Virgin Group of Companies

1.0 Introduction:

This paper will present an examination of the business and global strategy of the Richard Branson/Virgin Group, focusing on the critical issues facing the company (Management Organization, Financial Organization, Globalization, Linkages and Diversification) and their root causes; recommended actions to deal with the issues; and the expected impacts the recommended actions will have on the business. Included will be a summary of the factors that link together the various business ventures; a discussion as to whether any of the businesses should be divested and the criteria for doing so; and an assessment of changes needed in the financial and management structure of the Virgin Group.

2.0 Situation Summary:

2.1 Management Organization of the Virgin Group:

2.1.1 According to Grant (2008), "At the beginning of 2007, there were 215 Virgin companies registered at Britain's Companies House, of which 20 are identified as recently dissolved. There is no overall parent company for the Group, there are approximately 20 holding companies that own several operating companies within the same line of business, each of which owns/employs its own resources.

2.1.2 The Virgin companies have an entrepreneurial spirit whilst minimizing bureaucracy. It is a cluster of loosely associated companies instead of a hierarchical company. Branson acts as a back seat leader, encouraging people to use their creativity and welcoming good ideas. The culture is one of ' make work fun' and informality.

2.1.3 Although seemingly chaotic, with an absence of formal structure and control systems, the business acumen of the Virgin Group should not be underestimated - British Airways made that error. The Virgin Group possesses considerable financial and managerial talent, and what Virgin lacks in formal structure is made up for by a strong culture with close personal ties. The Group's structure is virtually flat, offering short lines of communication and flexible, response capability. Employees are given a great deal of responsibility and freedom in order to stimulate ideas generation, initiative, commitment, and fun. The lack of a corporate headquarters and the small size of most of the Virgin operating companies are intended to foster teamwork and a strong entrepreneurial spirit.

2.2 Financial Organization and Performance:

2.2.1 Branson argues that each Virgin company was financed on a standalone basis and says that financial strength is demonstrated more by cash flow and capital value than by traditional accounting profits. Viewed in that light, 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. During the 1990's, however, according to The

Economist (Anonymous, 1998), “Virgin Travel is the only one of Virgin’s businesses to make a profit. The rest lost money in total.” 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. Several other Virgin companies continued to generate losses. During the past 15 years, Virgin has relied increasingly on equity partners to finance new business ventures.

2.2.2 Virgin companies are not publicly traded. They are financed by internal equity, namely through Richard Branson and a family of trusts, and external debt. Each company within the Group is financed individually and separately. Since the 90s, Branson has adopted a more conservative approach of financing. Due to his celebrity status, Virgin is able to have little financial output while still having large equity stake when starting new business ventures, leaving much of the risks to investors.

2.3 Globalization:

2.3.1 The Group has moved into global markets, facilitated in large part by the formation of joint ventures, such as the Virgin Megastore / Blockbuster alliance in Japan, the U.S., Australia, the Netherlands and Spain.

2.3.2 Other new ventures, such as health clubs, space flight and biofuels, were funded by divestment.

2.4 Linkages:

2.4.1 The common linkage between the entire range of enterprises include the use of the Virgin brand name, and the role of the Group's founder, Richard Branson, who is the chief instigator and, usually, major investor.

2.4.2 Member companies have financial and management links that include full or partial equity ownership by Virgin Group Investments, Ltd., and management coordination by Virgin Management, Ltd. The key to the Group's management is the informal relations between Branson and a small core of long-term associates who form the senior management team and who hold key executive positions within the individual operating companies.

2.5 Diversification:

2.5.1 Virgin has penetrated a large number of very diverse industries, from the music industry, airline industry to the telecom industry and on-line car selling. Although the industries are unrelated, Virgin has penetrated each of them with great or reasonable success.

2.5.2 The markets that Virgin has been able to successfully penetrate tend to have features in common: they are typically markets where the customer has been taken advantage of or under-served, where there is confusion and/or where the competition is complacent.

2.6 Branding:

2.6.1 The Virgin brand is the Group's greatest single asset. Virgin's role is to be the consumer champion, and Virgin does this by delivering to Virgin's brand values.

2.6.2 As evidenced by a 2007 survey of 2,000 UK adults by HPI Research, Virgin is viewed as that country's most admired brand. according to the Mission Statement published on the VirginVieAtHome Web site (2008), "If there's a philosophy that runs through every Virgin Company, it's the desire to be different by being better. Better quality, better service and better value." As such, Virgin strives to brand itself as standing for value, quality, innovation, fun and a sense of competitive challenge. It delivers on those objectives by empowering its employees and facilitating and monitoring customer feedback to continually improve the customer's experience through innovation. Typically, Virgin reviews the industry and puts itself in the customer's shoes to see what could make it better.

3.0 Key Strategy Issues Facing the Virgin Group:

3.1 Management Organization - Is reorganization necessary to achieve strategic objectives? If so, how would Virgin organize such a large number of different companies with different business focuses? Would it require establishing a more systematic approach to control, risk management, and strategy?

3.2 Financial Structure:

3.2.1 Can Virgin maintain and enhance its monetary return to its investors? Virgin has been forced to sell profitable businesses or parts of them to safeguard other ventures. This happened in 1992 with the sale of Virgin Records to safeguard Virgin Atlantic, and with the sale of a 49% stake in Virgin Atlantic to Singapore airlines to safeguard the Music retail business (Grant, 2008b).

3.2.2 Changes to Britain's capital-gains tax laws threaten to eliminate the advantages of multiple, offshore holding companies. How would the Group structure its finances in order to take advantage of those tax laws?

3.3 Globalization: How can the Group leverage the Virgin brand recognition in the UK to an international one? Can Virgin use e-commerce effectively in its globalization strategy?

3.4 Linkages: Although the closely-aligned management team provides for synergies with regard to internal capital markets, unified strategic goals, and consistent operating policies, such close linkages may stifle growth, elevate risk and hinder profitability. Further, there exists considerable potential for bad management in one operating company to inflict serious damage on the Virgin brand.

3.5 Diversification: Traditionally, most of Virgin's companies were engaged in retail sectors. However, with the Group's entry into transportation sectors (e.g., Virgin Airlines, Virgin Rail), it diversified into areas that were highly capital intensive, requiring a completely new set of business skills, in particular the need to negotiate with governments, regulatory bodies, banks, and aircraft manufacturers (ibid). Would further diversification mean less expertise and hinder the competitiveness of individual businesses in globally competitive markets?

3.6 Brand: Is the company's brand and culture too closely tied to the persona and active participation of Richard Branson himself (what would happen if he departed/retired)? What is the succession plan? Has Richard Branson spread his unique brand too far (i.e. brand dilution)? Is there a risk that the Virgin brand would become overextended and that its appeal and integrity would be damaged? A major question is whether the Virgin brand is an independent entity and has an existence beyond its association with Richard Branson.

4.0 Causes of the Issues:

4.1 Management Organization:

4.1.1 Richard Branson avoids management structures that would cause him to lose full operating control of his enterprise. A previous venture into the public sector during the 1980's resulted in board and investor decisions that Branson felt were not in keeping with his guiding principles. The Virgin Group was floated in 1986, but subsequently withdrawn from the stock market in 1987 when its share prices were slashed (ibid).

4.1.2 Branson's reluctance to relinquish control is the primary cause of organizational management issues that limit the Group's ability to systematically control both risk and growth. For a single individual to so tightly hold the reins of such an eclectic group of companies tends to hinder the diverse influences that a well-balance board of directors and groups of profit-driven shareholders can exert.

4.2 Financial Organization: To avoid damage to the Virgin brand and Branson image, a number of unprofitable businesses have kept operational, rather than being sold or declared bankrupt; yet, other Virgin companies that were profitable, such as Virgin Records, have been sold in order to finance new ventures.

4.3 Globalization: Virgin has not yet completely established itself in the US, European and Asian markets. Currently most of the businesses are in the UK only, and consequently the majority of the sales are generated there. Because Virgin operates in so many different countries, it faces the risks of fluctuation in the economic cycle of the different countries. The main obstacle for Virgin in creating a truly global brand is the geographical balancing of the sales. Expansion will be needed in countries outside the UK to achieve better balance.

4.4 Linkages: Virgin focuses primarily on the end-user market with a wide range of companies and products that do not have much relationship. The advantages of speed, flexibility and good communications that may gained by having a small, tight-knit executive management team are offset somewhat by the fact that it is extremely difficult for a select group of individuals to manage all the linkages with superior efficiency and effectiveness.

4.5 Diversification: Branson has led the Virgin Group in many different ventures within completely different business segments, including cola, vodka, utilities, train services, computers, mobile telephony, etc.. However, over-diversification and lack of focus have caused problems. For example, intense competition in its airline business forced Branson to sell Virgin Records to help the airline survive. Then Virgin decided to run part of the British Rail by promising that it would improve the service and punctuality. Unfortunately, Virgin did not deliver on either promise. Although being involved in various businesses can give the people the image of being competitive and diversified, it can also send out mixed messages regarding the image of the Virgin brand.

4.6 Branding: Branson places too much emphasis on the brand: "Indeed the ubiquitous Virgin brand name often appears to be only glue that holds the Group together. Whenever anyone points to the fragility of his business empire, in term of losses or lack of tangible assets, he points out the intangible benefit locked up in his brand". (Anonymous, 1998). The power of the Virgin brand has overshadowed Branson's ability to successfully align his strategic and tactical objectives. He must realize that in the competitive world the brand may not be enough. The global consumer is requiring more from marketers, not just the product but also all the elements that add to its position in the market. They want the image that a brand can bring but also quality at a competitive price. Branson is stretching the fabric of his brand in so many directions that they are transformed into tent like enclosures large enough to house any number of core activities, from shopping to holidays. Richard Branson is in fact a private, branded entrepreneur. This makes the Virgin company unique but also very vulnerable. Branson's reputation is closely linked to the Virgin company reputation, thus if he were to tumble, the Virgin brand would also tumble. As they are so closely linked, the risk is also high should Richard Branson abruptly depart or die. There could be crisis of confidence, which could endanger the survival of Virgin.

5.0 Analysis of Virgin's Corporate Strategy Model:

5.1 The Virgin Culture:

5.1.1 Since its start up as Virgin Records, the Virgin Group has retained a strategic model that devolves from its original culture and values. Distinctly entrepreneurial, the organization has no headquarters yet has presided over and managed a period of massive growth and continued profitability.

5.1.2 Although the Virgin Group has no corporate structure, Branson, senior executives and his advisers do form a team that guides strategy, new business development, and overall financial control. As such, any strategic objectives that would include changes in either the management, financial or organizational structures, or that would entail diversifying or consolidating any of its entities would almost surely be considered only if such objectives are in consort with the Group's abiding culture.

5.2 Analysis of Virgin's Linkages and Diversification:

5.2.1 One risk-mitigating strategy that Virgin employs is to keep most of the individual Virgin companies legally independent from one another (much like a series of LLC's would be in the U.S.), thus avoiding many legal pitfalls faced by more traditional conglomerates; yet the companies are linked in their strategy and in certain areas of knowledge sharing, much like a family rather than a hierarchy. The individual entities are empowered to run their own affairs, yet help one another, and solutions to problems come from all kinds of sources. In a sense, Virgin is a community, with shared ideas, values, interests and goals.

5.2.2 As well, most of Virgin's holding companies are based offshore in an attempt to avoid many of the U.K.'s onerous taxes. However, England is undergoing a number of changes to its tax laws that could undermine Virgin's maneuverings. Diversification should be based on doing whatever is necessary and practical toward acquiring the resources required to meet market exigencies, not on the status of current resources. If Virgin does not yet possess the competency to enter into a new endeavor, the question is "What will it take to acquire the competency?", rather than "Should we venture beyond our current resource capabilities?" The limiter is the core competency of the person who is directing the strategy of the individual entity. Where many conglomerates fail is burdening a single individual (the CEO) with directing the activities of a number of far-flung businesses about which the have little understanding. In Virgin's case, Branson's hands-on involvement is usually only during the due diligence phase. Once an entity is acquired or developed, the day-to-day running of one of the companies in the Virgin Group is turned-over to an executive who is expert in that area of endeavor.

5.2.3 An argument in favor of Virgin’s continued diversification is its extremely strong brand recognition, particularly in the United Kingdom, that provides it with a built-in sustainable competitive advantage (SCA). Consumers express a great deal of confidence that Virgin has the customers’ best interests at heart. The risk to the Group’s SCA would be event(s) that would tarnish the brand.

5.2.4 Virgin has been able to diversify and enter new industries by establishing good partnerships, as was done with the Canadian company, Cott, as well as in the rail business with Stagecoach and in the insurance business with AMP (the Australian Mutual Provident Society).

5.2.5 When entering into a new industry, Virgin attacks the dominant companies, playing strongly the 'David' against the industry's 'Goliaths', carefully picking its battles and trying to hit the Goliaths where it hurts. In the mean time, Virgin is proactive and quick to act, avoiding paralysis by long analysis, which is one advantage to having a small, close-knit management team. To fill the expertise gaps, the company uses joint ventures or other partnerships.

6.0 Recommended Solutions and Action Plans:

6.1 Management Structure:

6.1.1 Virgin should improve the leadership and organizational structure. Virgin's dependence on Richard Branson has to be reduced, so that its future beyond Branson can be assured. The organization's culture, image and values need to be aligned to enable a strong, profitable market-driven organization. Virgin needs to develop strong leadership across its organization, not just at the top, and to leverage its synergies and knowledge management. A major question is whether the Virgin brand is an independent entity and has an existence beyond its association with Richard Branson. In this respect, the Group's establishment of the Virgin Charter is a significant step in the right direction.

6.1.2 Richard Branson cannot be the head of Virgin forever, and not many executives can adapt to his manage-at-own-house style. There has to be a centralized and systematic way of managing the future of Virgin Group of companies, and it has to be able to be adopted by any CEO. Decisions should not be made based on Richard Branson's personal values and/or believes; it may work for Richard himself, but may not if Richard's offspring take over the Group or Virgin becomes a publicly traded corporation.

6.1.3 Along with its usual due diligence, survival, not just risk, should be considered before Virgin takes on a new challenge. Many of Virgin's businesses are in high risk and low return industries, which could damage its most precious asset - its brand. Focus should be shifted to high risk, high return or low risk, high return markets/industries, such as those that are e-commerce-based, rather than those that are property/plant/equipment intensive.

6.2 Financial Structure:

6.2.1 Virgin needs to address its financial weaknesses. Companies that do not have a profitable future need to be discontinued without adversely affecting the brand image. Continuous cross-subsidizing of failing ventures can ultimately weaken the Virgin Group. It is more likely that individual companies would be sold to the highest bidder, and maybe even a purchaser for the brand would be sought. It is for this reason that Virgin may need to consider an initial public offering of its shares. The main advantages of an IPO are a greater access to capital markets and a greater market drive (i.e. profit and growth oriented).

6.2.2 If Virgin is to retain its brand equity, it should focus on consolidating its current Group of profitable companies, and fine tuning the products and services for each.

6.2.3 Less profitable and riskier enterprises should be consolidated into a public corporation to take advantage of Great Britain's tax laws.

The new entity should not carry the Virgin namesake, but should be spun-off as a separate entity.

6.3 Diversification:

6.3.1 As describe in an earlier paragraph, there have been cases where Richard Branson tried to further diversify by selling a company that had been successful, such as the sale of Virgin Records to support new acquisitions and to prop-up less successful ventures. What could have been done was to concentrate on the businesses that were profitable; instead of selling them, building a stronger financial position for the Group.

6.3.2 Many of Virgin's current businesses are in industries with historically low financial return, namely the airline industry. When selecting new diversifications, thorough financial analysis should be made, especially the average ROI and ROA of the industry.

6.3.3 Diversification should occur within the existing stable of companies. For example, Virgin Entertainment Group should merge/acquire V2 Records and other entertainment-related companies, and sell off portions that are not profitable or are not perceived as profitable in the future.

6.4 Globalization:

6.4.1 Virgin's strong U.K. presence and initial forays into the North American and Far East markets form a strong basis for now aiming at a global brand strategy. The primary advantages of this are the diversification of the Group's revenue base and the economies of scale that can result from global product and services and the substantial marketing and advertising savings.

6.4.2 The Virgin brand should foster further globalization of it brand by opening subsidiaries or branches of its existing companies in more locations worldwide. Developing partnerships and licensing could be instrumental both for globalizing the brand and for managing the different business by local experts. Virgin should focus around selected core businesses in which it wants to see a great deal of growth in for example airlines, cinemas and retailing and new railway business. It should also consider consolidation some of its businesses like Virgin cinemas and retailing.

6.4.3 One way to extend the brand would be for Virgin to license its name to existing businesses with proven records of quality. The group could then be extended to new markets much more rapidly, and would royalty fees while avoiding almost all risks - similar to Disneyland Tokyo's business strategy.

6.4.4 Join ventures have proven to be a successful strategy for Virgin and should be further developed. The retailing Group moved aggressively into new markets around the world by means of joint ventures. As an example, the Virgin Megastore concept provided the basis for new stores in Japan, USA, the Netherlands, Spain and Australia, facilitated by the formation of a joint venture with the

U.S.'s Blockbuster Corporation, the video-store giant, which extended the Virgin name and increased the market share throughout every large city in the U.S., as well as sites in Europe and Australia.

7.0 Business Impact:

7.1 In the event that the solutions recommended in the preceding paragraph are successfully implemented, Virgin's position in the global market would be better protect, and the Group would be in stronger position to grow and expand globally.

7.2 Reorganizing its management and financial operations in accordance with the recommendations would improve returns from the most profitable operating groups, which should be retained within the original multi-faceted Virgin family, thereby further preserving the culture of the Virgin brand.

7.3 Moving a number of its riskier enterprises - along with those that are no longer achieving their strategic objectives or adequately serving customer needs - into a new, more traditionally-structured corporate conglomerate would protect the Virgin brand, while still generating profits for the Group and concurrently taking advantage of new British tax laws.

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