Virgin mobile company analysis

Critically analyse and evaluate the macro environment in which Virgin Mobile (VM) operates. What do you believe to be the key drivers affecting the mobile segment in the UK?

Virgin Mobile is part of Virgin Group Limited, a venture capital conglomerate founded by British business tycoon Sir Richard Branson. Virgin Mobile was the first Mobile Virtual Network Operator which launched in United Kingdom in 1999 as a joint venture between T-Mobile and Virgin Group. This means that Virgin Mobile does not maintain its own network; instead uses long term contracts to use networks and infrastructure of existing mobile service providers, T-Mobile in this case. After its launch, Virgin Mobile followed niche marketing and targeted consumers within the age groups of 18 to 35 years. The company marketed its brand smartly among its target market by creating flashy advertisements and attractive sales outlets. It initially targeted to tap in Pre-Pay segment customers and later venture into Post-Pay domain. The company strongly believed that greater employee satisfaction would result into improved customer service which in turn would create a differential advantage for the company to increase and maintain its customer base.

It is very essential for a company to evaluate the macro environment in which it operates. It usually is the first step of Strategic Analysis of an organisation before further analysing a project. The purpose of such analysis is to identify the possible opportunities and threats for the industry which are outside its direct control. The result of such analysis will directly impact the decision made by managers of any organisation. The framework which helps analyse Macro-Environment is termed as PESTLE Analysis. This is a useful tool which helps in understanding of market growth or decline, potential, direction for operations and business position. As demanded in this question, I would be analysing Macro-Environment of Virgin Mobile using PESTLE framework. The factors which are reviewed in this analysis include: Political, Economic, Social, Technological, Legal and Environmental forces which are beyond control of Virgin Mobile management.

Figure 1. Macro Environmental Forces (Grant, 2010: 65)

Political Factors: These refer to policies which are governed by political groups or governments. For example the degree of intervention of political groups in the economy, goods and services that government wants to promote, level of subsidy provided to firms, tax policy, tariffs, trade restrictions, environmental law, labour law and political stability. As Virgin Mobile focussed on Pre-Paid customers, it enjoyed the benefit of mobile phone subsidies which was about a three month payback versus three years of contract. This regulation resulted in increased profitability of Virgin Mobile. Other political factors that influenced telecom industry around 2000 were:-

¿½ Bidding of five 3G licenses. Bidding took place among 13 companies.

¿½ Government promoted innovation and use of technology.

¿½ Mobile phones were playing a big role in upcoming elections in May¿½2000.

As quoted by Sir Richard Branson, “ 2002 was the best year in Virgin Mobile’s history; the year in which it truly proved to be the great success we always knew it would be. It was the year we acquired our two-millionth customer; it was the year we went into profit; and it was the year our turnover reached ¿½290m. 2003 is going to be even better – by the end of the year we will have more than three million customers, and a turnover in excess of ¿½400m. Virgin Mobile is proving to be one of the most formidable companies in the Virgin Empire, and one of the most dynamic in the telecoms industry.(BBC News, 2003)¿½

Economic Factors: The macro economic analysis identifies movements in economic market conditions such as interest rates, inflation, disposable income of customers, exchange rates, etc. which can have a major impact on company¿½s operations. For example, inflation may result in higher wage demands from staff members which would result in increased cost to company. Higher disposable income of customer may lead to increased demand of a company¿½s products. The telecom industry had a prosperous growth from 1999 to 2003. The number of mobile subscribers increased from around 15 Million in 1999 to 50 Million in 2003. With such a promising increase in number of subscribers, Virgin Mobile enjoyed the sharp increase in customer base in the period. It had the opportunity to tap in customers in Pre-Pay segment by offering their simplified tariff structure which was marginally cheaper than other Telecom Operators in the UK telecom industry. The Telecom industry employed huge man force which contributed to consumer confidence leading to high industry growth.

Social Factors: The analysis of macro social and cultural environment identifies trends in society values, beliefs, norms and behaviour. It also takes into consideration effects on organisations due to other social factors such as age distribution, emphasis on safety, population growth rate, career attitudes, etc. GSM Mobile handsets sales were rapidly growing and had a direct effect on usage and prevalence of mobile phones. There was increased focus on convergence of technology in which mobile phones paid a huge role. Popularity of mobile phones was on the rise among younger section of the society. As a result, Virgin Mobile followed niche marketing for its telecom offerings and targeted comparatively younger market segment than other mobile operators. The company¿½s advertisements were focused on youth and employed innovative ideas to share common thoughts and beliefs. Virgin Mobile retail outlets were often designed in trendy colours and patterns and attracted younger generations. The company also strongly focused on maintaining high employee satisfaction. It believed that happy employees return better services to its customers. They had various promotional benefits for employees which motivated them to work dedicatedly in line with organisational goals. This was the reason that Virgin Mobile maintained a top rank in employee as well as customer satisfaction. According to The Sunday Times (2005), the company was considered to be one of the top 100 best places to work in the UK. Other macro level factors include:

Technological Factors: The analysis of macro technological factors tracks the changes in application of technology in the industry. In the current electronic age, with rapid developments in technology, industries are changing their operating strategies much more frequently than ever before. Technologies can have a direct impact on costs reduction, innovative features and offerings and improve quality of service. Such advancements often benefit both, the service provider and the consumers. Virgin Mobile in this case was a Mobile Virtual Network Operator which focussed largely on its service offerings rather than technological advancements. It shared T-Mobile¿½s technical infrastructure and ensured that Virgin Mobile keeps up with the technological advancements in the industry. The company signed a contract with T-Mobile to upgrade its telephony services to 3G network after its launch by T-Mobile. However, Virgin Mobile developed some innovative approaches to keep up with its offerings to its customers. It offered an exciting portal called Virgin Bites which was accessible to all its customers. The portal offered latest news from social and cultural world and was considered a breakthrough in its offerings compared to its competitors. Virgin mobile was the first company to offer free Voice Mail services, prepay airtime bundles which did not have an expiry date and removed peak time rates. The company had simple tariff options and no hidden costs and offered services cheaper than its competitors.

Legal Factors: These factors monitor the legal macro environment in which the company operates. The factors are closely related to all the other factors included in PESTLE framework and tend to change with changes in other factors. For example, improved economic factors lead to relaxed legal forces and are in turn supportive for organisations. Another health and safety law was enforced in 2004, which prevented use of mobile phones while driving. This led to increase in sales of Bluetooth headsets and in car hands free. Similarly changes in social and cultural factors tend to have spontaneous changes in legal factors in which the company operates. Legal factors can directly affect consumer laws, competition laws, employment laws and health and safety legislation. These changes can broadly impact firm¿½s operations and is one of the most critical factors in PESTLE analysis framework. The case study highlights legal disputes between Virgin Mobile and T-Mobile which led Virgin Mobile to buy stakes in its joint venture. As informed by BBC, Both the companies were involved in a bitter ownership battle to gain commercial advantage in the market (BBC, 2003). These kind of legal issues tend to affect the company¿½s operations and shall be predicted beforehand so as to tackle the effect of such situations on its product offerings.

Environmental Factors: These factors take into consideration the macro environmental factors such as climate and weather changes. With dramatic changes in climate due to pollution and global warming, this is a key factor to be considered by organisations. Recycling of products is becoming a major trend in all the industries across geographies. These climatic factors have led to many major innovations and developments in various products and services. Virgin Mobile has sponsored various events and programmes for the cause of environment and has taken many steps towards reviewing its usage of paper, inks and other resources across its operations in an attempt to adopt environment friendly approach. According to Jonathan Kini, director, commercial at Virgin Mobile, " Virgin Mobile is determined to take steps to minimise the impact of its direct marketing activities on the environment. It is an on-going process, but we and our customers recognise that every step matters. Marketing and communication are essential to our success, but these activities need to be sustainable in both economic and environmental terms. (Brand Republic, 2007)"

To summarize, the Macro-Environmental factors for Virgin-Mobile were largely favourable as it was the first VMNO in the UK. It largely focussed on delivering services to its customers and utilized T-Mobile¿½s technological offerings. The consumer demand for wireless connections was increasing at a steep rate and Virgin Mobile faced intense competition from its industry rivals. But with favourable macro environmental factors, the company managed to grow rapidly during its initial stage of introduction and grossed a healthy market shared within 4 years of start.

All the above factors are essential to be assessed by company management in order to predict and prepare a company¿½s offerings in case of any eventuality. These factors have to be considered separately for different levels at which they are applied as these can vary across geographies, business divisions and brands. These also have to be differentiated between factors which are local, national or global as there can be situations where macro environmental factors are completely diverse across each of these levels.

However, it is not just important to consider the Macro-Environment, as it does not still give the complete picture of the factors involved in the business. Managers of an organisation also need to analyse in detail various other frameworks and factors essential for a business to enter, sustain and grow in a given market condition. Such different factors will be assessed in following questions and their assessments.

Question 2: Critically analyse and evaluate the key industry and competitive forces for the UK mobile telephone industry. How attractive or profitable is this industry?

UK mobile telephony market is considered to be big part of the overall economy. Market share in this industry is largely controlled by 4 major telecom operators: O2, Vodafone, Orange and T-Mobile. There are numerous other service providers called as Virtual Network Operators who utilize technological infrastructure of above listed service providers. ¿½The UK has a total of 80. 3 Million mobile subscribers with a penetration rate of 130. 55% ¿½. As implied by these figures, the mobile connections exceed the total population of UK and hence the industry can be termed as highly competitive in nature. Hence it is very important for a company to evaluate its competitive forces to sustain and grow in what can be called as a saturated telecom market. Aim of such evaluation is to reach desired profitability while capturing favourable market share and establish long term stability.

Porter¿½s 5 forces is the most efficient analysis which can be carried out to evaluate the competitive forces and profitability in this industry. According to his theory, the analysis of an industry can be carried out by analysing: Threat of a new entrant, intensity of existing competition, threat of substitutes for products or services, bargaining power of buyers and bargaining power of suppliers. A comprehensive analysis of these factors for UK Telecom Industry has been done in the following text.

Figure 2. Porter¿½s 5 Forces (Dibb, et al, 2006: 52)

Threat of new entrant: An industry not only faces threat from existing rivals, but also increases competition from possible new arrivals in the industry. However due to Macro-environmental factors, there may exist several barriers to entry. This threat to an industry is not constant and always changes with the market scenario. Increase in profit margins of an industry would lead to increased threat of new entrants and on the other hand, may lead to exit of firms while profits decrease hence maintaining market equilibrium.

Considering the case of UK Telecom Industry in 1999, it majorly constituted of 4 telecom giants, Vodafone, Orange, O2 and T-Mobile. These companies were not competing on price and therefore gave Virgin Mobile (VM) a favourable chance of entering into the industry. As VM entered the industry as a VMNO, there were few barriers to entry faced by the company. It did not have to invest large amount of capital for setting up its technological base like licencing for spectrum and developing mobile sites. This offered an opportunity to VM to offer low cost telecom services to the industry and achieve a competitive advantage from its rivals. The sharp increase in mobile subscribers lured many other companies like Easymobile, Tesco-Mobile, Fresh (Managed by Carphone Warehouse) and 3 in the later stages. This increased competition led to revision in policies and strategies of existing industry players and had a direct impact on the tariffs offered by all the operators.

However in the current market scenario, where mobile penetration has passed 100% and more than 22 operators in the industry, barriers of entry still remain low, as spectrum access rights are not necessary. The only factor which is alarming for companies is high churn rates which are difficult to control giving rise to intense competition within the industry.

Intensity of existing competition: For majority of the industries, intensity of competition from existing rivals is the major element determining competitiveness of the industry. The UK telecom industry is facing a strong competition, not only by numerous existing operators, but also due to highly saturated markets making it difficult to find new customers. MVNOs like VM and Easymobile pose a greater threat to Mobile Network Operators as they offer low prices compared to MNOs and offer a similar range of services. In such a situation, the industry players try and gain competitive advantage and publish the same through various advertising channels.

Threat of substitute products and services: Substitute products (often belonging to different industry) pose a big threat to existing products in the industry. These substitutes can affect the existing products by price cuts and capturing market share of the later. As more substitutes are available in the market, consumers have a larger choice of alternatives resulting in elastic demand of the product. In context of telecom industry, Voice over Internet Protocol (VoIP) poses a big threat to mobile communication. VoIP services such as SKYPE and Google Talk offer free computer to computer voice and video conferences and messaging services. The rise in use of these alternate services has led to loss in revenue worth billions. However, telecom operators are now offering fast and efficient data services like 3G which offer similar services of mobile video calling and conferences. The service providers are also partnering with Google and other alternative internet services to create a common framework and allow much more versatile options for its customers. For example ¿½3¿½ has partnered with Skype and allows free Skype to Skype calls through its mobile network.

Bargaining power of buyers: This can be termed as the direct impact that customers pose on industry offering services/products. In an industry, when buyer power is strong, the relationship can be termed as Monopsony: Which is a market having many suppliers and a single buyer. There is a scarce chance of a perfect monopsonic market, but there are situations when the relationship between buyers and producers varies either way. Taking UK telecom industry into consideration, it can be said that customers have high bargaining powers. As there is a choice of many MNOs and MVNOs, customers are free to switch from one service to another if unsatisfied with the current service. Service quality factor plays a big role retaining a customer to a network and build a strong brand relationship between the two. This in a way can be done by engaging customers in long-term contract plans, offering service bundles and thus creating a differentiation from other competitors.

Bargaining power of suppliers: Almost all of the industries require raw materials to process and prepare their product offerings. Consumer of raw materials, i. e. the producer of finished goods, if powerful can influence the supplier¿½s ability of selling raw material at a lower price. In UK Telecom domain, there seldom exists a backward integration. The suppliers in case of MNOs and MVNOs can be the mobile handset providers such as HTC and Samsung who partner with telecom operators to bundle their cell-phone along with operator¿½s Sim-Card. Suppliers in such relationships seldom have bargaining power and hard to find in the telecom industry resulting in low bargaining power of suppliers.

Hence to summarize, it can be said that UK telecom market is highly competitive. It has had immense growth since inception of Virgin Mobile in the industry. The industry witnessed the number of players increase from 4 to currently 22 operators including both MNOs and MVNOs. The total customer base has increased almost 5 times since 2000 and almost reached to a saturation level in the present state. The market operators currently are focussed on decreasing their churn rates and tapping new customers by offering various bundled services, creating differential advantage, innovative offerings and aggressive marketing through various means of advertising channels.

Question 3: Critically analysis and evaluate Virgin Mobile¿½s Business Model. How does Virgin Mobile achieve competitive advantage?

Virgin Mobile, a service provider in UK which was launched in 1999 as the world¿½s first Mobile Virtual Network Operator (MVNO). Being a virtual network operator, Virgin Mobile does not maintain the technical infrastructure for its service offerings instead uses long term contracts with Mobile Network Operators (T-Mobile in this case) to use their technical setup. Virgin Mobile was launched as a joint venture involving T-Mobile and Virgin Group. Virgin Group is a British conglomerate offering business products like Beverages, Airlines, Trains, Financial services, Cable TV, Cosmetics and other host of products and services. Each of these businesses operate as a separate line of business (LOBs) and Virgin holds controlling to a minimal stake across these businesses.

Virgin Mobile entered into UK Telecom industry which was then controlled by four major telecom giants: O2, Vodafone, Orange and T-Mobile. The strategy of Virgin Mobile entering into the industry as a MVNO proved to be highly successful for the company. The company inherited its values from Virgin Group to be customer centric, maintain high employment satisfaction and provide high quality and value for money services without focussing on its technological base which was provided by T-Mobile. The company¿½s operating business model was innovative and first of its kind in Telecom Industries. Opting to be a virtual network operator meant Virgin Mobile lowered its barriers to entry into the telecom industry. VM managed to save a significant capital investment on spectrum and technical infrastructure as compared to MNOs thus providing it a competitive advantage to start with the business.

To start with VM followed the approach of Niche marketing and targeted customers with in the age group of 18 to 35. These target customers are considered to be dynamic, fashionable and enthusiastic and match the characteristics and values of Virgin Group. The company decided to start with Pre-Pay tariffs, a common choice of teen age groups and college goers. VM designed their service outlets in a trendy style which lured its target audience. The customer service personnel were highly trained and motivated who had thorough knowledge of company¿½s products and offerings. VM also ensured its products were easily reachable through partnerships with other effective distribution channels like Carphone Warehouse, Link and Phones4You.

As VM was competing with well-established mobile operators, it was important for them to offer a tariff which was competent enough with the existing ones. It was the first operator to remove peak time rates and provide free voice mail retrieval services. It also offered a simple tariff plan with no hidden costs. The services provided (voice, text and data) were offered at very competitive rates which were almost 35% lower to its competitors.

VM was highly focused on providing first class customer experience. The company trained its professional and set high quality standards. This had a direct impact on its existing as well as probable customers. They were highly impressed by the customer engagement process and developed brand loyalty towards Virgin Mobile. This helped reducing churn rates of existing customers and acted as an attractive feature for customers on other operators.

All these characteristics of Virgin Mobile strategy contributed to its operating model which further guided the company on its road to success. The company gained competitive advantages in the industry and helped virgin mobile to penetrate the mobile industry which was dominated by MNOs. Competitive advantages of Virgin Mobile can be seen as follows:

Figure 3. (Have et al, 2003: 87)

Cost Leadership: Following this approach, a company aims to become low cost operator in the industry. As highlighted in the case study and text above, being a virtual operator requires less initial capital and therefore yields high returns on investments. Capital expenditure as a percentage of earnings was a minimal 2. 1% for year 2005 and ensured constant service gross margins. A customer spending 10. 5 GBP per month could add to value to Virgin Mobile profit margins. The company offered tariff plans which were around 20% cheaper than other operators and also offered flat rates abolishing peak time rates. It offered recharge coupons which could be used anytime without having the hassles of getting expired after a particular duration. It also offered Pre-pay bundles for customers having high usage of calls/messaging services which were 70% cheaper than Virgin¿½s standard tariff. Following this approach, Virgin Mobile established a clear cost leadership in the industry and attracted not only its targeted young consumers, but also customers from other age groups.

Differentiation: This approach when followed enables a company or its product to be unique in the industry that is highly valued by its customers. Differentiation can be achieved by a company in many areas like: Distribution, Sales, Marketing, Service, Innovation, etc. Virgin Mobile was successfully able to create differentiation for its services which has been detailed below:

Distribution: Virgin Mobile handled distribution of its products in a very effective manner. In a short span of 5 years, its network of sales outlet grew to 6, 000. The company utilized Virgin Megastores to setup ¿½stores within stores¿½ to promote the sales and employed dedicated specialists sales representatives. The stores were designed is a trendy way to appeal the customers who felt relaxed when visiting them. The in-store representatives were trained efficiently to appease the customers which added to the Virgin experience. VM products were also available at popular retail outlets like Woolworths, Comet, Argos, Sainsbury, Tesco and ASDA. VM reported sales of only 22% through its own retail channels which illustrates the effectiveness of Virgin Mobile¿½s distribution channel.

Marketing: Virgin as a brand is seen as stylish and original. The group believed that no business is impossible and Virgin could do it better with effective marketing and adding value added elements into the services offered. The same was carried on by Virgin Mobile which was then well established and was seen as highly credible. Virgin Mobile spent only a small percentage of its sales revenue on advertisements. The advertisements were very innovative and targeted music and sports using high profile sponsorships. Virgin Mobile sponsored various sports and music events which added to its marketing objectives. Virgin Mobile¿½s television commercials were continuously rated among the top advertisements and won many awards since 2001 till 2004.

Innovation in product and services: Virgin mobile was clearly a pioneer in innovating new services and offerings. Virgin was the first operator to offer a flat rate tariff without any hidden costs, abolish peak rates, and offer free voice mail to its customers. The pre-paid airtime bundle carried over to next month if left unused and vouchers never expired. The customers were offered all available modes of payments including cash, debit and credit cards. VM offered its customers a wide range of mobile phones which were stylish, trendy and high-end. The range of mobile phones available in Virgin was the highest compared to any other service provider. It also offered separate pay-monthly financing schemes for customers who did not want to take a contract to get a mobile phone. Virgin offered bright coloured boxing of packages and included a complete starter pack for a hassle free customer experience. Virgin also launched an information services portal called the Virgin Mobile Bites which provided latest news and gossips right to their customer¿½s mobile phones.

All these attempts by Virgin Mobile clearly differentiated its brand and its offerings among the existing industry competitors and paved a strong route to success in the industry.

Question 4: What competitive strategy is Virgin Mobile following? Discuss the advantages and disadvantages of Virgin Mobile strategy. How can Virgin enhance its value proposition in light of your analysis?

Virgin Mobile after its launch established a strong foothold in telecom industry. It devised long term strategies to create differential advantages so as to capture potential market share. Initially Virgin Mobile developed long term contracts with T-Mobile to utilize its well established state of the art network infrastructure. This enabled Virgin Mobile to start its operations at a low initial investment which resulted in quicker and higher return on investments. The company devised a strategy of market segmentation to identify its target market and concentrated on young customers ranging from 18 to 35 years age group. This target market segment suited to Virgin Mobile¿½s image which focused on stylish and innovative services.

The company after identifying its target market segment devised strategies for cost leadership in the market. Company rolled out simple tariff plans which were easy for the customer to understand and had no hidden costs. These tariffs were significantly lower than the current market standards and offered innovative value added propositions in addition to basic voice and messaging services. The company initially focussed on Pre-Pay segment as it was still untapped by other existing telecom operators who focused mainly on Post-Paid and corporate segments of the market. Pre-Paid segment had many advantages compared to Post-Paid contracts such as higher average per minute charges, lower administration costs and reduced credit risk which lead to higher revenue of Virgin Mobile.

Virgin Mobile paid a lot of attention in the ways their products and services were marketed among the telecom industry customers. They wanted to tap in Pre-Pay customers and wanted their products to be readily available to its potential customers. The company devised strategic plans to partner with common and famous retail chains to promote and sell their products. The period of 1999 to 2004 witnessed a substantial growth in number of consumers as well as mobile usage patterns. This resulted in increased market share of Virgin Mobile users and gave a huge boost to Virgin Mobile¿½s revenue. In the later years, after 2004, as the telecom market started to saturate, Virgin mobile devised strategies to retain existing customers from switching to other telecom operators i. e. reduce churn rates and try and capitalize on similar churn happening in customer base of other mobile operators in the market. The company also offered attractive bundles for customers which added value to their service.

As every strategy that is devised by the company is not perfect and does not reap the desired benefits from the industry, Virgin Mobile too had some advantages and disadvantages of their strategies applied in UK Telecom Industry. These have been discussed below:

Advantages:

1. Virgin Mobile was owned by two well-known brands: Virgin Group and T-Mobile. This acted as a strong base for the company to build its credibility among UK Telecom Industry. The company heavily capitalized on technical infrastructure provided by T-Mobile and was ranked among the best service providers in the industry.

2. The company also capitalized on existing Virgin Group Megastores and other retail chains to market their products to a wider audience which was a big boon for Virgin Mobile.

3. Innovative services like Virgin Bites proved to be an advantage. The company also offered various innovative bundles and promotional packages which helped them to retain existing customers and attract new ones.

4. The company focused on first class brand experience for their customers through stylish designed sales outlets and submissive sales executives who were efficiently trained to appease customer¿½s queries and problems.

Disadvantages:

1. Virgin Mobile followed niche marketing theory and concentrated on a small section of potential buyers. However, as per the case study, a majority

of its customers later came from a different age group of society which was more than 40 years of age. This was a contradiction with its marketing strategy which was majorly focused on customers in the age group of 18 to 35. After identifying this trend, the organisation should have revised its strategy to cater to this new segment of customers. The company should have first segmented the market, prioritize