Virgin mobile usa case analysis

Introduction: Virgin Mobile is a successful company based in the U.

K. The company is well known for its brand extension and was the first company to introduce the Mobile Virtual Network Operator (MVNO) in the U. K. , where they leased network space form another firm instead of running a network in-house and as a result avoiding infrastructure and large fixed cost.

The company was well known for its hip and trendy position in the U. K. , and catered to the youth market. Although they have had a couple failures in the past including launching the MVNO in Singapore, the company decided to venture into the U. S. market because they believed that the market was underserved particularly in the 15 to 29 age group.

Strategic issues and problems: •Develop a value proposition that will appeal to the youth market •Maintain customer loyalty and Life time Value •Address the unmet needs of the target market •Make the venture a profitable one •Don't want to trigger off competitive reaction Analysis and Evaluation: The Mobile communication industry in 2001 can be classified as an industry that was highly competitive, saturated, approaching maturity and overcrowded. The US industry when compared to Finland, UK, and Japan could be considered an industry that had room for growth. Finland had almost a 90% penetration rate especially in the ages 20 to 29 age group and Japan had almost an 80% penetration rate, In Finland and Japan the age group 20 to 29 was considered the highest user of mobile services and the age group 15 to 19 was the second highest with almost 80% in Finland and about 75% in Japan. In the USA however, penetration was about 50% in the 30-59 age group and as low as 15% in the 15 to 19 age group and in the 20 to 29 age group the penetration was about 40% indicating that there was a marketing niche for new entrants to make inroads in the industry if they offer the right marketing mix. The wireless phone industry in the USA had about 130 million subscribers and was led by industry giant Verizon Wireless, with 29.

5 million subscribers; AT&T followed with 20. million subscribers; Cingular Wireless had 21. 7 million subscribers; and Sprint PCS, Nextel, Alltel and VoiceStream Wireless, and a few other affiliates made up the rest. Virgin Mobile’s Approach: Opportunities in this market were based on determining the unmet needs and creating new ways or means for satisfying these unmet needs.

And it had to be based on buyer types, buyers’ needs and the technological means of satisfying those needs. Virgin Mobile used a more concentrated approached; they identified buyers’ needs by focusing on the age group 15 to 29 with specifically those with no credit and may not have usage or a lot of minutes; The Company put an emphasis on usage of minutes, style, fashion, fun, honesty and great value for money. This segment represented a possible opportunities for market penetration. It identified two attitudinal and lifestyle markets in their chosen segment; those that had no credit and wanted a phone with no contracts but can indulge in text messaging, downloading information into the cell phone and they were more likely to use ringtones, faceplates and graphic and those that wanted a phone as a fashion statement. Even people with similar usage needs, often have differing lifestyles representing various value sets. For example some people have an active lifestyle in which sports and fitness play an important role, while for others, art, fashion and trends may be very important.

Qualitative Analysis The qualitative analysis which focuses on matching the attractiveness of an opportunity with the potential for uncovering a market niche is dependent on competitive activity; buyer requirements; market demand and supplier sources; social, political, economic, and technological forces and organizational capabilities. Offering-Market Matrix for Mobile Communication in the USA 2001 Market Segment for user Group MARKET SEGMENTS Offering CharacteristicsAge 15 to 19Age 20-29Age 30- 59 Text Messaging?? Online Real-time Billing??? Rescue Ring?? Ring Tones?? Fun Clips?? The Hit List?? Music Messenger?? Movies?? Quantitative Analysis An important activity for Virgin Mobile would be to do a quantitative analysis by determining the market sales potential and profitability and this would include; the number of perspective buyers who are willing and able to purchase an offering, the quantity of the offering purchased by an average buyer in a specific time period, the price of an average unit in the offering and the various variable cost and fixed cost that they had to entertain. Virgin Mobile cost included; handsets that cost between $60 and $100 depending of the features and functions of the phones; a distribution agreement of $30 per phone with Target and Best buy; and an advertising budget of $60 million dollars. They were only paying Sprint on an as use basis for the use of Sprint’s network and no sales person commission.

Virgin mobile forecasted that their sales would be approximately 1 million at the end of the first year and 3 million at the end of the fourth year. The forecasted profit for Virgin Mobile for year one assuming a constant CCPU cost of 45% and all other things remaining constant and assuming a no competition reaction is as follows: For 1 million buyers in year one, assuming

the buyers use 300 minutes, at 30 cents per minute, the revenue would be 90 million for that first year. The forecasted net profit before tax could be about $49, 000, 000; not taking into consideration the churn rate and assuming that Virgin mobile did not subsidize the phones because of the low cost of the phones. Customers' Dissatisfaction: According to the Better Business Bureau in 2001 the greatest sources of complaints against wireless carriers fell into three categories: complaints about billing; complaints about the quality of customer service; and, complaints about misrepresentation or miscommunication by sales or customer service personnel. The complaints about billing included the following: Complaints about bill set-up and access, including difficulty in getting bills online or getting call-detail breakouts;
•Complaints about inaccuracy of bills, a large number of which involved calls that were allegedly made while the phone was switched off; and,
•Complaints about the failure of the bill to reflect changes, such as a credit or rate plan change, which had been agreed to in discussions with customer care agents.

The next-largest category of complaints was the carrier's customer service call center. Customers were highly dissatisfied with the lack of a substantive response from the call center. The types of complaints in this category included: •The carriers' repeated failure to fix a problem that had been pointed out in earlier calls; •The carriers' provided inconsistent advice or instructions from one call to the next (often the inconsistent information came from a retail store and the call center); and •Other complaints included various ways the call center " agent" could not or would not help; such as the agents' refusals to escalate calls to their supervisors; rude agents or supervisors; inadequate offers by agents to resolve problems; and the inability of agents to provide the help requested, due to systems limitations or other factors. The third major category of complaints involved situations where the customer believed the carriers' acted deceptively or otherwise misrepresented the terms of the contract. Included in this category are all cases of miscommunication without regard to whether there was any intent by the carrier to mislead.

Nearly half of the communications breakdowns stemmed from conflicting information provided by different agents in the call center. These complaints and dissatisfaction included: •A third of the communications involved miscommunications by store sales agents. •A small number of discrepancies involved variances between the store and call center, or related to the terms of an advertisement. There were other areas of dissatisfaction not specifically mentioned by the BBB, which can be included in the category of billing dissatisfaction and miscommunication. These dissatisfactions included: •Customers' confusion about how much minutes they used •Hidden fees and other charges such as taxes, universal charges, roaming charges, activation fees and so on •The change of the off-peak hours from 6pm to 9pmNon-Responsive Carriers': The big carriers did not respond aggressively to the customers' dissatisfaction because of several reasons.

These reasons included the fact that the offering among them was undifferentiated. They charged exorbitant fees to the customer if the customer should switch to another carrier who basically had the same complaints. The focus of the carriers was on product and profit and not on customers' needs and they were making money from customers' confusion.

Customer Preference As a consumer, I would like to be charged the least money, for the maximum amount of service.

In other words, consumers want a plan that gives the best per minute rate. Most plans give you a block of minutes for a flat fee, but if you don't use all of your time, then your price per minute increases. The plans that allow your minutes to rollover to the next month allow you some flexibility in this area. Charging fewer service fees is also an excellent selling point, which is why the people at Virgin discuss this approach. Dan Schulman's idea was to incorporate typically hidden fees into their pricing structure.

This builds trust with consumers, because they are used to mobile providers that conceal these charges until their bill comes. While patronizing a carrier that is upfront and honest is attractive to customers, if all the company does is include the fees in their pricing structure, then the experience is not much different. It still increases the over-all cost of making phone calls. Service providers, on the other hand, benefit from the highest per-minute rate. It's in the providers' best interest to sell more minutes than necessary, so the customer pays for well more than their share of network costs. Alternatively when too few minutes are purchased, carriers can charge as much as 40 cents per minute when the customer exceeds their limit.

According to Schulman, if customers signed up for the plan that was optimal for their usage, carriers would make far less profit. Additionally, carriers want to make the off-peak range of time as small as possible so customers are paying the maximum rate more often. This is common complaint among cell phone users, because they have to wait until 9pm to make phone calls if they want a good rate. Strategic Marketing Implications: In 2001, the US cellular phone market was overcrowded, at 50% market penetration.

Built into the company's value statement is that it provides quality and value to customers that have traditionally received a poor deal. It is in that context that the Virgin Mobile case study illustrates a number of product-marketing strategies. The most obvious one is market development, which is the process of selling an existing offering in a new market. Virgin mobile needed to find a group of people that were not having their needs met by the established mobile phone carriers. Virgin could pick up significant market share by focusing on a small segment that had gone largely ignored, rather than jumping into a highly competitive market. After significant market research, Virgin learned that the 15 – 29 demographic was one of these segments.

Many of them didn't have good enough credit to be accepted by the larger companies. Since there are costs associated with signing new customers, most mobile providers didn't believe these individuals would produce enough revenue to justify the investment. Dan Schulman decided to take a risk by targeting a segment, which was rejected by the rest of the industry. Targeting this small segment allowed Virgin Mobile to get its message out more cheaply and efficiently.

Even with this advantage, there is still a lot of competition in the cellular phone industry, so creative and entertaining advertisements to in order to stand out. Sir Richard Branson, CEO of Virgin Group, even went as far as to appear in Times Square wearing nothing but a strategically placed cell phone! The company's still off-beat, but more routine strategy was to place ads in youth publications and mediums. Dan Schulman joked, " If you ever see us on 60 Minutes, then you know we've gone astray. " If Virgin Mobile USA wanted to succeed in this young market, it would have to add products and services to their offering mix that appealed to this age group.

VirginXtras are an example of their product development strategy. The company partnered with MTV and Nickelodeon to provide branded music, games, and other content via cellular phone. In addition, Virgin Mobile service included other features that appealed to teens such as text messaging, audio and movies clips. The phones offered by the company were also targeted toward this segment.

They included interchangeable facepates, which were decorated with fun colors and patterns. They even had names like " The Super Model," or " The Party Animal. " Virgin didn't want to spend a lot of money on pushy sales people or commissions, so the phones came in bright red " Starter Packs," designed to get customers up and running quickly. The case study also illustrates the importance of pricing strategy.

Virgin's pricing needed to be customized for the 15 – 29 market segment. Since a good percentage of that group is strapped for cash, they couldn't get pricing wrong. Their research indicated that the target segment didn't trust the industry pricing plans. Teens may be young, but they known that even if a provider advertises a free service, hidden fees are bound to be thrown in at the end. Virgin wanted to undercut the industries pricing, in order to appeal to a cash strapped group.

However, they couldn’t afford to price too aggressively and risk a competitive reaction from the rest of the industry. ConclusionVirgin Mobile USA’s goal was to gain 1 million subscribers in the first year and grow to 3 million subscribers by year four. The problem was to create the best pricing structure for their target segment, in order to reach this goal. There are three alternatives presented in the analysis: clone the industry prices, price below the competition, or to come up with an entirely new plan that changes contractual commitments, allows pre-payment, increases handset subsidies, eliminates hidden fees, and improves the off-peak time range for customers. There are several uncertainties with all the plans. Will Virgin’s aggressive pricing trigger a competitive reaction? The reaction of the buyers is also unknown.

It’s unclear if the targeted advertising, pricing, and content will have the desired effect. Additionally, how loyal will customers be to the company, especially if contractual obligations are eliminated? The members of the industry establishment rejected the youth segment because of poor credit and low potential for revenue. From the information provided in the case study, it’s unclear whether Virgin Mobile’s gamble on the youth segment will be successful. In order to select an appropriate alternative, all the relevant information had to be considered. Perhaps most importantly, customers in the target segment were not at all satisfied with existing mobile phone providers.

They didn’t trust the pricing plans, and they especially resented hidden fees and taxes. Customer usage is also a consideration, and as mentioned, the traditional peak/off-peak didn’t really apply to this age group. Schulman and his team decided to offer a “ whole new plan”, where customers are charged no hidden fees, have no contracts, no peak or off peak hours, and are charged a significantly lower per minute charge (five cents per prepaid minute, currently). Virgin’s focus on not just adjusting the price level, but also looking for innovative ways to lower other costs, such as the customer acquisition cost, led Virgin to enjoy profitability in a market where other carriers dared not venture.