

Virgin mobile harvard case essay



**ASSIGN
BUSTER**

STUDENT:| Louis-Claude ROUX| PROFESSOR:| Philippe Rene Gillet| CASE: Virgin Mobile USA “ Pricing for the first time”| DATE: 20/02/2012| CLASS: MBS-Entrepreneuriat| PART I) ANSWERS BASED ON MY “ GUT FEELINGS” Virgin Mobile targets the 14 to 24-year-olds market. The case lays out three pricing options. Which option would you choose and why? I would go for option number two for several reasons. The first one is that I think offer number one is not sufficiently different from the rest of the market. The price positioning is the same and we only get better off peak hours, supposedly “ fewer hidden fees” and applications.

Virgin Xtras is a creative idea and definitely suits Virgin’s image and targeted young audience, however I don’t think it is a sustainable selling argument. It is the cherry on the top of the cake, but it is not meaningful to the customer as a main sole advantage. Option number three is way too groundbreaking to have success on the US market. First of all, 90% of US subscribers choose postpaid services because it is almost common knowledge that it is a better deal. It seems like a dangerous strategy to go in such a small niche if you want to reach high numbers of people.

Secondly, there is the contract issue that tends to push the customer away at first but ultimately secures his fidelity over a one to two year period. I believe that Virgin should try to facilitate the credit check process, but having no contract at all seems dangerous in terms of churn rate (going from 2% to 6%). Option number two looks like a good alternative because money is always a powerful argument and most customers seem to feel like they are paying too much. Besides, we are focusing on a target audience (14 to 29 years old) that has a small budget.

Focusing on the 100 to 300 minute audience is also well adapted to our target audience's need. Keeping the "buckets" of minute is also a good thing because we do not take the risk to confuse people with something entirely different. The industry's offers are already complicated enough, it is good to keep the standards that work (Buckets, On/Off peak). PART II)

MARKET ANALYSIS What are the sources of all of this dissatisfaction? The main reason behind this dissatisfaction is confusion. The pricing plans are very hard to understand for most people.

You need to have a sales person dedicated to the selling process when you come to the store because explaining what's behind every cost is not a simple task. There are many hidden fees and comparing the deals between cellular operators takes a lot of time. It is so hard to know if you are taking the right decision that the average customer needs a human support (sales person) to be confident enough to make up his mind. That is the first part of the buying experience, because once you have chosen the right cell phone and the appropriate consumption plan, you still need to go through the credit check process.

Like it says in the case, 30% of the prospective customers fail to pass the credit check because they either lack the information required or they just do not fit the criterias that are required. Another source of dissatisfaction is the contract issue because no one likes to feel attached to a company or service provider for one or two years. It is a very competitive business and the offers seem very similar. Dissatisfaction is also due to the frustration you feel when you find a better deal while still being bound by a contract.

How have the various pricing variables (ex contracts, pricing buckets, hidden fees, off-peak hours) affected the consumer experience? The contract issue is a painful experience that makes the customer reluctant to go further in the buying process. It is the main explanation for the small percentage of 15 to 19 year old young people who have to go through this process with their parents. I would also add to the contract issue the credit check process that some people just cannot pass because of their financial situation. It feels like an inquisition for the customer, affecting in a very bad way the purchasing experience.

The buckets of minutes might have been a confusing notion at first, however everybody understands what it is now. The industry had to find a common standard to compare the offers and that is what buckets help doing. I think the buckets are visual and graphically clear enough to make the offers more attractive and easy to comprehend. The hidden fees are a true enemy to the consumer experience! Even when you think you have understood everything, there are extras “ coming out of nowhere” spoiling the whole experience. That is part of the reason why we always feel like the phone operators are cheating on us.

Regarding the on peak/off peak distinction, I think it is a powerful argument. Most people understand what it is and the fact that we can have unlimited time on off peak hours is a must have for every operator today. Just like with the buckets, it might add a complexity at first, but it is something that the customer has understood and therefore we speak the same vocabulary. The big problem that ruins the consumer experience is the addition of these

variables. Indeed, you need to compare all of them between different carriers to find the better deal.

I would also add to these variables the price of the actual mobile phone with the possibility for the operator to subsidize and the notion of warranty (broken screen, damage, theft etc...), which is also adding another level of complexity. Why haven't the big carriers responded more aggressively to customer dissatisfaction? Because they use it as an advantage! The lack of transparency of the pricing plan is a tool to take advantage of the consumer. All the carriers have been selling their services in the same confusing manner and yet the market keeps growing.

People adapt to the difficulty as long as there is a demand, therefore why changing it? I believe it will start changing as soon as the market encounters difficulties or when a new carrier comes in with a different approach. Another example of this confusion is the on/off peak distinction that emphasizes the impossibility for the consumer to find an offer that suits his or her habits of communication. Network operators make a lot of money out of overage use and on peak consumption because it is really hard for the users to predict how many hours of communication they need.

Do you agree with Virgin Mobile's target market selection? I completely agree with their target market for two reasons. As we can see on exhibit 2 the market penetration on this age segment is very low, therefore there are market shares waiting to be taken. Moreover, it fits perfectly with Virgin's image, which is associated with fun, music and personal expression. Why have the major carriers been slow to target this segment? They have been

slow to take this segment because of the market structure. 0% of the phones are post-paid, meaning you have to sign a contract and go through credit check, which is something teenagers are reluctant to do. The alternative for them would be to get a phone with their parents but it reduces their sense of freedom. Major carriers considered this segment to be a niche and have never been willing to rethink their offer to fit the young people's needs. They seemed to think that it would mean going through a lot of trouble for an insignificant amount of customers. What are the risks associated with targeting this segment?

The risks are that they are not stable enough to be "good payers". They might not have a bank account or they might not be taking proper track of their financial records. They could also be a volatile audience that wants to change operator more often than an adult. They are unpredictable compare to the business audience that the big carriers know well. Additionally, the big carriers believed that a teenager was not using his phone enough compare to a working person who uses it on a daily basis as a working tool. Like Dan Schulman said, they could be using their phone more or less depending on school time and vacations, and they do not use the same services as working people (SMS, Downloading data, ring tones, games etc...) PART III)ANSWERS BASED ON MY ANALYSIS Virgin Mobile targets the 14 to 24-year-olds market. The case lays out three pricing options. Which option would you choose and why? Now that I have been analyzing where the dissatisfaction comes from I would go for option number three. Virgin embodies value for money and honesty and I think this third option fits the targeted audience's needs and habits better than number one and two.

First of all, we finally reach the 14 to 18 year old audience by getting rid of the contract. It is also very likely that the “ no contract approach” seduces the 19 to 25 year old audiences and every individual who does not want to feel bound to an operator. It is also a good way to appeal to the persons who cannot pass the credit check and an effective way for Virgin to get new customers quickly. Secondly, pre-paid is a good way to start using a cell phone because it allows you to precise your monthly hour consumption. Signing a contract and getting trapped in a non-adapted offer is a threat for young people.

Let’s not forget that our target audience is often buying his or her first cell-phone and that they probably do not know their consumption habits well. It is also more securing to know that you pay for what you actually use instead of paying for unused hours. The only problem that remains to be addressed is how you proceed when you want more time? Being able to recharge through the web and other easy access mediums is one of the keys to the success of the prepaid business model. Third argument that makes this option more adapted is the elimination of hidden fees.

The prepaid approach is the best way to sell a clear offer, “ what you see is what you get”, there is no surprise, it is simple and effective. If you do not want customers to feel cheated, it is necessary to include all costs in the price displayed on the shelf. The other issue that needs to be addressed but remains unanswered is the off peak hours. Like Dan Schulman says, the habits are not the same as business people, an analysis of the target audience is necessary to understand what are their hours of consumption.

The weekends for example could be an important time of communication for them.

The Virgin Xtras is also a great way to sell more than just buckets of minutes. Text messages and data download is definitely a great way to appeal to young people's needs. They do not consume the same way as business people do but selling content and new features to them is a good way to make money. The business model that Virgin Mobile is aiming at with this strategy is different from the traditional network operators created in the nineties. It is not based on talking time only and it gives an answer to the general dissatisfaction that many customers feel.

I would not be surprised to see the use of prepaid phones grow tremendously in the US, especially in these days of economic crisis and budget reduction. The last issue that I would like to address is the high churn rate related to this third strategy. We are dealing with a "risky" customer but there are ways and techniques to secure the relationship with him. The best way to avoid churn rate is to develop and inspire loyalty by giving recharge bonuses and developing plans that really fit with the customer's needs.

It is possible to offer free minutes if you use a certain amount of minutes in one call in order to promote longer calls. It is also possible to promote shorter calls by offering the first minute of communication for free. There are many different ways to be attractive with a prepaid offer, and Virgin is well positioned on the US market to find them out. It is a creative brand that knows its customers well and is not afraid to think out of the box to propose

innovative solutions. I am confident that it is possible to obtain loyalty by offering quality service rather than by entrapping people into a contract.

It is also a more noble approach to do business and it fits perfectly with the values of the Virgin Group, which according to Sir Richard Branson are “(...) value for money, quality, innovation, fun and a sense of competitive challenge...”. What would Virgin have to charge consumers on a per minute basis to equal the industry’s break even (computed in question 3) ? I have not been able to determine a precise price per minute because of the lack of information. In order to calculate the potential margin, I would need the buying price per minute from Sprint.

I have the same problem to calculate the potential revenues from the entertainment services. Our fixed and variable costs are smaller than major carriers for 3 reasons: * Carriers structural costs (we buy from sprint) * Advertising costs (Virgin = 60 000 000 / Verizon = 650 000 000 \$) * Distribution costs (Virgin = 30 \$/phone Major carriers = 100 \$ / phone) Besides we will draw an important profit from the increasing importance of entertainment services. I would suggest that Virgin copies the industry postpaid prices (for example: 20 cents for a 200 minutes bucket). We would be extremely competitive with a prepaid offer.