Virgin treads a quirky path to success

Carrier expands out of its prepaid niche

By Leslie Cauley
USA TODAY

Virgin Mobile USA definitely walks to its own, very hip drumbeat.

Big cellphone carriers such as AT&T and Verizon Wireless are famous for herding customers into long-term service contracts. Virgin specializes in prepaid plans that allow its customers — half of them under 35 — to pay as they go, by the minute or by the month.

That difference is what distinguishes Virgin, CEO Dan Schulman says. It's also what keeps Virgin on its toes. Because there's no contract, there's nothing to prevent people from leaving, Schulman says. "You really have to earn your keep every single day."

Virgin has about 5.1 million customers, a fraction of the 140 million-plus controlled by AT&T and Verizon, the No. 1 and No. 2 U.S. carriers. But Virgin is one of the biggest "MVNOs" in the USA.

Short for "mobile virtual network operator," MVNOs lease network capacity from other carriers. In Virgin's case, that's Sprint. Most MVNOs simply re-brand the services of another wireless carrier under their own names. Not Virgin: It retains control over all "backroom" operations, including customer service and billing.

"If you're trying to differentiate yourself by focusing on the customer, you don't want to be beholden" to another carrier, Schulman says.

Virgin's approach appears to be working. The carrier has won the coveted J.D. Power award for top service in the prepaid category for the past two years. Its impact is undeniable, particularly among younger consumers. Roger Entner, a senior vice president at IAG Research, calls it "the original youth carrier in this country."

Entner credits "tight focus on a really defined market segment" for Virgin's success and gives kudos for that to Schulman. An 18-year veteran of AT&T, Schulman launched the label in 2002.

Part of the magic is Virgin's counterculture approach, says Charles Golvin, a senior wireless analyst at researcher Forrester. For years, traditional wireless carriers made it difficult for younger consumers who had no or short credit histories to get service contracts.

Golvin says Virgin turned that "negative" attribute — no credit history — into a positive by offering cheap, pay-as-you-go plans. "The timing was right for that market to bloom."

But Virgin's customer base is getting older and wealthier, leading some to "graduate from prepaid plans to post-paid (contract) plans." To grow in the future, Golvin says Virgin needs to expand its portfolio to include more sophisticated offerings, including a contract option.

Virgin's answer: Helio. Virgin recently announced plans to buy the high-end wireless carrier for $39 million.

Helio is small — just 170,000 subscribers — but it packs a wallop when it comes to rolling out advanced services that harness the power of the Web.

Helio's technological prowess owes to its parentage. The carrier is a joint venture of SK Telecom of South Korea, one of the most progressive mobile markets on the planet, and EarthLink. "They took a lot of the lessons SK learned in Korea and put it to good use in the U.S.," Entner says.

The result is a service portfolio heavy on Web-enabled services that have earned a loyal following "with rich kids who want to be cool," Entner says.

Helio users spend around $80 a month, about a third more than the $55 spent by the average wireless user. Helio services are sold under a data contract.

As part of the deal, Virgin will get 85,000 Web-enabled handsets, including the super-popular "Ocean," a slider that interacts easily, in real-time, with social networking sites. It also gets Helio's advanced technical platform, which would cost around $25 million to build from scratch, Virgin says.

"Helio was a bargain," Entner says. He thinks Virgin will earn back its $39 million investment in just eight months.

A counterculture approach

Frances Farrow, CEO of Virgin USA, the U.S. investment arm of Virgin, says Virgin Mobile's counterculture approach reflects Virgin's longtime business philosophy: "We dare to try."

Consider Virgin's foray into the U.S. airline business. Farrow says Virgin saw the sorry state of U.S. air travel and was convinced it could do better. The result, last summer, was Virgin America. The airline features shiny new aircraft, cool on-board features like mood lighting and custom food orders, and free movies.

Virgin Mobile's approach also is counterintuitive, to some extent. For instance, it actually "pays" its customers for sticking around.

Its "Sugar Mama" service, aimed at fusing ads into the mobile experience, rewards customers — with wireless minutes — for watching ads. So far, about 750,000 customers have signed up, earning 23 million minutes overall. (Customers are limited to 75 free minutes a month.)

Another service, "Studio V," allows customers to publish — and sell — their own ring tones and wallpaper. If another subscriber decides to use that content, the creator is "paid" with a billing credit. (Payments vary.)

Beyond cheeky humor and lipstick-red logos, however, there's a serious mission, Schulman says: Providing "good value on basic stuff." That's Schulman-speak for core services like voice, messaging and handsets.

Schulman points out that Virgin was one of the first U.S. carriers to offer free night/weekend minutes starting at 7 p.m. (Most plans start at 9 p.m.) He hints that Virgin will again tackle the status quo once it enters the contract market.

As always, he says, the push will be distinguished by Virgin's high-style, renegade attitude and customer-centric focus. "Virgin classically tries to challenge industry convention," Schulman says.

By Robert Deutsch, USA TODAY

At the helm: CEO Dan Schulman is focused on providing "good value on basic stuff."

Virgin Mobile USA

Headquarters: Warren, N.J.
Employees: 450.
2007 revenue: $1.2 billion.
Customers: 5.1 million.
Family: Virgin USA is one of seven Virgin mobile carriers around the world.