

FROM PHONES TO LOANS: IS NOW THE TIME FOR VIRGIN MONEY CANADA?

Michael Wood wrote this case under the supervision of Professor Pratima Bansal solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Stepping off a Virgin charter flight at Heathrow, Sir Richard Branson, founder and chairman of the Virgin Group, had just returned from meetings in Toronto with the president and chief executive officer (CEO) of Virgin Mobile Canada, Andrew Black. After reviewing Virgin Mobile's strong performance in Canada over the past four years, Branson had decided to sell Virgin's stake in Virgin Mobile Canada to its partner BCE Bell Mobility. The time was ripe to consider increasing Virgin's presence in the Canadian market with the healthy profits generated from the sale of Virgin Mobile Canada.

Branson wondered whether his next move should be to launch Virgin Money Canada. "For too long Canadians have been underserved and overcharged for their financial services, but is this the right time to enter the Canadian market?" mused Sir Richard as he was whisked off to his London flat.

VIRGIN IN CANADA

The Virgin Group, a privately owned and branded venture capital corporation with more than 200 companies worldwide, first entered the Canadian market in 2005 with Virgin Mobile. This 50/50 partnership with BCE Bell Mobility grew rapidly, with a customer base of over 850,000 within four years. In early May 2009, Virgin announced that it would sell its 50 per cent stake to its partner, BCE Bell Mobility. This move was not a response to changes in the competitive landscape; rather, it was because BCE Bell Mobility was not aggressively pushing the Virgin brand.

VIRGIN MONEY

Since Virgin Money's inception in 1995 in the United Kingdom, the company's strategy was to grow the business into a comprehensive "financial services company." The range of financial products offered included credit cards, pre-paid debit cards and insurance products, all of which were made possible through partnership agreements with other companies such as with MBNA for the Virgin credit card.

Virgin Money had since expanded into South Africa, Australia and most recently into the United States. Its pitch to customers was “a better deal.” As a result, the firm brought about increased pressure on the traditional banks to cut service charges and provide better and more innovative products that would meet their customers changing needs. In order to keep costs down, Virgin Money emphasized low overhead in exchange for enhanced customer service.

Early in 2009, Branson was quoted as claiming that Virgin Money U.K. would seek full banking status, either through the acquisition of an existing bank or through the procurement of the necessary banking licences.

VIRGIN GROUP'S STRATEGY

On May 21, 2009, the Globe and Mail's Globe Investor reported the sale of Virgin Mobile Canada to BCE Bell Mobility for Cdn\$143 million plus an undisclosed licensing fee. BCE Bell Mobility retained the right to operate Virgin Mobile in Canada. Andrew Black, president and CEO of Virgin Mobile Canada, used the following language to describe the shift from phones to loans: “Richard [Branson] has made a very significant gain on his investment and is very pleased about that, and he recognizes the benefit of what that means for the Virgin brand and for its future here in Canada.”

Branson planned to use the money and momentum that Virgin Mobile Canada had generated to take a run at other industries with unsatisfactory customer service, high fees and lack of consumer choice. Black also added that “Richard [Branson] thinks this [banking] industry in Canada needs some shaking up. It's been on his list for a while.”

Black described a communiqué sent by Branson to Virgin Mobile Canada employees on May 7, 2009. “Canada is ripe for more Virgin businesses to land there soon, and we are working hard to make that a reality,” and that “[t]here are a few sectors that could do with some shaking up, and after seeing how Canadians responded to [Virgin Mobile], they're ready and we're ready for more.”

Branson was further quoted as saying, “Since innovation and creativity are at the heart of the Virgin culture we feel that our group of businesses is well placed to take advantage of the opportunity this presents.”¹ Exhibit 1 reveals five strategies common to all of Virgin's business ventures (more than 200 to date).

The Virgin Group also had expertise in call centre operations, that when coupled with its sophisticated global Web presence, provided a competitive advantage in offering quality financial services.

Mark Sibthorpe, founder of StartaBank.ca, a Montreal-based consultancy, was quoted in this same article stating that, “The interesting thing about Virgin is they don't really take any risk. What they basically do is partner with companies, so they really lend off balance sheet. The existing financial institutions are having liquidity issues, so if you have cash, there are opportunities.”

THE GO, NO GO DECISION

During the drive from the airport to his flat, Sir Richard Branson began to make a mental list of the issues that would have to be considered in order to ensure that Virgin Money would be successful in Canada.

¹ Source: the Virgin Group website, <http://www.virgin.com/>, accessed July 29, 2009.

Exhibit 1

VIRGIN GROUP'S STRATEGIC FOCUS¹

1. **Exploit a niche** “Each successive venture demonstrates our devotion to picking the right market and the right opportunity.”
2. **Emphasize customer service** “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.”
3. **Leverage relationships to distribute risk** “We frequently create partnerships with others to combine industry specific skills, knowledge, and operational expertise.”
4. **Build and enhance the Virgin brand wherever possible** “[O]ne of the world’s most recognized and respected brands.”
5. **Mobilize Virgin’s unique management style** “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.”

¹ Virgin Group website, <http://www.virgin.com/>, accessed July 29, 2009