VIRGIN MOBILE

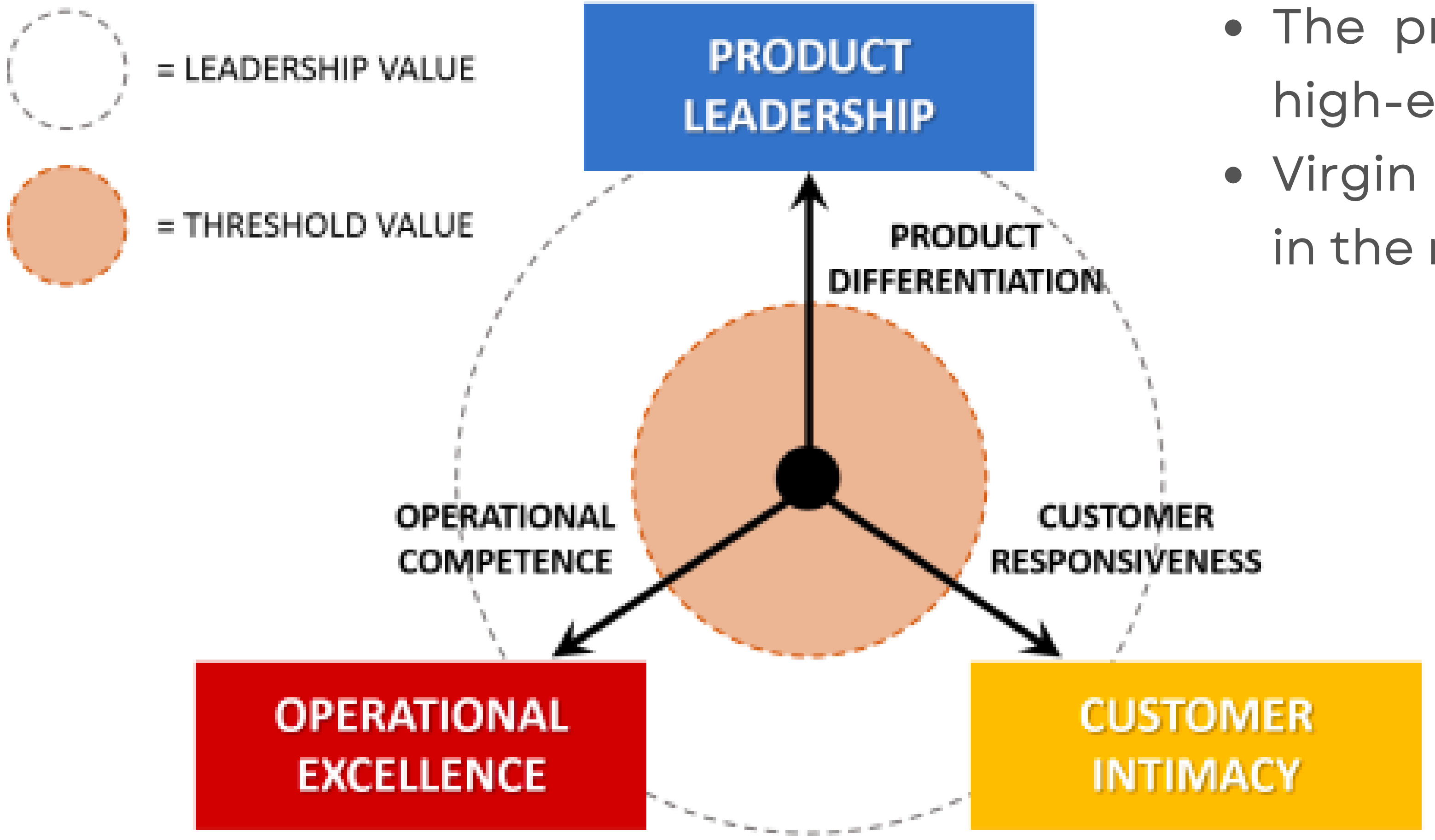
Name: Yijin Fu
Student ID: 101704229
E-mail: yfu66@myseneca.ca
Course: BMK 810
Date: 2023-03-19
Professor: Rob Persiko

Virgin mobile's objective is to break through the youth segment of American market, which enables it to earn money in a very competitive and saturated market.

Short-term objective	Long-term objective
• Earn 1 million by the end of first year. • Increase the revenue as well as profits for the company. • Attract and retain the youth segment. • Acquire customers by its unique pricing plan, such as competitive prices, but doesn't trigger competitive reactions from competitors. • Make sure every customers have positive CLV and potential values for the future.	• Earn 3 million by year four. • Build up loyal relationship with the youth segment. • Develop brand value and image.

It's hard to make money from young people due to various of reasons, such as churn rate and low credit. However, virgin mobile who focused more on the future value and CLV, wants to use a distinct pricing method to attract youth segment.

By foreseeing the future potential of youth segment in the upcoming 5 years, Virgin mobile tailored its pricing strategy, collaborators and packages in order to be competitive in this segment.



- Virgin mobile doesn't mainly focus more on the product leadership.
- The product offered by virgin mobile is not high-end.
- Virgin mobile offers various of types of phones in the market.

- This is where Virgin mobile did pretty good and has competitive advantages.
- Virgin mobile comes up with **cheaper** plans to target at the youth segment.
- Virgin mobile signed up an agreement with MTV networks, which is the **most recognized** youth brand within the country.
- Virgin mobile collaborated with youth shop, such as best buy, where customers like to buy electronic device.

- This is where Virgin mobile had competitive prices.
- Virgin mobile has **the lowest** manufacture costs compared to competitors, thus the price of handset is lower.
- Virgin mobile tends to offer more off-peak hours with less hidden fees.
- Virgin mobile's monthly bill is less than competitors'.

Based on the analysis, it shows a pattern that prepaid paying method is attractive for youth segment, but it will lead to a problem of high churn rate and low CLV.

General Customers

- 92% of them are postpaid customers.
- Calling pattern is more consistant.
- Usually think that they use more minutes than they actually use.
- Not obssessed by the additional features of the phone.
- Have little understanding of hidden fees, or they don't really care about it.
- With good credit quality, 70% of them can pass the credit check.

Young Customers

- Customers in youth segment are savvy consumers, they know there is hidden fees.
- More relies on the mobile **entertainment features**.
- Usually buy electronic devices from youth shop, such as **best buy and target**.
- **Prefer on text messaging** instead of making a phone call.
- Often have **poor credit quality**.
- **Usage is inconsistant**, depends on it's the time of school or during the vacation.

By testing the pricing strategy of our competitors, the results reveal that not only paying method but also monthly bill have significant impacts on the eventual net CLV after acquisition costs.

	Postpaid - with hidden Fees	Postpaid - without hidden Fees	Prepaid - with hidden Fees	Prepaid - without hidden Fees
Customer Acquisition Costs - Total	$335.01	$335.01	$335.01	$335.01
Number of Minutes	417	417	417	417
Average $ / Minute	0.14	0.12	0.14	0.12
Monthly Revenue / Customer	$57.55	$50.04	$57.55	$50.04
Break-Even (In Months)	**13.93**	**20.25**	**13.93**	**20.25**
Net Customer Lifetime Value After Customer Acquisition Costs	**$377.64**	**$155.11**	**$6.32**	**-$100.26**

- Even though the customer acquisition cost is the same, postpaid with hidden fees pricing strategy helps the company achieve the highest CLV per customer with the shortest break-even period.
- There is a significant difference in the CLV between postpaid and prepaid.
- The impact of hidden fees is large too. Because of no hidden fees, there is about a 7 dollars deduction in the mothly bill which results to about 100 dollars loss in CLV.
- Postpaid and prepaid doesn't have difference in break-even period / payback period. However paying method influences the value of customers in long-term.

After conducting sensitivity analysis, it's apparantly to figure out there are two major factors that sigfinicantly associated with the CLV, which are contribution margin and churn rate.

	Monthly Revenue / Bill		
Price	$47.55	$57.55	$67.55
Net CLV	$81.32	$377.64	$673.96

	Annual Churn Rate		
Percent	10%	19.93%	30.00%
Net CLV	$819.39	$377.64	$140.33

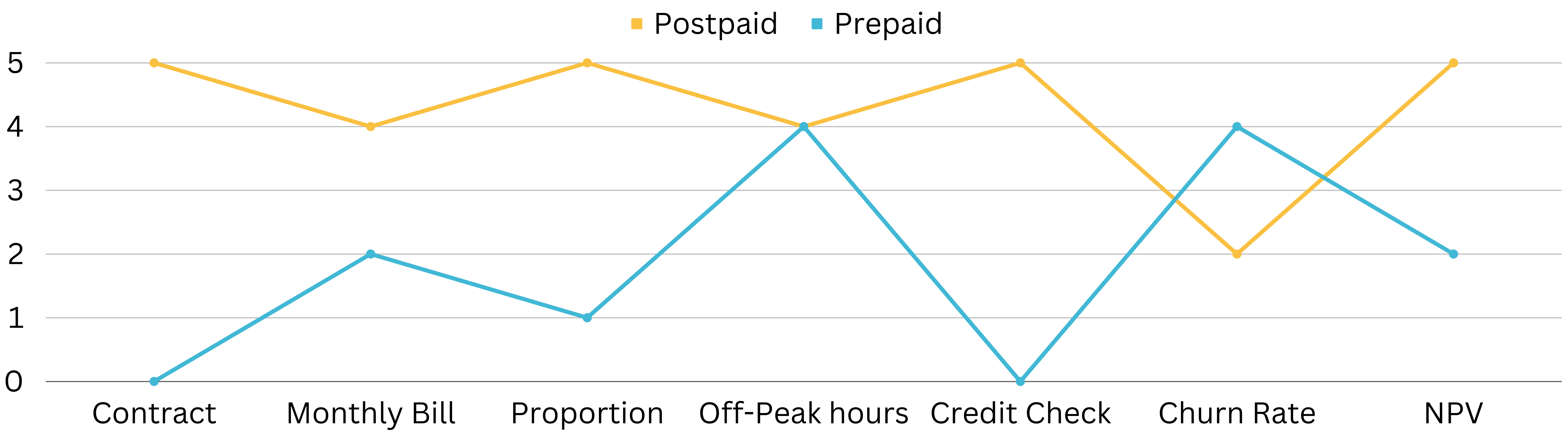
	Monthly Cost to Serve		
Costs	$25.00	$33.50	$40.00
Net CLV	$629.52	$377.64	$185.03

- Monthly revenue - This is the bill of the customer. If we increase the bill by $10, the net CLV will be almost doubled.
- Churn rate - This factor is associated with the prepaid and postpaid method. In general, prepaid customers have high churn rate than postpaid customers.
- Cost to serve - The contribution margin is directly influenced by this variable. Even though it's just a $6.5 increases in costs, it will result the net CLV to be deducted to half of what it used to be.

Insights:

In conclusion, if virgin mobile wants to get a high net CLV for each customer, it should make sure to use the pricing strategy that has higher monthly bill (with hidden fees) and reduce the churn rate (Postpaid). However, this is somehow contradict to the characteristics of youth segment, because they don't like hidden fees and prefer prepaid version (high churn rate)

In order to enter the maket of youth segement and earn money, Virgin mobile should carefully arrange its price and be vigilant to the churn rate for the purpose of avoiding lossing in NPV.



From youth customers' perspective:

- Prepaid version is preferred, because of no credit check and low hidden fees.
- They can switch to whatever carrier which has low price immediately under the prepaid version.
- Students do not need to pay for bill during the vacation if they are under prepaid version, this is a big advantage.

From company's perspective:

- Postpaid version is preferred, because it offers roburst monthly revenue.
- As postpaid requires credit check, the churn rate will be decreased and NPV will increase accordingly.
- Since there are 92% of customers in postpaid version, company knows how much to charge for postpaid. But it's hard to set an appropriate for prepaid version.

Within all 6 alternatives, the last one satisfies customers' needs which are no hidden fees and credit check and industry's requirements, which are high NPV and stable income monthly (postpaid).

Alternative 1 - Clone Price

- Offer as same price as competitors, which is **$57.55** for monthly bill with hidden fees, contracts and credit check.
- The break-even in months is **2.41**.
- This alternative has the highest NPV which is about **$840**.
- However, this alternative is not suitable for youth segment, since its pricing is too expensive and include hidden fees.

Alternative 2 - Lower Price

- Offer 10% discounts in price, which is **$51.80** for monthly bill with hidden fees, contracts and credit check.
- The break-even in months is **2.68**.
- The NPV of this alternative decreases to **$746**.
- The price of this alternative is competitive compared to competitors, but it still includes hidden fees.

Alternative 3 - Prepaid

- Offer identical price as the alternative 1 which is **$57.55**.
- The break-even in months is **2.41,** which is same as the alternative 1 as well.
- This alternative has the lowest NPV which is about **$430** due to higher churn rate.
- Even customers in youth segment may like prepaid, but the NPV for virgin mobile is unacceptable.

Alternative 4 - Full Subsidy

- The monthly bill is **$57.55**.
- Customers get handset **for free** under this alternative.
- The break-even in months is **4.27**.
- This alternative has a relative high NPV which is about **$770**.
- The NPV is high, but the payback period is too long compared to other options, but customers may like full subisidy.

Alternative 5 - Full subsidy no hidden fees

- The monthly bill will decrease to **$50** because of no hidden fees.
- The break-even in months is **4.92**.
- This alternative has a moderate NPV which is about **$647**.
- Youth segment's customers will like this, but the break-even in month is the longest, it's not a good alternative from industry's side.

Alternative 6 - Postpaid without credit check

- The monthly bill will be set to **$50.**
- Assume that there is a **5%** bad debt with **3-month** grace period.
- The break-even in months is **4**
- This alternative has the highest NPV which is about **$677**.
- This one is the most favorable by youth segment because of no hidden fees, no credit check, and half subsidy.

The last alternative brings acceptable income and CLV to the Virgin mobile, but at the same time supports Virgin mobile building long-term relationships with customers.

	Clone Price	Lower Price	Prepaid	Full Subsidy	No hidden fees	No credit check
Handset Selling Price	$69.99	$69.99	$69.99	$0.00	$0.00	$45.00
Customers Acquisition Costs	$91.01	$91.01	$91.01	$161.00	$161.00	$131.00
Monthly Revenue	$57.55	$51.80	$57.55	$57.55	$50.00	$50.00
Average $ / Minute	$0.14	$0.13	$0.14	$0.14	$0.13	$0.13
Break-even	2.41	2.68	2.41	4.27	4.92	4.00
Retention Rate	75.69%	75.69%	60.26%	75.69%	75.69%	75.69%
CLV	$839.19	$746.17	$430.80	$769.20	$647.17	$677.17

- Based on the analysis, our monthly revenue is the lowest, which means the bill for customers is the lowest which is favorable by customers in youth segment.
- Since we cannot abandon postpaid version, the method we can use is to exclude hidden fees from pricing in order to attract customers.
- The retention rate in this method is the highest, which makes the CLV higher compared to prepaid.
- We cannot afford full subsidy otherwise the acquisition costs will be too expensive, but we still offer half subsidy to be competitive in the market. Since customers still have to pay for the phone, this might somehow increases retention rate in reality.

Criteria table for alternatives

Options	Is the price favorable by customers?	Does this alternative help Virgin to target at youth segment?	Does this alternative bring high CLV?	Does this alternative easy for customers to apply?
Clone Price	NO, because the price is identical to competitors.	NO, because the price is high.	YES, the CLV for this one is the highest.	NO, customers need credit check.
Lower Price	YES, because there is a 10% discount.	YES, the price is lower.	YES, it's a little bit lower than the first one.	NO, customers need credit check.
Prepaid	NO, the bill is the same.	YES, since it's prepaid.	NO, the CLV is the lowest.	YES, customers don't need to be in contract, just pay before usage.
Full Subsidy	YES, customers don't need to buy the phone.	YES, because there is a subsidy for customers.	YES, the CLV is high for this alternative	NO, customers need credit check.
Full subsidy no hidden fees	YES, there is a full subsidy without hidden fees.	YES, because there is a subsidy as well as no hidden fees.	NO, not that high.	NO, customers need credit check.
Postpaid without credit check	YES, there isn't any hidden fees.	YES, there is a half subsidy and no hidden fees.	YES, the CLV is acceptable for this alternative.	YES, customers don't need any credit check.

Criteria table for alternatives - continued

Options	Does this alternative easy to apply in all distribution channels?	Does this strategy help Virgin be competitive in the market?	Does this optoin benefit the company from long-term performance?	Summary
Clone Price	NO, clone price doesn't not look good in bestbuy.	NO, because the price is identical.	NO, customers will not like this strategy.	This one can help Virgin earn money but cannot obtain a large number of customers.
Lower Price	YES, best buy can show there is a discount.	YES, because the price is lower.	NO, even though there is a 10% off, other carriers can also do that promotion.	This one offers competitive price in the market, but hidden fees are still there.
Prepaid	NO, even though it's prepaid, but it's not competitive in places such as target and bestbuy.	NO, customers can choose prepaid from other carriers.	NO, the churn rate of prepaid is extremely high.	Even though prepaid is more flexible for customers, but it comes with high churn rate which leads to low CLV.
Full Subsidy	YES, best buy can show this phone is full subsidiezed.	YES, because the handset doesn't cost any more for customers.	NO, the hidden fees are still there.	Customers like free products, but the hidden fee is till a problem.
Full subsidy no hidden fees	YES, best buy can show how much the subsidy is.	YES, because there is not any hidden fees.	YES, no hidden fee is the competitive advantage in youth group.	This one seems like to be the best one for customers, but it's not a good one for company.
Postpaid without credit check	YES, it's easy for best buy or target to leverage this alternative.	YES, because there is half subsidy and no hidden fees.	YES, because of no hidden fee and it's postpaid, thus the churn rate is not high.	In conclusion, this one satisfies the requirements from both customers and company which is a win-win.

By leveraging this alternative, Virgin mobile generates several emotional benefits to the customer and earn some practical benefits from the market.

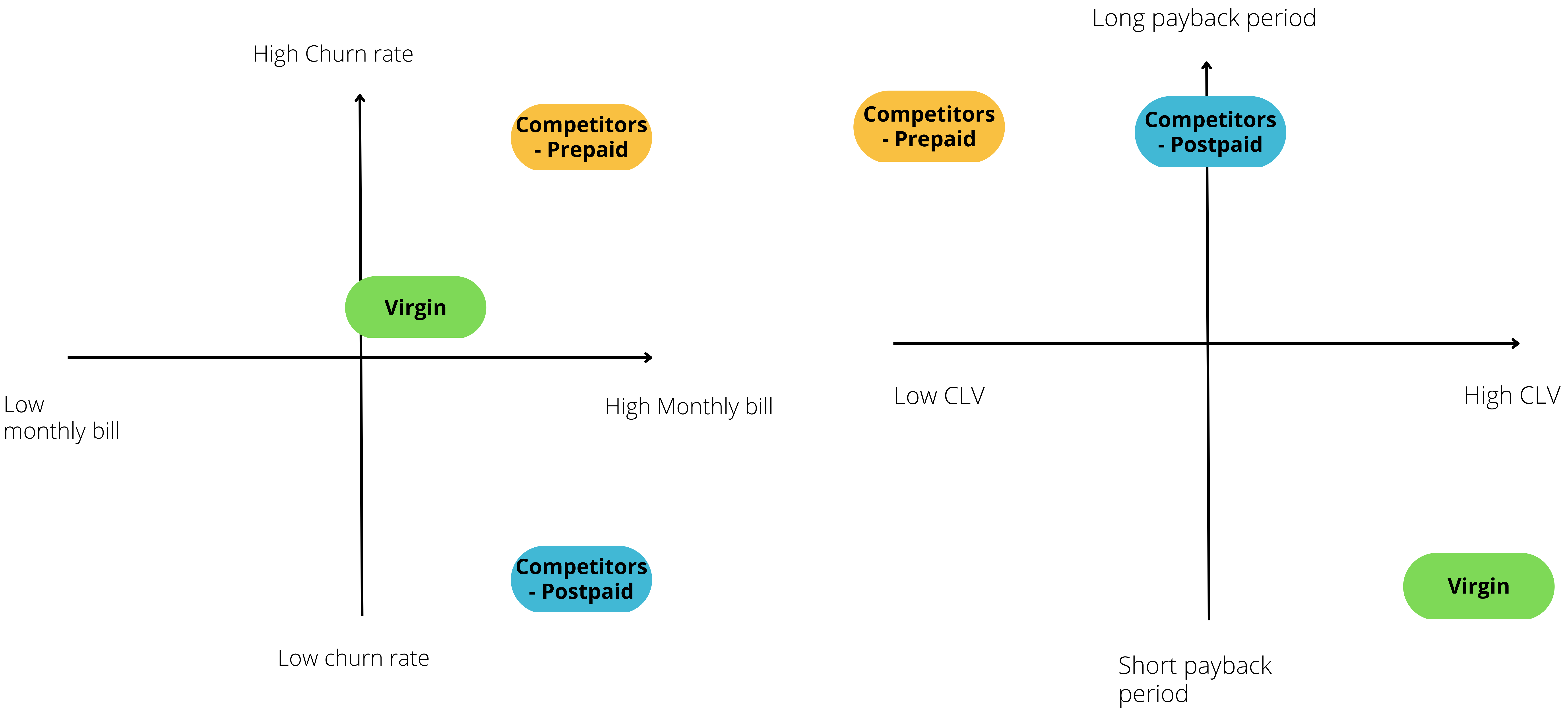
Emotional Benefits

- Increase happiness: Our company offers MTV entertaiment futures, which include TV, music, games, etc. which is recognized in the youth segment and bring happiness to them.
- Reduced stress: Since our price is lower than competitors without any hidden fees and credit check, customers may feel less stressed when they pay for the bill.
- Bette relationships: Because of subsidy and low charges, Virgin mobile can build a better relationship with the customers in the future, thus reduce the churn rate.

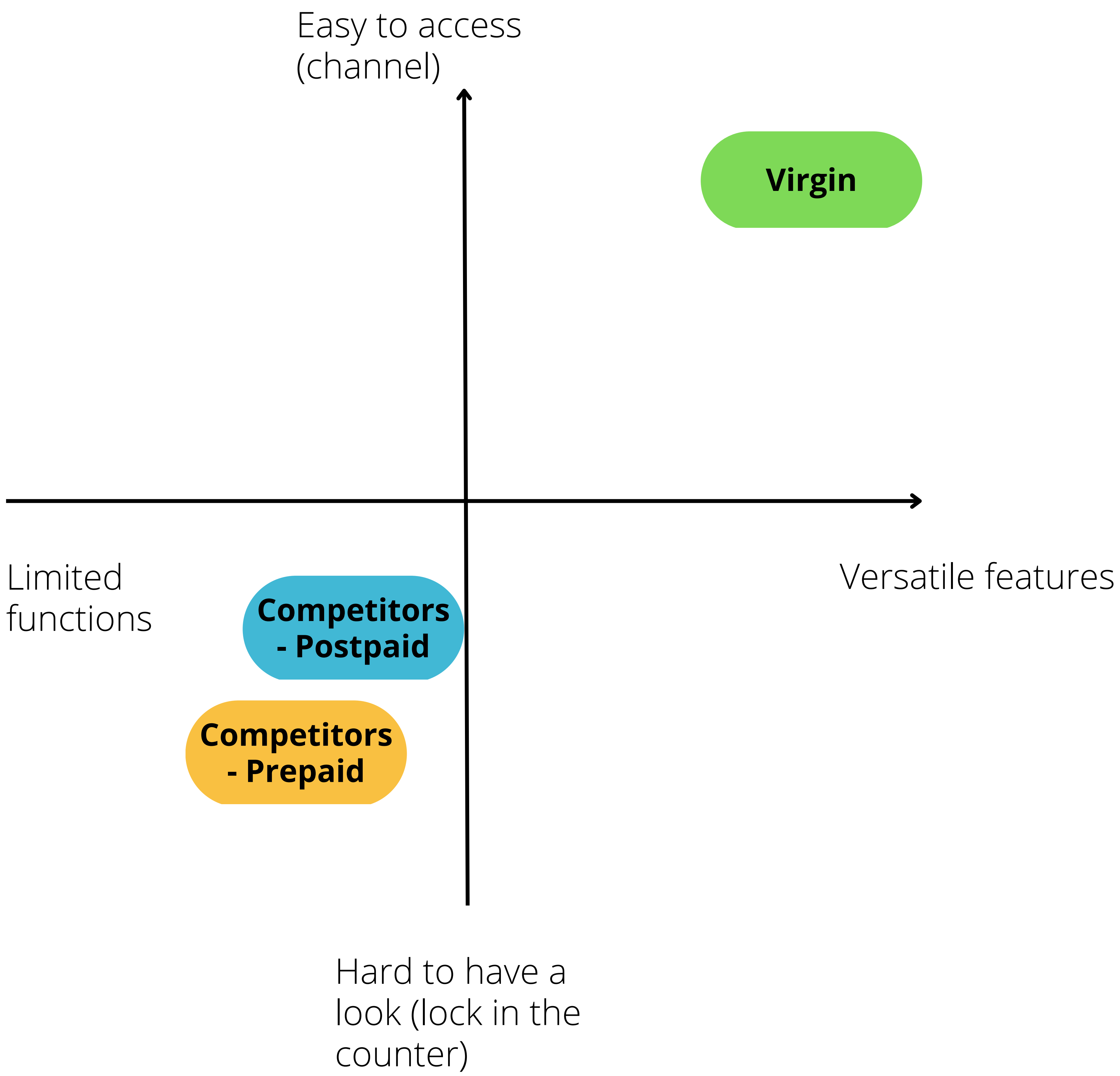
Functional Benefits

- CLV: The CLV of this strategy is about $677, which is amlost as double as that of our competitors.
- Break-even: The payback period to cover aquisition costs is only 4 months, where our competitors spent nearly 14 months.
- Better penetration rate: Since the youth segment is not saturaed in the US, virgin mobile as one of the earliest brand who enter this market can have a significant penetration throughout the market.

Virgin mobile positioned as a valuable brand which provides services and products in low-price to target at the right customers with high CLV.



Virgin mobile, as a customer-centric brand, distributes its product in the most recognized youth shop which enables all prospects to have a chance to try it and have a look on hand.



For customers who are in the youth segment, Virgin mobile, as an economical customer-centric brand, offers the most valuable and affordable deal in the market without any hidden fees and credit check, along with all inclusive MTV entertainment networks; for the purpose of breaking through in the young people segment, retain and build long-term relationships with youth segment's clients.

The final recommendation of pricing strategy is to offer handset at a half price in postpaid version with no credit check and no hidden fees.

Reasons:

- Postpaid - Compared to prepaid, postpaid customers have less churn rates which benefits Virgin Mobile to build long-term loyal relationships.
- Half subsidy - Full subsidy is too much to cover by Virgin mobile and will lead to high acquisition costs. Eventually it will result that the payback period to be so long. Since our manufacture cost is much less than competitors, half subsidy can still allows us to sell our handsets at a lower price compared to others.
- No credit check - Since our target customers are in the youth segment, they usually don't have a good credit quality and may fail the credit check. This brings a big convenience for those customers.
- No hidden fees - Young people are savvy consumers. They know there are some hidden fees and hate them. Exclude hidden fees from the pricing model is obssessed to them.
- A balanced strategy - This alternative not only satisfies customers' needs but also meet Virgin mobile's expection. The break-even and CLV are both good as well. Virgin mobile doesn't not have to sacrifice its own revenue in order to target at the youth segment. By offering these features along with the NTV packages in the Bestbuy or Target, the young generation will come to you.

Appendix - 4 A's framework

- Acceptability - It's acceptable by the target customers because of the low price. Addition to that, we don't have credit check, which makes it more acceptable to a larger range of clients.

- Accessibility - The product is easy to access for people in youth segment, because they are already comfortable with buying electronic devices from best buy or Target.

- Affordability - It's affordable becuase our price is the lowest amoung other competitors. In addition we don't have any other hidden fees. And we also offer subsidy.

- Awareness - It can catch young people's awareness by its versatile entertainment features, i.e. MTV networks.

Appendix - 6 Forces

Porter's forces	High	Medium	Low
Threat of new entrants	Other carries can easily access to the market if they want by just offering cheaper products designed for youth segment.	-	-
Threat of subtitutes	It's easy to be replace by other carries if Virgin did something bad. It's imperative to keep competitive advantages for Virgin to survive.	-	-
Suppliers	-	Virgin mobile relies on the its low manufacture cost product. Thus it replies on the suppliers.	-
Bargain power of Customers	Customers are easy to switch to other brands if the price or performance of such a carrier is not satisfied.	-	-
Rivals	-	Currently the competition is not rival, because lots of carriers do not enter the youth segment.	-
Complements	-	Complements like softwares, packages, are important. Especially for young people who need entertainment features.	-

Appendix - Crieria table for positioning

Criteria	Does Virgin positioned as a high-end brand?	Does Virgin mobile more customer-centric?	Does Virgin provides the benefits that customers' need?	Does Virgin mobile easy to buyt?	Is it affordable for customers?
	NO, it's supposed to be a valuable product with economical price, especially for students in the youth segment.	YES, it designs the product the price specifically for the youth segment.	YES, customers in the target segment requires entertainment features such as MTV and low charges.	YES, it distributes its phone in the most recognized store such as bestbuy.	YES, there is no hidden fees and the bill per month is the lowest amoung comptitors.

Appendix - churn rate

Churn Times	11
Virgin Mobile	Churn Rate
Monthly - Postpaid	2.50%
Annually - Postpaid	24.31%
Monthly - Prepaid	4.50%
Annually - Prepaid	39.74%
Competitors	Churn Rate
Monthly - Postpaid	2.00%
Annually - Postpaid	19.93%
Monthly - Prepaid	4.40%
Annually - Prepaid	39.04%

Appendix - Sensitivity Analysis

	Annual Churn Rate		
Percent	10%	19.93%	30.00%
Net CLV	$819.39	$377.64	$140.33

	Monthly Revenue / Bill		
Price	$47.55	$57.55	$67.55
Net CLV	$81.32	$377.64	$673.96

	Sales Commision		
Costs	$75.00	$85.00	$95.00
Net CLV	$387.64	$377.64	$367.64

	Advertising Per Capita		
Costs	$80.00	$90.00	$100.00
Net CLV	$387.64	$377.64	$367.64

	Handset Subsidy		
Costs	$150.00	$160.01	$170.00
Net CLV	$387.65	$377.64	$367.65

	Monthly Cost to Serve		
Costs	$25.00	$33.50	$40.00
Net CLV	$629.52	$377.64	$185.03

Appendix - Competitor Analysis

	Postpaid - with hidden Fees	Postpaid - without hidden Fees	Prepaid - with hidden Fees	Prepaid - without hidden Fees
Handset Cost	$230.00	$230.00	$230.00	$230.00
Handset Selling Price	$69.99	$69.99	$69.99	$69.99
Customer Acquisition Costs				
Sales Commission	$85.00	$85.00	$85.00	$85.00
Advertising Per Capita	$90.00	$90.00	$90.00	$90.00
Handset Subsidy	$160.01	$160.01	$160.01	$160.01
Bad Debt Expense Without Credit Checks	$0.00	$0.00	$0.00	$0.00
Customer Acquisition Costs - Total	$335.01	$335.01	$335.01	$335.01
Number of Minutes	417	417	417	417
Average $ / Minute	0.14	0.12	0.14	0.12
Monthly Revenue / Customer	$57.55	$50.04	$57.55	$50.04
Monthly Cost to Serve				
- $'s	$33.50	$33.50	$33.50	$33.50
- % of revenue	58.2%	66.9%	58.2%	66.9%

	Postpaid - with hidden Fees	Postpaid - without hidden Fees	Prepaid - with hidden Fees	Prepaid - without hidden Fees
Monthly Contribution Margin				
- $'s	$24.05	$16.54	$24.05	$16.54
- % of revenue	41.8%	33.1%	41.8%	33.1%
Break-Even (In Months)	**13.93**	**20.25**	**13.93**	**20.25**
CUSTOMER LIFETIME VALUE ANALYSIS				
Monthly Churn Rate	2.00%	2.00%	4.40%	4.40%
Annual Churn Rate	19.93%	19.93%	39.04%	39.04%
Annual Retention Rate	80.07%	80.07%	60.96%	60.96%
Discount Rate	12.50%	12.50%	12.50%	12.50%
Annual Customer Contribution Margin	$288.60	$198.48	$288.60	$198.48
Customer Lifetime Value Before Customer Acquisition Costs	**$712.65**	**$490.12**	**$341.33**	**$234.75**
Net Customer Lifetime Value After Customer Acquisition Costs	**$377.64**	**$155.11**	**$6.32**	**-$100.26**

Appendix - Alternative 1 Clone Price

Alternative 1 - Clone Price	Virgin
Handset Cost	$71.00
Handset Selling Price	$69.99
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$1.01
Bad Debt Expense Without Credit Checks	$0.00
Customer Acquisition Costs - Total	$91.01
Number of Minutes	400
Average $ / Minute	0.14
Monthly Revenue / Customer	$57.55
Monthly Cost to Serve	
- $'s	$19.85
- % of revenue	34.5%

Alternative 1 - Clone Price	Virgin
Monthly Contribution Margin	
- $'s	$37.70
- % of revenue	65.5%
Break-Even (In Months)	**2.41**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	2.50%
Annual Churn Rate	24.31%
Annual Retention Rate	75.69%
Discount Rate	12.50%
Annual Customer Contribution Margin	$452.34
Customer Lifetime Value Before Customer Acquisition Costs	**$930.20**
Net Customer Lifetime Value After Customer Acquisition Costs	**$839.19**

ARPU	$0.14
Hidden Fees	Y
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	Y
Credit Check	Y
Complex sales process	Y

Appendix - Alternative 2 Lower Price

Alternative 2 - Lower Price (10% discount)	Virgin
Handset Cost	$71.00
Handset Selling Price	$69.99
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$1.01
Bad Debt Expense Without Credit Checks	$0.00
Customer Acquisition Costs - Total	$91.01
Number of Minutes	400
Average $ / Minute	0.13
Monthly Revenue / Customer	$51.80
Monthly Cost to Serve	
- $'s	$17.87
- % of revenue	34.5%

Alternative 2 - Lower Price (10% discount)	Virgin
Monthly Contribution Margin	
- $'s	$33.93
- % of revenue	65.5%
Break-Even (In Months)	**2.68**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	2.50%
Annual Churn Rate	24.31%
Annual Retention Rate	75.69%
Discount Rate	12.50%
Annual Customer Contribution Margin	$407.11
Customer Lifetime Value Before Customer Acquisition Costs	**$837.18**
Net Customer Lifetime Value After Customer Acquisition Costs	**$746.17**

ARPU	$0.13
Hidden Fees	Y
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	Y
Credit Check	Y
Complex sales process	Y

Appendix - Alternative 3 Prepaid

Alternative 3 - Prepaid	Virgin
Handset Cost	$71.00
Handset Selling Price	$69.99
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$1.01
Bad Debt Expense Without Credit Checks	$0.00
Customer Acquisition Costs - Total	$91.01
Number of Minutes	400
Average $ / Minute	0.14
Monthly Revenue / Customer	$57.55
Monthly Cost to Serve	
- $'s	$19.85
- % of revenue	34.5%

Alternative 3 - Prepaid	Virgin
Monthly Contribution Margin	
- $'s	$37.70
- % of revenue	65.5%
Break-Even (In Months)	**2.41**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	4.50%
Annual Churn Rate	39.74%
Annual Retention Rate	60.26%
Discount Rate	12.50%
Annual Customer Contribution Margin	$452.34
Customer Lifetime Value Before Customer Acquisition Costs	**$521.81**
Net Customer Lifetime Value After Customer Acquisition Costs	**$430.80**

ARPU	$0.14
Hidden Fees	Y
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	N
Credit Check	Y
Complex sales process	Y

Appendix - Alternative 4 Full subsidy

Alternative 4 - Full Subsidy	Virgin
Handset Cost	$71.00
Handset Selling Price	$0.00
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$71.00
Bad Debt Expense Without Credit Checks	$0.00
Customer Acquisition Costs - Total	$161.00
Number of Minutes	400
Average $ / Minute	0.14
Monthly Revenue / Customer	$57.55
Monthly Cost to Serve	
- $'s	$19.85
- % of revenue	34.5%

Alternative 4 - Full Subsidy	Virgin
Monthly Contribution Margin	
- $'s	$37.70
- % of revenue	65.5%
Break-Even (In Months)	**4.27**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	2.50%
Annual Churn Rate	24.31%
Annual Retention Rate	75.69%
Discount Rate	12.50%
Annual Customer Contribution Margin	$452.34
Customer Lifetime Value Before Customer Acquisition Costs	**$930.20**
Net Customer Lifetime Value After Customer Acquisition Costs	**$769.20**

ARPU	$0.14
Hidden Fees	Y
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	Y
Credit Check	Y
Complex sales process	Y

Appendix - Alternative 5 No hidden fees

Alternative 5 - Full Subsidy with no hidden fees	Virgin
Handset Cost	$71.00
Handset Selling Price	$0.00
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$71.00
Bad Debt Expense Without Credit Checks	$0.00
Customer Acquisition Costs - Total	$161.00
Number of Minutes	400
Average $ / Minute	0.13
Monthly Revenue / Customer	$50.00
Monthly Cost to Serve	
- $'s	$17.25
- % of revenue	34.5%

Alternative 5 - Full Subsidy with no hidden fees	Virgin
Monthly Contribution Margin	
- $'s	$32.75
- % of revenue	65.5%
Break-Even (In Months)	**4.92**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	2.50%
Annual Churn Rate	24.31%
Annual Retention Rate	75.69%
Discount Rate	12.50%
Annual Customer Contribution Margin	$393.00
Customer Lifetime Value Before Customer Acquisition Costs	**$808.17**
Net Customer Lifetime Value After Customer Acquisition Costs	**$647.17**

ARPU	$0.13
Hidden Fees	N
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	Y
Credit Check	Y
Complex sales process	Y

Appendix - Alternative 6 No credit check

Alternative 6 - Postpaid no credit check	Virgin
Handset Cost	$71.00
Handset Selling Price	$45.00
Customer Acquisition Costs	
Sales Commission	$30.00
Advertising Per Capita	$60.00
Handset Subsidy	$26.00
Bad Debt Expense Without Credit Checks	$15.00
Customer Acquisition Costs - Total	$131.00
Number of Minutes	400
Average $ / Minute	0.13
Monthly Revenue / Customer	$50.00
Monthly Cost to Serve	
- $'s	$17.25
- % of revenue	34.5%

Alternative 6 - Postpaid no credit check	Virgin
Monthly Contribution Margin	
- $'s	$32.75
- % of revenue	65.5%
Break-Even (In Months)	**4.00**
CUSTOMER LIFETIME VALUE ANALYSIS	
Monthly Churn Rate	2.50%
Annual Churn Rate	24.31%
Annual Retention Rate	75.69%
Discount Rate	12.50%
Annual Customer Contribution Margin	$393.00
Customer Lifetime Value Before Customer Acquisition Costs	**$808.17**
Net Customer Lifetime Value After Customer Acquisition Costs	**$677.17**

ARPU	$0.13
Hidden Fees	N
ARPU after Hidden Fees	-
Phone Subsidy	Y
Contract	Y
Credit Check	Y
Complex sales process	Y