

# Richard branson management analysis



**ASSIGN  
BUSTER**

Virgin is a company established in 1970 by Richard Branson as a mail order company for sale of records. The company name Virgin was suggested by an associate of Mr Branson and was adopted as proclaiming their commercial innocence, while possessing some novelty and modest shock-value (Grant, 2010: 808). Over the years, the company has grown rapidly and became a leading branded venture which diversified into other businesses. Today, Virgin is widely recognised and has become one of the most respected brands owing to successfully grown businesses in areas such as the airline industry, telecom, financial services, music etc. So far, the company has more than 200 individual companies or ventures which are owned and controlled by 20 holding companies that operate under one umbrella – Virgin. Most of these companies own assets, employ people, offer goods and services (Grant, 2010: 816). Even though all Virgin companies and ventures are separate entities, each is empowered to run its own affairs. They share common resources and capabilities that link them. Grant (2010) noted that the principal commonalities between this diverse range of enterprises are, the Virgin brand, and the role of Richard Branson as their instigator and major investor which is discussed below.

Resources and capabilities defined by Grant (2010) are productive assets owned by a company and what the company can do. Resources are not productive in themselves – they need to be converted into capabilities by being managed and co-ordinated (openlearn. open. ac. uk). For a company to gain competitive advantage, the company requires to focus on key strengths in resources and capabilities and ensure both work together instead of in isolation. In the case of the Virgin Group, one major resource is

its founder – Branson, who founded the company in 1970. His strong leadership is vital to developing new capabilities for Virgin. As noted by Grant (2010), his strength as a businessman was in conceiving and implementing new business ideas. Richard Branson is not only the founder, he is also an instigator and major investor in the company. His enthusiasm and devotion for business led him to establish a series of other Virgin companies such as Virgin Records, Virgin Airline, Virgin Rail, Virgin Cola etc.

He is famous worldwide, his leadership of the Virgin Group extended beyond his role as a source of entrepreneurial ideas. As creator of Virgin and its unique corporate culture, and the primary promoter of its image and entrepreneurial spirit, Branson was synonymous with Virgin (Grant, 2010: 814). He does not believe in corporate culture and bureaucracy, he prefers to do things differently by transition from ‘rule Britannia’ to ‘cool Britannia.’ Informality and disrespect for convention were central to Branson’s way of business (Grant, 2010: 814). Over the years, Branson has become more of strategic and charismatic leader of the Virgin Group instead of mere hand-on manager and his business vision has been a driving force for the success of Virgin.

Another link is the Virgin Brand. Brand names and other trademarks are a form of reputational asset, their value is in the confidence they instill in customers (Grant, 2010: 128). Grant (2010), described it as the Virgin group’s most valuable asset. He noted that the values and characteristics that the Virgin brand communicated are inseparable from Branson the entrepreneur. The Virgin brand was also identified with innovation and unconventional strategies and marketing that characterised most Virgin

start-ups (Grant, 2010: 813). With the brand, the group was able to create other companies representing quality of services and value for money. It enabled them to create a range of products and services over other markets. Even though a brand name is an intangible asset, the value to organisational growth and competitive advantage sometimes can be immeasurable. The success of a firm to build a strong consumer brands have a powerful incentive to diversify which the Virgin group have succeeded in doing (Grant, 2010: 130). The Virgin brand allowed the group to diversify to unlikely business areas in countries around the world like the US, Australia, Singapore, Japan, Hong Kong etc.

The success of Virgin can also be traced to its organisational structure and culture. Organisational culture as identified by Jay Barney and cited by Grant (2010) is a firm resources of great strategic importance that is potentially very valuable which relates to its values, traditions and social norms. Virgin's ability to operate effectively with so little formal structure or management systems owes much to the group's organisational culture as defined by Branson's own values and management style (Grant, 2010: 818). He draws inspirations from the ideas of others and encouraged submission of new business ideas to its corporate offices. Employees are encouraged to develop business ideas for new businesses. Grant (2010) pointed out that the idea of Virgin Bride was actually from a Virgin Atlantic employee appalled of products and services offered by bridal stores in the UK. Employees have stakes in the group and strive to make the company succeed, allowing them to manage and control the company and also to enjoy the benefits of their success. In 1993, Branson summed up Virgin's relationship with employees

as ‘ staff first, then customers and shareholders.’ Virgin’s capability is in using employees’ competence and commitments in achieving organisational goals which can only happen where there is an open workplace structure and culture.

Virgin has done well in the establishment and management of new businesses over the years, but some of its businesses are no longer what they used to be considering the current the world economic downturn. Virgin must look inward and see some of its ventures that are no longer economically viable and consider divestment. A few of them should be considered like Virgin airline, Virgin money, Virgin cola etc. Virgin dominated the airline industry due to its management style and offering customers value for money, but this came at a price. The airline industry is capital intensive. As a matter of fact, in 1992 Branson sold his most profitable and successful business, Virgin Music for £560 million to fund Virgin Atlantic (Grant 2010: 809). Even though the airline still makes profit but it is not as profitable as it used to a decade ago. People no longer travel as much, and competition in the entire travel industry is rife. Nowadays, airlines are always trying to win customers over by offering low prices and unique packages, compounded with substitutes to air travel etc. There are other factors affecting the profitability of air travel such as government regulations and deregulations, high jet fuel price, taxes etc. Considering all these, it will be best for Branson and the Virgin group to divest Virgin Airline.

Branson is always known as trying to ‘ stick it the big boys’, but his involvement in financial activities seems to be a business that should be left to the big boys by divesting and concentrating on other areas. Customers

will prefer products and services from institutions with a long history and good track record such as banks and other financial institutions. With more established players in the field, his involvement is a little tricky. Virgin is not a bank and does not have all the infrastructures to ensure full banking activities, and as a result its effort to bid for 318 RBS branches in England and Wales failed, and was ran over by Spanish banking giant Santander, a clear indication for Virgin to divest Virgin money.

Virgin cola, another of Richard Branson's effort to 'stick it to the big boys' should also consider divestment. It is a known fact that brands fail when they move into unknown territories. Even though, Virgin cola might be cheaper than the likes of Coca-Cola and Pepsi, these are two giant coke makers known worldwide. It will be hard, if not impossible for Virgin Cola to make an impact competitively in the world market. Coke and Pepsi take competition seriously and will not fold arms while Virgin Cola try to unseat them. It is believed that strong brands exploit competitors' weaknesses. Though Virgin is a strong brand, but its Virgin Cola is not a strong brand when compared to Coca-Cola and Pepsi. By 1997, Virgin Cola was losing £5 million on revenues of £30 million (Grant, 2010: 813). Still trying to take on the 'big boys' will come at a detrimental costs to Virgin. So, it will be wise to also divest Virgin Cola.

As a result of diversification, a firm can expand its range of products and services and sell to existing customers or create new markets in different parts of the world thereby increasing value and growth. Grant (2010), described it as risk reduction strategy that enables shareholders spread risks. He noted that the focus of diversification analysis has been to identify

the circumstances in which multi-business activity can create value (Grant, 2010: 406). To determine if diversification will create shareholder value, Grant advised to apply Porter's essential tests – the attractiveness test, the cost of entry test and the better off test, Grant (2010: 408). He explained that without diversification, firms are practically prisoners in their own industry. Branson successfully built companies from ground-up but strategic alliance with firms with the resources and capabilities might be beneficial. Alliance is something Branson knows well. In 2007, he negotiated an alliance with an Indian company Tata to establish Indian Virgin mobile. Branson should do the same by diversifying into road construction in developing countries like Nigeria. An alliance with an already established company in Nigeria with the resources and capabilities such as China's Shanghai Shibang Machinery company (SBM) will be ideal. SBM provides construction companies with large amounts of stone crushers, sand making machines and industry grinding machines. Virgin has economies of scope as a result of tangible and intangible resources due to its brand name, this can be exploited to increase value through licensing or franchising.

Virgin's operating styles have been designed by Branson. Things have changed, Virgin should adjust its financial structure. Branson should consider looking within the group and consolidate or divest companies that are not performing well. Grant (2010) noted that to obtain the tax relief from Virgin's loss-making firms, there are clear advantages to consolidation. Branson argued that Virgin companies operate on a standalone basis but consolidation of some in similar businesses such as Virgin Atlantic, Virgin Blue and Virgin Express, Virgin Retail and Victory Corporation will create

more financial stability. This will also cut down the overhead of conducting multi businesses and offer customers more diversified service range.

Virgin is a successful brand of small companies that run independently, its organisational structure has been as styled by Branson. The structure has worked to an extent but Virgin should allow its brand name to be used by other small good companies through franchise and collect royalties. Grant (2010), described the Virgin brand as its most valuable asset. The benefit of franchising the brand means Virgin can reduce risk, provide the much needed cash that it requires to run other profitable businesses, watch the business grow with minimal involvement, freely expand to other businesses and enter new markets in new countries. Franchisees are very important source of new market offerings and product concepts. Many companies have done well through franchise such as McDonald's, Trump hotels etc.

The management structure of Virgin has been centred on one man, Branson and operated with little formal structure or management systems, this will not last forever. An organisation as big and diverse as Virgin should have a top-bottom management system instead of decisions being made by Branson and a few close pals. It is important that a well detailed management structure is in place instead of no-building, no-headquarters type of management he operates. The system may have worked under Branson does not mean it will work after him. Virgin is not a one-man business, it is a multi-national corporation and if Branson was to become less active as chief entrepreneur, public relations director and strategic architect without a defined management structure in place, who or what would take



his place (Grant, 2010: 822)? A centralised and systematic way of managing the future without Branson is what Virgin needs like Apple Inc.