Research on the Organizational Strategy Management of the Potential Cooperation between Virgin Group and Fosun Group

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Abstract: This research is going to analyze the current situation of Virgin Group and Fosun Group, as well as the direction in which the two companies can cooperate. Fosun Group might have further cooperation with Virgin Group, and is committed to building a music-themed tourism industrial park, forming its own ecology and completing a self-sufficient closed loop. The project will help Virgin enter and expand in the Chinese mainland market, establish its own business in China, and also enable Fosun to have a greater degree of visibility and market share. This essay will use entrepreneurship and innovation, history and culture, leadership, resources and capabilities analysis, corporate strategy, international strategy, mergers, acquisitions, and alliances, stakeholders and governance, organizing and strategy, the practice of strategy and other methods to analyze the advantages and disadvantages, feasibility and innovation points of the project in all aspects, so as to maximize the benefits of the two companies.

1. Introduction

Fosun is a well-known company in China, committed to seeking long-term development in the international market, while Virgin is an internationally renowned company that is looking to expand into the Chinese market. According to the overlapping parts of the business of the two companies, it can be seen that the two companies have the possibility of win-win cooperation in the future. Because the business scope of the two companies is too large, this essay selects the sub-business of the two companies with more development significance and commercial overlap for analysis, which is Foliday Company in Fosun Group, as well as Virgin Holiday and Virgin Music. It is committed to creating a high-quality music-themed tourism industry. In general, this project might enable Virgin to gain more competitive advantages in the worldwide, and Fosun is looking forward to a deeper partnership with Virgin. According to Guo et.al, the business model is particularly important for start-up organizations, because it represents a key mechanism to transform the entrepreneurial opportunities into superior firm performance [1]. So it is hoped that this project will bring more benefits to both companies, and that both companies can achieve sustainable development on their own development path.
2. Detailed Analysis

The following parts of this essay are going to analyze the organizational strategy management path of the two companies in detail.

2.1 Entrepreneurship and Innovation Analysis

Foliday, part of the Fosun Group, plans to launch a music-themed industrial park called Foligin Music Park with Virgin Holidays. Since there are many tourist attractions in major cities in China and they have occupied a large part of the market [2], this project will be carried out in third-tier and fourth-tier cities as well as suburban locations of big cities, such as Tengchong of Yunnan Province and Xindu of Chengdu.

The reasons why choosing music theme industrial park are that Chinese mainland recording entertainment career development is not advanced yet, and for music lovers, they are hard to find a high quality and appropriate price studio even in the big cities [3]. As a result, the music theme industrial park can promote development of the both tourism and music industries; Secondly, some sectors of Virgin Music faced loss in western countries, which means that this company’s project may not be applicable in western countries, but China lacks the music industry, so it is promising to carry out this project in China [4].

Moreover, the Foligin Music Park is established to form two companies’ own industrial ecology in Chinese market. For example, both Virgin Holidays and Foliday have extensive experience in the tourism industry, such as Foryou Ski, Fosun Tourism’s city-based indoor ski operator, that will open three more stores in 2021 and currently operates seven stores in China [5]. Therefore, the two companies are not only good at a specific section of tourism, but also involved in the operation of the whole process, which is of great help for the development of new tourism projects. Therefore, the music-themed tourism industrial park can have but not limited to homestays, hotels, hot springs, artificial snow grounds, outdoor sports, music festivals, recording studios, open-air bars, cultural blocks, characteristic experience areas and other settings, and then combined with local characteristics to produce some characteristic products, such as Yunnan tea and handmade products. Therefore, the two companies should implement leisure tourism products and resorts with good cultural atmosphere and better services, which can allow travelers to experience a trip of no less than three days in the local area, and promote consumption for the accommodation, food and entertainment of the entire industrial area.

For the type of innovation, the music-themed tourism industrial park belongs to market pull, because there is a lack of recording studios and music theme parks in Chinese market, the third and fourth tier cities need to be developed, and the young people have the spending power and willingness to travel to the surrounding cities. Therefore, the market is quite large. Meanwhile, the reputation of the industrial park can be enhanced to a greater extent by promoting consumption through the market and designing the process according to the needs of consumers. And this programme belongs to the process innovation, because all the small parts are not completely innovative, and now the two companies will combine the existing resources and make efforts to maximize the benefits of all available resources. And this programme also belongs to the open innovation [6], since the tourism industry is an open and inclusive industry, the way to dominate the market is of vital importance.

2.2 History and Culture Analysis

The historical relationship model can be used to analysis the history and culture. For the continuity, due to path dependence, the overall style and mission vision of Virgin have not changed for many years. Virgin has unique historical resource on both music and vacation fields, and it has accumulated
rich operation experience and social resources in western countries [7]. In addition, Foliday has huge resources in the Chinese tourism market. Foliday might return a net profit of no less than RMB 350 million for the year ended December 31, 2018, and has three main sources of income, from resorts, tourism destinations, and leisure tourism services and solutions. Also, Fosun Tourism acquired 7.1% share of Club Med in 2010, followed by 98% of the French resort and subsequently delisting it from the Paris Euronext for privatization in 2015 [8]. So the cooperation between the two companies will be able to make greater use of these resources to operate better, so as to gain competitive advantages that other companies do not have.

However, since Virgin Music is facing a loss and business decline in the western world [9], these historical factors may also cause obstacles to the current stage of operation, such as the obsolete strategies and management methods, the current management’s distrust and disapproval, and the uncertainty about the future operation. So, while preserving the original fundamental idea, some changes are needed.

So Virgin and Foliday can plot new segments of their business using a selection and rediscovery approach [10]. For example, since there are huge music markets in Chinese mainland, Virgin can use its own advantages in music to design a music world with a style different from that of all the current Chinese companies. At the same time, the integration of music into the tourism industrial park will also bring some different colors to the local area, so that the whole industrial park has a traction line and theme, which will be more unique and attractive to tourists. But in general, Virgin is still unable to completely change its style, because in the public impression, Virgin is very professional in doing music and tourism, which will make users feel reassured and acceptable.

2.3 Leadership Analysis

For the types of strategic changes, the music-themed industrial park belongs to the reconstruction [11]. Firstly, reconstruction means change rapidly but not totally change the culture or the business model of the company, which suits Virgin well because due to the previous analysis, the corporate culture and brand image of Virgin are very novel to the public, and their style is also very rare in China, so there is possibility to attract more consumers and investors. In terms of management mode, it is not necessary to make a major transformation, but only needs the managers to make some relative adjustments according to China’s unique national conditions. For example, Chinese people are more conservative, while Westerners are more open [12]. When entering the Chinese market, Virgin can change its operation mode according to this characteristic.

Secondly, according to Global Social Media Marketing, reconstruction includes the acquisition or divestment of a business. As mentioned above, Virgin Holidays and Virgin Music are actually two independent brands of Virgin, so this project is actually the integration of the two sub-brands, to a greater extent to give play to the advantages and characteristics of Virgin [13]. Since Virgin Holidays is a well-performed business in the world, but Virgin Music may have debt, combining the two could make each business model stronger.

Thirdly, reconstruction also emphasizes rapidity in change, cost reduction and revenue generation, with the aim of fast recovery, and focus on five key elements of turnaround strategies [14]. For instance, Virgin can add some automation tools in this park in order to have a long-term development in the Chinese market, such as self-help vending machines and self-service checkout mode and then streamline the program across the country. It is easier for headquarters to manage directly, which can save a lot of long-term spending. But this method may cause excessive consistency; visitors may feel tired for this brand, so Virgin can also make small improvement combined with local characteristics. For example, some food elements can be added in Sichuan province, and a few old Shanghai characteristic elements can be added in Shanghai. In this way, tourists will not feel tired of this project.
but would like to travel in this project in various areas.

2.4 Resources and Capabilities Analysis

According to Lopes et.al, VRIO model can be used to analyze the resources and capabilities of Folidin Music Park [15].

Accepting the first part of the model as an example, V means value of resources and capabilities. First of all, the project is of great value to consumers, because tourism is a very common pastime for people, and local residents also need tourism to make a living. Therefore, tourism can promote the economic development of a certain region and meet the needs of consumers for tourism. Secondly, Foliday in China already has several decades of development, and has accumulated very rich resources of hard and soft in China. The Chinese tourism market has transformed into one of the world’s most-watched inbound and outbound tourist markets, and the number of domestic trips reached six billion in 2019, indicating an exponential increase compared to the number of trips made in China ten years ago [16]. If Virgin Holiday wants to enter the Chinese market, Foliday can help gaining more resources in China, such as partnerships with government, customer relationship maintenance and human resources, material and financial resources. All these resources will enable Virgin Holiday to gain more opportunities in Chinese market. Through the above methods to form an ecological closed loop, Virgin will not be allowed to leading to low revenue due to taking customer needs into account.

2.5 Corporate Strategy Analysis

According to Kipley et.al, for the corporate strategy, Ansoff’s Corporate Strategy Matrix is going to be applied to analyze it. This Folidin Music Park belongs to the type of Unrelated Diversification, which means that the organizations keep their new products and services to expand into new markets [17]. In terms of products and services, Virgin Holiday and Virgin Music use their strengths to create a travel industry with unique musical styles, which Virgin did not have before. Then, Foliday cooperates with Virgin Group to help the project enter the Chinese market more smoothly by taking advantage of Foliday’s host resources. Take an example, TikTok is the international version of Douyin, in just two years, TikTok has emerged to rival companies like Netflix, YouTube, Snapchat, and Facebook with more than one billion downloads in 150 markets worldwide and 75 languages [18]. So it is essential to formulate different marketing modes in different countries.

Through such cooperation, Virgin can exploit economies of scale, combining the good and bad parts of the past to create a new profit model [19]. Secondly, cross-border cooperation can stretch corporate management capabilities of the two companies. Moreover, it can increase the market power of Virgin and explore the new situation of the Chinese market, which can enhance the long-term competitive advantage of Virgin in the world. Taken together, these collaborations can foster synergies between Virgin and Foliday as both companies take advantage of their unique strengths to create a new model that is more creative and competitive than a single business model.

However, there could be some potentially value-destroying diversification drivers. For example, like responding to market decline and spreading risk, due to the global epidemic in recent years, the international tourism market may face a state of decline, so shareholders may not be optimistic about this business segment [20]. Therefore, all aspects of the project should be set up more reasonably and rigorously. If there are foreign tourists, they may need to be isolated in advance, so that tourists and managers can feel more assured. Secondly, the project is designed to combine the advantages of several companies, so sub-business can be separated independently, which can make shareholders more reassured. Therefore, it is more beneficial for the development of the whole project for the two companies to do the sectors with their own advantages.
2.6 International Strategy Analysis

For the international drivers, this project seems like market drivers in the Yip’s Globalization Framework, because of the huge demand for travel around the world and the large group of people who love music [21]. And for international strategy to balance pressures of the Global-Local Dilemma, this project can apply the Transnational Strategy, which means that maximizing both local responsiveness and integration, and uniting the key advantages of the multi domestic and global strategies while minimising two companies’ disadvantages [22]. This is one of the ways in which Virgin and Foliday, as mentioned earlier, work together to design and plan for the local areas. Taking an example, for Tencent, the main reason for the poor performance of WeChat in the United States is the lack of localization [23]. So it is of vital significant to consider about what global and local consumers need.

However, this method has some disadvantages. The operation can be too diversified, which leads to the decrease of brand effect, or increases the difficulty of the operation and management of the whole company, eventually reducing the work efficiency.

To solve this problem, while choosing entry strategy mode, the two companies could choose the joint ventures, which means that Virgin shares assets, equity and risk with a local partner who has knowledge of customer needs and local institutions like Foliday [24]. Such a method is more conducive to the equal cooperation between the two companies. Because the two companies are reputable in the local countries, acquisition and export is not a very good choice for both of them. The two companies can then invest separately, so there will be a reasonable distribution of the proceeds. In terms of management mode, Virgin and Foliday can also send a team from the headquarters to set up the most suitable management mode according to local characteristics. In this way, the burden of the head office can be reduced and the uniqueness of each region can be ensured.

2.7 Mergers, Acquisitions, and Alliances Analysis

For the way of cooperation, this project is going to apply strategic alliance, which means that the two organizations share resources and activities to pursue a common strategy, and the type is equity alliances, where two organizations remain independent but set up a new organization jointly owned by the parents [25]. The reasons for choosing this method are that firstly, the two companies both have a very stable position and very famous reputation, so there is no need to conduct merger and acquisition. Therefore, cooperation can bring enough benefits for both sides. Meanwhile, both companies need to invest in the project, so that both parties can control and adjust the project to varying degrees, but they are still independent, which is more conducive to the development of the project in Chinese mainland.

And this project is going to apply the complementary alliances of the four broad rationales for alliances, which refers to the two companies can bring together complementary strengths in order to overcome their individual weaknesses [26]. For example, Foliday could use in the domestic existing resources of land resources and customer relationship, as well as the domestic tourism experience, and Virgin can make use of their own strengths, music professional ability and international tourism comprehensive. For those advantages can make the project develop better, than that of other foreign competitors to obtain more resources, and better than other domestic competitors has the advantage of technology and internationalization.

However, this approach may allow the two companies to be strategically involved in different sectors, so this project can establish a sharing mechanism to make the project more transparent. For example, by adding flat management, subordinates can communicate directly with their superiors or across departments [27]. Then adding a shared folder can be helpful. In addition to private files, the files of various departments within the company can be made public, so that colleagues can better
understand each other.

2.8 Stakeholders and Governance Analysis

For the stakeholder analysis, the power/attention matrix can be used to figure out the type of relationship that managers might typically establish with stakeholders in the different quadrants [28]. So firstly, A - Key players actively cultivate seems like major investors, shareholders and competitors of two companies, because they have very high level of attention on this project and also have high power to influence the results of operating. B - Sleeping giants keep satisfied seems like government, because they actually care less about the profit and asset of this project, but have high power on regulation and the stability of the market. C - Gadflies keep informed seems like partners and employees of this company, because they care more about the status of the project but have less power to control it. But even though they do not have too high power, they can influence more powerful stakeholders by some events such as community campaigns. D - Irrelevant minimal effort seems like inconsequential groups such as sponsors and tourists, they care less about the benefits of the project.

Through above analysis, it can be discovered that the most important stakeholders of the industrial park are investors and government [29]. Especially for the government sector, to take a simple example, Alibaba was once controlled by the government because of its excessive invading to China’s financial market [30]. Therefore, the cooperation between Virgin and Foliday Company should follow the market rules and China’s national conditions, and should be based on serving the public rather than taking interests first. So when planning the whole project, as much as possible, the interests of local businesses, residents, the experience of the people and the sustainable development of the area should be taken into account. Only with such logic can the project develop better locally and make the development of Virgin in China more sustainable.

2.9 Organizing and Strategy Analysis

According to Garbe & Richter, this project is going to apply the global product divisions in transnational structure, which can be used where economies of scale are very important [31]. Organizing the design, production and marketing on the basis of global divisions rather than local subsidiaries typically maximizes cost efficiency [32]. This project will use transnational structure rather than the functional, divisional, and project structure, because this project would like to retain a part of globalization, which is its brand effect and economic scale, so it is convenient to expand the market in more countries and form a complete ecology [33]. Meanwhile, this project also needs to design different matching schemes according to different local characteristics and conditions, so that it can better integrate into the local tourism markets. Therefore, the multinational structure is chosen. Furthermore, this project is going to apply global product divisions, because that the project has high global coordination and also high local independence and responses, and combining these two sections can helps direct central resources to targeted markets and facilitates cross subsidization of unprofitable geographical markets such as rural China and remote areas [34].

However, this structure also has some weaknesses. For example, the corporate structure is not so clear compared with other structures, and the management standards implemented by the two companies are not clear, which may cause some difficulties in management [35]. So some rules and systems can be formulated in advance to regulate these deficiencies in management. For instance, in specific operation, the two companies can use divisional structure to complete the management of different businesses, and can also use functional structure to divide functional sectors. In general, some types of structure can be combined to design the organizational structure of the project. Since many companies do not use only one structure, this project can flexibly use mixed structures and patterns for better management [36].
2.10 The Practice of Strategy Analysis

For the practice of strategy, the Foligin Music Park follows the logic of strategy analysis. Designing the analysis according to the real purpose and investing appropriately in technical quality are the two principles [37]. Firstly, the purpose and goals to implementing this project is to create a music-centric tourism industry in China’s third-tier cities, creating a self-sustaining loop that would give Virgin and FOLIDAY a stronger foothold in the Chinese market. At the same time, it will promote the local economic development, increase the employment rate for local residents, promote the development of local tourism, and finally form a sustainable development. Therefore, the purpose of implementing this project will lead the whole team to think in a consistent way in the follow-up work, with the same motivation and goal. Moreover, improving the quality of the technical analysis will make a valuable addition to subsequent strategic decisions [38]. For example, since the project is built with music as its theme, the company must make breakthroughs in music, such as professional technology, professional technical personnel and high-performance equipment. Only with these advantages can the project stand a foothold in the industry. So it is also significant to invest in technology.

Of course, there are drawbacks to this approach, such as focusing too much on technology will risk neglecting the market. Since there is a shortage of recording studios and music festival venues for the general public in Chinese mainland, Virgin will pay great attention to the professional aspect of music. However, the lack of these industries in China may also be due to the fact that the market is hard to entry, since ordinary people will not consider recording songs in the studio, or the price is too high, which leads to the lack of consumer power [39].

Therefore, the two companies need to carefully evaluate the relationship between the market and professionalism. While focusing on professionalism, they also need to take full account of the needs of the public, which is the sense of tourism experience. If the project has a similar experience to other projects in the market, it will lose its competitive advantages, so it can add some foreign elements and features that are missing in the Chinese market, which will attract tourists more.

3. Conclusion

To sum up, this essay analyzes the advantages and disadvantages, feasibility and innovation of the future cooperation between the two companies from the perspectives of entrepreneurship and innovation, history and culture, leadership, resources and capabilities analysis, corporate strategy, international strategy and other methods. The analysis results carried out in this paper is expected to provide reference for the two companies. And also, this essay gives some constructive suggestions, aiming at providing business ideas and cooperation modes for the two companies from a strategic perspective, so as to broaden the domestic and international dual track, maximize the benefits of both companies and obtain long-term sustainable development.

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