hanging together

Richard Branson talks candidly to *3G strategies for operators* about the progress of Virgin Mobile and the growth of the MVNO model in an increasingly brand-conscious market

Mark McClure

3G strategies for operators Could you give us some background on the Virgin Mobile story?

Richard Branson Back in 1998 Virgin approached the four incumbent UK operators with its MVNO proposition. For a while Cellnet was interested in a deal – but would have preferred Virgin Mobile to have been a traditional reseller. Vodafone likewise. Orange, a highly successful brand in its own right, was already thinking of its own virtual network future elsewhere. Hans Snook has always made it clear Orange intends using MVNOs to expand its business.

In the end it was One2One that saw the potential of maximising the efficiency of its network, generating a higher return on its investment capital, and boosting, indirectly at least, its customer numbers through an MVNO.

The company was formed in August 1999 – a £100 million 50:50 joint venture. By this time One2One was owned by Deutsche Telekom. The significant point here is that Virgin Mobile UK's two shareholders bring complementary skills, a shared vision, and through their equal joint ownership, a mutual desire to see the business excel.

3GS So what was the package Virgin Mobile UK actually launched?

RB Well, it was quite simple really – a straightforward service, where customers buy a phone and pay only for the calls they make. That's it, really. There are no peak rates. No contracts. No catches. And customers can pay for their calls any way they like – without penalty – either up front, or later by direct debit. It's a sort of cocktail, mixing the best bits of old-style prepay and contract tariffs with all the depressing bits taken out. We also introduced what at the time was a revolutionary tariff – a tariff that gets cheaper the more a customer uses their phone each day. It's a model that's now been copied by many of our competitors.

3GS And you went on to export this MVNO model outside the UK?

RB Aside from One2One in the UK, we've teamed up with Optus in Australia and Singtel in Singapore. Also recently we've finalised a joint venture with Sprint PCS in the US.

3GS How tough has it been to sell the MVNO proposition to prospective partners?

RB Collectively, I think the operator community tends to be a bit mixed on the subject of MVNOs. Some are fearful, others embrace the concept. I'd say most are resigned to the fact that MVNOs are destined to become a credible force in the consumer market. In terms of how tough the concept is to sell, Virgin's strategy has always been to look out for like-minded partners. We've found that's the key factor in any kind of successful joint venture. So most of ▷



Sir Richard Branson
Chairman and President
The Virgin Group


Virgin

the operators we've spoken with have been very open to the idea. These are companies that welcome the idea of a non-traditional approach to business. If they go into a partnership with an MVNO – not just Virgin but any mainstream consumer brand – it offers them new ways to attack their markets. It means they have a chance to increase their ROI by putting more traffic across their networks. There are also ancillary benefits to this kind of joint venture – for example, it gives incumbent operators the chance to target different market segments with alternative marketing strategies. Of course the other side of the story is that these operators also have a half share of the risk and a half share of any losses.

3GS How would you define the MVNO concept?

RB There are many different ideas about the definition of an MVNO. Personally, I think it's irrelevant whether you call this kind of relationship an MVNO or not. What matters is that it is a business venture in which two parties come together to share a like-minded ideal – that's what's most important to me. It is also about being able to focus on the end product, which is all the consumer actually cares about. Virgin Mobile wants to create a proposition that is as close as possible to anything that could be offered by a conventional operator. But we want to be able to offer better value and more innovation. As far as consumers are concerned, most don't realise there's a difference between Virgin Mobile and any of the other operators in the market place. They are buying the difference that is represented by the Virgin Mobile brand – they don't really care how a product or service is delivered.

3GS How does an MVNO's brand work to the advantage of a conventional operator?

RB I think operators around the world are beginning to realise that the whole issue of brands is hugely important. Let's take Sprint as an example. I think Sprint decided the Virgin brand was more attractive to a particular type of consumer than its own brands. In other words, the Virgin brand can open new markets for them. Let me explain that a little. Virgin in the United States is synonymous with music retailing. In fact, worldwide music and entertainment are two market sectors that Virgin hopes to concentrate on through Virgin Mobile. These are services in which Virgin has expertise and, from a technical perspective, the mobile platform is developing in such a way as to enable us to provide music-oriented applications to our customers. So today we have MP3 phones and services like ring-tone downloads. Let me tell you about something we're piloting at the moment. If you walk into a Virgin store in the UK you can now access a list of the top 40 CDs and the ring-tones you can download from a particular album or single. In other words, we are putting the two businesses together. Obviously, from a marketing perspective the sub-text is 'buy the Virgin Mobile service if you're interested in music'.

3GS Would you say there's an increased focus on branding issues in mature markets where penetration is edging towards saturation point?

RB I think branding is becoming more important for everyone. But it's clearly a critical issue for mature markets. Let's take the UK as an example. If you look at what's happening with Cellnet, as it now breaks off from BT, it has come up with a new brand. If you think about it, the approach it's taking is a radical departure from the type of traditional cellular brands that have launched into the market. Vodafone, although it is not changing its brand, is changing brand image



quite dramatically at the moment – a new style of TV commercials, new point-of-sale advertising, a new type of catalogue and so on. Likewise, One2One have just launched their re-branding campaign. Then of course Orange has always led the way in saying, 'Come on, guys, this is all about brand. This is all about getting that all-important emotional buy-in from the consumer.' It's never had too much to do with the technology. So there's a great deal of brand activity in the UK at the moment, but I believe this is a trend we're going to see worldwide.

3GS As part of your game plan, do you anticipate that the regulatory environment is going to change such that MVNOs are going to be imposed on operators?

RB No, it's not something we

are relying on. Virgin has never approached a regulator to say, 'Hey, look, we've got this idea for a business and we want you to insist on the network opening up in this country or territory'. It's just not the way we do business. In fact, I don't think it is a particularly conducive way for anyone to do business. As I've said, Virgin will always seek like-minded partners, because ultimately that's the best way to ensure a business will flourish in the long term. Forcing the regulators to open up networks has been attempted in the past. But to be honest, while it might get your foot in the door it doesn't really lead to that door remaining wide open.

3GS Last year at the 3GSM World Congress in Cannes, in a speech to delegates you introduced the very new concept of MVNOs to a highly suspicious operator community. Has anything changed in the course of the past year?

RB Yes, I think things have moved on. We've just completed the second year of the UK operation, and we have a sizeable customer base and a significant presence in the UK. We've recently widened our distribution into places that are important in terms of mobile retailing in the UK (the Carphone Warehouse, Link and Argos now sell Virgin Mobile). This is a sign that the joint venture and the MVNO concept are coming of age.

In Australia, we've just completed our first year of operation and we now outsell Vodafone and Orange in Australia in terms of new business. And now we're set to make inroads in the Asian and US markets. What this is saying to the operator community is that not only does this MVNO idea mean good business for the MVNO, but it also means additional traffic and market share for its partners.

3GS Have you had positive responses from the investment community?

RB Well, just over a year ago central banks around the world were warning the investment banking community to be cautious about lending to telecom businesses because of their apparent overexposure to debt. This was precisely the time we raised £115 million through a syndicated bank loan via JP Morgan – there are half a dozen banks in the syndicate and they're all specialists in telecom financing. In other words, we pulled that off at a time when other companies were struggling to raise finance. Now some might argue that £115 million is very little in the scheme of things – especially when you consider the billions spent on licences alone. Now it isn't that much money, but it was a demonstration that the banking community was willing to listen to the MVNO story and lend against it. It was the first loan of any size to an MVNO anywhere in the world, which is quite dramatic when you think that an MVNO has no tangible assets. With an MVNO there is very little in the way of network assets. There are just the customers, the people that work for the company and the all-important brand. But the banks in the syndicate were prepared to take the risk because of the strength of our MVNO proposition. And I think their conviction will be rewarded many times over.

3GS You've recently reported a loss of £107 million for 2000. Has this raised doubts about your business model?

RB Quite the reverse. Those figures are a year old and relate to our start-up investment. The fact is our performance to date has been completely in line with expectations. It's worth noting we've added 172,000 customers in the last quarter, which makes us the UK's fastest growing network relative to its base. We believe we'll be into long-term profitability in 2002 and that's unprecedented for any mobile business. No one has achieved profitability in such a short time frame. There are various reasons for our success. The first is the fact we don't have a network. We haven't bought a 3G licence. We haven't had to build a brand from scratch. Instead of spending hundreds of millions on advertising, we've only spent tens of millions. We've spent money to achieve market presence but not to build a brand. All those cost savings, played against the customer numbers we've achieved, result in a quicker return on the investment and a quicker route to profit. Which is why the MVNO model is starting to prove attractive to the investment community around the world.

> what matters is that it is a business venture in which two parties come together to share a like-minded ideal – that's what's most important to me

3GS Back in February 2001 you were predicting Virgin Mobile would be in 10 countries across five continents by February 2002. How are you doing?

RB Thanks for reminding me! We're not doing so badly. We've got four out of five continents – the only one missing is Africa, and we're in talks at the moment and I'm optimistic something will be ▷



any fear of cannibalising its own customer-base dissipates when a traditional network sees the impact of the combined growth of the two brands on the one infrastructure

resolved in the near future. As far as covering 10 countries, the deal with Singtel includes a remit to expand across the Southeast Asian Pacific Rim regions and the joint venture is setting about that task as we speak. In addition, we've also got a foothold in the US market and I don't think we should underestimate that as an achievement. But you're right – things have moved a little slower than I predicted. Notwithstanding the virtues of MVNOs, the market hasn't been as buoyant this year as we might have liked. That's slowed the appetite or the willingness to try something new. That said, we are still ambitious and we do hope to fulfil my target – but maybe not quite in the same timescale! To be fair, I think it is prudent that things have slowed down – it would be a bit cavalier to jump into too many relationships too quickly given the economic climate.

3GS Could we discuss your partnerships in a little more detail? You mentioned the 50:50 relationship with One2One. Is that an immutable model?

RB Not in the slightest. It's a model that has worked well for us so far, but immutable models are not the Virgin way of doing things. The strength of the 50:50 model lies in the responsibilities it implies for both partners. It ensures both players buy into the business in a way that they might not if it was simply a case of buying wholesale minutes off a network. This is something that's worth considering in a little more detail. In helping create Virgin Mobile, One2One initiated a three-way relationship with its offspring – as investor, supplier and our competitor. The constant dynamic of those relationships ensures that, unlike with a traditional reseller, One2One has an obligation through its shareholding to always encourage Virgin Mobile to succeed. I believe that this level of commitment must be a core component of a genuine MVNO. Any fear of cannibalising its own customer-base dissipates when a traditional network sees the impact of the combined growth of the two brands on the one infrastructure. So in some respects, the model we've developed with One2One is actually quite a tough proposition. It means Virgin Mobile competes head to head with One2One in a particular supermarket chain for example, and now in the Carphone Warehouse. That is quite a difficult pill to swallow sometimes.

3GS Does it cause conflict within the parent companies?

RB Not at board level. Maybe a little at the grassroots. Perhaps the best way to look at this kind of approach to the market is to consider the network as a utility – for example, like railway infrastructure. And on the track you have several operating companies. In Deutsche Telekom's case, it owns the track and it also owns one of

the operating companies outright – One2One. And One2One owns half of Virgin Mobile. DT also has other interests as well – for example, the FRESH MVNO at the Carphone Warehouse – and together these businesses put traffic over the tracks for the network. So there's no doubt that at a board level, the parent companies want to see all their brands succeed. The sales teams might feel a little differently. They might go into a supermarket and wonder why their company is sanctioning and funding a competitor. But at a strategic level it makes complete sense.

3GS In mature markets, data is going to be central to any operator's business model. Does Virgin's commercial portfolio give you an advantage in that market?

RB I think one of the benefits of having a brand from outside the telecoms industry is that consumers are used to interacting with it in a way that is different from the way they interact with a phone company. For example, on Virgin Mobile UK we sell Virgin holidays and this is a strategy we've employed since launch. I'll tell you a story. We were at an analysts' meeting, one of our bank's presentations actually, at the run-up to sorting out the loan. One of the bankers attending the meeting was clearly extremely sceptical about the data/m-commerce message. Now I can understand his concern – this is an underdeveloped area in a telecom context. But suddenly it clicked. He could imagine himself buying a holiday via a Virgin phone because in his mind this was a business he already associated with the brand. But would he think of buying a holiday from a conventional operator? Well, maybe – but the point is that as a proposition it's a bit more of a jump. So once again we return to the significance of the brand and its role in the viability of the MVNO proposition. So, in a data or m-commerce context, Virgin is able to sell holidays because it's already known in the travel industry. The same is true of the music business I mentioned earlier. I believe Virgin Mobile has an important role to play in growing other parts of our business and that those businesses will contribute to the success of the mobile ventures.

3GS Does Virgin Mobile offer a consistent proposition across continents? For example, is Virgin Mobile Australia the same as the proposition from Virgin UK?

operators are beginning to recognise that branding impacts markets at multiple levels. It's no longer good enough to have a product that looks good and that people perceive to be interesting. It's also about having a message and a set of values that appeals to consumers

RB There are two aspects to this question. Is the brand going to be consistent? Yes, it is. It will look and feel the same. In terms of the logo, it is identical. In terms of the brand positioning, it is pretty much the same. The proposition influences it slightly. To date, the proposition is slightly different in each country. That's for a combination of reasons – usually a response to the vagaries of a particular market. Australia, for example, has got a slightly different proposition to the UK, but it follows the same kind of philosophies and brand values. The same is true in Singapore – the values are the same but the proposition is different. For example, we don't offer holidays in Singapore because the Virgin brand doesn't mean holidays in that market. The short answer to your question is that each business has the autonomy to react to their market in whichever way they feel appropriate.

3GS Last year you implied that network operators tended to understand the technology but not their consumers. Has anything changed?

RB I think historically what I said has been true, but it's changing. The increasing emphasis on brand and positioning is a symptom of that change. Operators are beginning to recognise that branding impacts markets at multiple levels. It's no longer good enough to have a product that looks good and that people perceive to be interesting. It's also about having a message and a set of values that appeals to consumers. The explosion of prepay has led operators around Europe in particular to rethink the way they talk to consumers. It's not that long ago that the mobile phone was a joke – the unacceptable face of the yuppie. But it's taken many conventional operators too long to realise they need to find new ways of addressing the diverse segments that comprise their market. Operators certainly need to be more open. They need to be more consumer-focused and friendly. So yes things have changed and they are still changing. To a greater or lesser degree, every company has had to adapt and be very clear about what their markets want. And that's ultimately going to be good news for consumers. □

i *www.virginmobile.com*