

# **Virgin Atlantic Marketing Case Study**

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## History of Virgin Atlantic

### Background

Richard Branson, the 48-year- old chairman of the London-based Virgin Group, has parlayed a lifelong respect for conventional business wisdom into a \$3.5 billion international conglomerate and one of the world's most powerful and recognizable brands. Under the omnipresent Virgin banner, Mr. Branson has ventured into a panoply of businesses - from condoms to wedding gowns, from airlines to financial services - and in the process has taken on entrenched giants and wrested market share from them.<sup>1</sup>

**“My original aim was to be an editor .....I become a publisher and an entrepreneur by mistake.”<sup>2</sup> (Richard Branson)**

In 1970 Virgin kicked off as a mail order record business in London. Soon the company began producing and established themselves as a leading British recording studio. In the 1980's Virgin began expanding, creating Virgin Vision in 1983, Virgin Atlantic Airways and Virgin Cargo in 1984, and Virgin Holidays in 1985. In 1986 the Virgin Group was floated on the London stock exchange. However, Virgin Atlantic Airways remained a privately owned part of the Virgin Voyager Group. In 1988, Richard Branson, believing that heading a public company infringed on his entrepreneurial style, decided to buy back all outstanding shares. In 1992, Richard Branson sold Virgin Music to Thorn EMI allowing him to invest more money into Virgin Atlantic and other Virgin enterprises. **Table 1.0** below illustrates the sheer size of Virgin Group.

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<sup>1</sup> Rifkin, Glenn. How Richard Branson Works Magic, *Strategy and Business*, Booz, Allen, & Hamilton, 1998. <http://www.strategy-business>.

<sup>2</sup> Rifkin, Glenn. How Richard Branson Works Magic, *Strategy and Business*, Booz, Allen, & Hamilton, 1998. <http://www.strategy-business>.

<b>Mobile</b>	<b>Airline</b>	<b>Entertainment</b>	<b>Financial Services</b>
Mobile Phones	Virgin Atlantic	Virgin Active	Virgin Biz.net
	Balloon Flights	Virgin Megastores	Virgin Direct
	Virgin Bikes	V2 Music	Virgin Money
	Virgin Blue	Virgin.net	Virgin Incentives
	Virgin Express	Virgin Student	
	Virgin Cars	Virgin Wine	
	Virgin Holidays	Radio Free Virgin	
	Virgin Travel Store	Virgin Books	
	Virgin Trains	Virgin Space	

Randolph Fields approached Richard Branson about operating a transatlantic business class only airline service to New York. Despite no experience in the airline industry, Branson going against the advice of his partners, decided to invest in the Virgin Atlantic project. The company hired two former Laker Airways employees to add airline specific experience to Virgin Atlantic. The goal of Virgin Atlantic was to “provide all classes of travelers with the highest quality of travel at the lowest cost.”

After a teaser advertising entitled “WAIT FOR THE ENGLISH VIRGI...,” Virgin Atlantic launched their inaugural flight from London to New York on June 22, 1984.

Virgin Atlantic quickly expanded operations to include Miami (1986), Boston (1987), Orlando (1988), Tokyo (1989), and Los Angeles (1990). A major obstacle for Virgin Atlantic was they were unable to receive permission to fly out of Heathrow, Britain’s largest airport. The year 1991 was a “historic moment and the culmination of years of struggle” as Virgin Atlantic was granted access to Heathrow.<sup>3</sup> In 1994, Virgin Atlantic added flights to Hong Kong and San Francisco, and so expanded their fleet. In 2000-2001 route expansions also featured Las Vegas and Delhi.

Virgin Atlantic offers three core products. These are Upper Class, Premium Economy, and Economy. Each class is differentiated by the benefits associated with the products.

### **Fleet**

The Virgin Atlantic fleet consists of more than 30 Boeing 747’s and Airbuses and the A340-600 due for delivery in 2002, and the A380 due for delivery in 2006.<sup>4</sup> Start Design created the distinct and dynamic new livery. Featuring the Union Jack, prominently on the aircraft wing, it is based on the three core colors- red, purple and silver metallic, the paint technology employed has never been used before on commercial aircraft. The aircraft tailfins sport the Virgin logo, while the new silver fuselage features the Flying Lady, and the Union Jack adorns the two meter high winglets of the B747-400

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<sup>3</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 426, 2001.

<sup>4</sup> <http://www.virgin-atlantic.com>

aircraft Reminiscent of the metallic skinned craft of the 1930s, the iridescent gleam and vibrant colors capture some of the glamour and romance of the golden age of flying.<sup>5</sup>

The basis of Virgin Atlantic’s fresh, sophisticated and slick new image is the paint, which is based on mica, a tough mineral that produces a seductive pearlescent shine. The paint technology has been commonly used in the motor trade, but had never before been used to paint an entire aircraft. All Virgin Atlantic aircraft are decorated with a Vargas painting of a red-headed, scantily dressed woman holding a scarf. The names of most Virgin aircraft evoked the “Vargas Lady” theme. Our personal favorite is “Morning Glory.” What is yours? **Table 2.0** describes the aircraft type, starting date, name, and registration number.

<b>Name</b>	<b>Registration</b>	<b>Aircraft type</b>	<b>Started flying with Virgin Atlantic</b>
Sunkissed Girl	G-VKIS	A321-200	2000
Island Lady	G-VSSS	B747-200	2000
Hellenic Beauty	G-VATH	A321-200	2000
High as a Kite	G-VPUF	B747-200	2000
Sundance Kid	G-VKID	A320-200	2000
Dancing Queen	G-VIBE	B747-200	1999
Morning Glory	G-VZZZ	B747-200	1999
Sunshine Girl	G-VTAN	A320-200	1999
Mediterranean Maiden	G-MED	A320-200	1999
Honey Pie	G-VEE	B747-200	1999
Calypso Queen	G-VRUM	B747-200	1998
Wild Thing	G-VCAT	B747-200	1998
Ruby Tuesday	G-VXLG	B747-400	1998
Diana	G-VFAR	A340-300	1998
African Queen	G-VELD	A340-300	1998
Ladybird	G-VAST	B747-400	1997
Jetstreamer	G-VHOL	A340-300	1997
Plain Sailing	G-VSEA	A340-300	1997
Maiden Tokyo	G-VAIR	A340-300	1997
Virginia Plain	G-VTOP	B747-400	1997
Tinker Belle	G-VBIG	B747-400	1996

<sup>5</sup> <http://www.virgin-atlantic.com>

Rainbow Lady	G-VSUN	A340-300	1996
Spirit of Melina	G-OUZO	A320-211	1995
Tubular Belle	G-VHOT	B747-400	1994
Lady Penelope	G-VFAB	B747-400	1994
Dragon Lady	G-VFLY	A340-300	1994
China Girl	G-VSKY	A340-300	1994
Maiden Toulouse	G-VAEL	A340-300	1994
Lady in Red	G-VBUS	A340-300	1993
California Girl	G-VLAX	B747-200	1991
Boston Belle	G-VJFK	B747-200	1991
Spirit of Sir Freddie	G-VMIA	B747-100	1990
Scarlet Lady	G-VGIN	B747-200	1986
Maiden Voyager	G-VIRG	B747-200	1984

## Route Network

### USA

- New York (Newark) / Heathrow VS001/VS002
- New York (Newark) / Gatwick VS017/VS018
- New York (JFK) / Heathrow VS003/VS004 VS009/VS010 VS025/VS026
- Boston / Gatwick VS011/VS012
- Washington D.C. (Dulles)/ Heathrow VS021/VS022
- Miami / Gatwick VS005/VS006
- Orlando / Gatwick VS015/VS016 VS027/VS028
- Orlando / Manchester VS075/VS076
- Chicago / Heathrow VS039/VS040
- Los Angeles / Heathrow VS007/VS008 VS023/VS024
- San Francisco / Heathrow VS019/VS020
- Las Vegas / Heathrow VS043/VS044

### Europe

- Heathrow / Athens VS1000/VS1001
- Gatwick / Athens VS1002/VS1003

### South Africa

- Heathrow / Johannesburg VS601/VS602
- Heathrow / Cape Town VS603/VS604

### Asia

- Heathrow / Tokyo VS900/VS901
- Heathrow / Hong Kong VS200/VS201

- Heathrow / Shanghai VS250/VS251
- Heathrow / Delhi VS300/VS301

### **Caribbean**

- Gatwick / Barbados VS029/VS030
- Gatwick / St. Lucia VS031/VS032
- Gatwick / Antigua VS033/VS034

### **Airline Partnership**

In December 1999, Virgin Atlantic announced a distinctive worldwide partnership with Singapore Airlines. Under the terms of the agreement, Singapore Airlines acquired a minority 49% stake in Virgin Atlantic for a cost of 600.25 million British pounds (Bp).<sup>6</sup> Included in the deal is the provision that Singapore Airlines inject 49 million Bp of capital, while Virgin Atlantic invests 51 million Bp in Virgin Atlantic to bring the equity investment value of Virgin Atlantic to 1.225 billion pounds.

Singapore Airlines controls 93 aircraft reaching a total of 97 worldwide destinations. This partnership is unique as the companies both have different route networks that are, in fact, complementary. Singapore Airlines and Virgin Atlantic share passenger lounges and airport facilities as well as initiating frequent flyer program development.<sup>7</sup>

### **Airline Alliances**

Virgin Atlantic has code-share agreements with Continental Airlines, Malaysia Airlines, British Midland, and a marketing agreement with Ansett. Travelers booked as Virgin Atlantic passengers can earn Virgin Freeway miles on all code-share flights.

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<sup>6</sup> <http://www.virgin-atlantic/press-release.com>

<sup>7</sup> <http://www.virgin-atlantic/press-release.com>

The code-share agreement with Continental allows for a higher frequency, high quality service, and efficient competition by enhancing services on the London/New York routes. This offers seven services both ways, connections for Virgin Atlantic flights entering the U.S., with check-in only in London. The alliance with Malaysia Airlines offers a twice-daily service between London and Kuala Lumpur. The alliance allows for connections to Sydney and Melbourne. The code-share agreement with British Midland allows passengers from a number of European destinations access to Virgin Atlantic's worldwide service.

The marketing association with Ansett Australia provides customers travel via Hong Kong to various Australian cities. In cooperation with Air India, Virgin Atlantic now offers increased service between the United Kingdom and India. Virgin Atlantic offers higher frequency flights into South Africa, at Johannesburg and Cape Town, through an agreement with Nationwide Airlines, which allows Virgin to capitalize on their service throughout South Africa.<sup>8</sup>

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<sup>8</sup> <http://www.virgin-atlantic.com>

## Strategic Planning

### Mission Statement

“To grow a profitable airline, that people love to fly and where people love to work.”<sup>9</sup>

### SWOT Analysis

The next segment of reviewing a firm's strategic plan is to perform a SWOT analysis. This entails identifying a firm's internal strengths and weaknesses and their external opportunities and threats.

After analyzing the external environment and internal resources, strategic decision makers have the information they need to formulate corporate, business, and financial strategies of the organization. A comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis. A SWOT analysis helps executives summarize the major facts and forecasts derived from the external and internal analysis. From this, executives can derive a series of statements that identify the primary and secondary strategic issues confronting the organization. Strategy formulation builds on SWOT analysis to utilize strengths of the organization in order to capitalize on opportunities, counteract threats, and alleviate internal weaknesses. In short, strategy formulation moves from simply analysis to devising a coherent course of action.<sup>10</sup>

The findings of a SWOT analysis are the basis for developing objectives and strategies that can be implemented in a company's strategic plan. Therefore, it is important for companies to continue to perform SWOT analyses, because external and

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<sup>9</sup> <http://www.virgin-atlantic.com>

<sup>10</sup> Bateman & Snell. *Management: Building Competitive Advantage*, 4<sup>th</sup> Ed., 1999.

internal factors affecting companies are constantly changing. New strategies need to be developed and old ones need to be revised in order to reflect the current internal and external conditions that affect a company.<sup>11</sup>

Internal strengths and weaknesses are activities that a company performs particularly well or poorly. These internal activities stem from all departments and components of a business. After a company identifies its strengths and weaknesses, it should then develop strategies that capitalize on its strengths and minimize or improve its weaknesses.<sup>12</sup>

External opportunities and threats are events that occur outside of the company and are events that the company has no control over. Companies benefit from external opportunities and are harmed by external threats. It is important for a company to recognize its external opportunities and threats so it can formulate strategies to take advantage of future opportunities and to avoid future threats.<sup>13</sup>

### **Strengths:**

- Virgin Brand recognized by 98% of British Public.<sup>14</sup>
- Clients expect good customer service in each separate class Business/Economy.
- Virgin Atlantic introduced innovative technology: including in flight music, ice cream, games, and movies.

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<sup>11</sup> Pearce & Robinson, *Strategic Management: Formulation, Implementation, and Control*. Sixth Edition, Page 171, 1997.

<sup>12</sup> Pearce & Robinson, *Strategic Management: Formulation, Implementation, and Control*. Sixth Edition, Page 171, 1997.

<sup>13</sup> Pearce & Robinson, *Strategic Management: Formulation, Implementation, and Control*. Sixth Edition, Page 171, 1997.

<sup>14</sup> Millenium Group, Re-inventing Retail Financial Services Research and Development Programme, November 1996 Report 2: Creating and Delivering Value, 3.5 Virgin – Innovative New Entrant, <http://www.millenn.co.uk/96Reps/96Rep2.pdf>

- New in flight innovation is offered to gold club holders or J-class with lounges offering quality food and comfort.
- Quality trained employees recruited from other airlines.
- Virgin Atlantic is spawned from as a private company allowing for other Virgin brands and more control.
- Richard Branson's innovative entrepreneurial management.
- Competitive pricing for business class offers more services.
- Partnership with Singapore airlines because they are the minority shareholder at 49%. The reason why this partnership is beneficial is because their routes are non-overlapping and the partnership allows the transfer of core competencies.
- Load factor is better than competition; therefore, returns are higher and value is greater.
- Positive publicity, in regards to winning every quality award known to man.

### **Weaknesses**

- Flight delays: need to improve flight efficiency.
- The travel routes are limited.
- Hot Air magazine separate from traditional airline advertising magazines including articles and marketing advertising.
- Cut routes to Chicago, Toronto, and Cape in relation to the September 11 tragedy.
- Late getting on the Internet "Missed the Boat" for web site, web page, and e-commerce.

- Richard Branson is a one man manager being the owner and director of multiple companies.
- Costs associated in the overhead of keeping two five star chefs, lounge, and limo-service.
- Virgin's reliance on Trans Atlantic traffic makes them more vulnerable to the drop in demand for travel to and from the U.S.

### **Opportunities**

- Strategic Marketing above the rest utilizing by being innovative, fun, maintaining values, caring, and produce quality.
- Technology adds improvements (Galileo) an advanced inventory system.
- In flight Internet connection.
- Web site needs to be improved possible weakness for e-commerce and regular web site navigation.
- Generate additional routes.
- Virgin Galactic, we are flying into outer space.
- Warehouse facility –Heathrow, London.
- Recession may be an unexpected opportunity for investment.
- On-line strategy in targeting branding and ongoing ad campaigns, through on-line media planning and buying account

### **Threats**

- Recession, September 11<sup>th</sup> will and has affected the entire airline industry, order cancellations, risk aversion for flying customers.

- Brand Dilution by a rapid expanding brand image may be too global and not focused towards the important products.
- Competition for routes British and United.

Fuel prices are fluctuating, which accounts for 15% of total airline expense.

## Objectives

The results that an organization seeks over a multiyear period are its long-term objectives. Such objectives typically involve some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility, and employee development.<sup>15</sup>

Eric Starks, Virgin Atlantic Regional Director, stated the following objective: “To maintain a safe customer environment through the necessary security procedures. Also to concentrate on core competencies by consolidating routes, directly related to downsizing workforce, to remain profitable while targeting business class passengers.”

## Strategies

Strategies are statements of how objectives are to be achieved. These are usually long-term strategies and necessitate many different approaches, such as, product development, joint ventures and strategic alliances. Generic strategies such as low cost, differentiation, or focus strategies characterize the competitive orientation of the firm in the marketplace.

In order to remain profitable Virgin Atlantic has focused on its core competencies. The company is currently focusing its strategies on sustaining great quality

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<sup>15</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Pages 17-19, 2001.

service and maintaining relationships with their Upper Class customers. This has resulted in the closing of routes to Toronto, Chicago, and Cape Town. The company has also reduced the amount of flights a day and personnel by 20% per route across the North Atlantic.<sup>16</sup> For example, the San Francisco routes were reduced from two flights to one flight per day.

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<sup>16</sup> Eric Starks, Regional Director, Virgin Atlantic, 10-21-01, 2001.

## Situational Analysis

The situational analysis involves analyzing and monitoring the past trends, current situation and predicting the future situation. This involves the analysis of the cooperative environment, competitive environment, economic environment, social environment, political environment, and the legal environment.<sup>17</sup>

Air travel is living through perhaps the greatest upheaval in its history. Liberalization, privatization, competition, code sharing, alliances, e-commerce and massive financial pressures are forcing a radical reorganizing within the industry.<sup>18</sup> Air travel is one of the world's largest industries, generating over \$300 billion in revenues. The overall economic impact is far in excess of its turnover, since it facilitates tourism, world trade, international investments and economic growth. Moreover, the airline industry is central to the globalization that is taking place in many additional industries.

Developments in the airline industry have been traced back to 1991, when the combination of the Gulf War and a United States recession led to a 4% decrease in international passengers.<sup>19</sup> Following the 1991 initial growth came from business travel as companies became increasingly international in their investments, their supply and production changes and their customers. Recently, the increasing use of the Internet is further promoting the globalization of trade. Consumers have engaged in increased levels of leisure travel targeting worldwide destinations due to increases in disposable incomes.

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<sup>17</sup> J. Paul Parker & James H. Donnelly Jr., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, Pages 17-19, 2001.

<sup>18</sup> [http://www.iata.com/shop/Assets/download\\_product/whatwedo\\_revised.pdf](http://www.iata.com/shop/Assets/download_product/whatwedo_revised.pdf)

<sup>19</sup> <http://www.BA.com>

Governments in developing countries realized the benefits of tourism to their national economies and facilitated the development of resorts and infrastructure to encourage visitors from all over the world. As the economies of developing countries have grown, their own citizens have already become the new international tourists of the future. A further stimulus to air travel has been industry privatization and deregulation. In the early 1980s, most airlines outside of the US were state owned. Many had poor levels of efficiency, and they required state aid in order to support some of their routes. Now most major airlines have evolved towards, at least, partial private ownership.

Furthermore, the airline industry is gradually shaking off its historical pattern of tight regulation on who can fly where and when. Air travel rights have typically been negotiated between countries on a bilateral basis. Although air travel is an international business, many airlines still have a national focus, flying mainly to and from their home country. However, some markets are moving towards a deregulated 'Open Skies' policy allowing freedom of entry and exit on routes.<sup>20</sup>

The US domestic market and the intra European market are examples of this and the US has signed 'Open Skies' arrangements with numerous countries around the world. This deregulation has given many carriers freedoms to enter new markets, though the experience of US domestic deregulation suggests that this initial period of expansion is likely to be followed by industry consolidation. The resulting competitive pressures have contributed to a declining trend in airline yields, which have provided an added stimulus to air travel growth. After adjusting for inflation, airline revenues per passenger kilometer are about half the level of 30 years ago. This yield decline has been matched by falling costs, assisted by developments in aircraft technology, increasing efficiency

and - between the early 1980s and the late 1990s - falling oil prices. The trend-increasing stage lengths has also supported the decline in yield per passenger-kilometer in revenue terms (after adjusting for inflation); airline industry growth has been closer to 3% a year, only just ahead of the average world GDP growth rate.

A number of well-established markets are at or near market maturity. This is particularly the case for markets in developed countries that have already been deregulated such as the US domestic market. Furthermore, capacity constraints in terms of congested airports and air traffic control systems are limiting the ability of some of the most popular air travel destinations to expand.

With regard to transatlantic services, Virgin Atlantic has attacked the British airways/American Airlines merger as anti-competitive. BA/AA has applied for antitrust immunity, which Virgin believes, will 1) destroy competition, 2) raise prices, and 3) reduce service. Virgin has sought to make customers aware of their position through advertisements stating, “No Way BA/AA.”<sup>21</sup>

Following the September 11, disaster Virgin Atlantic Airways operated a full transatlantic flight schedule, in order to clear the accumulation of bereaved and stranded passengers. As of October 2001, the airline grounded five of its 747-200's and reduced its activities by around 20% as a result of the long-term effects of September's tragic events. “It is clear to everyone that there will be significantly less traffic across the North Atlantic for some time,” said privately held Virgin groups chairman, Richard Branson.

Virgin reduced its capacity across the North Atlantic by cutting its routes to Toronto and Chicago. Virgin Atlantic has also trimmed the number of flights leaving

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<sup>20</sup> <http://www.virgin-atlantic.com>

<sup>21</sup> <http://www.virgin-atlantic.com>

San Francisco from two to one per day.<sup>22</sup> The company will take all measures to minimize compulsory redundancies by asking staff to come forward to take unpaid leave and redundancy. Virgin Atlantic is attempting to keep all members of the Virgin family employed in the Virgin group. For example, staff will be offered the chance to be interviewed for employment with Virgin Active, Virgin's leisure and health club business. Virgin Atlantic is currently engaged in a £30 million expansion program in the UK, which will create up to 700 new jobs over the next 12 months.

**Table 3.0** below illustrates how individual airlines have reacted to the tragedy of September 11, 2001.<sup>23</sup>

<b>Carrier</b>	<b>Job Cuts</b>	<b>Service Cuts</b>
<b>British Airways</b>	7,000	10% reduction in flying time through frequency cuts; routes to be determined.
<b>Virgin Atlantic Airlines</b>	1,200	20% schedule reduction, suspended Chicago, Toronto, Athens.
<b>American Airlines</b>	20,000	20% schedule reduction
<b>Continental Airlines</b>	12,000	20% schedule reduction, canceled London Stansted and Dusseldorf.
<b>United Airlines</b>	20,000	20% schedule reduction; routes to be determined.

<sup>22</sup> Eric Starks, Regional Director, Virgin Atlantic Airlines, 10-21-01, 2001.

<sup>23</sup> Arnold, Mathew, Marketing, *Hay Marketing Services Limited*, 27 September, 2001.

Virgin Regional Director for the West Coast, Eric Starks, believes that there will be a resurgence in the airline industry next year and Virgin will rehire ex-employees before other applicants.<sup>24</sup> Virgin chairman, Richard Branson also anticipates an industry revival, saying, “By taking this action now, we will put ourselves in a position from which to expand again in the future.”<sup>25</sup>

Virgin Atlantic has incorporated a strict environmental policy into its business. Virgin Atlantic has introduced a number of recycling initiatives both on board aircraft and throughout the company’s offices. These measures are environmentally conscious and cost effective, enabling the airline to assist a number of charities and institutions. Recycling is carried out in compliance with Ministry of Agriculture directives to ensure the highest health and safety procedures are adhered to. The current environmental policy identifies Virgins’ position with regards to recycling and re-using paper, printer toner cartridges, plastic glasses, vending cups, aluminium cans, duty free bags, duty free bags, amenity kits, menus, linens, and brochures.<sup>26</sup>

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<sup>24</sup> Eric Starks, Regional Director, Virgin Atlantic Airlines, 10-21-01, 2001.

<sup>25</sup> Oyama, David. “Virgin Atlantic Plans to Reduce Capacity, Cut 1,200 Positions.” The Wall Street Journal 18 September 2001, natl. ed.: A14

<sup>26</sup> <http://www.Virgin-atlantic.com>

## Portfolio Analysis

Portfolio analysis is defined in the Marketing Management Text as the aid to marketing managers to help develop effective marketing plans. Portfolio models are used to classify Strategic Business Units (SBU's) to determine the future cash contributions that can be expected for each SBU as well as the future resource requirement that each will require. Portfolio models generally examine the competitive position of the SBU and the chances for improving the SBU's contribution to profitability and cash flow.<sup>27</sup> The model we will be using for Virgin is the Boston Consulting Group (BCG) model. This model is based on the relationship between relative market share and growth of the market.<sup>28</sup>

The BCG model classifies products under four areas. These are stars, cash cows, question marks and dogs. Stars are SBU's with high share or high growth market.<sup>29</sup> Virgin Atlantic is clearly the cash cow of the Virgin Empire but we have undertaken a portfolio analysis from the viewpoint of Virgin Atlantic. With regards to Virgin Atlantic Airways we believe that there is no star. The cash cow is the Upper Class section. Cash cows have high share of a low growth market and generate higher cash revenues.<sup>30</sup> This high end product targets wealthy customers and business passengers. This is the highest costing ticket available, usually around \$9,000, and there are 50 seats available in this class. Therefore, upper class generates much higher revenues compared to premium

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<sup>27</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

<sup>28</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

<sup>29</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

<sup>30</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

economy and economy. Dogs are SBU's that have low market share in low growth market.<sup>31</sup> We see Virgin Atlantic's economy class as a dog. Question marks are SBU's that have high potential but will require great resources to build market share.<sup>32</sup> We believe that Premium Economy is a question mark as it has potential to be a cash generator. Premium economy targets cheaper flying business class passengers and high end couples. There are 38 seats in this class and tickets generally sell for around \$3,000. Economy class focuses on families and groups flying together. Tickets for economy class are priced around \$500 and there are 271 seats. **Table 4.0** describes the BCG model.

**Relative Market Share**

		<b>High</b>	<b>Low</b>
<b>Market Growth Rate</b>	<b>High</b>	<b>Stars-</b> None	<b>???</b> - Premium Economy
	<b>Low</b>	<b>Cash Cow-</b> Upper Class	<b>Dogs-</b> Economy

<sup>31</sup>. Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

<sup>32</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 25-29, 2001.

## Competitive Strategy Analysis

### Segmentation

Market segmentation is defined as the process of dividing a market into groups of similar consumer and selecting the most appropriate group(s) for the firm to serve. This concept is achieved through the following six steps 1) delineate firm's current situation, 2) determine consumer wants and needs, 3) divide markets on relevant dimensions, 4) develop product positioning, 5) decide segmentations strategy, 6) design marketing mix strategy.<sup>33</sup>

The percentage of UK originating passengers varies from route to route, but on average, there's a 60/40 bias to the UK. Upper Class passengers are predominately traveling on business and are male, 35 to 45 years old, ABC1 and earning £50K plus per annum.<sup>34</sup>

Passengers in Premium Economy are split evenly between traveling for business or leisure; most are male, average age 41, ABC1. Those traveling on business are often doing so because their company operates an economy travel policy.<sup>35</sup>

Economy passengers are a much broader group, traveling mainly for leisure, evenly spread across most socio-economic groups, and age ranges.<sup>36</sup>

### Targeting

Targeting is when a firm chooses one or more market segments as a specific target markets. Virgin Atlantic is a company that considers every customer to be

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<sup>33</sup> Parker, J. Paul & Donnelly Jr, James H., Marketing Management: Knowledge and Skills 6<sup>th</sup> Edition, New York: Irwin/McGraw-Hill, Page 71, 2001.

<sup>34</sup> Virgin Student Information Pack, [www.virgin-atlantic.com](http://www.virgin-atlantic.com).

important and thus offers individualized services to customers. These are nine basic criteria for targeting.<sup>37</sup>

- Who buys our product?
- Who does not buy our product?
- What need or function does our product serve?
- What problem does our product solve?
- What are customers currently buying to satisfy the need or solve the problem for which our product is targeting?
- What price are they paying for the product they are currently buying?
- When is our product purchased?
- Where is our product purchased?
- Why is our product purchased?

Upon evaluation of these questions the company must then assess opportunity in target markets based on segment size and growth potential, competition, companies objectives and feasibility of success in this market. Virgin Atlantic has targeted upper class customers who are primarily business passengers traveling on transatlantic routes. Virgin Atlantic realized the opportunity to gain a considerable market share through effective marketing of their “quality, fun, innovative, honest, and caring” airline.

## Positioning

Positioning refers to the act of locating a brand in customers’ minds over and against other products in terms of product attributes and benefits that the brand does or does not offer.<sup>38</sup> There are many different general strategies for positioning products.

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<sup>35</sup> Virgin Student Information Pack, [www.virgin-atlantic.com](http://www.virgin-atlantic.com)

<sup>36</sup> Virgin Student Information Pack, [www.virgin-atlantic.com](http://www.virgin-atlantic.com)

<sup>37</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

<sup>38</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

Attribute or benefit, quality and price, use or application, competition, high-tech and high-touch, can achieve desired positioning.<sup>39</sup>

Most significantly, Virgin Atlantic has positioned itself as direct competitor to British Airways on all routes. Firstly, Virgin Atlantic was extremely aggressive in obtaining slots at Heathrow International Airport. Secondly, Virgin Atlantic attacked the proposed British Airways and American Airlines partnership stating that it was unhealthy for competition. Finally, Virgin Atlantic has strived to compete with British Airways on all routes into and out of London.

Virgin Atlantic attracts customers by being fun and innovative. On the aircraft passengers experience spacious setting arrangements, state of the art in-flight entertainment system, and most importantly a high level of customer service. In addition, Virgin Atlantic offers a distinctive upper class service at business class prices. Furthermore, Virgin Atlantic is installing Internet capabilities and is implementing Galileo's Inside Availability (R), a high-tech inventory management system.<sup>40</sup>

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<sup>39</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

<sup>40</sup> PR News Wire, London, *Virgin Atlantic Implements Galileo International*, 5 September, 2001.

## Marketing Tactics

### Differentiation

This is realizing the marketing strategy with regard to all the interrelated factors that differentiate one company from another.<sup>41</sup> These may be product differences, customer satisfaction, or customization of products and services to suit market segments. Virgin Atlantic has differentiated their product by taking the customers' expectations one step further through communication with the customer. A prime example can be seen in providing in flight ice cream, something other airlines do not offer.

### Marketing Mix

The marketing mix determines the combination - product, price, place, and promotion - to be used inline with the marketing strategy. Virgin Atlantic has sought to offer a fun and innovative product with high quality service and convenient locations for the customer.

Virgin Atlantic offers flights worldwide in three distinct classes: upper class, premium economy, and economy highlighted below.<sup>42</sup>

#### Upper class

- Complimentary limo service on both sides of the Atlantic
- Drive Thru check in from the limo
- In-flight beauty therapy - massages and manicures
- Freedom menu - restaurant style cuisine at any time
- Onboard stand-up bar
- Personal 10.4 inch video screen
- Ergonomic seats with over 6 feet of sleeping space
- Sleep service - pajamas, full size pillows, feather duvets and fleece blankets
- A dedicated sleeping area

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<sup>41</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

<sup>42</sup> Virgin Atlantic Customer Service Representative, Quick Reference Guide, 2001.

- Fast track-priority service through immigration

### **Premium Economy**

- Dedicated check-in desk
- Priority baggage handling
- Flexible ticket - no penalty for last minute changes
- Separate cabin
- Comfortable, wider seats with up to 6 inches of extra leg room
- Seatback video screen
- Preflight champagne
- Fruit throughout flight and ice cream during movies
- Free amenity kit
- Fast track-priority service through immigration

### **Economy**

- Seatback video screen with up to 43 channels of movies, music, and video games
- Choice of three entrees, including a vegetarian option
- Complimentary beverages, including cocktails
- Free amenity kit
- Children's services including K-iD backpacks, TV channels and special meals
- Ice cream during movies

The price for the upper class ticket is around \$9,000 dollars. Premium economy tickets are listed around \$3,000 dollars and economy tickets are currently priced at \$500.00 dollars to London.

Virgin Atlantic is a small private airline that is not engaged in as many routes as other competitors. Virgin Atlantic offers non-stop services in the United States to and from London out of Boston, Chicago, Las Vegas, Los Angeles, Miami, New York (JFK), New York (Newark), Orlando, San Francisco, Toronto, and Washington DC (Dulles).<sup>43</sup> International flights are offered in and out of Athens, Johannesburg, Tokyo, Hong Kong, Shanghai, Delhi, Barbados, St. Lucia, and Antigua.<sup>44</sup>

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<sup>43</sup> Virgin Atlantic Customer Service Representative, Quick Reference Guide, 2001.

<sup>44</sup> Virgin Atlantic Customer Service Representative, Quick Reference Guide, 2001.

Virgin Atlantic also offers transfer options (for upper class passengers) including a limo service to and from the airport on both sides of the Atlantic. A first class ticket on Heathrow or Gatwick expresses, provides limo services from Paddington Station and Victoria Station to the customers' final destination, and a two-day car rental for each sector flown. Virgin Atlantic offers the exclusive use of clubhouses (for upper class passengers), including Virgin touch beauty salon-massages, facials, and barber services at Heathrow and Gatwick. Also included are business facilities, restaurant-style dining and a full-service bar.<sup>45</sup>

Promotion is the publicized announcement designed to attract customers. Virgin Atlantic is continuously promoting through various media. These media will further be discussed in the Integrated Marketing Communications section.

## **Selling**

These are efforts to induce the consumer to buy what the company has to offer set in line with the marketing strategy.<sup>46</sup> Virgin Atlantic targets specific customers by communicating the overall comfort and quality of the airline by providing identifiable customer service. Virgin Atlantic sells tickets primarily through the Internet, travel agents, and direct communication with customers.

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<sup>45</sup> Virgin Atlantic Customer Service Representative, Quick Reference Guide, 2001.

<sup>46</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

## Marketing Value

### Brand Values

A brand is a complex bundle of images and experiences in the customers' mind. A brand represents a promise by a particular company about a particular product.<sup>47</sup> Brands allow customers to seek out particular products and to differentiate between products.

The Virgin brand has been built on Branson's shrewd ability to exploit weaknesses in competitors' customer service skills, as well as a flair for self-promotion. Sir Richard's business philosophy is built around reputation, quality, innovation, and price rather than image.<sup>48</sup> The Virgin brand is recognized by Interbrand as one of the top 50 global brands.<sup>49</sup> Gordon Maw, Virgin money's marketing manager, explained that Virgin has four key business areas - mobile, airline, entertainment and financial services- and that the group is now working to build the Virgin brand globally based around these four core propositions.<sup>50</sup>

People all over the world increasingly prefer Virgin Atlantic's brand image. Virgin's award winning reputation has introduced quality and experience into airline travel. Consumers and business travelers with limited experience in international travel are highly likely to choose Virgin Atlantic rather than other airlines. These prestigious awards influence a customer's choice of Virgin Atlantic for their travel needs. Virgin's

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<sup>47</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

<sup>48</sup> Alison Smith, "A Genius for Publicity," *Financial Times* (August 4, 1997) p.9.

<sup>49</sup> Marketing Week, *Centaur Communication Limited*, 2 August, 2001.

<sup>50</sup> <http://www.lexis-nexus.com>

Atlantic's web page describes their brand image encompassing the following words: caring, value, fun, innovative, quality, and honesty.<sup>51</sup>

Virgin Atlantic was originally conceived by Richard Branson to offer the best possible service while delivering the best possible value at all times. Internationally recognized as a fun-loving and highly innovative brand and one that is admired for its friendliness, intelligence, and integrity.<sup>52</sup>

### **Service (The Branson Factor)**

This is the company's principle for increasing the quality of service delivered to its customers.<sup>53</sup> Virgin Atlantic strives to offers service to satisfy total customer needs.

Mr. Branson's entrepreneurial attitude towards innovative publicity is seen in his fearless reputation for antics such as ballooning across the Atlantic Ocean. Virgin Atlantic's Managing Director, Steve Ridgeway is an equally passionate advocate of brand values and shares Richard's irrepressible spirit of adventure, having been his co-pilot in the record-breaking speedboat crossing of the Atlantic in 1986.<sup>54</sup> Virgin Atlantic's management attitude has played an important part in the widespread global success of the Virgin brand and promoting the values with which consumers can identify. In the following quote, Sir Richard Branson clearly represents the ingenuity within the Virgin Empire.

“A brand name that is known internationally for innovation, quality and a sense of fun – this is what we have always aspired to with Virgin.”

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<sup>51</sup> <http://www.virgin-atlantic.com>

<sup>52</sup> <http://www.virgin-atlantic.com>

<sup>53</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

<sup>54</sup> <http://www.virgin-atlantic.com>

## Process

Process is the company's principle for involving every employee in the customer satisfaction process, both directly and indirectly.<sup>55</sup> Virgin Atlantic's process relates to both internal communications through employees and external communication through strategic alliances to further capabilities. The Virgin Atlantic management structure allows all head officers to report directly to Richard Branson. Sir Richard Branson is himself active in communicating with employees. He says in his book, Richard Branson: Losing My Virginity, "I also insist that we continually ask our staff for their suggestions, and I try my hand at their jobs. When I tried pushing a trolley down the aisle of a jumbo, I crashed into everyone. When I talked to the crew about this, they suggested that we introduce a more waitress-style service and keep the trolleys to a minimum." The company is also engaged in code share and strategic alliance with various airlines, thus permitting greater external communication.

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<sup>55</sup> Keegan, Warren J & Green, Mark S., Global Marketing, 2<sup>nd</sup> Edition, New Jersey: Prentice Hall, Page 40, 2001.

## Integrated Marketing Communications

Integrated marketing communication is defined by the American Association of Advertising Agencies (AAAA) as the a concept of marketing communication planning that recognizes the added value of a comprehensive plan, that evaluates the strategic roles of a variety of communication disciplines - for example general advertising, direct response, sales promotion, and public relations - and combines these disciplines to provide clarity, consistency, and maximum communication impart.<sup>56</sup>

Virgin Atlantic uses a wide range of marketing techniques. Advertising activity includes direct mail, TV, press, magazines, outdoor posters and taxi sides, all featuring their distinctive logo, the flying lady. Advertising is used to encourage people to fly Virgin Atlantic, to raise awareness of new product developments and to inform customers about new routes. For example, NBC primetime series “Friends” featured Richard Branson with the characters flying Virgin Atlantic to London.<sup>57</sup> In 2001, Virgin Atlantic spent 8 to 10 million dollars on a campaign linking Virgin with the movie “Austin Powers: The Spy Who Shagged Me.” They painted an enlarged Austin Powers on the tail, and Virgin was rebranded “Virgin Shaglantic”, featuring phrases such as: “There is only one virgin on this billboard, baby!”<sup>58</sup>.

Virgin Atlantic operates a frequent flyer program, the Flying Club, to encourage loyalty in its customers. In addition to offering miles that can be exchanged for free flights and other rewards, Flying Club members are offered other support services and clubhouse access. Virgin Atlantic has pioneered Internet marketing in the airline industry.

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<sup>56</sup> Belch, George E., Belch, Michael A., Advertising and Promotion, Fourth Ed. Page 9-12, 1997.

<sup>57</sup> <http://www.nyama.org/mhf98.htm>

<sup>58</sup> Goetzl, David, Virgin Atlantic Airways, Advertising Age, 26 June, 2000. Vol. 71, Issue 27, Page 37.

Their web site allows more efficient communication between Virgin Atlantic and customers. Virgin Atlantic also utilizes an extensive customer database to further their marketing initiatives. Moreover, Virgin Atlantic plans to add Internet capabilities to their aircraft. Virgin Atlantic has signed a contract with Tenzing Communications that will connect travelers to the web through seat back television screens or passengers' personal laptops.<sup>59</sup>

Virgin Atlantic's communications department works closely with their sales department, supporting larger corporate clients and travel agents on joint marketing activity. The Web site ([www.virgin-atlantic.com](http://www.virgin-atlantic.com)) offers full electronic booking capacity, allowing passengers to reserve and pay for tickets online, plus full destination information and a comprehensive guide to the benefits of flying with Virgin Atlantic. Flying Club members are able to use this web site to check their mileage balance, rewards and earning opportunities while new members can subscribe online. An example of Virgin Atlantic's unique advertising to flying club members was their Valentines' Day campaign of 2001. The company sent 5,000 single red roses accompanied by a Valentines' Day card to journalists, young managers, and flying club members. The card directed the recipient to the website [www.fellingthorny.com](http://www.fellingthorny.com). Upon logging onto the site, a message on a pair of lips greets you "You've been kissed.....Virgin Atlantic."<sup>60</sup>

Virgin Atlantic has their own design team who continuously develops the Virgin Atlantic's corporate identity through the use of literature, newsletters, posters, and other creative media. An interesting feature of Virgin Atlantic Airways is their work with the Virgin Healthcare Foundation. Virgin Atlantic sponsors an onboard charity, Change for

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<sup>59</sup> DiSabatino, Jennifer, Virgin Airways Set to Fly the Wired Skies, Computer World Online, 27 March, 2001.

<sup>60</sup> <http://www.virgin-atlantic.com>

Children, which supports four charities a year as well as a natural disaster relief program. In 2000, Change for Children donated £401,850 to its chosen charities.<sup>61</sup>

Virgin Atlantic commission's quarterly customer satisfaction studies are conducted by the prominent market research organization NOP.<sup>62</sup> The surveys monitor the punctuality of flight departures, the length of check-in-lines, and the quality of in-flight entertainment and service. The results of these surveys provide the airline with valuable information on which to base improvements in its services. Virgin Atlantic also participates in industry-wide surveys conducted by IATA (International Air Travelers' Association), TAPS (Transatlantic Passenger Survey) and SPEAR (Survey of Passengers on Europe Asia Routes).<sup>63</sup> These provide an evaluative benchmark for customer services.

Virgin Atlantic's Press Office handles all direct communication with the press, television and radio. The Press Office drafts and distributes press releases providing journalists with information about Virgin Atlantic, as well as organizing press briefings, running press conferences, accompanying the press on new routes while creating opportunities for national and overseas media exposure. Sir Richard Branson openly admits that his most important and highest paid employee is his Public Relations and Communications Director, Will Whitehorn.

Virgin Atlantic also is continuously involved in sponsorship programs. Virgin Atlantic has their own communication program aimed at staff within the company. With regards to promoting the company, Virgin Atlantic has an events team that organizes press launches and other activities.

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<sup>61</sup> <http://www.virgin-atlantic.com>

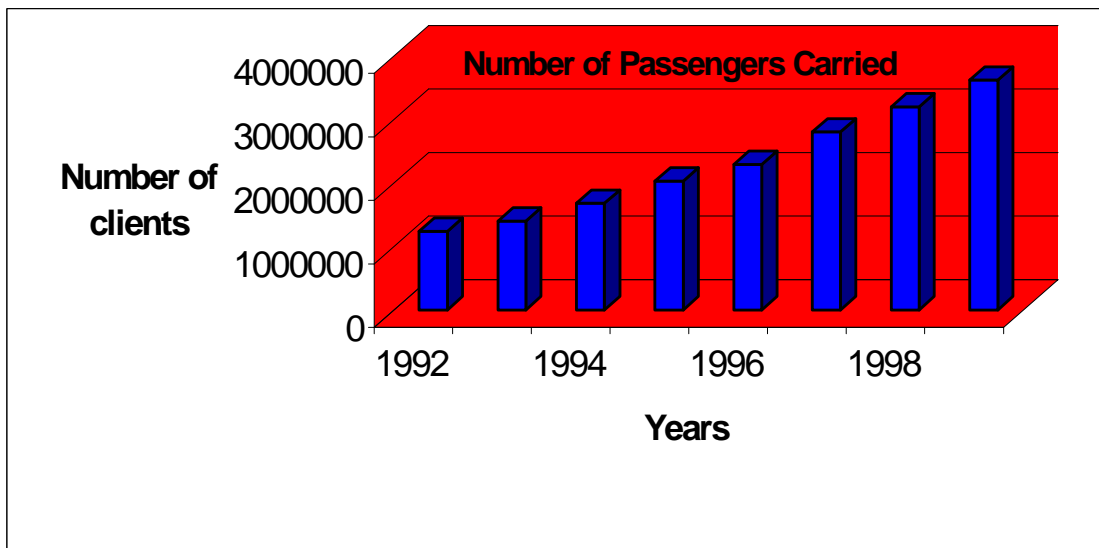
<sup>62</sup> <http://www.virgin-atlantic.com>

<sup>63</sup> <http://www.virgin-atlantic.com>

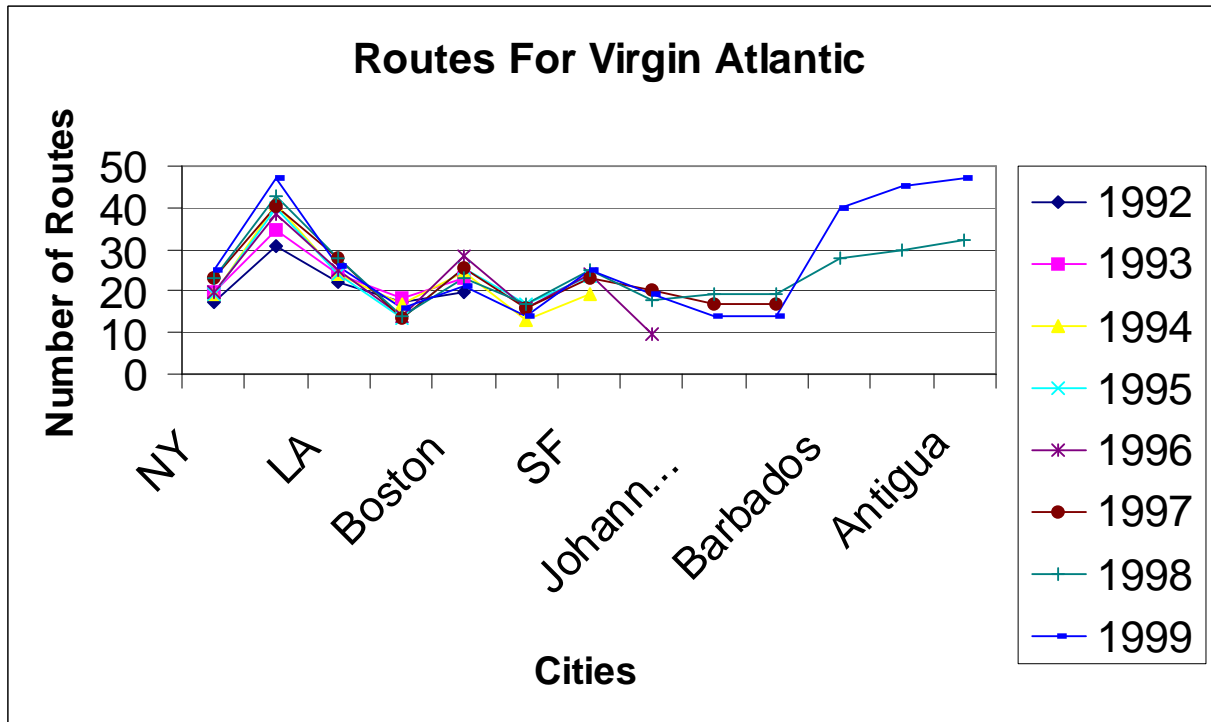
### Financial Details

After extensive Internet and primary research we have concluded that Virgin Atlantic does not produce annual reports and accounts for the public. However, there are certain figures quoted in the media.

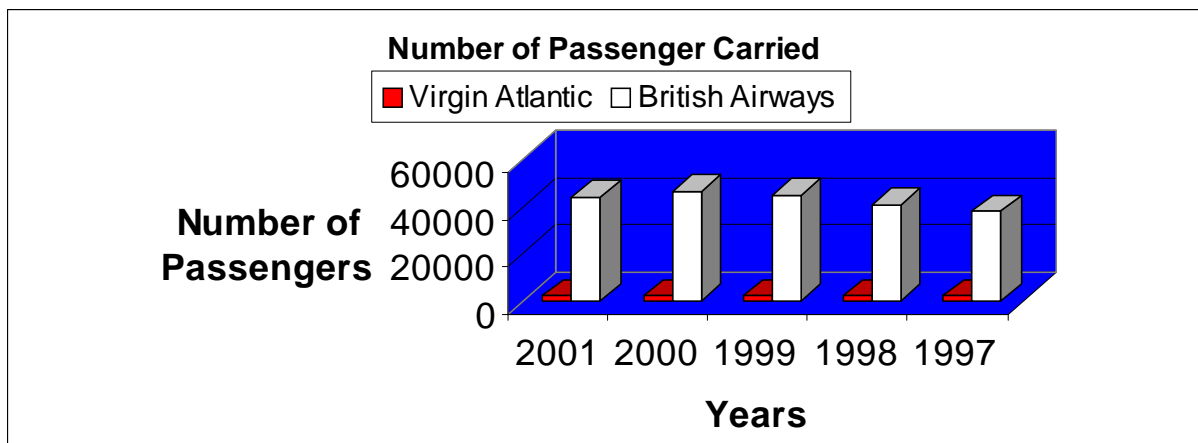
**Graph 1.0** represents the increasing number of passengers traveling with Virgin Atlantic airlines.



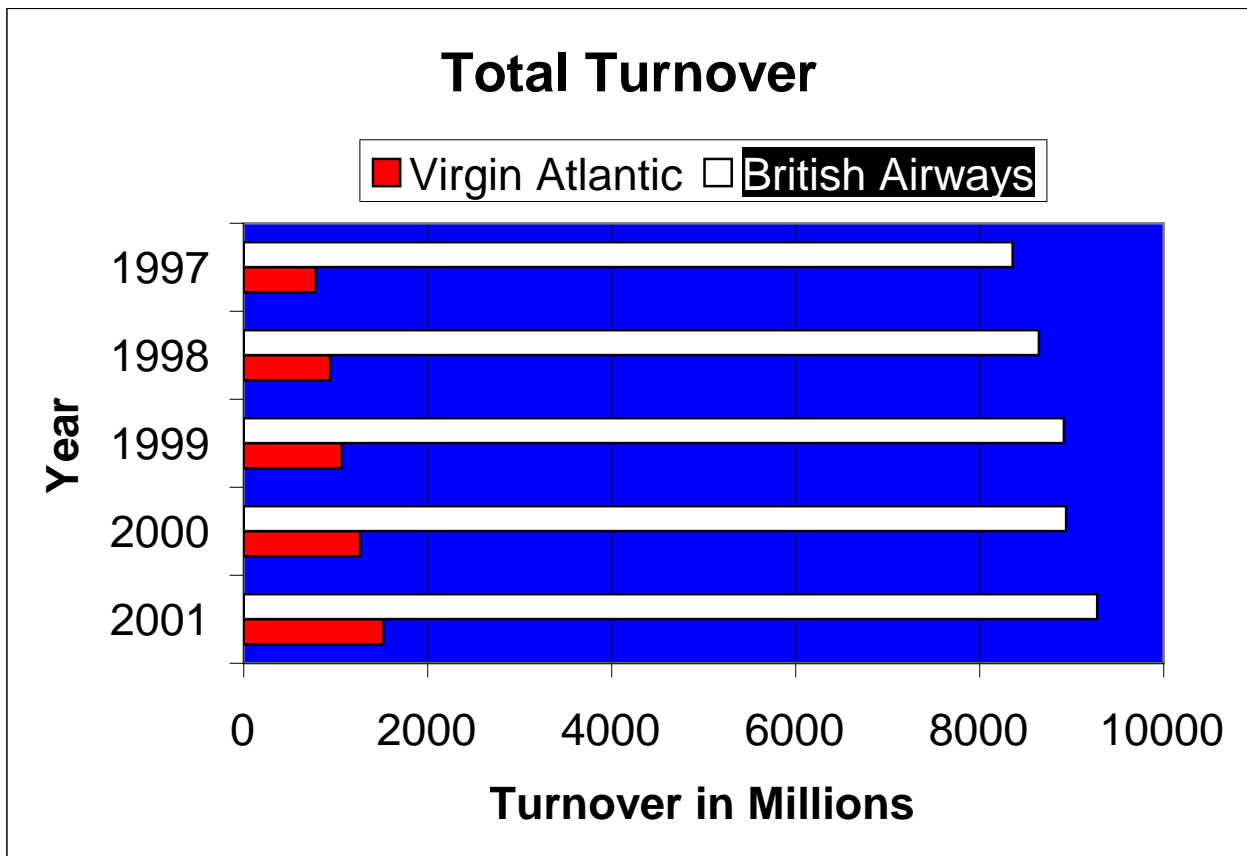
Graph 2.0 illustrates the increasing in market share on routes added each year from 1992-1999.



Graph 3.0 shows the difference in size between Virgin Atlantic and its primary competitor British Airways.



**Graph 4.0** portrays the total turnover in millions of Virgin Atlantic and British Airways. From 2000-2001 turnovers increased from 1.27 billion to 1.52 billion pounds, a 19.7% increase. Profits rose in this period from 40 million to 45.5 million pounds, a 14% increase.<sup>64</sup> In relation to the year 2000-2001, Sir Richard Branson stated



“Although market conditions have continued to be difficult, with intense competition, high fuel prices and in particular a weak pound, the yields and load factors generally achieved by the airline have been strong.”<sup>65</sup>

<sup>64</sup> <http://www.virgin-atlantic.com>

<sup>65</sup> “Virgin Atlantic Rises to Pounds 45 M.” *The Times (London)*, 31 July 2001

## Predictions

The United States economic downturn combined with terrorist activities of 2001 have accelerated changes to the airline industry that is formidable. The areas most affected by the past few months will be security and employment. These areas will undergo many changes in the coming months as airlines attempt to provide the safest and most secure means of transportation for passengers.

The terrorist events of September 2001 have placed increased security demands on the airlines throughout the world. Eric Starks, Regional Director for Virgin Atlantic, mentioned several areas in which he believes Virgin and other airlines must reevaluate in order to provide a safe and secure environment for the customers. Mr. Starks identified areas both on and off the plane in which security efforts could be improved.

The elements on the plane where security could be tightened are cockpit doors, on board security, regulations regarding on board baggage, and new utensil regulations. Many airlines have already added security bars to cockpit doors. Aircraft manufacturers are currently adding security bars and computerized keypad devices in order to further increase safety in the cockpit. Airlines must be more vigilant regarding carry on baggage, and customers boarding the plane.

For instance, on October 19<sup>th</sup> Virgin stopped four passengers flying to Yemen after conducting background checks which revealed the men had all bought their tickets from the same travel agent, on the same day, and in cash, and apparently did not know each other. However, although they checked in at different times and to different sections of the plane, the men were determined to be acting as friends but, when confronted, denied knowing each other. Because of this combination of factors, the men

were denied the permission to fly on their scheduled flight, and instead flew the following day.

The areas of the plane that require increased security are curbside parking, check-in, and general airport security. Airports have eliminated curbside parking and check-in. Passengers are no longer allowed to be dropped off or picked up, at the curbside area. Check-in requirements are the responsibility of the airline. Every customer must now make a personal check-in at the airlines' check-in desks. Our observational research showed that approximately three out of five passengers had their carry on baggage thoroughly searched. Military personnel have temporarily been placed in certain airports to add to security. The cost of these increased security precautions will be undertaken by the airline industry. Additionally, government security policy is in progress to control and monitor airport security. In summation, the airline industry has been forced to rethink their security procedures to protect travelers against possible acts of terrorism.

Virgin Atlantic Regional Director, Eric Starks, believes that there will be a slow rehiring with the recovering economy. Additionally, air traffic is expected to increase by 2003.

## Conclusion

All that needs to be said about Virgin Atlantic Airways is that: Delay announcements at its San Francisco executive lounge are likely to be greeted with applause.

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<http://www.virgin-atlantic.com>

## Appendix

**Internet Research**

**Advertising Handouts**

**Power Point Presentation**