



UNIVERSIDADE CATÓLICA PORTUGUESA

## **Moche - An Important Branding Decision**

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## **Abstract**

Title: Moche - An important Branding Decision

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Moche is a Portuguese mobile telecommunications service provider owned by Portugal Telecom (the largest telecommunications service provider in Portugal) that has been launched in 2011 in order to target the under 25-year-old segment. It is independent of TMN, the other mobile telecommunications service provider owned by Portugal Telecom, which has a different positioning on the market.

Since 2008, Portugal Telecom has been trying to attract this younger segment by launching Services (TMN Moche Service launched in 2008) and Brands (Moche in 2011) with a young and irreverent positioning. However, are these the most valued Brand characteristics by consumers on this segment?

Moche has been having good results since its launch as a Brand, however, as of January 2014, TMN was about to be re-branded into MEO, which was going to have a different positioning and could harm Moche's future success. At that moment, Mestre and his team had to make a recommendation to Portugal Telecom's board of directors on whether to keep the existent dual-brand strategy or re-brand Moche into MEO similarly to what TMN was about to do. In order to decide, Mestre had to analyze the pros and cons of each branding scenario, the consumers' preferences about different Brand characteristics and the consumers' perceptions about the different existing Brands on the market.

## **Resumo**

Título: Moche - Uma importante decisão de Marca

Autor: Sérgio Filipe Cabrita Almaça

A Moche é uma Marca prestadora de serviços no mercado das telecomunicações móveis, detida pela Portugal Telecom (o maior prestador de serviços de telecomunicações em Portugal), que foi lançada em 2011 com o objectivo de atrair o segmento da população com menos de 25 anos de idade. É uma marca independente da TMN, a outra marca prestadora de serviços de telecomunicações móveis detida pela Portugal Telecom, que tem um posicionamento de mercado diferente.

A Portugal Telecom tem vindo desde 2008 a tentar atrair o segmento jovem através do lançamento de Serviços (Serviço TMN Moche lançado em 2008) e de Marcas (Moche em 2011) com um posicionamento jovem e irreverente. No entanto, serão estas as características de marca mais valorizadas pelos consumidores?

A Moche tem vindo a ter bons resultados desde o seu lançamento como Marca, no entanto, em Janeiro de 2014, a TMN estava prestes a mudar a sua designação para MEO, e conseqüentemente, o seu posicionamento também ia mudar, o que poderia prejudicar o sucesso da Moche no futuro. Nesse momento, Mestre e a sua equipa tinham que recomendar a administração da Portugal Telecom na sua estratégia de marca futura: continuar com a estratégia de duas marcas no mercado ou mudar o nome da Moche para MEO à semelhança do que a TMN estava prestes a fazer. Para tomar esta decisão, Mestre teve que analisar as vantagens e desvantagens dos dois senários de marca possíveis, as preferências dos consumidores acerca das diferentes características de Marca e as percepções dos consumidores relativamente às diferentes marcas existentes no mercado.

**Key Words:** Branding; Segmentation; Positioning; Targeting; Consumer behavior; Telecommunications; Telecom; Portugal

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## **Case Study: Moche - An Important Branding Decision**

### **Introduction**

In January 2014, Luis Mestre, Director at Moche, a brand owned by Portugal Telecom that has been launched in 2011 in order to target a younger segment on the mobile telecommunications market in Portugal, faced an important strategic branding decision.

Portugal Telecom is the largest telecommunications service provider in Portugal, operating additionally in Cape Verde, Mozambique, Timor, Angola, Kenya, China, Brazil, São Tomé e Príncipe and Namibia. Portugal Telecom, the company owning TMN and Moche (its two mobile telecommunications service providers in Portugal) was about to re-brand its TMN brand into MEO, in order to be able to offer a new service to its customers. A package composed of Internet, TV, Fixed Communications and Mobile Communications under the name of M4O. Mestre was expected to make a proposal to Portugal Telecom's board of directors, stating his recommendation on whether to keep this dual-brand strategy, maintaining Moche on the market and thus having MEO and Moche competing on the same market or opt for divesting in Moche and re-branding it into MEO, and thus, having MEO providing a Service for the under 25-year-old segment and as the only service provided by Portugal Telecom in this market.

Mestre has been assigned responsible for TMN Moche since its creation in 2008 when it was just a TMN's Service, and, in 2011 he had other major strategic branding decision, when he had to recommend Portugal Telecom's board of directors on whether to keep TMN Moche as a TMN's Service or pursue a dual-brand strategy on the mobile telecommunications market by turning Moche as an independent brand. At that moment it has been decided to turn Moche as an independent brand, and thus, to pursue a dual-brand strategy and Mestre became responsible for this new brand, however, "will this strategy work after the re-brand of TMN into MEO?" Mestre wondered. "What strategy should I pursue?"

## Moche History

As it is expressed above, Moche started as a TMN's product line extension under the name TMN Moche in 2008 in order to target the under 25-year-old segment. It has been launched with the objective of increasing TMN's market share on the same segment due to its incapacity to attract it at that time. "We were losing market share to our main competitors because this younger segment did not identify with our communication" said Mestre. "We needed a younger and more irreverent communication in order to attract this segment that we were missing and TMN Moche allowed us to do so". This new Service allowed TMN to do a more targeted advertising to the under 25-year-old segment and to offer a Service that better suited this segment's needs. It offered packages composed by Voice calls, SMS, MMS and Video calls.

In 2011, Portugal Telecom's board of directors' decided to turn Moche as a new brand and service provider, independently managed, on the Mobile Telecommunications market in Portugal in order to target the same younger segment TMN Moche was doing before. It was needed a dual-brand strategy since the new type of communication used by TMN since 2008 was not producing the desired effects. "TMN's brand was being harmed and was losing credibility among the other segments. Also, the results of TMN Moche were not as good as we were expecting due to a confusion on consumers minds". Said Mestre. Even though the decision of pursuing a dual-brand strategy could cannibalize<sup>1</sup> more customers and revenues comparing to the previous situation since TMN and Moche were going to compete on the same market, it looked like the best way of penetrating on the under 25-year-old segment.

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<sup>1</sup> "Cannibalization refers to a reduction in sales volume, sales revenue or market share of a product as a result of the introduction of a new product by the same company." (Investing Answers, 2014. Cannibalization. Investing Answers [Online] (Updated 20 January 2014) Available at: <http://www.investinganswers.com/financial-dictionary/businesses-corporations/market->

## Marketing

With the creation of TMN Moche, TMN started advertising in two formats at the same time. One of them for older segments and the other for the under 25-year-old segment, using the TMN Moche product. While TMN was advertising its brand for the other segments in a more “serious” manner (see **Exhibit 1 & 2**), for the under 25-year-old segment it was advertising in a more informal and irreverent way, using in some cases slang words and phrases throughout its advertisements in order to catch up this segment’s attention (see **Exhibit 3 & 4**).

From 2011, after the creation of Moche as a brand, until today, Moche continued to do its advertisements in the way it was doing before, using online videos, TV campaigns and outdoor Mupis as channels, however, through a new brand (see **Exhibit 5**) and with higher investments (see **Exhibit 6**). It also started to sponsor sporting events and music festivals and to establish partnerships with cinemas, University Student Unions and brands present in several markets who shared the same target segment as Moche. Today, this investment in marketing represents 37,5€ of customer acquisition cost and due to the brand equity it has reached today, it is able to retain a customer for 5 years on average<sup>2</sup>.

In what concerns Moche’s advertisements, it has been doing campaigns emphasizing its product attributes and benefits. Messages such as “Free SMS for all networks”, “Free Internet” and “Moche! It’s for free” could be constantly heard. Additionally, in its advertisements, Moche has been constantly using a huge amount of young people, situations in which this young segment would be identifying itself with and radical sports such as surf, skate, wakeboard and motocross. A good example of this last characteristic is an advertisement in where it could be heard “On Moche wild camp you will learn surf, skate, wakeboard and motocross with the best athletes in Portugal. You just have to sign up.”

Through the events Moche has been sponsoring, beyond having its brand associated with these sporting and music festival events, Moche has been investing on a high touch strategy by being present with a team of Moche’s employees at such

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<sup>2</sup> Each customer spends on average 7,5€/month and its customer acquisition cost represents 5 months of usage. (Information provided by Moche)

events and communicating with present and possibly future customers. It has also been offering people the possibility to win cell phones and other kind of accessories through a campaign named as “pay with friends”. In order to win the available accessories, people only have to put together a number of friends, in which some of them have to be already Moche’s customers, show up at Moche’s representation inside the event and pick up their “gift”. This forced people to involve a certain amount of other people and to let them know about Moche and its promotions.

In what concerns the partnerships with cinemas and brands, Moche’s customers just have to show that they are Moche’s customers inside the partner store in order to be given a discount on prices.

All these Marketing mixes together emphasized Moche’s positioning as a young and irreverent brand, targeting to young, radical and active people.

In order to confirm this positioning, Mestre decided to conduct a survey to have a source of primary data stating the consumer’s perceptions about Moche (see **Exhibit 24, Q7**). This survey has been answered by 105 people and most of the respondents were within the under 25-year-old segment that Moche has been targeting to. Also, this survey analyzed other parameters such as the importance of the different characteristics when consumers are choosing a Service Provider, the classification of the same characteristics for the brand MEO, among others.

## **Financial Situation**

In 2013 Moche had 25% market share on the under 25-year-old segment and approximately 18M€ of turnover (see **Exhibit 7& 8**). Although its turnover has been increasing year after year, particularly after the huge investment in Marketing in 2011, the turnover cannibalization has been increasing as well by “stealing” TMN’s revenue. Cannibalization represented 2% of revenues in 2008 and as Moche invested more in Marketing and became an independent brand in 2011, the cannibalization rose to 7%. This cannibalization continued to rise and in 2013 represented an astonishing 10% of the whole turnover. As a result, the net sales accounting with the existent cannibalization decreased from 2012 to 2013 (see **Exhibit 9**).

## Service

As it can be seen on the previous section, Moche has been expressing not only a young character but also a cheap Service as we could see through its advertisements in where the sentence “Moche! It’s for free” could be constantly heard. In fact, from 2011 until today, Moche has been offering 2 different pre-paid tariff plans, in where customers have to pay a monthly fee for using a Service that allows for free Voice Calls, SMS, MMS and Video Calls among other Moche customers and it also includes a certain amount of free Internet traffic as it can be seen on **Exhibit 10 and 11**. This Service also include the usage of several mobile apps such Skype, BBM, Viber, WhatsApp, Facetime, FB Messenger and iMessage for free.

In both tariffs shown on **Exhibit 10 and 11**, customers have a compulsory pre-paid charge. The main difference among these two tariffs is that on the tariff shown on **Exhibit 10** customers are taken 7.5 Euros of their cell phone balance per month while on the tariff shown on **Exhibit 11** customers have to charge their cell phones according to **Exhibit 12**, without losing that amount on their cell phone balance.

## Competitors

In order to highlight the importance of studying Moche’s competitors and the rivalry they are exposed to, Mestre explained to his team that “In order to gain competitive advantage over our competitors we should differentiate ourselves by having more or better product attributes, by delivering more or better benefits or by delivering strong emotional benefits.”

As they were analyzing this point, they found out that Moche had two direct competitors on the market, Vodafone and Zon Optimus, with their Yorn and TAG Services respectively. Also, they discovered that this market was quite concentrated when comparing to the same market in other countries of the European Union. In fact, the market leader in Portugal (TMN) had 44% of the overall market and the sum of the two market leaders (TMN and Vodafone) possessed 84% of the whole market in 2012 (see **Exhibit 13**). These numbers turned Portugal into the 10<sup>th</sup> country in the

European Union in where the market leader had a higher market share and the 4<sup>th</sup> country in where the sum of the two market leaders had a higher market share.

The main reasons Mestre and his team have pointed out for the existence of only two direct competitors on this market and consequently to the high concentration level the market was facing were the customer's loyalty to their service provider which was due to the strong network effects<sup>3</sup> the market was facing, the fact that the mobile telecommunications market was a capital-intensive market requiring a huge initial investment, the scarcity of management experience and skills existent on this market and the big governmental and legal barrier for new entrants. In fact, in order to operate in this market, service providers must be given a license since the usage of frequencies depends on the attribution of individual rights for the effect. The government may attribute these licenses if the service provider fulfills the entire established criterion.

In order to analyze and understand the consumers' perceptions about the three different players competing on this market, Mestre and his team decided to use a study performed by Portugal Telecom throughout 2013 (see **Exhibit 14**). This study has been elaborated with the purpose of understanding and comparing how Moche, Yorn and TAG were perceived among consumers on this market in five categories: Youth; Irreverence; Proximity; Enthusiastic; Innovative.

## **Yorn**

Yorn has been experiencing a decrease in its market share as well as in its turnover from 2008 until 2013 (see **Exhibit 7 & 8**). In 2008 it possessed 75% market share on the under 25-year-old segment and a 55M€ of turnover. As the rivalry among its competitors increased, its market share dropped and consequently its turnover went down. In 2013 Yorn possessed 65% of the target segment and 47M€ of turnover.

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<sup>3</sup> "Network effect is the effect that one user of a good or service has on the value of that product to other people. When network effect is present, the value of a product or service is dependent on the number of users using it." (Wikipedia, 2014. Network effect. Wikipedia [Online] (Updated 14 May 2014) Available at: [http://en.wikipedia.org/wiki/Network\\_effect](http://en.wikipedia.org/wiki/Network_effect) [Accessed 9 June 2014])

It has been launched in 2000 as a young brand owned by Vodafone and it has been the first brand created on the market targeting the under 25-year-old segment, however, in 2005 Vodafone decided to close this brand and to continue to use Yorn just as a Vodafone Service. At the creation of Yorn in 2000 until 2005, Yorn was positioned as a young and irreverent brand, just as Moche is today. In order to reach this positioning, Yorn used kind of the same strategy as Moche uses today. It used targeted advertising, attractive prices and discounts in cinemas, and additionally, it used to have a YornStore, which was a store in where new tendencies in music, clothing, food and styling were present. This store allowed Yorn to be in touch with its customers.

Today, Yorn continues competing on the under 25-year-old segment with its Yorn Service, however, its positioning is not perceived as young and irreverent as it used to be before. This may be caused by the fact that customers now associate Yorn to Vodafone much more than they used to do, mostly due to its advertising that comes under the Vodafone brand. By the other hand, this association can bring good points since Vodafone is also perceived as an innovative and customer-oriented brand. Additionally, it also delivers a sense of belonging among its customers. Although Yorn is not perceived as young and irreverent as its competitors Moche and TAG today (see **Exhibit 14**), it still has the higher market share due to the first mover advantage it had experienced in the past. **Exhibit 7** exposes Market shares of the 3 players.

In what concerns its Service, Yorn delivers two different options just similarly as Moche does and charges similar prices. This means that Yorn offers a pre-paid tariff plan with compulsory charges for 7€/month (see **Exhibit 15**) and also a pre-paid tariff plan with compulsory charges (see **Exhibit 16**), in where customers have to charge their cell phone balance according to **Exhibit 17**. When comparing with Moche's tariff plans, the main difference is that the Yorn tariff plans do not include some of the free apps Moche's tariff plans do and also that the Yorn tariff plan exposed on **Exhibit 16** does not include Internet traffic on its package.

## **TAG**

Despite its high investments in Marketing (see **Exhibit 18**), TAG has been experiencing a stagnation in its turnover and market share from its launch until today (see **Exhibit 7 & 8**).

TAG is a Service provided by Zon Optimus that has been launched in 2008 in order to target the under 25-year-old segment. It is perceived as a young, irreverent and innovative Service (see **Exhibit 14**), however, at this moment it is lacking success mainly due to the smaller penetration Zon Optimus has experienced on the overall mobile telecommunications market as we can see on **Exhibit 13** (Zon Optimus share corresponds to “other competitors”). Customers on this market want to have the same service provider as their friends have in order to pay less for the Service. Given that Zon Optimus has a smaller market share, it is more difficult for them to “convince” new customers to take their products due to the existing network effects. Also, TAG Service is perceived as a less credible Service when comparing to its competitors.

TAG offers three different tariff plans: two pre-paid tariff plans with compulsory charges and one pre-paid tariff plan without compulsory charges, however, its main tariff plan is a pre-paid tariff plan with compulsory charges (see **Exhibit 19**). Customers of this Service have lower prices than customers of Moche and Yorn Services when communicating with people who possess other service providers. In order to use this TAG Service, customers have to pay an 8,20€ monthly fee and unlike the Yorn Service, it includes the same mobile apps Moche does.

## **MEO**

MEO was founded in 2007 as a Service and brand owned by Portugal Telecom with the purpose of providing a triple play Service to its customers (a package composed of Internet, Fixed Phone and TV)<sup>4</sup>.

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<sup>4</sup> Wikipedia, 2014. MEO. Wikipedia [Online] (Updated 5 June 2014) Available at: <http://pt.wikipedia.org/wiki/Meo> [Accessed 12June 2014].

In 2012, MEO was the market leader on the triple-play market, accounting with 728 thousand customers (higher number of customers when comparing with the number of customers Moche has on the Mobile Telecom market), which corresponds to 36,7% of the whole triple-play market. Its customers' volume had been growing at an average rate of 0,8% per month since the introduction of the triple play service in 2008.<sup>5</sup>

In January 2013, MEO announced the convergence of one more Service to its triple play Service, the Mobile Phone, in order to provide to its customers the first quadruple play Service in Portugal (M4O), to be launched in January 2014, with the rebranding of TMN into MEO. With this convergence, MEO assumed a new positioning, based in three pillars:<sup>6</sup>

- Simplicity – M4O is going to enable its customers to perform mobile phone calls with customers of other mobile service providers for free and it also includes 200MG of free Internet.
- Comfort – It will enable its customers to use fixed and mobile phone as well as TV and Internet through one single brand inside and outside home. Customers will have one single entity selling all the four services included on the package as well as one customer service and one only invoice.
- Savings – The convergence of services will allow Portugal Telecom to transfer economies of scale to its customers, allowing them to have immediate savings while simultaneously offering its customers the possibility of accessing to smartphones through loans without interest. This will reduce the barriers to the access of these devices, which are coveted devices by the Portuguese population.

This service has been developed after Portugal Telecom's perception of three fundamental tendencies: high propensity for the penetration of quadruple play services mainly if they allow for savings and expenditure predictability, necessity of

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<sup>5</sup> Portugal Telecom, 2012. Portugal Telecom [Online] Available at: [http://www.telecom.pt/InternetResource/PTSite/PT/Canais/Media/DestaquesHP/Destaques\\_2012/meolidermercadoTripleplay.htm](http://www.telecom.pt/InternetResource/PTSite/PT/Canais/Media/DestaquesHP/Destaques_2012/meolidermercadoTripleplay.htm) [Accessed 12 June 2014]

<sup>6</sup> Portugal Telecom, 2013. Portugal Telecom [Online] Available at: <http://www.telecom.pt/InternetResource/PTSite/PT/Canais/Investidores/Pressrel/Noticias/2013/COM11JAN2013.htm> (Accessed 12 June 2014)

encompassing the whole family, specially the younger segment, and Internet quality that became an important factor for arousing the interest of the whole family.<sup>7</sup>

The Service M4O will provide includes two mobile SIM cards with unlimited SMS and phone calls for communicating to all other service providers for free, unlimited fixed voice calls and a thousand minutes of international calls for 30 different countries, unlimited access to PT Wifi outside home, unlimited Internet at home and TV. This package will be to be sold for 79,99€ a month, and, additionally, customers of M4O may include on their package up to two more mobile phone SIM cards for 7,5€ each.

Although MEO is going to sell other Services beside M4O, mainly mobile phone tariff plans, its positioning is going to be reflected by its main Service, the M4O, as well as it's previous positioning when MEO only had a triple-play Service. Even though MEO is not positioned as young and irreverent as Moche is, it is positioned as a more innovative, credible and reputed brand (see **Exhibit 24, Q8**).

## **Consumers**

Most of the Portuguese population is a consumer on the mobile telecommunications market. In fact, in December 2012, 92,8% of the Portuguese population was a consumer on this market.<sup>8</sup> This penetration has been growing over the past years and it is even bigger on the under 25-year-old segment (see **Exhibit 20 & 21**).

Portuguese consumers are aware about the different tariff plans and Services available on the market. They became able to choose the tariff plan that better suited them from a wide range of possibilities known through social networking, advertisements, banners and word of mouth. In order to understand what brand characteristics are most valued by consumers, Mestre took a look to **Exhibit 24, Q6** of his survey.

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<sup>7</sup> Portugal Telecom, 2013. Portugal Telecom [Online] Available at: <http://www.telecom.pt/InternetResource/PTSite/PT/Canais/Investidores/Pressrel/Noticias/2013/COM11JAN2013.htm> (Accessed 12 June 2014)

<sup>8</sup> Source: Anacom - Sector das Comunicações 2012, p622 (July 2013). <http://www.anacom.pt/render.jsp?contentId=11168320>. (Last accessed on 12 June 2014)

Despite the efforts for facilitating the process of changing service provider by ANACOM through the launch of the number portability service<sup>9</sup>, which decreases the switching costs<sup>10</sup> consumers are exposed to when changing, consumers on this market are loyal to their service provider. According to a study performed by ANACOM, in 2012, the percentage of consumers that have actually changed their service provider was only 1,8%.<sup>11</sup> Within the consumers who actually changed their service provider, the main factor for changing was the existence of friends or family connected to other network (see **Exhibit 22**). This fact has been also confirmed by Mestre's survey, in where most of the respondents answered that it was important for choosing a Service Provider (see **Exhibit 24, Q10**).

Today, it is common for customers on this market to navigate on the Internet, watch TV and use the mobile phone at the same time, especially among the younger segments of the population. Also, the younger segment is the segment in where consumers explore the most the functionalities of their mobile phones.<sup>12</sup> Younger consumers often use mobile apps such as Skype, BBM, Viber, WhatsApp, Facetime, FB Messenger and iMessage in order to be constantly in touch with their friends.

## Conclusion

Mestre and his team have now an important decision to make. They believe that after analyzing carefully all the gathered information they will be able to take the best decision.

Both possible options have pros and cons. If they decide to keep investing in Moche, they might continue cannibalizing revenues, at this time MEO's revenues and

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<sup>9</sup> "Mobile number portability enables mobile telephone users to retain their mobile telephone numbers when changing from one mobile network operator to another." (Wikipedia, 2014. Mobile number portability. Wikipedia [Online] (Updated 2 June 2014) Available at: [http://en.wikipedia.org/wiki/Mobile\\_number\\_portability](http://en.wikipedia.org/wiki/Mobile_number_portability) [Accessed 12 June 2014])

<sup>10</sup> "Switching costs are the negative costs that a consumer incurs as a result of changing suppliers, brands or products. Although most prevalent switching costs are monetary in nature, there are also psychological, effort and time based switching costs." (Investopedia, 2014. Switching costs. Investopedia [Online] Available at: <http://www.investopedia.com/terms/s/switchingcosts.asp> [Accessed 12 June 2014])

<sup>11</sup> Source: Anacom - Sector das Comunicações 2012, p535 (July 2013). <http://www.anacom.pt/render.jsp?contentId=1168320>. (Last accessed on <sup>12</sup> June 2014)

<sup>12</sup> Briefing, 2012. Briefing [Online] Available at: <http://www.briefing.pt/media-br/14172-portugueses-cada-vez-mais-multitaskers-no-consumo-de-media.html> (Accessed 12 June 2014)

this cannibalization may rise even more after the rebranding of TMN into MEO. By the other hand, if they decide to divest in Moche, re-branding it into MEO and launch a new Service to target the younger segment through MEO's brand, they might lose the attractiveness of the younger segment but they also might gain credibility and price advantage since MEO will be able to provide cheaper prices.

In order to better understand the future effects of both options, Mestre and his team decided to draw some projections for the next 4 years. Surprisingly, he found out that if he decides to continue targeting the under 25-year-old segment through the brand Moche, its turnover as well as its cannibalization will stagnate and will continue to follow the same values of 2013. Also, he found out that if he decides to divest in Moche and target the younger segment through a MEO's Service, its turnover on this segment will increase by 4% on the first year, by 5% on the second year and by 2% over each of the following 2 years, and, its cannibalization will stagnate as of 2013 values. However, in order to divest in Moche and create a Service provided by MEO to target this younger segment, an investment of 2M€ is needed for the re-branding of Moche into MEO.

Mestre wondered:

- Should we recommend PT to keep investing in Moche, relying on its brand?
- Or, should we recommend PT to divest in Moche and target this younger segment with a new Service under MEO's brand?

## Exhibits

### Exhibit 1 – Example of TMN's Advertising



### Exhibit 2 – Example of TMN's Advertising



### Exhibit 3 – Example of TMN Moche Advertising



### Exhibit 4 – Example of TMN Moche Advertising



## Exhibit 5 – Example of Moche Advertising



## Exhibit 6 – Moche Marketing Investment

|             | Marketing/Sales | Marketing    |
|-------------|-----------------|--------------|
| <b>2008</b> | 2,00%           | 221 959,15 € |
| <b>2009</b> | 2,00%           | 220 392,14 € |
| <b>2010</b> | 2,00%           | 220 080,16 € |
| <b>2011</b> | 4,00%           | 566 405,96 € |
| <b>2012</b> | 3,00%           | 538 390,81 € |
| <b>2013</b> | 2,00%           | 359 762,49 € |

Source: Case writer estimation based on Moche information/ INE information

## Exhibit 7 – Market Shares under 25-year-old Segment

|             | Moche  | Yorn   | TAG    |
|-------------|--------|--------|--------|
| <b>2008</b> | 15,00% | 75,00% | 10,00% |
| <b>2009</b> | 15,00% | 75,00% | 10,00% |
| <b>2010</b> | 15,00% | 75,00% | 10,00% |
| <b>2011</b> | 20,00% | 70,00% | 10,00% |
| <b>2012</b> | 25,00% | 65,00% | 10,00% |
| <b>2013</b> | 25,00% | 65,00% | 10,00% |

Source: Case writer estimation based on Moche information

### Exhibit 8 – Annual Turnover

|             | <b>Moche</b>    | <b>Yorn</b>     | <b>TAG</b>     |
|-------------|-----------------|-----------------|----------------|
| <b>2008</b> | 11 097 957,47 € | 55 489 787,35 € | 7 398 638,31 € |
| <b>2009</b> | 11 019 606,90 € | 55 098 034,48 € | 7 346 404,60 € |
| <b>2010</b> | 11 004 007,96 € | 55 020 039,80 € | 7 336 005,31 € |
| <b>2011</b> | 14 160 149,01 € | 49 560 521,52 € | 7 080 074,50 € |
| <b>2012</b> | 17 946 360,19 € | 46 660 536,50 € | 7 178 544,08 € |
| <b>2013</b> | 17 988 124,72 € | 46 769 124,28 € | 7 195 249,89 € |

Source: Case writer estimation based on Moche information

### Exhibit 9 – Moche Sales

|             | <b>Sales</b>    | <b>Cannibalization</b> | <b>Net Sales</b> |
|-------------|-----------------|------------------------|------------------|
| <b>2008</b> | 11 097 957,47 € | 2,00%                  | 10 875 998,32 €  |
| <b>2009</b> | 11 019 606,90 € | 3,00%                  | 10 689 018,69 €  |
| <b>2010</b> | 11 004 007,96 € | 3,00%                  | 10 673 887,72 €  |
| <b>2011</b> | 14 160 149,01 € | 7,00%                  | 13 168 938,58 €  |
| <b>2012</b> | 17 946 360,19 € | 8,00%                  | 16 510 651,38 €  |
| <b>2013</b> | 17 988 124,72 € | 10,00%                 | 16 189 312,25 €  |

Source: Case writer estimation based on Moche information

### Exhibit 10 - Tariff plan offered by Moche

|                                 | <b>Moche<br/>Phone<br/>Numbers</b> | <b>MEO Phone Numbers</b>                       | <b>Other<br/>Networks</b> |
|---------------------------------|------------------------------------|------------------------------------------------|---------------------------|
| <b>National<br/>Phone Calls</b> | 0 Cents                            | 23,4 Cents 1st Min; 6,5 Cents<br>Following Min | 25,8 Cents/Min            |
| <b>SMS</b>                      |                                    | 0 Cents                                        |                           |
| <b>MMS</b>                      |                                    | 55 Cents                                       |                           |
| <b>Video Calls</b>              |                                    | 70 Cents                                       |                           |
| <b>Internet</b>                 |                                    | 200 MG/Month                                   |                           |

Source: Moche website

**Exhibit 11 - Tariff plan offered by Moche**

|                      | Moche Phone Numbers | MEO Phone Numbers                           | Other Networks    |
|----------------------|---------------------|---------------------------------------------|-------------------|
| National Phone Calls | 0 Cents             | 22,3 Cents 1st Min; 5,7 Cents Following Min | 40,7 Cents/Minute |
| SMS                  |                     | 0 Cents                                     |                   |
| MMS                  |                     | 55 Cents                                    |                   |
| Video Calls          |                     | 70 Cents                                    |                   |
| Internet             |                     | 200 MG/Month                                |                   |

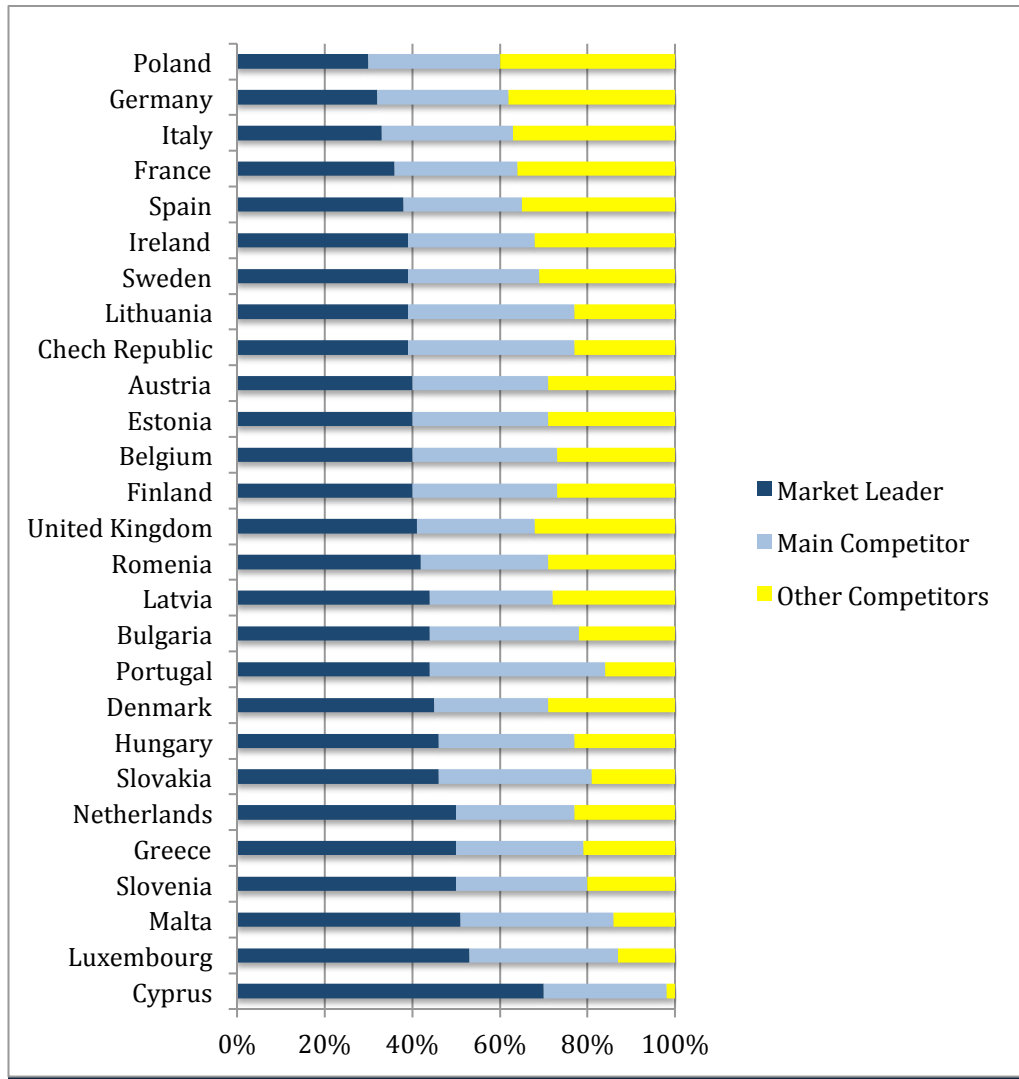
Source: Moche website

**Exhibit 12 - Compulsory Charges**

| Compulsory Charges |                 |
|--------------------|-----------------|
| Charge (€)         | Validity (Days) |
| 7.5                | 15              |
| 10                 | 20              |
| 15                 | 30              |
| +5                 | +10             |

Source: Moche Website

**Exhibit 13 – Market Shares**



Unit: %

Source: CE, Digital Agenda Scoreboard 2013

**Exhibit 14 – Consumer’s Perceptions**

|            | <b>Youth</b> | <b>Irreverence</b> | <b>Proximity</b> | <b>Enthusiastic</b> | <b>Innovative</b> |
|------------|--------------|--------------------|------------------|---------------------|-------------------|
| <b>1st</b> | Moche        | Moche              | Moche            | Moche               | TAG               |
| <b>2nd</b> | TAG          | TAG                | Yorn             | Yorn                | Moche             |
| <b>3rd</b> | Yorn         | Yorn               | TAG              | TAG                 | Yorn              |

Source: Portugal Telecom internal information

### Exhibit 15 - Tariff plan offered by Yorn

|                      | Yorn Phone Numbers | Vodafone Phone Numbers | Other Networks |
|----------------------|--------------------|------------------------|----------------|
| National Phone Calls | 0 Cents/Min        | 19,9 Cents/Min         | 34,9 Cents/Min |
| SMS                  |                    | 0 Cents                | 14,9 Cents     |
| MMS                  |                    | 0 Cents                | 34,9 Cents     |
| Video Calls          |                    | 19,9 Cents/Min         | 34,9 Cents/Min |
| Internet             |                    | 200 MG/Month           |                |

Source: Yorn Website

### Exhibit 16 - Tariff plan offered by Yorn

|                      | Yorn Phone Numbers | Vodafone Phone Numbers | Other Networks |
|----------------------|--------------------|------------------------|----------------|
| National Phone Calls | 0 Cents/Min        | 14,8 Cents/Min         | 38,8 Cents/Min |
| SMS                  |                    | 0 Cents                | 11 Cents       |
| MMS                  |                    | 45,4 Cents             | 45,4 Cents     |
| Video Calls          |                    | 68,5 Cents/Min         | 68,5 Cents/Min |
| Internet             |                    | 0 MG/Month             |                |

Source: Yorn Website

### Exhibit 17 - Yorn Compulsory Charges

| Compulsory Charges |                 |
|--------------------|-----------------|
| Charge (€)         | Validity (Days) |
| 5                  | 10              |
| 7.5                | 15              |
| 10                 | 20              |
| 15                 | 30              |
| 5                  | 10              |

Source: Yorn Website

**Exhibit 18 – Marketing/Sales**

|             | <b>Moche</b> | <b>Yorn</b> | <b>TAG</b> |
|-------------|--------------|-------------|------------|
| <b>2008</b> | 2,00%        | 1,70%       | 3,00%      |
| <b>2009</b> | 2,00%        | 1,70%       | 3,00%      |
| <b>2010</b> | 2,00%        | 1,80%       | 2,50%      |
| <b>2011</b> | 4,00%        | 1,80%       | 2,50%      |
| <b>2012</b> | 3,00%        | 1,90%       | 2,30%      |
| <b>2013</b> | 2,00%        | 1,90%       | 2,20%      |

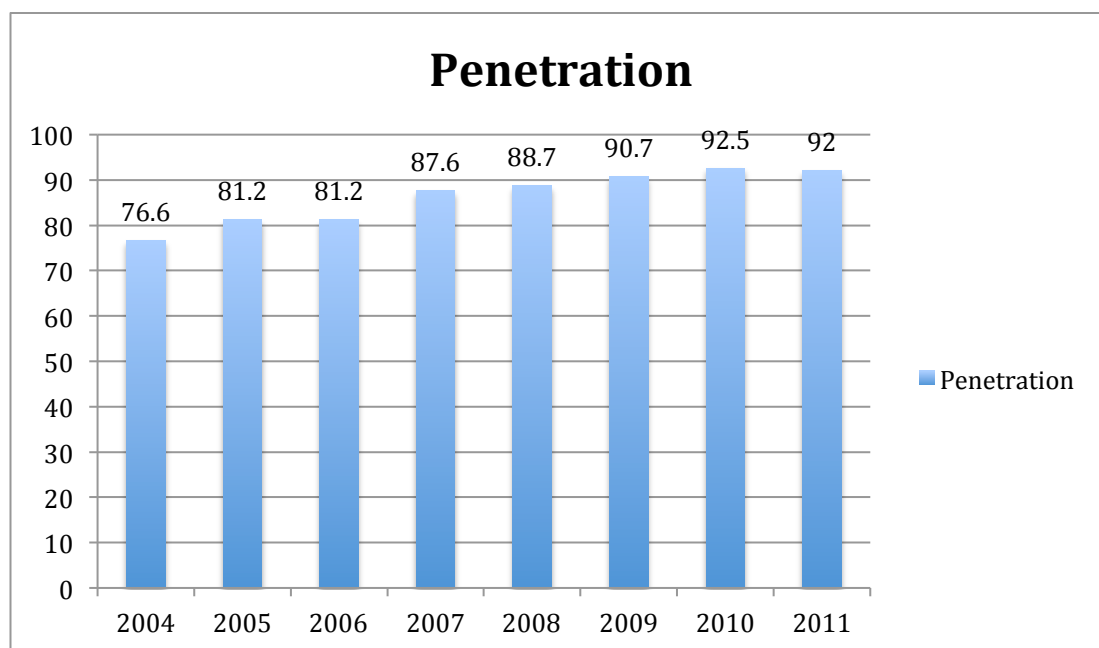
Source: Information provided by Moche

**Exhibit 19 - Tariff plan offered by TAG**

|                             | <b>TAG Phone Numbers</b> | <b>Zon - Optimus Phone Numbers</b> | <b>Other Networks</b> |
|-----------------------------|--------------------------|------------------------------------|-----------------------|
| <b>National Phone Calls</b> | 0 Cents/Min              | 0 Cents/Min                        | 27,3 Cents/Min        |
| <b>SMS</b>                  |                          |                                    | 7,1 Cents/Min         |
| <b>MMS</b>                  |                          |                                    | 25,9 Cents/Min        |
| <b>Video Calls</b>          |                          |                                    | 41,9 Cents/Min        |
| <b>Internet</b>             | 200 MG/Month             |                                    |                       |

Source: TAG Website

### Exhibit 20 – Penetration of the mobile telecommunications Service

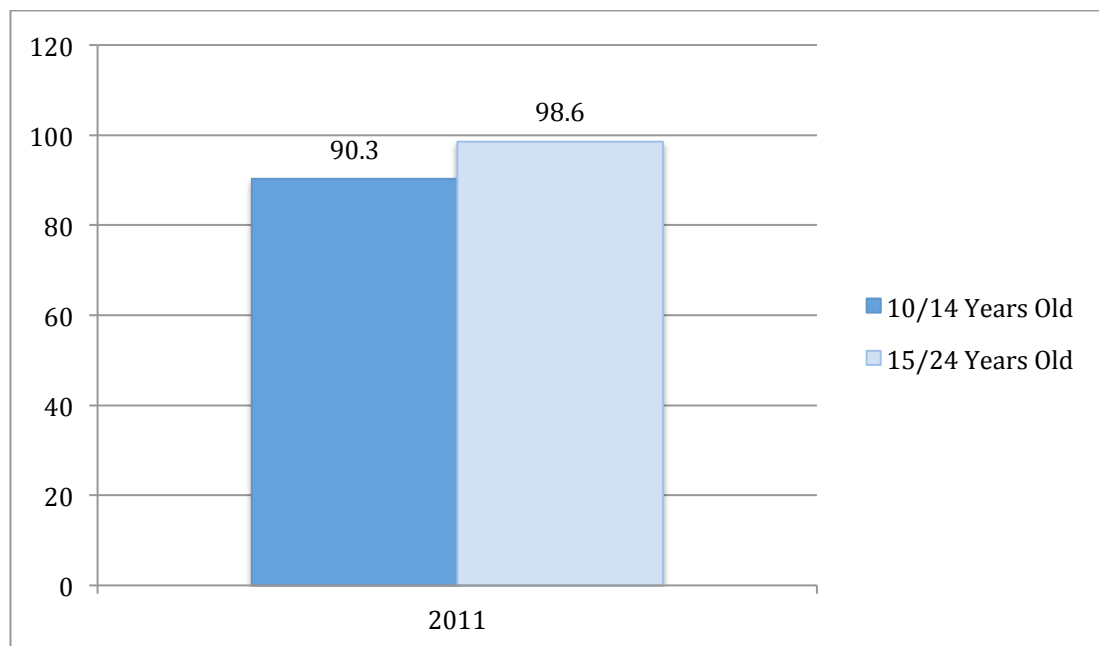


Unit: %

Source: Marktest, Barómetro Telecomunicações, December 2011

Base: Individuals with 10+Years old

### Exhibit 21 – Penetration of the mobile telecommunications Service 2011

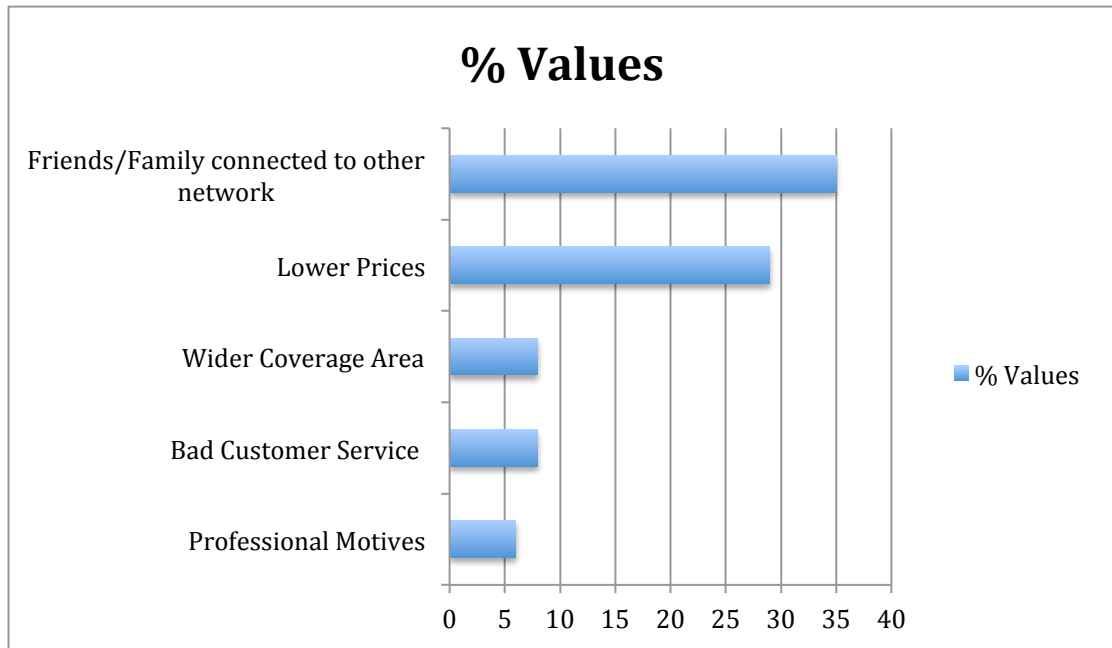


Unit: %

Source: Marktest, Barómetro Telecomunicações, December 2011

Base: Individuals with 10+Years old

## Exhibit 22 – Factors for changing Service Provider



Source: ICP-ANACOM

## Exhibit 23 – Survey Layout

Moche is a mobile service provider on the Portuguese telecommunications market, competing for the under 25-year-old segment.

This survey has the purpose of helping understand the main attributes a mobile telecommunications service provider should have in order to be attractive for their target consumers.

### 1. Gender

Male

Female

## 2. Age

- < 18
- 18 - 24
- 25 - 29
- 30 - 39
- 40 - 49
- 50 - 59
- 60 - 69
- $\geq 70$

## 3. Occupation

- Student
- Worker
- Student/Worker
- Unemployed
- Retired

## 4. Monthly Income

- < 500€
- 500€ - 1000€
- 1001€ - 1500€
- 1501€ - 2000€
- 2001€ - 2500€
- 2501€ - 3000€
- $\geq 3000€$

## 5. Which of the following is your actual Service Provider?

- MEO
- Moche
- Vodafone
- NOS
- None of the above

6. How important are the following brand characteristics when choosing a Service Provider?

|             | Not<br>important         | Fairly Imp               | Important                | Quite<br>Imp             | Very<br>Imp              |
|-------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Youth       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Irreverence | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reputation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Innovation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Credibility | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

7. How would you rate Moche according to the same characteristics?

|             | Low                      |                          | Average                  |                          | High                     |
|-------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Youth       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Irreverence | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reputation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Innovation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Credibility | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

8. And MEO?

|             | Low                      |                          | Average                  |                          | High                     |
|-------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Youth       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Irreverence | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reputation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Innovation  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Credibility | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

9. Which brand do you find more attractive to you?

Moche

MEO

10. Does the fact that most of your friends are connected to a specific Service Provider influence your decision when choosing one?

Yes

No

#### **Exhibit 24 – Survey Results (\*)**

1. Gender

|               | <b>Frequency</b> | <b>Percent</b> |
|---------------|------------------|----------------|
| <b>Male</b>   | 58               | 58,00%         |
| <b>Female</b> | 42               | 42,00%         |
| <b>Total</b>  | 100              | 58,00%         |

2. Age

|                | <b>Frequency</b> | <b>Percent</b> |
|----------------|------------------|----------------|
| <b>&lt; 18</b> | 1                | 1,00%          |
| <b>18 - 24</b> | 84               | 84,00%         |
| <b>25 - 29</b> | 14               | 14,00%         |
| <b>30 - 39</b> | 1                | 1,00%          |
| <b>40 - 49</b> | 0                | 0,00%          |
| <b>50 - 59</b> | 0                | 0,00%          |
| <b>60 - 69</b> | 0                | 0,00%          |
| <b>≥ 70</b>    | 0                | 0,00%          |
| <b>Total</b>   | 100              | 100,00%        |

### 3. Occupation

|                       | <b>Frequency</b> | <b>Percent</b> |
|-----------------------|------------------|----------------|
| <b>Student</b>        | 64               | 64,00%         |
| <b>Worker</b>         | 15               | 15,00%         |
| <b>Student/Worker</b> | 21               | 21,00%         |
| <b>Unemployed</b>     | 0                | 0,00%          |
| <b>Retired</b>        | 0                | 0,00%          |
| <b>Total</b>          | 100              | 100,00%        |

### 4. Monthly Income

|                      | <b>Frequency</b> | <b>Percent</b> |
|----------------------|------------------|----------------|
| <b>&lt; 500€</b>     | 59               | 59,00%         |
| <b>500€ - 1000€</b>  | 25               | 25,00%         |
| <b>1001€ - 1500€</b> | 11               | 11,00%         |
| <b>1501€ - 2000€</b> | 2                | 2,00%          |
| <b>2001€ - 2500€</b> | 1                | 1,00%          |
| <b>2501€ - 3000€</b> | 1                | 1,00%          |
| <b>&gt; 3000€</b>    | 1                | 1,00%          |
| <b>Total</b>         | 100              | 100,00%        |

### 5. Which of the following is your actual Service Provider?

|                          | <b>Frequency</b> | <b>Percent</b> |
|--------------------------|------------------|----------------|
| <b>Moche</b>             | 30               | 30,00%         |
| <b>Vodafone</b>          | 66               | 66,00%         |
| <b>Zon Optimus</b>       | 15               | 15,00%         |
| <b>None of the above</b> | 1                | 1,00%          |
| <b>Total</b>             | 112              | 112,00%        |

### 6. How important are the following brand characteristics when choosing a Service Provider?

#### Youth

|                                 | <b>Frequency</b> | <b>Percent</b> | <b>Average Evaluation</b> |
|---------------------------------|------------------|----------------|---------------------------|
| <b>Not important at all (1)</b> | 28               | 0,28           |                           |
| <b>Fairly important (2)</b>     | 24               | 0,24           |                           |
| <b>Important (3)</b>            | 33               | 0,33           |                           |
| <b>Quite important (4)</b>      | 11               | 0,11           |                           |
| <b>Very important (5)</b>       | 4                | 0,04           |                           |
| <b>Total</b>                    | 100              | 1              | 2,39                      |

### Irreverence

|                          | Frequency | Percent | Average Evaluation |
|--------------------------|-----------|---------|--------------------|
| Not important at all (1) | 30        | 0,3     |                    |
| Fairly important (2)     | 25        | 0,25    |                    |
| Important (3)            | 31        | 0,31    |                    |
| Quite important (4)      | 10        | 0,1     |                    |
| Very important (5)       | 4         | 0,04    |                    |
| <b>Total</b>             | 100       | 1       | 2,33               |

### Reputation

|                          | Frequency | Percent | Average Evaluation |
|--------------------------|-----------|---------|--------------------|
| Not important at all (1) | 5         | 0,05    |                    |
| Fairly important (2)     | 6         | 0,06    |                    |
| Important (3)            | 26        | 0,26    |                    |
| Quite important (4)      | 27        | 0,27    |                    |
| Very important (5)       | 36        | 0,36    |                    |
| <b>Total</b>             | 100       | 1       | 3,83               |

### Innovation

|                          | Frequency | Percent | Average Evaluation |
|--------------------------|-----------|---------|--------------------|
| Not important at all (1) | 3         | 0,03    |                    |
| Fairly important (2)     | 3         | 0,03    |                    |
| Important (3)            | 22        | 0,22    |                    |
| Quite important (4)      | 32        | 0,32    |                    |
| Very important (5)       | 40        | 0,4     |                    |
| <b>Total</b>             | 100       | 1       | 4,03               |

### Credibility

|                          | Frequency | Percent | Average Evaluation |
|--------------------------|-----------|---------|--------------------|
| Not important at all (1) | 1         | 0,01    |                    |
| Fairly important (2)     | 1         | 0,01    |                    |
| Important (3)            | 11        | 0,11    |                    |
| Quite important (4)      | 28        | 0,28    |                    |
| Very important (5)       | 59        | 0,59    |                    |
| <b>Total</b>             | 100       | 1       | 4,43               |

7. How would you rate Moche according to the same characteristics?

**Youth**

|                                 | <b>Frequency</b> | <b>Percent</b> | <b>Average Evaluation</b> |
|---------------------------------|------------------|----------------|---------------------------|
| <b>Not important at all (1)</b> | 1                | 1,00%          |                           |
| <b>Fairly important (2)</b>     | 4                | 4,00%          |                           |
| <b>Important (3)</b>            | 29               | 29,00%         |                           |
| <b>Quite important (4)</b>      | 27               | 27,00%         |                           |
| <b>Very important (5)</b>       | 39               | 39,00%         |                           |
| <b>Total</b>                    | 100              | 100,00%        | 3,99                      |

**Irreverence**

|                                 | <b>Frequency</b> | <b>Percent</b> | <b>Average Evaluation</b> |
|---------------------------------|------------------|----------------|---------------------------|
| <b>Not important at all (1)</b> | 3                | 3,00%          |                           |
| <b>Fairly important (2)</b>     | 7                | 7,00%          |                           |
| <b>Important (3)</b>            | 33               | 33,00%         |                           |
| <b>Quite important (4)</b>      | 29               | 29,00%         |                           |
| <b>Very important (5)</b>       | 28               | 28,00%         |                           |
| <b>Total</b>                    | 100              | 100,00%        | 3,72                      |

**Reputation**

|                                 | <b>Frequency</b> | <b>Percent</b> | <b>Average Evaluation</b> |
|---------------------------------|------------------|----------------|---------------------------|
| <b>Not important at all (1)</b> | 3                | 3,00%          |                           |
| <b>Fairly important (2)</b>     | 5                | 5,00%          |                           |
| <b>Important (3)</b>            | 45               | 45,00%         |                           |
| <b>Quite important (4)</b>      | 38               | 38,00%         |                           |
| <b>Very important (5)</b>       | 9                | 9,00%          |                           |
| <b>Total</b>                    | 100              | 100,00%        | 3,45                      |

**Innovation**

|                                 | <b>Frequency</b> | <b>Percent</b> | <b>Average Evaluation</b> |
|---------------------------------|------------------|----------------|---------------------------|
| <b>Not important at all (1)</b> | 3                | 3,00%          |                           |
| <b>Fairly important (2)</b>     | 7                | 7,00%          |                           |
| <b>Important (3)</b>            | 41               | 41,00%         |                           |
| <b>Quite important (4)</b>      | 37               | 37,00%         |                           |
| <b>Very important (5)</b>       | 12               | 12,00%         |                           |
| <b>Total</b>                    | 100              | 100,00%        | 3,48                      |

### Credibility

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 4         | 4,00%   |                    |
| <b>Fairly important (2)</b>     | 11        | 11,00%  |                    |
| <b>Important (3)</b>            | 36        | 36,00%  |                    |
| <b>Quite important (4)</b>      | 38        | 38,00%  |                    |
| <b>Very important (5)</b>       | 11        | 11,00%  |                    |
| <b>Total</b>                    | 100       | 100,00% | 3,41               |

8. And MEO?

### Youth

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 9         | 9,00%   |                    |
| <b>Fairly important (2)</b>     | 20        | 20,00%  |                    |
| <b>Important (3)</b>            | 49        | 49,00%  |                    |
| <b>Quite important (4)</b>      | 13        | 13,00%  |                    |
| <b>Very important (5)</b>       | 9         | 9,00%   |                    |
| <b>Total</b>                    | 100       | 100,00% | 2,93               |

### Irreverence

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 7         | 7,00%   |                    |
| <b>Fairly important (2)</b>     | 15        | 15,00%  |                    |
| <b>Important (3)</b>            | 42        | 42,00%  |                    |
| <b>Quite important (4)</b>      | 28        | 28,00%  |                    |
| <b>Very important (5)</b>       | 8         | 8,00%   |                    |
| <b>Total</b>                    | 100       | 100,00% | 3,15               |

### Reputation

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 2         | 2,00%   |                    |
| <b>Fairly important (2)</b>     | 3         | 3,00%   |                    |
| <b>Important (3)</b>            | 25        | 25,00%  |                    |
| <b>Quite important (4)</b>      | 32        | 32,00%  |                    |
| <b>Very important (5)</b>       | 38        | 38,00%  |                    |
| <b>Total</b>                    | 100       | 100,00% | 4,01               |

### Innovation

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 1         | 1,00%   |                    |
| <b>Fairly important (2)</b>     | 6         | 6,00%   |                    |
| <b>Important (3)</b>            | 19        | 19,00%  |                    |
| <b>Quite important (4)</b>      | 39        | 39,00%  |                    |
| <b>Very important (5)</b>       | 35        | 35,00%  |                    |
| <b>Total</b>                    | 100       | 100,00% | 4,01               |

### Credibility

|                                 | Frequency | Percent | Average Evaluation |
|---------------------------------|-----------|---------|--------------------|
| <b>Not important at all (1)</b> | 1         | 1,00%   |                    |
| <b>Fairly important (2)</b>     | 7         | 7,00%   |                    |
| <b>Important (3)</b>            | 23        | 23,00%  |                    |
| <b>Quite important (4)</b>      | 28        | 28,00%  |                    |
| <b>Very important (5)</b>       | 41        | 41,00%  |                    |
| <b>Total</b>                    | 100       | 100,00% | 4,01               |

9. Which brand do you find more attractive to you?

|              | Frequency | Percent |
|--------------|-----------|---------|
| <b>Moche</b> | 28        | 28,00%  |
| <b>MEO</b>   | 72        | 72,00%  |
| <b>Total</b> | 100       | 100,00% |

10. Does the fact that most of your friends are connected to a specific Service Provider influence your decision when choosing one?

|              | Frequency | Percent |
|--------------|-----------|---------|
| <b>Yes</b>   | 82        | 82,00%  |
| <b>No</b>    | 18        | 18,00%  |
| <b>Total</b> | 100       | 100,00% |

(\*) **Technical Fact Sheet:**

- **Number of respondents - 105**
- **Number of valid answers - 100**
- **Survey conducted between 04/07/2014 and 07/07/2014 through SurveyMonkey**
- **Online Survey**

## **Teaching Note**

Moche case was prepared by Sérgio Almaça under the supervision of Professor João Borges de Assunção and Professor Paulo Marcos. It is intended to be used as basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

This case is based on actual experiences and real events. However, proprietary data has been disguised to preserve confidentiality, keeping all essential facts and relationships intact.

### **Synopsis**

Moche is a brand owned by Portugal Telecom, the largest telecommunications company in Portugal, that has been launched in order to target the under 25-year-old segment on the mobile telecommunications market.

Although Moche is a brand today, it started as a TMN (other mobile telecommunications service provider owned by Portugal Telecom) product line extension, under the name TMN Moche in 2008 in order to target the under 25-year-old segment. This Service has been launched due to TMN's incapacity of attracting the mentioned segment. It was needed a younger brand with a younger communication with which the younger segment would identify with. However, despite having a Service and a communication focusing on the under 25-year-old needs, TMN Moche did not have the expected and desired effects. It was harming TMN's reputation due to the new type of communication used and even the TMN Moche Service was not producing the desired results.

In 2011, Portugal Telecom decided to create Moche as a new brand in order to avoid the existing targeting confusion on the consumers' minds. At that moment, TMN started focusing their efforts exclusively on targeting to the older segments and Moche started to focus on the under 25-year-old segment. Moche began to invest heavily on its image and in making its positioning clear to the market, through its

Marketing mixes. It started to do targeted advertising, as well as to sponsor sporting events and music festivals and to partner with brands present in other markets, which had the same target segment as Moche did.

Moche has been able to gain market share on its target segment, however, cannibalization has been rising as well. As a consequence, its annual turnover net of opportunity costs (cannibalization) decreased for the first time from 2012 to 2013 and Luis Mestre had to re-think if this dual-brand Strategy was beneficial for Portugal Telecom, or, if it was disrupting value for it.

In January 2014, TMN was about to rebrand into MEO and Luis Mestre was expected to make a recommendation on whether to keep investing in Moche, pursuing a dual-brand strategy or divest in Moche and target the younger segment with a Service developed by MEO, taking into consideration the younger segment's needs.

MEO was expected to be a brand focused on the whole family, and consequently, would not have the younger essence that Moche does. However, its main competitors, Vodafone and Zon-Optimus did not have that younger essence as well and were targeting the younger segment through their brands, using exclusively a Service designed to better match their needs.

### **Discussion Questions**

It is expected that students read the case and prepare the answer of the following questions for class discussion.

1. How do you characterize the Portuguese Telecom industry? Is it an attractive industry?
2. What is Moche's current position within the under 25-year old market? What trends are occurring?
3. What are Moche's main sources of competitive advantage? Are they sustainable over time?
4. What is the consumer behavior of the under 25-year-old segment on the mobile telecom industry?

5. Analyze the advantages and disadvantages of both options expressed on the case.
6. What strategy should Mestre propose to Portugal Telecom's board of directors?

### **Teaching Objectives**

This case has been elaborated with the following teaching objectives:

1. To have students acquire a good comprehension of the very competitive Portuguese Mobile Telecom Market;
2. To infer the importance of performing a market analysis when taking important strategic decisions;
3. To present considerations involved in product positioning;
4. To have students explore what are the key issues to consider when defining a promotion strategy;
5. To illustrate how a complex and competitive market can influence corporate marketing decisions.

### **Use of the Case**

This teaching case may be used to study branding related issues at a beginner's level in several management undergraduate courses.

The suggested discussion questions may be used by instructors to generate class discussion between students and to expose and explore subjects such as market analysis, competitive advantage, cannibalization, branding in competitive markets, brand equity, promotion and communication.

## **Relevant Theory**

### 1. Porter's Five Forces

It has been developed by Porter in 1979 with the purpose of supporting the analysis of the industry attractiveness. The degree of attractiveness depends on the degree of competition existent on the industry that may be explained by the analysis of five forces: threat of new entrants, threat of substitutes, suppliers bargaining power, buyers bargaining power and industry rivalry. The more competitive the industry is, the less attractive is the market.

### 2. SWOT Analysis

A useful framework for understanding the current situation of the company relatively to its competitors by analyzing its strengths and weaknesses, as well as the opportunities and threats the company is facing or may face in the short term. It is commonly used for decision-making processes, business planning, strategic planning, competitor evaluation, marketing, business and product development and research reports.

### 3. Kipling Method/Five W's and one H

In 1902, Rudyard Kipling developed this framework with the purpose of understanding, explaining and analyzing any problem, issue or situation through the following questions: What, Where, When, Why, Who and How. Although it is mostly used in Journalism, it is also used across different areas such as Management and Engineering.

### 4. Porter Generic Strategies

Porter has developed this framework in 1980 with the purpose of exposing four possible competitive positioning strategies for companies to pursue. These strategies may be: cost leadership, differentiation, focus strategy and a mix of two or three of the previous strategies. Porter argued that for being successful and performing well, companies should follow one single competitive strategy from the first three mentioned strategies. He also argued that by following the fourth option (a mix of the first three strategies), companies tend to perform worst since they fail to be perceived as the best companies in a specific criterion.

## **Analysis and Discussion**

### **1) How do you characterize the Mobile Telecom Industry? Is it an attractive Industry?**

In order to analyze the industry attractiveness, students must perform a Porter's Five Force analysis. Students should be able to pinpoint the most important factors for each force and conclude on the degree of attractiveness of the industry.

#### **Threat of New Entrants: Low**

The telecom industry is characterized for having huge entry barriers (see **Pg 12**):

- Capital intensive industry - in order to enter this industry it is needed a huge initial investment; fixed costs are high;
- Telecom operators must be given a license by the government in order to operate;
- Incumbents have enough power and size to fight back a new entrant - they have scale, which allows them to lower their prices into a point that new entrants are not able to keep up with;
- Network Effects - potential new entrants are deterred of entering this industry due to the high network effects present on it. It is difficult on this industry to "steal" customers from existing operators since customers want to have the same operator as their friends have.
- Operating skills and management experience is still relatively scarce.

Entry barriers are high, and though, the threat of new entrants is low. It affects positively the industry attractiveness and makes it more likely to be profitable in.

### **Threat of Substitutes: High**

- Fixed Phone - even though consumers can only perform voice calls through this device and have to be at home, it is still a substitute;
- Internet Telephony - the development of the Internet over the last decade allowed for the creation of several mobile apps that permitted consumers to perform voice calls as well as to send both SMS and MMS for free. Some of these mobile apps are Skype, BBM, Viber, iMessage and Whatsapp (see **Pg 17**). Today, Mobile Telecom operators have been forced to cut their rates on their services due to this point.
- Satellite operators.

Threat of substitutes is high, mainly due to the big growing trend of Internet consumption, especially on the younger segment.

### **Suppliers Bargaining Power: Low/Medium**

Suppliers on the telecom industry are typically SIM card, mobile phone set and billing software producers. At a first look, it seems like suppliers have some kind of power over the telecom operators since without suppliers, telecom operators are not able to deliver their service. However, there are several factors diluting this potential power:

- Existence of several equipment manufacturers around;
- Mobile operators' low switching costs - even though there are some mobile phone set products that mobile operators must have (iPhone for ex), most of them are substitutable. SIM card and billing software manufacturers are completely substitutable;
- Suppliers' success depend on the success of the telecom operators' success - the more successful mobile operators are, the more products they order from their suppliers;
- Low probability of forward integration from the suppliers - the know-how required is too high, and additionally, there is a scarcity of operating skills and management experience on the industry.

Even though there are several forces lowering suppliers bargaining power, students should conclude that it is low/medium since there are one or two manufacturers in the market that mobile operators can not do without.

### **Buyers Bargaining Power: Low/Medium**

Buyers have been gaining bargaining power over the past years due to (see **Pg 16 & 17**):

- Increased choice of telecom products and Services - most of them do not vary much from one operator to another (see **Exhibit 10, 11, 12, 15, 16, 17 & 19**);
- Buyers have been able to get more information of the available Services on the market through Internet and Social Networking;
- Lower switching costs due to the number portability service;

Even though buyers have factors increasing their bargaining power, they also have some factors diluting it:

- High network effects - even though buyers may want to threaten their operator to switch to another one, the existent network effects will make them think twice. This can be seen as a non credible threat (see **Pg 17**);
- Individual buyers do not weight that much on operator's revenues - individual buyers have a low consumption pattern, as opposed to enterprise buyers. This means that individual buyers have less power than enterprise buyers and Moche only competes for individual buyers.

Concluding, we can say that buyers have a low/medium bargaining power. Even though buyers have lower switching costs than before and may choose from a wide range of Services of different operators, they are still highly tied in to their operators due to the network effects. Also, individual buyers do not have much power on operator's revenues.

### **Industry Rivalry: High**

**Rivalry** on the Portuguese mobile telecom industry is **high** due to the following factors:

- Existence of only 3 mobile operators (see **Pg 11**);
- Low level of differentiation among operators - this leads them to compete by lowering prices or by increasing brand awareness through advertising;
- Industry closer to maturity - operators on this industry have to “steal” customers from other operators in order to grow since most of the Portuguese population is already a consumer on this industry (see **Exhibit 20 & 21**).

After performing Porter’s five forces analysis students must be able to conclude that competitive rivalry is medium and thus, that the industry attractiveness is medium.

### **2) What is Moche’s current position within the under 25-year-old market? What trends are occurring?**

In order to discuss the current situation, students must perform a SWOT analysis. This will make them understand what are currently Moche’s main strengths and weaknesses as well as it’s future opportunities and threats. After developing the SWOT analysis, students should be able to point out what are Moche’s main key success factors (KSF). This analysis will also help students define what are Moche’s possible positioning strategies.

#### **Strenghts**

- Promotion strategy - Moche possesses a solid and coherent promotion strategy. All its campaigns as well as its partnerships are coherent with the desired young positioning. In its advertisements Moche uses lots of young people, situations with which young people would identify with and slang

words through its communication. In what concerns its sponsorships, Moche sponsors sporting events as well as music festivals, which are the kind of events younger people are commonly present at. Additionally, it has been establishing partnerships with brands of other industries which share the same target segment with Moche (see **Pg 9 & 10**);

- Brand identity - it has a clearly defined identity, which has been defined through its effective promotion strategy. It is a young brand, targeting to young, radical and active people (see **Exhibit 14 & 24, Q7**);
- Brand awareness - through its promotion strategy, Moche has been able to get huge brand awareness. All its target segment (under 25-year-old segment) recognizes the brand;
- Independently managed - Moche is independently managed as opposed to its main competitors, Yorn and TAG that are managed by Vodafone and Zon-Optimus respectively. This gives Moche more autonomy and eases its decision-making processes. As a consequence, Moche is able to react, respond and adapt to market challenges faster than its competitors (see **Pg 8**).

### **Weaknesses**

- Relatively low market share - in 2013, Moche had 25% of the under 25-year-old segment and the actual leader, Yorn, possessed 65% (see **Exhibit 7**). Despite Moche's big efforts to increase its market share on this segment through its investment in Marketing (see **Exhibit 6**), the experienced growth on the last years has been lower than the expected growth. On the telecom industry it is more difficult to grow when having a lower market share due to the huge existent network effects. People want to have the same operator as their friends and family have in order to pay less for the Services. Additionally, other reason for the low market share to be considered as a weakness is the fact that the telecom industry is an industry in where scale is very important because of the enormous fixed costs (see **Pg 12**);

- High investments in marketing - when comparing with its competitors, on average, Moche invests a bigger percentage of its turnover in marketing (see **Exhibit 18**). This means that if Moche does not grow more than its competitors, its results are going to be lower than them;
- Moche lacks reputation, innovation and credibility among consumers' perceptions - these have been considered by consumers to be the most important brand characteristics when choosing a service provider and Moche is not perceived as a strong brand in those dimensions (see **Exhibit 24**).

### **Opportunities**

- Lower penetration of mobile telecom in some rural areas - although most of the Portuguese population is a consumer on the mobile telecom industry, there is still room for growth, mostly on rural areas. By designing campaigns to attract these areas, Moche can grow without needing to steal existent customers of other operators. This growth can be cheaper in terms of Marketing since there is less competition on these areas;
- Higher consumption of Internet - The consumption of Internet has been increasing, especially on the under 25-year-old segment in where Moche competes (see **Pg 17**). Moche can take advantage of this trend by providing packages with a higher amount of Internet usage included;
- Moche's Growth - Although Moche has currently a much lower market share when comparing with the market leader, it has been growing over the past years and is expected to keep growing. The more Moche grows, the bigger the probability of future success, again, due to the existent network effects;
- Strategic agreements to reach new markets - Moche is owned by Portugal Telecom, which operates in Cape Verde, Mozambique, Timor, Angola, Kenya, China, Brazil, São Tomé e Príncipe and Namibia, beside Portugal (see **Pg 7**). This can make it easier for Moche to expand to other geography's, and consequently, to dilute the risk of being dependent of one single market.

## Threats

- Fast technology advancements - Telecom industry is constantly facing technological developments, which obligates players on this industry to invest heavily in R&D in order to keep their products innovative and be competitive;
- Portuguese economic slowdown - Portugal came from an economic recession and is expected to grow over the next years, however, this future growth is still unpredictable;
- Launch of MEO's main product M4O - this product is going to be targeting to all family members from younger to elderly people. It may steal some customers and revenues from Moche since it is going to include in its package two SIM cards for performing voice calls and sending SMS for any operator for free (see **Pg 16**);
- Network effects - although it may be seen as an opportunity in the case of Moche's growth, it may be also seen as a threat as well since it will make it more difficult for Moche to grow;
- Increasing competition - the under 25-year-old segment has been suffering from an increase in competition and this competition is expected to keep growing. There are three operators on the market (Moche, Yorn and TAG), similarly as before, however, these operators have been fighting each others more and more to gain market share. The reason why is that for growing, operators have to steal customers from other operators since the market penetration of the mobile telecom in Portugal on the under 25-year old segment has reached almost 100% (see **Exhibit 20 & 21**). In order to persuade customers of other operators to switch, operators have been lowering Services' prices as well as investing in their promotion strategies (see **Exhibit 18**).

At this point, students should be able to point out the company's main KSF. KSF are elements of primary importance for a strategy to be successful. These elements may be company activities or characteristics. Students may come up with the following:

- Independently managed - consumption patterns are changing and will probably keep changing in the future and Moche has the ability to adapt faster than its competitors due to the fact that is independently managed. Over the past years, Internet consumption has been growing, and thus, it is extremely important for operators to have packages with Internet included. The fastest the operators are able to understand consumers' consumption trends and adapt to them, the higher the probability of success;
- Brand identity - consumers of the under 25-year-old segment want to feel part of a young community. Thus, Moche has an advantage over its competitors since it is perceived as a younger and more enthusiastic brand (see **Exhibit 14**);
- Expand to other demography's - Portuguese market has reached a maturation stage since most of the Portuguese population, especially the under 25-year-old segment is already a consumer on the mobile telecom industry. Having this in mind, Moche should continue to fight for a higher market share in Portugal, and additionally, to try to penetrate other markets in where Portugal Telecom is present at, taking advantage of its local knowledge. By entering other markets Moche is going to reduce the risk of its operations as well as increase its customer base.

**3) What are Moche's main sources of competitive advantage? Are they sustainable overtime?**

A firm has a competitive advantage when it is able to perform better than its competitors on the same industry, derived from its possessed attributes and resources. According to Porter (1980), an organization may achieve a competitive advantage through delivering lower prices than its competitors or by differentiating from them. Students must be able to point out the following sources of competitive advantage:

- Brand identity - Moche possesses a clearly defined brand identity, which is a consequence of its strong promotion strategy. It is seen as a young, enthusiastic and irreverent brand. Despite investing in their promotion

strategies, its direct competitors Yorn and TAG have not been able to be perceived as Moche is today (see **Exhibit 14**);

- Independently managed - by being independently managed, Moche is able to fit and adapt to new market trends faster than its competitors, which are managed at an upper level. As a consequence, Moche is able to deliver better products to the consumers on this industry.

After pointing out the sources of competitive advantage mentioned above, students should be able to discuss their sustainability.

Competitive advantages are sustainable if:

- A company possesses attributes or resources that create value for the company and its competitors do not possess them. In order to be sustainable, these attributes and resources can not be easily replicated.
- A company has the same attributes and resources as its competitors and is able to have better results by exploiting the resources in a better way.

Having this in mind, we can say that both the brand identity and the fact that Moche is independently managed are sustainable competitive advantages.

**4) What is the consumer behavior of the under 25-year-old segment on the mobile telecom industry?**

In order to analyze and understand the consumer behavior of the under 25-year-old segment on the mobile telecom industry, students may use six questions set by the author Rudyard Kipling (5W1H): What, Where, When, Why, Who and How.

**What?**

- Packages composed of Voice calls, Video Calls, SMS and MMS;
- With the increase in Internet consumption, consumers on this segment tend to value packages in where a certain amount of Internet is included on the packages.

- This segment likes to feel part of a young community, however, it favors reputed, innovative and credible brands (see **Exhibit 24**).

### **Where?**

- At home - Consumers on this segment use the mobile phone to communicate even at home. Fixed phone is obsolete for this segment;
- Out of home - It is used everywhere. At hotels, bars, restaurants, at the beach and even at the university or school;
- Major cities as well as rural areas – Penetration of this Service reached 92% of the whole Portuguese Population and is even higher among the under 25-year-old segment. (see **Exhibit 20 &21**).

### **When?**

- On any occasion – Working, studying, relaxing, on vacation, etc.

### **Why?**

- To keep in touch with friends and family;
- To solve issues related to business or social matters;
- To feel part of a community.

### **Who?**

- 98,6% of the population between 15 and 24 years old and 90,3% of the population between 10 and 14 years old (see **Exhibit 21**).

### **How?**

- Through mobile set equipment.

**5) Analyze the advantages and disadvantages of both options expressed on the case.**

Students should come up with several advantages as well as disadvantages for both branding scenarios: Maintaining Moche brand in order to target the under 25-year-old segment or divest in Moche and target the under 25-year-old segment with a MEO's Service, similarly to what Vodafone and Zon-Optimus do through their Yorn and TAG Services.

**Scenario A – Maintaining Moche**

**Advantages**

- Brand image already created - clearly defined young positioning (see **Exhibit 14 & 24, Q7**);
- Strong Promotion Strategy (see **Pg 9 & 10**);
- Autonomy - at this moment Moche is independently managed;
- Mitigate risk - If MEO's main product, the M4O fails at its launch, Moche is not associated to this failure;

**Disadvantages**

- Lower customer base (see **Pg 15**);
- Under 25-year-old segment is on a mature stage;
- Lower reputation, innovation and credibility perception than MEO (see **Exhibit 24, Q7 & Q8**) - MEO is already well known on the market because of its triple play Service;
- Risk of increasing cannibalization even more than before - After the rebrand of TMN into MEO, Moche is expected to continue cannibalizing MEO's revenues, cannibalization that may even increase comparing to previous values (see **Pg 18**). Also, a Mobile Service is going to be included in MEO's M4O Service (see **Pg 16**), and thus, cannibalization may also increase by MEO stealing Moche's customers, which is the opposite of

what was happening before when Moche was stealing TMN's customers. Moche may see its customer base decreasing due to this cannibalization.

## **Scenario B: Divesting Moche and targeting with a MEO Service**

### **Advantages**

- MEO is seen as a more reputed, innovative and credible brand, which are important brand characteristics when choosing a service provider (see **Exhibit 24, Q6, Q7 & Q8**);
- Is focused on the whole family (see **Pg 16**);
- Possesses a bigger customer base, which allows it to gain economies of scale and consequently to lower its prices to the final consumer (see **Pg 14 & 15**). Also, by having a bigger customer base, its Service is seen as a more attractive Service because of the existent network effects (see **Exhibit 24, Q10**);
- According to Mestre's projections, by re-branding Moche into MEO, Portugal Telecom will increase its turnover on the under 25-year-old segment over the next years (see **Pg 18**).

### **Disadvantages**

- By launching a Service targeted to a younger segment, MEO may harm its reputation and credibility, similarly to what previously happened to TMN (see **Pg 8**).
- Confusing positioning - by trying to target to all market segments, MEO may experience an identity problem;
- Young Moche community is lost - these communities are important for attracting this younger segment;
- In the case of MEO's failure, Portugal Telecom will be affected in all segments on this industry;

- An investment of 2M Euros is needed for re-branding purposes (see **Pg 18**).

**6) What strategy should Mestre propose to Portugal Telecom's board of directors?**

In order to conclude on which strategy Mestre should follow, students should take into consideration each scenario's pros and cons mentioned on question 5, consumers behavior discussed on question 4, as well as an additional framework: Porter generic strategies.

At the beginning of the discussion, students should start to explore and apply Porter generic strategies for both options and conclude on what competitive positioning strategy will be offered in both scenarios.

**The following should be concluded:**

- On scenario A, by maintaining Moche, it will be following a focus strategy, since Moche is only focused on a specific market segment (under 25-year-old segment);
- On scenario B, by divesting in Moche and creating a Service for the younger segment through MEO, it is delivering a mix of cost leadership and differentiation.

If we exclusively take into consideration Porter's theory, the right decision to pursue is to keep investing in Moche, and thus to maintain its brand since it is the only option having a clear competitive positioning strategy that according to Porter is crucial for a company's' success.

At this point, students should be incentivized to add all the other variables, which will lead them to take a different conclusion.

- By keeping investing in Moche, its annual turnover as well as its cannibalization is expected to stagnate on 2013 values (see **Pg 18**);

- By divesting in Moche, re-branding it into MEO and targeting the younger segment with a MEO's Service, the Service will be perceived as a more credible, reputed and innovative Service since MEO is perceived as a stronger brand on these dimensions (see **Exhibit 24**). These dimensions have been proved through a survey to be important characteristics for consumers when choosing a service provider (see **Exhibit 24**). Also, other important facts that have been expressed on the survey were the fact that most of the inquired considered MEO as a more attractive brand and that the existence of friends connected to a specific service provider influence the consumer's decision when choosing one. This last fact also favors MEO since it has a higher customer base due to its already existent triple play Service (see **Pg 14**). As a consequence of these facts, by targeting the younger segment through MEO, Mestre is expecting that Portugal Telecom will be able to increase its turnover on the under 25-year-old segment as follows:

|             | <b>Cannibalization</b> | <b>Growth</b> |
|-------------|------------------------|---------------|
| <b>2014</b> | 0,00%                  | 4,00%         |
| <b>2015</b> | 0,00%                  | 5,00%         |
| <b>2016</b> | 0,00%                  | 2,00%         |
| <b>2017</b> | 0,00%                  | 2,00%         |

|             | <b>Turnover</b> | <b>Difference</b> | <b>Cum Difference</b> |
|-------------|-----------------|-------------------|-----------------------|
| <b>2013</b> | 17 988 124,72 € | 0                 | 0                     |
| <b>2014</b> | 18 707 649,71 € | 719 524,99 €      | 719 524,99 €          |
| <b>2015</b> | 19 643 032,20 € | 935 382,49 €      | 1 654 907,47 €        |
| <b>2016</b> | 20 035 892,84 € | 392 860,64 €      | 2 047 768,12 €        |
| <b>2017</b> | 20 436 610,70 € | 400 717,86 €      | 2 448 485,98 €        |

Given that the investment in re-branding will be 2M and that the cumulative increase in turnover will exceed that amount after 3 years, the right decision to make should be to divest in Moche and target the younger

segment with a MEO's Service, unless Portugal Telecom wants to have a higher amount of cash on the short term.

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