

IRREVERENT STARTUP

A BOLD APPROACH IS HELPING CEO DAN SCHULMAN BRING VIRGIN MOBILE USA TO YOUNG CONSUMERS.

BY ROBERT HERTZBERG PHOTOGRAPHS BY ERIC MCNATT



Maybe it is all the years he spent working in a more traditional corporate setting, but CEO Daniel Schulman can't suppress a smile when he takes visitors on a tour of the Warren, N.J., headquarters of **VIRGIN MOBILE USA INC.** (VM). A disco ball spins to rock-and-roll tunes in the reception area. The sign above a large hook in the lobby advises the overdressed to hang their ties: "Our

business is fun. Ties are knot. Kindly leave them here." And a battery-operated candle "shrine" to Sir Richard Branson, the brand's irrepressible British founder, hangs on the wall.

It's an irreverent corporate culture that investors might question, but in the fast-growing industry of prepaid (i.e., no annual contracts) mobile-phone service, Virgin Mobile believes it is a market leader, with more than \$1 billion



VIRGIN MOBILE CEO DAN SCHULMAN SAYS PAY-AS-YOU-GO PHONE PLANS PUT CONSUMERS IN CHARGE.

"THE BEAUTY OF OUR MODEL IS CASH-FLOW GENERATION," SAYS SCHULMAN.

in 2007 revenues and more than 5 million customers. "The beauty of our model is our cash-flow generation," says Schulman, who comes to work in casual attire, and on this day is dressed in a scoop-necked sweater, faded blue jeans and boots. "Having gotten to scale, we can now grow the business toward profitability."

LIVE WITHOUT A PLAN

Prepaid mobile-phone service (Schulman prefers to call it "pay as you go" to emphasize consumer as opposed to vendor benefits), in which people buy minutes in advance of actually using them, has been especially popular with the young, who cite long-term contracts and credit checks as obstacles to postpaid service. Virgin Mobile has expanded that initial target audience to include anyone who needs flexibility and can't or won't sign a two-year contract. Instead, the prepaid consumer buys stored-value cards worth \$20, \$50 or \$90, choosing among offers perfect for someone on a limited budget, Schulman says. That's still a pretty good description of the youth market and explains why Virgin Mobile aims its advertising at 18- to 34-year-olds. You Rule, the current advertising campaign, and Live Without a Plan, a previous campaign that Virgin Mobile rolled out on MTV in June 2003, a year after its service debuted, are among the company's more colorful marketing slogans.

"Live Without a Plan was our first and probably our most defining campaign," says Chief Marketing Officer Bob Stohrer. "We were suggesting a better way to do wireless while also trying to connect with teenagers and appeal to their rebellious natures. We needed to be bold and aggressive because the category was overrun with bigger competitors. Now, even as we've grown our appeal and reach to all ages, we maintain a youthful, category-challenger vibrancy."

That sense of youth and boldness pervades Virgin Mobile's headquarters, where employees take breaks on inflatable purple couches, listen to piped-in music from artists such as Alicia Keys and the Foo Fighters, and discuss the



finer points of product packaging in conference rooms named after such New Jerseyites as Abbott and Costello, Queen Latifah and Frank Sinatra. If their energy flags, the staff can help itself to snacks such as Pop-Tarts, soft drinks and fresh fruit, courtesy of Virgin Mobile.

Schulman, who turned 50 this year, clearly enjoys the company's vibrant spirit and informality. Walking the hallways, he greets employees by name, and they, in turn, call him Dan. But Schulman's résumé commands respect, indicating 18 years in increasingly responsible positions at **AT&T INC.** (T), one of the biggest U.S. telecommunications companies.

At 39, the onetime Middlebury College economics student was the youngest executive ever to serve in AT&T's operations group. He notes his career there included stints running the California and Hawaii sales offices and heading

up international network operations. In 1999, when he was president of AT&T's 40,000-person consumer division, Schulman left to become president and COO of Internet startup Priceline.com. During his two years there, Priceline's annual revenues grew from a reported \$20 million to about \$1 billion. In 2001, Schulman signed on as CEO (and employee No. 8) at Virgin Mobile, recruited by Virgin USA CEO Frances Farrow and by Branson himself.

If AT&T gave him an understanding of network operations, Priceline showed him how to build a team, says Schulman, who lives in New Jersey with his wife, Jennie, an English professor at Barnard College, and their two children, Molly, 13, and Jake, 12. "I learned what it was to manage in a startup environment," Schulman says of his time at Priceline. "I could not have done Virgin Mobile if I had not done that."

"Dan's got a great collegiate style," says Farrow of Virgin USA, which still owns 35 percent of Virgin Mobile after its October IPO. "He doesn't hog the limelight in a board meeting. He focuses on letting us hear from the people running different areas — the head of operations on network questions, or the general counsel on legal matters. That said, Dan's a decisive person; he's one of those people who gets to the point."

TAKING CHARGE

From the beginning, Virgin Mobile indicates it was conceived as a mobile virtual network operator (MVNO), meaning a business that subleases a portion of another company's network rather than own its own infrastructure. This was the plan behind the Virgin Group's U.K. wireless phone business, which now reports 4.5 million subscribers, and it was a good way of keeping capital investments down, notes Branson.

After assessing U.S. options, Schulman says, he entered into a 20-year deal with **SPRINT NEXTEL CORP.** (S), attracted by Sprint's size, coverage and the quality of its technology. The contract reportedly covered everything from the timing of payments to the support for new handsets to what

would happen in the event that Sprint was ever acquired. "That was a very difficult contract to negotiate," Schulman recalls. Sprint also opted to take a stake in Virgin Mobile; it still owns 18 percent, according to company statements.

Next up was the question of a billing system, which is essentially a database application through which a company manages customer accounts. Rather than make a multimillion-

Mobile should be "MVNO heavy." The company invested in licensing software that enabled it to build its own billing system. As a result, Virgin Mobile could offer different pricing tiers and access information in real time, the CEO explains. "It was the only way we could differentiate ourselves," says Schulman.

Another big obstacle, he says, was handset distribution. In the U.K., the parent company's tactic of distributing cell phones through its numerous retail music stores furnished a ready-made solution to the problem. With fewer than 20 Virgin Megastores in the U.S. at the time, Schulman says, he could not count on getting ubiquity that way. Virgin Mobile USA came up with a set of "grab and go" phones in distinctive red packaging, made by companies such as Kyocera Wireless Corp., that Schulman says he persuaded **BEST BUY CO. INC.** (BBY) to distribute.

Six years later, Virgin Mobile phones and Top-Up, or replenishment, cards are found in more than 140,000 retail locations, Schulman says, including stores owned by **RADIO SHACK CORP.** (RSH), **TARGET CORP.** (TGT) and **WAL-MART STORES INC.** (WMT). Schulman's obsession with Virgin Mobile's retail visibility is evident in three side-by-side sample displays at



dollar investment, most MVNOs tap into the billing system operated by the telecommunications provider whose network they're also leasing — a model Schulman calls "MVNO lite."

But worrying that a piggyback arrangement would force the carrier into copycat plans, Schulman points out, he decided Virgin

VIRGINAL SPINOFFS

 Transporting a brand across borders can be tricky. But that obstacle hasn't slowed Sir Richard Branson, whose famous stunts include crossing the Atlantic Ocean in a hot-air balloon to raise the profile of his U.K.-based conglomerate. The 57-year-old Branson has expanded the Virgin brand, with its connotation of youth and rebellion, into the airline business in the U.S., the radio business in France and the video game business in Spain. In all, some 350 companies worldwide reportedly use the Virgin brand.

Of course, the executives that Branson has hired to develop his global empire say success still comes down to filling a market need. That often means tweaking a business



VIRGIN BRAND FOUNDER
RICHARD BRANSON

that has caught on in London, say, so that it will play in Paris. "The gap in the markets can be very wide from territory to territory," says Frances Farrow, CEO of Virgin USA. What you do "needs to be locally driven."

Branson credits Virgin Mobile USA and CEO Daniel Schulman with having created a level of customer service and marketing that gives the larger Virgin brand something to build on. Pointing to Virgin Money U.S., which helps manage loans between family and friends, and Virgin America, a low-cost airline, Branson adds: "Their success has helped us start other Virgin companies in the U.S. as well as Virgin Mobile companies in other parts of the world."

THE HEADQUARTERS LOBBY INCLUDES A PLACE FOR TIES AND A SHRINE TO BRANSON.

company headquarters. Each bearing a retailer's logo, the racks contain phones from competitors as well as Virgin Mobile. The idea is that Virgin Mobile's marketers and design people should always think about how their products stack up visually in store displays.

"At the time Virgin Mobile launched, most of its competitors seem to have skipped that class in school that teaches that if you want to sell a product, you have to make sure the customer can see it," says telecom analyst Eddie Hold of research firm Current Analysis Inc. "Virgin Mobile came in with this distinctive red packaging. From the beginning, the company really stood out."

The final element when Virgin Mobile went live in July 2002, says Schulman, was a commitment to customers. Although that sounds like a standard marketing line, Virgin Mobile's math proves the need. Between subsidizing the cost of the handset and compensating retail partners, Virgin Mobile says each customer currently costs roughly \$100 to acquire. That means for every customer who walks away without having spent at least \$100, explains the CEO, the company loses money.

So it's with pride that Schulman points to Virgin Mobile's 2007 churn rate of 4.9 percent as among the lowest in the prepaid business and to J.D. Power and Associates' 2006 and 2007 surveys that ranked the company No. 1 in customer satisfaction among wireless prepaid services. Company research yields consistent customer satisfaction rates of no less than 90 percent, and testimonial letters from customers are framed in an employee lounge at headquarters, offering further evidence of a satisfied customer base.



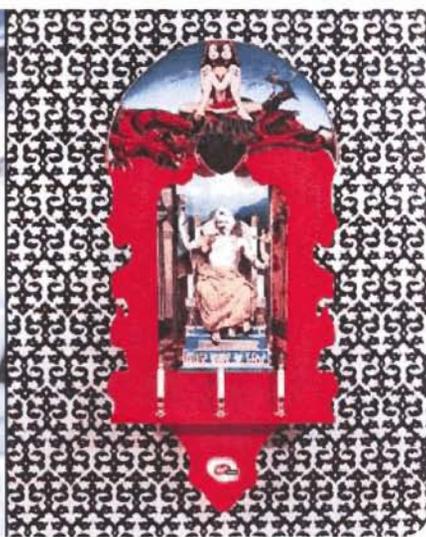
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"We earn our keep with customers every single day — with every interaction," Schulman insists. He cites Virgin Mobile's multiple customer-care centers as a prime example of "hyperserving" customers. Another example is the \$ button on Virgin Mobile handsets that instantly indicates how many minutes a consumer has remaining. "Try finding that function on a postpaid phone," Schulman remarks. "That's the last thing those companies want you to know."

A BIG EVENT

Virgin Mobile USA's IPO on the NYSE last October, when it raised \$355 million, was a high-profile event that included Schulman, the Virgin Mobile USA leadership team, Virgin "angels" and Branson.

Outside, a party with a disc jockey was taking place under an enormous red-and-white Virgin Mobile banner hanging over the stock exchange's imposing facade. More angels were handing out "unlimited" hot dogs and pretzels. "Listing was a big brand-



ing event," Schulman acknowledges, noting that Virgin Mobile has been very satisfied with every aspect of its NYSE relationship.

Looking forward, Schulman predicts many wireless opportunities. One example: "A cell phone could be the perfect wallet substitute," he says, explaining that customers may use their phones to scan a bar code that allows them to make micropayments for inexpensive goods, such as candy, at participating retailers.

And Virgin Mobile USA sees much potential in this environment. Purchases of smaller MVNOs are one possibility for the company, whose revenues grew 25 percent in the first nine months of last year, Schulman says. The continuing expansion of the target demographic is another. After all, Virgin Mobile's executives say, some companies tap customer bases that belie their youthful brands — Apple Inc. and NIKE INC. (NKE) are two examples, Schulman says. Plus, the CEO notes, the young aren't alone in looking for a different kind of phone service. "A lot of customers have been burned," he says. "If people are looking for an alternative to being locked in, there's a good chance they will come to us." ■

IN MY OWN WORDS

DAN SCHULMAN
CEO
VIRGIN MOBILE USA INC.

NYSE MAGAZINE ASKED DAN SCHULMAN TO PROVIDE INSIGHT INTO WHAT EXCITES HIM AT WORK — AND OUTSIDE THE OFFICE.

- » If I had to name one individual whom I admire, it would be my dad. He was always my role model. When he was diagnosed with pancreatic cancer, he taught anyone who knew him what it really means to live. His humor, dignity and grace, while battling to extend his life, inspired me more than anything else. He will always be my hero.
- » If I had to pick a career outside of business, it would be in politics. It seems thankless, but the potential impact can be enormous.

- » The most meaningful nonwork trip I have taken recently is "24/7 on the Streets." Last summer, I spent 24 hours on the streets of New York City with StandUp For Kids, a nonprofit that distributes survival kits and a hotline number to homeless kids. I was unshaven and wore dirty jeans, with a ragged shirt and a blanket around my shoulders. No cell phone or watch. If we wanted to eat, we had to beg for money. Not the most fun trip, but it profoundly affected my view on homelessness. Virgin Mobile is now a major supporter and advocate in ending youth homelessness through The RE*Generation [homelessyouthamongus.org].