The Innovators
Conversations on the Cutting Edge
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Interview with Dan Schulman
CEO, Virgin Mobile

Dan joined Virgin Mobile USA as founding CEO in September 2001. The Company went public in 2007 and, prior to its recent acquisition by Sprint Nextel in November 2009, had almost 5 million customers and $1.3 billion in annual sales. Virgin Mobile USA has been recognized for its attentive and effective customer care service, and has been ranked, two years in a row, as highest by J.D. Power and Associates in prepaid carrier customer satisfaction.

Previously, Dan was CEO of Priceline.com, where he established one of the most popular and recognized brands on the Internet. Prior to that, Schulman served for more than 18 years at AT&T, becoming the youngest member of the company's senior executive team. When he left AT&T, he was president of the $22 billion consumer long distance business.

Named by Business Week as one of the top 20 people to watch in media, and recently named by Ernst & Young as the top telecom and media Entrepreneur of the Year in New Jersey, Dan is a member of the Board of Directors of Symantec, Flextronics and the New Jersey Technology Council; and also serves on the advisory committee of Greycroft, a private equity company focused on early stage new media and technology companies. He currently serves on the Board of Governors of Rutgers, the state university of New Jersey and on the board of Autism Speaks.

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Interview conducted by Doug Berger, INNOVATE doug@innovate1st.com

Doug: In founding Virgin Mobile USA with Richard Branson, what was the first level of success that reflected both of your ambitions for the venture?

Dan: While perhaps a little unorthodox, the first level of success we had was having the right organization and the right people. People typically talk of early success in terms of the number of customers and the delivery of their initial products. Those all come, but they come from having the right people. Having the best possible employees is the root of all things going forward, whether that is innovation, competitiveness or the culture. Richard Branson and I both believe that employees come first, then your customers and then your shareholders. In my view, it works in that order. Without outstanding people, it is almost impossible to satisfy customers, and therefore serve your shareholders.

Doug: Did you have a particular image in mind for the first version of the organization?

Dan: Organizations evolve, as do the skill sets you need when you are a raw startup, versus those that you need as you enter into a rapid growth phase. Skill sets need to evolve as you become a billion dollar company putting processes into place to manage logistics and operations, which often differ from those that are needed when you're launching your business. Recognizing these growth phases and adopting the skill sets necessary is crucial if you're to enjoy success on a sustained basis.

In a start-up you're collectively motivated by a dream that inspires you and creates the energy and passion for the incredibly long hours that people give without thinking twice. Each individual has a very specific role within the context of organizational structure … a great marketing person, a great creative person, a great customer care person. They're more focused on getting their individual functional area up and running and less focused on the cross-functional processes. As you start to grow there is a need for a lot more team work. There suddenly becomes a torrent of downstream effects to manage. Therefore, the ability to work cross organizationally while not losing functional expertise and focus comes into play.

This idea of surrounding yourself with great people intersects with the life cycle of your company. Some, but not all, individuals can grow as the company morphs from one stage to the next. A leader needs to be aware of having the right people at a particular moment in a company's history.

Another critical element is focus. We knew we had a potentially large, addressable market. We saw an opportunity to focus in on a particular underserved segment of the market, which for Virgin Mobile was the youth market. A lot of people said, "You went into the prepaid market." What we really tried to do is hyper serve the youth market. We said, "If we want to satisfy the youth market, what are the things that the youth market would want and are not being serviced by other carriers?" That was the defining thought as we started the organization. Prepaid service evolved from there.

We needed a firm grasp on reality, not what we hoped was out there or what other people were telling us was reality. We went out and talked to thousands of potential customers in both traditional and nontraditional ways so that they could give very blunt feedback, including some we might not have liked hearing but was imperative in developing our value proposition.

We also realized that this was a rapidly changing market and no one can accurately predict what's going to happen in 3-5 years. Even if you're incredibly successful, you can wake up one morning with the world changed and you're not ahead anymore. We do know that our competition will almost always catch up in 6 to 12 months. You've got to be able to react and say, "We saw that coming and were not blind sided." We put into place the systems and processes to react quickly.

Doug: Put yourself back in 2002 for a moment. Where was your thinking and what were the critical areas of focus for Virgin Mobile, before you had momentum in the marketplace?

Dan: Pillar number one was to **control the customer experience**. Our strategy was to focus on a particular segment of the market and our differentiation relied on hyper-serving that segment. Consequently we could not give up control of the customer experience. I'm a firm believer that companies and brands are no longer defined by their promise. They're about experiences. Every time a customer touches your company, they are forming an impression of your brand. Consumers are more knowledgeable than ever before. They are less influenced by what you say and much more seduced by what you actually do.

I'll give you an example of that. As a Mobile Virtual Network Mobile Operator (MVNO) our fundamental belief is that networks are not the differentiator. All networks over the long run are fundamentally the same. They provide faster and faster speeds; pricing gets lower, and the quality improves. It's the value-add surrounding the network that is the real differentiator, through customer care, billing, pricing models, applications, handsets, handset menu structure, and more. That's what potential customers are really buying and that's we needed to control.

We invested to develop an architectural infrastructure that allowed us to control the customer experience. For example, knowing 'how many minutes do I have left' in pre-paid is an important feature for consumers. We were all about "Let the customer know exactly how much money they have so they can control their spend." To do that, we put a single balance button on the phone. One click. The second you make a phone call that balance information is updated across all of the touch points: the handset, the customer's account on the website, and our customer care agent. We were creating an advantage over all other companies. Our self-service numbers went through the roof because it was easy and simple and it had the added benefit of lowering our costs. All by just basically understanding what customers really want and controlling the customer experience.

That is only one example, but it gave us a huge leg up on the competition. Seven years later, many of our competitors still don't have a balance button on their phones. Super-serving our customer niche was our over-riding philosophy. What would you want to have if you were the customer?

In order to do that you need to ask yourself, "**Are you truly proud of the product you put out there?**" This was our second focus. Let's make prepaid an interesting, cool service with good handsets, great customer service, and fun applications. We did a number of innovative things specifically around the youth market that nobody else had done. They were simple and easy to do but generated a huge buzz.

One innovation twist was "the rescue ring." The premise was to give a consumer an "easy out" on a blind date. If they weren't sure how it would go, they could set the alarm functionality and Virgin Mobile would "call" them. The phone would ring and there would be a recording that basically said, "Look, if you're having a great time just say the following, 'Yeah, yeah, yeah. I'll get back to you.' If not, Repeat after me, 'What? She's sick? I'll be right there.'" The rescue ring was just using basic alarm clock functionality and putting a twist on it because we were focused on the youth market. There was huge buzz around the rescue ring, something that helped us to launch our service with a fun innovative brand image.

Our third focus was to provide **the consumer flexibility**. We did not want to lock them up in any way. That was a key consideration for our target market. The youth market – like so many people these days -- is always on a budget. They could have a lot of money one month, and no money the following month. It is difficult for them to predict what their spend is going to be. So allowing flexibility in their monthly wireless service costs was extremely valuable to our target market.

They were not easy things to accomplish, but they were our guiding pillars.

Doug: What was your thinking about how to get your voice out into the marketplace?

Dan: That was interesting as well. It comes back to, "Who do you hire?" Once we established that we were going after the youth market, we took a risk and decided that instead of hiring a traditional telecom marketing executive, we were going to hire the former head of marketing from MTV. Our target was the youth market, and therefore, our marketing needed to be around youth, not so much around wireless, which was a traditional way of thinking. Consequently, the voice, packaging, imagery, advertising were all extremely different from anything that was going on in wireless.

I spent 18 years at AT&T so I had to fight some of that tendency myself. I remember the first ads that we put out would not have been ads that I would have approved. At first I was uncomfortable with them, and then I realized these were exactly what we needed out there. One day our head of marketing came to me and said, "Look, I've got tough news. The Wall Street Journal just rated our advertising as the worst of the quarter." I looked at him and I said, "You know what? Your goal is to win that award next quarter, too. Because the last thing we want is The Wall Street Journal liking our advertising. That's not our target market. And furthermore, the fact that The Wall Street Journal actually noticed our advertising given the limited amount of spend we have tells me we're absolutely breaking through. So keep up the great work!"

We also began to understand that the youth market is very idealistic and that they fundamentally expect the brands they support to give back. We found that youth were looking for ways to be involved and they wanted to volunteer. We sponsor some major music festivals -- that's part of our DNA as a brand. We did a giant festival this year right outside of Washington, DC for free. A number of very popular bands performed, and the price of admission was to volunteer at a youth homeless shelter. It was a terrific way to raise awareness of a pressing issue and connect with our customers.

Doug: Let's shift gears. What were some difficult times through which you had to manage the company in going from start-up to over a billion dollars in revenue?

Dan: Taking advantage of very difficult times and rallying around those become the defining stories in a company's culture. They're incredibly powerful teachable moments. For example, as we were about to initially launch, we found out that about a third of our phones had a malfunction due to faulty packaging. We had phones in the warehouses of Target and Best Buy and in their back storage rooms. All of a sudden we're in this "Oh no!" moment.

We brought the entire employee team together and said, "This is going be a defining moment. Every one of us is going to go out to every store and every warehouse and test every single phone." We went out and found every single defective phone and replaced them with working phones. It was expensive to accomplish, but absolutely the right thing to do. We were able to launch then with perfect quality. Best Buy and Target saw every single employee out in their warehouses testing every single phone. That became a legend in the company.

There is always one crisis after another. We need to push the envelope to stay relevant. How you respond to hardships is what defines you as a company. Something may or may not work, but let's recognize the people for their amazing thought and dedication. It's a bummer if it didn't work out. But you know what? Innovation is the kind of effort we need to reward.

We've been in the market seven years or so and we are on our fifth reiteration of our value proposition. Everything changes - packaging and handsets, applications, pricing, how we position ourselves. Innovation is part and parcel of who we are.

Doug: You spoke earlier about having systems and processes that respond quickly. What are you doing?

Dan: The way that we're able to rapidly respond is through a disciplined analysis of data. We're a very data driven organization. We look at sales store by store versus what we expected. We understand our competitors, evolving technology and the art of what's possible. We try to see very quickly when things are not progressing along the expected path. We don't overreact based on a day or two, but it is very easy for us to see trends and to see if we're falling off or if something is actually accelerating in a positive way. We are very attuned to the conversations of our customers through social networking. It gives us a lot of insight into what's happening in the market. From that you can then go into the market and talk to customers about potential solutions and gain their reactions.

Doug: What tips it from insights to making a strategic shift for you and your senior staff?

Dan: We are not afraid to change even when things are successful. We've found that if you wait too long, then you're way behind the eight ball. I believe that for many companies the biggest impediment to their future success is their past success. They start steering by the wake of the boat, and not by looking ahead.

There was a lot more debate and deliberation early in our history. Now, we have a lot more understanding of the consequences of not moving rapidly. We know that these life cycles work in 12 to 18 months. Our processes are all about trying to lead in some way and create innovation, which often shows up in the small things. For example, we were the first wireless carrier to put out a 'pink slip protection' program [which provides eligible customers with free phone service if they lose their job]. We were also the first carrier to lower our rates once the recession took hold because that's what customers needed. As a result, we got more customers coming to us and higher loyalty, so that worked out financially.

Doug: What can you say about keeping everyone in the company in tune with the actual market dynamics?

Dan: It is quite easy when you're small and every staff meeting is an all-employee meeting at the same time. As you get bigger that definitely becomes more difficult. So there are a couple of ways that we maintain that communication. Every quarter we have all-employee meetings where we talk about everything that's going on. They're very blunt meetings held at all our major locations. We've done a lot of leadership training among our VP's. They meet with their teams all the time. We need to be sure that the strategy and message is consistent as possible. It's always about change. Therefore, you need to create the ability to have constant conversations happening within the organization. We also have ops and investment reviews and anybody can come to those meetings. We err on the side of being very open with our communication.

Doug: Let's shift gears again. Until the recent Sprint acquisition, you have always been within the Virgin Group. In your early stages with Virgin Mobile, how did being part of that eco-system help?

Dan: Richard Branson is a consummate entrepreneur. Richard and I spoke quite a bit at the beginning. He knows that there is a huge amount of risk inherent in any venture, and that things don't always work out. I remember once when we were at a very touchy stage. We needed to buy handsets. That's a very expensive proposition and we had no guarantee of anything working out. It was post 9/11 when there was not a lot of cash. We had to make this investment in order to keep our launch on track. I basically said, "Not making a decision is in fact making a decision." He said, "Okay, let me see what I can do." He called me back and said, "Look, I am going to sell my favorite hotel in the world that I own to support you on this." I said, "Richard, don't do it. Truthfully, don't do it. It is just too risky." He replied, "Nope, I'm betting on you and the team on this." That was one of those defining moments where I realized the power of surrounding yourself with people you trust. He had done that. Richard believes in the people working with him, and he's seen that trust pay off numerous times.

We had three Virgin group executives on our board, including Richard for a while. The constant refrain was "We bet on you. Here's what we've seen in other parts of the world that have worked. Here are some things that we've seen that have not worked very well. Why don't you get together with other Virgin managing directors to talk about what works, what doesn't work, what's worked from a marketing perspective, what the brand is, how do we represent the brand, etc."

We launched in July 2002 and progress through November was not good. By the time we hit December we had redone almost our entire value proposition and brand presentation. Soon after, we were well on our way to becoming the fastest wireless company to hit a million subscribers. It's that ability to actually fail and recover that sets us apart. Most companies do not understand that risk is a necessary component of starting a new venture. At Virgin, we basically say, "Okay, that was the right thinking. It didn't work. What are we going to adjust now?"

Doug: What were some of your key learnings that you took away from your experience at AT&T and at Priceline?

Dan: Both were extraordinarily important experiences for me. Without them there's no question that I would not have had the same degree of success at Virgin. I spent 18 years at AT&T. It was a terrific experience for me. First of all, I learned almost every functional area. I ran some small organizations and ran some gargantuan organizations. When I was running AT&T's long distance business it was a $22 billion P&L, with tens of thousands of people. I learned relationship management and how to work with other senior executives at partner companies.

When I left for Priceline I thought, "Well, how hard can this be? It's $10 million of revenues. I'll figure this out in two days." Wow, was I mistaken! At Priceline, I really learned a tremendous amount about entrepreneurship and focus. You are not riding on the coattails of history. Every decision you make is a critical decision. And you don't have a huge balance sheet behind you. Every dollar that you spend is your money. We eventually built the company to over a billion in revenues. There's a big difference between being a division president and being a CEO. It was quite an awakening.

Doug: There is a bit of a paradox between doing what's right for employees, then customers, then shareholders.

Dan: Perhaps, but only in the short run...

Doug: With an eye towards *The Innovators* audience who are mid to senior operating managers in larger companies, this paradox needs to be managed. Can you shed light on how you think about responsibly managing these kinds of dilemmas?

Dan: Employees first, then customers, then shareholders does not mean whatsoever that any of those constituencies aren't crucial and important. It does mean though, in my view, that to build the most valuable company over the long run that is the order of priority. The only sustainable way to differentiate yourself versus your competition is to have better people than they do and to tap their dedication and insights. If that happens and you have tight controls over your costs and other basics, shareholders inevitably reap the benefits.

Although 'The Street' can be an unforgiving place, they do listen very carefully about future direction. A lot of it comes down to how you talk about what your strategy is and why you're doing the things that you do. It's critical to set expectations such that you are able to do the things that you need to do. Even if those expectations are difficult at first to hear, you've got to set the right context.

It's important to have a consistent message. Your internal message should be the same as your external message. That allows you to be most authentic and therefore most powerful in your ability to communicate your vision.