asking the associates about the customer service process in the company is because they have professional inside knowledge on the subject and practical experience.

From the answers given during the interviews it became apparent that various channels are used to engage with customers as shown in table 7. This result further supports the idea of DiPietro (2020) indicating that D2C utilizes various channels such as the site, social media, e-mail campaigns, CRM software etc. to get a 360-degree view of their (potential) customers and communicate with their consumer market.

During the interviews it was also revealed that customers ask different type of questions within the several channels available to contact the company. Due to the subscription adoption, a shift is likely to happen in the type of questions received by the company. The interviewees mentioned that a channel may be added in the future which is only available to the subscription customers.

When this is the case, the customer service processes would change significantly. The new channel would be generating a lot of customer data. This could be used to interact with customers personally which improves customer relationships and increase loyalty as well as to boost the overall customer experience as indicated by ING (2020).

Interviewee 1 stated that a benefit of the subscription was that “because then you know every month when what has to be sent .... that will of course save us a huge amount of time” indicating that customer data is generated.

However, the most remarkable result to emerge from the data is that customer data is not utilized effectively. This finding is contrary to previous studies by Deloitte (2017), DiPietro (2020) & IAB (2018) which have suggested that customer data is an important asset that can be utilized to stay close to the customer and deliver personalized experiences.

A study by Britzelmaier, Graue, & Sterk (2010) offers a possible explanation for this result which concludes that there is a lack of expertise within the companies to deal with the new kind of data analysis. Highly qualified people in the field of big data need both, technical IT knowledge and a well-developed business management understanding. Not many specialists like these are currently on the market and SMEs find them exceptionally hard to employ.

These findings suggest that the customer service processes are affected by the subscription model adoption, but that SMEs do not possess the resources required to optimally benefit from the adoption. Consequently, the perceived changes in the customer service processes are rather small.

Future studies should examine the extent to which SMEs can utilize customer data to optimally take advantage of e-commerce projects across business processes.

#### 4.3 Which activities must be done by a SME to implement a subscription model in the coffee industry?

The data collected to answer this sub-question was obtained through interviews with the 2 associates of the case company, an analysis of the differences in the time function map and an interview with a subscription specialist. Various interview questions were used to reveal the activities required to be carry out by an SME to implement the subscription model.

The reason for this sub-question is to reveal the necessary steps to be taken in the adoption process. Little practical theory is available on the implementation process of the subscription model within SME's. With the expertise of the associates, more information could be given on the implementation of the subscription model inside the company.

The knowledge of the subscription specialist was used to get a better overview of the subscription model and ways to utilize the subscription model. Information was asked on customer engagement within the subscription model. The subscription specialist was interviewed about managing subscribers.

The activities identified to be done by a SME to implement a subscription model, are summarized in a table. The table shows the activities that had been done by the case company in preparation of the subscription model. Small in-text explanations are given to elaborate on the identified activities. The interview question was asked to reveal if and what action needs to be taken to implement the subscription.

An interesting element is that the case company's management information system was not readily able to facilitate the subscription implementation as it did not offer automatic collection. Hence, a new management information system needed to be selected. This is in accordance with Wiengarten, Lam, & Fan (2020) who argue that adopting an EC model does not only cause change to the demand side in terms of consumer behaviour but requires changes to supply chain structures and operations processes.

It is interesting to note that due to the subscription the case company decided to change roasters and started using a fulfillment centre. This influences the production planning, logistics and inventories of the company as covered in section 3.1. This is in good agreement with a study by OECD (2001) who show that the entire cycle of business operations may be affected: production planning, logistics, inventories, and change of value-added components (such as compression of business operating cycles by the replacement of traditional intermediary functions, or direct integration of different activities in the value chain).

The interview with the subscription specialists revealed 2 points of interest. First, a dedicated team needs to be assigned who will oversee the subscription and secondly, an onboarding plan needs to be prepared to ensure the customers remain engaged. To the best of the researcher's knowledge this study does not support previous research as prior research on this topic is scarce.

The study failed to display useful information on question 3, 4 and 5 as the respondent did not give an answer to the questions.

## 5. Conclusion & Recommendations

The first part of this chapter summarizes the 3 sub-questions of this research and answer the main question: What are the effects of adopting the subscription model in direct consumer channels of SME coffee retailers in the Netherlands? In the second part of this chapter recommendations resulting from the research will be provided.

This study sought an answer to the question What are the effects of adopting the subscription model in direct consumer channels of SME coffee retailers in the Netherlands? a qualitative case study was conducted within a coffee SME on subscription model implementation and its effects. The report asked whether the logistical processes were affected by the subscription implementation. The report asked whether the customer service processes were affected by the subscription implementation, and it asked whether there are activities that need to be done by an SME to implement the subscription model.

The results of how the subscription model affects the logistics process showed that logistical processes are mainly positively affected by the subscription model adoption. The total process time has decreased from 18 days to 16 days, the order picking process became more complicated, and improved predictability lead to savings in purchasing and inventory management. However, these savings are only made when properly executed. When this is not the case, the subscription model may be affecting the logistical processes negatively.

The results of how the subscription model affects the customer service process showed that customer service processes are hardly affected by the subscription model adoption. It turned out that besides the type of questions received by the company no significant differences were found. However, insight has been gained with regard to customer data utilization, it was revealed that SMEs, due to the lack of expertise, do not posses the resources required to optimally benefit from the customer data generated as a result of the subscription. Further work needs to be performed to establish whether how customer data utilization can assist SMEs e-commerce initiatives.

Finally, the results have shown that the activities to be done by a SME in order to implement the subscription model are 1. To ensure that the management information system in place is able to facilitate the subscription model, 2. Selection of new roaster, 3. Selection of fulfillment center, 4. Assigning a dedicated team to supervise the subscription portion and 5. An onboarding plan needs to be created to ensure customer engagement throughout the time frame. However, these results need to be interpreted with caution; due to the empirical research this question is not relevant to a one size fits all approach, but it is depending on the systems in use by other SME's.

To sum up, from this research it appeared that the subscription model effects on SMEs is significant. While some parts of the logistical process became more complicating, the logistical processes have been positively affected by the subscription adoption. The customer service processes have not been found to be affected by the subscription adoption, but further research is needed to determine whether how SMEs can utilize customer data generated by the subscription adoption. Generalizable activities to be done by an SME have not been found and is depending on the systems in use by SMEs.

These findings add to a growing body of literature on subscription model implementation in SMEs.

## Recommendations

From the research it became apparent that logistical processes are mainly positively affected by the subscription model adoption, but this is only in case of proper execution, failing to do so could lead to high distribution costs. Therefore, it is recommended to decision makers in SMEs that when they decide to implement the subscription model in their company, that they determine if the current logistics basic form can facilitate the subscription model. When the logistics basic form is not able to facilitate the subscription model it is recommended to improve the logistics basic form first before adopting the subscription model. This will help prevent higher costs due to sub-standard execution. In doing so it is advised to focus on improving the accuracy of offline and online channels demand forecasting.

The same needs to be considered for the current management systems in place within the company. The subscription model affects the business processes of SME's and generates a lot of customer data. Customer data is an important asset that can be utilized to stay close to the customer and deliver personalized experiences. But SME's, due to the lack of expertise, do not possess the resources required to optimally benefit from the customer data generated from the subscription adoption. Therefore, it is recommended to invest in equipment that is able to utilize customer data to better anticipate trends and create customized experiences according to the individual's' needs.

It is also recommended to invest in a team dedicated to supervising the subscription channel, with the purpose of reducing sub-standard execution and ensuring proper onboarding for new customers as well as retaining current customers. When the risk associated with sub-standard execution is reduced, it is more likely that customers will make recurring purchases, and this also reduces customer churn.



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## Appendix 1

Companies currently offering subscriptions.			
COMPANY	COFFEE BEANS	COFFEE CAPSULES	COFFEE MACHINES
<b>Roasters</b>			
Stielman	Yes	No	No
Moyee	Yes	No	Yes
Manhattan coffee roaster	Yes	No	No
Man met bril	Yes	No	No
Lot Sixty One	Yes	No	No
Keen	Yes	No	No
Henry's coffee	Yes	No	No
De Eenhoorn	Yes	No	No
Caffenation	Yes	No	No
Boot	Yes	No	No
Bocca	Yes	No	No
Badeta	Yes	No	No
Back to black	Yes	No	No
Zwarte Roes	Yes	No	No
Zwarte Koffie	Yes	No	No
Nordkapp Coffee	Yes	No	No
Cross Roast	Yes	No	No
80 Days Coffee	Yes	No	No
Koffiejuffrouw	Yes	No	No
Medellin Secret	Yes	No	No
Theezusje	Yes	No	No
Baristaworden.nl	Yes	No	No
Zarano	Yes	No	No
Coffee Extraordinary	Yes	Yes	No
East of Eden	Yes	No	No
frans de grebber	Yes	Yes	No
Koffiekan	Yes	No	No
Mighty Mug	Yes	No	No
<b>Independent of Roasters</b>			
De koffiejongens	No	Yes	No
Specialty cups	No	Yes	No
Coffee shots	Yes	No	No
Jones Brothers Coffee	Yes	Yes	No
Roast	Yes	Yes	No
Het Koffielab	Yes	No	No
Dave's koffiebranderij	Yes	No	No
Miss Morrison	Yes	No	No
Beans&dreams	Yes	No	No
Woodstock coffee roasters	Yes	No	No
Koffiemakers	Yes	No	No
Maling	Yes	No	No
Bitter&Real	Yes	No	No
Vandemart	Yes	No	No
<b>Including Coffee machines</b>			
Mon cafetier	Yes	No	Yes
Heren van de koffie	Yes	No	Yes
Bundles	Yes, only in combination with coffee machine	No	Yes
Illy	Yes	Yes	Yes
<a href="#">Coffee@home</a>	Yes	No	Yes

## Appendix 2

### Interview questions subscription expert

Thank you kindly for participating in this research. Before we start, I want to make sure that you are aware that this interview can be totally anonymous if this is preferred. I also want to add that there are no right or wrong answers and that you do not have to respond to every question if you are not comfortable answering.

My name is Michiel van der Paal, I am 23 years old and I am doing this research for my thesis as the final part of my bachelor programme, International Food Business. The aim of the research is to find out what the effects are of adopting the subscription model in direct consumer channels of SME coffee retailers in the Netherlands? One of the sub-questions to answer this question is: Which activities must be done by an SME to implement a subscription model in the coffee industry?

In this interview I hope to get insights on implementation practices of e-commerce processes in relation to subscription model adoption.

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### **Subject questions**

Why did the organisation introduce the subscription model?

To what extent did business processes have to change due to the implementation?

What were the changes seen in the functional areas of the business, if any?

What were the changes seen in the non-functional areas of the business, if any?

In what ways did the implementation influence the business process?

What have you found to be the greatest needs in your organization for the implementation?

How are excitement and engagement created for a new subscriber?

What are the best practices for onboarding?

How is acquisition different when you are optimizing for lifetime customer value?

What disadvantages do your current members complain about most?

When someone is about to cancel, what are the best ways to save the relationship?

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### **Demographic questions**

What is your function?

For how long have you been working in this field?

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