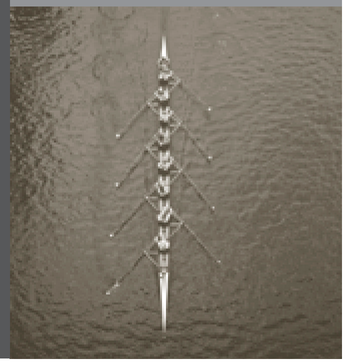
case 16

Richard Branson and the Virgin Group of Companies in 2007



Despite celebrating his 57th birthday at the beginning of 2007, Richard Branson showed no signs of flagging energy or the entrepreneurial vigor. During the last two weeks of January 2007, Virgin announced a slew of new initiatives. These included the creation of Virgin Bioverda, a joint venture to develop ethanol plants in the US; a bid for vacation company First Choice; and a proposal to take over rail services between London and Edinburgh. At the same time, Branson was negotiating an alliance with Tata Group to establish Virgin Mobile in India and preparing to buy 50 acres of land in Macau to build a $3 billion casino and leisure complex. Meanwhile, Virgin America – Branson's San Francisco-based low-cost airline – was struggling to get approval from the US Department of Transportation. Some believed that Virgin Galactic – Branson's passenger spaceship service – might be first into the air.

Yet despite being lauded for his entrepreneurship, eccentricity, and embodiment of "the friendly face of capitalism," his Virgin group of companies remained a mystery to most outsiders – and to many insiders as well. At the beginning of 2007, there were 215 Virgin companies registered at Britain's Companies House, of which 20 are identified as recently dissolved. However, most operations are conducted through the 36 companies listed on the Virgin website (see Appendix 1). While a number are Virgin companies are identified as "holding companies" – they exist only to own and manage other Virgin companies – there is no overall parent company for the group.

The opacity of Virgin's structure and finances encouraged frequent speculation about the overall performance of the group. During the late 1990s, there was consistent evidence that the group as a whole was not performing well. *The Economist* observed that: "Virgin Travel is the only one of Virgin's businesses to make a large profit . . . The rest of Mr. Branson's firms lost money in total."[1] The

Financial Times pointed to a net cash outflow and a negative economic value added for the group as a whole.[2] During recent years, overall financial performance was strengthened by profit growth at Virgin's wireless telecommunications businesses and the post-2002 recovery in the airline industry. Nevertheless, several Virgin companies continued to generate losses.

As ever, Branson was dismissive of outside criticism, claiming analysts and financial journalists misunderstood his business empire. Each Virgin company, he argued, was financed on a standalone basis; hence attempts to consolidate the income and assets of the companies were irrelevant and misleading. Moreover, Branson had little regard for accounting profits, preferring cash flow and capital value as the critical performance indicators. Thus, most of the Virgin companies were growing businesses that were increasing in their real value and long-term cash-generating potential, even if accounting profits were negative. "The approach to running a group of private companies is fundamentally different to that of running public companies. Short-term taxable profits with good dividends are a prerequisite of public life. Avoiding short-term taxable profits and seeking long-term capital growth is the best approach to growing private companies."[3]

Apart from questions about financial performance, outside observers also pondered the strategic direction of this motley collection of over 200 separate companies. The Virgin group covered a remarkable range of business, from airlines to bridal stores. In an era of corporate refocusing and the nurturing of core competences, what possible business rationale could explain the structure and composition of the Virgin group? It was not only Virgin's financial resources that risked being stretched. Was there a risk that the Virgin brand would become overextended and that its appeal and integrity would be damaged? With regard to Branson himself, should he attempt to involve himself personally in guiding the various Virgin companies? As the group expanded and Branson became more of a strategic and charismatic leader rather than a hands-on manager, did Virgin need to establish a more systematic approach to control, risk management, and strategy?

The Development of Virgin

Richard Branson's business career began while he was a student at Stowe, a private boarding school. His start-up magazine, *Student*, was first published on January 26, 1968. The early success of the magazine encouraged Branson to leave school at 17 years old, before taking his final exams. Agreeing to the boy's request to leave, the headmaster offered the prophetic statement, "Richard, you will end up in prison or as a millionaire." Both predictions were to be fulfilled.[4]

This early publishing venture displayed features that would characterize many of Branson's subsequent entrepreneurial initiatives. The magazine was aimed at baby-boomers between 16 and 25 years old and was designed to appeal to the optimism, irreverence, antiauthoritarianism, and fashion consciousness of the new generation. It would also fill a "gaping hole in the market." *Student* was to be the "voice of youth" and would "put the world to rights." Its eclectic style reflected its founder's ability to commission articles by celebrities and to identify subjects not touched by many well-established magazines. Norman Mailer, Vanessa Redgrave, and Jean-Paul Sartre contributed pieces which appeared among articles on sex, rock music, interviews with terrorists, and proposals for educational reform.

Virgin Records

Branson's next venture was mail order records. Beginning with a single advertisement in the last issue of *Student* magazine, Branson found that he was able to establish a thriving business with almost no up-front investment and no working capital, and could easily undercut the established retail chains. The name "Virgin" was suggested by one of his associates who saw the name as proclaiming their commercial innocence, while possessing some novelty and modest shock-value. Virgin Records brought together Branson and his childhood friend Nik Powell, who took a 40% share in the company and complemented Branson's erratic flamboyance with careful operational and financial management. In 1971 Branson opened his first retail store – on London's busy Oxford Street.

Expansion into record publishing was the idea of Simon Draper – one of Virgin's record buyers. Draper introduced Branson to Mike Oldfield, who was soon installed at Branson's Oxfordshire home with a fully equipped recording studio. *Tubular Bells*, launched in 1973, was an instant hit, eventually selling over 5 million copies worldwide. The result was the Virgin record label, which went on to sign up bands whose music or lifestyles did not appeal to the major record companies. Among the most successful signings were the Sex Pistols.

The recession of 1979–82 was a struggle for Virgin. Several business ventures failed and several of Branson's close associates left, including Nik Powell, who sold his share-holding back to Branson for £1 million plus Virgin's cinema and video interests. Despite these setbacks, the 1980s saw rapid growth for Virgin Records, with the signing of Phil Collins, Human League, Simple Minds, and Boy George's Culture Club. By 1983, the Virgin group was earning pre-tax profits of £2.0 million on total revenues of just under £50 million.

Virgin Atlantic Airways

Virgin Atlantic began with a phone call from Randolph Fields, a Californian lawyer who proposed founding a transatlantic, cut-price airline. To the horror of Branson's executives at Virgin Records, Branson was enthralled with the idea. On June 24, 1984, Branson appeared in a World War I flying outfit to celebrate the inaugural flight of Virgin Atlantic in a second-hand 747 bought from Aerolinas Argentina. With the launch of Virgin Atlantic, Branson had embarked upon a perilous path strewn with the wreckage of earlier entrepreneurs of aviation, including Laker, Braniff, and People Express. Unlike Branson's other businesses, not only was the airline business highly capital intensive, it also required a completely new set of business skills, in particular the need to negotiate with governments, regulatory bodies, banks, and aircraft manufacturers.

Private to Public and Back

By 1985, a transatlantic airfares price war and the investment needs of Virgin Atlantic had created a cash squeeze for Virgin. Branson became convinced of the need to expand the equity base of the group. Don Cruikshank, a Scottish accountant with an MBA from Manchester and Branson's group managing director, was assigned the task of organizing an initial public offering for Virgin's music, retail, and vision businesses, which were combined into the Virgin Group plc, a public corporation with 35% of its equity listed on the London and NASDAQ stock markets.

Branson was not happy as chairman of a public corporation. He felt that investment analysts misunderstood his business and that the market undervalued his company. A clear conflict existed between the financial community's expectations of the chairman of a public corporation and Branson's personal style. With the October 1987 stock market crash, Branson took the opportunity to raise £200 million to buy out external shareholders.

As a private company, Virgin continued to expand, using both internal cash flows – mainly from Virgin Atlantic Airways – and external financing. The retailing group moved aggressively into new markets around the world. The Virgin Megastore concept provided the basis for new stores in Japan, the United States, Australia, the Netherlands, and Spain. This growth was facilitated by the formation of a joint venture with Blockbuster Corporation, the US video-store giant. New ventures launched during the early 1990s included Virgin Lightships, an airship advertiser; Vintage Airtours, an operator of restored DC-3 aircraft between Orlando and Key West; Virgin Games producing video games; West One Television, a TV production company; and Virgin Euromagnetics, a personal computer company. Meanwhile, Virgin Atlantic Airways expanded its network to 20 cities – including Tokyo and Hong Kong. It also won many awards for its customer service.

1990–2006: Continued Expansion, Selective Divestment

Expansion pressured cash flow and the Persian Gulf War of 1990–91 cut airline profits. Branson relied increasingly on joint ventures to finance new business development. The partnering arrangements were primarily in retailing and included one with Marui, a leading Japanese retailer, and another with W. H. Smith, a prominent UK retail chain.

Ultimately, the capital needs of Virgin Atlantic forced Branson to take drastic action. In March 1992, Branson sold his most profitable and successful business, Virgin Music, the world's biggest independent record label, to Thorn EMI for £560 million (close to $1.0 billion). Virgin Music's tangible assets had a balance sheet value of only £3 million. The sale marked a dramatic shift in focus for Virgin away from its core entertainment business towards airlines and travel, and provided the capital to support new business ventures.

In the meantime, Branson's long-standing rivalry with British Airways took a nasty turn. Evidence emerged that British Airways had pursued a "dirty tricks" campaign against Virgin. This included breaking into Virgin's computer system, diverting Virgin customers to BA flights, and spreading rumors about Virgin's financial state. The outcome was a UK court case which resulted in BA paying $1.5 million dollars in damages to Branson and Virgin.

The second half of the 1990s saw acceleration in Virgin's business development activities, with a host of new ventures in disparate markets. Virgin's new ventures were a response to three types of opportunity:

- *Privatization and deregulation*. The rolling back of the frontiers of state ownership and regulation in Britain (and elsewhere) created business opportunities that Richard Branson was only too eager to seize. Virgin's most important privatization initiative was its successful bids for two passenger rail franchises: the west coast and cross-country rail services. The resulting business – Virgin Rail – was a joint venture with transportation specialist, Stagecoach. Deregulation in the world's airline sector also created opportunities for Virgin. In 1996, Euro-Belgian Airlines was acquired and re-launched as Virgin Express, and in Australia, Virgin Blue began operations during 2000. Branson's bid to operate the British National Lottery was unsuccessful, but in 2001, Virgin Atlantic was part of the consortium that acquired a stake in the British air traffic control system.

- *Direct selling of goods and services to consumers*. Branson was continually on the lookout for business opportunities offering a "new deal" to consumers. Most of these ventures involved direct sales to consumers and passing on the cost savings from bypassing traditional distribution channels. Virgin Direct, launched in 1995 as a joint venture with Norwich Union, offered telephone-based financial services to consumers. In subsequent years, Virgin Direct expanded the range of financial products it offered and moved to the internet. Virgin Car and Virgin Bike challenged the existing dealership system of the automobile and motorcycle manufacturers by offering direct sales of cars and motorbikes at discounted prices. Virgin Wine was also launched.
- *TMT*. The "TMT" (Technology, Media, Telecom) boom of 1998–2000 created a tremendous buzz within Virgin. Virgin foundations were in media and the internet offered a new channel for Virgin to reach consumers. In 1997 Virgin Net, an internet service provider and portal, was launched as a joint venture between Virgin and cable operator NTL. The next year Virgin Mobile, a joint venture with Deutsche Telecom's One-to-One wireless telephone service, began business in Britain. The success of Virgin Mobile in Britain – half a million subscribers were signed up within the first year and four million by 2004 – encouraged Virgin to expand into the US, Australia, South Africa, and southeast Asia. Virgin's increasing online presence was seen as offering important e-commerce opportunities to the Virgin group as a whole. *TheTrain.com* was set up as an online reservation service for train passengers. Virgin Direct offered music downloads. The Virgin.com portal became a shopfront for all of Virgin's consumer offerings.

Other new ventures appeared to be largely the result of Branson's whims and opportunism and defied any kind of categorization. These included a chain of health clubs (Virgin Active), space flight (Virgin Galactic), and biofuels (Virgin Fuels, Virgin Bioverda).

To fund so many new ventures, Branson sought to release equity from some of his established and growing businesses. Major divestments included:

- Virgin Atlantic: 49% was sold to Singapore Airlines for £600 million in 1999.
- Virgin Megastores, France: sold to Legardere Media in 2001 for £100 million.
- Virgin One: Virgin's home loan business was sold to Royal Bank of Scotland in 2001 for £100 million.
- Virgin Blue: 50% was sold to Patrick Corporation for £250 million in 2001; a further 25% of Virgin Blue was sold in that company's 2003 IPO, raising a similar amount.
- Virgin Mobile (UK): acquired by cable operator NTL for £962 million in 2006.

In addition, Virgin Express – Virgin's loss-making, Brussels-based airline – merged in 2005 with SN Brussels Airlines to form SN Airholdings, in which Virgin held a 30% stake.

The Virgin Group of Companies in 2007

Among the 200-plus companies forming the Virgin Group, the major businesses in terms of revenues and market presence are shown in table 16.1. The principal commonalities between this diverse range of enterprises are, first, their use of the Virgin brand name and, second, the role of Richard Branson as their instigator and, in most cases, their major investor.

The Virgin Brand

The Virgin brand was the group's greatest single asset. There are few brands that encompass so wide a range of products as Virgin. Can a brand that extends from train travel and financial services to night clubs and music downloads have any meaningful identity? The Virgin website explains the Virgin brand as follows:

> *All the markets in which Virgin operates tend to have features in common: they are typically markets where the customer has been ripped off or under-served, where there is confusion and/or where the competition is complacent. In these markets, Virgin is able to break into the market and shake it up. Our role is to be the consumer champion, and we do this by delivering to our brand values, which are:–*
>
> - Value for Money: *Simple, honest and transparent pricing – not necessarily the cheapest on the market*
> - Good Quality: *High standards, attention to detail, being honest and delivering on promises.*
> - Brilliant Customer Service: *Friendly, human and relaxed; professional but uncorporate.*
> - Innovative: *Challenging convention with big and little product/service ideas; innovative, modern and stylish design.*
> - Competitively Challenging: *Sticking two fingers up to the establishment and fighting the big boys – usually with a bit of humor.*
> - Fun: *Every company in the world takes itself seriously so we think it's important that we provide the public and our customers with a bit of entertainment – as well as making Virgin a nice place for our people to work.*[5]

These attributes were communicated to customers in a variety of ways. Virgin Atlantic pioneered a range of innovated customer services (principally for its business class passengers). These included in-flight massages, hair stylists, aromatherapists, and limousine and motorcycle home-pick-up service. In 1998, it offered speedboat along the Thames from Heathrow to the City of London, allowing executives and bankers to dodge London traffic jams. British Airways – huge, stodgy, and bureaucratic – provided the ideal adversary against which Virgin Atlantic could position itself. When British Airways was experiencing problems erecting its giant Ferris wheel, the London

TABLE 16.1 Main businesses within the Virgin Group, 2006

Virgin Active	Chain of health and leisure clubs in the UK and South Africa
Virgin Atlantic	London-based airline serving 20 destinations in the US, Caribbean, South Africa, and Asia
Virgin Atlantic Cargo	Air freight using Virgin Atlantic's network
Virgin Balloon Flights	Passenger balloon flights in the UK, Holland, and Belgium
Virgin Blue	Low-fare airline flying in Australia
Virgin Books	Publishes books on music, sport, TV, movies, and comedy
Virgin Brides	Chain of bridal retail stores
Virgin Comics	Collaboration with writer Deepak Chopra, filmmaker Shekhar Kapur, and Sir Richard Branson
Virgin Cosmetics	Direct sales of specially formulated cosmetics
Virgin Credit Card	Credit card issued by Virgin Money
Virgin Digital	Online digital music collection
Virgin Drinks	Distributes Virgin-branded soft drinks
Virgin Experience Days	Offers innovative leisure experiences, from bungee jumping to Ferrari driving
Virgin Express	Brussels-based airline offering scheduled flights to UK and other European destinations
Virgin Galactic	Offers opportunities for space travel
Virgin Games	Online gaming
Virgin Holidays	UK-based tour operator specializing in long-haul holidays to America, the Far East, Australia, and South Africa, using Virgin Atlantic flights.
Virgin Jewellery	Offers over 120 pieces of silver and fashion jewelry
Virgin Limited Edition	Offers vacation packages at exclusive hotels worldwide
Virgin Limobike	Motorcycle taxi service in London
Virgin Limousines	Limos serving Northern California
Virgin Megastores	80 Megastores in Europe, Japan, and N. America sell music, movies, computer games, and books.
Virgin Mobile	Wireless telephone resellers offering easy-tariff service with no line rental or fixed-term contract
Virgin Money	Online financial services offering loans, mutual funds, and stock trading
Virgin.net	UK-based internet service provider
Virgin Play	Distributor, marketer, and promoter of computer and interactive games in Spain
Virgin Radio	UK digital radio broadcaster
Virgin Spa	Spa services in South Africa
Virgin Trains	Major UK operator of passenger train services and facilities and allows booking of Virgin Train tickets online
Virgin Unite	Charitable, volunteer organization supporting grassroots charities
Virgin Vacations	Vacation packages
Virgin Ware	Retail and online vendor of underwear
Virgin Wines	Direct seller of wines
V2 Music	Independent record label (artists include the Stereophonics, Tom Jones, Moby, and Underworld)
Pacific Blue	Airline operating daily services between Australia and New Zealand

SOURCE: WWW.VIRGIN.COM

Eye, Virgin positioned a blimp above the site bearing the message "BA Can't Get It Up!"

Some of Branson's ventures seemed to be inspired more by a sense of fun and eagerness to "stick it to the big boys" than by commercial logic. Virgin Cola was introduced in 1994 packaged in a "Pammy" bottle modeled on the body of *Baywatch* star Pamela Anderson. The goal, according to Branson, was to "drive Coke out of the States."[6] By 1997, Virgin Cola was losing £5 million on revenues of £30 million.

Virgin's ability to extend its brand so widely pointed to the broad appeal of Virgin's values and business principles. Much of this appeal was linked with Richard Branson's persona and style. The values and characteristics that the Virgin brand communicated are inseparable from Richard Branson as entrepreneur, joker, fair-playing Brit, and giant killer. The Virgin brand was identified too with the innovation and unconventional strategies and marketing that characterized most Virgin startups. Branson went to lengths to differentiate his new enterprises from established market leaders. Thus, the difference between Virgin Atlantic and BA, between Virgin Cola and Coke, and between Virgin Money and the leading banks was not primarily about products, it was more about the nature of the companies and how they related to their customers. As Virgin internationalized, a critical issue was whether Branson and the Virgin brand could achieve the same rapport with consumers in other countries as they did in Britain. Although Branson was well known in Europe and North America, in many respects he was a quintessentially British character who was a product of time and place.

A continual issue for Virgin was the risk that the brand might become overextended. The head of brand identity at consultant Landor Associates commented: "He's still way too unfocused. He should get out of businesses that don't fit the Virgin/Branson personality, such as beverages, cosmetics, certainly financial services, or come up with another brand name for them."[7] Widespread public dissatisfaction with rail services in Britain suggested that Virgin's vision of new standards of service for rail travelers might be unattainable given the structural problems of Britain's congested rail infrastructure.

Despite his renown, Branson, too, might be waning in market appeal. Was there a risk that, having seen Branson as flight attendant, Branson in a wedding dress, Branson with successive prime ministers, and Branson attempting to fly around the world in a hot-air balloon, the public might tire of his exploits?

During the late 1990s, Virgin had moved to consolidate around a number of core businesses, notably travel, entertainment, and retailing. However, this trend was short-lived: the telecom and internet revolution offered Branson a host of new entrepreneurial opportunities that were irresistible.

Branson as Entrepreneur

Almost all of the Virgin businesses were new startups. From the founding of *Student* magazine through to the formation of Virgin Galactic, Branson's primary strength as a businessman was in conceiving and implementing new business ideas – not that Branson was the source of all of Virgin's new business ideas. Branson acted as a magnet for would-be entrepreneurs and Virgin actively encouraged the submission of new business ideas to its corporate development offices in London, Sydney, and New York. Virgin employees, too, were encouraged to develop proposals for new businesses. The idea for Virgin Bride had originated with a Virgin Atlantic employee dismayed by the products and services offered by existing UK bridal stores. Nelson Mandela once offered a business idea to Branson, suggesting that Branson acquire a South African health club chain that had gone bankrupt putting thousands of jobs at risk. Virgin Active South Africa is now country's biggest chain of health clubs.

Yet Branson's leadership of the Virgin Group extended beyond his role as a source of entrepreneurial ideas. As the creator of Virgin and its unique corporate culture, and the primary promoter of its image and entrepreneurial spirit, Richard Branson was synonymous with Virgin. To many of his generation he embodied the spirit of "New Britain." In a country where business leaders were members of "the establishment" and identified with the existing social structure, Branson was seen as a revolutionary. Despite a privileged family background (his father was a lawyer and Richard attended a private boarding school), Branson had the ability to transcend the social classes which traditionally divided British society and segmented consumer markets. As such, he was part of a movement in British culture and society that has sought to escape the Old Britain of fading empire, class antagonism, Victorian values, and stiff-upper-lip hypocrisy. Richard Branson symbolized the transition from "Rule Britannia" to "Cool Britannia."

Informality and disrespect for convention were central to Branson's way of business. Branson's woolly sweaters, beard, windswept hair, and toothy grin were practically a trademark of the Virgin companies. His dislike of office buildings and the usual symbols of corporate success was reflected in the absence of a corporate head office and his willingness to do business from his family homes, whether a houseboat in Maida Vale or Necker Island Caribbean retreat. This lack of separation between work, family, and leisure – indicated by the involvement of cousins, aunts, childhood friends, and dinner-party acquaintances in business relationships – reflected a view of business as part of life which, like life, should involve excitement, creativity, and fun.

An earlier case explains Branson's approach to new business startups:

> *Much of the operating style was established not so much by design but by the exigencies of the time when Virgin was getting started. It has proved to be a successful model that Branson can replicate. His philosophy is to immerse himself in a new venture until he understands the ins and outs of the business, and then hand it over to a good managing director and financial controller, who are given a stake in it, and are then expected to make the company take off. He knows that expansion through the creation of additional discrete legal entities not only protects the Virgin Group, but also gives people a sense of involvement and loyalty, particularly if he trusts them with full authority and offers minority share holdings to the managers of subsidiaries. He is proud of the fact that Virgin has produced a considerable number of millionaires. He has said that he does not want his best people to leave the company to start a venture outside. He prefers to make millionaires within.*[8]

His use of joint ventures was an extension of this model reinforced by his dealings with the Japanese. Branson was impressed by the Japanese approach to business, admiring their commitment to long-term development and focus on organic growth. His only major acquisition was the parts of British Rail that formed Virgin Rail. Prior to that, Branson had made only two significant acquisitions: Rushes Video for £6 million and the airline that became Virgin Express. He saw similarities between Virgin and the Japanese *keiretsu* system (multiple companies interlocking through managerial and equity linkages in a collaborative network). Virgin's network of small companies combined "small is beautiful" with "strength through unity." He explained this and other business maxims that he believed to be necessary for success in a speech to the Institute of Directors in 1993. "Staff first, then customers and shareholders" should be the chairman's priority if the goal is better performance. "Shape the business around the people," "Build don't buy," "Be best, not biggest," "Pioneer, don't follow the leader," "Capture every fleeting idea," and "Drive for change" were other guiding principles in the Branson philosophy.

Branson's values of innocence, innovation, and irreverence for authority were apparent in his choice of new ventures. He drew heavily on the ideas of others within his organization and was prepared to invest in new startups even in markets that were dominated by long-established incumbents. His business ventures, just like his sporting exploits, reflected a "just live life" attitude and a "bigger the challenge, greater the fun" belief. In identifying opportunity he was particularly keen to identify markets where the conservatism and lack of imagination of incumbent firms meant that they were failing to create value for customers. Branson entered markets with a "new" and "anti-establishment attitude" that sought to offer customers a better alternative. An example of this was Virgin's entry into financial services. Into a business that was long regarded as conservative and stuffy, Branson hoped to bring "a breath of fresh air."

At the same time, the affection of the British public for Branson reflected the fact that Branson's values and his sense of fair play were consistent with many traditional values that defined the British character. His competitive battles against huge corporations like British Airways and Coca-Cola linked well with the heroes of yesteryear who battled against tyranny and evil: King Arthur, Robin Hood, and St George. Resisting British Airways' "dirty tricks" campaign and his other battles with corporate giants resonated well with the British sense of decency. Even his willingness to appear in outlandish attire reflected a British propensity for ludicrous dressing-up, whether for fancy-dress parties, morris dancing, or the House of Lords.

Virgin's Management Structure

Of Virgin's 200-plus companies, the majority are operating companies that own assets, employ people, and offer goods and services. These operating companies are owned and controlled by some 20 holding companies; most of these own several operating companies within the same line of business. For example, Virgin Travel (Holdings) Limited owns Virgin Group's investments in Virgin Atlantic, Virgin Blue, Virgin America, and SN Airholdings. Overall ownership of most of the Virgin Group lies in the hands of Virgin Group Investments Limited – a private company registered in the British Virgin Islands. Virgin Group Investments Limited is owned by Richard Branson and a series of trusts, the beneficiaries of which are Branson and his family members.

The most striking feature of the Virgin Group is legal complexity. For example, Virgin's passenger train companies are Virgin West Coast Mainline and Virgin Cross Country. These are owned by Virgin Rail Group Holdings Ltd, 51% of which is owned by Ivanco (No. 1) Ltd, which is owned by Virgin Group Investments Ltd.

This financial and legal structure reflects Branson's unconventional ideas about business and his wariness of the financial community. The intricate structure involving offshore private companies cloaks the Virgin empire in a thick veil of secrecy. This is reinforced by the use of "bearer shares" by several of the Virgin holding companies through which minority shareholders (venture capitalists and other investors) could not be identified. However, Branson also views the loose-knit structure of the Group as consistent with his vision of people-oriented capitalism:

> *We're structured as if we are 150 small companies. Each has to stand on its own two feet, as if they are their own companies. Employees have a stake in their success. They feel – and are – crucial to their company because they are one-in-fifty or one-in-a-hundred instead of one-in-tens-of-thousands. They indeed are all under the Virgin umbrella, but they are generally not subsidiaries. I'm over them to see if one company can't help another, but otherwise they are independent. Some people like the idea of growing fiefdoms – companies that brag about sales of over $5 billion a year – but there is no logical reason to think that there is anything good about huge companies. History in fact shows the opposite. Those huge corporations with tentacles and divisions and departments become unwieldy, slow growing, stagnant. Some chairmen want them like that so that one division's loss can make up for another's profit, but we'd rather have a lot of exciting companies that are all making profits – as are all of ours.*[9]

The Virgin group has been likened both to a brand franchising operation and to Japanese *keiretsu*, where member companies have financial and management links and share a common sense of identity. The reality, according to *Management Today*,[10] is somewhere between the two. Will Whitehorn, Branson's long-time strategist and business developer, describes Virgin as "a branded venture capital organization."

The formal linkages between the companies include:

- *Ownership*. most of Branson's equity interests are owned by Virgin Group Investments Ltd.
- *The brand*. Virgin's trademarks – including the Virgin name and logos – are owned by Virgin Enterprises Ltd. Neil Hobbs, intellectual property lawyer for Virgin Enterprises explains: "Our role is both to optimize and enhance the value of the brand and to protect that by ensuring that that value is not diminished through infringement by third parties. VEL licenses company's both within and outside the Virgin Group to use the Virgin brand."[11] One third-party licensee is EMI Records, which owns Virgin Records and is licensed to use the Virgin name.
- *Management*. Virgin Management Ltd is the management arm of the Virgin Group. It manages the appointment of board members and senior executives to the different Virgin companies; it assists in coordination between the companies and is responsible for the development of new business enterprises. In 2005, Virgin Management Ltd had 87 employees at Virgin's London headquarters at 120 Campden Hill Road.

However, the key to the management of the Virgin Group is the informal relations between Branson and a small core of long-term associates who form the senior management team of the Virgin Group and occupy key executive positions within individual operating companies. Among Branson's inner circle are:

- Will Whitehorn, originally Branson's press spokesman, who has been Virgin's director of brand development and corporate affairs for the past decade and is currently CEO of Virgin Galactic. He is widely viewed as Branson's second-in-command and key strategic thinker.[12]

- Gordon McCallum, who joined Virgin in 1997 as group strategy director from McKinsey & Company. He has pioneered Virgin's entry into the mobile telecommunications and since September 2005 has been CEO of Virgin Management Ltd.
- Patrick McCall, who was formerly an investment banker at UBS Warburg. At Virgin he is a director of Virgin Management and been a board member of a number of Virgin companies, including Virgin Rail and Virgin Blue.
- Stephen Murphy, who joined Virgin from Quaker Oats. He was Virgin Group finance director from 1994 to 2000 and, since 2001, was a board member of Virgin Management as executive director, transportation.
- Rowan Gormley, who joined the Virgin Group as corporate development director after working as an accountant with Arthur Andersen & Co. He led Virgin's move into financial services in 1995 as chief executive of Virgin Direct. In January 2000, he became CEO of Virgin Wine.
- Frances Farrow, who joined Virgin Atlantic as commercial services director from the law firm Binder Hamlyn. She became CEO of Virgin USA Inc.

Figure 16.1 shows the structure of the Virgin Group of companies, including some major operating companies and the holding companies that own them.

Virgin's Organizational Culture

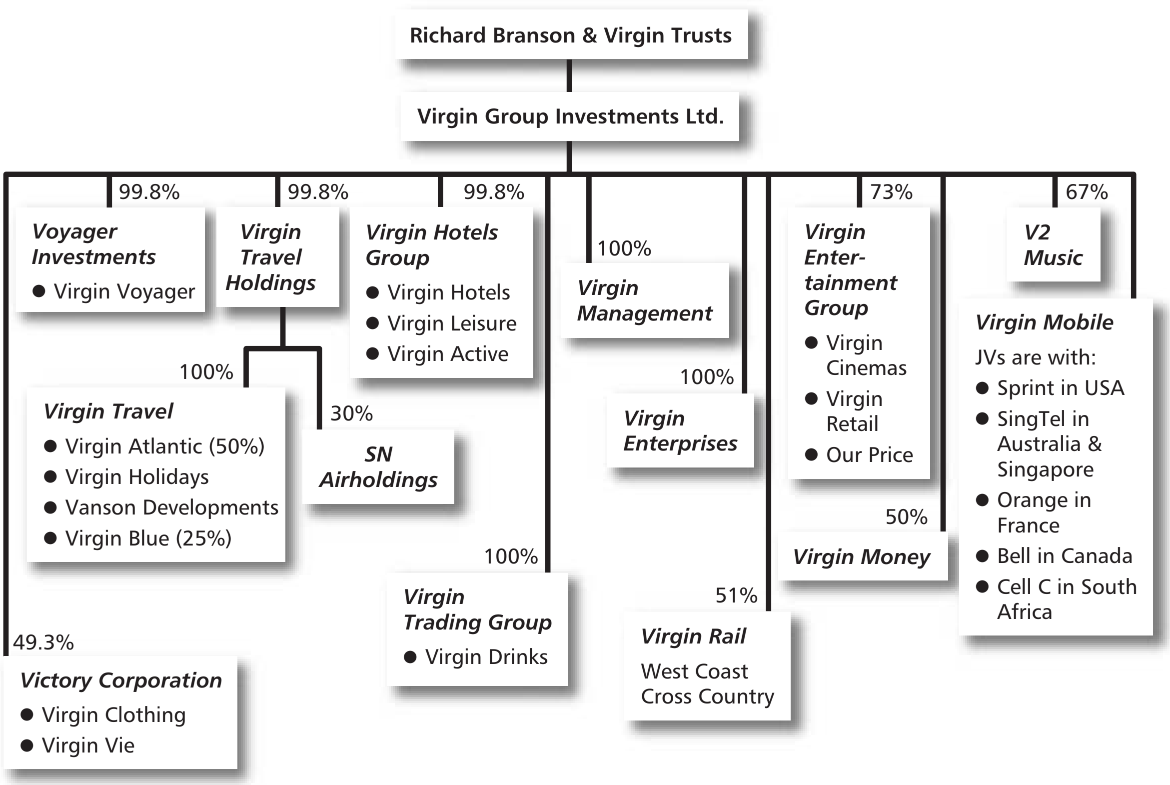
The ability of the Virgin Group to operate effectively with so little formal structure or management systems owes much to the Group's unique organizational culture. This is defined almost entirely by Branson's own values and management style. It reflects his eccentricity, sense of fun, disrespect for hierarchy and formal authority, commitment to employees and consumers, and belief in hard work and individual responsibility. The Group provides an environment in which talented, ambitious people are motivated to do their best and strive for a higher level of performance. While the working environment is informal, anticorporate, and defined by the popular culture of its era, expectations are high. Branson expects a high level of commitment, the acceptance of personal responsibility, and long hours of work when needed. Financial rewards for most employees are typically modest, but nonpecuniary benefits included social activities, company-sponsored weekend getaways, and impromptu parties.

The apparent chaos of the Virgin Group, with its casual style and absence of formal structure and control systems, belies its sharp business acumen and forceful determination. It is easy for more traditional business enterprises to underestimate Virgin – a key error of British Airways. Virgin possesses considerable financial and managerial talent, and what Virgin lacks in formal structure is made up for by commitment and close personal ties. The Virgin organizational structure involves very little hierarchy, offering short lines of communication and flexible response capability. Employees are given a great deal of responsibility and freedom in order to stimulate idea generation, initiative, commitment, and fun. The lack of formal controls is conducive to teamwork and entrepreneurial spirit.

Virgin's Financial Performance

Financial reporting by the Virgin companies was fragmented, hard to locate, and difficult to interpret. No consolidated accounts for the Group as a whole existed. Not

FIGURE 16.1 The Virgin Group of companies



Note: This figure is intended to provide a general view of the structure of the Virgin Group, but it includes only some of Virgin's 200+ companies

only were there multiple operating companies, but ownership of these companies lay with a number of holding companies, some of which consolidated subsidiary accounts while others did not. Tracking financial results over time was difficult because investments in Virgin operating companies were frequently transferred within the Group. Individual Virgin companies (at least, those registered in the UK) submitted audited financial statements to Companies House (a government agency). Table 16.2 shows results for some of the Virgin's operating and holding companies.

The financial structure of the Virgin Group has changed substantially over the years. In particular, Virgin's near collapse during the 1990–2 recession has resulted in a more conservative approach to financing. During the past 15 years, Branson has relied increasingly on equity partners to finance his new business ventures. Typically, joint venture partners have taken 49% or 50% of the equity of the new venture despite supplying the majority of the equity capital. The power of the Virgin brand and Branson's celebrity status and promotional capabilities has meant that Branson has acquired equity stakes in new ventures that were disproportionate to the size of his financial investment – which was typically small. For example, Branson put up only £2,000 initially for minority stakes in Virgin Clothing and Virgin Vie; at Virgin Blue, Branson's initial investment was a mere A$12 million. Virgin's joint ventures include:

TABLE 16.2 Financial results for selected Virgin companies

Company	Revenue (£m)	Net profit (£m)	Total assets (£m)	Employees (incl. directors)	Financial year ending	Comments
Virgin Group Ltd	0.2	(151.4)	69.9	4	03/31/05	Investment holding company. Owns Voyager Group Ltd and Virgin USA Inc. Exceptional loss of £151m in 2005
Virgin Enterprises Ltd	13.3	3.3	129.3	4	03/31/06	Owns and licenses Virgin brand
Virgin Management Ltd	5.7	(13.3)	548.7	97	03/31/06	Management of other Virgin companies. Owns Virgin Bride Ltd, Virgin Mobile (Singapore), Vanson Group Ltd, and Virgin Life Care Investments Ltd
Virgin Travel Group Ltd	0	0.7	250.1	10	02/28/06	Holding company. Owns Virgin Atlantic Airlines Ltd and Virgin Holidays Ltd
Virgin Atlantic Ltd	1,912.3	60.3	1,196.7	8,939	02/28/06	Airline
Virgin Leisure Ltd	0	36.9	216.2	n.a.	03/31/06	Investment holding company that owns Virgin Active Group Ltd
Virgin Mobile Holdings (UK) Ltd	563.1	44.9	106.3	1,488	03/31/06	Telecommunications. Acquired by NTL on July 4, 2006
Virgin Mobile Group (UK) Ltd	80.0	65.8	374.8	3	03/31/06	Holding company. Owns Virgin Mobile Telecoms Ltd
Virgin Money Ltd	51.1	12.8	20.0	4	12/31/05	Online financial services, primarily credit cards
Virgin Money Holdings (UK) Ltd	258.2	8.5	40.3	376	12/31/05	Online financial services, primarily personal investment products
Virgin Rail Group Holdings Ltd	717.1	(1.2)	372.6	4,456	03/04/06	Owns West Coast Trains Ltd and CrossCountry Trains Ltd
Virgin Retail Group Ltd	0	(82.6)	39.2	4	03/31/04	Holding company. Owns Virgin Retail Ltd and Vspace Ltd (internet cafés).
Virgin Retail Ltd	376.3	(74.7)	203.7	3,240	03/27/04	Holding company. Owns Virgin Atlantic Airways Ltd and Virgin Holidays Ltd
Virgin Trading Group Ltd	0	(7.0)	7.6	4	03/31/05	Investment holding company. Owns Virgin Drinks Group Ltd

SOURCE: COMPANY ANNUAL REPORTS SUBMITTED TO COMPANIES HOUSE.

- Virgin Atlantic was 49% owned by Singapore Airlines.
- Virgin Rail was 49% owned by Stagecoach.
- Virgin Retail had different partners and investors. These included Blockbuster and Marui.
- Virgin Trading drinks ventures had been launched with investments from William Grant and Cotts.
- Victory Corporation, the fashion and toiletries companies, was pioneered by entrepreneur and investor Rory McCarthy. In addition, outside investors owned 25% of the equity. McCarthy also held one-third of V2 Music.
- Virgin Express was a subsidiary of SN Airholdings in which Virgin held a 30% equity stake.
- Virgin Blue was a publicly traded company where Virgin held 25%.
- In addition, private investors (including major equity and venture capital funds) held equity stakes in some Virgin businesses.

Looking Ahead

During early 2007, Virgin Group appeared to be relatively free of the cash flow and debt service problems that had plagued it in the past. While a number of Virgin businesses were making losses and others (e.g. Virgin Atlantic) were only marginally profitable, recent divestments had replenished the group's coffers. Longer term, however, there were fundamental strategic questions about the future shape and rationale for the Virgin group. What kind of enterprise was Virgin? Was it a brand management and franchising company, an incubator of startup businesses, a vehicle for Richard Branson's personal ambitions, or a novel form of conglomerate? Was Virgin a unified, if diversified, business or a loose confederation of many independent businesses?

Whatever the identity and rationale of the Virgin group, it was not apparent that the existing structure or organization fitted with any of these categories:

- If Virgin was a brand franchising organization, then the critical role for the Virgin Group was to develop and protect the brand and maximize the licensing revenues from its use by other companies. Clearly Branson would need to play a role in promoting the brand, but it was not necessary that he should have any strategic, operating, or ownership role in the companies using the brand.
- If Virgin was to be an incubator of new startups, then there needed to be a more systematic approach to evaluating new business opportunities and monitoring their progress and development.
- If Virgin was a conglomerate, then did this imply a stronger corporate role? What kind of strategic planning and financial controls were needed to ensure that value was not being dissipated? And could Virgin really perform across so wide a range of businesses?

Whichever path Virgin followed, it appeared that organizational changes would be needed in order to manage intercompany linkages. Although Branson liked to maintain that the different companies were independent and "stood on their own two feet," the reality was somewhat different. Some companies had been strong cash generators; others were heavy loss makers. Relationships between the companies were largely ad hoc, and Branson was proud of the fact that no consolidated financial statements were prepared, even for internal management purposes. Moreover, changes to Britain's capital-gains tax laws threatened to eliminate the advantages of multiple, offshore holding companies. Indeed, to obtain the tax benefits from Virgin's loss-making businesses, there were clear advantages in consolidation. Key questions also surrounded the management of the Virgin brand. To the extent that the brand was a common resource, how could it be best protected? The experiences of Virgin Rail suggested that adverse publicity from one company could negatively impact the overall status of the Virgin brand.

As always, the future of the Virgin Group could not be considered without taking account of Branson himself. What kind of role did he anticipate now that he had celebrated his 57th birthday? If Branson was to become less active as chief entrepreneur, public relations director, and strategic architect for the Virgin companies, who or what would take his place?

Appendix 1
The History of Virgin

1968	• First issue of *Student* magazine, January 26.
1970	• Start of Virgin mail order operation.
1971	• First Virgin record shop opens in Oxford Street, London.
1972	• Virgin recording studio opens at The Manor near Oxford, England.
1973	• Virgin record label launched with Mike Oldfield's *Tubular Bells*.
1977	• Virgin Records signs the Sex Pistols.
1978	• Virgin opens The Venue night club in London.
1980–2	• Virgin Records expands overseas. Signs Phil Collins and Boy George/Culture Club.
1983	• Virgin Vision (forerunner of Virgin Communications) formed to enter broadcasting and produce and distribute films and videos.
	• Vanson Developments formed as real-estate development company.
	• Virgin Games (computer games software publisher) launched.
	• Virgin Group earns pre-tax profit of £2.0 million on sales of £50 million.
1984	• Virgin Atlantic Airways and Virgin Cargo launched.
	• First hotel investment (Deya, Mallorca).
	• Virgin Vision launches The Music Channel, a 24-hour satellite-delivered music station and releases its first feature film, *1984* with Richard Burton and John Hurt.
1985	• Virgin wins Business Enterprise Award for company of the year.
	• Virgin Vision extends film and video distribution internationally.
	• Virgin Holidays formed.
1986	• Virgin Group, comprising the Music, Retail & Property, and Communications divisions, floated on London Stock Exchange. Placement of 35% of equity raises $56 million.

	● Airline, clubs, holidays, and aviation services remain part of the privately owned Voyager Group.
1987	● Virgin Records forms subsidiaries in US and Japan.
	● British Satellite Broadcasting (Virgin a minority partner) awarded satellite broadcasting license. (Virgin sells its shareholding in 1988.)
	● Virgin acquires Mastertronics Group, distributor of Sega video games in Europe.
	● Virgin Airship & Balloon Company launched to provide aerial marketing services.
1988	● Recording studios opened in Barnes, London.
	● New international record label, Virgin, launched.
	● Virgin Broadcasting formed to further develop Virgin's radio and TV interests.
	● Virgin Hotels formed.
	● Virgin Megastores opened in Sydney, Paris, and Glasgow.
	● Branson takes Virgin private with £248 million bid for outstanding shares.
1989	● Virgin Music Group sells 25% stake to Fujisankei Communications for $150 million.
	● Virgin Vision (video distribution) sold to MCEG of Los Angeles for $83 million.
1990	● Virgin Retail Group and Marui form joint venture company to operate Megastores in Japan.
	● Virgin Lightships formed to develop helium airships for advertising.
1991	● W. H. Allen plc acquired. Merged with Virgin Books to form Virgin Publishing.
	● Sale of Virgin Mastertronic to Sega. Remaining part of the business becomes Virgin Games.
	● Virgin Retail Group forms 50:50 joint venture with W. H. Smith to develop UK retail business.
1992	● Sale of Virgin Music Group to Thorn EMI plc.
	● Joint venture with Blockbuster to develop Megastores in Europe, Australia and US.
	● Virgin Communications gains license for Britain's first national commercial rock station (Virgin 1215AM goes on the air in April 1993).
	● Virgin acquires Euro-Magnetic Products, distributor of personal computer consumables.
	● Vintage Airtours established to fly Orlando–Florida Keys in vintage DC-3s.
1993	● Virgin Games floated as Virgin Interactive Entertainment plc with Hasbro and Blockbuster taking minority equity stakes.
	● Virgin Euromagnetics launches a range of personal computers.
1994	● Virgin Cola Company formed as joint venture with Cott Corp.
	● Agreement with W. Grant to launch Virgin Vodka.
	● Virgin acquires W. H. Smith's 75% stake in Our Price retail music stores.
	● Virgin Retail Group forms joint ventures to develop Megastores in Hong Kong and S. Korea.
	● Virgin City Jet service launched between Dublin and London City Airport.
1995	● Virgin Direct Personal Financial Service is launched as a joint venture with Norwich Union (whose stake is later acquired by Australian Mutual Provident).

	● Acquisition of MGM Cinemas, UK's biggest movie theater chain, to create Virgin Cinemas.
1996	● Virgin Travel Group acquires Euro-Belgian Airlines to form Virgin Express.
	● V2 record label and music publishing company launched.
	● London & Continental Railways (in which Virgin a major shareholder) wins £3bn contract to build the Channel Tunnel Rail Link and operate Eurostar rail services.
1997	● Virgin Rail awarded franchise to operate the West Coast train services.
	● Virgin Net, an Internet Service Provider, formed with NTL.
	● Branson acquires a 15% stake in the London Broncos rugby league team.
	● Victory Corporation, a joint venture with Rory McCarthy, launches the Virgin Clothing and Virgin Vie toiletry products.
	● Majority share in Virgin Radio sold to Chris Evans' Ginger Media Group.
	● Virgin Bride retail chain formed.
	● Virgin One telephone bank account and "one-stop integrated financial service" launched in collaboration with Royal Bank of Scotland.
1998	● Virgin Entertainment acquires W. H. Smith's 75% stake in Virgin/Our Price.
	● Virgin Cola launches in the US.
1999	● Virgin sells its UK cinema chain to UGC for £215 million.
	● Virgin launches mobile phone service in joint venture with Deutsche Telecom's One-to-One (November).
	● 49% of Virgin Atlantic sold to Singapore Airlines for £600 million.
	● Restructuring and relaunch of loss-making Our Price record stores.
2000	● Virgin Mobile launches US wireless phone service in joint venture with Sprint. Virgin Mobile Australia (a joint venture with Cable & Wireless) launched.
	● Virgin Net, Virgin's portal and ISP venture, closes its content division.
	● Virgin announces the closing of its clothing company (February).
	● Virgin Cars, online sales of new cars, launched.
	● Virgin and Bear Stearns form Lynx New Media, a $130 million venture capital fund.
	● Inaugural flight of Virgin Blue, Virgin's low-cost Australian airline.
	● Branson knighted by the Queen: becomes Sir Richard Branson.
	● Virgin fails to win franchise to run Britain's government-owned National Lottery.
2001	● 50% of Virgin Blue sold to Patrick Corporation for A$138 million.
	● Virgin expands into Singapore and SE Asia with joint ventures with local companies in radio stations, cosmetic retailing, and wireless phone services.
	● Virgin.net merges its ISP and portal businesses.
	● 16 French Virgin Megastores sold to Lagardere Media for 150 million euros.
2002	● Virgin Bikes (UK) begins direct sale of new motorcycles at discount prices.
	● Virgin Mobile offers wireless telecom services in the US.
2003	● Virgin Blue initial public offering; Virgin retains 25% of equity.
2004	● 50% stake of Virgin Money repurchased from AMP for £90 million.

- Virgin Digital launched. Offers online music store and digital music download capabilities.
- Virgin Cars and Virgin Bikes sold to MotorSolutions Ltd of the UK for an undisclosed amount.

2005
- Virgin Mobile launched in Canada.
- Virgin Atlantic increases services to Shanghai and begins flights to Beijing.
- Virgin Atlantic introduces self-service check-in for all passengers.

2006
- Launch of Virgin Atlantic credit card.
- NTL acquires Virgin Mobile.
- Virgin Mobile and Virgin Money launched in South Africa.

Source: www.virgin.com

Notes

1 "Behind Branson," *The Economist*, February 21, 1998, pp. 63–6.
2 "The future for Virgin," *Financial Times*, August 13, 1998, pp. 24–5.
3 Richard Branson, letter to *The Economist*, March 7, 1998, p. 6.
4 Branson is one of Britain's richest individuals, with a net worth exceeding $2 billion. Branson also spent a night in Dover police cells when arrested for tax offenses after he sold through his Virgin store a batch of Virgin records intended for export. The case was settled out of court.
5 "The Virgin Brand," www.virgin.com/aboutvirgin/howitallworks/
6 Peter Robison, "Briton hopes beverage will conquer Coke's monopoly," *Bloomberg News*, December 14, 1997.
7 Melanie Wells, "Red Baron," *Fortune*, July 3, 2000.
8 Robert Dick, "The house that Branson built: Virgin's entry into the new millennium," INSEAD, Fontainebleau, France, 2000.
9 Ibid.
10 Chris Blackhurst, "At the court of King Richard," *Management Today*, May 1998, pp. 40–5.
11 "Consolidating and Protecting the Licensed Virgin Brand," www.cscorporatedomains.com/downloads/IPScan_issue10_virgin.pdf
12 "Will Whitehorn: Galactico of the Airways," *The Independent*, November 27, 2006.