Case 14

RICHARD BRANSON AND THE VIRGIN GROUP OF COMPANIES IN 2002*

Richard Branson's 50th birthday in July 2000 had no discernable effect either on Sir Richard's energy or the entrepreneurial vigor of his Virgin group of companies. The new millennium saw Branson's sprawling business empire spawn yet more new ventures. These included new companies within Virgin's existing lines of business—a new airline in Australia, retail ventures in Singapore and Thailand, and wireless telecom ventures in Asia, the US and Australia—and entirely new enterprises. A number of these new ventures involved internet-based businesses: on line sales of cars and motorcycles through Virgin Car and Virgin Bike, online auctions through Virgin Net, Virgin's ISP and portal business. Other initiatives included acquisition of a consortium a minority stake in Britain's air traffic control system and a (unsuccessful) bid to run Britain's National Lottery. In May 2002, Branson was planning yet more business ventures including a wireless phone company in Japan, a low-cost airline in the US, a car rental business in Australia, and an on-line pharmacy in the UK.

Yet despite Branson's unstoppable enthusiasm for launching new business ventures, there was increasing evidence of a rising tide of financial problems within the Virgin group:

- ??Virgin's Megastores and its Our Price music chains was suffering heavily from the downturn in sales of music CDs.
- ??All of Virgin's travel businesses—but especially its flagship, Virgin Atlantic—were suffering from the aftermath of September 11, 2001. Even before the terrorist attack, Virgin Atlantic was incurring significant losses. Virgin Blue in Australia was also losing money, though in Europe, Virgin Express made a small profit in 2001.
- ??Several of Virgin's new ventures of the late 1990s had run into serious difficulty. Victory Corporation, Virgin's clothing and cosmetics company, was incurring losses of around 20 percent of sales. Virgin Cola had failed to make any significant market impact in Continental Europe and its US launch was regarded as pure bravado by most observers.
- ??Virgin Trains continued to be a source of adverse publicity for the Group. The British passenger rail system had been plagued by problems of safety, inadequate infrastructure, and train delays since its privatization. Virgin Train's profitability was only possible because of government subsidies that were about to be phased out.

For several years press reports had questioned the financial health of the Virgin group. An in-depth inquiry fragmented and secretive structure of the Virgin group had painted a far from reassuring picture:

> Virgin Travel is the only one of Mr. Branson's businesses to make a large profit…The rest of Mr. Branson's firms, in both groups, lost money in total. Those firms that he controls lost £28 million on a turnover of some £84 million. The firms that are jointly-owned are mostly recent start ups and mostly loss-making. Together they lost £37.5 million.[1]

Further evidence of financial weaknesses in the Virgin group was supplied by the *Financial Times*. Analysis of Virgin's 13 biggest operating companies in the UK over a three-year period ending December 1997 pointed to negative cash flow and economic value added (EVA) during the past two years and a deteriorating interest cover. The *Financial Times* suggested that Branson might have to resort to raising long-term capital through stock market floatation of equity in some of his larger companies—an avenue that Branson was reluctant to go down because of the various irksome restrictions attached to running a publicly quoted company.[2]

London's *Independent* newspaper noted that performance problems of several Virgin companies were adversely affecting the reputation of Branson himself. In an article titled "Is Branson's honeymoon finally over?" the paper observed the slipping halo of a man "once ranked second only to Mother Teresa as a role model for the young."[3]

In its 1998 article, The Economist has warned:

> In a recession, an empire founded on such principles may become over-extended. Cash flow could suddenly become inadequate to finance the expansion that is already underway. At that point the only way to raise money would be to borrow more, or to sell stakes in businesses – at a time when valuations might well be falling."

By the spring of 2002, speculation over the financial state of the Virgin group of companies was gathering pace, and some observers thought that the Economist's dire warning was in danger of fulfilling itself. The London newspaper *The Business*, reported that the losses that previously had affected a sizable minority of the Virgin business, were now widespread. In particular, the group's cash cow, Virgin Atlantic, was now hemorrhaging cash.[4] The article speculated that Branson was planning to float a major part of the Virgin empire on the stock market. This was backed up by a report on May 26 2002 that Virgin was planning stock market floatations of 20 percent of the shares of Virgin Atlantic together with seven other Virgin companies (including Virgin Blue). Prior to the listings of these companies, Branson would step down as chairman, the report stated.[5]

As ever, Branson was dismissive of claims that his Virgin group was in financial difficulties. He has claimed that most outside analysts and financial journalists have misunderstood his business empire. Each Virgin company, he argued, was financed on a stand-alone basis; hence attempts to consolidate the income and assets of the companies were irrelevant and misleading. Moreover, Branson has little regard for accounting profits, preferring cash flow and capital value as the critical performance indicators. Thus, most of the Virgin companies are 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."[6] Regarding the recent speculation that Branson was planning to take eight of his Virgin companies public, Virgin stressed that any initial public offering of its companies would be a result, not of cash flow shortfall, but of the desire to fund new ventures. However, news that Virgin had arranged a bank loan of £75 million secured on its equity in Virgin Atlantic only fueled the rumors of impending financial crisis.

Even if Branson could shrug off attacks upon the profitability and financial stability of his business empire, the widespread speculation over the future of his Virgin group reflected uncertainty over the rationale and strategic direction of this motley collection of over 200 separate companies. By 2002, the Virgin group had expanded from music and airlines into rail transport, soft drinks, cinemas, radio broadcasting, clothing, bridal shops, hotels, insurance, mutual funds, internet services, car sales, and health clubs. 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? While most external attention had been directed towards the adequacy of Virgin's financial resources, there were concerns over the group's other key resources too. With regard to the brand, what was the range of businesses over which the brand could be applied without damaging its appeal or integrity? With regard to Branson himself, what should his role be in the management of his business empire? To what extent should he attempt to involve himself personally in guiding the various Virgin companies? As the group became bigger and more diverse and Branson became more of a strategic and charismatic leader rather than a hands-on manager, did the group need to establish a more systematic approach to control, exploiting synergies between businesses, and managing risk?

Lying behind these questions was the issue of what Branson wanted to do with his own life. Up until now, Richard Branson and the Virgin companies had been inextricably entwined. Looking ahead, Branson could see the need to establish a management structure that could operate more independently of him. This would give greater freedom to him to pursue his many sporting and social interests, while making the company less vulnerable to his absences or to his possible injury or death in one of his high-profile, high-risk sporting exploits.

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.[7]

This early publishing venture displayed features that would characterize many of Branson's subsequent entrepreneurial initiatives. Robert Dick provides an insightful discussion of these:

> Branson's brainchild *Student* magazine was a product of the 1960s, the decade when the post-war "baby-boomers" came of age. Across Western Europe and North America young people enjoyed educational, employment and lifestyle opportunities unknown to their parents, all made possible by rapid economic growth. The decade become known for its promotion of youth culture in which authority was challenged, fashions changed rapidly, and rock stars became global gurus of a new age.
>
> It was in such a climate that Richard Branson, tired of the boring inadequacies of the traditional school magazine and recognizing a "gaping hole in the market," founded his publication. Aimed at people aged 16 to 25, *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.

The success of the magazine (Branson optimistically claimed a circulation of 100,000) promoted favorable notice in the national press. Branson was described in complimentary terms as "The editor, publisher and sole advertising manger...a teenage professional whose enthusiasm gets things done to an extent that would shame his elders." Certainly his energy and enthusiasm were needed to keep the organization going. The offices were transient, first in a friend's basement flat, later in a disused church. The staff – a closely organized cooperative of friends, acquaintances and hangers-on – distributed magazines, took copy and, frequently, avoided creditors. As Branson said at the time: "The staff all work for nothing. I supply them with somewhere to sleep and some food. It's not so much they are working for you as working with you."[8]

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 percent share in the company and complemented Branson's erratic flamboyance with careful operational and financial management. The start of a national postal strike in 1971 encouraged Branson to open 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 were unacceptable to the major record companies. Among the most successful (certainly the most outrageous) were the Sex Pistols, who were contracted to Virgin until the band's breakup following the arrest (for murder) and subsequent death of Sid Vicious.

The recession of 1979–82 was a struggle for Virgin. There was disaffection among many of Virgin Records employees, several business ventures were unsuccessful—including *Event* entertainment magazine—and Nik Powell left Virgin, selling his shareholding back to Branson in return for a million pounds and Virgin's cinema and video recording 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's 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 from Branson, in particular the need to negotiate with governments, regulatory bodies, banks, and aircraft manufacturers.

Private to Public to Private

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. He assigned Don Cruikshank, a Scottish accountant with an MBA from Manchester and Branson's group managing director, 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 percent of its equity listed on the London, and later the NASDAQ, stock market.

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 continued to expand. It gained the right to operate out of London's Heathrow Airport, won a court battle with British Airways requiring BA to transfer some of its Japanese air routes to Virgin, and pursued its plan to fly to 20 cities worldwide. Its transatlantic market share grew and the airline won many awards for its customer service.

1990-2001: Continued Expansion, Selective Divestment

The cash demands of the airline business continued to pressure the group. In particular the Persian Gulf War of 1990–1 reduced revenues for the airline business as a whole. Increasingly, Branson relied upon joint ventures to finance new business development. The period from 1990 to 1992 was one of major change for the Virgin group. During that time, Branson forged several important joint venture agreements with other companies. The partnering arrangements were primarily in the retailing area and included one with Marui, a leading Japanese retailer, and another with W. H. Smith, a prominent UK retail chain. Branson and his Virgin group have long relied on the joint venture as an important strategic tool for expanding into new businesses. In 1998, the company's various arrangements with partners continue to play a critical role in Virgin's overall strategy.

By now, the airline had come to dominate Branson's business interest and imagination. As the capital-hungry Virgin Atlantic needed more money, Branson would have to let go of other parts of his empire. 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 pounds (close to $1.0 billion). Virgin Music's tangible assets had a balance sheet value of only 3 million pounds. 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. These allegations promoted furious denials from the BA chairman Lord King and criticism of both Branson and Virgin. The outcome was a UK court case which resulted in BA paying $1.5 million dollars in damages to Branson and Virgin. The hostility between Virgin and BA continued after the Lord King's early retirement. During the late 1990s, Branson battled tirelessly against the proposed alliance between BA and American Airlines.

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 relaunched 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 Britis h air traffic control system.
- ??*Direct selling of goods and services to consumers*. Branson was continually on the lookout for business opportunities from 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. Virgin Car and Virgin Bike challenged the existing dealership system of the automobile and motorcycle manufactures 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—encouraged Virgin to expand in to the US, Australia, and south-east Asia. The ability of Virgin to communicate directly with customers through telephone and internet was seen as offering important opportunities to the Virgin group as a whole. Text messaging allowed Virgin Atlantic to sell discounted airline seats to Virgin Mobile customers. *Thetrain.com* was set up as an on-line reservation service for train passengers. Virgin established a chat room for Virgin Cola consumers. The Virgin.com portal became a shopfront for all of Virgin's consumer offerings.

The launching of so many new ventures provided the impetus for Branson to sell off equity stakes in some of his more established ventures. During this period, sales included: Virgin's stake in the ISP part of Virgin Net that was sold to partner NTL, the Virgin cinema chain (leaving only the Japanese cinemas owned by Virgin), Virgin Megastores in France, and 50 percent of Virgin Blue. However, by far the biggest deal was the sale of 49 percent of Virgin Atlantic to Singapore Airlines for £600 million.

A time line of the development of the Virgin group is given in Table 14.1.

THE VIRGIN GROUP OF COMPANIES IN 2002

The Virgin group is not a single corporate entity. The Virgin companies comprise some 20 holding companies (most of which were entirely financial and legal entities, the majority registered in the British Virgin Islands) and over 200 operating companies, most of which are based within Britain. They are owned by Branson, both individually and through a series of Channel Islands-located trusts, the beneficiaries of which were Branson and his family. The linkage between the companies was the common use of the Virgin trademark, Branson's role as shareholder (both directly and indirectly through the trusts), Branson's role as chairman of the companies, and Branson's management role, which was primarily in publicity, public and government relations, and appointing senior executives. The Virgin empire comprised those companies which were wholly or majority owned by Branson and those in which Branson held a minority equity stake. Figure 14.1 shows the structure of the Virgin group of companies including some major operating companies and the holding companies that own them. Table 14.2 shows the main companies within the group.

[Figure 14.1 and Table 14.2 about here]

Despite the remarkable diversity of the Virgin group, all of the Virgin companies possessed an entrepreneurial culture and a strategy that was based upon novel approaches to creating value for consumers (and, ultimately, for Branson). Consider, for example, some of the leading companies within the Virgin group.

The airline business was the only segment of Virgin's diversified organization directly managed by Richard Branson (he was the Chief Executive Officer).

Virgin Atlantic

The core of the Virgin empire was its travel business which was the major revenue generator and, until recently, the main source of profit for the group. The flagship, Virgin Atlantic, had launched as a cut-price airline, but its success was based upon targeting the lucrative business traveler segment of the North Atlantic market with superior and innovative customer service. The airline has offered business travelers amenities not even offered to first-class passengers on other airlines. Virgin had pioneered state-of-the-art reclining seats, in-flight massages, hair stylists, aromatherapists, and motorcycle and limo home-pick-up service. In 1998 it began a luxury boat service up the Thames from Heathrow to the City of London allowing executives and bankers to dodge London traffic jams. In economy, Virgin was the first to provide passenger-controlled personal video screens in every seat-back. In-flight entertainment has included clowns, London buskers, even Richard Branson serving drinks while dressed as a female flight attendant. The inaugural transatlantic flight was still remembered fondly by travel writers who took the journey to New York. Bands played music in the aisles, Miss World danced with passengers, butlers handed out caviar, brandy, and cigars. Branson's father, who was along for the ride, commented, "When I die, I hope heaven is like this: 35,000 feet up, endless champagne and surrounded by pretty women."[9] What Virgin did was to recreate the mystique of air travel through mixing unique in-flight luxuries with circus side-show.

The airline won numerous awards for its customer service and became one of the most profitable of the world's smaller airlines. Its success in the North Atlantic market encouraged it to extend its routes to Asia (Tokyo, Hong Kong, Delhi), the Caribbean, and South Africa.

A constant theme of Virgin Atlantic's development was its war against the major airlines and against British Airways in particular. This involved Branson in one of his favorite roles: casting his plucky Virgin upstart as David against the corporate Goliaths of l big business. BA under Lord King was the ideal foil for Branson—big, stuffy, and establishment. Branson's fight, first against the BA "dirty tricks" campaign and then against BA-American Airlines alliance, provided Branson and Virgin Atlantic with massive publicity and established them as virtuous underdogs representing entrepreneurship and the spirit of competition.

For all Virgin Atlantic's success, it was competing in a tough industry and defending a difficult strategic position. The international airline industry has been a financial disaster for most of the past decade—none of the major airlines had covered their cost of capital. Virgin Atlantic's dependence on business travelers was a major source of vulnerability when most companies were trimming their travel budgets. Virgin Atlantic's competitive advantage depended critically upon its superior service, yet almost all its service innovations were being imitated by the major airlines.

In the year to April 2001, Virgin Atlantic lost £82.7 million, compared with a £42 million in the previous year.

Virgin Cargo

Air freight business was an important complement to Virgin Atlantic's passenger service. While planning the launch of Virgin Atlantic, Branson asked New York "Air Freight Godfather" Angelo Pusateri to join him on Branson's London houseboat to discuss the start-up of a Virgin Airlines cargo service. "It was sort of strange," remembered Pusateri. "He was a very relaxed guy, continually scribbling in this big notebook. He said he was putting together an airline and it was going to be fun. He told us, 'I don't know much about cargo, but I know it's important to our revenue package, and I'd like you guys to build an air freight operation for us. Go forth and develop.' Anyone who could lay out a plan of this size without a single typed piece of paper – I was impressed." [10] Based at the then underutilized Newark airport, Virgin Cargo grew to handle close to 100,000 metric tons of cargo by 2000. The company managed freight operations for other carriers such as Lufthansa, America West, and Midwest Express. Pusateri was chief executive of Virgin Aviation Services, the parent company to Virgin Cargo and other smaller Virgin aviation companies. Under Pusateri's leadership, the Virgin management style based upon initiative, entrepreneurship, and a high level of autonomy worked well in the air cargo business. Managers were encouraged to tailor products to customer needs, price service aggressively, and take risks. When a federal regulation required US law enforcement agencies to discard outdated, but still effective bullet-proof vests, Pusateri had the vests collected and shipped free of charge to London's metropolitan police force: "The bobbies get piece of mind, English taxpayers don't pay a quid, and Virgin gets some great PR."

Virgin Express

In April 1996, Branson purchased Euro-Belgian Airlines SA, a short-haul carrier based in Brussels servicing destinations throughout Europe. After changing the name to Virgin Express plc, 49 percent of its stock was floated on the Brussels and NASDAQ stock markets. Virgin Express took advantage of the liberalization of the European aviation market to expand its range of scheduled services. Virgin Express moved into profit in 1997, but in competing with low-cost airlines such as EasyJet and GO, was hampered by a high cost base resulting from its Belgium location. In July 1998, Virgin Express moved the company's registration to Ireland to benefit from lower corporate and employment taxes. Its operational base remained in Brussels which meant that its routes did not link with those of Virgin Atlantic.

Virgin Rail

Virgin's biggest, and potentially riskiest, diversification of the 1990s was its entry into rail travel. Early in 1996, Virgin Rail was formed to bid for operating franchises in the partitioned and privatized British Rail system. By 1997 Virgin Rail operated two rail companies: Virgin Cross-Country with train services between the South West, Midlands, and Wales, with Birmingham as a hub; and Virgin West Coast with services between London and Glasgow. In addition, Virgin was also one of the six investors in London and Continental Railway (LCR), which was responsible for running the Eurostar train service between London and Paris through the Channel Tunnel. To promote awareness of the Virgin brand, Branson had all of the trains painted in Virgin's cardinal red. Virgin Rail was profitable to 2001, however, government operating subsidies were scheduled to be phased out in 2002. In addition, the capital investment requirements of operating passenger rail services were substantial, though the sale of 49 percent of Virgin Rail to Stagecoach for £158 million had reduced Virgin's exposure. Of particular concern to Branson, was the tide of general dissatisfaction of the British public with the inadequacies of the UK's privatized rail network. Virgin Rail's poor record of poor punctuality was primarily a result of the poor state of Britain's rail infrastructure, however, limited opportunities for innovative differentiation meant that Virgin Rail could not easily respond to the company's deteriorating relationships with its customers.

Virgin Entertainment Group

Virgin Entertainment Group comprises Virgin's retailing businesses together with Virgin remaining cinema chains. The retailing companies include Virgin Megastores, with 122 locations around the world and the UK Our Price Chain. The Megastores sold music, music accessories, electronic equipment, clothing, and concert tickets. The Virgin Megastores did not form a single integrated business but were operated as separate businesses with different business partners in different countries. Thus, in Japan, Virgin Megastores were a joint venture with Marui, a Japanese department store, while in France Virgin no longer had an equity stake in the Megastore chain.

The other major retail business was the Virgin/Our Price music retailing chain, 75 percent of which had been sold to the book and newspaper retailer W. H. Smith in 1991 but was reacquired by Branson £145 million in 1998.[11]

Despite the success of the Virgin stores as leading retailers of recorded music, the format has not developed into a "category killer" in the same way as Home Depot in home improvement supplies, IKEA in home furnishings, or The Gap in casual clothing. Retailing revenues have totaled around half a billion pounds annually. However, profitability has been miserable. The impact of the internet and illegal recording of CDs has been a major problem only partly ameliorated by Virgin's use of its retail network to sell mobile phones. Despite a program of reformatting and refurbishment of the UK Megastores during 2000-2001, the chain still appeared to be searching for a viable business model.

Virgin Trading Group Limited

Virgin Trading Group, a wholly owned Virgin subsidiary, comprised Branson's beverage start-ups—the ventures had widely viewed as pure follies by most outside marketing experts. Virgin Spirits, a joint venture with Scottish whisky distiller William Grant was established to market and distribute Virgin Vodka. The brand filed to gain significant market presence outside of Virgins own planes and hotels and the venture was wound up in March 1998. The Virgin Cola Company was a joint venture with the Canadian soft drink company Cott & Company, the world's largest supplier of retailer own-brand soda drinks. Virgin Cola was introduced in the UK in 1994 and achieved initial success in the pub and restaurant trade. The drink was packaged in a "Pammy" bottle based upon the body of Pamela Anderson. After gaining a peak of 8 percent share of the UK market, sales declined. In 1997, Virgin Cola lost about £5 million on revenues of £30 million. In 1998, Virgin acquired Cott's share of the business and launched Virgin Cola with a $25 million and the goal, according to Branson of "driving Coke out of the States."[12] Despite gaining massive publicity, there was little evidence of Virgin being able to convert media coverage into sales. By 2002, Virgin Drinks Company was still marketing Virgin Cola in the UK, Continental Europe and Asia, but no sales figures wee available.

Virgin Direct

The Virgin Direct financial services group was launched in the UK in March 1995. It was a joint venture between Virgin, which owned 49.9 percent and Australian Mutual Provident Society (which acquired Norwich Union's initial stake). Virgin Direct offered retirement plans called "PEPs" (personal equity plans), life insurance, and other financial services. It was organized into several units including: Virgin Direct Life, which offered life insurance and retirement plans; Virgin Unit Trusts Managers, which managed mutual funds; the Virgin One Bank, a joint venture with the Royal Bank of Scotland; and Virgin Credit Card, issued by MBNA. It direct marketed several index-linked mutual funds ("unit trusts") that offered lower management costs and better average performance than most actively managed mutual funds. Within three years of the launch, Virgin Direct had some 250,000 customers and its mutual funds had £1.5 billion under management. By 2002, Virgin Direct's financial services were delivered primarily through the internet. Virginmoney.com offered access to the full range of Virgin financial services including bank accounts, credit cards, ISAs, home and car insurance, life insurance, mutual funds, and share dealing. Virgin's financial services were characterized by two features. First, they were low cost. Virgin's credit card interest rates, fund management charges, and other fees tended to be below those of the major financial institutions. Second, Virgin's product offered several ease-of-use features. For example, the Virgin One bank account allowed a number of products—home loans, savings account, checking account, credit card debt—to be pooled into a single account offering significant administrative and interest cost conveniences. Despite considerable market success, Virgin Direct was still losing money in 2000.

Victory Corporation

Victory Corporation—Virgin's clothing and cosmetics company—had also met with considerable criticism from outside commentators. The company was floated as a start-up on London's Alternative Investment Market in 1996. It's two parts were:

??Virgin Vie, a cosmetics and toiletries company which designed and marketed its own range of products (intended to expand to about 1,000 separate products) to be sold through 3,000 consultants and 100 UK stores, as well as an international launch. By mid-1998, the venture was going badly, with the planned store openings canceled after the pilot stores failed to achieve target sales.

??Virgin Clothing Company, a designer and marketer of men's clothing that sold through UK fashion retailers and through its Internet site, www.virgin-clothing.com. The company's advertisements showed a scruffy Richard Branson with the caption, "Giorgio designs. Ralph designs. Calvin designs. Don't worry, Richard doesn't." The clothing range did not sell well. Launches of new ranges were behind schedule because of the need to redesign.

Since floatation, Victory Corporation's share price declined from 55 pence to 3 pence in May 2002 reflecting the company's dismal sales and profit performance – the company turned in operating losses of eight million pounds for 1997. Finance director, Stephen Murphy, said that a key lesson for Virgin from the Victory Corporation experience was the danger of floating start-up companies: "Thrusting a start-up company into the public arena on day one is not a good thing todo. Because of the public company perspective, we did not grasp control in theway we should have done."[19]

Virgin Net

Virgin Net was both an internet service provider and a portal offering a variety of content and retailing opportunities through partnership arrangements between Virgin Net and a range of partner suppliers. Virgin monthly subscription rate undercut AOL, BT, and most other major ISPs. Virgin had attempted to dispose of its half share of the business to its partner, NTL, however, the sale ran into difficulties and the service continues as a joint venture.

Virgin Mobile

Virgin Mobile was the most successful of the UK's "mobile virtual network operators"—companies that partnered with major wireless operators to offer service over their partners' networks. Virgin's rapid market penetration may be attributed to its brand recognition; marketing through Virgin retail stores, Virgin.net, and Sainsbury's supermarkets; and Virgin's simple market approach—unlike other telecom companies, Virgin has no line rental, no monthly contract and a simple tariff: 15p a minute for the first five minutes of each day and 5p a minute after that. It has scored a number of firsts, including being the first operator to scrap peak rate calls, introduce a daily discounting tariff and was the first company in the world to introduce an integrated MP3 mobile phone. Virgin Mobile (Australia), a partnership with Cable and Wireless Optus, opened for business at the end of October 2000, Virgin Mobile (Asia) a joint-venture with Singapore Telecom was launched in summer 2001, and US entry involved a joint venture with Sprint.

Virgin Bride

Branson's Virgin Bride venture was a classic example of Branson's entrepreneurial opportunism in the face of an underserved consumer market. The idea had come from a Virgin Atlantic employee who was appalled at the inadequacies of bridal shops within the UK. The first Virgin bride store was launched by Branson wearing a $10,000 bridal gown. The stores offered a full range of wedding goods and services including apparel and wedding planning services.

FINANCIAL STRUCTURE AND PERFORMANCE

Financial reporting by the Virgin companies was fragmented, difficult to locate, and awkward to consolidate because of lack of public information and different financial years. Sleuthing by financial journalists have resulted in pieced together financial data for a major part of the Virgin group (see Table 14.3 and Figure 14.2). Despite the limited information available, it was apparent that, in terms of accounting profitability, cash flow, and economic value added (EVA), the profit performance of the Virgin group as a whole was far from stellar during the period 1995–97. Branson and Virgin executives have dismissed the analysis by both newspapers, claiming that accounting profits are poor indicators of the value and performance of the Virgin companies and that, unlike public companies, private companies have tax-minimizing incentives to minimize rather than maximize reported profits. The primary goal is long term value creation.

[Table 14.3. and Figure 14.2]

The financial structure of the Virgin group has changed substantially over the years. In terms of financial structure, the primary feature of the group was the stand-alone financing of each company. At the beginning of the 1990s, the group had debts of more than $400 million, most of which were personally guaranteed by Branson or subject to cross-guarantees within the group. This left Virgin highly vulnerable to bad debts in one part of the group swiftly infecting the rest. Virgin's near collapse during the 1990–2 recession resulted in a more conservative approach to financing by Branson. Each company was separately financed, often with outside investors taking much of the risk. Lenders to Virgin companies have no recourse to Mr. Branson's assets or those of any other part of the group.

However, the recent financial woes of the group have resulted in Branson having to shift finances between companies in order to prop up weaker businesses. While Virgin Atlantic was generated a strong positive cash flow, then the rest of the Virgin group was safe. Virgin Atlantic transition from profit to loss at a time when other major businesses are doing badly has placed considerable added pressures on the group.

The rapid diversification of the 1990s, together with the cash demands of the railroad companies, retailing, and financial services, encouraged Branson to look increasingly to outside equity financing. This has resulted in Branson attracting investment by venture capital funds, joint venture partners, and initial public offerings. Of the 13 businesses that formed the bulk of Virgin's operations, only three were wholly owned by Branson and his interests: Virgin Atlantic, Virgin Hotels, and the V Entertainment Group. The others all had substantial outside interests:

??Virgin Rail was half-owned by Stagecoach.

??Virgin Direct was half-owned by Australian Mutual Provident, with its direct banking venture with The Royal Bank of Scotland.

??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 percent of the equity. McCarthy also held one-third of V2 Music.

??Virgin Express was a publicly traded company.

??Apart from the joint venture partners and public stockholders, there were also a number of private investors – often major equity and venture capital funds.

A central role for Branson was his ability to attract outside investors through his high profile, personality, and network of connections. Typically, by offering the Virgin brand and his own celebrity status to promote new ventures, Branson was able to negotiate some very attractive deals. For example, Branson put up only £2,000 pounds initially for minority stakes in Virgin

Clothing and Virgin Vie. The attractiveness of Virgin to The Royal Bank of Scotland and Australian Mutual was that it permitted these companies to develop a novel approach to marketing and distribution using one of the best-known and highly regarded personalities in Britain, without putting their own names at risk. The Virgin name together with the image and entrepreneurial drive of Branson were also major considerations in encouraging Stagecoach to acquire a major stake in Virgin Rail. Branson's willingness to extend the Virgin brand to a wide range of new enterprises, many of them with minor equity stakes by Virgin, has stimulated the observation that Virgin was increasingly a brand-franchising operation.

ORGANIZATIONAL STRUCTURE AND CORPORATE CULTURE

As noted earlier, the Virgin group was an unusual organization. It comprised a loose alliance of companies linked primarily by the Virgin trademark and Branson's role as shareholder, chairman, and public relations supremo. [13]The group's financial and legal structure was partly a reflection of Branson's unconventional ideas about business and his wariness of the financial community. To some extent, the intricate structure of offshore-owned private companies was a deliberate attempt by Branson to cloak the Virgin empire in a thick veil of secrecy. This was apparent from 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, there was more to the Virgin structure than opaqueness and tax efficiency. Branson viewed the loosely knit structure as consistent with his vision of people-orientated 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.

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*, is somewhere between the two. Will Whitehorn, Branson's long-time strategist and business developer, describes Virgin as "a branded venture capital organization."

Although the formal linkages between the companies are limited to Branson's shareholdings, his presence or influence on the companies' board of directors, and the common use of the Virgin brand, there is also an informal corporate organization. Branson's London residence in Holland Park acted as an improvised corporate office where a small core of Branson advisers and senior executives spent time. These include:

??Will Whitehorn, originally Branson's press spokesman and head of PR, but widely regarded as Branson's second-in-command and sounding-board for issues of strategy and new business development.

??Rowan Gormley 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 become Chief Executive of Virgin Wine.

??Brad Rosser was Branson's head of new business development. An accounting and finance major from Australia with an MBA from Cornell, he was previously employed by Australian entrepreneur Alan Bond and by McKinsey & Company. He subjected new business proposals to rigorous criteria as to whether they fit the Virgin business model: "The products must be innovative, challenge authority, offer value for money, be of good quality, and the market must be growing."

??Michael Herriot, at 55, was one of the eldest of Branson's top management team. He was hired from Grand Metropolitan in 1989 to head up Virgin Hotels (a position he held throughout 2001.)

??Rory McCarthy was business partner, friend, and soul mate of Branson. Having set the world hang-gliding altitude record as well as starting up a string of companies, he had similar drives as Branson. His McCarthy Corporation held 33 percent of V2 and 50 percent of Virgin Helicopters.

??Tom Alexander was recruited by Branson from BT Cellnet to head up Virgin Mobile.

??Gordon McCallum joined Virgin in 1997 as Group Strategy Director. He was formerly a McKinsey & Company consultant. In 2001 he was appointed to the board of Virgin Mobile USA.

??Frances Farrow joined Virgin Atlantic as Commercial ~Services Director from City law firm, Binder Hamlyn. She became chief executive of Virgin USA Inc. and a member of the board of Virgin Mobile USA.

A key feature of the Virgin group was the roles which senior executives played and the way in which they interacted. Although their formal positions were as executives of the individual operating companies, a number were long-time Branson associates who participated more widely in the management of the group. For instance, while heading up corporate services at Virgin Atlantic, Frances Farrow's legal background meant that she provided much wider legal advice within the Virgin group. Similarly, although Rowan Gormley's formal positions were with Virgin Direct and Virgin Wine, he was a source of new business leadership and strategy expertise for the group as a whole. Thus, although the Virgin group had no corporate structure, Branson and his senior executives and advisers did, in effect, form a team which exerted overall financial control, guided strategy, assessed new business ideas, and determined new appointments.

A key aspect of this informal integration and control was the Virgin culture. This was defined almost entirely by Branson's own values and management style. It reflected 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 provided an environment in which talented, ambitious people were motivated to do their best and strive for a higher level of performance. While the working environment was informal, anti-corporate, and defined by the pop culture of its era, expectations were high. Branson expected a high level of commitment, the acceptance of personal responsibility, and long hours of work when needed. Financial rewards for most employees were typically modest, but fringe benefits include 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, belied a sharp business acumen and forceful determination of the Virgin group. It was easy for more traditional business enterprises to underestimate Virgin—a key error of British Airways. Virgin possessed considerable financial and managerial talent, and what Virgin lacked in formal structure was made up for by a strong culture and close personal ties. The Virgin organizational structure involved very little hierarchy, offering short lines of communication and flexible response capability. Employees were given a great deal of responsibility and freedom in order to stimulate idea generation, initiative, commitment, and fun. The lack of a corporate headquarters and the small size of most of the Virgin operating companies was intended to foster teamwork and a strong entrepreneurial spirit.

BRANSON'S CHARACTER AND BUSINESS PHILOSOPHY

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. Robert Dick referred to Virgin as a "counter-cultural enterprise" and to Branson as a "hippie entrepreneur." To many of his generation he embodied the spirit of "New Britain." In a country where business leaders were members of "The Establishment" and upholders of 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. In the re-making of British society in its post-imperial era, Richard Branson can be viewed—along with musicians such as the Beatles, politicians like Margaret Thatcher and Tony Blair, and other new-age entrepreneurs such as Anita Roddick of Body Shop—as an important change agent.

His informality and disrespect for convention were central to his 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 – the Manor in Oxfordshire, a Maida Vale houseboat, and later his Holland Park house.

His lack of a clear distinction between work and his social and family life is reflected in the fact that his cousins, aunts, childhood friends, and dinner-party acquaintances were all drawn into business relationships with him. His approach to his business relationships was that work should be fun and his employees should gain both pleasure and sense of fulfillment from their role in creating enterprises. Branson has experienced few problems in paying quite modest salaries to the great majority of Virgin employees. According to Robert Dick:

> Much of the operating style was established not so much by design but 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.[14]

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 the long term and the way they took time to build a business through organic growth rather than acquisition. 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 forerunner to Virgin Express. He saw similarities in the Japanese *keiretsu* system (multiple companies interlocking through managerial and equity linkages in a collaborative network) and the structure he created at Virgin, with around 200 mostly small companies, which 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 start-ups 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.”

What did these principles mean for the types of markets that Virgin entered and the kind of strategy that Virgin adopted? Will Whitehorn identified a number of common themes:

- “Challenging markets”
- Taking competition to the next level”
- “Sticking it to the Big Boys”
- “Quality”
- “Value for money”
- “Challenge”[15]

At the same time, the affection of the British public towards Branson reflected the fact that Branson was a traditionalist as well as a radical. 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 link well with the English heroes who have battled against tyranny and evil: King Arthur, Robin Hood, and St. George. His fights against British Airways’ dirty-tricks campaign, and his resisting unethical practices in competing for the franchise to run the National Lottery, resonate well with the British sense of fair play. Even his willingness to appear in outlandish attire reflected a British propensity for ludicrous dressing-up whether at fancy-dress parties, morris dancing, or the House of Lords.

MARKETING

The Virgin brand was the group’s greatest single asset. What the brand name communicated and how it enhanced the products to which it was applied was complex. It had connotations of value for money, but also linked with concepts of style and broader social values, too. Most importantly, the brand was not associated with any specific products or markets—it allowed Virgin to cross product and market boundaries more easily than almost any other brand name. While Marks & Spencer was successful in extending its St. Michael brand from clothing to food, Ralph Lauren extended his brand from clothing to cosmetics, toiletries, and accessories, and Harley-Davidson applied its brand to clothing, toiletries, cigarettes, and cafes. No company had extended its brand to so diverse a range of products and services as airlines, railroads, cosmetics, financial services, music, and soft drinks.

Much of the brand value could be attributed to Richard Branson and his persona and style. The values and characteristics that the Virgin brand communicated are inseparable from Richard Branson the entrepreneur, joker, fair-playing Brit, and challenger of giants. The differentiation that the Virgin brand offered was linked to the innovation and offbeat marketing approach that characterized the different Virgin start-ups. A key aspect of Branson’s business enterprises was the difference in competitive approach between Virgin and the established market leaders in the sectors where it competed. Thus the difference between Virgin Atlantic and BA, between Virgin Cola and Coke, and between Virgin Direct and the leading banks was not just the characteristics of the product offered, it was also about the companies and how they related to their customers. As Virgin moved increasingly into international markets, the ability of the Virgin brand to attract consumers was less obvious. If the appeal of Virgin was the humor, style, fun, and irreverence that Richard Branson epitomized, Virgin had to consider how well this image could cross the boundaries of national culture. 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.

With the rapid diversification of the 1990s, and the significant number of start-ups that had achieved neither profitability nor significant market penetration, the group was considering the extent to which the Virgin brand had become overextended. The head of brand identity 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."[16] Other marketing experts suggested that Virgin's brand stretching had damaged the goodwill associated with the Virgin name and compromised the core values it was founded on. Applying the Virgin name to rail services has been especially damaging—Virgin's vision of offering the traveling public new standards of speed and customer attentiveness had been swamped by the problems of Britain's privatized but poorly-integrated rail network. The wisdom of applying a brand that had been identified with dynamic start-up business to the renaming of a former public sector monopoly was a source of much reflection within Virgin.

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 was beginning to tire of his exploits?

This emergence of these concerns during 1996-97, had encouraged a move to refocusing within Virgin. The executive team identified a number of "core businesses" where it wanted to see growth: Virgin Atlantic, Virgin Express, Virgin Rail, and the international expansion of its retail and cinema businesses. "We are going to consolidate around these core areas," says Whitehorn, "because we have a lot to do with them."[17]

The telecom and internet revolution of the late 1990s had changed all that. During 1997-2001, Virgin had embarked upon a number of new business mostly built upon the opportunities provided by wireless telecommunications and the internet. By 2002, most commentators believed that a new phase of refocusing was inevitable.

LOOKING AHEAD

In May 2002, the Virgin group of companies was faced with two main issues. In the short term was the cash crunch that resulted from the presence of several perennial loss making businesses within the Virgin portfolio and the effects of the 2001-2002 economic downturn that had adversely effected Virgin's travel businesses. Virgin had already sold equity in several of its businesses to eternal partners, the most obvious route for additional large-scale cash injections would be to take some of Virgin's companies public. However, the current investment climate was not favorable for initial public offering, and Branson was reluctant to run the risk of a disappointing stock market reception for any Virgin company.

Longer term 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 start-up 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 is to be an incubator of new start-ups, 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 inter-company 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. At present, financial relationships between the companies were 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 had shown 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 approached his 52nd 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?

EXHIBIT 1. What makes Virgin successful? The official view

We look for opportunities where we can offer something better, fresher and more valuable, and we seize them. We often move into areas where the customer has traditionally received a poor deal, and where the competition is complacent. And with our growing e-commerce activities, we also look to deliver 'old' products and services in new ways. We are pro-active and quick to act, often leaving bigger and more cumbersome organizations in our wake.

When we start a new venture, we base it on hard research and analysis. Typically, we review the industry and put ourselves in the customer's shoes to see what could make it better. We ask fundamental questions: is this an opportunity for restructuring a market and creating competitive advantage? What are the competitors doing? Is the customer confused or badly served? Is this an opportunity for building the Virgin brand? Can we add value? Will it interact with our other businesses? Is there an appropriate trade-off between risk and reward?

We are also able to draw on talented people from throughout the group. New ventures are often steered by people seconded from other parts of Virgin, who bring with them the trademark management style, skills and experience. We frequently create partnerships with others to combine skills, knowledge, market presence and so on. Contrary to what some people may think, our constantly expanding and eclectic empire is neither random nor reckless. Each successive venture demonstrates our skill in picking the right market and the right opportunity.

Once a Virgin company is up and running, several factors contribute to making it a success. The power of the Virgin name; Richard Branson's personal reputation; our unrivalled network of friends, contacts and partners; the Virgin management style; the way talent is empowered to flourish within the group. To some traditionalists, these may not seem hardheaded enough. To them, the fact that Virgin has minimal management layers, no bureaucracy, a tiny board and no massive global HQ is an anathema.

Our companies are part of a family rather than a hierarchy. They are empowered to run their own affairs, yet other companies help one another, and solutions to problems come from all kinds of sources. In a sense we are a community, with shared ideas, values, interests and goals. The proof of our success is real and tangible.

Source: “The Virgin Story” (ww.vigin.com)

TABLE 14.1. 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 distribute films and videos and to operate in television and radio broadcasting.
	Vanson Developments formed as real estate development company.
	Virgin Games (computer games software publisher) launched.
	Virgin Group's combined pre-tax profit climbs to £2.0 million on turnover of just under £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	Private placement of 7% Convertible Stock completed with 25 English and Scottish institutions.
	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. 35% of equity sold to 87,000 shareholders. Airline, clubs, holidays, and aviation services remain part of the privately owned Voyager Group.
1987	Virgin Records subsidiaries in US and Japan launched.
	British Satellite Broadcasting (Virgin a minority partner) awarded satellite broadcasting license. (Virgin sells its shareholding in 1988.)
	Virgin acquires Mastertronics Group, which distributed 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 pound 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 own and develop Megastores in Europe, Australia and US.
	UK Radio Authority grants Virgin Communications and TV-AM plc the license for Britain's first national commercial rock station (Virgin 1215AM goes on the air in April 1993).
	Virgin acquires Euro-Magnetic Products, a specialist in the personal computer consumable market.
	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 Our Price retail music chain, owned 75% by W. H. Smith, 25% by Virgin.
	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 formed.
	London & Continental Railways (in which Virgin is a major shareholder) wins a £3bn. contract to build the Channel Tunnel Rail Link and operate Eurostar rail services.
1997	Virgin Rail wins bid to operate the InterCity West Coast and is awarded the 15-year rail franchise.
	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, a chain of wedding retailers, 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 launched in the US.
1999	Virgin sells it 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 and announces plan to expand into Europe, Africa and South-East Asia. Virgin Mobile Australia (a joint venture with Cable & Wireless) begins service in October.
	Virgin Net, Virgin's portal and ISP venture closes its content division
	Virgin announced the closing of its clothing company (February)
	Virgin Cars, on-line sales of new cars launched.
	Virgin and Bear Stearns set up Lynx New Media, a $130 million internet-focused venture capital fund.
	Inaugural flight of Virgin Blue, Virgin's low-cost Australian airline (August)
	Branson knighted by the Queen.
	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
	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) launched. Offers direct sale of new motorcycles at discount prices.

TABLE 14.2. Businesses within the Virgin group, 2002

Virgin Active: Chain of health and leisure clubs in UK and South Africa.
Virgin Airship & Balloon Company: Commercial hot air balloons for advertising, brand building, and specialist film work.
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 Bikes: Direct motorcycle sales.
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 Cars: Direct sales of new cars in the UK.
Virgin Cinemas: Chain of movie theaters in Japan.
Virgin Cosmetics: Direct sales of specially formulated cosmetics.
Virgin Credit Card: Credit card issued by Virgin Money.
Virgin Drinks: Distributes Virgin-branded soft drinks.
Virgin Energy: markets gas and electricity in the UK.
Virgin Experience: 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 Healthcare: Charity promoting education into current healthcare issues.
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 Incentives: Corporate incentive vouchers exchangeable for Virgin goods and services
The Lightship Group: Rents airships for advertising and promotional purposes.
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: On-line financial services offering loans, mutual funds, and stock trading.
Virgin.net: UK-based Internet Service Provider.
Radio Free Virgin: UK digital radio broadcaster.
Virgin Space: Chain of Internet cafes.
Virgin Student: One-stop shop serving UK's student population.
Virgin Student.com: Student website.
Virgin Trains: Major UK operator of passenger train services. and facilities and book Virgin Train tickets online.
thetrainline.com: On-line rail ticket sales and reservations.
Virgin Travelstore: UK-based online travel agency.
Virgin Wines: Direct seller of wines.
V.Shop: UK's high street stores with off-the-shelf and online sales of music, movies, and wireless phones.
V2 Music: Independent record label (artists include the Stereophonics, Tom Jones, Moby, and Underworld).

TABLE 14.3. The financial performance of major Virgin companies, 1999

Company	*Revenue ($ million)*	*Profit (Loss) ($ million)*	*Ownership (%)*
Virgin Travel	1,800	173	51
Virgin Entertainment Group	1,300	12	100

Virgin Direct	900	(25)	50
Virgin Rail	800	42	51
Virgin Express Holdings	300	(6)	58
Virgin Trading	100	(6)	100
V2 Records	53	(55)	66
Victory Corporation	40	(24)	85
Virgin Hotels	40	7	100
Virgin Bride	30	(0.4)	100
Virgin Net	20	(7)	51

Source: Fortune, July 2, 2000

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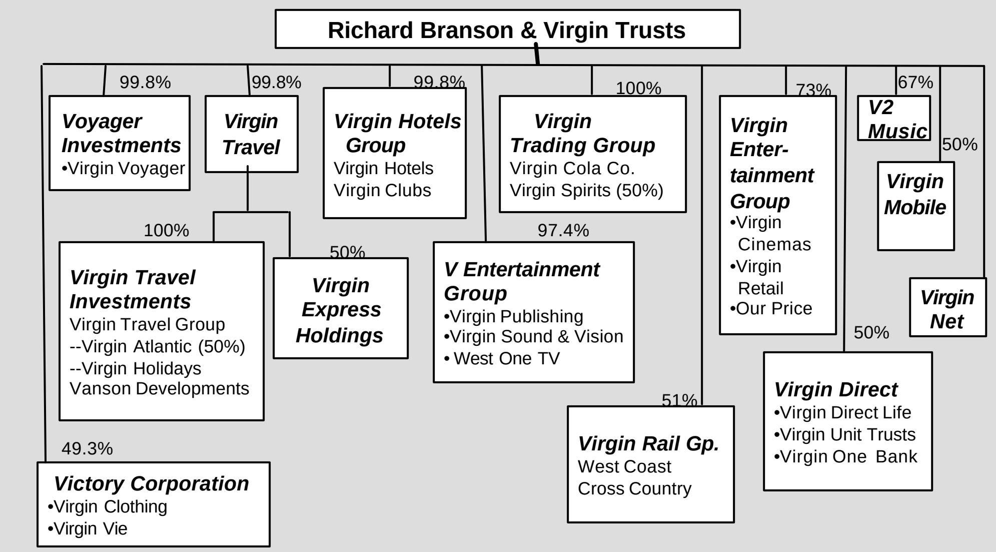
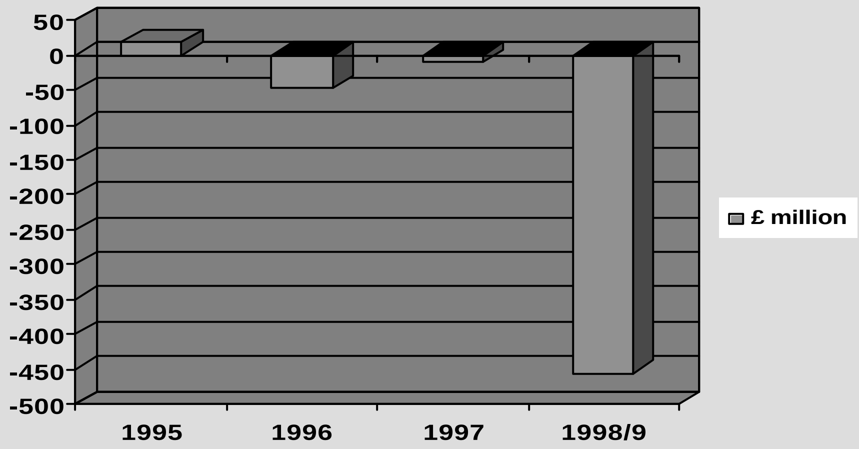
Figure 14.1. The Virgin group of companies



Source: *Financial Times*, August 13, 1998, p. 25; updated from www.virgin.com.

Figure 14.2. Virgin group cash flow, 1995-99



Sources: *Financial Times,* August 13, 1998, p. 24l; *Mail on Sunday,* "Revealed: the Truth Behind Virgin's Finances," September 3, 2000, p. 5.

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[1] "Behind Branson," *Economist*, February 21, 1998, pp. 63–6.
[2] "The future for Virgin," *Financial Times*, August 13, 1998, pp. 24–5.

[3] Michael Harrison, "Is Branson's honeymoon finally over?" *The Independent,* London, February 21, 1998, p. 3.
[4] Tracey Boles, "Another big idea from the apostle of small," *The Business*, May 5/6, 2002, p. 9.
[5] "Branson moots Virgin floats," Agence France-Presse, May 26, 2002.

[6] Richard Branson, letter to the *Economist*, March 7, 1998, p. 6.

[7] It is well known that Branson is one of Britain's richest individuals, with a net worth exceeding $1 billion. Branson also spent a night in Dover police cells when arrested for excise duty offenses after he sold through his Virgin store a batch of Virgin records intended for export to Belgium. The case was settled out of court.
[8] Robert Dick, "Branson's Virgin: the coming of age of a counter-cultural enterprise," Insead, Fontainbleau, 1995.
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[10] *Journal of Commerce*, January 26, 1998.

[11] James Doran, "Branson plans 135m buyback of Virgin stores," *Scotland on Sunday*, March 22, 1998, p. 1.

[12] Peter Robison, "Briton hopes beverage will conquer Coke's monopoly" *Bloomberg News*, December 14, 1997.
[13] The only formal executive role that Branson holds is as CEO of Virgin Atlantic.
[14] Robert Dick, "The House that Branson Built: Virgin's Entry into the New Millennium," INSEAD, Fontainebleau, France, 2000.
[15] Will Whitehorn, Talk to Georgetown MBA students, London, March 16, 2000.
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[17] Alan Mitchell, "Virgin in financing U-turn," *Marketing News*, April 17, 1997.