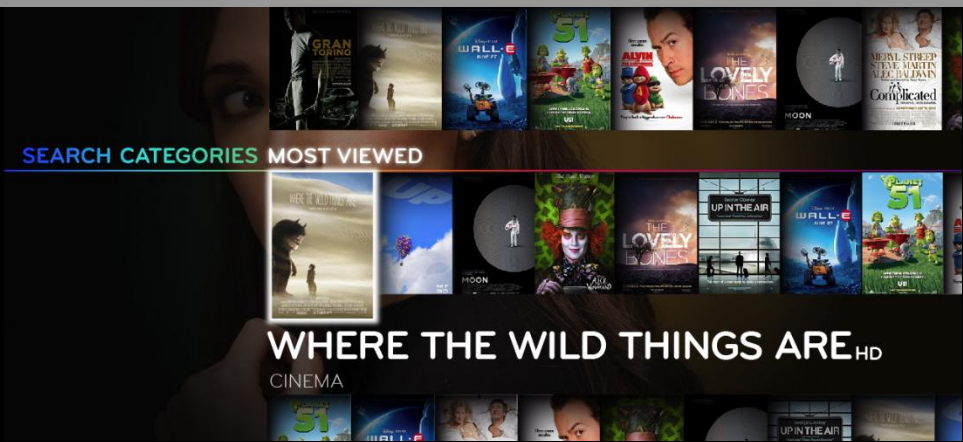
ZON – Facing New Challenges in the Home Entertainment Market



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ABSTRACT

Dissertation title: “ZON – Facing New Challenges in the Home Entertainment Market”

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ZON is the market leader in PayTV market. Their offering includes Cable TV, with possibility of subscribing premium channels, and access to a Video-On-Demand system via television and more recently via computers too. At the same time, they are responsible for buying and selling contents (possessing the rights to broadcast movies and series, for example) and they are the main player on the Portuguese motion picture industry, being the main DVD distributor for sale and rental.

However, the company is in a process of changing. Over the last years, the DVD market has been decreasing in value and the losses that ZON is suffering are not being compensated by investment and adoption of new services (like the referred Video On Demand). After the enormous success that the physical rental has conquered on the past decades, this is a business that is condemned to disappear on medium term. Plus, the growth of internet and possibility to have access to free content (even though these actions are, most of the times, illegal) and development of new technologies have changed consumers’ thoughts and actions towards the motion pictures industry.

This case is particularly interesting for professors and students to discuss how a market leader company can, suddenly, be facing important changes on their business structure that might lead to adoption of new strategies in order to keep the leadership position. The dissertation covers the steps that are needed in order to evaluate the market, first by analyzing the industry to check for new trends, consumers’ perceptions and attitudes and what companies are doing worldwide, and second by testing hypothesis on a sample taken from the domestic market in which the company is operating. In the end of the case suggestions, limitations and hypothesis for future research can be found.

Even though in the end there are some suggestions on conclusions and teaching notes that provide some hints on how the case can be approached in class, any suggestions or other solutions that professors find convenient can also suit the case.

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Introduction

The present dissertation focus in a theme that is so familiar for the most of us: the home entertainment market. This is something that is a part of our daily routine for the simple gesture of turning on the computer or the television when we get to our houses. The first part is focused on an overview of the industry and the company as well as the challenges that they are facing nowadays. The second part is based on a market research study conducted in order to identify which opportunities regarding changing in consumers' habits can companies on this sector approach.

ZON Multimédia is the market leader in Portugal in the PayTV markets and second as an Internet provider. Operating since 1999, the company started by being a part of the PT (Portugal Telecom) group, market leader for landline communications in Portugal and important player on mobile communications. By this time, ZON was known by PT Multimédia. But in 2007, as a consequence of a spin-off, the companies followed different paths and ZON became independent from the group, adopting finally the name for which it is known in the market. However, the second block that composed PT, PT Comunicações, decided to enter the home entertainment market again, creating a service called MEO that has become the main competitor that ZON has to face because both deliver the same services.

In order to build solid presence in the industry, ZON Multimédia is divided in diverse sub companies, each of them responsible for an area. The present dissertation will focus mainly on the activities held by ZON TVCabo, largest triple play operator in the country (television, internet and telephone) and one of the biggest in Europe, and responsible for the management of the channels they offer, ZON Lusomundo Audiovisuais, also market leader for the distribution of movies for sale and rental and the sale of rights to exhibit the films on television and ZON Conteúdos, whose main activity is the distribution of premium contents and channel management and subsequent planning of programs to exhibit.

Nowadays, the company is facing new challenges on the referred industry. If until some years ago, one of the biggest sources of revenues used to come from the rental and sale of DVDs, from 2005 until our days the situation has suffered a turnaround. Physical rental, which was a sector that had great importance throughout the 80s and 90s, is almost dead and the declining of sales in DVDs is enormous. ZON is trying to deal with these losses, by exploiting new trends in the market like a Video-On-Demand system on television and more recently on computers and other wireless devices or premium cinema channels. However, the gains that they are obtaining in these new investments are not enough to overcome the significant losses on the others. Piracy is one of the reasons that might explain this phenomena since people easily have access to free content.

Having this in mind, the Key Research Questions considered important to study were:

1) Are people subscribing and using the services that ZON has for home entertainment?
2) To what extent does piracy play a crucial role on adopting this system?
3) Which incentives could ZON provide to make them use more often Home Cinema? Which new trends are arising in the market?

In order to answer these questions, I conducted a market research plan and collected information to formulate the case study on analyzing the industry and new trends. So, answers can be found on both parts of the dissertation. On market research methods, a Focus Group was developed in order to gain some qualitative insights about consumption habits. Those insights were then used to build the questionnaire, whose goal was to collect quantitative information from people who have the habit to watch films and series at home.

The case study developed can be of particular interest for the company, since they have the opportunity to understand if there are new business opportunities of which they can take advantage of. Also for students and Professors who decide to adopt this case, it can be particularly relevant to see how even market leaders have to face enormous challenges every day and how they have to keep an open-mind to constantly adapt to changes in consumer's habits and needs.

Literature Review

The goal of this thesis is to find how one of the most successful companies in Portugal and market leader in the Home Entertainment sector can adapt their strategy to new challenges appearing. New technologies are arising and consumers are changing too, demanding new solutions in all areas of their life and this sector is not an exception. Consumption habits are changing.

To address the issue stated, I decided to focus my literature review on two main blocks: the first focus on the factors that make a consumer choose a movie and how success can be predicted. Theoretical reflection on this topic can provide insights to review the schedule of movie channels or even the planning of Video-On-Demand Systems. Wierenga (2006) stresses an important point about consumers of movies: the research in the market about this is clearly insufficient. If the consumer is the person to whom the product addresses, then much more about them should be known. The second issue is managing sequential distribution channels, which is something that can only occur for specific industries and motion pictures is the best example to portray it (Elberse and Eliashberg 2003). New approaches and ideas have been suggested more recently through several authors especially on the window between the launching of a movie on primary channel (theaters) and launch on secondary channels (television, Video-on-Demand, video clubs on the internet, etc). Although the company acts on both channels, the present thesis only focuses on secondary. However the insights provided by the studies developed by several authors can help to clarify which new opportunities are arising in the market for home entertainment industry. Although this is a topic that has not been widely covered yet, there are some trends that are important to spot, which can be new business opportunities for the company

The motion picture industry is an issue that has been gaining more importance over time among academic researchers. Eliashberg, Elberse and Leenders (2006), spot that the main reason for this might be the growing economic importance of this industry globally. Furthermore, they also state that contribution that home entertainment markets provide to the motion picture industry as a whole has been raising. Even though research available for the world of entertainment market is nothing when compared to literature on theatrical movies, it has been suggested by Wierenga (2006) that the motion picture industry could take some lessons from the FMCG industry, particularly relating distributors (such as the company studied in this dissertation) with retailers, who often have to deal with the same managerial decisions.

1) Consumers choices

Regarding the problem stated, it is important for the company to try to understand how their audience thinks. Understanding consumer behavior has always been a very important task for marketers. What makes consumers choose? What factors can influence that choice? Is the buyer the same person that uses? And who can influence the purchase? These are only some of the questions that managers might face, but having hints for the solution might be the key to make a process successful.

1.1) Application to the motion picture industry

The factors that can affect a choice for a movie instead of other have raised curiosity among researchers that have conducted studies to explain which factors enhance box office revenues. Nevertheless, no significant research has been conducted for choosing a movie at home and even regardless of the information already available, "in the motion picture industry, the consumer is the great unknown" and more insight about them is clearly needed (Wierenga 2006 pp. 674). Since people nowadays can also choose which movies to see at home through different devices like rental or using the cable box to record a film that is going to be displayed on a TV channel, I will spot the most important conclusions that authors draw to explain the choices on theaters.

Wierenga (2006) observed that the decision making process of a movie has exactly the same stages as the ones defined by Blackwell, Miniard and Engel (2001): need recognition, search for information, evaluation of alternatives, purchase, consumption and postconsumption evaluation. Each of the stages implies specific behavior according to this product. The same author suggests that the industry could benefit to study these stages, with particular emphasis on discovering if a movie is chosen out of an evoked set and, if so, how it is formed. Risk can play an important role on this process. Eliashberg, Elberse and Leenders (2006) identified two research trends that try to explain audience behavior. First is *psychological approach* that tries to explain the choice of a movie out of a, more than an evoked set, a list of entertainment options: "Researchers adopting this approach aim to relate such variables as opinions, needs, values, attitudes, moods and personality traits to consumers' decision-making processes." On the other hand, it is also possible to study this matter through an *economic approach* that tries to explain the financial performance of a movie through data relates with movie-going behavior.

Regarding factors, there are some that have received attention from researchers, trying to see their impact on new technologies on the home entertainment market. Opinion of critics is one of those. Although it has been studied how positive reviews can affect box-office revenues even though the relationship is not certain (Eliashberg and Shugan 1997), more recent research has shown that these opinions are negatively correlated with DVD sales, which mean that DVD buyers tend to have different point-of-view from critics (Luan and Sudhir 2010). Movies itself also have specific characteristics that influence consumer's willing to see. Among which of them are the cast, directors and producers and familiarity, such as sequels or focus on themes that are appealing to the consumer (Henning-Thurau, Houston and Walsh 2006). Even though these authors only consider rental services, the same authors state that even these factors have different influence across channels. For example, cultural familiarity diminishes uncertainty, so it is more powerful for box-office revenues than for rental. Word-of-Mouth (WOM) also plays a key role on the movie industry and this is a crucial tool that helps to enhance sales on consumer goods because it helps consumers to find information about something that they want to buy but on which they have some restrictions because they do not know enough about the product (Mahajan, Muller and Kerin 1984). Liu (2006) observed that WOM is crucial on the pre-release of a movie on theaters because it feeds expectations among audience and raises awareness. This is a tool that helps consumers to reduce risk, so, extrapolating, it can be useful for the Home Entertainment Industry, especially on buying a DVD, which is something that evolves higher financial risk.

Finally, it is also important to mention that consumers' preferences for channels vary across markets (Hennig-Thurau, Henning, Sattler, Eggers and Houston 2007), which is particularly important for managers in the home entertainment market to define strategies.

2) Strategic Issues: what differs?

Little research has been conducted on strategical issues of the motion pictures industry that has some special features that will be pointed on this section. In a market where push marketing strategies play an important role (Elberse and Eliashberg 2003), it is important to study what makes this industry different from others. This chapter will focus mainly on distribution issues, because it is the ones that affect more directly the company studied.

2.1) Product Life Cycle

The motion picture industry brings a challenge to companies operating in this market: since there are many releases in a short period of time, the product life cycle of every film tend to be short, which requires different approaches from a managerial point of view (Elberse and Eliashberg 2003). Marketing decisions have to be taken before the launch of the product because the peak of sales occurs on the first weeks after the DVD hits the shelves. After that demand starts to decrease quickly. Managers need to be prepared before the release in order to quickly perform any adjustments to their strategies after the launch. (Luan and Sudhir 2010).

2.2) Sequential Distribution

One of the main success factors that guides the motion picture industry is the decision on sequential distribution. As defined by Lehmann and Weinberg (2000), it consists on the process that studies the "*adoption of products as they become more widely available across distribution channels*" and it is mainly used on the marketing of entertainment products. These authors were pioneers on studying sequential release applied to motion pictures industry, providing fruitful insights that have not been yet covered. On the motion picture industry, a movie is first released on cinema and only after it will enter secondary channels like TV, rental or Video-On-Demand systems. This is an important topic to reflect on because, as it was broadly covered by several studies (Hennig-Thurau, Houston and Walsh 2006, etc.), a movie only reaches its break-even point after its release on secondary channels, increasing the importance of home entertainment sector for the whole industry. Furthermore, even though some movies are not released on all the channels available, since the boom of rental and sale of physical movies (eg: tapes or DVDs) in early 80s, the revenue from home video market has been superior to the one in theaters (Vogel 1994, p.79; Lehmann and Weinberg 2000). So it is crucial that companies like the one studied perform well in order to establish contractual bonds with major studios to guarantee access to more appealing movies. In the Portuguese market, this can be decisive since the competition between the leader and the direct follower is very fierce and there is the current danger of losing the leadership position at some point of time. Companies operating in the entertainment industry have to have in mind that sequential distribution strategies are affected by some factors like the short product life cycle, the need to experience to appreciate or the success-breeds-success trends (the buzz that a movie generates in one channel promotes adoption on other channels, generating success) (Elberse and Eliashberg 2003).

Sequential Distribution is also important on this industry because it allows price discrimination. Movies are launched on different prices in different channels. It also provides the possibility to enlarge revenues since it will be possible to reach consumers that did not watched the film on primary channel, which usually are theaters, and it also gives the opportunity to consumers to repeat the consumption. If they saw on cinema a movie that they enjoy, they might find rental an opportunity to repeat the experience (Hennig-Thurau, Houston and Walsh 2006).

The characteristics that support the adoption of a movie on different sequential channels also vary. For example, video renters tend to value restricted editions of a movie, with special options or scenes that were cut. Consumers prefer to see violence or sexual scenes at home than one theaters. Luan and Sudhir (2010) highlight the importance of "DVD content enhancements" by stating that managers should emphasize these special features while advertising a DVD. Furthermore, on opposite to theaters, rental is not a seasonal industry (Hennig-Thurau, Houston, Walsh 2006), but DVDs usually register a pick of sales on Christmas due to gift offering (Luan and Sudhir 2010).

2.3) Deciding when to launch a product into a second channel

One of the main decisions that managers have to face is on the proper timing to launch the product in the next channel in order to maximize his profit. Companies like the one studied need to avoid some traps while making their decisions because they might suffer the danger of cannibalization, especially because everything happens to fast due to the sequential release, which is also provoked by the short product life cycle.

On the motion picture industry, one of the things that have been studied is the time that takes for a product to move from theaters to other channels. This factor along with the performance on introductory channels, affect product performance and availability on subsequent releases (Elberse and Eliashberg 2003). For many years the common practice of the industry was to launch the movie on video or transmit it on television nearly six months after it was launched on theaters. However, this practice was being conducted since the beginning of release of movies on video, which means that by these times, video and rental industry did not deliver significant profits (Lehmann and Weinberg 2000). According to the same authors, it was believed that delaying the release of a movie on secondary channels would reduce the risk of cannibalization. On the other hand, the power of advertisement and publicity done to support the release diminishes over time, so delaying the sequential product entry will cause that the positive effect of this factors will be almost lost.

However, as explained before, some market studies conducted highlighted the power that rental and video-on-demand systems were gaining and how making these channels more present could help on raising profits. Managerial revision on this was needed with urgency and new research about the timing when to release a film on other channels have been developed. Almost all authors agree that the window between the launch of a film among channels is shortening and new hypothesis are being tested. In some markets and for some movies it is also possible to order a DVD before its theatre launch (Hennig-Thurau et al. 2007). Although the distribution scheme has changed over the last years, the same authors state that there is still a long way to go in order to achieve profit maximization.

In order to decide when to launch a product on the next channel, managers have some hints that can be useful. The motion picture industry is very fruitful in terms of data and the performance of a film on the introductory channel can help on forecasting sales and supporting decisions for the next releases (Lehmann and Weinberg 2000). Current trends have raised interesting issues. Eliashberg, Elberse and Leenders (2006) defend that movies should be launched first on the markets where they are expected to be more profitable and keep the launching on a descending order of profits until they reach the least interesting channel. Having also the danger of interchannel cannibalization in mind, Lehmann and Weinberg (2000) propose that the period when to launch the movie on video after release on theaters should consider the size of each market.

Hennig-Thurau et al. (2007) divide the factors that influence distribution decisions on microlevel and macrolevel. On the first group we can find interchannel cannibalization, issue already stated before, perishability, that makes a product unattractive for being old when it gets to second channels, consumers expectations, which means that trade-offs between going to theaters or waiting for subsequent launch of the film on other channels must be understood, and finally Success-Breeds-Success factors. This last factor can be particularly helpful for the home entertainment market, especially regarding a new trend that has been discussed which is releasing a DVD prior to release on theaters. According to the authors, “information cascading SBS refers to the impact of a movie’s success in one channel on other consumers’ behavior in subsequent channels. (…) can be based on either personal experiences that are shared or informed cascades or box office results." (p. 66). The macrolevel factors are mainly related with the difference between customer's preferences on different markets.

Having all this restrictions in mind, what is the appropriate timing to launch a new product? Weinberg and Lehmann (2000) propose a window of 3 to 10 weeks since the video leaves theaters and appears on video, considering that a more successful movie should delay the passing to another channel. However this paper has a major limitation for today's reality: it only considers video releases when, nowadays, there are other profitable sources of revenue like Video-On-Demand systems. Hennig-Thurau et al. (2007) developed the first article that considers more than one channel for further release. The authors tested a model to maximize profit on the launch of a film on its predominant channel (theaters) and three subsequent channels (DVD rental, DVD sales and Video On Demand) on different markets. Transporting the conclusions draw for the German Market (only European market considered), they hypothesized that the perfect timing to launch a film on DVD sales is of about three months while to the other channels is twelve months. However, they also noted that Video-On-Demand is a very volatile market, whose performance can vary significantly from instant release to a 12 month-release, which means that "timing of the VOD channel has little influence on studio revenues. There appears to be a distinct segment for VOD" (pp. 79).

Changing so much the distribution timing and order, by making movies available to consumers on other channels earlier than before, can cause enormous losses to theaters, almost condemning them to an end (Stanley 2005). Henning-Thurau et al. (2007) stresses this idea through the research conducted, concluding that, especially on the U.S. market, theaters will suffer too much from early DVD sales and this damage can be "irreparable". On other markets, like German and Japan, anticipating this release is not as harmful. The company studied on this dissertation is the market leader on distribution to theaters in Portugal. Since they are operating on all the channels, they have to take decisions carefully with all these insights being considered.

Part I: Case Study

By the autumn of 2011, Ricardo Costa, ZON's CEO was expressing some concern. On that specific evening, while turning his television on to watch a movie and relax with a mug of tea by his hand, he started to think about the state of the home entertainment industry and how it was affecting ZON's performance.

We cannot say that the company is going through difficulties or starting to face a crisis because it is still highly profitable. It was a fact that they were still market leaders on PayTV. ZON Conteúdos was also performing well since premium channels (eg: TVCine) and premium contents were being adopted and gaining more fans (Video On Demand Services). They were even launching a Video Club for computers, tablets and mobile phones. However, the cause for concern relied on DVD business. ZON Lusomundo was still the market leader for theaters and the biggest company on the import of contents and rights to sell and distribute movies, status achieved by establishing strategic contracts with the major studios (eg: Paramount, Disney or Warner Bros.). But since 2005, DVD's sells were declining. In this period of six years, the decrease was near 30% in value and this is an important branch for the company's business. This tendency is expected to continue especially now that the crisis is hitting the society. Besides, physical rental is practically dead. However, the introduction of new services and the distribution of premium content were growing, but not on enough speed to cover the losses suffered with the decline of DVDs.

Ricardo Costa knew that consumers were changing and demanding other kind of options. He decided that it was time to look to the market and react by fully understanding changes in the external environment in order to adapt strategies and find new opportunities that might be being ignored by his managers. Maybe there were innovative solutions waiting for them and since the competition in the Portuguese market was becoming fiercer, having first mover advantage would be added value to reinforce the leadership position.

On that exact week, a meeting with the managers from ZON's branches was convened.

Industry Profile and Trends

On 2010, the TV and Video European Market were worth $53.1 billion, which represents a slow growth of 5.6% in comparison with 2009 numbers. On a first sight, the market seems to be recovering after a loss in value from 2008 to 2009. Even though Video is losing track, TV gains more importance and consolidates its position as the device that most contributes for the value of the industry since it represents 77.7% of the total market value while DVDs and VCRs stands for 11.2% (exhibit 1).

The market is expected to be affected by the crisis installed for the next years. Still, the introduction of new technologies will function as a stimulus for consumption. Some countries have started to change to digital television, which will also occur in Portugal in the beginning of 2012. Retailers have also realized that the bargaining power of buyers is low because they exist in large number in the market. This fact helped big players to switch TV and Video from a commodity position to a necessity.

In Portugal, in the end of 2010, there were nearly 4.050.000 households. The penetration of High Definition Television was 64.2%, which can be translated into a growth of 16% per year. From this group of consumers, 15.4% have access to a Blu Ray reader (in where game consoles, especially PlayStation 3, play a crucial role). This trend is also expected to grow.

- **DVDs and Blu Ray**

Demand for Blu Ray is growing. Consumers are apparently available to pay a price premium for something that delivers better quality. Furthermore, the spread of game consoles helped on its penetration on households. This technology was officially launched in 2006 and has been conquering importance both in sales and rental since then. By the end of 2009, this technology stood for 3.5% of the total video units sold. The tendency is more prominent on big-hit films. In Germany the sale of blockbusters in Blu Ray accounted for 40% of the total in 2009.

From 2009 to 2010, DVD retail lost about 8.4% on sales. Even the growth of Blu Rays that doubled on the referred period, was not enough to avoid a downturn of 4.4% in overall consumer spending.

- **Internet: rising of legal softwares**

Netflix is a serious case of success with more than 20 million users in the end of 2010, which represented a growth of 63% relating with the previous year. Based on a subscription-based system renewed every month, customers have access to a wide variety of movies and series. The access can be done via computer or any other device with internet available (consoles, tablets, smartphones…) which can be after connected to a television screen to improve the experience.

Founded on 1997 with the goal of providing online rentals, the service has been growing every year and is nowadays the leader on their area. Plus, they were in 2010 responsible for the biggest stake of online traffic in the USA (more or less 40%), overcoming illegal options like BitTorrent for the first time in ten years. It is expected that by 2015 this number will grow for 62%. Netflix will soon enter European market starting with Spain, Ireland and the UK in the beginning of 2012.

The success formula has been copied worldwide by many companies like Yahoo (also television and internet provider) and this trend is expected to continue according to predictions: by 2015 it is expected that internet Video On Demand traffic will be the same as 3 billion DVDs per month.

- **Piracy**

Motion Pictures industry has been pointing the finger to piracy as one of the main causes that made profits went down. It is believed that it is too complicated to compete with something that is available for free and whose legal consequences are not totally perceived.

Research has been developed for music industry, also supposedly damaged by piracy, but the results were inconclusive. If, on one hand, some authors believe that piracy can stimulate trial and encourage buying if the person likes the experience (Gopal, Bhattacharjee, Sanders 2006), on the other hand others believe that it has an impact on lowering industry's revenues (Liebowitz 2006). Similarly, some studies have been conducted over the past few years in order to seek for a relation between DVD sales drop and piracy. Smith and Telang (2009) got to the conclusion that movie broadcasts are an important factor to promote increase in the demand for DVD. However, it also increases demand for pirated content. Relating both variables they found that illegal download does not affect the will to buy a DVD. But here it is important to criticize the study developed since the only retailer that they took into account was Amazon.com and only one torrent provider: BitTorrent. Hennig-Thurau, Henning and Sattler (2007) also studied this subject and they got to different results: the possibility of using illegal channels reduces the intention to experience the product legally, which includes going to theaters and buying and renting DVDs.

The main conclusions that can be taken from here is that even though piracy habits have been blamed for the lost of profit on this industry, the truth is its true impact is still yet to be unveiled.

- **Devices**

Deloitte's predictions for 2011 account that, regarding technological devices, computer sales will not reach 50% of the total (nearly 390 million units sold), with laptops representing the majority of this stake with 200 million units sold. The rising of tablets and smartphones (that will represent almost 425 million units sold worldwide) is an important trend to have in consideration in order to adapt strategies in the home entertainment market (exhibit 2). However this does not mean that computers are losing importance. On the contrary computer sales are expected to grow 15% every year.

Regarding Media Channels, and against what is believed that is going to happen, television will remain as the most important channel for entertainment instead of becoming obsolete. It is expected the raise of 20% on the consumption of PayTV. Furthermore, by the end of the year 3.7 billion people will be watching television, still leaving almost half of the world for this device to explore. 3D entertainment is also a subject that had been brought to table. PriceWaterHouse Coopers reveals that European consumers are willing to pay a price premium to access these contents because they deliver higher quality and they allow people to see details that otherwise would go unnoticed. 49% of the answers they get revealed that people would enjoy having access to this technology at home. However, there are still some barriers to its development and growth, since the penetration rate is still low (and one of the main reasons is that it requires glasses to see televisions adapted to transmit 3D content) and there is still limited content available. Still, it is expected that by 2014, the shipment of 3D will represent 41% (90 million in units) of the total televisions in contrast with the 2% registered in 2010. Recording devices are also gaining importance and stealing consumer's attention from DVDs: the research conducted by Deloitte entails that 40% of the people who have access to these devices are buying less DVDs and 38% are renting less DVDs, comparing with the same period one year ago.

ZON Multimédia

-From PT Multimédia to ZON Multimédia

Portugal Telecom (PT) is the market leader on the fixed communications services in Portugal. They also detain an important stake of the mobile communications industry and, more recently they started to play an important role providing internet and television. Its History starts in 1877 with the first telephone experiences in Portugal and consequent appearing of public companies providing and distributing fixed communications services. In 1994 the fusion of all those providers leads to the appearance of PT. However, in 1995, it started to suffer restructuring. Public capital was sold and in 1996 the biggest stake of the company was already controlled by the private sector. New stakeholders decided to define distinct areas of intervention inside the company: fixed communications, mobile communications, solutions for companies, internationalization, innovation and information systems. The goal was to maintain the profitability of the firm and raise barriers to entry in order to avoid competitors to enter the market and finish with PT's monopolistic position.

The restructure of the company led to the appearance of PT Multimédia in 1999, company listed in the stock market. Their core business was supposed to be centered on media, interactive services and internet and for this reason the company incorporated TV Cabo, subsidiary of PT operating in the market since 1994 and responsible for providing to households access to Cable TV. On 2007, there was a spin-off between PT Multimédia and PT Comunicações who parted ways. Former PT Multimédia's CEO, Zeinal Bava, was transferred to PT Comunicações and Ricardo Costa was elected as new CEO. The process was concluded when, in the beginning of 2008, PT Multimédia adopted a new name: ZON Multimédia. Changing the name was a strategic decision, not only to cut the links with PT, but also to try to clean the image of the company, who was damaged after several years of complains done by clients and of abuse of dominant position by their competitors. Under the name of ZON, the company made several moves and adopted aggressive marketing strategies in order to avoid PT to make the move of entering the market and became their main competitor, which eventually did happen.

- **The Company Today**

Since ZON Multimédia operates in several branches of the market, the company is divided on several, each one with a different area of action (exhibit 3).

ZON TVCabo is the responsible for the triple play service. They are leaders for Pay TV, with 56.7% of market share in March 2011, according to ANACOM. However, they are losing market share to its competitors, since in the same period one-year before the part of the market they owned was 62.7%. For Pay TV the strategy of the company passes by enlarging offer on channels available for the viewer and be a reference regarding new technologies: TV Cabo is the company that has more HD channels available and they were the firsts to introduce a 3D channel, where they have already transmitted golf competitions and football matches. Regarding Internet, ZON holds a follower position, being MEO the market leader. On March 2011 they were serving 33.1% which was an improvement against the same period on the year before. The company was able to conquer 0.5% of market share.

Video On Demand is included on the package. It allows renting movies, series or music concerts for a period of time. Prices vary according to several factors like success of the movie or launch date. One rent can cost from 0,99€ to 5,99€. Consumers can have access to it via the television box. Using the remote, they can explore the menus that offer a significant variety of films and series, separated by genre. Highlighted appear the newest entries available, which are released at the time they are launched on DVD.

The company is testing new opportunities regarding this service. For instance, last year Tangled by Disney was made available for a short period of time at the same time that it was on cinemas. It was charged a price premium of 20€. The initiative was proven to be a success and the feedback obtained was that for parents (especially those who have two kids or more) it was a way to save money since they didn’t have to drive to the cinema, pay parking, pay tickets for children and for them and, of course, buy popcorns. Also, a monthly subscription was introduced where, for an amount, people can have access to all the contents in a package that can go from series, to movies or even music concerts. The innovation is proven to be successful since the service is growing about 30%.

In the end of October a new service called ZON Online was launched. The client has access through his computer to 33 television channels and to 1.000 movies available on the Video On Demand system. Furthermore, it is possible to rent a movie on the television and watch it on the computer. It is expected that this functionality will be made available for tablets and other devices soon.

ZON Lusomundo Cinemas manages 217 theaters in 30 centers. Similarly to TV Cabo, the company works to be pioneer in new technologies, being the first to introduce 3D. Furthermore, they are recently striving to change positioning, by targeting different segments One example of this is the preparation of the rooms to display live concerts and football matches. Recently they have opened in Amoreiras a special theater that will only transmit

French movies. ZON Lusomundo was the exhibitor with highest market share in 2010: 55% against 17% of the second (Socorama also known as Castello Lopes) and 13% of the third (UCI).

ZON Lusomundo Audiovisuais is the leader on the distribution of contents. Regarding distribution to cinemas, they had a market share of 50% by the end of 2010, followed by Columbia Tristar Warner and Castello Lopes Multimédia. Together, the three firms control 90% of the market. As mentioned before, one of the other areas of intervention of the company is the distribution for selling and rental of films on its physical form (DVDs and Blu Rays). This market is considerably declining: comparing the period of January to September of 2010 to the same period this year, the sales have lost 26% in value and 17,6% in units sold. Blu Ray registers minor losses in the same period sold of 2,4% in value. However, units sold have grown by 29,1%, which accounts for a significant preference for products who deliver more definition (quality) but it also indicates that the company was forced to lower the prices. Their strategy is held by keeping exclusivity contracts with the most important studios in order to guarantee the rights over major blockbusters.

ZON Conteúdos is the company responsible for the wholesale of contents, which means negotiating, acquiring and resale. They also manage ZON’s participation on premium channels (like Sport TV) and distribution of premium contents as well. Finally, Conteúdos team develops and plans channel’s schedules.

- **Competitors**

Even though ZON operates in several branches of the entertainment industry, the ones worth to analyze due to the changes related and future trends are the triple-play and contents providers, since it is expected that updates and new business opportunities will arise from here.

MEO:

For many years, ZON was facing competition from companies who could not stand out. The major threat came with the split when ZON parted ways from PT and his former CEO, Zeinal Bava, stayed in the mother company. His vision and experience of the market acquired after the years in which he lead PT Multimédia, made him launch in April 2008, just a few months after the spin-off, a new triple-player provider: Meo. Entering the market with aggressive campaigns, using as main figures distinctive and audacious spokespeople, they were able to capture attention, stealing clients to ZON who was still fighting to clean their image. Numbers disclosed on March 2011 by ANACOM reveal that the company is gaining market share. On the period of one year they have grown from 24.9% to 31.2% on the television market and from 44.9% to 47.2% on the internet market, on which they are market leaders.

CaboVisão:

Cabovisão operates in the market since 1995 (although the firm was constituted in 1993, the licenses to transmit were only obtained two years after), but is experiencing some difficulties. The company is losing market share and the tendency is expected to continue. On March 2011 they had 9.2%, which represents a decrease of 0.7% when comparing to the same period on the previous year regarding television and as an internet provider they serve now 7.9%, which represents a decrease of 0.2% in one year.

Optimus Clix:

Optimus Clix started operations in the end of 1999, only known as Clix. In 2010, SONAECOM, who owned the company, decided to merge all its communications companies leading Optimus and Clix to become only one. After the merge, an aggressive marketing campaign was launched for the company stand against the major players in the market. However, they still maintain in 2011 the market share for television that they had in the previous year (1,1%) and they have registered a decline on internet services: from 8.2% to 6%, which made them the company who lost more share on this market.

Vodafone:

Vodafone entered this market in 2009 with the launch of Vodafone TV and its subsequent interactive services like Video On Demand. Nowadays they also offer a Triple-Play service and they are experiencing relative growth (from 2010 to 2011, they increased their market share on the television market by 0.1%, having now 0.7%. Regarding internet business they lost track, serving now 4% of the market).

Case Study's Conclusion

Ricardo Costa was reviewing all this information on his head while he was waiting for his managers to come in his office and start the meeting and brainstorming. Hopefully they would also have considered all this information and they were about to present new innovative ideas to adapt strategies and recover the value lost on the sale of DVDs. If they were about to take action, it would be better that they were the first ones.

Even though he had all this data available, he was reflecting about convincing his managers to conduct a market research study. Some of the points are referent to other countries so it is important to check if they are also applicable to Portuguese case or not. Consumers change from one region to another so gathering and testing on a sample taken from the domestic market can be a good point to continue before drawing more significant conclusions. Furthermore, having some statistical insights is particularly relevant to support positions because to take action investment is needed and this is not time for testing. Any wrong move can damage even more the situation of the company.

All this thoughts occupying his mind has leaded the CEO to a stressful situation. As the managers were walking in the room, they could perceive tension in the air.

Part II: Marketing Research

Methodology

"The market is changing. Where to go next? Which market opportunities can we explore? Find me solutions." The management team stumbled by the CEO's words. Seating together in a room and they found that the main questions on which they needed answers were the following:

1) Are people subscribing and using the services that ZON has for home entertainment?
2) To what extent does piracy play a crucial role on adopting this system?
3) Which incentives could ZON provide to make them use more often Home Cinema? Which new trends are arising in the market?

In order to answer the questions raised, the team decided that the most effective method to collect information and evaluate new trends in the market and current consumption habits would be quantitative research. However they soon realized that they were lacking qualitative insights to build a questionnaire, so they decided to run an exploratory research method. Those are crucial when the goal is to define new courses of action for companies. It will provide insights about how consumers see the market and the main reasons for consumption. Although it does not provide any statistical facts, it gives important hints about the path to follow to solve the problem stated. The method chose was a Focus Group (exhibit 4) because it allows collecting data in a fast way. Furthermore, it stimulates synergies and snowballing because commentaries of one person generate reactions from the others which enriches the discussion and obliges people to think beyond. Since this is a theme that generates interest, these two last characteristics are especially important.

After analyzing the responses obtained, the team finally developed the questionnaire to move to a descriptive research method, where quantitative insights were going to be retrieved. They decided to do the survey online through the tool QuestionPro (exhibit 5). From all the methods, they believed that it was the best way to reach a younger target, also used for the focus group, since they are avid users of the internet. It would also allow understand which other segments can be relevant. This method has some advantages: it reduces the bias of surveys conducted in person, on which people are more resilient to provide answers, especially when talking about something that is illegal (in this case, piracy), the respondents can save the link and answer whenever it is convenient, they can keep their identity safeguarded and they can spread themselves the link through their networks. In a period of 3 weeks answers were collected. The data was then exported to SPSS software for analysis.

The survey was mainly spread through mailing lists and social networks pages. The team adopted the Portuguese language to make the questions clear to native speakers, which are in larger number when compared to foreign students or immigrants. This measure will hopefully retrieve more accurate results.

Since only the opinion of those who watch movies or series at home matter, an introductory question was done. Those who stated that they do not have the habit described would be directly forwarded to the end of the questionnaire. Here, 25 respondents were eliminated. From the people who continued the survey, not all of the answers provided were considered valid due to excess of answers lacking. 332 participations were validated which leads to a total sample of 357 respondents.

Focus Group Analysis

A Focus Group was conducted with seven elements with the following characteristics: all ZON clients, aged between 23 and 26, single, and residents in the area of Lisbon, all from middle or upper-middle social classes. A homogeneous group is essential to avoid conflicts among sides and promote comfort and empathy to generate fluid conversations. This is a particularly important segment because it represents people who are heavy movie and series consumers and who have more knowledge and usage of new technologies. This last point was a decisive factor because new business opportunities might be directly linked to it.

The main conclusions that the team was able to gather were somehow the expected. The participants revealed that they watch much more movies than in the past and the main device they use is the computer because it is where they keep the files and because this way they can watch the movies and episodes anywhere. They admit that they download most of the movies and series that they see, although they are aware that it is wrong. When compared by the moderator to the stealing of a product in a supermarket, some participants stated that the comparison was ridiculous and that they could never steal something from a shelf, which suggests that part of the problem might be that people in general do not perceive piracy as a crime, more concretely as an act of stealing something that is owned by others. They do it because it is a free and rapid way to get easily what they want, which is particularly important in the case of series' episodes because it takes some time until they are shown in the channels available in Portugal. On the other hand, participants suggested that if a service like Netflix was available in Portugal, they would probably download less. In the future, some of them would like to have access to a service that would create for them a digital library of movies, kept on a cloud-based system, which means that they could access the files anywhere, anytime, through any device.

Regarding DVDs, they rarely buy them nowadays, with exceptions for movies that they have truly enjoyed because usually the discs come with special scenes and extras. Renting in shops is something that they do not even consider. The Video On Demand system was seen as a good initiative due to the convenience of the service, since they can rent a movie without having to go to the shop. However, some elements complained about the prices practiced, as well as the nature of the movies, that they believe that are too old. Others simply stated that they know that the service exists, but since they have other means to watch what they want, they forget about this option. Participants suggested that this service is underexploited and it has a big potential. Some points made were creating a list of suggestions based on previous acquirements or exhibiting a movie through Video-On-Demand at the same time that it is on theaters. Some said that they are willing to pay a higher price for this option because they can gather their friends at home, split the money among all and watch the movie in a more familiar environment.

Even though some authors believe that the minimum number for a focus group should be eight elements because less will not generate the dynamics necessary for participating, the conversation flowed with no problem. Participants seemed motivated to intervene.

Survey Analysis

- **Demography**

For the analysis, the factors that were decided to have in consideration were age, people who live with the respondent and who is the main consumer (exhibit 6). Regarding age, and since the link for the survey was mostly spread on social networks, the gap 16-24 registers the highest number of respondents (39,3%), followed by 25-33 (24,7%). However, there is a considerable amount of answers on older segments: 34-42 accounted for 8% of the sample, 43-51 represents 10,4% and 52-69 accounts for 4,9%. Respondents younger than 16 years were considered outliers as well as older than 60. Concerning the household itself, the majority states that they live with their parents which match the age variable (39,3%). Furthermore there is also an important stake who says that they live with at least one more person: 22,5%. It was also decided to distinguish between people who live with children with more than 10 years old (7,4%), less than that age (3,3%) or both cases (3,6%). It is believed that this age marks a change on kid's preferences for movies and gain of other responsibilities by leaving primary school. The third factor is related with who consumes more movies at home. As it is expected due to the sample being more focused on younger targets, the main watcher is the respondent (62,6%). However, when splitting the sample, we can note that children play the main role at home when they are older than 10 years old. Both for people who answered that they have all children older than 10 or some older and some younger the results were of 59,3% and 53,8% respectively. People with children younger than this state that they are the main consumers (58,3%) while their kids represent 16,7%.

- **Consumption habits**

A question was made to see whether people are heavy consumers or not (exhibit 7). 63,9% of the respondents state that they watch one or two movies per week, 19,3% watch three or four and 5,9% watch five or more. 10,9% watch only series. Regarding series, the distribution is more uniform. 28,9% are light users (one to two), 29,1% are more moderate (three to four episodes), while 23,8% say that they watch five or more episodes per week. 18,2% watch only movies. An ANOVA analysis suggest that the difference between ages is significant for series (p-value = 0,014) but not for movies (p-value = 0,347).

- **Preferences and Profile**

Television still seems to be the main device used to watch films and series, being preferred by 45,9% of the respondents followed by computer with 39,8%. However, for both segments 16-24 and 25-33, computers play the main role with 63,4% and 48,3% respectively (differences between ages are significant because we reject the p-value of 5%. Chi-Square is 141,339) (exhibit 8).

Not surprisingly, DVDs seem not to play an important role on respondents' life. 44,8% state that they only rarely buy this items. The differences between ages are not significant since we cannot reject the null hypothesis (F = 0,062 value lower than p-value). When crossing this information with the variable "movies and series are my main entertainment at home” we can see that there is a strong relation between variables (Chi Square = 11,396). Heavy watchers tend to buy more than light watchers.

A factor analysis (exhibit 8) was also held in order to profile consumers through a question held where consumers were asked to rate their habits on a scale of 1 to 4. The KMO obtained was 0,555 greater than 0,5 so it was decided to proceed. Plus the Chi-Square statistic is 239,856. 10 variables were reduced to 4 factors according to the rule eigenvalues greater than 1.

Factor 1 has higher values on variables 1, 4 and 9. The factor can be named as “Movie Collectors” since they regret not having more time available, they still buy DVDs and they enjoy watching a movie more than once.

Factor 2 is composed by variables 2, 3, 10. Since it represents people who enjoy watching movies and series as a mean of entertainment and with friends, the factor can be named as “Heavy Consumers”.

Factor 3 relies only on price perceptions for rental so it can be named exactly like that: “Rental Prices”.

Factor 4 gathers variables related with preference for rental over sale and excessive price of DVDs. Since the first can be a consequence of the second variable it was decided to name the factor “DVD Prices”.

- **Research Questions:**

RQ 1: Are people subscribing and using the services that ZON has for home entertainment?

The results are very interesting on this topic. 83,5% of the respondents state that they have a Cable TV contract. However only 23,5% recognize having Video On Demand for television, which is something that is included on the boxes. This suggests that companies are not communicating their offers effectively. These assumptions are confirmed because when asked again more upfront specifically about the Video On Demand in separate, the results are not as negative which can mean that this is something that customers do not recognize at a first sight. Now only 14,8% of the respondents told that they are not aware of the service (exhibit 9). Plus, from those who know the service, only 2% are aware that they can sign up for a subscription system, where for an amount paid per month, a customer has access to a pre determined package of movies, series or concerts. For those who answered that they are aware but they do not use the Video On Demand (51,5%) a question that asks for motivation was introduced. Given a list, customers could select all the options that fit into their situation, being those more selected "I use other means to watch movies (DVDs or Downloads)" (41,7%) and Price (26,9%). At the same time, a similar question to those who answer that they use the service (25,8%) was made and the reason for their preference is the convenience of not having to leave home (20,7%). Price was the reason less mentioned (2,5%).

The possibility of recording television programs in the box is better known among consumers. As it was observed, 32,5% said that they record full series and movies against 42,9% who does not use the service. 16,5% do a more moderate usage.

RQ 2: To what extent does piracy play a crucial role on adopting these systems?

45,4% of the respondents answered that they do downloads very often against 20,7% who state that they never download. Across ages the differences are notorious and statistical relevant (Chi-Square = 132,721). 65% of 16-24 years old answered that they do downloads very often while, for example in the segment of 43-51 65,7% said that they never download (exhibit 10). This is quite concerning because if these people realize that they can continue to download without suffering the consequences the behavior will be repeated. However the fact that most of these respondents are still studying and have no income of their own may also contributes to this habit.

The great majority of computer users as a mean to watch series and movies do downloads frequently (77,9%). Not a single PC user stated that they never download. The rest have more moderate positions. TV users seem to be more moderate since the main part said that they never download (41,4%). The differences between the device used are statistical relevant (Chi-Square = 124,585).

RQ 3: Which incentives could ZON provide to make them use more often Home Cinema? Which new trends are arising in the market?

A new factor analysis was developed with answers to questions 15 to identify different profiles. The 5 variables were reduced to two factors with KMO of 0,578 and Chi-Square 143,608 (exhibit 11). It was decided to continue with the analysis and the two factors represent two different types of consumers. The first factor is explained by variables 1, 2 and 3, more related to adoption of new technologies (tablets, smartphones), so it was decided to call it "Technology oriented". The second factor is related with people who think that in the future will maintain some of the habits that are possible to have nowadays so it can be named "Cautious adopters", probably those who need the opinions from early adopters (factor 1) to adopt the systems as well.

Regarding the Video On Demand system it seems that having movies available while they are still on cinema is an incentive to consumption. On the contrary, 3D does not seem to be a good incentive, but maybe this can be explained for the technology for home entertainment still is very recent and prices of televisions still are very expensive. The problem with this is the perceptions of price. Even though respondents seem to appreciate the idea, most of them state that if the movie is available on Video On Demand four weeks after the release on theaters, they are willing to pay until 5€ (33,1%) or 5-10€ (34,7%) for rental. On renting and sending after a link for download or physical DVD, respondents seem to be willing to pay marginally more (5-10€ had 26,1% and 10-15€ 18,2%). The same question was made, but having the product available at the same time that it is released on cinemas. A paired sample t-test reveals that we cannot exclude the hypothesis of the means being equal. This means that the fact that the movie is available at the time of launching instead of four weeks after is not statistical relevant. However, for Lusomundo this situation might not be profitable enough since they can be cannibalizing their offer on cinemas. For such low prices, people would most probably stay at home and see the movie there.

Conclusions, Main Limitations and Future Research

After analyzing the industry and insights gathered by the research methods held there are some conclusions on which managers should reflect on.

Consumers seem not to be aware of the services to which they have access so the companies could start by revising the communication schemes to see if they are understood by every customer. On the focus group it was suggested that Video On Demand has an high potential to be explored which was confirmed by the results of the questionnaire that indicates that a considerable number of respondents do not know what it is. At the same time, piracy seem to be an intrinsic and recurrent habit especially among younger people which requires some course of action because they will grow old and they might pass this to new generations who will follow their lead.

As some authors refer on literature about sequential distribution, having a movie available on Video On Demand systems while it is in theaters can be a stimulus to consumption. However, people do not seem available to pay a price premium for it. 3D, which is expected to be a great tendency in short-term, seems not to have collected many fans in Portugal yet. But in a crisis context and being a new technology which needs significant investment to have it at home can explain the resilience.

The majority of people seem to be interested on what the future has to offer and they are open to try and adopt new technologies like tablets and smartphones. Many also equate that in the future they will start assisting more movies on those devices (or computers) than on televisions. For this reason, communication on the recently launched service of Video On Demand for computers should be enhanced also because Netflix is getting ready to hit Europe even though there is still no prediction for the launching in Portugal.

DVDs appear to be, somehow, becoming part of the past since the majority of the respondents state that they barely buy during these days. However, the possibility of building cloud-based system which implies having access to a video library in any place through any device seems to raise some curiosity especially among a younger target.

One of the principal limitations to have in consideration is the demography of the sample. People older than 60 are an important segment since they are retired (or almost there) and they are spending more time at home, which makes them expected heavy consumers. On a future research, it will be interesting to explore these people’s habits gathering also the difficulties that elders might have on dealing with new technologies that seem to be overtaking the market. Regarding the questionnaire itself, several respondents had to be eliminated since they lacked answers for more than half of the questionnaire. Some of them dropped in the middle, even though an effort was made to reduce the number of questions. Another point to explain this situation can be the lack of understanding of some of the statements even though two pre-tests were held before the launch of the questionnaire, one aged 54 and the other 26.

Another issue is related with the adequacy of academic literature available for the home entertainment market. Even though the motion picture industry has been widely studied over the time, this market specifically is, somehow, forgotten by authors. This situation difficult the search for new trends since most of the papers focuses on physical rental service, which is something that is expected to disappear at medium-term. Researchers could explore issues like the availability for adopting 3D at home or launching a product sequentially not only in DVDs but also on Video On Demand channels.

Teaching Notes

ZON Multimédia:

ZON Multimédia was the first company to launch in Portugal a service to provide Cable Television. Before the company parted ways with PT, it was accused by competitors of abuse from the dominant position and by customers for providing a poor service. However, ZON was able to clean up their image and reinforce a leadership position regarding PayTV.

The advent of the internet and new technologies and also changes in lifestyles are forcing the company to change strategies in order to adapt to new demands of the market. The company is losing track on the DVD market (both sale and rental) and the main challenge is to understand in which areas they should invest. Furthermore, the competition is fierce nowadays and being the first might be crucial to win the war.

Target Audience:

The present study is useful both for Undergraduates and Master students. The first part of the case can be used for the first group in a Marketing or Strategic Management course since they still do not possess knowledge about Marketing Research tools in order to fully understand the analysis held. Through reading and comprehension of the market analysis students should come out with potential solutions. Master students can study this dissertation on a Marketing Research course both for practicing and understanding the importance of performing analysis to support conclusions. Hopefully it will also be helpful to learn how to work with statistical programs like SPSS.

Teaching Goal:

Students should understand the importance of studying the external environment in order to adapt strategies, which includes identifying recent trends and analyzing competition to see what they are doing. The case will help them to develop critical reasoning. In the more specific case of Master Students, it adds the fact that they can learn how to build a market research study from the beginning; this means starting by analyzing secondary data in order to build research questions and decide upon methodologies that they will think that will answer those questions. Then they will move to designing the research and analyzing results which implies being able to decide on which tools will provide answers to their questions.

This is a real case study that states a problem that real managers have to face. Developing this kind of analysis is essential for decision making process in every company and this is crucial for these students to understand. The fact that this is a market that they are aware of since they deal with it every day since they were born can be an extra incentive to adopt this case. Students might feel more motivated to participate.

Class Discussion:

To access this case, the best approaches are by forming groups and give some days to students to prepare the class.

The first part of the case will be provided to the groups and on the next class, discussion will be held and there will be the opportunity to confront student's solutions with the second part of the case. Strategic Management students will be asked to analyze the industry (framework suggested is Porter's Five Forces) and the company (through SWOT analysis). Marketing students will only be asked to do the SWOT before moving to more specific information like research issues.

1) **Industry Analysis:**

This exercise is relevant to introduce Porter's 5 Forces and check whether the industry is attractive or not:

- **Threat of New Entrants: Low** for PayTV and Internet Providers. Entering the market requires high investments and legal barriers that are difficult to overcome especially because the players are very powerful. **Medium** for Internet Programs that allow legal downloads based on a subscription fee. Netflix, already consolidated and well-known worldwide, is preparing to enter European Market in 2012. Similar options are also spreading (eg: Hulu).
- **Bargaining Power of Buyers: Medium/High**. Consumers are price sensitive and when confronted with fluctuations or factors that made them unhappy they can threat the company to change for other supplier (when MEO was launched, ZON lost part of its clients because they abused of the dominant position). However establishing a contract with one of the providers is very easy but breaking it can be more complicated which implies the appearance of switching costs.
- **Bargaining Power of Suppliers: Medium**. Even though companies fight to establish best contracts with movie studios and distributors there are some regulators that avoid

that one of the companies stills all the launches to itself. ZON is both distributor (Lusomundo) and provider (TVCabo) but Lusomundo is obliged to facilitate exchanges with the other providers.

- **Substitutes: Low**. The alternative for watching a movie at home can be consuming it at the theaters, which is difficult to sustain and do very often due to financial constrains. Another alternative can be reading books, but it still does not represent a real threat.
- **Rivalry: High.** Even though there are few players in the market, the top two compete aggressively to conquer market share. Meo especially since its launch has developed intensive communication schemes because the problem with this industry is that most of the households have already contractual bonds with one of the players in the market so the goal is to make them change.

Overall, the industry does not seem attractive for new entrants.

2) Company Analysis (SWOT):

The framework is useful to aggregate information about the company. Several topics can be considered in order to build it. Some suggestions are:

- **Strengths**: Consolidated position in the market; willingness to explore new alternatives (eg: inniative held with Tangled, exhibited in Video On Demand at the same time as it was on theaters).
- **Weaknesses**: Followers as Internet Providers (MEO is leader); still have many complaints from clients.
- **Opportunities**: Development of new technologies like 3D and customer preference for products who deliver more quality (Blu Ray).
- **Threats**: People do not perceive the harm of piracy; aggressive competitors might reach innovative and outstanding solutions first.

Having this in mind students should think about which areas of the company are being more affected and which ones require action.

3) Changes in the External Environment:

To promote discussion in class, students can be asked to give their own opinion on consumption habits and possible impact of internet of illegal downloads since it is still to prove it is positive or negative. The teacher should explain why constantly monitoring the External Environment and anticipating customer's needs is crucial to keep the firm profitable.

4) **Market Research:**

On the domain of marketing courses teachers are invited to explain the importance of doing Marketing Research to access new trends, customer's needs and to support managerial decision making.

The process of how to conduct it should also be explained, starting with the definition of clear Research Questions that summarize what the manager wants to study. Building those is not as simple as it seems because they require some reflection about if the subject approached is useful and up to date, if it was already studied in the past or if it is possible to collect the information required, among others. This is the beginning to move to other stages of the research. After evaluating the questions, it is time to see if the information is already available and if it is possible to use it (secondary data) or if the manager needs to collect the data himself (primary data). If so, he will think about which methodologies to use: qualitative and/or quantitative research. The first one is often useful to collect insights about motivations behind the reasoning of consumers. Because of this, it is applicable before doing quantitative research, which will provide statistical insights to support decisions. There are several methods for both options. On qualitative research interviews or focus groups can be held while on quantitative research the most typical method is surveys that can be done in person, via mail, via telephone, among others. Each method has pros and cons and serves different purposes. Before choosing, it is necessary to understand where is the target market that the manager wants to reach. For example, if he wants to study something that requires young respondents it is advised to use the internet to spread the questionnaire while if it is an elderly target it is better to conduct it in person.

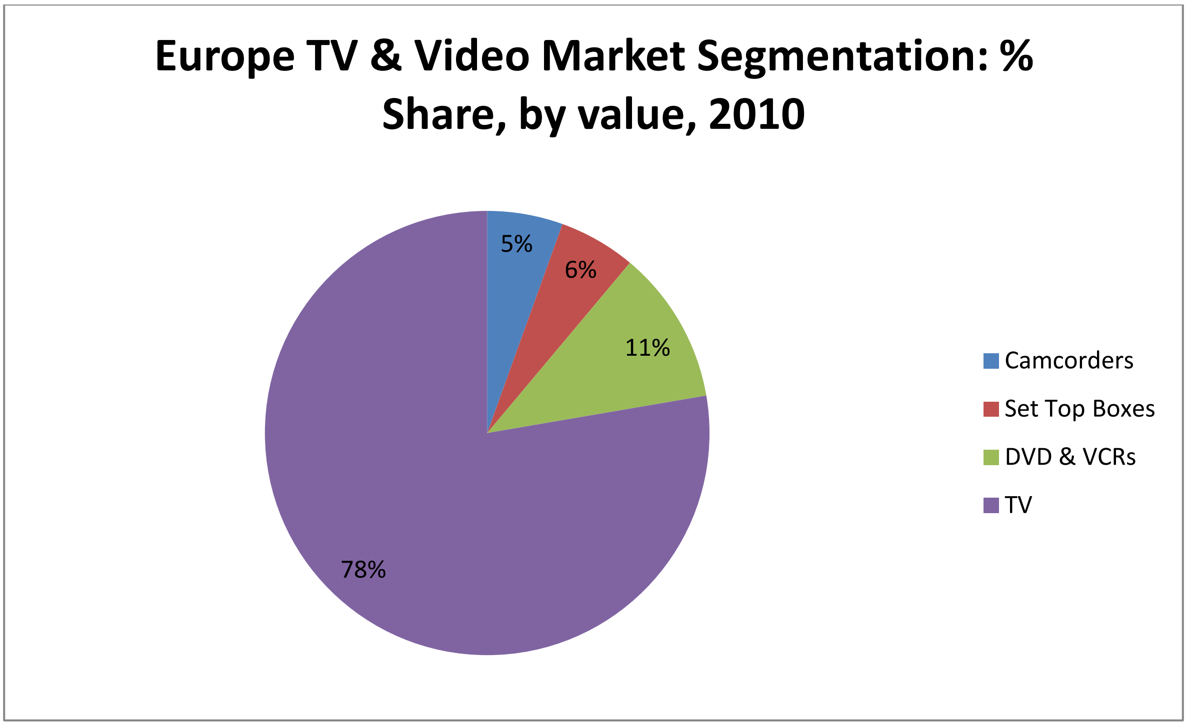
These concepts can be applicable to class. In order to practice, a **written assignment** can be required where, while they just have access to the first part of the case. It will be asked to:

- Formulate the Research Questions in order to understand which market opportunities can ZON Multimédia explore;
- Chose and explain which research methodologies to use and explain why;

- Develop the guidelines for the qualitative research (if applicable) and elaborate a proposal for a questionnaire.

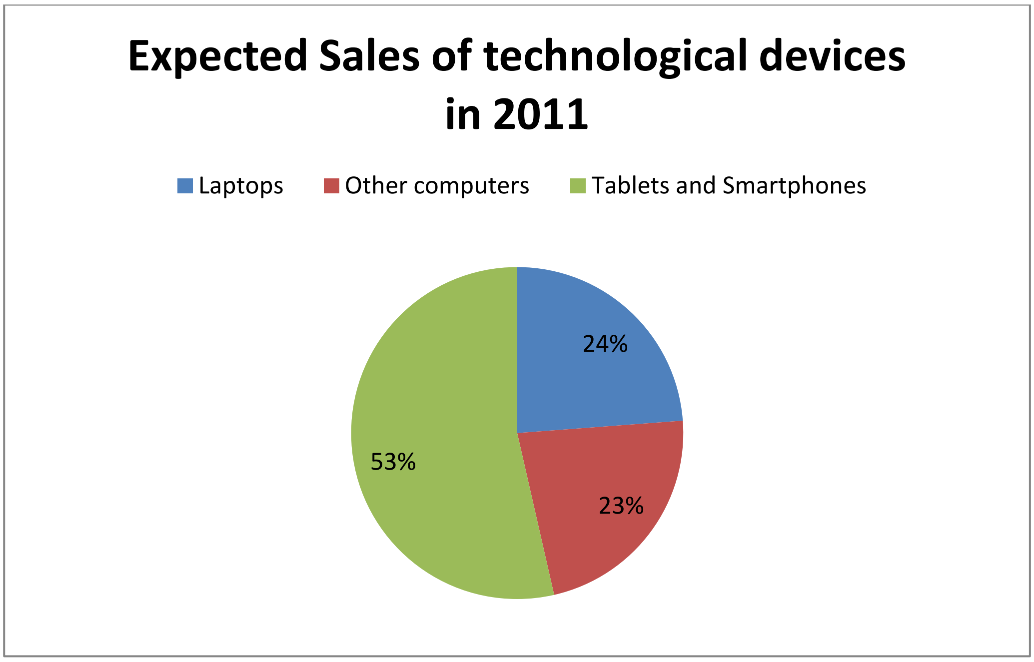
  The Research Questions delivered should be similar to the ones present in this dissertation. Regarding methodologies, students should have identified the potential target market. Either in-depth interview or focus group can be suitable. For qualitative research an online questionnaire will allow reaching a younger target. Plus it eliminates some bias like people feeling ashamed of answering some questions directly to the interviewer and they can save the link to respond whenever it is convenient. However they can also justify that ZON should understand retired needs, since it is a segment that spends considerable time at home.

Exhibit 1 – Percentage of contribution of each segment to the total value of the industry



Source: Datamonitor

Exhibit 2 – Expected Sales of Technological Devices in 2011 (%)



Source: Deloitte

Exhibit 3 – ZON Multimédia's Structure

Source: [**www.zon.pt**](http://www.zon.pt)

Exhibit 4 – Focus Group Script

Introdução (5 min)

- Apresentação dos intervenientes e do moderador
- Explicação do Propósito: "Esta discussão tem como objectivo perceber os vossos hábitos de consumo de filmes e séries em casa, assim como o tipo de serviços que usam. Qualquer opinião que queiram demonstrar sobre os operadores existentes no mercado e a sua oferta é bem vinda, assim como sugestões para melhorar os serviços. Não há respostas certas ou erradas, apenas expressão livre de ideias. A identidade dos intervenientes permanecerá anónima, sendo os dados apenas usados para efeitos de pesquisa para a construção de uma dissertação de mestrado sobre novas oportunidades que a ZON poderá explorar no mercado de entertenimento em casa. Peço-vos também permissão para gravar esta conversa, garantindo-vos que me comprometo a ser a única pessoa a ter acesso à mesma."

Questões de envolvimento (15 min)

- Consideram-se grandes consumidores de filmes e séries? Quantos vêm por semana?
- Qual o meio que mais usam para assistir aos filmes e séries?
- Em geral, estão contentes com o serviço prestado pela ZON? Que serviços têm subscritos?

Questões sobre aluguer (15 min)

- São sócios de algum clube de vídeo ou já o foram no passado? Têm por hábito dirigir-se a estes locais para alugar filmes? Caso não, alguma vez o tiveram no passado? Porque deixaram de o fazer?
- Têm conhecimento do serviço de Video On Demand para televisão que a ZON oferece? Customam alugar (Porque sim/Porque não)?
- Conseguem pensar em alguma iniciativa que pudesse ser tomada para tornar o serviço de Video On Demand mais atractivo?

Questões sobre venda directa (10 min)

- Atribuem alguma utilidade ao acto de comprar um DVD? Se o fazem, com que frequência?

- Em que circunstâncias compram DVDs?
- Comparativamente a hábitos de consumo passados, sentem que compram menos agora do que antigamente?

Pirataria (20 min)

- Como vêm o acto de descarregar um filme ilegalmente?
- Costumam fazer downloads? Quais são os principais motivos para o fazerem? Sentem-se em risco enquanto o fazem (medo de acções legais, etc)?
- Acham justo comparar um download ao roubo de um item de um supermercado, por exemplo?
- Há alguma coisa, ou algum serviço do qual tenham conhecimento que exista noutros países, que, caso fosse adoptado, pudesse diminuir o incentivo à pirataria?

Conclusões e encerramento (5 min)

- Há mais alguma coisa que queiram acrescentar face ao que foi dito? Têm alguma questão?
- Obrigada pela vossa participação.

Exhibit 5 – Online Survey

O meu nome é Cláudia Filipe e sou estudante finalista do Mestrado de Gestão com especialização em Marketing na Católica-Lisbon. O presente questionário faz parte de um estudo mercado que será parte fulcral na minha tese e tem como objectivo avaliar os hábitos de consumo de filmes e series em casa. Todas as respostas são confidenciais e anónimas.

Antes de avançar, agradeço de imediato a sua disponibilidade. O questionário não deverá demorar mais do que 10 minutos.

Hábitos de Consumo de Filme e Series em Casa:

1) **Tem por hábito ver filmes/series em casa?**
   _ Sim
   _ Não (termina o questionário)

2) **Quantos filmes/series vê por semana. Assinale no quadrado correspondente.**

	1-2	3-4	5 ou mais
Filmes			
Series			

3) **A quais destes services tem acesso em sua casa? Assinale todos os que tiver.**
   _ TV Só 4 Canais Nacionais
   _ TV Por assinatura (ZON, MEO, Cabovisão, etc)
   _ Canais Premium de Cinema na TV (TVCine, etc)
   _ Video On Demand (videoclube TV)
   _ Video On Demand (videoclube PC)
   _ Internet Banda Larga
   _ iTunes
   _ Outros:

4) **Qual é o dispositivo que mais usa para ver filmes/séries em casa?**
   _ Televisão (continua a partir da 8)
   _ Computador (avança para a 5)
   _ Telemóvel (avança para a 5)
   _ Tablet (avança para a 5)
   _ Leitor de DVDs/Consola de Jogos (avança para 8)
   _ Outro: ______ (avança para a 8)

5) **Caso tenha respondido Computador/Tablet/Telemovel, quais dos seguintes meios usa? (relembro que as respostas ao questionário são totalmente confidenciais):**

_ Videoclube PC
_ DVD's
_ Downloads de Filmes
- Outro:

6) **Porque usa o Computador/Tablet/Telemovel para ver filmes em casa? Assinale todos os que se aplicarem.**
   a. Porque quero ver numa divisão onde não tenho TV
   b. Porque ligo o computador à TV
   c. Porque estão no computador os filmes que quero ver
   d. Porque a TV está "ocupada" por outras pessoas lá de casa
   e. Outro:…

7) **Está familiarizado com o serviço de Video On Demand (Videoclube na TV ou PC)?**

_ Sim, e tenho uma subscrição mensal activa de filmes/series (passa para a 8 e só volta a responder à pergunta 10)
_ Sim, sou utilizador regular – alugo pelo menos 1 filme por mês (passa para a 8 e só volta a responder à pergunta 10)
_ Sim, sou utilizador ocasional – alugo pelo menos 1 filme por trimestre (passa para a 8 e só volta a responder à pergunta 10)
_ Sim, conheço mas não utilizo (salta para a pergunta 9)
_ Não, desconheço o que é (passa para a 13)

8) **Porque usa o Video On Demand (Videoclube na TV ou PC)? (escolha todas as opções que achar convenientes)**

- Preço
- Encontro os filmes que quero
- O interface é simples
- Rapidez do serviço
- conveniência

9) **Porque não utiliza o serviço de Video on Demand (Videoclube na TV ou PC)? Seleccione todas as opções que ache convenientes.**

_ Preço
_ Falta de Variedade
- Filmes disponíveis não interessam
_ O Interface é complicado
_ Não me lembro que tenho o serviço disponível

_ Não preciso. Tenho sempre filmes/series para ver nos canais ou gravadas na BOX
- Uso outros meios para ver filmes (dvd's, downloads, etc…)
_ Outro:

10) Estaria disponível a usufruir mais do serviço de Video On Demand (Vídeoclube na TV) se os seguintes serviços estivessem disponíveis?

	Lista de Sugestões baseada em sugestões anteriores	Disponibilização de filmes muito recentes (ainda em exibição no cinema)	Filmes em 3D
Sim			
Não			

11) Com que frequência compra DVDs?
_ Frequentemente (pelo menos uma vez por mês);
_ Ocasionalmente (pelo menos uma vez por trimestre);
_ Raramente;
_ Nunca.

12) Costuma gravar Filmes e Series na sua Box para ver posteriormente?
_ Sim, gravo séries completas e e pelo menos um filme por semana.
_ Sim, gravo pelo menos um filme por mês
_ Não.
_ Desconheço este serviço.

13) Classifique as afirmações que se seguem numa escala de 1 (discordo totalmente) a 4 (concordo totalmente):
_ Filmes e séries são o meu meio preferencial para entretenimento em casa;
_ Filmes e séries são uma boa opção para passar um serão com amigos/família;
_ Escolho os filmes a pensar nos gostos de quem os vai assistir comigo;
_ Costumo assistir a um filme mais do que uma vez;
_ Gostava de ter mais tempo livre para assistir a filmes/séries;
_ Prefiro alugar um filme para ver do que comprar filmes
_ Na minha opinião, os preços praticados pelo aluguer são acessíveis;
_ Na minha opinião, comprar um DVD tem um custo elevado;
_ Prefiro ter os filmes na sua forma física;
_ Faço downloads frequentemente.

14) **Assinale, para cada uma das opções, o intervalo de preço que lhe parece mais correcto:**

	DVD de filme Novidade	DVD de filme Antigo	Aluguer de filme (novidade) no serviço de Video On Demand	Aluguer de um filme mais antigo no serviço de Video On Demand	Download legal de um filme no PC (ex: iTunes)	Aluguer Mensal de uma subscrição de filmes/series através do Video On Demand
1 a 5€						
6 a 10€						
11 a 15€						
16 a 20€						
21 a 25€						

15) **Classifique as afirmações que se seguem numa escala de 1 (discordo totalmente) a 4 (concordo totalmente). No futuro vou:**

- ver mais filmes no computador/tablets em casa

- passar a ligar o computador/tablet à TV para ver filmes

- construir uma videoteca digital de filmes

- alugar mais filmes no VideoClube TV ou PC

- continuar a comprar DVD's para "guardar" os meus filmes preferidos

16) **Se no futuro pudesse ver filmes muito recentes (4 semanas depois da estreia em salas de cinema) nos Serviço de vídeo on demand (videoclube TV ou PC), quanto estaria disposto a pagar por**

EUROS	Aluguer:	Aluguer+DVD ou Download Posterior
< 5		
5		
10		
15		
20		
25		

>25		
Não vejo interesse		

17.a) E se o filme estivesse disponível no mesmo dia da estreia em cinema nesses serviços?

EUROS	Aluguer:	Aluguer+DVD ou Download Posterior
< 5		
5		
10		
15		
20		
25		
>25		
Não vejo interesse		

17) Em que faixa etária se insere?

_ Menos de 16;
_ 16-24;
_ 25-33;
_ 34-42;
_ 43-51;
_ 52-60;
_ Mais de 60

18) Com quantas pessoas habita?

_ Sozinho/a (termina o questionário)
_ Com os pais;
_ Com mulher/marido/companheiro(a)/ amigo(a).
_ Com filhos(as) Todos < 10 anos
_ Com filhos (as) Todos > 10 anos
_ Com filhos <10 anos e > 10 anos

19) **Quem é o maior consumidor de filmes/séries em sua casa?**

_ Eu
_ Mulher/marido/companheiro(a)/amigo(a)
_ Filhos

Exhibit 6 – Demographic Factors

Em que faixa etria se insere

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	16	3	,8	,9	,9
	16-24	143	39,3	44,0	44,9
	25-33	90	24,7	27,7	72,6
	34-42	29	8,0	8,9	81,5
	43-51	38	10,4	11,7	93,2
	52-60	18	4,9	5,5	98,8
	60	4	1,1	1,2	100,0
	Total	325	89,3	100,0	
Missing	0	39	10,7		
Total		364	100,0		

Com quantas pessoas habita

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sozinhoa	48	13,2	14,8	14,8
	Com os pais	143	39,3	44,0	58,8
	Com mulhermaridocompanheiroaamigosas	82	22,5	25,2	84,0
	Com filhosas todos menores de 10 anos	12	3,3	3,7	87,7
	Com filhosas todos maiores de 10 anos	27	7,4	8,3	96,0
	Com filhosas menores e maiores de 10 anos	13	3,6	4,0	100,0
	Total	325	89,3	100,0	
Missing	0	39	10,7		
Total		364	100,0		

Quem o maior consumidor de filmessries em sua casa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Eu	228	63,9	70,2	70,2
	Pais	31	8,7	9,5	79,7
	MulherMaridoCompanheiroa Amigosas	40	11,2	12,3	92,0
	Filhos	26	7,3	8,0	100,0
	Total	325	91,0	100,0	
Missing	0	32	9,0		
Total		357	100,0		

Exhibit 7 – Consumption Habits

Filmes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	12	228	63,9	71,7	71,7
	34	69	19,3	21,7	93,4
	5 ou Mais	21	5,9	6,6	100,0
	Total	318	89,1	100,0	
Missing	0	39	10,9		
Total		357	100,0		

Sries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	12	103	28,9	35,3	35,3
	34	104	29,1	35,6	70,9
	5 ou Mais	85	23,8	29,1	100,0
	Total	292	81,8	100,0	
Missing	0	65	18,2		
Total		357	100,0		

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Filmes	Between Groups	2,451	6	,409	1,126	,347
	Within Groups	110,346	304	,363		
	Total	112,797	310			
Sries	Between Groups	10,071	6	1,679	2,727	,014
	Within Groups	172,340	280	,615		
	Total	182,411	286			

Exhibit 8 – Preferences and Profile

Qual o dispositivo que mais usa para ver filmessries em casa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Televiso	164	45,9	49,8	49,8
	Computador	142	39,8	43,2	93,0
	Telemvel	2	,6	,6	93,6
	Tablet	1	,3	,3	93,9
	Leitor de DVDsConsola de Jogos	17	4,8	5,2	99,1
	Outro	3	,8	,9	100,0
	Total	329	92,2	100,0	
Missing	0	28	7,8		
Total		357	100,0		

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11,396[a]	9	,250
Likelihood Ratio	11,707	9	,230
Linear-by-Linear Association	6,245	1	,012
N of Valid Cases	322		

a. 4 cells (25,0%) have expected count less than 5. The minimum expected count is 1,30.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,555
Bartlett's Test of Sphericity	Approx. Chi-Square	239,856
	df	36
	Sig.	,000

Rotated Component Matrix[a]

	Component			
	1	2	3	4
Gostava de ter mais tempo livre para assistir a filmessries	,627	,216	-,068	,056
Filmessries so o meu meio preferencial para entretenimento em casa	,029	,796	,007	-,002
Filmessries so uma boa opo para passar um sero com amigosfamlia	,423	,575	,191	-,017
Costumo assistir a um filme mais do que uma vez	,704	,102	,152	-,055
Prefiro alugar a comprar um filme	-,290	,018	,510	,620
Na minha opinio os preos praticados pelo aluguer so acessveis	,006	,087	,842	-,030
Na minha opinio comprar um DVD tem um custo elevado	,048	-,005	-,132	,919
Prefiro ter os filmes na sua forma fsica	,736	-,292	-,124	-,122
Fao downloads frequentemente	-,149	,493	-,472	,033

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Exhibit 9 – Research Question 1

Est familiarizado com o servio de Video On Demand Videoclube na TV ou PC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sim e tenho uma subscrio mensal activa de filmesseries	7	2,0	2,1	2,1
	Sim e sou utilizador regular alugo pelo menos um filme por	26	7,3	7,9	10,0
	Sim mas apenas usufruo do servio ocasionalmente alugo um fi	59	16,5	17,9	28,0
	Sim mas no utilizo o servio	184	51,5	55,9	83,9
	No	53	14,8	16,1	100,0
	Total	329	92,2	100,0	
Missing	0	28	7,8		
Total		357	100,0		

Porque no utiliza o servio de Video On Demand Videoclube na TV ou PC Seleccione todas as opes que considere convenientes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Preo	96	26,9	100,0	100,0
Missing	Null	261	73,1		
Total		357	100,0		

Porque no utiliza o servio de Video On Demand Videoclube na TV ou PC Seleccione todas as opes que considere convenientes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No preciso Tenho sempre filmesseries para ver ou gravas na B	72	20,2	100,0	100,0
Missing	Null	285	79,8		
Total		357	100,0		

Porque usa o Video On Demand Videoclube na TV ou PC escolha todas as opes que considerar convenientes - Convenincia

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Convenincia	74	20,7	100,0	100,0
Missing	Null	283	79,3		
Total		357	100,0		

Tem por hbito gravar Filmes e Sries na sua BOX para ver posteriormente

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sim Gravo sries completas ou pelo menos um filme por semana	116	32,5	35,0	35,0
	Sim Gravo pelo menos um filme por ms	59	16,5	17,8	52,9
	No	153	42,9	46,2	99,1
	Desconheo este servio	3	,8	,9	100,0
	Total	331	92,7	100,0	
Missing	0	26	7,3		
Total		357	100,0		

Exhibit 10 – Research Question 10

Fao downloads frequentemente

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Discordo totalmente	74	20,7	22,6	22,6
	2	35	9,8	10,7	33,3
	3	56	15,7	17,1	50,5
	4 Concordo em absoluto	162	45,4	49,5	100,0
	Total	327	91,6	100,0	
Missing	0	30	8,4		
Total		357	100,0		

Em que faixa etria se insere * Fao downloads frequentemente Crosstabulation

Count

		Fao downloads frequentemente				
		1 Discordo totalmente	2	3	4 Concordo em absoluto	Total
Em que faixa etria se insere	16	0	0	0	3	3
	16-24	9	13	27	92	141
	25-33	10	11	14	55	90
	34-42	15	1	6	7	29
	43-51	25	6	6	1	38
	52-60	11	3	0	3	17
	60	0	0	2	0	2
Total		70	34	55	161	320

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	132,721[a]	18	,000
Likelihood Ratio	136,117	18	,000
Linear-by-Linear Association	92,033	1	,000
N of Valid Cases	320		

a. 14 cells (50,0%) have expected count less than 5. The minimum expected count is ,21.

Qual o dispositivo que mais usa para ver filmessries em casa * Fao downloads frequentemente Crosstabulation

Count

		Fao downloads frequentemente				Total
		1 Discordo totalmente	2	3	4 Concordo em absoluto	
Qual o dispositivo que mais usa para ver filmessries em casa	Televiso	67	25	29	41	162
	Computador	0	8	23	109	140
	Telemvel	0	0	1	0	1
	Tablet	0	1	0	0	1
	Leitor de DVDsConsola de Jogos	7	1	2	7	17
	Outro	0	0	0	3	3
Total		74	35	55	160	324

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	124,585[a]	15	,000
Likelihood Ratio	148,478	15	,000
Linear-by-Linear Association	18,359	1	,000
N of Valid Cases	324		

a. 15 cells (62,5%) have expected count less than 5. The minimum expected count is ,11.

Exhibit 11 – Research Question 3

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,578
Bartlett's Test of Sphericity	Approx. Chi-Square	143,608
	df	10
	Sig.	,000

Communalities

	Initial	Extraction
Ver mais filmes no ComputadorTablet em casa	1,000	,701
Passar a ligar o ComputadorTablet TV para ver filmes	1,000	,637
Construir uma videoteca digital de filmes	1,000	,632
Alugar mais filmes no Videoclube da TV ou PC	1,000	,537
Continuar a comprar DVDs para guardar os meus filmes preferidos	1,000	,392

Extraction Method: Principal Component Analysis.

Rotated Component Matrix[a]

	Component	
	1	2
Ver mais filmes no ComputadorTablet em casa	,805	-,230
Passar a ligar o ComputadorTablet TV para ver filmes	,798	,031
Construir uma videoteca digital de filmes	,647	,462
Alugar mais filmes no Videoclube da TV ou PC	,060	,730
Continuar a comprar DVDs para guardar os meus filmes preferidos	-,078	,621

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

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