

The Virgin Group in 2012*

At the beginning of 2012, Richard Branson was 61 years old and his Virgin group of companies had been in business for 43 years. Yet neither Branson nor his business activities showed much sign of flagging entrepreneurial vigor. In financial services, Virgin Money was in the process of a major expansion of its UK retail presence through acquiring bank branches being sold off by Northern Rock and Lloyds Group. In health clubs, Virgin Active—boosted by its acquisition of rival Esporta—was expanding into new markets in Asia and Latin America. In healthcare, Virgin was using its acquisition of Assura to establish itself in primary healthcare services in the UK. In communication and computing services, Virgin's initiatives included wireless services in Latin America and cloud computing services for corporate customers in the UK. In the travel business, Virgin continued to be a pioneer: Virgin Galactic spaceship service was undergoing test flights and selling seats at \$200,000 each.

Yet despite Branson's prominence as Britain's best-known entrepreneur and one of its richest individuals¹—his Virgin group of companies remained a mystery to most observers (and to many insiders as well). At the beginning of 2012, there were 228 Virgin companies registered at Britain's Companies House (68 of which were identified as "removed" or "recently dissolved"). In addition, there were Virgin companies registered in some 25 other countries. These companies were linked through a complex network of parent-subsidiary relations involving a number of companies identified as "holding companies". For most of the Virgin companies the ultimate parent was identified as Virgin Group Holdings Ltd. which was registered in the British Virgin Islands.

The complexity of Virgin's legal and ownership structure meant that its financial condition was opaque. Doubts had frequently been expressed about the overall financial health of the group.² Branson was dismissive of such speculation, claiming that analysts and journalists misunderstood his business empire. Each Virgin company, he argued, was

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financed on a stand-alone basis and attempts to consolidate the income and assets of the companies were irrelevant and misleading. Moreover, Branson had little regard for accounting profits: cash flow and capital value were his preferred performance indicators. Short-term accounting losses were quite consistent with growing the value and long-term cash-generating potential of a business:

The approach to running a group of private companies is fundamentally different to that of running public companies. Short-term taxable profits with good dividends are a prerequisite of public life. Avoiding short-term taxable profits and seeking long-term capital growth is the best approach to growing private companies.³

Underlying questions about financial performance were concerns over the strategic rationale and the manageability of the Virgin group. The group's 300 separate companies covered a wide range of businesses. In an era of corporate refocusing when most conglomerate companies had either refocused or broken up, the Virgin group was an anomaly. A key vulnerability was the Virgin brand: with such broad business coverage it risked becoming overextended and its integrity damaged. Of greater concern was the need to maintain coordination, accountability and strategic control of this dispersed business empire. Despite a new management structure involving the appointment of co-CEOs in July 2011, Branson remained the inspiration and unifying force within the group. As he became less involved in Virgin's business activities and more involved in Virgin's environmental and charity activities, would Virgin need to replace its informal, freewheeling management style with a more formalized control structure? Or should it even consider break-up with the sale or floatation of its individual businesses?

Development of the virgin group, 1968–2012

Richard Branson's business career began while he was a student at Stowe, a private boarding school. His startup magazine, *Student*, was first published on January 26, 1968. The magazine displayed features that would characterize many of Branson's subsequent entrepreneurial initiatives. It targeted the baby-boomer generation appealing to their optimism, irreverence, anti-authoritarianism, and interests in fashion, popular music and avant-garde culture. It also filled a "gaping hole in the market". The early success of the magazine encouraged Branson to leave school at the age of 17, before taking final exams.

Virgin records

Branson's next venture was mail-order records. With almost no fixed investment and little working capital, Branson could easily undercut the established retail chains. The name "Virgin" was suggested by one of his associates who saw the name as proclaiming their commercial innocence. In 1971, Virgin Records opened its first retail store—on London's busy Oxford Street.

Entry into record publishing resulted from a meeting with an unknown musician, Mike Oldfield. Branson installed a recording studio in his Oxfordshire home and the resulting album, *Tubular Bells*, released in 1973, was an instant hit, eventually selling over 5 million copies worldwide. The Virgin record label then went on to sign up bands, several of whom—such as the Sex Pistols—had been shunned by the major record companies. During the 1980s Virgin Records grew rapidly with the signing of Phil Collins, Human League, Simple Minds, and Boy George's Culture Club.

Virgin atlantic airways

Virgin Atlantic began with a phone call from Randolph Fields, a Californian lawyer who proposed founding a transatlantic, cut-price airline. To the horror of his colleagues at Virgin Records, Branson was enthralled with the idea. On June 24, 1984, Branson appeared in a First World War flying outfit to celebrate the inaugural flight of Virgin Atlantic in a second-hand 747 bought from Aerolinas Argentina. Unlike Branson's other businesses, the airline business was highly capital intensive and heavily regulated; it also required a completely new set of business skills, such as the need to collaborate with governments, banks, and aircraft manufacturers.

Virgin Atlantic's huge financing needs encouraged Branson to seek an initial public offering for most of Virgin's businesses other than Virgin Atlantic. In 1985, 35% of Virgin Group plc was listed on the London and NASDAQ stock markets.

Branson's experience as chairman of a public corporation was frustrating: the financial community's expectations of the role and responsibilities of a chairman of a public corporation were incompatible with his personality and lifestyle. Following the October 1987 stock market crash, Branson took the opportunity to raise £200 million to buy out external shareholders.

Virgin everywhere!

As a private company, Virgin continued to expand, using both internal cash flows—mainly from Virgin Atlantic Airways—and external financing. Between 1988 and 2011, Virgin

launched a near-continuous stream of new businesses (see the timeline in the Appendix). These new businesses were concentrated around a few main areas of opportunity:

- **Travel.** The success of Virgin Atlantic—which extended its route network and won many customer service awards—encouraged Branson to launch other airlines. These followed the business model of the low-cost carriers—but with the addition of Virgin’s distinctive approach to differentiating its in-flight experience. New airlines included the Brussels-based Virgin Express (later merged into Brussels Airlines), Vintage Airtours flying restored DC-3s between Orlando and Key West, Virgin Blue in Australia, Virgin America in the US, Pacific Blue in New Zealand, and V Australia with service between Sydney and Los Angeles.⁴

Other travel and aviation ventures included Virgin Lightships offering airship advertising, Virgin Rail, Virgin Galactic and Virgin Balloons.

Linked to Virgin’s airline interests were investments in hotels and vacation services, including a lodge and wildlife park in South Africa.

- **Retailing.** Virgin’s record stores provided a platform for internationally-expanding retail interests. The Our Price chain of UK record stores was a joint venture between Virgin and W.H. Smith & Company. Virgin Megastores pioneered “experience-based retailing” not just in the UK but also in Japan, the U.S., Australia, and continental Europe. Virgin Bride was a UK chain of bridal stores.
- **Information and communication technology.** The rapid developments in digital technologies created a whole new field of opportunity for Branson. The advent of the internet allowed Virgin to expand its retail interests into the online retailing of a number of products including automobiles, wine and music downloads. The most successful of these was Virgin Direct (later renamed Virgin Money), a joint venture with Norwich Union, offering credit cards and other personal financial products.

The start of cellular communication encouraged the launch of Virgin Mobile, a joint venture with Deutsche Telecom, which pioneered the “virtual network operator” model of wireless service (Virgin Mobile purchased network access from other providers). The Virgin Mobile strategy was then replicated in the U.S., Australia, South Africa and South East Asia. Virgin Net, an internet service provider, was a joint venture with cable operator NTL. NTL subsequently acquired both VirginNet and Virgin Mobile UK to create Virgin Media Inc.—the UK’s first “quadruple play” provider offering TV, broadband internet, mobile and fixed-line phone services. Virgin Group held a 10.6% shareholding in Virgin Media and licensed the Virgin brand to it.

- **Deregulation and privatization.** Virgin’s cell phone business was only possible because of the deregulation of telecommunications in Britain and other countries.

The the wave of privatization and deregulation of the 1980s and 1990s offered other entrepreneurial opportunities for Branson to exploit the Virgin brand and its flair for innovative customer service. Virgin acquired two passenger rail franchises that were combined to form Virgin Rail—a joint venture with transportation specialist, Stagecoach. Deregulation in Australia permitted the launch of Virgin Blue. Virgin also bid, unsuccessfully, to operate the British National Lottery.

- International expansion. During 1998–2011, much of Virgin’s growth was outside the UK. This involved replicating overseas successful Virgin ventures such as Virgin Mobile, Virgin Active, Virgin Money and Virgin Atlantic. Virgin’s international expansion concentrated on North America, Australia and South Africa.

Other new ventures launched by Virgin defied categorization—they were the result of opportunism and Branson’s whims. These included a chain of health clubs (Virgin Active), space flight (Virgin Galactic), biofuels (Virgin Fuels, Virgin Bioverda) and Virgin Health Bank, where parents could store the blood stem cells from their newly-born babies.

Focusing the group, 2005–2011

Throughout its history Virgin has divested some of its ventures either wholly or partially. Some of these divestments were to tap sources of investment funding (e.g. the sale of 49% of Virgin Atlantic to Singapore Airlines in 1999 and floating of Virgin Blue). In other cases it was because Branson wished to release equity to fund more attractive businesses (e.g. the sales of Virgin Megastores and Virgin Mobile UK). During recent years the pace of divestment by Virgin increased as it sought to eliminate financially unsuccessful businesses. These included, among others, Virgin Vie, Virgin Cosmetics, Virgin Cars, Virgin Bikes, Virgin Brides, Virgin Drinks, Virgin Mobile Singapore and Virgin Money USA.

The virgin group of companies in 2012

On its corporate website, Virgin describes itself as follows:

Virgin is a leading branded venture capital organisation and is one of the world’s most recognised and respected brands. Conceived in 1970 by Sir Richard Branson, the Virgin Group has gone on to grow very successful businesses in sectors ranging from mobile telephony to transportation, travel, financial services, media, music and fitness.

Virgin has created more than 300 branded companies worldwide, employing approximately 50,000 people, in 30 countries. Global branded revenues in 2009 exceeded £11.5 billion (approx. US\$18 billion).

We believe in making a difference. Virgin stands for value for money, quality, innovation, fun and a sense of competitive challenge. We deliver a quality service by empowering our employees and we facilitate and monitor customer feedback to continually improve the customer's experience through innovation.⁵

Most of the business activities of the Virgin Group are conducted through the 49 companies listed on the Virgin website. These companies are grouped into six categories plus Virgin Entrepreneur, Virgin's business start-up function (see Figure 1).

The virgin brand

The Virgin brand was the group's greatest single asset. It was unusual in terms of the range of products it encompassed. Could a brand that extended from rail travel to recorded music have any meaningful identity? The Virgin website offers the following explanation:

Figure 1 Virgin's business portfolio

<p>Travel</p> <ul style="list-style-type: none"> V Australia Virgin Atlantic Airways Virgin Australia Virgin America Virgin Holidays Virgin Holidays + Hip Hotels Virgin Holiday Cruises Virgin Limited Edition Virgin Vacations Virgin Trains 	<p>Lifestyle</p> <ul style="list-style-type: none"> Virgin Active UK Virgin Active Australia Virgin Active Italia Virgin Active Portugal Virgin Active S. Africa Virgin Active Spain Virgin Experience Days Virgin Racing Virgin Balloon Flights The Virgin Voucher 	<p>Media & Mobile</p> <ul style="list-style-type: none"> Virgin Mobile Australia Virgin Mobile Canada Virgin Mobile France Virgin Mobile India Virgin Mobile S. Africa Virgin Mobile UK Virgin Mobile USA Virgin Media Virgin Produced 	<p>People & Planet</p> <ul style="list-style-type: none"> Virgin Earth Challenge Virgin Green Fund Virgin Unite
			<p>Money</p> <ul style="list-style-type: none"> Virgin Money UK Virgin Money Australia Virgin Money S. Africa Virgin Money Giving
		<p>Entrepreneur</p>	<p>Music</p> <ul style="list-style-type: none"> Virgin Megastore Virgin Radio International Virgin Festivals
	<p>Other Virgin Business</p> <ul style="list-style-type: none"> Virgin Books Virgin Galactic Virgin Health Bank Virgin Limobike Virgin Wines US 	<ul style="list-style-type: none"> Virgin Connect Virgin Games Virgin HealthMiles Virgin Wines Australia 	<ul style="list-style-type: none"> Virgin Digital Help Virgin Gaming Virgin Life Care Virgin Wines UK

Note: Includes only those companies listed on the Virgin website.

Source: www.virgin.com/companies

All the markets in which Virgin operates tend to have features in common: they are typically markets where the customer has been ripped off or under-served, where there is confusion and/or where the competition is complacent. In these markets, Virgin is able to break into the market and shake it up. Our role is to be the consumer champion, and we do this by delivering to our brand values, which are:

- Value for Money: Simple, honest and transparent pricing—not necessarily the cheapest on the market.
- Good Quality: High standards, attention to detail, being honest and delivering on promises.
- Brilliant Customer Service: Friendly, human and relaxed; professional but not corporate.
- Innovative: Challenging convention with big and little product/service ideas; innovative, modern and stylish design.
- Competitively Challenging: Sticking two fingers up to the establishment and fighting the big boys—usually with a bit of humor.
- Fun: Every company in the world takes itself seriously so we think it's important that we provide the public and our customers with a bit of entertainment—as well as making Virgin a nice place for our people to work.⁶

These attributes were conveyed to customers through Virgin's approach to differentiating its offerings. Virgin Atlantic pioneered a range of innovative customer services (principally for its business class passengers). These included inflight massages, hair stylists, aromatherapists and limousine and motorcycle home pickup services. In 1998 it introduced a speedboat service along the Thames from Heathrow to the City of London, allowing financiers the opportunity of dodging London traffic jams. British Airways—huge, stodgy and bureaucratic—provided the ideal adversary against which Virgin Atlantic could position itself. When British Airways was experiencing problems erecting its giant Ferris wheel, the London Eye, Virgin positioned a blimp above the site bearing the message "BA Can't Get It Up!"

Some of Branson's ventures seemed to be inspired more by a sense of fun and eagerness to "stick it to the big boys" than by commercial logic. When Virgin Cola was introduced in 1994 (packaged in a "Pammy" bottle modeled on the body of *Baywatch* star Pamela Anderson), the goal, according to Branson, was to "drive Coke out of the States."⁷ By 1997, Virgin Cola was losing £5 million on revenues of £30 million.

Virgin's ability to extend its brand so widely pointed to the broad appeal of Virgin's values and business principles. Much of this appeal was linked with Richard Branson's persona and style. The values and characteristics that the Virgin brand communicated are inseparable from Richard Branson as entrepreneur, joker, and "acceptable face of capitalism".

By identifying with Branson's personality and values, the Virgin brand allowed Virgin companies to position themselves as distinctive alternatives to established market leaders. Thus, the difference between Virgin Atlantic and BA, between Virgin Cola and Coca Cola, and between Virgin Money and the major banks was not primarily about products; it was more about the companies' identity and how they related to their customers.

The affection of the British public for Branson—and the appeal of the Virgin brand—reflected the alignment between Branson's values and sense of fair play with some of the traditional values that defined the British character. In battling huge, anonymous corporations, Branson recalled the heroes of yesteryear who fought against tyranny and evil: King Arthur, Robin Hood and St. George. His willingness to appear in outlandish attire reflected a British propensity for eccentric dressing-up, whether for fancy-dress parties, morris dancing, or the House of Lords. But this distinctiveness also raised questions as to the appeal of the Virgin brand outside of Britain. It was unclear whether Branson and the Virgin brand could achieve the same rapport with consumers in other countries as they did in Britain.

A key risk was overextension of the Virgin brand. The head of brand identity at Landor Associates commented: "He's still way too unfocused. He should get out of businesses that don't fit the Virgin/Branson personality, such as beverages, cosmetics, certainly financial services, or come up with another brand name for them."⁸ One element of this risk, was that under-performance in just one Virgin business might contaminate the entire brand. One source of risk was Virgin Rail: the structural problems of Britain's congested rail infrastructure made it difficult to provide a reliable, punctual service.

Despite his renown, Branson, too, might be waning in market appeal. Was there a risk that, having seen Branson as flight attendant, Branson in a wedding dress, Branson with different world leaders, and Branson's hot-air ballooning stunts, the public might tire of his exploits?

Richard branson and the virgin business development model

Almost all of the Virgin businesses were new startups. From the founding of *Student* magazine through to the formation of Virgin Galactic, Branson's strength as a businessman was in conceiving and implementing new business ideas—not that Branson was

the source of all of Virgin's new business ideas: he acted as a magnet for would-be entrepreneurs from both inside and outside the Virgin group. The idea for Virgin Bride had originated with a Virgin Atlantic employee dismayed by the products and services offered by existing U.K. bridal stores. Virgin Active South Africa resulted from Nelson Mandela's request that Branson acquire a South African health club chain that had gone bankrupt putting thousands of jobs at risk. Virgin encouraged the submission of new business ideas to its corporate development offices in London, Sydney and New York.

Virgin's approach to business start-ups reflected Branson's values of innocence, innovation and irreverence for authority. His business ventures, just like his sporting exploits, reflected a "just live life" attitude and a "bigger the challenge, greater the fun" belief. He was particularly drawn to markets where conservatism and lack of imagination by incumbent firms resulted in underserved customers. Here Virgin's "new" and "anti-establishment attitude" could offer customers a better alternative. Financial services were one sector where Branson hoped to bring "a breath of fresh air."

However, by 2012, Virgin's business development process had become much more systematized:

When we start a new venture, we base it on hard research and analysis. Typically, we review the industry and put ourselves in the customer's shoes to see what could make it better. We ask fundamental questions: is this an opportunity for restructuring a market and creating competitive advantage? What are the competitors doing? Is the customer confused or badly served? Is this an opportunity for building the Virgin brand? Can we add value? Will it interact with our other businesses? Is there an appropriate trade-off between risk and reward?

We are also able to draw on talented people from throughout the Group. New ventures are often steered by people seconded from other parts of Virgin, who bring with them the trademark management style, skills and experience. We frequently create partnerships with others to combine industry specific skills, knowledge, and operational expertise.

Contrary to what some people may think, our constantly expanding and eclectic empire is neither random nor reckless. Each successive venture demonstrates our devotion to picking the right market and the right opportunity.

Once a Virgin company is up and running, several factors contribute to making it a success. The power of the Virgin name; Richard Branson's personal reputation; our unrivalled network of friends, contacts and partners; the Virgin management style; the way talent is empowered to flourish within the group. To some traditionalists, these may not seem hard headed enough. To them, the fact that Virgin has minimal

management layers, no bureaucracy, a tiny board and no massive global HQ is an anathema. But it works for us! The proof of our success is real and tangible.

Our companies are part of a family rather than a hierarchy. They are empowered to run their own affairs, yet the companies help one another, and solutions to problems often come from within the Group somewhere. In a sense we are a commonwealth, with shared ideas, values, interests and goals.⁹

The virgin group's management structure and style

As already noted, the legal and ownership structure of the Virgin group is highly complex. A number of holding companies own, either wholly or partially, the equity of Virgin's many operating companies. For example:

- Virgin Money Ltd. is the main UK operating company of Virgin Money; however its activities are contracted out to Virgin Money Management Services Ltd. It is a subsidiary of Virgin Money Holdings (UK) Ltd. which as a subsidiary of Virgin Financial Services UK Holdings Ltd.
- West Coast Trains Ltd, Virgin's main UK rail franchise, is owned by Virgin Rail Group, which is owned by Virgin Rail Group Holdings Ltd, the majority of which is owned by Virgin Holdings Ltd., which is a subsidiary of Virgin Wings Ltd.

These holding companies are, for the most part, ultimately owned by Virgin Group Holdings Limited—a private company registered in the British Virgin Islands and owned by Richard Branson and a series of family trusts.

This financial and legal structure reflects Branson's wariness of the financial community and his unconventional ideas about business. Virgin's intricate structure involving offshore private companies and holding companies which disguise the identity of minority shareholders through the use of "bearer shares" cloaks the Virgin empire in a thick veil of secrecy.¹⁰ However, it also allows Virgin to retain the entrepreneurial dynamism of a collection of mostly medium-sized companies which are able to draw upon the enthusiasm and commitment of their employees.

Branson's approach to management reflected his values and personality. Informality and disrespect for convention were central to Branson's way of business. His dislike of office buildings and the usual symbols of corporate success was reflected in the absence of a corporate head office and his willingness to do business from his family homes, whether a houseboat in Maida Vale or Necker Island Caribbean retreat. This lack of separation between work, family, and leisure—indicated by the involvement of cousins, aunts, childhood friends and dinner-party acquaintances in business relationships—reflected

a view of business as part of life which, like life, should involve excitement, creativity and fun. His hands-off approach to his business empire is based upon giving autonomy and incentives to talented managers who he trusts. Once a new Virgin business is up and running, it is handed over to a trusted managing director and financial controller. The top management team are provided with equity stakes or options and expected to develop the company. A large number of Virgin managers have become millionaires.

Branson's management approach also reflected the social changes during his formative years. To many of his generation he embodied the spirit of "New Britain." In a country where business leaders were members of "the establishment" and identified with the existing social structure, Branson was seen as a revolutionary. Despite a privileged family background, Branson had the ability to transcend the social classes that traditionally divided British society and segmented consumer markets. As such, he was part of a movement that sought to escape the Old Britain of fading empire, class antagonism, Victorian values and stiff-upper-lip hypocrisy.

Branson's antipathy towards authority and convention is reflected in his disrespect for conventional business principles. He argued that Virgin's network of small companies combined "small is beautiful" with "strength through unity." In a speech to the Institute of Directors in 1993 he explained the business maxims that he believed to be necessary for success: "Staff first, then customers and shareholders" should be the chairman's priority if the goal is better performance. Other guiding principles included: "Shape the business around the people;" "Build don't buy;" "Be best, not biggest;" "Pioneer, don't follow the leader;" "Capture every fleeting idea;" and "Drive for change".

Since the beginning of 21st century, the management of the Virgin group has become more formalized. In particular:

- Virgin Management Ltd. is the source of management leadership to the group. As the website explains:

At the centre, Virgin Management Ltd (VML) provides advisory and managerial support to all of the different Virgin companies and our specialist. Sector teams around the world. Our people in London, New York and Sydney offer regional support and between us and the Sector teams we manage Virgin's interests across the whole of the Virgin Group.

VML's fastidious number-crunchers get to manage Virgin's financial assets in the group, our cheeky marketeers and spin doctors get to protect and maximise the value of the Virgin brand and our touchy-feely people teams ensure Virgin is an employer of choice.¹¹

- Sector teams, each headed by a managing partner, provide oversight to companies within a particular area of business: “These bigwigs look after interests in aviation, media & telecom, financial services, health & wellness, leisure, and Green (clean technology) investments. The specialists keep our companies on their toes and ensure we keep developing better experiences and world beating products.”¹²
- Virgin Enterprises Ltd. owns and manages the Virgin brand. Neil Hobbs, intellectual property lawyer for Virgin Enterprises, explained: “Our role is both to optimize and enhance the value of the brand and to protect that by ensuring that that value is not diminished through infringement by third parties. Virgin Enterprises licenses companies both within and outside the Virgin Group to use the Virgin brand.”¹³ During the year to end-March 2011, royalties from licensing the Virgin brand to members of the group and to other companies amounted to just £35 million.

In July 2011, Virgin underwent a significant management reorganization with the appointment of two co-chief executives to head Virgin Group Holdings Ltd: David Baxby and Josh Bayliss, head of both Virgin Asia-Pacific and the aviation business, and Josh Bayliss, general counsel.

The company described the move as part of a long-term plan devised by Peter Norris, chairman, and Mr. Murphy. “The aim now is to stick our heads above the parapet and look at the Far East, look at South America, look more at North America,” said Nick Fox, spokesman, on Monday.

Mr. Baxby, 37, a former Goldman Sachs banker, and Mr. Bayliss, 38, will be based in London and Geneva, as part of a small senior team of managers. Virgin’s chief financial officer, Mark Poole – who spent 20 years at the company – will also step down. Virgin expects to fill his role with an internal candidate.

The new co-chiefs will oversee all the company’s investments, which include operations in telecoms and media, banking, rail, aerospace, health and renewable energy.

Nevertheless, formal structures and process form a minor part of the Virgin management system. At the heart are two critical components of the system: culture and personal relations.

The Virgin culture is organizational embodiment of Branson’s eccentricity, sense of fun, dis-respect for hierarchy, informality, commitment to employees and consumers and belief in hard work and individual responsibility. While the working environment is informal, anti-corporate and defined by the popular culture of its era, expectations are high in terms of commitment, acceptance of personal responsibility, long hours of work when needed, and striving to meet performance goals.

In terms of personal relationships, Virgin’s ability to launch so many new businesses and prevent its business empire falling into chaos depends critically upon Branson and his core of long-term associates who form the senior management team of the Virgin

Table 2 Key executives at virgin group.

- Will Whitehorn was Branson's "right-hand man" for two decades. In 2011 he retired as CEO of Virgin Galactic.
- Gordon McCallum joined Virgin in 1997 as group strategy director from McKinsey & Company. He has pioneered Virgin's entry into telecom and since September 2005 was CEO of Virgin Management Ltd.
- Stephen Murphy had a career in finance with Mars, Unilever and Quaker Oats. At Virgin he headed Virgin's airline businesses before becoming and CEO of Virgin Group Holdings Ltd. a position he relinquished at the end of 2011.
- David Baxby as head of Virgin Asia-Pacific and the aviation business, from January 2012 he took over as co-CEO of Virgin Group Holdings.
- Josh Bayliss was Virgin's general counsel before being appointed co-CEO of Virgin Group Holdings together with David Baxby.
- Patrick McCall was formerly an investment banker at UBS Warburg before becoming a member of the top management team at Virgin Management Ltd. and a board member of several Virgin companies.
- Rowan Gormley led several Virgin start-up including Virgin Money and Virgin Wine before leaving Virgin in 2008.
- Frances Farrow joined Virgin Atlantic from the law firm Binder Hamlyn and became CEO of Virgin USA, Inc.
- Peter Norris was head of Barings Bank, after several years as strategy adviser to Virgin; he became chairman of Virgin Group Holdings Ltd.
- Carla Stent is COO of Virgin Management Ltd. She previously held senior positions at Barclays Bank and Thomas Cook.

Source: Virgin press releases (www.virgin.com) and various web sources.

Group and occupy key executive positions within individual operating companies (see Table 2).

Virgin's financial performance

Financial reporting by the Virgin companies was fragmented, hard to locate and difficult to interpret. No consolidated accounts existed for the group as a whole. In addition to the many operating companies, ownership of these companies lay with a number of holding companies and intermediate holding companies. Tracking financial results over time was difficult because investments in Virgin operating companies were frequently transferred between group companies. UK-registered Virgin companies submitted audited financial statements to Companies House (a government agency). Table 3 shows financial results for some of the Virgin's major subsidiaries.

Table 3 Financial results for selected virgin companies

Company	Revenue (£m)	Net profit (£m)	ROE (%)	Employees	Year ending	Comments
Virgin Wings Ltd.	3339.1	(57.3)	n.a.*	12744	31/03/10	Virgin's main parent company for its UK businesses. Main subsidiary is Virgin Holdings Ltd.
Virgin Holdings Ltd.	3175.6	(29.0)	(1.6)	12744	31/03/10	Investment holding co. for Virgin's UK-based travel, telecom and other businesses.
Virgin Enterprises Ltd	35.1	41.7	40.1	n.a.	31/03/11	Owens and licenses Virgin brand
Virgin Management Ltd	5.6	(33.2)	(15.6)	111	31/03/10	Manages Virgin group companies.
Virgin Active Group Ltd	445.2	(8.5)	n.a.*	8971	31/12/10	Operates chain of health clubs
Virgin Atlantic Airways Ltd	2263.5	11.2	6.4	7546	28/02/11	Airline
Virgin Money Ltd	73.9	31.3	85.3	n.a.	31/12/10	Owens Virgin's credit card business
Virgin Financial Services UK Holdings Ltd.	n.a.	76.8	63.0	281	31/12/10	Owens Virgin's UK financial services businesses
Virgin Rail Group Ltd	n.a.	29.8	125.2	4456	05/03/11	Owens West Coast Trains Ltd
Virgin Rail Group Holdings Ltd	797.8	37.9	53.5	2912	05/03/11	Owens Virgin Rail Group
Virgin Media Inc.	3875.8	(141.4)	(11.1)	12400	31/12/10	Offers "quad play" telecom services in UK. Virgin Group owns 10.7%

n.a. = not available.

* = ROE cannot be calculated because of negative shareholders' equity.

Source: Company annual reports submitted to companies House.

Virgin's financial management emphasizes maximizing the returns to Virgin Group equity through high financial leverage and the use of equity partners to finance Virgin's business ventures. Typically, Virgin has been able to use the Virgin brand and Branson's celebrity status to obtain 51% or more of the equity of new ventures while contributing a minority of the equity capital. For example, Virgin's stake in Virgin Direct required an initial outlay of only £15m; its partner, AMP, put £450m into the joint venture. Branson put only £2000 into Virgin Clothing and Virgin Vie; equal partner, Victory Corporation, invested £20m. At Virgin Blue, Branson's initial investment was a mere A\$12 million. Virgin's joint venture partners included Singapore Airlines (owned 49% of Virgin Atlantic), Stagecoach plc (49% owner of Virgin Rail), Citicorp (co-owner of Virgin Money Australia) and Tata Group (co-owner of Virgin Mobile India).

Looking ahead

The management changes of 2010–11, notably the appointment of co-CEOs to the creation of a sector management structure to achieve coordination among Virgin companies within related businesses suggested a move towards greater centralization in the management of Virgin's sprawling empire. These management changes reflected changes in Virgin's strategy. The rate at which Virgin was launching new businesses was much lower during 2000–11, than during the previous two decades. Virgin was showing a greater willingness to divest businesses where there were eager acquirers and close businesses that lacked profitability or growth potential. Virgin was even willing to enter new businesses by acquisition rather than start-up.

But establishing a strategic direction for Virgin was confounded by the different views within the group as to the nature of Virgin's business model. The preponderance of finance experts and former investment bankers among its senior management encourages many to think of Virgin as a private equity fund. Yet, private equity companies (such as Blackstone, Carlyle, and Kohlberg Kravis Roberts) were engaged in the acquisition (and subsequent divestment) of established businesses, not in creating them from scratch. Others viewed Virgin as a conglomerate, yet although highly diversified, conglomerates too were in the business of acquiring established businesses. Branson had likened Virgin to a Japanese keiretsu: there were clear parallels in terms of equity linkages, interlocking directorships, collaboration between member companies, and a focus on long-term development. The Virgin website referred to Virgin as a "branded venture capital organisation", however, venture capital firms were engaged in financing other people's start ups—Virgin created its own businesses, typically using other people's money.

Clearly, the strategy and structure of the Virgin group did not fit within any existing category of business enterprise. A more relevant question for Virgin was what should

its business model be? If Virgin's core resource was its brand, did it need to own the businesses that bore its name: could it simply operate as a brand franchising organization licensing its brand to other companies (as it did with Virgin Records and Virgin Media)? If the core of its business was creating new businesses, then perhaps it should organize itself as an incubator of new startups—this would also imply divesting businesses once they were up-and-running.

Whichever strategic model Virgin followed, it seemed likely that it would need to continue to make changes to its structure and management system. The informal, collaborative approach that had allowed the Virgin group to survive and develop despite a turbulent economic environment had depended greatly upon Richard Branson and his personal leadership. Inevitably, his role within the group would diminish over time.

Appendix: The history of Virgin

1968	● First issue of <i>Student</i> magazine, January 26.
1970	● Start of Virgin mail order operation.
1971	● First Virgin record shop opens in Oxford Street, London.
1972	● Virgin recording studio opens at The Manor near Oxford, England.
1977	● Virgin record label launched with Mike Oldfield's <i>Tubular Bells</i> . ● Virgin Records signs the Sex Pistols.
1978	● Virgin opens The Venue night club in London.
1983	● Virgin Vision formed to enter broadcasting and produce and distribute films and videos. ● Vanson Developments formed as real-estate development company. ● Virgin Games (computer games software publishing) launched.
1984	● Virgin Atlantic Airways and Virgin Cargo launched. ● First hotel investment (Denya, Mallorca). ● Virgin Vision launches The Music Channel, a 24-hour satellite-delivered music station and releases its first feature film, <i>1984</i> , with Richard Burton and John Hurt.
1985	● Virgin Holidays formed.
1986	● Virgin Group plc, comprising the music, retail, retail & property, and communications divisions, floated on London Stock Exchange. Placement of 35% of equity raises \$56 million. Virgin's aviation, clubs, and vacation businesses remain part of the privately-owned Voyager Group.
1987	● Virgin Records forms subsidiaries in the U.S. and Japan. ● British Satellite Broadcasting (in which Virgin has minority interest) awarded satellite broadcasting license. (Virgin sells its shareholding in 1988.) ● Virgin acquires Mastertronic Group, distributor of Sega video games in Europe. ● Virgin Airship & Balloon Company launched to provide aerial marketing services.

1988	<ul style="list-style-type: none"> ● Virgin Broadcasting formed to further develop Virgin's radio and TV interests. ● Virgin Hotels formed. ● Virgin Megastores opened in Sydney, Paris, and Glasgow. ● Branson takes Virgin private with £248 million bid for outstanding shares.
1989	<ul style="list-style-type: none"> ● Virgin Music Group sells 25% stake to Fujisankei Communications for \$150 million. ● Virgin Vision (video distribution) sold to MCEG of Los Angeles for \$83 million.
1990	<ul style="list-style-type: none"> ● Virgin Retail Group and Marui form joint venture company to operate Megastores in Japan. ● Virgin Lightships formed to develop helium airships for advertising.
1991	<ul style="list-style-type: none"> ● W. H. Allen plc acquired. Merged with Virgin Books to form Virgin Publishing. ● Sale of Virgin Mastertronic to Sega. Remaining part of the business becomes Virgin Games. ● Virgin Retail Group forms 50:50 joint venture with W. H. Smith to develop U.K. retail business.
1992	<ul style="list-style-type: none"> ● Sale of Virgin Music Group to Thorn EMI plc. ● Joint venture with Blockbuster to develop Megastores in Europe, Australia, and U.S. ● Virgin Communications launches Virgin Radio, Britain's first national commercial rock station ● Vintage Airtours established to fly Orlando-Florida Keys in vintage DC-3s.
1993	<ul style="list-style-type: none"> ● Virgin Games floated as Virgin Interactive Entertainment plc with Hasbro and Blockbuster taking minority equity stakes. ● Virgin Euromagnetics launches a range of personal computers.
1994	<ul style="list-style-type: none"> ● Virgin Cola Company formed as joint venture with Cott Corp. ● Agreement with W. Grant to launch Virgin Vodka. ● Virgin acquires W. H. Smith's 75% stake in Our Price retail music stores. ● Virgin Retail Group forms joint ventures to develop Megastores in Hong Kong and South Korea. ● Virgin City Jet service launched between Dublin and London City Airport.
1995	<ul style="list-style-type: none"> ● Virgin Direct Personal Financial Service is launched as a joint venture with Norwich Union (their equity later acquired by Australian Mutual Provident). ● MGM Cinemas acquired to create Virgin Cinemas.
1996	<ul style="list-style-type: none"> ● Virgin Travel Group acquires Euro-Belgian Airlines to form Virgin Express. ● V2 record label and music publishing company launched. ● London & Continental Railways (Virgin a minority shareholder) wins £3 bn. contract to build the Channel Tunnel Rail Link and operate Eurostar rail services.
1997	<ul style="list-style-type: none"> ● Virgin Rail awarded franchise to operate the West Coast train services. ● Virgin Net, an internet service provider, formed with NTL. ● Victory Corporation, a joint venture with Rory McCarthy, launches the Virgin Clothing and Virgin Vie toiletry products. ● Majority share in Virgin Radio sold to Chris Evans's Ginger Media Group. ● Virgin Bride retail chain formed.

AQ: Out of interest I believe this date is incorrect. I worked at W H Allen when Richard Branson took it over - the year was 1987. I remember my new boss was called Cat Ledger and she told us about some of the parties Branson held at The Manor . . .

	<ul style="list-style-type: none"> ● Virgin One telephone bank account and “one-stop integrated financial service” launched in collaboration with Royal Bank of Scotland.
1998	<ul style="list-style-type: none"> ● Virgin Entertainment acquires W. H. Smith’s 75% stake in Virgin/Our Price.
1999	<ul style="list-style-type: none"> ● Virgin sells its U.K. cinema chain to UGC for £215 million. ● Virgin launches mobile phone service in joint venture with Deutsche Telecom’s One-to-One (November). ● 49% of Virgin Atlantic sold to Singapore Airlines for £600 million. ● 2000 —Virgin Mobile launches U.S. wireless phone service in joint venture with Sprint. Virgin Mobile Australia (a joint venture with Cable & Wireless) launched. ● Virgin announces the closing of its clothing company (February). ● Virgin Cars launched to sell new cars online ● Virgin and Bear Stearns form Lynx New Media, a \$130 million venture capital fund. ● Inaugural flight of Virgin Blue, Virgin’s low-cost Australian airline. ● Branson knighted by the Queen: becomes Sir Richard Branson. ● Virgin fails to win franchise to run Britain’s government-owned National Lottery.
2001	<ul style="list-style-type: none"> ● 50% of Virgin Blue sold to Patrick Corporation for A\$138 million. ● Virgin expands into Singapore and SE Asia with joint ventures with local companies in radio stations, cosmetic retailing, and wireless phone services. ● Virgin.net merges its ISP and portal businesses. ● 16 French Virgin Megastores sold to Lagardere Media for ?150 million.
2002	<ul style="list-style-type: none"> ● Virgin Bikes (U.K.) begins direct sale of new motorcycles at discount prices. ● Virgin Mobile offers wireless telecom services in the U.S.
2003	<ul style="list-style-type: none"> ● Virgin Blue initial public offering; Virgin retains 25% of equity.
2004	<ul style="list-style-type: none"> ● 50% stake of Virgin Money repurchased from AMP for £90 million. ● Virgin Digital launched. Offers online music store and digital music download capabilities. ● Virgin Cars and Virgin Bikes sold to MotorSolutions Ltd
2005	<ul style="list-style-type: none"> ● Virgin Mobile launched in Canada ● Virgin Active UK acquires rival health club chain, Holmes Place
2006	<ul style="list-style-type: none"> ● NTL acquires Virgin Mobile to offer broadband, mobile telephone and TV services; rebranded as Virgin Media in 2007. ● Virgin Mobile and Virgin Money launched in South Africa ● Virgin Fuel established to produce a clean fuel ● Virgin Mobile Australia acquired by j-v partner Optus ● Virgin Cars closed
2007	<ul style="list-style-type: none"> ● Virgin Health Bank launched ● Virgin America, a San Francisco-based airline, begins operations ● Virgin Megastores UK sold
2008	<ul style="list-style-type: none"> ● Virgin Blue Holdings launches Virgin Australia International Airlines offering trans-Pacific flights ● Virgin Mobile India, a j-v with Tata Teleservices, launched

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2009	<ul style="list-style-type: none"> ● Virgin Green Fund established to acquire equity in renewable energy ventures ● Virgin Vie closed ● Sprint Nextel acquires Virgin Mobile USA
2010	<ul style="list-style-type: none"> ● Healthcare provider Assura Medical Ltd. Acquired by Virgin Healthcare Holdings ● Virgin Money UK acquires Church House Trust to obtain a banking license ● Virgin Racing, a Formula One team, launched ● Virgin Gaming offers interactive playing of popular video games. ● Launch of Virgin Produced, a film and television production company based in Los Angeles, California. ● Virgin Cosmetics and Virgin Money USA are closed'
2011	<ul style="list-style-type: none"> ● Virgin Active acquires rival Esporta for £80m. ● Virgin Active acquires UK rival, Esporta. CVC Capital Partners acquire 51% of Virgin Active ● Virgin Unite, Virgin's charitable foundation, launches Branson Centre of Entrepreneurship to encourage job creation in the Caribbean

Source: www.virgin.com.

Notes

- 1 Forbes estimated Branson's net worth at \$2.4 billion, making him Britain's 5th richest individual.
- 2 "Behind Branson," *The Economist*, February 21, 1998, pp. 63–6; "The Future for Virgin," *Financial Times*, August 13, 1998, pp. 24–5.
- 3 Richard Branson, letter to *The Economist*, March 7, 1998, p. 6.
- 4 In 2011, Virgin Blue, Pacific Blue and V Australia merged to form Virgin Australia.
- 5 <http://www.virgin.com/about-us>
- 6 "The Virgin Brand," www.virgin.com/aboutvirgin/howitallworks/, accessed October 23, 2009
- 7 P. Robison, "Briton Hopes Beverage will Conquer Coke's Monopoly," *Bloomberg News*, December 14, 1997.
- 8 M. Wells, "Red Baron," *Fortune*, July 3, 2000.
- 9 <http://www.virgin.com/about-us>

- 10 By registering in the British Virgin Islands, Virgin Group Holdings Ltd is not liable to local taxes and is allowed “maximum confidentiality and anonymity” (www.offshorecorporation.com/bvi-company).
- 11 <http://www.virgin.com/about-us>
- 12 Ibid.
- 13 “Consolidating and Protecting the Licensed Virgin Brand,” http://www.cscorporatedomains.com/downloads/IPScan_issue10_virgin.pdf, accessed March 3, 2007.