



FRANCES X. FREI

The Virgin Group: Filling in the Value Gap

Rose O'Keefe stuffed her carry-on luggage in an overhead bin, placed her purse under the seat in front of her, sat down, and breathed a huge sigh of relief. She had no idea that this week was going to be so exhausting. What a nightmare the wedding planning had turned into! Her older sister, Lily, was getting married in a very old London church at the end of the month. As the maid of honor, she was responsible for making sure everything went smoothly on the bride's side of things. The weather had not cooperated. Her younger sister had lost her luggage on the way over and had to find a new dress. The hotel had lost a reservation for their cousins, and worst of all Lily's new mother-in-law had found a bug in her soup at the engagement party dinner. She had been running around all week like a scared cat. She barely had time to admire the beauty of the moment and the glow that radiated from her sister's face.

Grabbing a novel she had bought in the airport, she settled in. A moment later, a flight attendant, smartly dressed and smiling approached. "Good afternoon Ms. O'Keefe," he commented sympathetically. "You appear to be a bit on the tired side. May I schedule you in with our masseuse for later in the flight?" What a brilliant idea thought Rose and accepted gratefully. Her tickets had not been cheap, but a massage would certainly ease the pain of the expense. The flight attendant also informed her that there was a bar on board that she could visit once they were at their cruising altitude. A cocktail before sleeping didn't sound half bad either. She was glad that her sister had suggested flying Virgin.

Virgin had actually been a very helpful friend this past week. The wedding was not on her home turf and since she hadn't spent much time in London, a lot of the arrangements had to be made either remotely or last minute. The Virgin.com site seemed to have almost everything for planning a wedding, not to mention the rest of your life. There were services like Virgin Bride, which she used to arrange flowers, catering, music and other logistics for the wedding. Virgin sure did appear to be selling almost everything, from cosmetics to banking, from holiday planning to cola. She was unsure how all those businesses related to one another, but right now, she didn't care. She was on a plane, having a cocktail, about to sit for a massage. Ahhhh.....

Professor Frances X. Frei, and Research Associates Hanna Rodriguez-Farrar and Corey Hajim (MBA '01) prepared this case from published sources. Some information and identities in this case have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2001 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

The Virgin Group

Richard Branson, CEO of the Virgin Group, began his entrepreneurial career at age seventeen. (See **Exhibit 1** for an abbreviated biography of Branson.) In 1966, he launched his first venture, *Student*, a magazine for university students across England. The magazine floundered and closed after only three years, but Branson's experience led him to found Virgin Music in 1971, a discount music retailer.¹ Branson built the Virgin empire to include more than 200 companies worldwide, employing over 25,000 employees and generating revenues in excess of £3 billion (\$5 billion) in 1999.² The myriad of companies spanned from planes, trains, and automobiles to bridal wear, finance, and wine (see **Exhibit 2** for a list of Virgin companies and **Exhibit 3** for financial breakdown of Virgin subsidiaries). While the companies are not tied together by industry or service type, Virgin does see itself as having a cohesive culture.

We believe in making a difference. In our customers' eyes, 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.³

By mid-2001, Richard Branson and his Virgin Group had £250 million in the bank, proceeds from the sale of Virgin One to Royal Bank of Scotland and 16 Virgin Megastore chains in France to Lagardere Media.⁴ Both Royal Bank of Scotland and Lagardere continued to use the Virgin name on their acquisitions, which was part of Virgin's VC-like strategy. Branson explained:

Virgin is basically a venture-capital business with a brand name. One of the great things about having a strong brand name is that partners know we can get a big slice of the market overnight.⁵

Virgin Atlantic Airways

The airline industry is an anachronism; other businesses have become completely customer-oriented. The airline business is not. But I don't think it will stay that way—as long as monopolies aren't allowed to destroy the industry to stop competition.

—Richard Branson⁶

In 1984, American lawyer Randolph Fields approached Branson with the idea of starting an airline to fill the vacancy left by the collapse of Laker Airways in 1982. Branson accepted and the new airline began flying the Gatwick-New York City route. Its first flight ran in 1984 loaded with pop stars and journalists, a testament to Branson's publicity savvy.⁷ Its only competition at that time was People Express, a low-cost carrier. The idea of starting an airline appealed to Branson because he himself had

¹ See "Virgin.com," HBS Case No. 601-041 for a fuller history of Virgin.

² From <http://www.virgin.com/story/index.shtml>, accessed July 25, 2001.

³ From <http://www.virgin.com/story/index.shtml>, accessed July 25, 2001.

⁴ David Parsley, "Branson: I'm loaded but everything is for sale," *Sunday Times – London*, July 29, 2001, p. 14.

⁵ Sheryle Bagwell, *Australian Financial Review*, October 7, 1998, p. 17.

⁶ David Sheff, "Richard Branson: The Interview," *Forbes*, February 24, 1997.

⁷ Hoover's Online company capsule.

had difficulties in securing a reservation with People Express. He reasoned that “either People Express was very poorly managed, in which case they would be an easy target for new competition, or that they were so much in demand that there was room for competition.”⁸

Initially, Virgin Atlantic attempted to beat the competition by offering cheaper fares, but they soon realized that this strategy was not effective. People Express simply lowered their fares to match Virgin’s. “We examined our predecessors who fell before us,” Branson said. “The biggest mistake they made was to announce: ‘We are the backpackers’ airline.’”⁹ Virgin Atlantic made a change. It opted to provide first-class service at business-class fares as well as extra services such as limousine pickup and free economy class tickets for those people who flew business class. Improved services such as seat-back video displays were also offered in economy class.¹⁰ Instead of lowering prices and trying to grab the “backpacker” market, it increased service and enticed customers with added value. This became part of Virgin’s overall vision.

We look for opportunities where we can offer something better, fresher and more valuable, and we seize them. We often move into areas where the customer has traditionally received a poor deal, and where the competition is complacent. And with our growing e-commerce activities, we also look to deliver ‘old’ products and services in new ways. We’re pro-active and quick to act, often leaving bigger and more cumbersome organizations in our wake.¹¹

The strategy worked. Virgin was soon challenging the English aviation behemoth British Airways, who later would be accused of anticompetitive behavior. In the early-1990s, Branson and Virgin Atlantic charged that British Airways had launched a “dirty tricks” campaign to squash the smaller Virgin Atlantic airline. British Airways blocked Virgin Atlantic’s attempts to gain access to landing slots at Heathrow airport and tried to prevent Virgin Atlantic’s purchase of new planes from Boeing and Airbus. There were even rumors that Virgin Atlantic was headed for bankruptcy and that Branson was using drugs.¹² But British Airways did not break Virgin Atlantic and in 1993 Virgin won a \$5 million libel suit against them. By 1994, Virgin Atlantic had captured 22% of the traffic between London and New York, which was a smaller percentage than British Airways, but more than United and American had claimed.¹³ (See **Exhibits 4-7** for select Virgin Atlantic financial and performance information. See **Exhibit 8-9** for information about European competition.)¹⁴ In 2000, Singapore Airlines paid about \$900 million for 49% ownership of Virgin Atlantic. By 2001, Virgin Atlantic had

⁸ Richard Branson, *Losing My Virginity*, (New York: Random House, 1998), p. 153.

⁹ John Fairfax, “Luxury Pays off for Laker Airline Lookalike,” *Australian Financial Review*, April 3, 1989, p. 40.

¹⁰ Branson, *op. cit.*, pp. 153-155.

¹¹ From <http://www.virgin.com/story/index.shtml>, accessed July 25, 2001.

¹² Hoover’s Online company capsule.

¹³ “British Airways: We are flying into turbulence,” *The Economist*, March 4, 1995. “Virgin Atlantic: Still on course,” *The Economist*, January 22, 1994.

¹⁴ By 2000, other airlines began to adopt Virgin’s strategy of providing enhanced service. American invested \$6 billion in new planes that included fully reclining seats in First Class, increased legroom in all classes, and other amenities. British Airways spent \$900 million in upgrades to their first and business class cabins including flat beds and in-flight personal entertainment. United created a new Economy Plus section within coach that gave passengers an additional five inches of legroom. First class passengers on trans-Atlantic flights received concierge service, access to United First lounges, where liquor and hors d’oeuvres were complimentary, and on-board meals with Dom Perignon. Virgin followed suite with a \$60 million relaunch of its first and business class cabins with a greater emphasis on better sleep and relaxation. See Jennifer Michels, “Lofty Goals: Many airlines are offering more amenities to their passengers to make flights more enjoyable,” *Travel Agent*, December 4, 2000.

become the second largest carrier in the United Kingdom and had won the OAG Airline of the Year Award, which recognized service excellence.¹⁵

Virgin Direct

I've always believed that banking should be a straightforward business—and I'm astonished that it's been allowed to become so complicated. It seems to me that wherever you turn—you'll find high charges, confusing products, misleading rates and a general disregard for the consumer. It's no wonder that people don't know how to make the most of their money and are generally dissatisfied with their bank. And that's why Virgin entered the world of banking—because I believe we can make a difference.

—Richard Branson¹⁶

In March 1995 Virgin dove into the financial services industry with the launch of Virgin Direct—an over-the-phone personal finance company. Initially, it offered retirement accounts, low-cost life and disability insurance, and mutual funds. Its first product was the Virgin Growth personal equity plan, which directly challenged plans offered by bigger banks. Most personal equity plans in 1995 were actively managed and banks charged consumers high fees for that service. Virgin Direct recognized that indexed funds had produced similar returns, so it replaced fund managers with computer programs and cut the annual management fee to 1%. Soon, Virgin Direct captured 12% of the market.¹⁷ By 1998 Virgin Direct had £1.6 billion under their management and more than 275,000 customers.¹⁸

In 1997 Virgin Direct in partnership with Royal Bank of Scotland launched Virgin One, an innovative bank account that consolidated loans with checking and savings. Prior, the majority of consumers had separate checking, savings, money market, car loan, and mortgage accounts across a number of different financial institutions. With Virgin One, the consumer combined them into a single account. The web site listed some of the benefits of the account:¹⁹

- single low interest rate on everything borrowed—mortgage, loans and credit cards
- great return on savings and the money that normally sat idle in current account
- no tax on the savings interest
- complete flexibility on monthly mortgage payments
- complete access to all your money
- telephone, internet, or branch banking

Virgin One customers directly deposited their income, which helped determine borrowing limits depending on outstanding debts and the value of the collateral. Homes served as security against outstanding debt and interest rates were dynamic.

¹⁵ See http://www.oag.com/about_oag/a_of_y/index.asp, accessed September 26, 2001.

¹⁶ <http://www.virginone.com/vone-v2/frameset.html?aboutus/aboutus-richard.html>, accessed August 7, 2001.

¹⁷ In response to Virgin, competitor banks lowered their fee structure.

¹⁸ Sheryle Bagwell, *Australian Financial Review*, October 7, 1998, p. 17.

¹⁹ See <http://www.virginone.com/vone-v2/frameset.html?sales/thebasics/basic-intro.html>, accessed September 26, 2001.

We calculate interest on the amount that you owe on your One account at the end of each day. This means that any money you've paid into the account that you haven't spent—for example some of your income—is working to reduce your borrowings, minimizing your monthly interest payments.²⁰

Customers were given checkbooks, credit cards, and switch cards²¹ that were used to access money in the account. If a purchase was made with a Virgin One credit card, outstanding payments increased. If customers paid a larger chunk of their car loan one month, that might lower their payments due because debt was reduced. The interest rate applied to everything in the consolidated account, which Virgin claimed saved the customer money.

Because all your money is in one place—you pay a single low interest rate on everything you borrow. So when you need to splash out on that new car or pay for your summer holiday you won't need to use expensive loans or credit cards—saving you a small fortune in interest charges.²²

Virgin One also helped customers determine how much money they could spend each month based on a timeline that they chose for paying off their total debt. By combining accounts and loans, which offset positive assets against liabilities, the consumer gained flexibility in managing finances and avoided fees especially those associated with overdrafts. Virgin One simplified banking for the customer, provided decreased fees, and potentially saved customers thousands of pounds in interest.²³ (Exhibits 10-11)

By August 2000 Virgin One reported a profit for the quarter and was predicting to break even for fiscal year 2001. It had 40,000 customers and had doubled its share of the mortgage market. (Its mortgage loans totaled £2.5 billion at the end of 2000.²⁴) To top it off, in 2001, Virgin One garnered awards as Best Mortgage Provider and Best Current Account Provider from The Guardian and The Observer Consumer Financial Awards.²⁵

Virgin Trains

The best thing Virgin will be known for, three years from now, the best thing we will have done for this country, I believe people will say, is transforming the west coast main (rail)line from the worst to the best.

—Richard Branson²⁶

In 1992 the British government announced that it would privatize British Rail, which was then a state monopoly. Prime Minister John Major's government argued that the isolation of British Rail

²⁰ See <http://www.virginone.com/vone-v2/frameset.html?sales/how1accountwork/1min-guide.html>, accessed September 26, 2001.

²¹ Known in the United States as ATM.

²² See <http://www.virginone.com/vone-v2/frameset.html?sales/how1accountwork/1min-guide.html>, accessed September 26, 2001.

²³ Tom Stevenson, "After pop, planes and cola, Branson takes on the banks," *The Independent—London*, October 17, 1997.

²⁴ "The Royal Treatment," *Institutional Investor International*, November 2000.

²⁵ See <http://www.virginone.com>, accessed September 26, 2001.

²⁶ Adam Higginbotham, "Profile Richard Branson: Wine, women and cigarettes," *The Independent—London*, July 23, 2000, pp. 6, 7, 9, 10.

from the market resulted in a lack of incentives to improve performance and respond to consumer needs.²⁷ All rail lines went out to bid, and by mid 1997, the Virgin Group had taken over a majority of the rail lines in Britain with stations in major cities including Aberdeen, York, Liverpool, Cardiff, Plymouth, and, of course, London. Virgin planned to commit £750 million toward high-speed advanced tilting trains, other new upgraded trains, and improved service.²⁸ But problems plagued Virgin Trains. Throughout the Virgin Trains network, late trains accounted for more than 25% of the Scottish trains, 20% of the northwest trains, and 14% of the Birmingham-Wolverhampton route in central England. At the time, Virgin had the worst record among the train companies and more than 9,000 passengers expressed their displeasure directly to the rail regulator.²⁹ And it got worse. In March and April of 2001, 33% of the west-coast Virgin trains arrived late, rising to over 50% in May 2001.³⁰

By the end of 2000, the entire British rail system was in disarray. Passengers from Edinburgh to Southampton endured journeys that were six hours longer than scheduled. One customer complained that they were offered £7 as compensation for a journey that took ten hours instead of two.³¹ Customer service problems were the tip of the iceberg. Fatal crashes, on non-Virgin lines, in 1998, 1999, and 2000 intensified public scrutiny of the whole privatized system. Discovery of faulty rails and uncompleted repairs after the October 2000 crash slowed all trains to minimum speeds, closed many routes, and resulted in even more late trains. Commutes doubled overnight, buses became overcrowded, and roadways experienced a 25% increase in traffic. Passenger revenue decreased by 23% in the first quarter of 2001 for all rail operators (**Exhibit 12**). Virgin sought to improve the trains and service, but it was trapped. The actual rails and switches were controlled by Railtrack.³² Virgin Trains suffered an operating loss of £7 million for the fiscal year ending in April 2001.³³ (See **Exhibits 13-15** for selected Virgin Train financial information.)

At the same time, Virgin had announced investments for the future that included major infrastructure changes. They boasted that “the route will be transformed to one of the best in the country, with new track, new signaling and a completely new fleet of advanced tilting trains capable of traveling at speeds in excess of 140mph.”³⁴ The first stage of the transformation was predicted to be finished by 2002 and the second promised high speed, high capacity transportation and would cost Virgin over £500 million.³⁵

²⁷ Michael Dynes, “Rail bill begins long haul on Commons track,” *The Times of London*, June 4, 1992.

²⁸ See <http://www.virgintrains.co.uk/about/future.htm>, accessed September 26, 2001, for Virgin’s description of its future plans.

²⁹ Christian Wolmar, “Can Branson get back on track?” *New Statesman*, November 7, 1997, p. 12.

³⁰ “What comes after hell,” *The Economist*, December 16, 2000. “Tilting too far?: Virgin Rail’s passenger problems,” *The Economist*, July 14, 2001.

³¹ “What comes after hell,” *The Economist*, December 16, 2000.

³² The British government passed legislation in 1993 that restructured British Rail prior to selling it off to the private sector. A new state-owned company, Railtrack, was created in 1994 to own and manage the system’s track, signals, land, and stations while British Rail itself was split up into about 25 train-operating units that were franchised to private-sector operators. For more see <http://www.railtrack.co.uk>.

³³ “Tilting too far?: Virgin Rail’s passenger problems,” *The Economist*, July 14, 2001.

³⁴ See http://www.virgintrains.co.uk/about/f_abo.htm, accessed September 26, 2001.

³⁵ See http://www.virgintrains.co.uk/about/f_abo.htm, accessed September 26, 2001.

Virgin Cola

We sell a billion cans of cola a year around the world that promotes the brand to many young people. It is certainly not our most successful company but we're still pushing it out into other countries. There is one bit of good news, though. It's the No. 1 soft drink in Bangladesh.

—Richard Branson³⁶

Virgin Cola, backed by Cott Corp. a Canadian private-label soda maker, was Branson's attack upon the "cola duopolists" Coca-Cola Co. and PepsiCo.³⁷ (The combined share of Coke and Pepsi in the British market was 46%.) Branson introduced its product to British consumers in 1994, distinguishing Virgin Cola from its rivals through its "Pammy" bottle, modeled after actress Pamela Anderson. It was sold at a 25% discount price.³⁸ By 1998, Virgin Cola had launched in France, Japan, and South Africa. The company claimed 12% growth in sales in 1997, but its market share was shaky (**Exhibit 16**).³⁹

In 1998, Virgin Cola entered the U.S. market where it faced even stiffer competition. The combined share of Coke and Pepsi in the United States was 75%. Remarking on Virgin Cola as new competition, a Pepsi spokesperson stated: "the U.S. soft drink market is not virgin territory."⁴⁰ Beverage Digest publisher John Sicher said about the U.S. venture, "it would be easier to make a snowman in July in Florida than to take on Coke and Pepsi."⁴¹

Virgin Cola sought to gain market share by offering its product for 10% less than Coke and Pepsi. But by 2000, Virgin Cola had barely made a dent in either global or U.S. market. (See **Exhibit 17** for global market share and **Exhibit 18** for U.S. market share of carbonated sodas.) A mere two years after its U.S. launch, Virgin Cola reinvented itself. The reasoning was that the soft drinks market required more than cola and diet cola offerings, so Virgin launched Virgin Drinks USA. The new entity broadened its line of carbonated drinks and revamped the Pammy bottle to a less conspicuous "Cur-V" bottle (**Exhibit 19** shows a comparison of the two bottles).⁴²

Virgin Cola and Drinks image in 2001 was one of irreverence, trying to appeal to hip kids. The web site introduced Roller Cola Girl, a pigtailed character donning hot pants, a baby tee, and roller skates. Users played games, wrote e-mails, and listened to music by clicking on links like "Get With Me," "Take Me Home," and "Play With Me." Games enticed users to register their high scores and personal information after navigating through a crowded disco with a tray of colas or after a skate in a roller derby.

³⁶ Parsley, "Branson: I'm loaded but everything is for sale," *Sunday Times* – London.

³⁷ Julia Flynn, et. al., "Then Came Branson," *Business Week*, October 26, 1998, p. 116.

³⁸ Peter Fuhrman, "Brand Name Branson," *Forbes Magazine*, January 2, 1995, p. 41.

³⁹ "Virgin Cola Launches in South Africa with New Taste," *Ad Age's Daily World Wire*, February 26, 1998.

⁴⁰ "Virgin Cola territory?" *The Journal Record*, May 13, 1998.

⁴¹ Julia Flynn, et. al., "Then Came Branson," *Business Week*, October 26, 1998, p. 116.

⁴² Sarah Theodore, "Born Again: New Start for Virgin Drinks," *Beverage Industry*, July 1, 2000, p. 20.

What Next?

O'Keefe's head flopped to the side of her headrest. They had landed in New York. What a pleasant flight it had been. She had to admit she had grown rather fond of Virgin and the way she was treated. From the flight to all the wedding planning over the past few weeks, the service was impeccable and at times luxurious. After eight hours on the plane her neck wasn't even stiff.

The flight attendant handed O'Keefe her coat while ushering her to the door and O'Keefe stepped in the bustling international terminal at JFK. The line for customs was enormous and the taxi stand mobbed with people. Car horns honked, traffic cops yelled, and someone blew smoke in her face. Boy, she would love a ride from a car service right about now, but she hadn't arranged anything. She never thought to do anything like that in New York because it was expensive and the drivers tended to be rude and erratic. In New York you could buy any service seven days a week, day or night, but it was complicated to get what you wanted.

She did not look forward to the stack of bills on her desk. Or the refrigerator full of spoiled food. Or planning her next trip to London, which was only a few weeks away. Well at least she could look forward to another massage. O'Keefe was finally home. She got out of the cab, paid her fare, and looked around to see if the corner deli was open. She was thirsty. For some reason she really wanted a cola.

Exhibit 1 Richard Branson Biography

Chairman and CEO; Virgin Atlantic Airways and Virgin Group

Richard Branson was born in 1950, and educated at Stowe School, where he established a national magazine called *Student* at the age of sixteen. He started a student advisory service centre aged 17 to help young people. In 1970 he founded Virgin as a mail order record company and shortly after opened a record shop in Oxford Street, London. During 1972, a recording studio was built in Oxfordshire where the first Virgin artist, Mike Oldfield, recorded "Tubular Bells" which was released in 1973. The first album of the newly created Virgin records went on to sell over 5 million copies. Over the years many household names, including Paula Abdul, Belinda Carlisle, Genesis, Phil Collins, Peter Gabriel, Simple Minds, The Human League, Culture Club, Janet Jackson and The Rolling Stones helped make Virgin one of the top six record companies in the world. The equity of Virgin Music Group—record labels, music publishing and recording studios—was subsequently sold to the Thorn EMI in 1992 in a U.S. \$1 billion deal. The interests of Virgin Group had now expanded into international "Megastore" music retailing, book and software publishing, film and video editing facilities, clubs, travel, hotels, and cinemas through over 100 companies in 23 countries.

Virgin Atlantic Airways, formed in 1984, has become the second largest British long haul international airline and operates a fleet of Boeing 747 and Airbus A340 aircraft to New York, Miami, Boston, Washington, Los Angeles, Orlando, San Francisco, Hong Kong, Athens, Tokyo, Johannesburg, Barbados, St. Lucia, Antigua, and Shanghai. The airline was founded on the concept of offering a competitive and high quality Upper Class and Economy service. The airline is now the holder of every major travel award.

In 1999, the combined sales of the different Virgin holding companies were around £3 billion. In addition to his own business activities, Richard is a trustee of several charities including The Healthcare Foundation, a leasing health care charity which was responsible for the launch of a health education campaign relating to AIDS in 1987. The Foundation has become involved in a lobbying campaign to restrict tobacco advertising and sponsorship in sport called Parents against Tobacco. His help in the initial funding of Charity Projects helped that organization to raise over £27 million in 1989 alone through campaigns such as Comic Relief.

Since 1985, Richard has also been involved in a number of world record-breaking attempts. In 1986, his boat 'Virgin Atlantic Challenger II,' rekindled the spirit of the Blue Riband by crossing the Atlantic Ocean in the fastest ever recorded time. This was followed a year later by the epic hot air balloon crossing in 'Virgin Atlantic Flyer' which was not only the first to cross the Atlantic but was the largest ever flown at 2.3 million cubic feet capacity, reaching speeds in excess of 130 miles per hour. In January 1991, he crossed the Pacific Ocean from Japan to Arctic Canada, again breaking all existing records with speeds of up to 245 miles per hour. In July 1995 he announced his intention to undertake the last great aviation world record, non-stop circumnavigation of the world by balloon, with his co-pilot from previous challenges, Per Lindstrand. The first attempts were thwarted by technical problems and the latest was in December 1998 when his balloon, the ICO Global Challenge, was forced to ditch in the Pacific Ocean.

In the 1999 New Years Honours list Richard Branson received a knighthood for his services to entrepreneurship. Richard lives in London and Oxfordshire and is married to Joan with two children, Holly and Sam.

Source: Taken from Hoover's Online <http://www.hoovers.com/officers/bio/7/0,3353,43977,00.html>, accessed September 27, 2001.

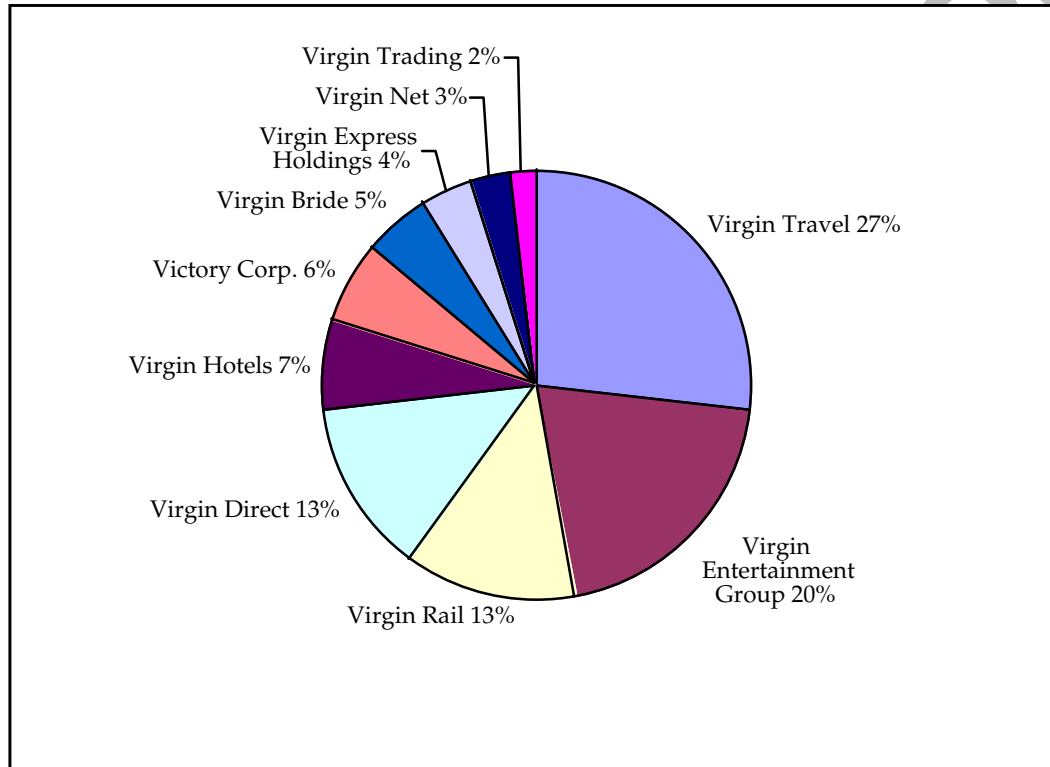
Exhibit 2 Virgin Companies

Company Name	Short Description
Virgin Active	Health and leisure clubs turned into "Life Centres."
Virgin Airship & Balloon Company	Commercial hot air balloon and operation for advertising, brand building, specialist television, or film work.
Virgin Atlantic	Commercial airline with 20 destinations in United States, Caribbean, South Africa, Asia, and Greece.
Virgin Atlantic Cargo	Cargo capacity to over 120 destinations worldwide.
Virgin Balloon Flights	Passenger balloon fleet in United Kingdom, Holland, and Belgium.
Virgin Bikes	Online purchase of motorcycles and scooters with delivery service and other services.
Virgin Books	Online bookseller with abstracts, excerpts, and reviews.
Virginbiz.net	Online information and services specifically for small businesses.
Virgin Blue	Low-fare commercial airline in Australia.
Virgin Bride	One-stop shop for all bridal needs.
Virgin Cars	Online purchase of cars with delivery service and extended service programs.
Virgin Cosmetics	Swiss-formulated skin care products with independent consultants available in 11 U. K. stores.
Virgin Direct	Online financial services.
Virgin Drinks	International drinks company featuring Virgin Cola.
Virgin Energy	Gas and electricity services.
Virgin Express	Commercial airlines flying from United Kingdom to Brussels and other continental European cities.
Virgin Healthcare	Charity advancing healthcare education.
Virgin Holidays	U. K.-based tour operator specializing in vacations in America, the Far East, Australia, and South Africa.
Virgin Incentives	Corporate incentives vouchers exchangeable for Virgin goods and services.
Virgin Limobike	Motorcycle passenger service in London.
Virgin Limousines	Limousine service in Northern California.
Virgin Mobile	Mobile telephone services.
Virgin Money	Online financial services.
Virgin Net	Online entertainment and leisure services.
Virgin One	Online account aggregation services.
Virgin Space	Cyber café.
Virgin Student	Online community specifically geared to students.
Virgin Sun	Mediterranean and Canary Island vacations.
Virgin Trains	1,600 trains services to 130 stations throughout the United Kingdom.

Exhibit 2 Virgin Companies (cont'd)

Company Name	Short Description
Virgin Travelstore	Online travel agency.
Virgin Wine	Online wine merchant.
V.shop	In-store kiosks to facilitate shopping.
V2 Music	Music distribution and recording label.
Other Companies	
Arcadia Ltd.	U. K. video production company.
Caroline 2	International wholesale distributor of music-related products.
HEMS	London Helicopter Air Ambulance.
The Lightship Group	Airship-operating company for advertising and promotions.
Limited Edition	Exclusive hotels.
London Broncos	Professional rugby league club.
Necker Island	Located in British Virgin Island and is part of Limited Edition.
Rapido TV	U. K. production company of youth, factual, and educational programming.
The Roof Gardens	Central London private members-only nightclub.
Sound and Media	Distributor of value-for-money CDs, cassettes, and videos.
Storm Models	Global model agency.
The Trainline	Online train information and booking services.

Source: Adapted from Virgin.com web site, <http://www.virgin.com/atoz/other.shtml>;
<http://www.virgin.com/atoz/atoe.shtml>; <http://www.virgin.com/atoz/ftoz.shtml>, accessed July 25, 2001.

Exhibit 3 Breakdown of Virgin 1999 Revenues (total \$6.2 billion)

Source: Adapted from Wells, "Red Baron," *Forbes*, July 3, 2000.

Exhibit 4 Virgin Atlantic Selected Performance Statistics (fiscal year ending April 30)

	FY 2000	FY 2001
Pre-tax profits (millions)	£40.0	£45.5
Loads	76.9%	80.2%
Passengers	3.9 million	4.4 million

Source: Selected from Gary Noakes, "Downturn is dodged by Virgin," *Travel Trade Gazette UK & Ireland*, August 26, 2001, p. 31.

Exhibit 5 Virgin Atlantic Selected Financial Information

2001 Sales in millions	\$2,187.3
1 Year Sales Growth	37.5%
2001 Net Income in millions	\$65.5
1 Year Net Income Growth	18.2%
2000 Employees	6,851
1 Year Employee Growth	14.2%

Source: Adapted from Hoover's Online Company Reports <http://www.hoovers.com/co/capsule/7/0,2163,43977,00.html>, accessed September 26, 2001.

Exhibit 6 Virgin Atlantic Destinations

Europe	North America	Asia
London	New York	Hong Kong
Athens	Los Angeles	Shanghai
	San Francisco	Tokyo
	Chicago	Delhi
Africa	Washington, DC	Kuala Lumpur
Cape Town	Miami	
Johannesburg	Orlando	Caribbean
Lagos	Boston	St. Lucia
Australia	Las Vegas	Antigua
Melbourne	Toronto	Barbados
Sydney		

Source: Compiled from <http://www.virgin-atlantic.com/main.asp?page=2.1>, accessed September 27, 2001.

Exhibit 7 Top Trans-Atlantic Carriers out of New York City Area's Three Airports 1995 versus 1999.

1999	Passengers
Continental	1,947,000
Delta	1,827,000
British Airways	1,611,000
Lufthansa	877,000
Virgin Atlantic	872,000
1995	
Delta	1,493,000
British Airways	1,444,000
TWA	1,311,000
American	903,000
Continental	797,000

Source: Adapted from "High-Flying Continental revs up Neward plan," *Crain's New York Business*, March 20, 2000, p. 32.

Exhibit 8 European Independent Carrier Traffic 1999

Carrier	Passengers	% Change	RPKs ^a (millions)	% Change
Adria	780.4	n.a.	831.8	n.a.
Aero-Lloyd	3,132.0	15.3	6,673.3	9.2
Air Belgium	180.4	n.a.	467.8	n.a.
Air Berlin	2,993.0	48.9	5,804.3	132.2
Air Europe	5,138.2	n.a.	8,089.7	n.a.
AirEurope	1,182.0	48.8	6,015.0	7.9
Airtours Int'l.	5,520.3	(0.1)	16,057.2	0.2
Air 2000	6,200.0	4.3	14,840.0	(6.2)
Braathens	6,096.0	8.8	3,151.3	27.3
Britannia AB	1,572.8	25.8	5,253.2	81.5
Britannia UK	8,278.3	(4.2)	22,840.0	(8.1)
British Midland	7,303.0	22.2	4,760.8	41.2
Condor Flugdienst	8,000.0	12.7	23,687.0	12.0
Deutsche BA	2,900.2	1.5	1,895.8	13.1
Eurofly	827.1	n.a.	1,172.6	n.a.
Futura	2,094.0	22.4	3,998.9	24.1
Germania	1,861.7	13.0	2,284.1	(35.7)
Hapag-Lloyd	5,892.0	12.6	12,676.5	7.9
JMC	6,528.2	49.6	17,626.8	40.9
Lauda Air	1,707.4	9.2	6,308.9	13.0
LTU	7,050.0	7.1	20,250.0	(19.5)
Maersk Air	2,030.9	9.0	3,056.2	22.2
Martinair	2,120.7	2.5	9,742.0	1.5
Monarch	5,248.4	7.4	13,247.3	7.1
Premiair	1,382.0	n.a.	8,984.0	n.a.
Spanair	5,982.8	16.6	8,782.6	9.3
Sterling European	1,019.5	46.7	2,949.0	(20.6)
Transavia	3,439.5	12.9	7,250.8	15.8
Virgin Atlantic	3,622.4	13.2	25,027.0	13.1
Virgin Express	4,053.8	n.a.	4,267.0	n.a.

Source: Adapted from "1999 European Independent Carrier Traffic," International Air Carrier Association, *Air Transport World*, August 2000, p. 3.

^aRPK is revenue per available seat kilometers.

Exhibit 9 Major Carrier Route Round Trips Between London and New York City, Summer 2001

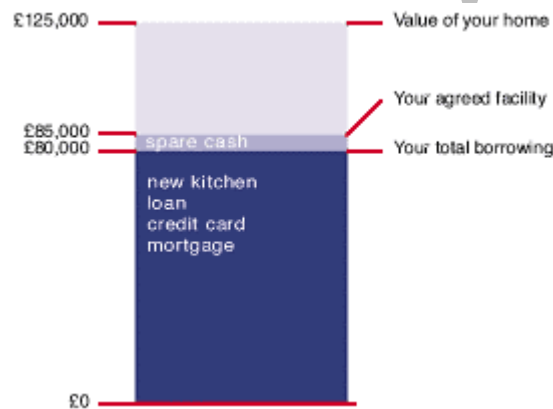
	Passengers/Year	% of Trips	% of Passengers
American	368,783	23.79	15.12
British Airways	706,304	30.58	28.96
Continental	145,118	10.19	5.95
United	296,990	13.59	12.18
Virgin Atlantic	746,365	16.99	30.60
Air India	110,921	3.40	4.55

Source: Adapted from Chris Tarry and Dominic Edridge, "Airline Alliances," Commerzbank Analyst Report, September 5, 2001, p. 11.

Exhibit 10 Virgin one Account Example

Assume you have a house worth £125,000 with 20 years to run on your £70,000 mortgage. You have £1,000 on your credit card and a personal loan of £5,000. You want to spend £4,000 on a new kitchen, but don't want to pay a high interest rate on the money you need to borrow.

With the One account you could get a facility of £85,000 to repay your mortgage, pay off your credit card and loan and buy the new kitchen – all at one rate. This leaves you £5,000 spare cash which won't cost you a penny until you use it.

**The One account will save you thousands**

The One account means you pay less interest on your mortgage. This is because we calculate interest daily, so whatever you do to keep your daily borrowing balance down saves you money.

You can save literally thousands of pounds in interest by :

- paying your regular income into the account – and then spending as normal
- managing your regular outgoings so they are paid as late as possible
- leaving a little money in the account each month
- paying in lump sums, tax rebates or bonuses.

The very nature of the One account means that it automatically saves you money.

Exhibit 10 Virgin one Account Example (cont'd)**The One account in action**

Suppose your finances look like this:

- Annual income – £35,000
- Borrowings – £70,000
- House value – £120,000

A If you had a traditional 25 year repayment mortgage with interest charged at 5.95% ,the monthly cost would be £448.88 .

B If you had a One account – based on the same term, charged at the same interest rate and costing the same amount each month – and you paid in your monthly income, spending it evenly over the month – you'd repay your borrowing 9 months early, saving £4,267 .

C If you left a little extra in the account as well – say £50 each month – you'd pay off your borrowing 5 years 5 months early, saving £17,541.

Source: <http://www.virginone.com/vone-v2/sales/how1acountwork/more-detail.html>, accessed September 26, 2001.

Exhibit 11 Virgin One Sample Account Statement

28 February 2001 statement -1

1

Virgin one account

tel: 08456 000 000
fax: 01603 729 000

Virgin Direct Personal Finance Ltd
Discovery House
Whiting Road
Norwich NR4 6EJ

Virgin Direct Personal Finance Ltd
is a joint venture between Virgin Direct
and The Royal Bank of Scotland plc

Your account number 10000000
Sortcode 16-60-50

Mr Andrew Nicholson
Discovery House
Whiting Road
Norwich
NR4 6EJ

An overview of your One account this month

Your One account balance on 01/02/2001 -869,876.54 -2

Total money in £1,185.51 -3

Money out

Switch card payments	£213.08
VISA card payments	£444.47
Cheques	£83.19
Interest	£427.30 -4

Total money out - £1,168.04

Total movement on your One account this month £17.47

Your One account balance as at 28/02/2001 - 869,859.07

An update on your available facility

Your One account facility £71,000.00

Your One account balance as at 28/02/2001 - 869,859.07

Your available facility £1,140.93 -5

If you borrow up to your facility now, you would be behind your repayment plan.

An update on your overall financial position

What you own

Your home (based on the last valuation) £120,000.00

Mr Andrew Nicholson - Virgin Maxi ISA as at 28/02/2001 £1,270.70 -6

What you owe

Your One account balance as at 28/02/2001 - 869,859.07

The difference between what you own and what you owe £51,411.63

Issued on behalf of

The Royal Bank of Scotland

The Virgin One account is a secured personal bank account with The Royal Bank of Scotland plc.

ISS-0.02

Exhibit 11 Virgin One Sample Account Statement (cont'd)

28 February 2001 statement

2

Interest 7

From 01/02/2001 to 28/02/2001 the interest charged on borrowing was 6.95%.

The total interest on all your borrowing covering these periods is £376.14. We will collect this from your account on 26/03/2001.

If you want to know exactly how we calculate the interest applied to your account please call us.

Where you are against your repayment plan 8

Your repayment plan is based on your target repayment date of January 2021. The planned balance we show you each month shows how your balance would need to decrease if you were planning to repay your facility by making regular monthly payments through to January 2021. These figures show your position against the plan as at 28/02/2001.

Your actual balance - £69,859.07

Your planned balance - £70,750.56

This means you are £891.49 ahead of plan

You should budget £520.94 next month if you want to stay ahead of plan by your current amount. This is made up of £376.14 interest, to be collected on 26/03/2001, and you budgeting to leave £144.80 in your account to reduce your balance. This assumes that interest rates do not change over the next month.

Many of our customers tell us their statements bring the *One* account to life.

This is how we let you know where you stand each month.

Actual statements will be bigger than this.

- 1 The date your statement was prepared. If you'd like an interim statement at any other time, just let us know.
- 2 The balance brought forward from your last statement. Remember that the *One* account is a loan secured against your home – so unless your account is in credit this figure will be negative.
- 3 The total amount paid into your account in the last month.
- 4 The interest we charged to your account this month. This is the total interest on all of last month's borrowing.
- 5 The difference between your *One* account balance and your borrowing limit.
- 6 If you have any other Virgin Direct investment products we can show their value on your *One* account statement. That way you can see the difference between what you own and what you owe.
- 7 The total interest on this month's borrowing – to be collected next month from your account.
- 8 When you open your *One* account we'll agree a repayment plan with you. Each month we'll let you know how you're doing against your plan. You can call us any time to discuss or change your repayment plan.

Exhibit 11 Virgin One Sample Account Statement (cont'd)

28 February 2001 statement 3



9 Your One statement

Date	Item		Money out	Money in
02.02.2001	SWITCH POS	CD00 01FEB01 0000 SAFEWAY NORWICH	£25.28	
05.02.2001	SWITCH POS 10	CD00 04FEB01 0000 CO-OP MONIEER NORWICH	£4.41	
05.02.2001	SWITCH POS	CD00 04FEB01 THE DEPOT POE670 NORWICH	£15.88	
07.02.2001	VISA PAYMENT	CD0000 06FEB VISA TRANSACTIONS FOR PERIOD ENDING 06.02.2001	£26.99 11	
08.02.2001	SWITCH POS	CD00 07FEB01 0000 SAFEWAY PETROL NORWICH	£23.61	
12.02.2001	CHEQUE	000001	£58.14	
15.02.2001	SWITCH POS	CD00 14FEB01 0000 CO-OP MONIEER NORWICH CASH BACK £30.00	£34.34	
16.02.2001	CHEQUE	000002	£25.05	
16.02.2001	SWITCH POS	CD00 15FEB01 0000 CURRYS NORWICH	£50.00	
21.02.2001	VISA PAYMENT	CD0000 21FEB VISA TRANSACTIONS FOR PERIOD ENDING 21.02.2001	£417.48	
26.02.2001	INTEREST	01FEB -A/C 10000000	£427.30	
28.02.2001	SWITCH POS	CD00 27FEB01 0000 SAFEWAY NORWICH CASH BACK £20.00	£34.98	
28.02.2001	SWITCH POS	CD00 27FEB01 0000 SAFEWAY NORWICH CASH BACK £20.00	£24.68	
28.02.2001	BACS CREDIT	SALARY		£1,185.51
	Totals		£1,168.04	£1,185.51

Issued on behalf of
 The Royal Bank
of Scotland

The Virgin One account is a secured personal bank account
with The Royal Bank of Scotland plc.

Exhibit 11 Virgin One Sample Account Statement (cont'd)

28 February 2001 statement 4

Your Virgin One account VISA purchases ¹²

These items are included in your *One* statement

Transactions during period ending 06/02/2001

Date	Item	Description	Debit	Weekly total
06.02.2001	STREETOES	CAMBRIDGE GB	DBL - £26.99	
				- £26.99 ¹¹

Transactions during period ending 13/02/2001

There are no transactions for this period

Transactions during period ending 20/02/2001

Date	Item	Description	Debit	Weekly total
16.02.2001	TESCO	NORWICH GB	DBL - £23.91	
16.02.2001	SAFewayNORWICH	NORWICH GB	DBL - £12.12	
16.02.2001	THE PIER	CAMBRIDGE GB	DBL - £281.33	
17.02.2001	HOMEBASE LTD	NORWICH GB	DBL - £66.06	
17.02.2001	TESCO	NORWICH GB	DBL - £34.07	
19.02.2001	THE PIER	CAMBRIDGE GB	DBL - £69.79	
19.02.2001	THE PIER	CAMBRIDGE GB	CR. £69.79	
				- £417.48

Transactions during period ending 27/02/2001

There are no transactions for this period

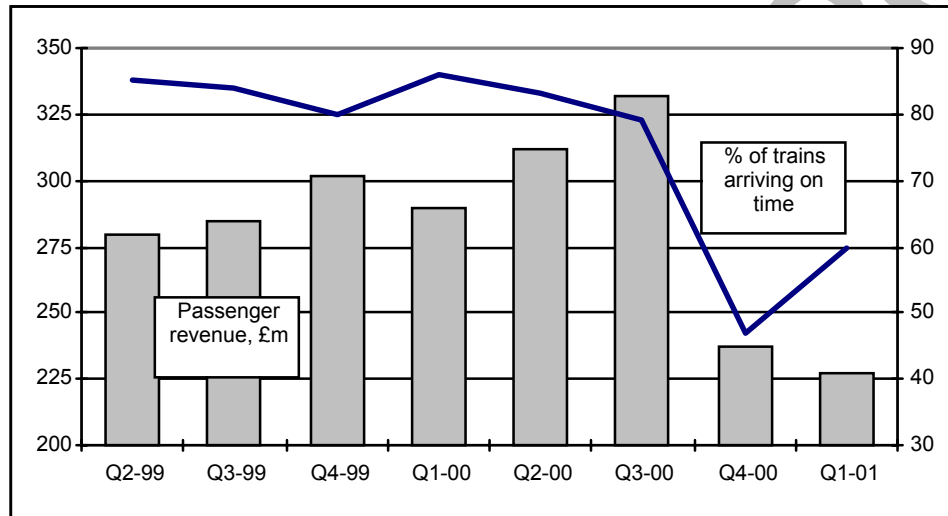
⁹ The date shown against each transaction on your *One* account is the day we received details of the transaction – which may be a few days after the transaction took place.

¹⁰ Transactions are divided into different categories to help you keep track of your account.

¹¹ This is the total of your Virgin *One* account VISA transactions during a seven day period.

¹² Any transactions you make on your *One* account VISA card are itemised at the end of your statement. The balance on your VISA card is applied to your *One* account once a week.

Source: <http://www.virginone.com/vone-v2/sales/assets/oneaccountstatement.pdf>, accessed September 26, 2001.

Exhibit 12 British Train Operations 1999 through Q1 2001.

Source: Adapted from "Tilting too far?" *The Economist*, July 14, 2001.

Exhibit 13 Virgin Trains Operational Data 1998-2000

Line	Route Miles	Train Miles		Passenger Miles (m)		Passenger Journey (m)	
		1998-1999	1999-2000	1998-1999	1999-2000	1998-1999	1999-2000
CrossCountry Line	1,727	11.4	11.4	1,365	1,484	13.8	14.5
West Coast Trains	723	11.2	11.7	2,088	2,124	15.9	16.6

Source: Adapted from Andrew Fitchie, "Bus and Rail Review," *Global Equity Research*, UBS Warburg, September 2001, p. 55.

Exhibit 14 Virgin Trains Financial Data 1998-1999 (£ in millions)

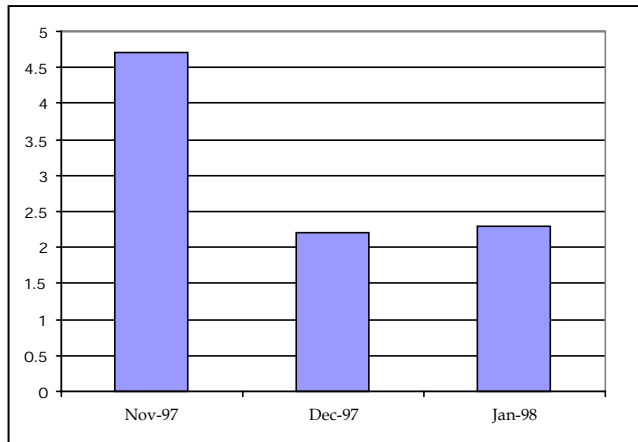
Line	Passenger Revenue	Subsidy	Other Revenue	Total Revenues	Operating Costs	EBIT pre-exceptionals
Cross Country	140.1	104.3	6.9	251.3	259.6	-8.3
West Coast Trains	288.6	71.9	53.9	414.4	375.5	38.9

Source: Adapted from Andrew Fitchie, "Bus and Rail Review," *Global Equity Research*, UBS Warburg, September 2001, p. 55.

Exhibit 15 Virgin Trains Key Ratios (£ except where noted)

Line	Passenger Revenue/Passenger	Passenger Revenue/Passenger Mile	Passenger Revenue/Train Mile	Subsidy/Train Mile	Cost/Train Mile	EBIT as % of costs
Cross Country	10.15	.10	12.89	9.15	22.77	-3%
West Coast Trains	18.15	.14	30.58	6.42	33.53	10%

Source: Adapted from Andrew Fitchie, "Bus and Rail Review," *Global Equity Research*, UBS Warburg, September 2001, p. 55.

Exhibit 16 Effect of Pepsi "Buy One Get One Free" Campaign December 1997 to January 1998 on Virgin Cola Market Share

Source: Adapted from "Virgin Cola Launches in South Africa with New Taste," *Ad Age's Daily World Wire*, February 26, 1998.

Exhibit 17 Global Market Share for Carbonated Beverages in 1999.

Brand	Market Share (%)
Coca-Cola	27.9
Pepsi Cola	12.2
Diet Coke	6.3
Sprite	5.0
Fanta	4.1
Diet Pepsi	2.6
Mountain Dew	2.5
Dr. Pepper	2.3
7 Up	1.7
Mirinda	1.6
Diet 7 Up	.9
Antarctica	.7
Schweppes	.6
Barq's Root Beer	.5
Minute Maid	.5
Shasta	.5
Sunkist	.5
RC Cola	.4
Canada Dry Ginger Ale	.4

Source: Adapted from "Global to 20 soft drink brands," *Beverage Industry*, March 2001, p. 30.

Exhibit 18 U.S. Market Share of Carbonated Beverages in 2000.

Brand	Market Share (%)
Coke	20.4
Pepsi	13.6
Diet Coke	8.7
Mountain Dew	7.2
Sprite	6.6
Dr Pepper	6.3
Diet Pepsi	5.3
7UP	2.0
Caffeine-free Diet Coke	1.7
Barq's Root Beer	1.1

Source: Adapted from "U.S. top carbonated soft drink brands in 2000," *Beverage Industry*, March 2001, p. 18.

Exhibit 19 Pammy Bottle (left) versus Cur-V Bottle (right)



Source: Ken Goddard, "Silver Bottle Helps Strike Gold," *VR Beverage Packaging*, 1998, p. 14. *VR Beverage Packaging* is a special issue of the magazine *Verpackungs-Rundschau*. See <http://www.verpackungsrundschau.de>.