PCCW expands OTT business to attract young users

In recent years, many media companies such as PCCW have started to develop OTT (Over-the-top) business. Including free and domestic pay television programme services, PCCW are running three main types of media business. In earlier days, PCCW introduced a new OTT platform called Now E.

Now E, which targets at young users, include television programmes such as international and Asian dramas, movies and sports shows, for example, the current FIFA World Cup kicking off in June. As PCCW owns the exclusive Hong Kong broadcast rights of 2018 FIFA World Cup Russia, it is believed that this can attract a large number of new users.

Besides, over 90% of revenue from Now TV (the domestic pay television programme services) came from user subscription in the past. After entering the OTT market, PCCW said they would start to expand advertisement income, and explained that subscription and advertisement revenue should take half of the revenue each in a mature OTT market. To further develop the OTT business, PCCW issued preferred stocks worth over 800 million dollars in 2017.

1 a) Now E selects young people as its target market. Point out which market segmentation variable it belongs to. (1 mark)

1b) Give TWO reasons to explain why young people is a suitable target market. (4 marks)

2a) To develop the business of OTT, does PCCW adopt short-term or long-term financing? Explain.(2 marks)

2 b) Comparing the two financing methods mentioned in (a), state THREE characteristics of the financing method adopted by PCCW, in the point of views of PCCW. (3 marks)

c) Write down the formula of gearing ratio. Explain how the gearing ratio of PCCW will be affected when the above financing method is adopted. (3 marks)

3) Mr. Chan is a football fan. Describe Mr. Chan's decision-making process of subscribing NOW E. (10 marks)

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1a) Demographic segmentation / by age (1 mark).

1b) Reasons why young people market is a suitable target market:

- More young people are used to watch TV through OIT devices.
- -There are not much media setting young people as their target audiences at this moment. Hence, the market competition is relatively small.
- -PCCW's Now TV and Viu TV have produced many TV programs for young audiences, which can assist the development of Now E.
- -Young people are willing to and have sufficient purchasing power to pay for the fee of OTT services.

(2 marks for each relevant reason, max. 4 marks)

2a) Financing method for developing OTT business:

Long-term financing (1 mark), because PCCW raises capital by issuing preferred shares (1 mark).

2b) THREE characteristics of the financing methods (Long-term financing)

-More costly

-Less flexible

-Lower risk

(1 mark for each relevant characteristic, max. 3 marks)

2c) Formula of gearing ratio

non-current liabilities + preference share capital

=

non-current liabilities + shareholders' fund

(1 mark)

Rises (1 mark), because the preference share capital will increase after financing (1 mark).

(c)

Process of purchasing:

1. <u>Need recognition:</u> Mr. Chan loves watching football match. Hence, it will derive the demand for the program of World Cup matches.

X 100%

- 2. <u>Information search</u>: Mr. Chan should find out how to purchase for Now E and search for the program guide and the arrangement of the World Cup programs.
- 3. <u>Evaluation of plan</u>: Mr. Chan can evaluate Now E^fs program arrangements and functions, so as to determine whether it can satisfy his needs.
- 4. <u>Purchase decision:</u> Mr. Chan should submit the application and choose the payment method.
- 5. <u>Post-purchase behaviour:</u> Mr. Chan should watcli the World Cup program and assess whether the quality of screen and commentator can reach his expectations. If Mr. Chan feels satisfied, he will renew the services of Now E.

(2 marks for each relevant procedure, max. 10 marks