Virgin media business strategy

This report is a study of Virgin Media Inc and the business strategies that define the company. The analysis was an attempt to correlate the theories that define the business strategies of a company and the practical approach taken by Virgin Media in those areas. So we have performed a study of the Marketing Mix of Virgin Media and based on our findings a SWOT Analysis of Virgin Media.

From the results of the SWOT analysis we have drawn our conclusions of what Virgin Media has to focus on in the future and predict the path that they should take.

Virgin Media: A First Look

Virgin Media is a leading name in the communication and entertainment sector providing a “ quad play” of services consisting of broadband, television, mobile and fixed line telephone. The company was founded by Sir Richard Branson and has James Mooney as the company chairperson and Neil Berkett as chief executive officer of the firm. It has established itself as UK’s leading media and communication provider and has built its large business through constant innovation, successful diversification and competitive product design using a future proof strong communication network.

Virgin Media’s three main operating segments

- Cable
- Mobile
- Content

The cable segment offers broadband Internet, television and fixed-line telephone services under the Virgin Media brand to residential customers in U. K.

In the mobile segment Virgin Mobile has teamed up with T-Mobile by purchasing airtime from T-Mobile and branding it under the Virgin Mobile brand name.

The content segment includes eight genre-based entertainment channels, including Virgin1, Living, Bravo, Trouble, Challenge and Challenge Jackpot. The content segment also oversees the company's interest in the UKTV television channels through joint ventures with BBC Worldwide. There is also the Video On Demand services and the website services that provide movies, TV shows and news to the customers.

History of Virgin Media

In March 2006 NTL and Telewest which were UK's leading cable companies merged together to become the provider of UK's leading triple-play services. Later in July 2006 the merged company acquired Virgin Mobile providing the first quadruple-play offer of TV, internet and fixed and mobile telephony services from a single operator. Finally in February 2007 the combined companies were rebranded and launched as Virgin Media. Virgin Media has rebranded Ntl: Telewest, the company's business Internet Service Provider (ISP), as Virgin Media Business. Virgin Media is the largest privately built network in the UK, with 330 Ethernet PoPs and over 38, 000 street cabinets across the country. Virgin Media Inc. Is listed on the NASDAQ Stock Market and the London Stock Exchange (VMED)

Track Record

Virgin offers ultrafast internet access of up to 50Mb to just over half of all homes in UK. Virgin Media has one of UK's most advanced TV on demand services and was the first TV platform to carry BBC iPlayer.(#CITATION) . It is the second largest provider of pay TV, was the first to launch a high definition TV service and offers a high-specification, HD-ready V+ personal video recorder. It is also one of the largest fixed-line home phone providers in the country.

Virgin Media has also announced that it would be launching 100 Meg broadband services by the end of December 2010.

" We are expanding our trials of a 200Mb broadband service and are planning the commercial launch of a 100Mb service later this year. The development of our next generation TV platform is progressing well and we are confident it will provide the UK's most accessible, comprehensive and seamless home entertainment experience. ", Says Neil Burkett CEO of Virgin Media.

Virgin media's performance in the stock market has improved over the last year. Its share price fell in the beginning of 2008 but remained stable during the recession period. Stock price have been rising from the fourth quarter after the company announced its successful Q4 results for the year 2009 . This shows that company has gained the trust of the investors.

Technology

Virgin Media is one of the largest residential broadband providers in the UK using a unique fiber optic cable network. It is the first company in UK to offer

Broadband, Telephone, and TV through its fiber optic cable network. The fiber optic cable is made of glass and it delivers vast amounts of information at the speed of light whereas other providers use copper wires to deliver information, which is much slower than optical fibers.

The fiber optic network gives the customer all the benefits of next generation telecoms:

- It helps to reduce costs through voice and data convergence
- It quickly transfer large volumes of data
- Helps to centralize and secure your data storage
- Instantly implement disaster recovery plans

Key Facts about Virgin Media

- Revenue: 3. 8 Billion (GBP)
- Employees: 10939

Marketing Orientation

The aim of a Market oriented company is to satisfy the customer needs and requirements and to align their products and services to the demands of the customers. A typical marketing orientation model is shown below.

A market oriented company tries to continuously improve customer satisfaction. To deliver superior customer value they pay close attention to service, both before and after sales.

The concept of market orientation is built on three pillars of:

- Customer focus
- Coordinated marketing

- Profitability.

An organization’s capabilities to develop an orientation towards each of these three pillars depend on the internal structure and culture.

Virgin Media follows a market orientation strategy in which the company is concerned about the customer’s requirements and needs. It pays attention to what its customer needs and delivers the information accordingly. Also due to high competition amongst various service providers Virgin Media also follows Sales orientation in which the company pays attention to the s of sales as well.

Virgin Media has put together 3 strategic priorities in its “ Manifesto”:

- Engaging our people
- Growing our business
- Fixing the fundamentals

Virgin media has created a broad portfolio that can be tailored to enables its marketers to meet customer requirements. Product diversification within a single business allows it to be one step ahead of its competitors.

Virgin Media believes in continuously interacting with its customers, either on day-to-day basis or in one of their stores, during a home installation or on the phone with one of Virgin Media’s agents.

Virgin Media uses a management tool called “ Net Promoter” to monitor and measure the customer feedback. This helps the company to improve their performance by analyzing the feedback and suggestions from its customers.

Show below are statistics of Virgin Media's customers and the number of customers added in 2009.

Competitive advantage

Competitive advantage is termed as " The achievement of superior performance through differentiation to provide superior customer value or by managing achieve lowest delivered cost" (Jobber, D., (2009), Principles and practice of marketing, 914)

UK has become a highly competitive market for the telecom sector. With the government pushing for improved broadband services for everyone (http://news. bbc. co. uk/1/hi/technology/8012848. stm) Broadband speed offered by service providers has gone from up 14. 4 kbps to 50 mbps. There is a cutthroat competition in the broadband sector with more than 20 companies serving 61. 4 million population of UK. (http://www. statistics. gov. uk/cci/nugget. asp? id= 1352).

Due to this intense competition major market players like BT, Virgin media and Sky have almost similar packages offered to their customers while playing to their strengths in different market segments. Sky offers the most number of channels than any other service provider in UK and hence sky subscribers tend to be those who prefer their superior television services whereas Virgin media advertises its superior broadband network and hence its subscribers are normally those who use internet more. BT has more customer base due to its economical packages (Table 1).

Services offered

2 Comparison of the basic packages offered by BT, Sky and Virgin Media

* Package information taken from

* http://allyours. virginmedia. com/? buspart= Portal_HP_topnav_1_1

* http://www. sky. com/shop/bundles-offers/popular-bundles/

* http://www. productsandservices. bt. com/consumerProducts/displayCategory. do? categoryId= CON-BT-BUNDLE-I&s_intcid= con_intban_overview_packages_home

In HDTV section Sky seems doing far better than Virgin media. They have positioned well in HD TV market. Virgin's video on demand service is highly acclaimed by the viewers (750m views in 2009, 50% rise over previous year). Bravo, a pay channel of Virgin media has acquired exclusive rights of the US block buster series Spartacus: Blood and Sand. Despite this Sky added 172, 000 customers in the fourth quarter and Virgin media added only 34, 200 new subscribers. Due to the uniqueness of services offered by sky Virgin media seems is lagging behind in the race when it comes to TV channels.

In order to study the competitive advantage a company has over its competitors, Porter, M. E. (1998) suggested the five forces model.

Analysis of Five forces for Virgin Media:

Entry barriers: Entry into the telecom industry is primarily determined by the high cost of the fixed assets. There are significant costs to be incurred like the cost of establishing the network, operating costs of the network and associated infrastructural costs. Virgin media has spent billions of pounds just to lay the optic fiber cable network required. Acquiring telecast rights for sporting events, TV shows etc. is also a key entry barrier determinant as the competition for the rights normally increases the price, making it harder for new entrants. BT a significant competitor and running on an aging copper based network is finding it hard to convince its investors to develop infrastructure after incurring current losses in excess of £7b.

The telecom industry is an extremely competitive market where key market players try to make profits through sales volumes and not price. So for an entrant into the market the initial return on investment will be low and market expectations for generating profits in the long run are low as well. The market is also highly competitive and any product or service is immediately replicated by the competitors. For example BT has offered a 40 mbps broadband service to compete directly with Virgin Media’s 50 mbps broadband service.

There is a significantly high cost for advertisement as the competition is with established brands with significant brand recall. The telecommunication service is a vital and intensely used and hence customers demand high quality of service. Service complaints are investigated by OfCom, UK’s independent regulator of the telecommunications industry and hefty fines are placed on service providers for poor service quality. All these factors combined reduce the number of new entrants into the telecommunications sector.

Rivalry determinants: Due to the presence of significant market players like SKY and BT, there is intense competition in the telecom industry. Increase reliance on internet has increase customer expectations and dominant market players frequently reduce prices to attract more customers. There is hence a reduction in overall profitability and investments are hence done cautiously.

Key market players have strong brand names and hence significant brand loyalty. Competing brands have their unique strengths making it difficult for users to switch networks. Sky network offer premium television content and hence retain its customers even though Virgin Media has a superior high speed internet network. Customers also find it easier to take all the bundled services from a single provider due to advantages like ease of payment and discounts on bundled deals. High switching costs hence make it increasing difficult for Virgin Media to increase its market share.

Supplier power: To develop a cost leadership advantage one really needs to control supplier power. This is one big determinant of economies of scale. As there are many competitors in the telecom sector, suppliers tend to demand higher prices for the services in od force the company to provide better deals. The supplier may refuse to work with the company if their demands are not met and provide its services to a competitor.

For example Sky charges a high wholesale price to its competitors like Virgin Media to permit them to display their premium offerings like sports. Since Sky has all the associated broadcasting rights and Sports channels are in great demand by the UK consumer, Virgin media and BT have no choice but to pay more for the content. Owing to this fact Sky has become a dominant force in the Television sector as its competitors are not able to match its prices.

Threat of substitutes: There are players like Sky and BT in the bundled services market segment and O2, Vodafone Talk-talk etc. in individual service market segment. All of them offer comparatively similar services at very competitive prices. Due to this it is difficult for a new customer to choose a service. The choice may then be made instantaneously and based on current need. For example a sports fan when choosing a new service may immediately go for the Sky network without much consideration to the quality of the other networks. Existing customers may also be tempted to switch networks due to economic or service based needs. Virgin Media could lose an existing customer to BT which offers more economical bundle packages and with the upcoming sports events like the football world cup and London Olympics it could lose customers to the Sky network as well.

Also in order to reduce network congestion during peak hours, Virgin Media throttles the network speed and this has irked some of its internet users. If a rival service makes a claim that it does not perform such a speed check on the network, users may switch to the rival network.

Buyer power: Every service provider in the telecom sector aims at minimizing its churn rate (rate at which a customer leaves the service). Hence the customer enjoys a greater degree of bargaining power. Service providers tend to offer discounts and cheaper rates to ensure that they do not lose customers. Virgin media may be forced to renegotiate deals with the customers in order to minimise this risk.

Five forces analysis though tells us about the microenvironment of the business, it is not enough to gain competitive advantage.

A firm can get competitive advantage by developing strategies to create value to customer. Michael Porter suggests that company can either differentiate their product or service by,

- Differentiating their product offering or
- Managing lowest delivered cost.

Competitive strategy options model

Virgin media has adopted a Differentiation leader strategy and utilises this in its advertising campaigns. Virgin Media advertisement campaigns focus on the fact that it is UK's fastest network and that it offers premium content on its Video on demand services. In a survey conducted by Ofcom Virgin media broadband speed was found to be highest in all the service providers.

Traffic on Broadband Network affect Speeds

In order to create differentiated or lowest cost position it is important to understand the value chain of a company. Value chain analysis provides a holistic view of the company. It provides a framework for understanding the nature and location of the skills and resources that provide a basis for competitive advantage. Activities of a company are grouped into two

- Primary activities – that generate a profit margin for the company
- Support activities – that facilitate the primary activities

The goal of a company is to ensure that the primary activities are performed efficiently so that the costs incurred from the primary activities and support activities remain lower than the price paid by the customer for the service provided, thereby granting a profit margin to the company.

Virgin Media's Value chain: An analysis.

Inbound Logistics: Virgin media has tie ups with BBC, ITV and Television show broadcaster to deliver their content on its network. Having settled their disputes with Sky network regarding television content Virgin media now has a tie up agreement with Sky network for their premium television content like Sky sports, Sky one etc. However the wholesale broadcaster fee of Sky Network is high causing a significant increase in costs for Virgin media. But Virgin media does not have to depend on a third party service provider for network and related logistics because it has its own superior network and in house facilities for network management. Hence it has a significant reduction in network costs.

Operations and Service:

Company is rated for its internet speed and its VOD service. This indicates that they have good operations throughout the UK. Their Web support chat window appears as soon as a net user starts browsing website. The response to queries was quick and informative when tried online. BT also has similar service however it was less prompt than Virgin media. They also have their support through social networking sites like Twitter and Face book. Virgin gives all options to pay bills.

Outbound logistics:

Virgin media gives installation and maintenance service to all its customers. Customer can opt for e bill or a normal hard copy. When order for new connection is placed it is completed within 7 working days. Any new subscription to any of their service is completed on the same day. Because Sky is a dish network, customers are required to take permission from the societies which can cause annoyance to the customers. This gives competitive advantage as Virgin service can be obtained through BT cable.

Marketing and sales:

Company is strongly advertising on internet and television. They are using social networking sites aggressively for their advertising. They have completely understood the need of the segment they are targeting and marketing their broadband speed as their customer winning strategy. Company also believes that calling the customers may spoil the image of company hence they have strict rules for calling customers.

Procurement:

Virgin has established a code of conduct for its suppliers. Best part is that company focuses on environment and labor issues when purchasing decisions are made.

Technology development:

With fibre technology Virgin media become UK's second largest telecom service provider company. They are unique in the market. Company is testing 100mbps broadband speed and will be operational by 2011. They are also trialing 200 mbps broadband. Company also have technologies to support web based learning and automated hospital care; with which they are ambitious to capture the market.

Human resource management:

Virgin media recently axed 2200 jobs due to economic slowdown. This will have a profound effect on its image in the employees. Company seems emphasizing more on employment cuts for cost effectiveness which will affect the morale of the employees. For cutting costs Virgin Media has outsourced some of its operations like billing and front end calling. This will benefit them in reduce expenses and increase efficiency. http://www. computing. co. uk/computing/news/2205297/virgin-signs-network-contract

Firm infrastructure:

Virgin media is operating in telecom market with its giant network. They have 186, 000 km nationwide fibre-optic network worth £13 billion. They also have 157 telephone switches. Their infrastructure can support 70, 000 calls/minute. 35% of the UK's broadband traffic is handled by Virgin media. This works as an entry barrier for new entrants in the telecom market.

Suggestions:

With sound technology and infrastructure virgin media has lot of opportunities to spread its network in the rural areas. Company can improve its internal customer relationship and boost the morale of the employees. There is higher scope of improving the logistics in terms of new connections being completed within 48 hours and compete Sky network. They can also improve their billing system by offering payment through set top box.

Virgin Media's Marketing Mix: An Analysis

Marketing Mix:

Marketing Mix is defined as " The tactical tools that marketers use to implement their strategies" (Kotler 2008: 202).

The four basic factors that we analyse the marketing mix on are

- Product
- Price

- Place
- Promotion

For a successful marketing strategy, one needs to come at the equilibrium of above four tools.

- Product

“ A product is anything that is capable of satisfying customer needs”, (Jobber, D 5th edition : 326).

Virgin media has four main products in its portfolio.

- Television
- Broadband
- Landline
- Mobile

Virgin Media’s product portfolio is built up of intangible products making the post purchase services offered to the customers like customer services, help lines and value added content an important aspect of the Augmented Virgin Media Product.

Virgin Media distinguish its product from other competitors like Sky and BT by using special feature like optic fibre cable and forms a total product.

The core product can be differentiated in many ways

Customers can be reached by applying following marketing mix:-

Functionality: Virgin media’s network is fibre optic network that provided support for high bandwidth and is unique in comparison to its competitors like BT and Sky who are still dependent on Copper based data transfer networks. This has helped Virgin media to gain customers attention as customer focus is now on high speed internet.

Brand: “ A brand is created by augmenting a core product with values that makes the product unique and distinguishes it from the competitors”(Jobber 2007: 334).

“ To achieve high sales, you need a powerful Brand Name behind it , which ultimately retains their customers through” brand loyalty”(Jobber 2007: 334).

Having an established brand name normally puts a business in a secure position in the competitive market as customers tend to focus on perceived brand value through the strong brand name. This enables retention of even the price conscious customers due to the loyalty created with the brand.

Virgin media has Customer Based Brand Equity which is defined as “ The differential effect that brand knowledge has on customer response to the marketing of the product” (Jobber 2007: 332). The Virgin Group started by Sir Richard Branson has a significant market presence in various sectors due to a varied range of products like Virgin Records, Virgin Airlines. This provides a positive impact in the market as a first time customer will associate Virgin Media with the brand values and market value of the Virgin Group.

Managing the Product Mix – Positioning and Repositioning:

Positioning

" A product's position is the way the product is defined by consumers on important attributes – the place the product occupies in the minds relative to the competitive products."

Virgin media operates in three segments in the B2C segment.

- Cable segment
- Data Content
- Mobile Segment

In the cable segment Virgin media occupies the position of a Market leader because of its future proof fibre optic cable network that has won it the " Fastest home broadband Award " for their 50 MB broadband services. Due to its superior network Virgin Media is able to differentially position themselves against their competitors like BT and SKY

In the Data Content Segment. Virgin media occupies the position of a market

In the mobile segment Virgin media is playing catch up to most other providers like O2 and 3 Mobile services. It currently has an agreement with T Mobile for use of its airtime under the brand of Virgin Media.

Repositioning

In Feb 2010 Virgin Media rebranded NTL/Telewest as Virgin Media Business. The rebranding came as Virgin media stepped up its effort to capture market share from BT which is the dominant operator in the B2B market segment. By rebranding the name the Virgin Media family is able to use the Virgin Brand name and improve its marketing capability.

As Richard Branson has quoted

" Good progress with network development leaves Virgin Media Business well positioned to expand its offer out to smaller corporates."

http://www. telecomseurope. net/content/virgin-media-branson-means-business

Market Positioning Of Virgin Media: Ansoff Matrix analysis

" The emphasis on product portfolio analysis is managing an existing set of products in such a way as to maximize their strengths. But companies also need to look to new products and markets for future growth. A useful way of looking at growth opportunities is the Ansoff Matrix."

Existing Market: Existing Product: The Market Penetration Strategy is used when a company attempts to capture market share by launching its own version of an existing product. Focus then is placed on aggressive advertising and promotions

Virgin Media had applied this strategy to capture market share from BT when it launched its broadband services. It emphasised on advertisement campaigns and cheaper package deals to capture customers from Sky.

Existing Market: New Product: The Product development strategy is used when a company attempts to launch a new product in an established market catering to its existing customer base. Virgin Media has proposed to launch its 100 mbps broadband service as an upgraded product to its customers to improve on its existing portfolio offerings

New Market: Existing Product: The Market development strategy is used when a company attempts to target a new market with an existing product. Virgin media launched its broadband services with a fixed focus on home customers. Utilising its existing network and operational services it has re-launched its B2C arm as Virgin Media Business in order to capture market share from BT.

New Market: New Product: The Diversification strategy where a company launches new products in new markets where it had no market presence at all. While Virgin Media was a diversification strategy of Virgin group there is no product or strategy currently utilised by Virgin Media to justify this approach. The intense competitive nature of the business also makes it riskier for the company to attempt such diversification at this point of time.

Stages of PLC for Virgin Media:

Product development: When an established company enters in the market with new product with new design and development, the sales are zero. Virgin media has not disclosed any information about a product in this stage and typically this information would be secret as the telecommunication industry is highly competitive.

Introduction: When a new product is introduced in an established market, the profit would be very less and the cost of introduction of the product would be very high , also it will lead to a small growth in sales. Virgin Media has launched its 100 mbps Broadband service as test service in Coventry on a test basis.

Growth: When the new product is accepted in the market company starts making the profit , this period of acceptance and the profit would fall into ' Growth' of the PLC graph. Virgin media's VOD services fall in the Growth sector as it has recorded a 50 % growth in 2009.

Maturity: When the product captures the majority of its market customers, slowdown the sales growth. There is decline in the Profit level because of increasing marketing costs in order to remain competitive. Virgin Media 20Mb Broadband being second popular choice has reached its maturity stage and there is a slow growth in the number of new customers. Hence Virgin Media has launched its 100 mbps broadband service in order to return the broadband segment into the growth.

Decline Stage: When a product performs poorly and there is a reduction in sales it is known as the decline stage. Currently in our assessment Virgin Media does not have any product that is in the decline stage.

BCG Matrix of Virgin Media

The BCG Growth- Share Matrix is designed by leading management consultancy Boston consulting Group (BCG) which allows drawing the portfolio in 2X2 diagram and thus analysing the product. The BCG matrix gives guidelines for setting strategic objectives on the cash flow and categorized as.

- Stars: Build sales/ Market shares
- Problem children: Build selectively
- Cash Cows: Hold sales or/and market shares
- Dogs : Harvest or focus on defendable niche

After analysing Virgin Media products the portfolio of the product can be drawn as follows

50MB Broadband, VOD

Broadband+Landline+Mobile+TV Mobile Services

50Mb Broadband is a STAR because that has been awarded the fastest Home broadband . Virgin Media being the first Quad play player in the market they got positive response from their customers, that's why TV, Broadband , landline and mobile Services as a bundle falls in CASH COW. Mobile Services has got fierce competition in the market that's why virgin Mobile Services falls in DOG sector.

Promotion

" Promotion means activities that communicate the merits of the products and persuade the target customers to buy it". (Armstrong and Kotler 2009: 84)

Promotions help to influence customer's purchase behavior. Promotion also keeps people informed and educated about the product.

Advertising plays an important role in Virgin Media's Marketing Strategy. Virgin Media uses different means to educate and inform the customers about their products like television, pamphlets distribution, hoardings, internet, direct marketing and newspapers.

Elements of Promotion:

Direct Marketing:

In Direct Marketing there is a direct communication with individual or group consumers either by internet, mail, email, fax, telephone etc. Direct marketing is useful to communicate directly with the potential buyers avoiding any intermediaries. Virgin Media does their direct marketing through call centers, sales representative, internet or distributing the pamphlets.

Advertising:

“ Any paid form of non-personal communication of ideas or products in the prime media.” (Jobber D. and Fahy J. Foundation of Marketing 2nd Edition 2006: 225). Virgin Media follows the product oriented advertiser strategy. This strategy involves highlighting the product features, services, price through various advertising channels such as television, internet, magazines, e-marketing etc.

Virgin Media advertisements have been controversial due to the nature of their claims. A campaign “ Truth Lies and Broadband” was subject of an ASA (Advertising Standards Authority) inquiry due to the complaints from its competito