U.S.News & WORLD REPORT
usnews.com

The View from ING Direct and Virgin Mobile

By Kimberly Palmer
Posted 8/3/07

Banks and cellphone companies frequently top consumers' most-hated lists. But two companies, online banking giant ING Direct and cellphone provider Virgin Mobile USA, are trying to come to their rescue.

Industries where dissatisfied customers are rife often spawn "white knights," companies that spring up to serve rankled consumers, says Gail McGovern, professor of management practice at Harvard Business School. McGovern has found that many companies inadvertently make their customers miserable, through unexpected fees (in the case of banks) and inconvenient contracts (for gym and cellphone use).

McGovern singles out ING Direct and Virgin Mobile as white knights in a recent *Harvard Business Review* article, "Companies and the Customers Who Hate Them." ING Direct, started in 2000, avoids charging customers fees, and Virgin Mobile, which entered the market in 2002, steers clear of long-term contracts in favor of prepaid options.

ING Direct has become the fourth-largest savings bank in the country and adds 100,000 new customers a month, McGovern notes. She says Virgin Mobile has almost 5 million customers and a below-average turnover rate, as well as customer satisfaction ratings over 90 percent, higher than those of its peers.

U.S. News asked Arkadi Kuhlmann, president and chief executive of ING Direct, and Dan Schulman, chief executive of Virgin Mobile USA, by phone and E-mail, respectively, about their unusual business models.

Why did you decide to take a different approach?

Kuhlmann: Most businesses make money off customers they can either trap or trick. It seems like not a great way to run a business. I think customers, when you ask them, "What do you think about service charges?" they say they think they're high and that they don't think they're getting much value for the fees. Our conclusion was that the customer is right. I think there's a lot of trust that's lost because people feel like they're forced to pay those things. We try to basically eliminate and stay away from fees as much as possible because we know that people are extremely sensitive to that.

Schulman: Nobody likes to enter into long-term commitments. When Virgin Mobile entered the wireless arena in the U.S. five years ago, it was clear that people without credit cards and those who choose to not sign one- or two-year contracts had no good alternatives. Many younger people wanted the option of having a plan without locking themselves into onerous contracts, but the industry provided very limited offers in terms of handsets, data services, competitive pricing, and good customer service attention.

Why do you think your companies have been so popular?

Kuhlmann: There's room out there for a different sound bite. We treat all customers the same, whether they have a small amount or large amount of savings. This is a democratization for average people of modest means and simple demands. They get the same service and the same rate whether they are large or small.

Schulman: Much of our success comes from our focus on the youth market, and particularly the prepaid segment of the mobile market. It is a fast-growing and expanding market that includes those new to wireless and, increasingly, postpaid customers dissatisfied with traditional carriers with their long-term contracts. Many of our customers now switch from postpaid wireless services because we offer an attractive alternative.

What type of customers use your services?

Kuhlmann: They are differentiated not demographically but behaviorally. They tend to be more optimistic, adventurous, and value conscious. They're financially conservative, do little impulse buying, and are politically active and socially conscious. Our customers would clearly be focused on fundamental family values like saving money.

Schulman: We skew disproportionately toward the youth market, but our prepaid, no-annual-contract services appeal to anyone who appreciates flexibility and control—customers who may be going through transitions in their life and therefore do not want to be locked into long-term, inflexible contracts. We try to provide all you would want in wireless plans without the long-term contracts, including good value, cool content, fashionable and affordable handsets, and responsive customer service.

Do you think your competitors will adopt your model over the next decade or so?

Kuhlmann: Certainly, people are coming out with savings accounts with high yields. I think there's a healthy retail battle for customers. Customers are beginning to demand it—they know who gives them better value. People want to do things simply; they want to save money and time. Businesses should be challenged to find a way to do things more cheaply.

Schulman: That's hard to say. In part, the answer depends on trends in handset costs and how that affects subsidies. No one wants to enter into long-term contracts that limit their flexibility. We do know that the pay-as-you-go option is very successful overseas, with some countries having over 50 percent of their subscribers on prepaid plans.

Providing services without a long-term contract is a unique business model and necessitates a corporate culture that is entirely focused on hyper-serving the customers, since they can change providers without penalties. Traditional phone companies like locking their customers into contracts, and so I think it is unlikely they will move away from that model.

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