Virgin group – richard branson

Business, Entrepreneurship

RICHARD BRANSON'S VIRGIN GROUP —Problems— Although certainly notorious, Richard Branson's Virgin Group has experienced several problems. In the short-term, brand overextension has become a threat since the company has entered multiple markets. Brand overextension leads to damaging the comprehensive Virgin brand. Since the Virgin brand itself is the company's greatest asset, protecting the brand image is critical. The Virgin brand image has a connotation of value and lifestyle. Due to many joint ventures, licenses, and alliances with other companies, the objective of the " Virgin experience" could be destroyed.

Furthermore, as Virgin becomes more global and more adaptive to individual cultures, the customer experience will certainly vary, again leading to brand overextension. For example, although the United Kingdom may condone Virgin's racy and edgy advertisements, other parts of the world, as our group testifies, views such material quite explicit and even shocking. Thus, while Virgin enters different markets, negative impacts can arise, hindering Virgin's brand. A second short-term problem is Virgin's financial information that is fragmented, hard to locate, and even interpret.

With the company's different alliances and joint ventures, questions about the financialhealthof the Virgin group were being asked. Thus after examination, Virgin faced financial challenges that led to negative cash flow. This was mainly due to the Branson's approach of stand-alone basis where the most profitable company's revenues financed new market entrances. Despite some profitable areas of Virgin, many did not generate cash. Therefore, as Virgin grows, a more systematic approach must be implemented to create synergies between businesses. Long-term problems also exist for Virgin.

First is Branson’s close affiliation to Virgin. What happens if the public tire of his exploits? What will happen to Virgin when Branson 1 leaves? An implication of these questions is that Virgin needs Branson. Virgin’s strong brand is fortified by Branson’s own personal values. A second long-term problem for Virgin is the company’s little formal structure and management system. Although this structure presently works for Virgin, allowing the company to be viewed as entrepreneurial and innovative, in the long-term creativity must be managed at Virgin. Company Analysis— After analyzing Virgin through various analytical frameworks including internal/external analysis, SWOT analysis, and value chain analysis, we have discovered the importance of Virgin’s strong brand and diversification strategy. In sum, Virgin’s strongest capability is the company’s strong brand. The brand’s foundations of entrepreneurship and eccentricity result in Virgin being a strong customer-oriented company. Since the Virgin brand is so strong, the company has been able to diversify into many new markets.

Diversification for Virgin is made possible by joint ventures and strategic alliances that are ultimately less risky. Thus the Virgin brand leverages Virgin’s resources. Furthermore, Branson’s values are revealed in the Virgin company. The brand image, which is the motor of the company, results in innovative start-ups that keep Virgin both successful and sustainable. — Alternatives— To continue Virgin’s success, we have identified several alternatives. First, Virgin could go public; thereby gaining additional capital that could be used to fund new start-ups.

The disadvantage with this alternative is that Virgin would be forced to abide by formal accounting rules, which Branson states he does not favor. Furthermore, Virgin’s brand could become diluted since the image would move towards a more traditional stance. 2 A second alternative is that Virgin’s management could designate Branson’ s successor and prepare that person to take on the task of CEO. The advantage of this alternative is that the fate of Virgin is not attached to Branson alone. This could help separate Branson from the Virgin brand that allows Virgin to flourish as a company, and not merely an extension of Branson himself.

Additionally, newleadershipcould prove beneficial for Virgin’s long-term success, and namely deciding Virgin’s structure. However, Branson’s absence could also weaken the brand in the short-term. Since the public easily identifies with Branson’s traits as loyal and fair, customers could perceive Virgin negatively. To thwart such initial negativity, Virgin could slowly implement the new successor, allowing him or her to also revel in the spotlight alongside Branson. Thirdly, Virgin could dispose of unprofitable companies.

This consolidation would result inmoneysaved and the creation of a more formal organizational structure. Therefore, across the board, Virgin would be able to have a more uniform decision processes. Consolidation would also reassure investors since the corporate structure would be less complex and financial data more readily available. The motives for diversification are growth, risk reduction, and profitability. If Virgin cannot achieve thosegoalsthrough the diversification strategy, then there are no reasons why Virgin should keep unprofitable companies.

Focusing on related industries would then give Virgin expertise; and thereby creating both value for shareholders and exploiting economies of scale. Furthermore, Virgin could allocate resources among the firms more efficiently, giving Virgin better future strategy formulations. 3 — Recommendations— One must analyze Porter’s essential tests that that include the attractiveness test, cost-ofentry test, and the better-off test, to determine whether a diversified strategy has a sustainable competitive advantage.

Because Virgin’s strong brand is firmly embedded in the company’s corporate structure, the attractiveness test reveals that many—though not all (example is the unprofitable Virgin Money)— of Virgin’s diversified companies are attractive. Secondly, costof-entry must be considered. For Virgin, many entry costs are feasible, because profitable Virgin companies support the new start-ups. And thirdly, the better-off test shows that new companies within Virgin must be profitable and add value.

Although many new companies do not add financial benefits, the new companies do add brand value. Thus the answer to the question whether Virgin is a successful diversified company is clearly yes. Overall the diversification works quite well. However, we do recommend that Virgin exit the unprofitable industries and consolidate. This would be beneficial in the short-term as capital immediately becomes available. Furthermore, this would also help Virgin in the long-term as only profitable companies remain, allowing Virgin to increase revenue.

In looking at Virgin’s long-term success, we recommend that Virgin continue its short-term strategy of further developing expertise in key areas. Thus, long-term market saturation would be avoided, while also maintaining Virgin’s strong brand awareness. Despite Branson’s strong presence, we also suggest that Virgin slowly implement a successor. Virgin’s brand is aboutpersonality—indeed the company needs a strong focal point. As humans are not immortal, the slow implementation of a new personality could also capture the public’s attention. 4 5