

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ВНЗ «УКРАЇНСЬКИЙ КАТОЛИЦЬКИЙ УНІВЕРСИТЕТ»

Факультет суспільних наук
Кафедра управління та організаційного розвитку

Магістерська робота
на тему : DESIGNING SCALABLE BUSINESS MODEL IN THE AREA OF
MEDIA AND ENTERTAINMENT

Виконав: студент 2 курсу, групи СУТ18м
спеціальності 073 « Менеджмент»
Козлов В. .

Керівник Любінець Я.
Рецензент _____

Львів 2020

Table of Contents

INTRODUCTION: IN SEARCH OF THE PROBLEM STATEMENT	4
THE ITERATIVE PROCESS OF PROBLEM/SOLUTION VALIDATION I	14
1.1 Problem statement	14
1.2 Approach for selection of solution idea	14
1.3 Methodology for validation of value proposition and business model	17
1.4 Feasibility analysis of the business model	18
1.5 Managerial conclusions from the initial analysis of the business model.	22
1.6 Decision: First MVP of the online product	22
1.7 MVP1 validation approach	25
1.8 Opportunity in audio erotica: market and product vision	33
1.8.1 Product concept: Audioquest – an interactive erotic audiobook	33
1.8.2 Decision: Pivot into the digital product for audio erotica market.	34
1.9 MVP2: scope, implementation and validation goals	35
THE BUSINESS ARCHITECTURE OF THE SOLUTION II	37
2.1 Business model canvas tool	37
2.2 Major components of the business model	37
BUSINESS ENVIRONMENT ANALYSIS AND SOLUTION VALIDATION III	39
3.1 Audio erotica market	39
3.2 Competitive analysis	39
3.2.1 Quantitative analysis in tabular form	39
3.2.2 Competitive radar	42
3.3 Strategy for business model validation	42
3.4 Managerial conclusions	44
PRODUCT ARCHITECTURE AND TECHNOLOGY STACK IV	45
4.1 Design approach and technology selection for MVP development	45
4.2 Technology stack	45
FUNCTIONAL SYSTEMS AND TOOLS V	46
5.1 Financial projections: reverse income statement	46

5.2 Managerial conclusions from the analysis of the financial model	48
5.3 Management framework and operational processes	48
5.4 “Stay small” philosophy	48
5.5 Contractors management.	49
5.6 Talent management.	49
STRATEGY IMPLEMENTATION AND PROJECT CONSTRAINTS VI	50
6.1 Strategy cascading	50
6.2 Scaling and content acquisition.	52
6.3 Key performance indicators cascading	55
6.4 Required organizational structure	58
6.5 Project constraints	59
CONCLUSIONS	60
Analysis of completed stages of the project	60
Conclusions and insights for future stages	61
LIST OF SOURCES AND LITERATURE	62
ANNEXES	65

INTRODUCTION: IN SEARCH OF THE PROBLEM STATEMENT

General purpose of the project

This project is a part of the attempt to create a viable and successful startup in the area of adult entertainment.

Preface: The project and my role in the project

The author of this work had a big unresolved question in 2018 – in what sphere should he create a new business – fresh start? How to choose a business idea and how to assess their potential and the feasibility of implementation?

At that moment, there were several ideas on different stages of maturity in the long-list; they were related to technologies to some extent. The previous experience in building a product division (within a software service company) was a complete failure, so there was an urgent need to make the next attempt more consciously and professionally.

The first tools learned for problem/solution validation were the following:

- Idea Filter TM tool ^[21] (Annex B)
- Design thinking workshop

The course on design thinking impressed with the intensity, depth of immersion in the problem space and the number of insights that a team can generate in a well-designed process. The course integrated nicely with the already known process of the value proposition development and deep interview approach. The course was transformational, i.e. during the course participants gained certain intangible experience and value that is hard to describe and imagine without trying it. The course is worth applying during the problem space research and business ideas search. The presence of design thinking skills is definitely a competitive advantage of the organization, especially newly created.

The IdeaFilterTM tool was used for formal assessment of strengths and weaknesses of existing ideas, to reject those that had the least potential and to confirm analytical conclusions in a quantitative manner.

Adult entertainment and sex tech / sexual wellness was chosen as a domain for business ideas research

Criteria of business area selection

The area of adult entertainment was selected for several reasons:

1. The rapid development of the sex-tech area in recent years ^[23].
2. Adult entertainment and sex-tech looks to be areas with an “underserved market”,
 - a. partially because of its complexity. Human behaviour in arousal state is less researched than other areas; libido is a basic physiological need, which indicates to some extent of the simplicity of the topic; but during the “erotic journey” complex human mechanisms of sex drive and inhibition are involved; they are connected with the higher nervous activity, psychology, hormones, model of behaviour etc. Thus, the scheme of cause and effect relationship and state transitions is complex enough and varies greatly between individuals.
 - b. partially because of the barrier for researchers and businesses to enter this area (risk of reputational losses, personal biases, tabooed topic, potential ethical concerns). As a result, it gives the advantage to the bold and attentive researcher.
3. Development of technologies and sciences. In recent years the amount of new technologies which are emerging is quite significant. Achievements in the area of anthropology (also neurophysiology, psychology), smart material, robotics, AI, big data and machine learning, gaming, multimedia & entertainment, Human-Computer Interfaces, VR/AR, sensors and biometrics, chatbots and social media create a critical mass of discoveries which opens up opportunities for the new kind of business. There is a possibility to focus on so-called “pull” approach, which involves researching of consumers needs and identification of significant “underserved niches” and the design of decisions on the basis of the *combination of technologies* instead of inherent hi-tech business approach when we get a certain technology as a result of fundamental R&D researches and we search for the way of its commercialization through the identification of use cases and by the building of a product prototype. Design thinking skills and technology evaluation (search for and evaluation of technologies which can potentially solve a certain problem) are critically important within this approach. This

approach reflects the strengths of our organization to some extent and conscious choice of approach to “problem -> solution(s) path”.

4. Potential adoption of invented solutions or technology in other areas. In case the successful solutions in the area of adult entertainment are found, and new technologies are adopted, there is a possibility to transfer these technological solutions into other areas^[24].
5. Just one example of many, at the dawn of VCR technology, “...more than 75% of the videocassettes that were sold were pornographic” ^[20].
6. Formal selection of business idea using the quantified approach. There have been other business ideas in the author’s head, and only one has to be selected for further research and implementation. The IdeaFilterTM tool (Annex B) has been used to perform formal scoring of present ideas and selection of the most suitable one. Other ideas were in the areas of wearable technologies and interactive smartboards.

Initial research

Initial research consisted of several phases.

Basic research of realistic sex-dolls consumption in Germany.

This research discovered limited but valuable information concerning the product itself, pricing, customer journey and consumption patterns, as well as the target audience.

Design thinking marathon.

The initial challenge for design thinking marathon was stated as the following:

How with the help of

- Technologies (combinations and integration of technologies),
(online and IT; robotics and sensors; media; modern materials; sex toys and sex dolls; physiology and psychology – traditional and untraditional)
- design
- knowledge about human

we can help people who

- Satisfy [almost] conscious deficiency of sexual needs
- Using the most common ways available
(sex as a duty; porn consumption and/or masturbation; so-called “mass product”)

To make

- their sexual experience more complete (frequency, novelty, characteristics of the partner, roles) and more positive (decrease discomfort and risk).

The marathon took 4 days and involved:

- the Design thinking facilitator
- experts group
- users group.

Expert group consisted of

- 2 customer representatives (business-oriented)
- 2 subject matter experts from the adult industry
- 1 subject matter expert from the design industry
- 1 subject matter expert – psychologist

Users group consisted of 10 people, partially selected with the help of the agency for social research.

The main goal of the marathon was to identify the most important problems in the area of sex relationships and potential viable business solutions to these problems.

Results. As a result of the design thinking marathon, the following outcomes have been produced

- several problem areas have been identified, as well as refined problem statement
- the model for building a customer profile (Customer Value Map) that will be used in further research and marketing^[31].
- Some important criteria for segmenting users have been discovered
- Range of potential solution(s)

The refined problem statement

The refined problem statement sounded as following:

How can we help couples
who are not FULLY satisfied with their sexual life,
to keep novelty in their sexual relationship –
in legal, safe and acceptable manner?
How can we help them to satisfy their need in “erotic adventures”?

This variant of the problem statement was used in the project; solution research and key insights from the design marathon are based on it.

Problem statements and insights from the design thinking marathon are the actual “input” and the entry point for this project.

Why has the shift in problem-statement happened?

The shift in problem statements actually happened due to the fact that during the research the expert group gained empathy for users and has formed a much deeper understanding of their problem space.

As we can see, the focus shifted towards helping to find couples ways to improve the satisfaction level of their intimate relationships. This was the result of several key insights:

- Ego-focused adult entertainment itself does not satisfy users' needs in sex and intimate relationships.
- The most important users goal (who could seem to be extremely focused in erotic adventures and adult entertainment) is still to find an "optimal" partner (both "soulmate" and "physically fit"). This conclusion is the most significant: the need for sexual satisfaction, erotic adventures and adult entertainment definitely rests on the problem of searching for a partner, maintaining relationships, intimate self-realization and avoiding loneliness. A clear "watershed" into two groups has appeared among the users
 - o those who are in relationships with an "optimal partner" demonstrated much higher levels of life satisfaction than others.
 - o all others who want to get into the first group (of course, excluding a small percentage of "clinical" cases).

Observations indicate that this problem space is very relevant for different generations, including the "Generation Z" – which to some extent contradicts the popular point of view that sexuality of the "Generation Z" has been forming in the absence of informational and moral restrictions, and therefore the function of sexuality is not very different from other physiological needs for them. Actually, observations indicate that the "Generation Z" (comparing with older generations) has fewer barriers concerning sexual intimacy, but it does not mean the need for research of their own sexuality, a search of an "optimal partner" and relationships building efforts are less relevant to them.

- Happy couples who are satisfied with their relationships (including both key aspects of relationships - communication and sex), mainly *innovators* - still have various challenges and constraints in their sexual lives. They are ready to consume some adult entertainment solutions. However, there are several problems with existing offerings, which means the existence of “underserved market niche”.

The assumption of “underserved” market: Gaps in existing adult entertainment offerings.

The following conclusions are mainly based on customer journey analysis and pain points analysis.

In particular, the following gaps in existing adult entertainment offerings have been identified:

Not many offerings focused on couples (vs solo consumers).

An offering for a couple could be based on the understanding of the profile of both partners, which includes their preferences, interests, desired and barriers/taboo. The resulting offering could be an intersection of two profiles, and, usually, it appears to be a highly customized offering. It must be both acceptable and interesting enough for both partners. Example: role-play scenario or audio/video content.

Not enough focus on full “erotic journey for a couple”.

Usually, one of the partners needs to commit for organizing “erotic adventure”, which means a conflict of roles (organizer and consumer), risk of failure/refusal by other partner, time efforts, money spending.

Not enough attention to emotional engagement and service

Emotional engagement and suitable mood-setting are vital to a successful erotic journey, though they are often ignored.

There are too many “segment-focused offerings” (not enough “custom offerings”)

For example, in erotic content classification or in various dating applications, it is assumed that the main desire of the user is to experience a particular erotic fantasy or find someone with similar fantasies. This assumption might be valid to some level, but it is a huge oversimplification. The main reason for that is the domination of

“traditional” marketing segmentation, i.e. marketing sub-segment is defined on the basis of sexual orientation, preferences or fantasies.

In order to create a truly “magnetic product”, a highly customized offering with a full customer journey is needed, especially when we are talking about couples. There are two possible viable business approaches:

- Exclusive custom offerings for wealthy clients, often related to sex services (which obviously brings barriers and moral dilemmas toward its consumption).
- “long-tail” business model ^[5].

There are many “unhealthy offerings”: porn is like sugar.

Today users are overloaded with adult content offerings, which has various negative effects, just a few examples here:

- Cognitive overload – there is too much free porn and too much time spent with screens.
- Lack of understanding the difference between “porn” and “real-life sex”
- users are stimulated to follow the shortest cycle of “sex replacement” (for example, to quickly find porn video and masturbate). Note that the concern here is not masturbation itself, but addiction to “short/effortless loop of satisfaction”, which prevents from establishing healthy sex habits.

There are various barriers towards consumption of adult entertainment offerings.

Let’s just mention some most important of them:

- Social norms and disapproval
- Risk of impact on the relationship
- Personal taboos
- Safety concerns (legal, health, privacy)
- Feeling of shame
- Difficulties in communication with a partner

Taking into account all above mentioned, we believe that the “underserved” market niche exists, which means the existence of business opportunity.

THE ITERATIVE PROCESS OF PROBLEM/SOLUTION VALIDATION I

1.1 Problem statement

As it was mentioned in the Introduction, this project is focused on the problem of *“helping couples who are not FULLY satisfied with their sexual life, to keep novelty in their sexual relationship in a legal, safe and acceptable manner; to satisfy their need in erotic adventures”*.

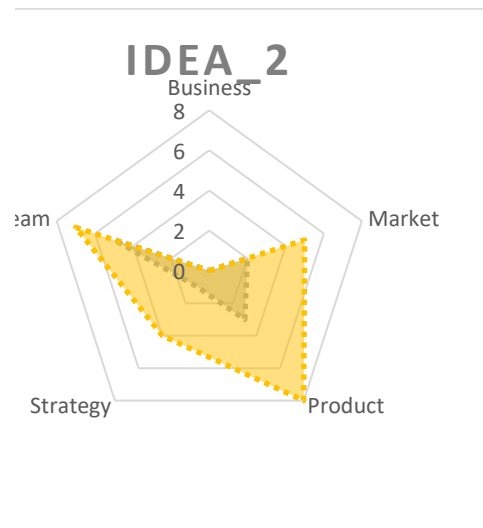
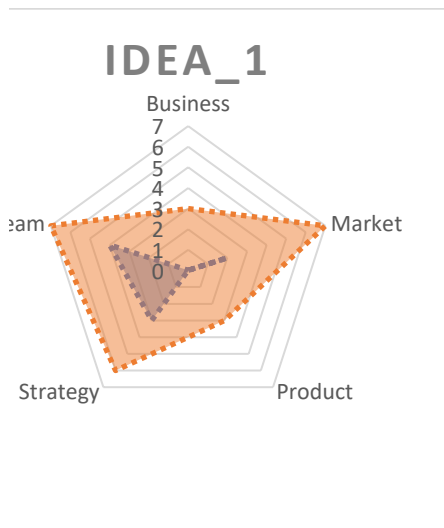
1.2 Approach for selection of solution idea

There were several solution ideas shortlisted during the Design Thinking Marathon. The selection of the single idea for implementation was performed with the help of two following approaches:

- 1) Strategic marketing analysis, inspired by a practical review of various business cases. Relevant business cases have been purchased on the “Harvard Business Review” website and analyzed. IdeaFilter™ tool ([Annex B](#)) has been used to perform format multi-dimensional scoring of all business ideas. Each idea was scored towards the following categories:
 - a. **Product.** Do we have a strong product vision? Are there alternative applications of product or technology? What is the competition level? What is our strategic protection strategy?
 - b. **Market.** Are we focused on the big and real problem? Does our solution solve the problem? What are our chances to capture significant market share?
 - c. **Business.** What is the expected profitability? Time-to-market & amount of investments needed? How far are we with the implementation of this business idea?
 - d. **Team.** What part of the required team we already have; can we extend it? What resources are required to start working? Is there a supply chain we can match up?
 - e. **Strategy (custom dimension added).** Do we have a vision of business strategy? How much uncertainty is in it? How much time will take validation of our assumptions? What resources are required for growth and scaling, including various geo-markets?The Formal scoring approach is not an easy exercise, mainly because of the following reasons:

- a) there is no universal, “one-fit-all” scale for scoring. Every team needs to define valid and trustworthy custom scales for their case.
- b) Scales are relative. On the one hand, there is no obvious way of mapping relative scales to absolute numbers or indicators. On the other hand, we just need to compare different ideas with each other, so approaches like “Agile Planning Poker” works just fine.
- c) In some categories, we have a higher level of uncertainty than in others, typically caused by a lack of information or lack of subject matter experts. The original tool did not take uncertainty into account, so we had to modify it accordingly. For example, at some moment, we don’t have enough information about the market size (or potential market share). But in case of the market size, we can consider that “according to our best knowledge, the market size is at least X, with upside potential no more than Y”. We use both values for scoring, also realizing the level of uncertainty of the given parameter.

Final scoring of 3 final ideas was visualized with “wind rose chart”.



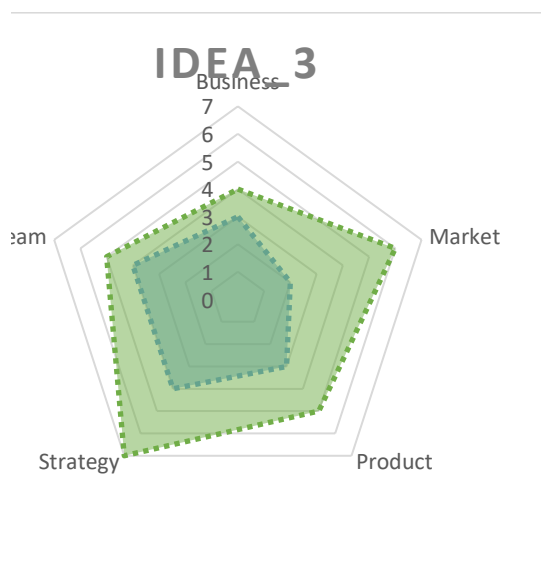


Figure 1.1. "Wind rose chart".

Idea_1 was related to some "social-media like" solution, with high business and growth potential, but also high entry barrier for new players, high competition level and lack of subject matter expertise.

Idea_2 was about creating "chatbot-like" solution with elements of Artificial Intelligence, Natural Language Processing and mental map with a high chance of creating valuable intellectual property and thus having strong protection strategy. However, the factors of concerns were: risky and significant research and development investment required; very limited options of monetization.

Idea_3 was about creating some kind of "love hotel with elements of high-tech, gamification and immersive media". This idea looked the most balanced and feasible. However, this solution is not so easily scalable as the first two, which are of pure digital nature products.

Idea selection results. Taking into account scoring results in IdeaFilter™ as well as above mentioned considerations, the decision has been made to proceed with **Idea #3**.

1.3 Methodology for validation of value proposition and business model

There are various methodologies available designed to help entrepreneurs to reduce uncertainties in products and business models.

The choice of methodology was made among three main options:

- Lean Startup ^[25],
- Discovery Driven growth ^[10]
- Customer Development ^[27].

Each of these methodologies involves the iterative reduction of uncertainty through the fastest and the cheapest way to test value offering assumptions and the business model in general.

Let's review the key features of each methodology.

Lean Startup by Eric Ries is a quite simple and popular methodology. It focuses on the cycles of MVP (minimum viable product) development and product features testing. Concerning business model parameters testing it is quite limited - only the mechanisms of users engagement and retention are affected at a fairly basic level.

Customer Development by Steve Blank has certain common features with the Lean Startup (authors cooperated in real life), but in general, it is a more complete and professional framework. It is based on a popular structure of business model canvas by Alexander Osterwalder ^[5], which was somewhat expanded with the sections of competitive analysis ta strategic protection. The methodology anticipates the systematic process of conducting experiments on assumptions verification on the business model canvas structure. The author provides relevant marketing tools in the context of building MVP of a physical product and an online product for each type of experiment.

Discovery-driven growth (authors Rita Gunther McGrath ta Ian C. Macmillan) represents the process of business development management for corporate managers in the context of corporate portfolio management. In general, it is a very serious instrument which has a certain "entry threshold" for mastering and application. To measure the level of uncertainty for each business opportunity in a portfolio, authors

use a quantitative approach, dividing the uncertainty along two axes: “marketing and organizational uncertainty“ which concerns the understanding of the target market and client’s decision-making process, and “technical and executional uncertainty” which depicts the presence of skills and knowledge in our organization needed for the value offering creation in a certain business domain. Discovery-driven growth anticipates the quite formal graded process of assumptions testing with the checkpoints system, where we transform assumptions into knowledge and facts. The framework is oriented to the building of the most optimal process of step-by-step investments for the assumption verification so that stakeholders can understand the expenditure and the expected income on each stage. The process is built in such a way that ideally, the most critical assumptions are first tested in the cheapest way. The instrument “reverse Net Present Value” is of great value in fact, the most critical assumptions in the business model are identified as a result of sensitivity analysis. The methodology also anticipates steps to technical and market feasibility assessment on the early stage of the opportunity analysis.

As a result of the analysis the most suitable framework for our project is Customer Development, next to it certain relevant tools from Discovery Driver Growth will be used.

1.4 Feasibility analysis of the business model

After the building of the first business architecture version for the product «love hotel with elements of high-tech, gamification and immersive media» the additional analysis was conducted, namely customer journey analysis, financial feasibility and initial market research, and certain high-level assumptions were formed concerning product features and the business model.

Feasibility analysis outcomes

Long-tail business model template.

As stated in the section «Gaps in existing adult entertainment offerings», it is necessary to create a product that will contain a highly customized offering with full

customer journey is needed to create a successful product in the area of “Adult entertainment for couples”. In order to have a competitive advantage over existing traditional Adult entertainment products, it is a good idea to use a long-tail business model template ^[5] not only to focus on “underserved” clients outside of known segments but also to create a value proposition.

In recent years we can observe interesting and successful cases of implementation of this business model. The important factor for success is the availability of “technology enablers”; for example, businesses in the areas such as video-on-demand, self-publishing, custom printing usually are not viable (or scalable) without such technologies as big data, AI, on-demand printing, 3D printing.

Monetization based on research and development of client needs

In fact, the long-tail business model involves the gain of profit from a sufficiently detailed knowledge of customers ^[22]. We have to create a custom offering for the user in our case, so we have to know the user's individual needs and quite a lot of detailed information about them.

It is possible to get a sufficient quantity of information, for example, by conducting a deep interview, but this method is not economically expedient for mass use.

In other words, for this business model, we need a way for

1) getting more detailed information about consumers than is available nowadays from widespread marketing and advertising tools.

2) engagement and growing customers in the trustful atmosphere (as the initial stage of the customer journey).

The important aspect is, also, the observation that from the point of view of the place in the supply chain those businesses that can get information about consumers “first hand” are in the favorable strategic position. For example, search engines, social networks, other popular websites and mobile applications, smartphone operating systems and “smart-home” integrated systems. From this point of view, there is a sense to search for the opportunity to be in immediate contact with the customer and get information “first-hand”.

Unlike "conventional" advertising, the consumer may have a different degree of perception of "adult products" advertising depending on their mood and context. In other words, the corresponding consumer's «alter-ego» or «self-concept» has to be activated for the perception of such advertising. It is not so clear how we can define such condition to provide the user with such advertisement in time (except rare specialized mobile apps)

Even the simple promotion of Adult entertainment products by existing digital marketing channels has significant limitations. The common practice of advertising platforms and social networks (Google, Youtube, Facebook, Instagram) is the restrictions concerning adult products promotion and relevant offerings. « ... it should be said that it's clear that selling anything related to the adult industry — in particular, sex toys — isn't really that easy. At CES in 2019 and previously, the industry has been basically shunned despite some huge leaps forward in tech...» [22]. It is important to understand that these restrictions are dictated not only by obvious risks of image losses for digital marketing platforms but by issues with regulations or personal data privacy.

Multisided platform

The development of a scalable business with the "Immersive love hotel network" product may require the existence of "multisided platform" when the important element of the business model is the franchisees, with the help of which we can perform an effective scaling. A successful franchise model requires a value proposition for the franchisee.

Another key hypothesis in the business model

After conducting some analysis (in particular, refining project vision; making initial calculations of the business model and analysis of the customer journey), it became obvious that three elements are crucial for the success of the product:

Returning customers. Analysis of financial feasibility showed that the business model of "Immersive love hotel" would require no less than 4.5 visits per year on average (of each couple). Otherwise, the cost of engaging new users will be too high to maintain a sustainable profit. The minimum viable size of "love hotel network" is about 10-15 locations, each having at least 4-5 rooms.

Emotional engagement plays a vital role in the couple's willingness to perform repetitive visits. Functional attributes of the product are not useful without emotional engagement.

The **Customer journey** is not trivial. In the real world, it means that one partner needs to convince another to visit the place. Even the positioning of the product and related brand is not obvious.

Innovators and early adopters

Thus, we understand that it is crucial to create a *community of evangelists*, who will be willing to participate in product testing and research. Additional research was required to obtain information about individual customer profiles with their tastes, preferences, fantasies, barriers, and so on.

On the other hand, we must keep in mind the risk of super-optimizing product for evangelists. It is crucial to obtain feedback about the first MVP not only from evangelists but from other consumer groups as well. If we focus on "evangelists only" feedback, this means we have a high chance of having issues with product adoption on other user categories. In the area of "adult entertainment" our goal is to focus on solution targeted not only at the most liberated users who have no barriers towards product consumption but also on the category of "almost-users". We must keep in mind that our "user" is not a single persona, but a couple of partners.

According to research results typical "almost-users" are individuals (or couples) who understand and realize the importance of sexual life itself and novelty in a sexual relationship but they still have some barriers towards consumption of "erotic adventure" offering.

1.5 Managerial conclusions from the initial analysis of the business model.

Taking into account the above mentioned information, the following was summarized:

Technical feasibility

it is feasible to build a product, but technically it can be quite complicated.

Scalability

Could be relatively complicated.

Financial feasibility

In order to reach acceptable customer lifetime value, it is required to have at least 5 visits per couples per year on average

Risks in solution adoption

There is a high risk of super-optimization of the product for innovators (evangelists), while other users who are less innovative might have barriers towards product consumption. In order to avoid such a risk, it is important to understand the optimal *customer journey*.

Customer journey modelling

There are many natural barriers towards product consumption; it is vital to build a trustworthy brand, gain consumers' trust and have deep knowledge of the individual consumer.

In order to reduce risks related to above mentioned conclusions, a decision has been made to create a simple online platform to establish users community, gain users trust, explore their preferences and generate consumer flow.

1.6 Decision: First MVP of the online product

The first “online” MVP was focused simply on creating an online platform for hosting evangelists and / or beta testers and providing them context and ability to talk freely on sex topics. Observing users’ behavior is a critical method of researching them.

As a result, MVP Online1 was created as a video blog (vlog) website with the ability of users to discuss videos of the vlog. Users can easily register on the website and they can avoid disclosing their real identities by using “shadow mode” when the system offers them to choose a nickname and an avatar among auto-generated options. Users can comment videos, similarly to the way they do it on other resources like YouTube or Facebook. (Annexes [A.2](#), [A.3](#))

The custom platform has been selected for implementation of MVP mainly because of 2 reasons:

- 1) Existing platforms like YouTube, Facebook or other social media or web hosting have a high risk of a ban of a video channel related to adult entertainment/sex topics.
- 2) Existing platforms don't support "Shadow mode" functionality.

Content

Three 10-minute video clips have been filmed each one is a review of a particular well-known sex-related movie.

- Issue #1 was dedicated to "50 shades of grey" movie and its contradictions (very low IMDB rating vs. phenomenal financial success).
- Issue #2 - "Masters of sex" TV series (about Masters and Johnsons - pioneers in research of human sexuality)
- Issue #3 – "You me her" TV series (about polyamorous relationships).

Questionnaire instrument for consumer research

Customly designed questionnaires were an important part of the MVP testing process.

Purpose of the questionnaire.

During the project implementation the consumer research is transformed across different phases as follows:

- During the initial phase of problem/solution testing, we conduct deeper and more thorough, qualitative research of potential customers using design-thinking instruments, for example, deep interviews, design of consumer persona, identification of customers jobs, gains and pains.
- During the launch phase (of the product or MVP prototype) we need to know how to perform segmentation of our target audience using segmentation and targeting parameters available in relevant channels of communication

For example, one interesting observation is that couples who

- are in lasting relationships not for the first time
- both understand the importance of the intimate aspect of the relationship
- easily talk about their sexual life among themselves and look for ways of improving it

are potential consumers of our solution with high probability. But it is not easy to convert these observations into certain targeting characteristics of the target audience segment. Obviously the usage of basic socio-demographic factors for segmentation is not sufficient.

Taking into account these considerations, we decided to design a survey that can be used as a quantitative research tool with the following purpose:

a) to confirm models and hypothesis discovered during the Design Thinking Marathon (DTM)

b) to gather the information that will help to formulate clear applied criteria of target audience segments.

Approach. The survey is generally based on the best DTM practices and observations (largely based on the deep interview). The aim of our first version of the survey also was to test the convenience for our users' and our users' readiness to share explicit information about their intimate life. The following approach was applied to evaluate the structure validity and survey approach: each user (the beta-test MVP1 participant) took part in an online survey and in a few days also took part in the deep interview that was conducted by two interviewers. Only two out of six interviewers were engaged in the process of designing the questionnaire, which should ensure unbiased results of the deep interview. The deep interview results and questionnaire results were processed separately and compared.

Survey structure. The survey consisted of the following sections:

1. socio-demographic indicators
 - sex, age, presence of a constant sexual partner, employment, income, sexual orientation, presence of children
2. interaction with the partner (for those who have relationship with a constant partner)
 - relationship phase, the practice of communication, including intimate topics; attitude to experiments in the intimate sphere; spending time together; satisfaction level; improvement areas
3. The motivation of intimate behavior
4. Attitude and practice towards erotic entertainment and adventures

- novelty, obstacles and expectations, fantasies and preferences.

Validation objectives

The goals of MVP1 validation were:

- 1) To measure how many users are movie watchers
- 2) To verify if watching these movies affects “erotic customer journey” and communication on sexual topics.
- 3) To engage users in a discussion of various sex-related topics, in particular, covered in reviewed movies / TV series.
- 4) To create some initial brand and verify its “perception”.
- 5) To obtain feedback on the usability of VLOG and its particular features.
- 6) To test the usability of the questionnaire and its perception by users.
- 7) To test the validity of the questionnaire comparing its results with the deep interview results.
- 8) To perform a simple test of Google Analytics instruments on the website.

1.7 MVP1 validation approach

12 users have been selected - partially via online search in social media; partially with the help of the agency of sociological research.

Phase 1 – online test (3 days).

Users were suggested to use the website for watching videos and, optionally, participate in online discussions. During each day of the online test, the new issue of the video-blog has been uploaded.

Phase 2 – an onsite test (3 days).

Each user has been invited to an onsite interview which was conducted by 2 experts.

The discussion consists of several parts:

- 1) Product feedback (quadrant instrument: what they like about the product, what they dislike, what questions do they have, what are their suggestions and ideas)
- 2) Customer journey feedback (to validate our assumptions about customer journey)
- 3) Questionnaire feedback (similar quadrant as in step 1)

- 4) Several “feature ideas” has been presented, and feedback was collected.
- 5) The deep interview has been performed, covering aspects of the sexual life of user, characteristics of their relationships, etc.

MVP1 validation results

Test subjects. 1 out of 12 users was disqualified (results excluded from analysis phase).

Product usability. There was mainly positive feedback; the overall customer journey was described as clear and understandable. A few users met some non-critical technical issues during the use of the product.

Problem/solution test. There are only about 25% of users who were really interested in consuming video blog with adult movies reviews; the remaining 75% of users are “not fans of movie watching”, as they described themselves. Despite the fact that users were interested in the online resource, the idea of making the video blog as a “platform for evangelists” does not look realistic.

Feature test – commenting system. About half of the users were writing comments to videos, but it did not result in any active discussions. The original assumption that users will be interested in sharing their experiences or reading about someone else's experiences and opinions were not confirmed.

In the deep interview phase, some percentage of users explained that they never write comments online (even in “pseudonymous” mode) to avoid possible confrontation of opinions, but it is still valuable for them to read comments of others.

Feature test – “Shadow” mode (“pseudonymous” mode). All users were provided with the ability to use both “open” and “shadow” mode. In “open” mode, all comments written by users are linked to their open accounts where their names, surnames and avatars are displayed (usually from Google or Facebook accounts if the user registered via Google or Facebook).

In “shadow” mode, all comments written by users were linked to “shadow” account where the user’s dummy name and avatar-image as a cartoon character are displayed.

(Annex A.3)

The website was designed to make it easy to distinguish which comments are written from the “open” profile and which - from the “shadow profile”. The user can switch between modes doing very simple action, just pressing a corresponding button in the website top menu. (Annex A.4)

The assumption was that the presence of the “shadow mode” will encourage users to communicate in the comments section more explicitly.

Results of assumptions validation about value of “shadow mode” feature. The test did not show the significant impact of the “shadow mode” on the activity of communication. During the interview, the majority of users said the presence of the “shadow mode” does not have a great significance. From the other hand, all users used this mode (no user commented from the open profile). The most probable explanation for this occasion is “me-too behavior”.

Ideas from users. The most important insight we observed from different age and social groups is the following: users are interested in hearing about aspects of sexual life from live persons who are proven to be “opinion leaders”, based on their *professional expertise* and/or *personal experience*. Basically, our users often have questions in the context of their particular situations in sexual life which do not have simple (or obvious) answers. Asking a recognized specialist with a direct question or watching online discussion (debates) of competent opinion leaders can help find answers and make well-grounded choices.

A certain percentage of users (25-30%) said that they would be ready to pay for the “ideal product” (according to their ideas) the sum of 150-200 UAH per month (roughly, the same as the subscription cost of online music services or online movies).

Questionnaire instrument validation. The testing of the questionnaire as an instrument showed generally positive results. One of the first reservations was that the questionnaire could be long and complicated. The majority of users said that they could finish the questionnaire in 10-15 minutes and the questionnaire itself was not long or complicated. Interesting that the significant percentage (25-50%) expected some immaterial incentive after the questionnaire, for example, interpretation of results or the assessment of how their responses correspond to “average” or “typical” results in

certain groups. Obviously, it shows the need for self-discovery and confirmation of self-concept.

Regarding the anonymity of the questionnaire, users could voluntarily provide their contacts or not. The absolute majority gave their contact information.

Generally, almost all users had no reservations that the questionnaire contained some explicit questions about the intimate aspects of their life. Almost all questions in the questionnaire were obligatory (required an answer). On the other hand, it is important to admit that at the time of conducting a survey, a certain “credit of trust” was formed from the researchers’ side, mostly due to personal contact, clear positioning and detailed explanation of the research process.

Validation of brand perception. The brand consisted of 3 key elements.

- 1) The name was chosen with the help of the multi-phase process. The long-list was created with the help of the brainstorm “2nd level associations”. The short-list was created by excluding unacceptable variants. The final choice was done with the help of a workgroup.
- 2) The design of the logo was created by the designer with the appropriate experience and style (subjective choice).
- 3) The personal brand of the video blog presenter is a part of the brand to a large extent.

Generally, the reaction to the brand and its perception were quite positive (more than 80% rated the brand components positively or very positively). It is important to admit that consumers demonstrated a demand for video-content quality; there exists a “minimum expected level” which was obviously caused by the wide availability of different content on the Internet.

Results of the deep interview. The results of the interview generally confirmed the relevance of the current model of the user profile (which we use for the research and marketing purposes) to certain important refinements.

- 1) While using the Customer Value Map tool [\[31\]](#), in our case we have to pay special attention to the aspect of the context of jobs/pains/gains that has the direct link to the role of the partner in the couple and their motivation to sex.

2) In case of decisions related to adult entertainment, we have to clearly distinguish functional, emotional and social jobs; usually, these three types of jobs are present in the “erotic customer journey”. To some extent, we can talk about the presence of a subset of social jobs that relate to the vision of one’s role in relationships.

Analysis of questionnaire results and deep interview results. The user persona analysis and clustering (grouping) indicate the importance of such segmenting parameters of users as:

- Level of the physiological need for sex (regardless of gender) vs readiness to sacrifice it for the sake of relationships.
- Openness to experiments
- The life stage phase in the context of personal sexuality and evolution of relationships.

Typical phases of development

Table 1.1

Phases of personal growth	Phases of relationship development
The youth years - phase of finding and formation “yourself”, self-identification	The first experience in relationships
Formation of constant preferences, awareness of limitations	The need for help in relationships
Flourishing, level of “advancement”, openness, readiness for experiments, a few barriers	A “qualitative” jump in relationships or a change of a partner
Realization of future decline in sexual activity	“Plateau of productivity” in sexual relationships

Above mentioned phases are to some extent a generalized model. The level of “maturity” of the individual and the relationships do not always directly correlate

among themselves and with the age of the individual. Different individuals can undergo all or not all phases during their lifetime.

Generally, the results of the research provided some insight into how psychographics and information about life phase can be applied to marketing segmentation and targeting.

Conclusions from the Online MVP1 Test results

In general, the possibility to build the online community as a user base for testing of early versions of adult entertainment products looks quite feasible, that is, the idea is noteworthy at the concept level.

Observations and ideas.

The idea of direct monetization of the video blog with movie reviews theoretically could take place, for example, by generating traffic on video-on-demand services like MEGOGO^[17] or similar. But the vast majority of respondents indicated that they rarely pay for content when there is a free alternative (such as peer-to-peer networks for downloading content or online-theatres), even if they are fully solvent. Because of that, this idea was rejected.

Product on the basis of consumers' ideas. If we take into account generalized users' feedback, we can conclude that the most expected product could be an online platform where users would get information about important aspects of sexual life from proven experts of opinion leaders.

This idea was also rejected primarily because of potential difficulties with monetization and scaling.

The assumption about the value of *mono-product for pseudonymous access* (registration and sign in) for adult content websites (in terms of “lean startup”, this is “feature zoom-in” pivot when a single feature becomes a core for narrowly-oriented mono-product). This idea has been analyzed more deeply than previous ideas. This idea was rejected according to consultations with subject matter expert from digital marketing.

Restrictions on the local market. It is important to understand that all results of observations have to be interpreted in the context of the Ukrainian market with its peculiarities, namely:

- A small percentage of users are ready to pay for the content when there is a free alternative and not only due to low purchasing power.
- The Ukrainian market is “underserved” from the point of view that:
 - a) a large number of consumers do not use international resources and content to get information because of bad knowledge of English. For example “Kink Academy” website ^[13] or Amazon Audible Escape^[2].
 - b) high level of content piracy and low purchasing power. That is Ukrainian consumers have fewer access opportunities than residents of other countries (especially English-speaking).

Therefore, it is obvious that conclusions from these observations can not be generalized and used for building a scalable international product without understanding the context of Ukrainian consumers. On the other hand, the unquestionable advantage in such experiments is the acquisition of expertise in consumer research, the development of tools and models.

Validation results: managerial conclusions and decisions

MVPOnline1 as a video blog originally anticipated a means for creating an evangelist community and, in the long run, an online resource for engaging consumers into the “core” product (immersive love hotel). It is important to admit that the amount of time and financial resources spent on building and testing of MVP significantly exceeded the initial estimates. Retrospective analysis showed that generally, the schedule and the budget could be optimized without significant loss of product quality and research.

Observation of consumers during the online testing of the product inspired on the idea of researching the market of erotic audio. The main considerations for exploring this niche were:

- trends on the audiobook market as a whole - steady growth over the last few years ^[30]

- Several free online resources were found that experimented with the content format and had millions of views and visits, but for some reasons they had no well-thought monetization model which is likely to indicate the presence of the underserved market segment.
- Presence of interesting promising startups in this area.

New opportunity – audio erotica market.

The initial market research was conducted and performed by a 3rd-party consultant. It focused more on the qualitative than quantitative component and aimed at understanding of the trends and phenomena in the “erotic audio” and “audio porn” areas.

The main audio porn drivers are considered the following 4 factors ^[16].

Alternative Adult Expression. The alternative consuming format has its benefits compared with mainstream video porn.

Female Empowerment - there is a need to fulfil women’s desire for non-visual content.

Power of Imagination

While listening to sexy sounds, people close their eyes and immerse themselves in a paradise of pleasure. In contrast to the visual content, users can imagine a certain situation or fantasy in their own way, without the forced variant of visualization. Audio content also has a far better immersive effect, probably because it is pleasant for users to be able to read a book and also because certain areas of our brain which process visual information are not as loaded during the process of watching a video or reading. In general, it helps to relax and activate other sensor channels and imagination. To some extent listening to such content creates the effect of isolation from the outer world (a step toward “sensory deprivation”). Some special audio effects such as ASMR or “erotic hypnosis” enhance the immersion effect ^[16].

Accessibility - visually impaired people cannot consume visual adult content. Also, some religions outright prohibit the consumption of adult content and, in this case, audio erotica is a suitable alternative.

1.8 Opportunity in audio erotica: market and product vision

The dynamic situation can be observed on the erotic audio market – market growth, emergence and growth of new players with new value propositions. These conditions are favorable for entering this market with a product which has a value proposition and competitive advantage.

1.8.1 Product concept: Audioquest – an interactive erotic audiobook

The product vision of the “AudioQuest” solution was designed, based on two main ideas: gamification and visualization.

Gamification. To provide the user with the ability to make simple choices at certain turning points. This is a simple choice of two options («left or right»). The following development of the plot depends on the choice. Respectively, depending on the choice, the user can get into different endings of the audiobook.

Value assumptions. The user will have a greater level of involvement and immersiveness in the audiobook, they will be able to join the story and outlive it more fully with the main characters. The user can watch (or listen to) the story with the partner (for example, making choices in turn). This option for entertainment create conditions for joint discussion of certain erotic scenes, choices and their consequences. These discussions can stimulate the couple to communicate on intimate topics which therefore is the key factor for improvement of intimate relationships. The sense of responsibility for the choice and its consequences creates additional emotional keys.

Existing products and anticipated signals. The most interesting examples of interactive video are experimental series of Netflix company (“Black Mirror: Bandersnatch”, “You vs. Wild”, “Carmen Sandiego: To Steal or Not to Steal” and other ^[14]) and Youtube Originals (“A Heist with Markiplier”). According to press-releases, Netflix considers some of these products successful and plans to increase the amount of interactive content. At the same time, after careful analysis of customer journey in each of these works, we can conclude that there are unresolved problems, and at the moment there is no certain “for sure successful” format of the interactive media; the

line between the “interactive video” and “game” is very blurred. The experiment of Tinder Company (“Swipe Night”) is also interesting; it demonstrated successful results [28]. A certain amount of interactive books exists, including adult erotic fiction [1], but currently there is no rapid spread of this format, though some of them are quite successful. It is worth noting that a certain amount of amateur online-communities exists in the area of LitRPG [15] and CYOA (Choose Your Own Adventure). Actually, in many interactive books, traditional rules of CYOA and LitRPG genres transform the work into a “text game of the 80's”, which is a significant limitation.

Visualisation. The user does not just listen to the audiobook, but they can watch the video, where a narrator reads a book for them. The user can switch between “audio-only” or “video and audio”.

Value assumptions: additional emotional keys from the narrator’s persona and environment, where they are located. As further experiments have shown, personal reading of a book on camera significantly improves the quality of narration in terms of expression of emotions, compared with the pure audio narration.

Existing products and anticipated signals. The project «Hysterical Literature» [12] can be considered very convincing: the total number of views of all videos of this project on YouTube has been tens of millions of views for 6 years. Currently, there is no information about similar projects with the mechanism of direct monetization.

Taking into account the above-mentioned information, an opportunity with the interactive audio-video-book on the market of the erotic audio looks very appealing.

1.8.2 Decision: Pivot into the digital product for audio erotica market

The development of the product for audio erotic market has additional advantages comparing with the original idea (“immersive love hotels network”):

- Smaller entry threshold
- Potentially easier scaling.

Above mentioned factors are typical advantages of a digital product compared to a physical product.

Taking into account above-mentioned observations, it was decided to move the product to the side of erotic audio. The scope of MVP2 and the way of assumption verification (MVP2 validation phase) was formed for the validation of key assumptions.

1.9 MVP2: scope, implementation and validation goals

The online player for audiobooks was implemented on the basis of the existing codebase, and one audiobook was created to test the value proposition assumption. Detailed explanation of the product and screenshots are provided in Annex A.1. Actually, as described in the chapter 1.7.1 the value proposition assumption is that two key improvements such as gamification and visualization in the audiobook format will create value for the user and will become a competitive advantage.

Phases of MVP2 validation include the following goals.

Type of a test	Priority
Value-proposition test Content: 1 story (180 min duration) Book test (a story + interactive formula), Format test (gamification for couples; + audio-book + text + video) Product Test (overall website/ player / features; usability) Outcome: Problem/solution test conclusion; Net Promoter Score	HIGH
Target segments: Assumptions validation and research	HIGH
Marketing Channels: Assumptions validation	MED
Monetization: Simple survey	MED

Table 1.2 (continued)

Decisions on further product development will be made on the basis of test results.

THE BUSINESS ARCHITECTURE OF THE SOLUTION II

2.1 Business model canvas tool

We use the extended Osterwalder model for the business model design ^[5]. In addition to 9 traditional elements (value proposition, sales channels, consumer segments, income flows, expenditure structure, key partners, key resources, key activities) we use two additional – for the competitors’ analysis and strategic control.

[26].

Assumptions about the value proposition and consumer segments are available for us as a result of previous research.

2.2 Major components of the business model

Major components of the business model

Table 2.1

Customer segments	COUPLES Segment A, B, C, D, E SINGLES Segments A, B, C
Key value offerings	Erotic story (book) Narrator (actor persona) Alternative product format Improvement in the quality of the narration Content format improvements: A, B, C Product features: C, D <i><u>Product Illustration: Annex A.1</u></i>
Customer relationships	Trust and respect for privacy Openness for feedback Involvement and co-creation

Channels	<p>Social media groups (Kindle Unlimited Romance and similar)</p> <p>Word of mouth (user referrals)</p> <p>Digital ads (psychographic-based targeting)</p> <p>Digital ads (targeted for existing users of romance/erotic audiobooks)</p>
Key activities	<p>Content production (in advanced format)</p> <p>Narration and audio recording</p> <p>Product improvements (design process)</p>
Key resources	<p>Editors</p> <p>Writers</p> <p>Book marketers</p> <p>Online platform for content</p>
Key partners	<p>3rd party online audio platforms (Spotify and similar)</p> <p>Psychotherapists</p> <p>Sex therapists</p>
Cost structure	<p>Text content production</p> <p>Audio content production</p> <p>Online platform development and support (web & mobile)</p> <p>Marketing and ads for users engagement</p>
Revenue streams	<p>Subscription fee</p>
Strategic protection	<p>Intellectual Property</p> <p>Copyrights</p> <p>Know-how</p>

	The strategy of “3-dimensional innovations”
--	---

Table 2.1 (continued)

BUSINESS ENVIRONMENT ANALYSIS AND SOLUTION VALIDATION III

3.1 Audio erotica market

The initial erotic audio market research ^[16] showed the following key facts

- Romance is in top-5 Audiobook genres
- 1.33 M units sold in 2017 (13.78 MoU sold in all genres)
- Overall audiobooks market is growing
- 2017 US sales: USD 2.5 B (+29% vs 2016)
- In 2019, audio erotica startups have collectively raised over \$8 million.
- Key player - Audible Escape (subsidiary of Amazon)

The bottom estimate of the market volume is USD 15 M.

3.2 Competitive analysis

3.2.1 Quantitative analysis in tabular form

A detailed table with the analysis of competitors is given in Annex C.

Competitor analysis helped to identify the following key figures and qualitative characteristics, between which there is a logical relationship:

- Target audience and value proposition
- Users base to revenue
- Live cycle indicators (company presence in the market, information about fundraising, the amount of available content)
- Content acquisition strategy
- Content efficiency (number of users per unit of content).

Let's review each of these indicators in more detail.

Value proposition.

To a large extent, the current erotic audio market was formed due to erotic audiobooks (romance). In this niche traditional players in the digital publishing market dominate - such as Audible Escape ^[2] (a division of Audible owned by Amazon), their direct but not less successful competitor – Nook Audiobooks by Barnes & Noble ^[19], and also very interesting website with the title “audiobooks.com” ^[3].

Another value proposition prevails in the neighbouring segment – so-called “snackable erotic audio”. Its essence is that users do not have to listen to the whole audiobook to hear a short description of erotic scenes. Actually “snackable audio” content are short purely erotic episodes (5-20 min). A user can listen to such episodes at any time when he has a suitable time slot, including a ride in the car; a user does not have to recall where they finished listening to the book the previous time. In this niche, the main players are several startups, more than half of them have received funding over the last 1-2 years.

There also exist several companies that are focused on sexual education – in fact, it is non-fiction erotic audio that aims to help users to explore and discover their own sexuality. Young companies dominate in this niche.

Target audience. In general, here the target for women is expected. Some companies note that men and couple also consume their product, but are not dominating segments. 43% of users have a college of higher education. Regarding age characteristics, in contradistinction to the established point of view, consumers are not only middle-aged women. The percentage of users among younger and older women has increased in recent years.

Users base and revenue. There is no direct data on these indicators, so the assessment was made on the basis of assumptions about the number of “active subscribers”. The number of active subscribers for mobile applications was assessed with the help of data on the number of downloads and reviews. Statistical data was used to make an amendment to users' churn: the number of users decreases by 70% in the field of entertainment mobile apps within 90 days ^[18]. It is also important to admit that the typical frequency of consumption for Media and entertainment app is 3.5 times a week, accordingly, it makes sense to use the indicator “weekly active users”, instead of more common “daily/ monthly active users” indicators (DAU / MAU) ^[6].

Regarding the life cycle, it is possible to conditionally divide companies into three groups:

- “old-timers” of the audiobook market (Audibles, Nook audiobooks, audiobooks.com)

- “enthusiasts” – teams or companies focused on content but which do not demonstrate the existence of a strong business strategy (or declare its conscious absence)
- “aggressive beginners” - as a rule, those are startups with verified value proposition (sex ed and snackable erotic fiction), that have significant growth of the user base; as a rule, they engaged the financing from outside investors and demonstrate the existence of a business strategy.

Content acquisition strategy can divide into such groups:

Marketplace – a system of engagement of third-party authors and narration creators via the royalty model. This approach is usually practiced by “old-timers” of the market as well as some beginners. This approach is efficient, but it requires a systemic approach to value proposition creation for third-party authors. This approach is not always suitable for beginners who have to quickly create a certain amount of high-quality content. Audible Escape has the most sophisticated market place which benefits from Amazon Kindle ecosystem advantages. Amazon has actually created a system ACX (Audiobook Creation Exchange) for audiobook producers where authors can find narrators and sound engineers for audiobook creation.

In-house content production. New players often practice this approach, mainly when time to market and speed of growth prevail over the cost of content development. This approach is also appropriate when the company has a certain media plan, oriented to certain narrow segments of the target audience. Actually, third-party freelancers can be engaged in content production as well as own in-house authors and editors.

The indicator of “content efficiency” is very different from all three groups. On average, the SexEd and Snackable erotic audio companies have the best indicators. This indicator is expectedly worse in traditional erotic audiobook publishers, even if we make an amendment and exclude the “old” content (more than 2 years old) from the analysis.

3.2.2 Competitive radar

The “competitive distance” for the “competitive radar” tool was calculated for each competitor, that is the smaller the distance, the closer the competitor is to us, and the greater the potential threat.

The following factors were taken into account during the assessment of this indicator:

- the proximity of value offering and target audience;
- the presence of the business strategy and investments;
- existing and projected market share (taking into account the growth rate);
- content efficiency ratio.

Visually the radar was divided into 3 sections according to the value proposition.

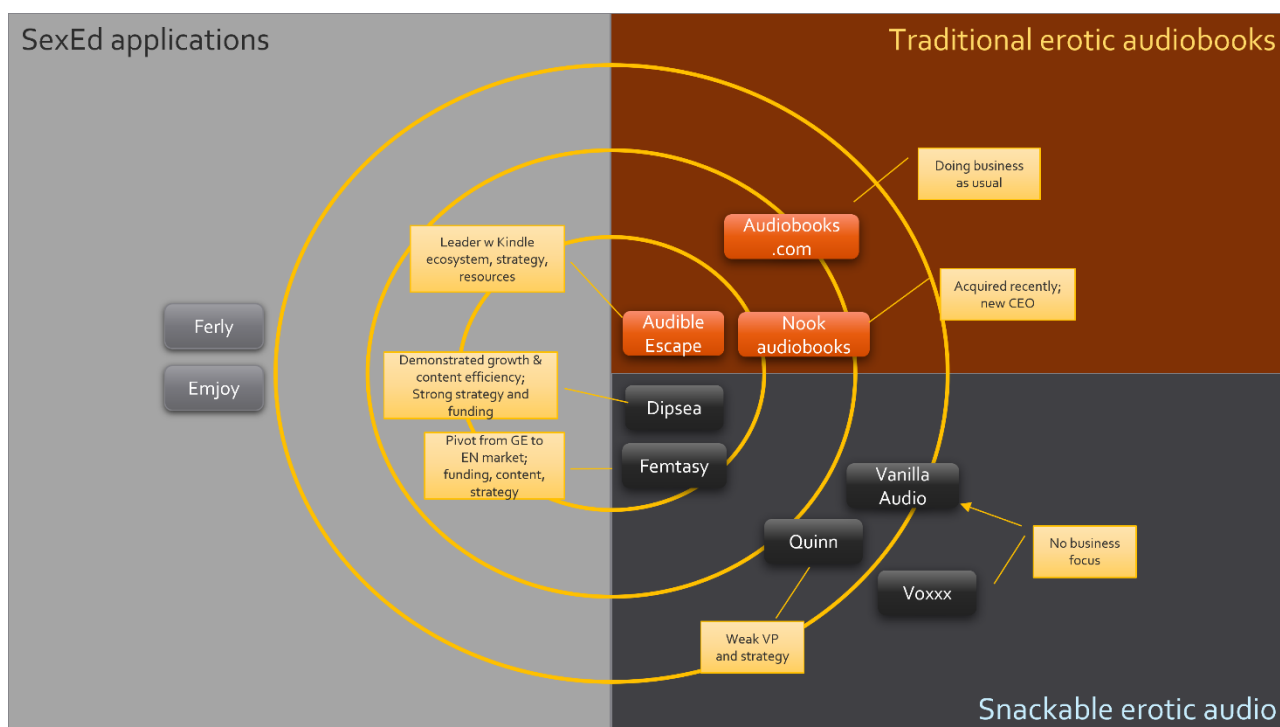


Fig. 3.1. Competitive radar

3.3 Strategy for business model validation

According to the Customer Development methodology, business model validation consists of a set of experiments which test the key assumptions about the business model in a certain sequence.

The following sequence is completely organic and traditional:

1 Value proposition testing with the help of MVP (the right part of the business model canvas).

- **Definition of success:** confirmation of assumptions about problematics of users and value of our solution (problem/solution test).

2 «Production part testing» - left part of the business model canvas.

- **Definition of success:** a formed vision of how we can build a viable production organization, integrated into the value chain.

3 Financial performance testing of this organization.

- **Definition of success:** Make sure that the unit of business will be profitable, and the organization, in general, will have an expected positive net present value.

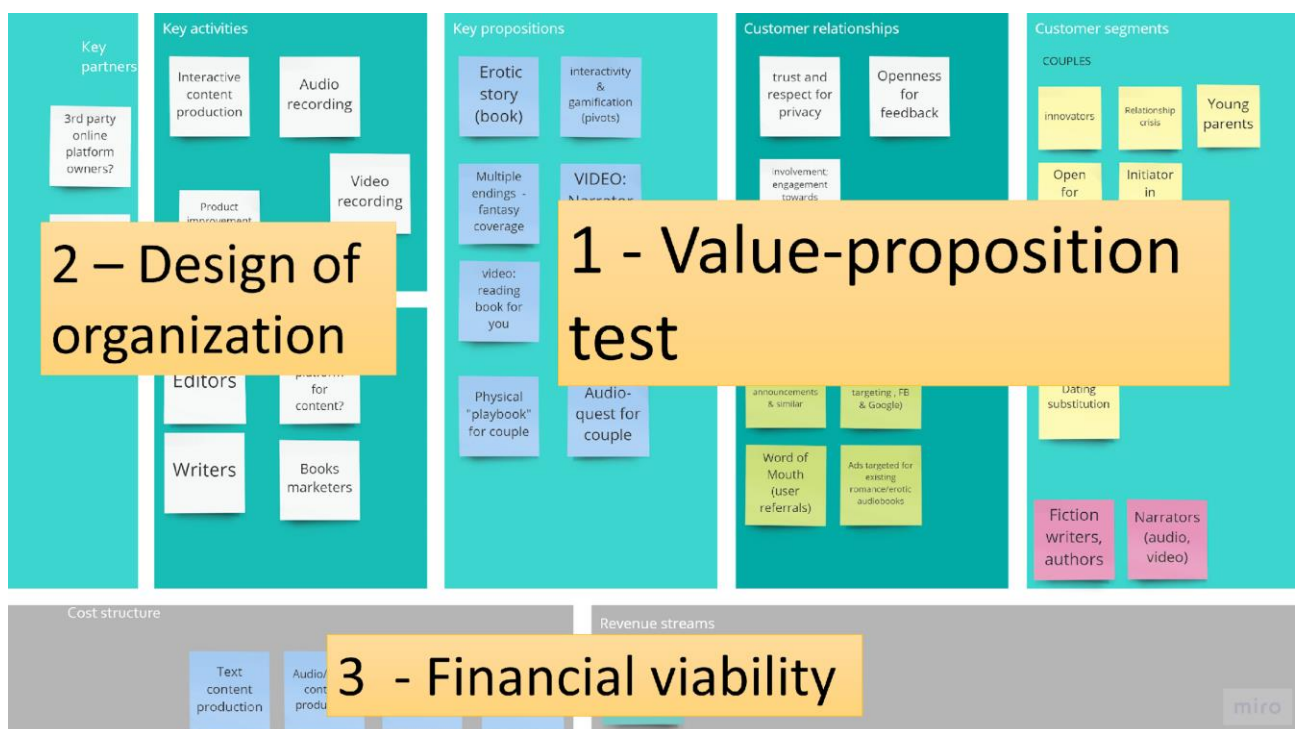


Fig. 3.2. Business model canvas

The key factor of the successful strategy is the understanding in what zones of the business model the greatest uncertainty is expected and finding the optimal way for reducing uncertainty.

It is important to distinguish what causes the uncertainty in each situation and to distinguish the following situations:

- The absence of certain information on our organization. For example, companies that enter new markets may not have enough information about the market itself or the production activity in a certain field.
- The complete absence of such information. For example, in the case of innovators and pioneers during the launch of innovative products with the newly created value proposition, or during the targeting to new segments – information may not exist at all, neither experts or consultants nor competitors can have it.

Obviously, different tactics are required for the above mentioned two cases. In the second case, in principle, there is no other solution than to set up an experiment.

3.4 Managerial conclusions

The erotic audio market is both *growing* and undergoing *certain reformatting*. In the field of erotic fiction traditional erotic audiobook, publishers are under competitive pressure from startups with “snackable erotic audio” offering, which has better content performance indicators and demonstrates rapid growth. For example, the startup Dipsea ^[9] managed to get a customer base of 10% of the largest player’s size (Audible Escape) for a year.

It is very favorable to enter the market which is growing and reformatting. Market growth means that it is possible to focus on the engagement of new users instead of “pulling” users from existing players as it happens in established markets. The fact that the market already exists and is reformatting is positive – customers’ needs and preferences are changing, and it is possible to offer them our product with a new value proposition.

Obviously, it is critical to have a verified value proposition and competitive advantage and to minimize time to market. Key differentiation points of Audioquest product, described in section 1.7.1, allow to create a very unique value proposition (at the moment) for users and gain significant competitive advantages.

PRODUCT ARCHITECTURE AND TECHNOLOGY STACK IV

4.1 Design approach and technology selection for MVP development

The overall product architecture is quite simple, especially at initial stages. Basically, it is an online web-platform with audio content. There are some improvements in the content format and usability. A consumer can use the product via the web interface or mobile applications (not available yet).

4.2 Technology stack

Very typical technology stack has been selected:

Product technology stack

Table 4.1

Back-end	Javascript- Node JS Express	A powerful and popular framework Quite efficient for rapid application development The wide selection of libraries and components
Database technology	MongoDB	Simple and highly compatible with NodeJS
Front-end	Javascript- React JS framework	A very powerful and popular framework Enables responsive design Enables creation of a cross-platform mobile application with minimal effort
Cloud environment	Amazon Web Services Amazon S3	Industry standard

Technology competencies mentioned above are quite common in the labor market.

FUNCTIONAL SYSTEMS AND TOOLS V

5.1 Financial projections: reverse income statement

A modeling approach based on the Discovery-driven growth methodology and tools from the MSTM courses were used to assess the financial performance.

The “reverse income statement” tool from the Discovery Driven Growth methodology [10] is in the base of the analysis, and is built on the basis of the following model:

Management objective. Capture the desired market share (33%) for 2-3 years, taking into account the growth rate (15-25 % per year), and maintain it for the next few years.

Phases of the business model life cycle. During the analysis, we take into account the main phases of the invention and the business model operation: Launch (6M), Ramp-up (2Y), Competitive response(2.5 Y), Erosion.

Degradation of indicators. Some degradation of business performance indicators is expected on the “Competitive response” and ”Erosion” stages.

Key assumptions. As shown in this table:

Key business model assumptions

Table 5.1

Indicator	Numeric value (taking into account degradation)	Origin of data
Growth rate, (per week)	2.1-1.9%	objective
Audio content production cost, ghostwriting (USD per hour of audio)	\$1,327.22	actual data + calculation
Subscription cost (blended) USD per month	\$ 9.99	assumption
Monthly users churn rate	7.34%	assumption (optimistic; based on statistics)
Content efficiency:	120 to 60	assumption

Number of users per hour of audio content (Y1 to Y5)		
Blended tax rate for digital products (US)	2.33%	blended statistics
Corporate tax rate (US)	21.00%	statistics
Spendings: RnD; Customer success	2% (each)	statistics

Table 5.1 (continued)

According to these data, the projection of the income statement was calculated for 5 years (Annex D).

Key expenses.

According to this projection, the proportion between the main cost items is following (for the 5-year period).

	Key expenses	Table 5.2
COGS - Content production	\$ 2,071,357	12%
COGS - Product development	\$ 2,096,365	12%
Fixed expense (RnD, G&A)	\$ 1,601,447	9%
Sales and marketing	\$ 11,472,975	66%
CAPEX	\$ 88,850	1%

Further steps.

Also, it is necessary to calculate the following indicators on the basis of the mentioned projection:

- Discounted cash flow
- Terminal value (using the method of multipliers)
- Net Present Value
- Rate of Return
- Sensitivity analysis
- Projections options for other development scenarios

5.2 Managerial conclusions from the analysis of the financial model

The analysis indicates that the business model is likely to be feasible. According to this projection, in a 5-year perspective, this opportunity can generate Net profit in the amount of USD 4.8 M and requires investments in the amount of USD 2.6M, that gives a yield of about 17% per annum (exclusive of interest). The break-even point is expected in the 3rd (or 4th) year of the project.

- Gross margin and CLV / CAC ratio projections are within acceptable limits (within 2.17 – 3.26 for project years 3-5).
- The main cost drivers needed for scaling and capturing the market share are the following:
 - Product development
 - Content production
 - Sales and marketing
- To implement a scaling strategy, it is necessary to raise external capital.

5.3 Management framework and operational processes

For operational management, the main phases of the Customer Development methodology have been mapped to a very simple Scrumban framework, which is a quite efficient and appropriate approach for the small self-organized core team. Also, certain approaches from the methodology “Getting things done” ^[11] were applied.

5.4 “Stay small” philosophy

Regarding staff management, the philosophy “stay small” was applied. It means that a startup hires a new employee only when a full-time dedicated role exists for him.

The implementation of the «stay small» philosophy is implemented as follows:

- A small core management team mainly focused on business, management and organizational issues.
- Technical product development is performed by an external contractor.

- Various external consultants are involved on a part-time basis, when necessary during research and prototyping phases (market researcher, a design thinking facilitator, a survey specialist, designers, writers, and other subject matter experts).

5.5 Contractors management

Retrospective analysis of the implemented project phases and incidents that happened showed that product development process even at early stages requires systemic approaches to managing contractors, namely – maturity assessment of contractors, risk management, formal scoring of contractor's characteristics and regular business reviews. These initiatives have to reduce the number of incidents with contractors, and consequently, reduce the risks during the product development.

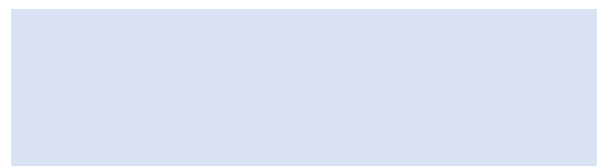
5.6 Talent management

In general, this business requires talent engagement and managing two different categories of creative people: engineers and content creators. The main task of management is to create a culture and environment for self-organized teams and make sure that all teams are productive and keep the focus on the company's business goals. The core idea and vision of this startup definitely helps to engage very talented specialists.

STRATEGY IMPLEMENTATION AND PROJECT CONSTRAINTS VI

6.1 Strategy cascading

For the purpose of strategy cascading, the business model assumptions were analyzed, and a list of critical initiatives needed to launch the business model was identified. For each of the initiatives, a level of uncertainty (or complexity) was measured which directly correlated with the level of risk.



List of strategic initiatives

Table 6.1

Initiatives	Purpose	Uncertainty (or complexity) level
<p>Value-proposition test (MVP2)</p> <p><i>Requires validation of “VP/segments/ customer relations/channels” section.</i></p> <p>Competitors analysis</p>	<p>To define value offering and competitive advantages</p> <p>To ensure that our value offering is good enough for both users acquisition and retention</p>	<p>High</p> <p>In general, the approach is known, but more complicated in practice than expected</p>
<p>Net Present Value modeling</p> <p><i>Initial validation of “Cost structure” and “Revenue streams” sections</i></p>	<p>To analyze the financial feasibility of the business model</p> <p><i>More precise NPV calculation should take into account such parameters as expected investment size, competitive analysis and strategic control – to build</i></p>	<p>Medium</p> <p>The analysis is performed by known tools;</p> <p>It is critically important to have a relevant calculation model, track sources of</p>

	<i>assumptions about key life stages of the business model (“invention, exploitation and erosion”)</i>	information and perform sensitivity analysis
Product marketing approach	To maintain and improve product/market fit	Medium In general, the process is known, specialists are available
Book marketing approach	To create a strong <i>content offering</i> for consumers	High The process is quite new for our organization, but there are enough consultants and publicly available information to build it.
Product design process	To identify the most valuable improvements and innovations in product functionality	Medium Approaches for this process are completely known and available
Strategic protection measures	To the ensure sustainability of the business model; to protect our value offering	Medium In the case of a consultant engagement - time,

	from imitation by competitors	budget and expected outcomes are quite predictable
<p>Supply chain integration</p> <p>Mass content production.</p> <p><i>How can we build an organization which is capable of production and sales of required content?</i></p> <p><i>What are the most productive, efficient and competitive ways of content production or acquisition?</i></p>	To find the most optimal approach for growth and scaling	Very High Requires research and probably finding non-standard solutions. At present, all the obvious ways of content acquisition are not good enough for rapid growth.

Table 6.1 (continued)

As can be seen from the table, the highest level of uncertainty (and therefore risk) falls on such a key activity as "mass content production", which is directly related to business scaling.

6.2 Scaling and content acquisition.

Competitors analysis shows that successful scaling depends on three factors:

- **Prerequisite:** availability of a suitable value proposition
- **Constraint 1:** Availability of a sufficient amount of content (and its constant updating)
- **Constraint 2:** Investment into effective sales and marketing process

While constraint # 2 could be solved by building an effective sales and marketing process and involving an appropriate budget (which is a fairly clear objective), constraint #1 contains quite a high level of uncertainty. At the moment, it is not clear what can be the most successful platform for growth. Several key competitors use

different scaling strategies at the moment. We need to invent one which has a proper balance between long-term productivity and efficiency in order to capture and maintain the desired market share. Content production and acquisition is expected to be the most resource-consuming activity; thus we need to find the way to do it better than competitors.

Analysis of possible content acquisition strategies. Since content acquisition is one of the key business processes that dramatically affects scaling, it is important to analyze possible variants of the content acquisition strategy.

The initial analysis of available content acquisition options is summarized in the following table, with scoring defined towards key business performance indicators.

Content acquisition strategies

Table 6.2

<i>Options</i>	Uncertainty / complexity	Productivity (time-to-market)	Long-term efficiency	Royalty / monetization for authors
<i>Regular publishing workflow</i>	1	1	5	?
<i>Adaptation of existing stories</i>				?
<i>Published books</i>	1	4	2	?
<i>Non-publ drafts</i>	3	3	3	conditional non-exclusivity for publishing?

<i>“rising stars” amateur authors</i>	3	2	3	Rights acquisition? Combine w strategy C1?
<i>Content in other lang’s</i>	1	2	3	Rights acquisition?
<i>Hiring ghost- writers</i>	5	5	2	OK
<i>Hiring full-time authors</i>	4	5	2	OK

Content acquisition strategies

Table 6.2 (continued)

Prioritizing speed. As it is obvious from the analysis results, the most productive and the fastest strategy can be the engagement of ghost-writers or hiring full-time authors at the early stage of the product development when time-to-market is most critical.

Prioritizing efficiency. At later stages it makes sense to move to the “traditional” publishing model. In this case, it is important to demonstrate to independent authors that our platform is viable and provides them with opportunities for good earnings under the royalty scheme. In general, it means that we will need to define the value proposition for the segment of authors (fiction writers). This will require the implementation of the “2-sided platform” business model ^[5]. Such a model not only requires the presence of well-defined value propositions for both “clients” (consumers and writers) but also a balance of supply and demand.

Prioritizing speed and efficiency. Also, options of adaptation of existing linear content into the interactive format looks appealing. Such a strategy can potentially save time (avoid writing content from scratch), and also resources – right owners can be interested in additional monetization of the existing content. This strategy can be applied starting from the early stages, which may well be an advantage over

competitors; it requires thorough efforts to form key partnerships and create the value proposition for content owners.

As we can see, different strategy options also contain a certain level of uncertainty and complexity. In order to reduce uncertainty levels, it is important to use the following tactics:

- Use open information. Nowadays there are many open materials for writers, which provide valuable information about how authors and the digital publishing business work today.
- Involve advisors and consultants from publishing area
- Trial and error: use some iterative approach, possibly combining different content acquisition strategies.

6.3 Key performance indicators cascading

It is critical to have a sufficient visibility and control level at all planning horizons for the successful control of the strategy implementation. For this purpose, such a management tool as cascading and monitoring key performance indicators (KPI) is suitable.

In order to utilize identified opportunity in the most optimal manner, it is critical to optimize time to market to have a chance to capture desired market share. The following stages can have the greatest influence on the general time-to-market:

- Design and validation of Value Proposition
- Content acquisition strategy and growth strategy

Also it is critical to make measures for Strategic protection and innovation. It is important to define strong competitive advantage based on value proposition and avoid creation of “me too” products. Otherwise there is a high risk of fast opportunity erosion and ending up in the aggressive competitors environment - “red ocean” [4].

To understand the mechanism of attracting and retaining users, it is critical to understand how the customer journey works and how it relates to user acquisition and retention funnel.

Quick analysis shows that in the media and entertainment business the involvement and loyalty of users are influenced by both the functionality of the product and the availability of relevant content (quantity, quality and method of its presentation). Moreover, the functionality of the product is a “hygienic factor”, namely it has to be on a “good enough” level it is difficult to find some groundbreaking innovations here. Instead, relevant and qualitative content is more important to users. For example, the mobile app Dipsea ^[9] has a relatively low rating in Google Play Store (4.2), there is a certain quantity of negative reviews related to the stability of the app. Yet, Dipsea shows the best growth rates among competitors.

From the above mentioned the question arises: how much and what content has to be produced for the successful growth of the media platform users? The answer to this question should be found in the context of understanding the preferences of the target audience main segment. For this purpose, the product feedback questionnaire is provided on the MVP stage, which includes the information about the users’ impression from the content itself (the mood that this story creates; the level of curiosity, dynamics, positivity and tension; characteristics of the main characters).

Another approach involves trends tracking in the book publishing categories Erotica/Romance on popular platforms such as Amazon Kindle or Goodreads.

For the retention of users, it is critical to have a reliable **mechanism of content suggestions** for a particular user based on the analysis of their preferences. In other words, the more accurately we can predict what content a particular user likes, the bigger the probability of retaining them in our system. The experience of Amazon Kindle and Netflix ^{[28] [7]} indicates that. The implementation of this mechanism requires certain RnD investment and finding the appropriate algorithm.

The **internal content rating** mechanism is also needed, both at the level of the consumer segment and at the level of the individual consumer, which is a typical characteristic of the long-tail business model template. If we rank all the content on a 5-point scale, we can build the following simple system.

Rating	Type	Description
5 star	Blockbusters, “hits”	<p>Magnetic content usually is exclusive or original, for which the user buys a subscription and remains loyal to the platform.</p> <p>Users usually consume it first and foremost (“binge watch”). An analogy – “a holiday meal” such as caviar or foie gras. Update frequency – at least every 3-6 months.</p>
4 star	Good enough content	<p>Good enough content meets the user’s expectations. The user can consume it periodically, depending on the mood, usually keeping it in the list “favorites” or “watch list”. An analogy – “delicious pizza or steak”.</p>
3 star	Unfulfilled expectations	<p>The user decided to watch this content through description or trailer, or thanks to the recommendations. In general, content looks positive and, maybe, relevant, but some content characteristics push away the user.</p> <p>Usually, a user starts consuming this content, but quite quickly puts it off and does not return to it, removes favorites or puts “dislike”.</p>
2 star	Irrelevant content	<p>Content is irrelevant and not interesting for a user. It must be shown in the list as last.</p>

1 star	Inadmissible content	Content that causes strong negative reactions and that the user does not expect to see on this platform at all. The presence of such content in general harms the brand of the product.
--------	----------------------	---

Table 6.3 (continued)

For optimal attraction and retention of users, it is necessary to have a balanced proportion of content with different ratings:

- A certain percentage of 5-star content with its regular updates. If there is not enough content of this type, new users will not buy a subscription, and existing users will eventually lose loyalty to the system.
- Sufficient amount of “4-star content” for daily or weekly consumption. If there is not enough content of this type, or the algorithm will not show it in suggestions - users will **quickly lose** loyalty to the system.

Conclusion. For the user retention and increasing their lifetime value, it is necessary that the user has available 4 and 5-star content, sufficient for their average level of consumption.

Also, this rating system is necessary for the internal calculation of monetization and profitability of content.

6.4 Required organizational structure

For the business strategy implementation, it is important to build an organization with the following key departments and teams, which correspond to the structure of key business processes and strategic initiatives.

Key organizational units and teams

Table 6.4

Department	Key roles
Product Development	Product manager

	Dedicated outsourced software engineering team In-house engineering team UX designer Senior web engineer Acceptance testing engineer tech support /customer success specialists
Research and development	Product designer Facilitator Marketing specialist(s)
Content production	Content acquisition manager Core content team - editors and writers Audio and video production teams
Sales and marketing	Product marketer Digital marketing specialist

Key organizational units and teams

Table 6.4 (continued)

6.5 Project constraints

Budget. Current budget available covers (in 50/50 proportion, roughly):

- a small core team
- a limited amount of part-time contractors

Full-scale product development, content production and marketing investment will require external funding.

Time. Increasing competition on the market and budget constraint requires “Go/no go” decision which must be made as soon as reasonably possible.

Geolocation. Currently, most experiments are conducted in the local market. To enter the target market, it is necessary to reproduce the relevant experiments and form an international team of employees and contractors.

CONCLUSIONS

Analysis of completed stages of the project

It is possible to find and evaluate opportunities in new domains, with the help of right frameworks and tools for uncertainty management.

There is a particular opportunity in the audio erotica market while it is re-shaping and growing. The prototype of a potentially competitive innovative product was developed as well as the market and competitors were analyzed.

During the phase of problem/solution testing, it is critical to perform regular feasibility analysis and filter ideas on the basis of certain formal indicators, that is to make conscious and well-grounded managerial decisions.

Based on competitive analysis and market analysis, the strategy of testing key business model assumptions and its launch was created. The strategy has been successfully cascaded into a set of initiatives (subprojects) that vary in scope and complexity. The most challenging initiatives were analyzed in more detail, and probable tactics for their implementation were created.

Key business processes were analyzed, as well as the required organizational structure and the plan with key milestones and phases were projected.

Financial projections were calculated in a 5-year perspective, which is based on the aggressive scenario of the market share capture and a set of key assumptions. The financial analysis demonstrates the potential viability of this project.

Lean product development skills are extremely critical in order to shorten MVP testing cycles, minimize cost and time-to-market. Two quotations seem to be the most relevant in this case:

“...premature optimization is the root of all evil (or at least most of it) in programming.” (Donald Knuth)

“... The most dangerous kind of waste is the waste we do not recognize” (Shigeo Shingo)

Conclusions and insights for future stages

In order to utilize the identified opportunity in the most optimal manner, it is critical to optimize time to market to have a chance to capture desired market share. The following quotations can have the greatest influence on the general time-to-market:

- Design and validation of Value Proposition
- Content acquisition strategy and growth strategy

Also, it is critical to take measures for strategic protection and innovation. It is important to define a strong competitive advantage based on value proposition and avoid the creation of “me too” products. Otherwise, there is a high risk of fast opportunity erosion and ending up in the aggressive competitors’ environment -“red ocean” ^[4].

LIST OF SOURCES AND LITERATURE

- 1 «Adult Choose Your Own Adventure Books»
(https://www.goodreads.com/list/show/18733.Adult_Chose_Your_Own_Adventure_Books)
- 2 "Amazon Audible Escape" (<https://www.amazon.com/hz/audible/audible-escape>)
- 3 "Audiobooks.com" (<https://www.audiobooks.com/>)
- 4 "Blue Ocean Strategy" Book by W. Chan Kim, Renée A. Mauborgne, 2014
- 5 "Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers" Book by Alexander Osterwalder, Yves Pigneur , 2010
- 6 "DAU/MAU is an important metric to measure engagement, but here's where it fails" (Andrew Chen blog) (<https://andrewchen.co/dau-mau-is-an-important-metric-but-heres-where-it-fails/>)
- 7 "Demand: Creating What People Love Before They Know They Want It" Book by Adrian Slywotzky, Karl Weber , 2011
- 8 "Dipsea - Short and Sexy Audio Stories" (<https://www.dipseastories.com/>)
- 9 "Dipsea - Sexy Audio Stories to Spark Your Desire"
(<https://play.google.com/store/apps/details?id=com.dipsea&hl=en>)
- 10 "Discovery-Driven Growth: A Breakthrough Process to Reduce Risk and Seize Opportunity " Book by Rita Gunther McGrath, Ian C. MacMillan, 2009
- 11 "Getting Things Done: The Art of Stress-Free Productivity" Book by David Allen, 2002
- 12 «Histerical literature»
(<http://hystericalliterature.com/5lco9cn6d0wraqciil0xs0f82h7uav>)
- 13 "Kink Academy" (<https://www.kinkacademy.com/>)
- 14 "List of interactive Titles on Netflix (<https://www.whats-on-netflix.com/library/interactive-titles-on-netflix/>)
- 15 LitRPG (<https://en.wikipedia.org/wiki/LitRPG>)

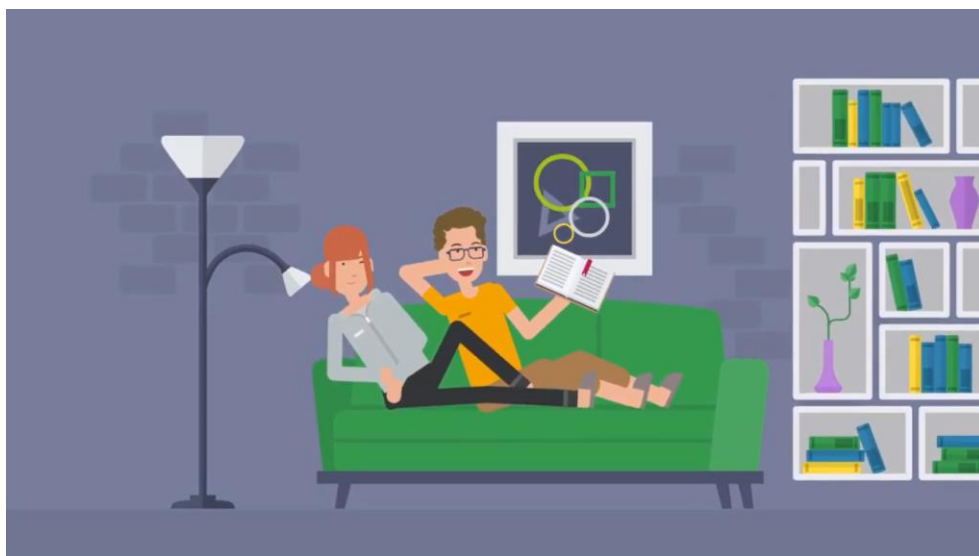
- 16 "Market Research Report. AUDIO CONTENT INDUSTRY: AUDIO EROTICA" Book by IntroMarket Research Group, exclusively for Wonders.digital, 2019
- 17 "MEGOGO " (an international OTT/VOD service, the largest in the CIS countries and Eastern Europe) (<https://megogo.net/> , <https://en.wikipedia.org/wiki/Megogo.net>)
- 18 "New data shows losing 80% of mobile users is normal, and why the best apps do better" (Andrew Chen blog) (<https://andrewchen.co/new-data-shows-why-losing-80-of-your-mobile-users-is-normal-and-that-the-best-apps-do-much-better/>)
- 19 "Nook Audiobooks by Barnes & Noble" (<https://www.nookaudiobooks.com/>)
- 20 "Pornovation: The Relationship Between the Adult Entertainment & Technological Advancement", 2017 (<https://medium.com/spankchain/pornovation-the-relationship-between-the-adult-entertainment-technological-advancement-2e18a3226bbe>)
- 21 "Technology Commercialization" course at Coursera (offered by University of Rochester). (<https://www.coursera.org/learn/technology-commercialization>)
- 22 "The Delicate Art of Selling Sex Toys Online", Andy Kinsey, 2019 (<https://medium.com/better-marketing/sell-sex-toys-online-da353e65018e>)
- 23 "The Future of Sex: How Intimacy is Transforming" by JENNA OWSIANIK, 2017 (<https://futurism.com/the-future-of-sex-how-intimacy-is-transforming>)
- 24 "The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business." Book by Clayton M. Christensen, 2011
- 25 "The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses" Book by Eric Ries, 2011
- 26 "The Profit Zone" Book by Adrian J. Slywotzky, David J. Morrison, 2002
- 27 "The Startup Owner's Manual: The Step-By-Step Guide for Building a Great Company" Book by Steve Blank, 2012

- 28 "THE ULTIMATE BOOK MARKETING CRASH COURSE", Nicholas Erik. 2019-2020 (<https://nicholaserik.com/cc/>)
- 29 Tinder's video series "Swipe Night" gets a second season (<https://techcrunch.com/2020/02/27/tinders-video-series-swipe-night-gets-a-second-season/>)
- 30 "U.S. Audiobook Sales Neared \$1 Billion In 2018, Growing 25% Year-Over-Year", Adam Rowe, 2019 (<https://www.forbes.com/sites/adamrowe1/2019/07/16/us-audiobook-sales-neared-1-billion-in-2018-growing-25-year-over-year/#30415c46050d>)
- 31 "Value Proposition Design: How to Create Products and Services Customers Want (Strategyzer)" Book by Alexander Osterwalder , 2014

ANNEXES

Annex A.1 Detailed product description.

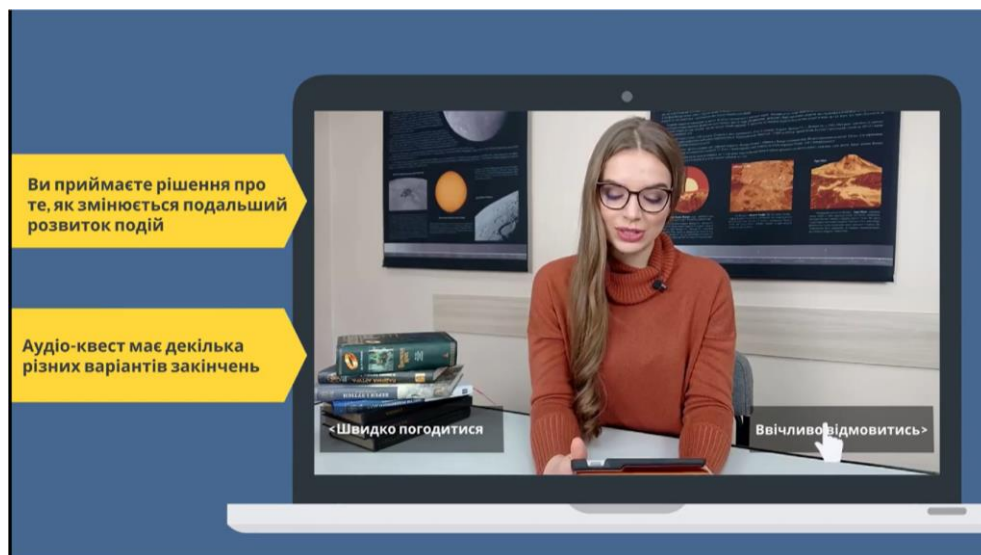
Product explainer video (key frames and subtitles).



Do you enjoy it when someone reads you a book?

Are you familiar with that feeling when a book or movie hero does something “wrong”, and you desire to influence the course of events?

And what is your attitude to romantic-erotic stories which can arouse you?



Our team has created an innovative product for you - erotic AudioQuest.

The AudioQuest is an interactive audiobook that you can listen on your PC, smartphone or tablet. At the end of each episode, you should help the protagonist to make a decision that will change the following sequence of events.



Unlike the ordinary book, the AudioQuest has several different endings. If you do not like the finale of the story, you can try another sequence of events, traveling through different paths of the story.

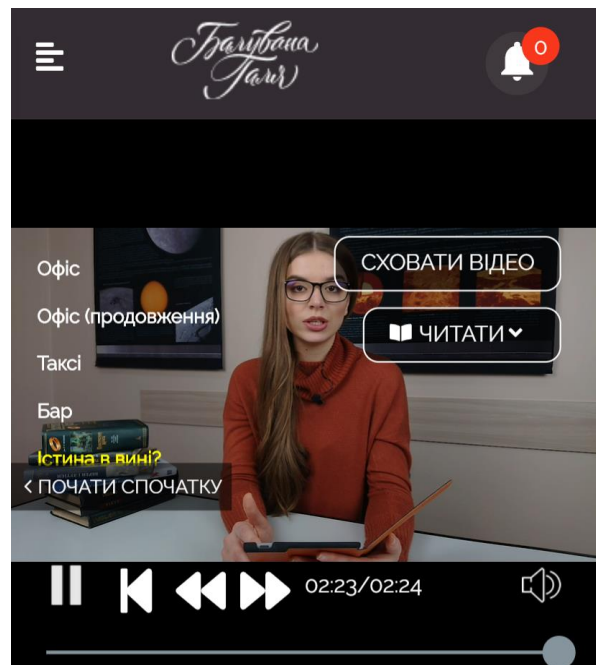
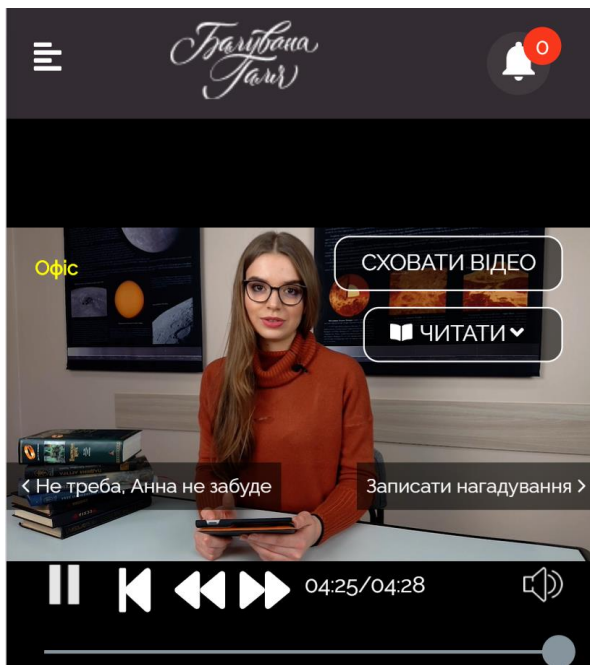
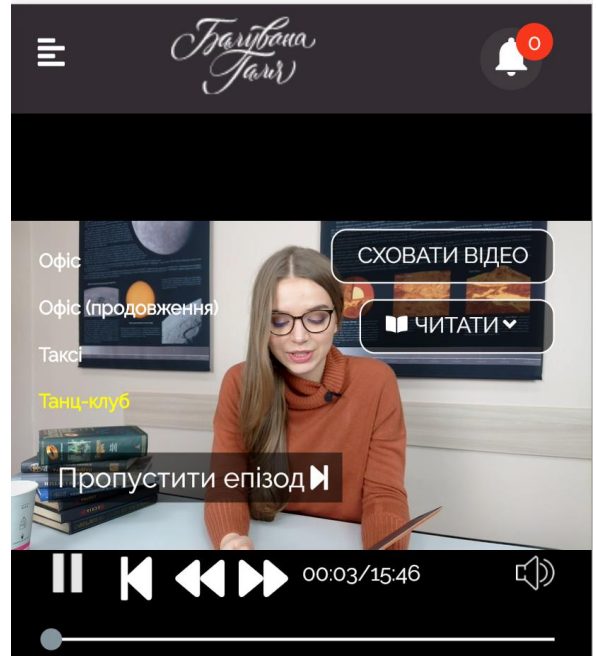
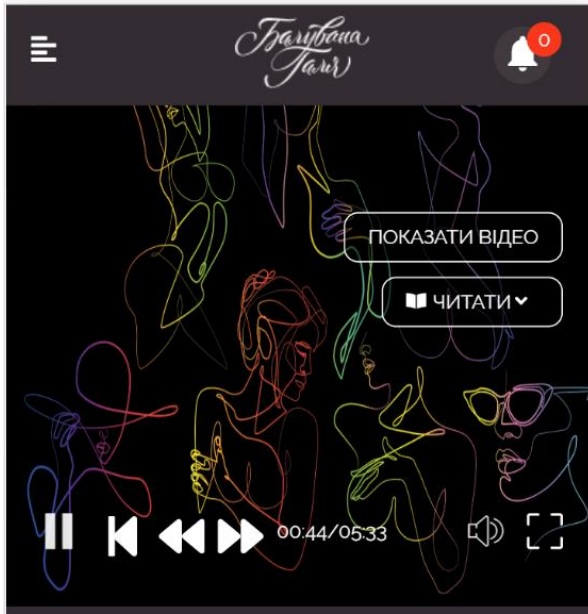


Listen to the AudioQuest by choosing different ways to discover all the interesting endings of our romantic-erotic story. And who knows what spice situations our protagonists under your guidance can get into?

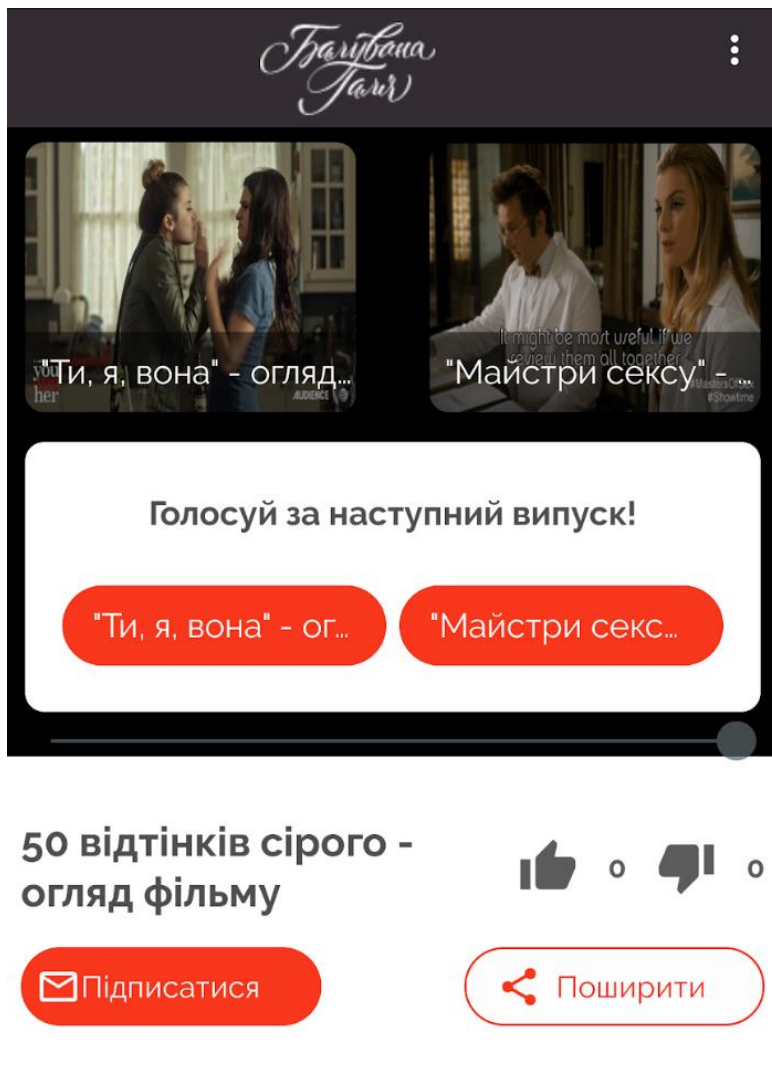
Treat yourself with a minute of personal aesthetic pleasure and intrigue.

Or listen to the story with your partner. Choose twists of the plot together, discuss and discover something new about each other - it is fun for a couple!

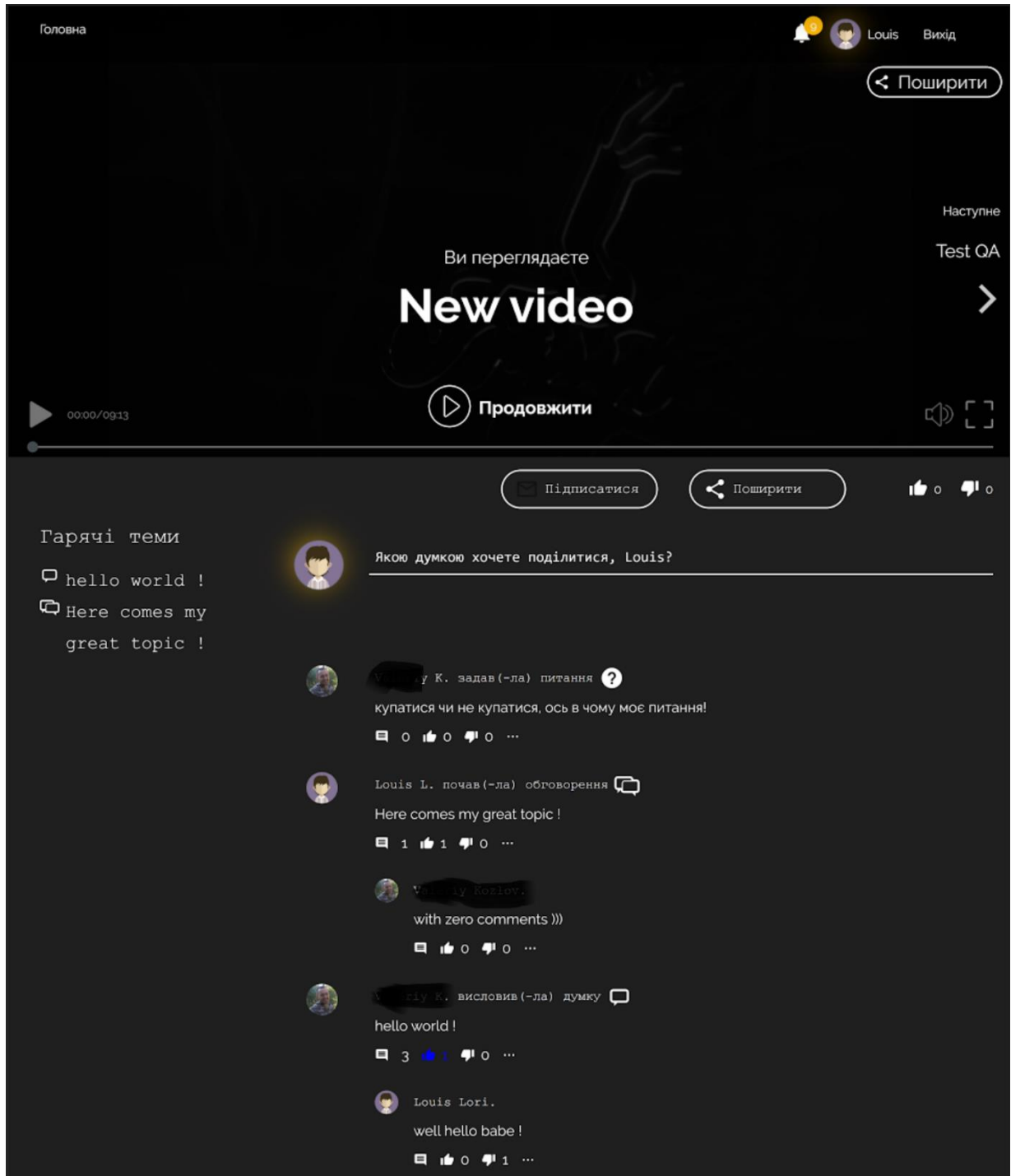
Mobile user interface of audioquest player.



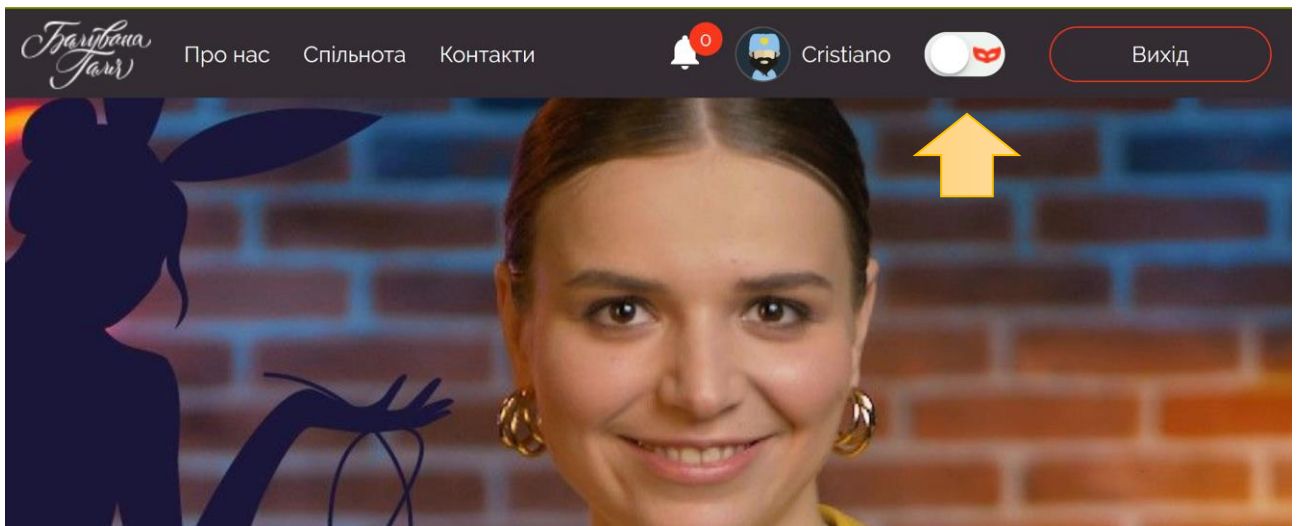
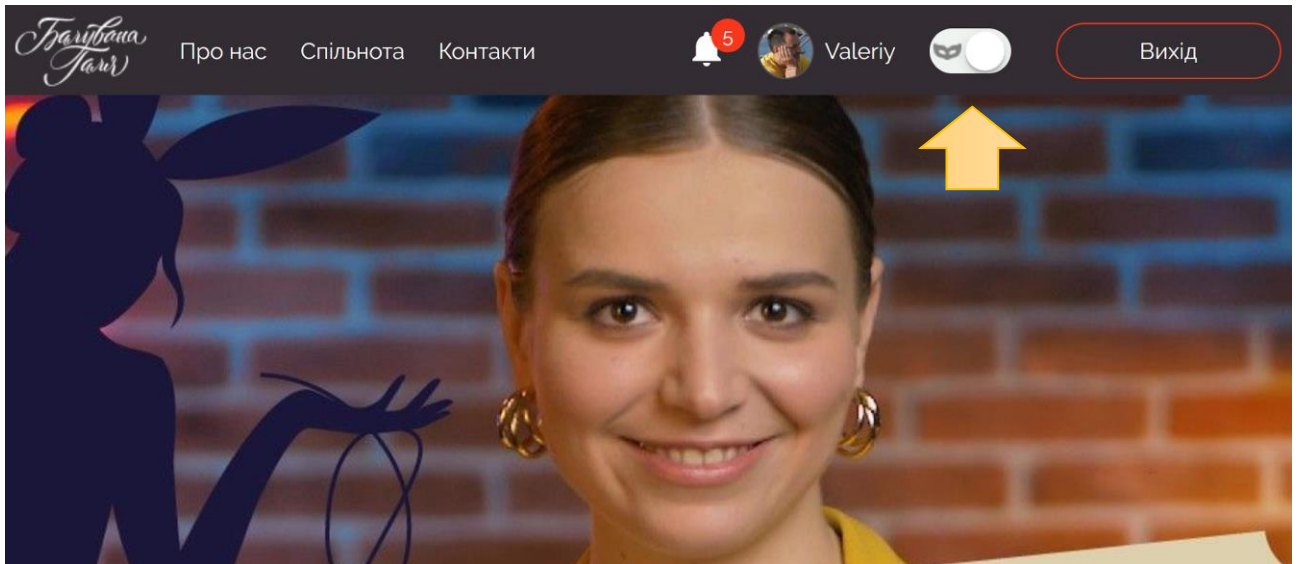
Annex A.2 Mobile user interface of videoblog: voting for next vlog issue.



Annex A.3 Videoblog commenting system: open and shadow mode.



Annex A.4 Switching between “open” and “shadow” user profiles.



Annex B. IdeaFilter™ assessment tool.

♠ PRODUCT		♦ BUSINESS	
Q♠ Does this have lots of applications?	K♠ How protectable is it?	K♦ How long will this take?	Q♦ How far along is the idea already?
J♠ Who else is working in this area?	A♠ What's your product? (Essence and Positioning)	A♦ Can each unit make a profit?	J♦ How much money is needed?
J♣ Do all the constituents see value?	A♣ Is there a problem today?	A♥ Who is already committed?	J♥ Does this fit into supply chain?
Q♣ How much share can you get?	K♣ Is this a big problem?	K♥ Can a full team be assembled?	Q♥ What does the team need to start working ?
♣ MARKET		♥ TEAM	

Annex C. Competitive analysis table

Name	TA	Users (est)	subscr / ann revenue	Offering	Value Proposition	Fundraising ttl, \$M	Mkrshare (est users)	Main lang	Ttl content, hrs	users per audio hr	Content acquisition	Location on radar
Company A_1	Women	6000	\$ 6.49 \$ 467,610.00	Erotic Snackable Audio	Accessible version of 50 Shades of Grey, which is near-impossible to read in secret on your way to work	\$5.5 M	5.24%	EN	20	300	Publishing house with freelancers	1
Company A_2	Unisex	59700	\$ 9.95 \$ 7,128,180.00	Erotic Snackable Audio / audiobooks	Erotic audiobooks with function skip to spicy episode		52.12%	EN	4,610	52	Advanced marketplace	1
Company A_3	Women / couples	2205	\$ 12.05 \$ 318,913.78	Erotic Snackable Audio	Audio description of sexual fantasies as short stories from the 1st person. They call it "mental cinema"	\$1 M	1.93%	GE	371	6	Publishing house with freelancers	1

Company B_1	Unisex	12500	tbd	Erotic Audiobooks	Audiobooks with category erotic		10.91%	EN	2,540	5	Advanced marketplace + publishing	2
Company B_2	Unisex	25000	\$ 14.95 \$ 4,485,000.00	Erotic Audiobooks	Audiobooks with category erotic		21.83%	EN	1,596	63	Advanced marketplace	2
Company C_1	Women	1143	Freemium TBD	Erotic Snackable Audio	Audio porn web site for women		1.00%	EN	5	229	Simple marketplace	3
Company C_2	Unisex	300	\$ 6.99 \$ 25,164.00	Erotic Snackable Stories	Platform where freelance creators can post and share their "vanilla" stories		0.26%	EN	68	4	Simple marketplace	3
Company D_1	Unisex	3135	Freemium TBD	Erotic Snackable Audio / phone sex	Guided masturbation sessions imagined specially for your vulva, vagina, labia, clitoris and		2.74%	FR	7	482	Inhouse content	4

					for your wild imagination.							
Company D_2	Women	210	\$ 7.58 \$ 318,913.78	SexEd / wellness	Wellbeing app that empowers women to change their relationship with sex by providing scientifically-backed and research-centric audio content	\$1 M	0.18%	EN	1	210		4
Company D_3	Women	1350	\$ 9.25 \$ 149,850.00	SexEd / wellness	Educational app to help women explore their bodies for better sexual wellbeing	\$1.7 M	1.18%	EN	10	170	inhouse by fulltime staff	4

Annex D. Income Statement Projection

Market size (users)		140,625	175,781	219,727	290,588
Number of subscribers		7,645	51,876	78,105	97,855
	6m	Y1	Y2	Y3	Y4+Y5(q1q2)
<i>Phases</i>	<i>Launch (6m)</i>	<i>Ramp-up</i>		<i>Competitive response</i>	
Net revenue (subscription)	\$ -	\$ 283,711.01	\$ 2,509,390.62	\$ 7,532,050.37	\$ 14,324,877.05
Subscription based income	\$ -	\$ 283,711.01	\$ 2,509,390.62	\$ 7,532,050.37	\$ 14,324,877.05
COGS	\$ 151,850.30	\$ 345,388.88	\$ 1,052,408.96	\$ 789,419.45	\$ 1,828,655.29
content production	\$ 30,170.30	\$ 102,028.88	\$ 765,560.96	\$ 326,381.44	\$ 847,216.19
Product development	\$ 121,680.00	\$ 243,360.00	\$ 286,848.00	\$ 463,038.01	\$ 981,439.09
Fixed expense (Rnd, G&A)	\$ 77,684.20	\$ 155,368.40	\$ 209,968.67	\$ 351,419.60	\$ 807,007.04
Sales and marketing	\$ -	\$ 363,754.44	\$ 2,879,315.08	\$ 3,024,855.07	\$ 5,205,050.93
CAPEX	\$ 55,100.00	\$ 7,500	\$ 7,500	\$ 7,500	\$ 11,250.00

TAXES	\$ -	\$ 6,619.92	\$ 58,552.45	\$ 844,200.61	\$ 1,623,367.13
Sales tax for digital products (US)	\$ -	\$ 6,619.92	\$ 58,552.45	\$ 175,747.84	\$ 334,247.13
Corporate tax	\$ -	\$ -	\$ -	\$ 668,452.77	\$ 1,289,120.00
<i>Gross profit</i>	\$ (151,850.30)	\$ (61,677.88)	\$ 1,456,981.66	\$ 6,742,630.93	\$ 12,496,221.76
<i>Gross profit margin</i>		-22%	58%	90%	87%
<i>Operating profit (EBIT)</i>	\$ (284,634.50)	\$ (588,300.72)	\$ (1,639,802.09)	\$ 3,358,856.25	\$ 6,472,913.80
<i>EBITDA (same as EBIT in our case)</i>	\$ (284,634.50)	\$ (588,300.72)	\$ (1,639,802.09)	\$ 3,358,856.25	\$ 6,472,913.80
<u>Net profit</u>	<u>\$ (284,634.50)</u>	<u>\$ (594,920.64)</u>	<u>\$ (1,698,354.54)</u>	<u>\$ 2,514,655.65</u>	<u>\$ 4,849,546.67</u>
CAC		\$ 36.39	\$ 36.39	\$ 36.39	\$ 36.39
CLV		\$ (29.59)	\$ 79.03	\$ 121.85	\$ 118.74
<u>CLV / CAC ratio</u>		<u>-0.81</u>	<u>2.17</u>	<u>3.35</u>	<u>3.26</u>

