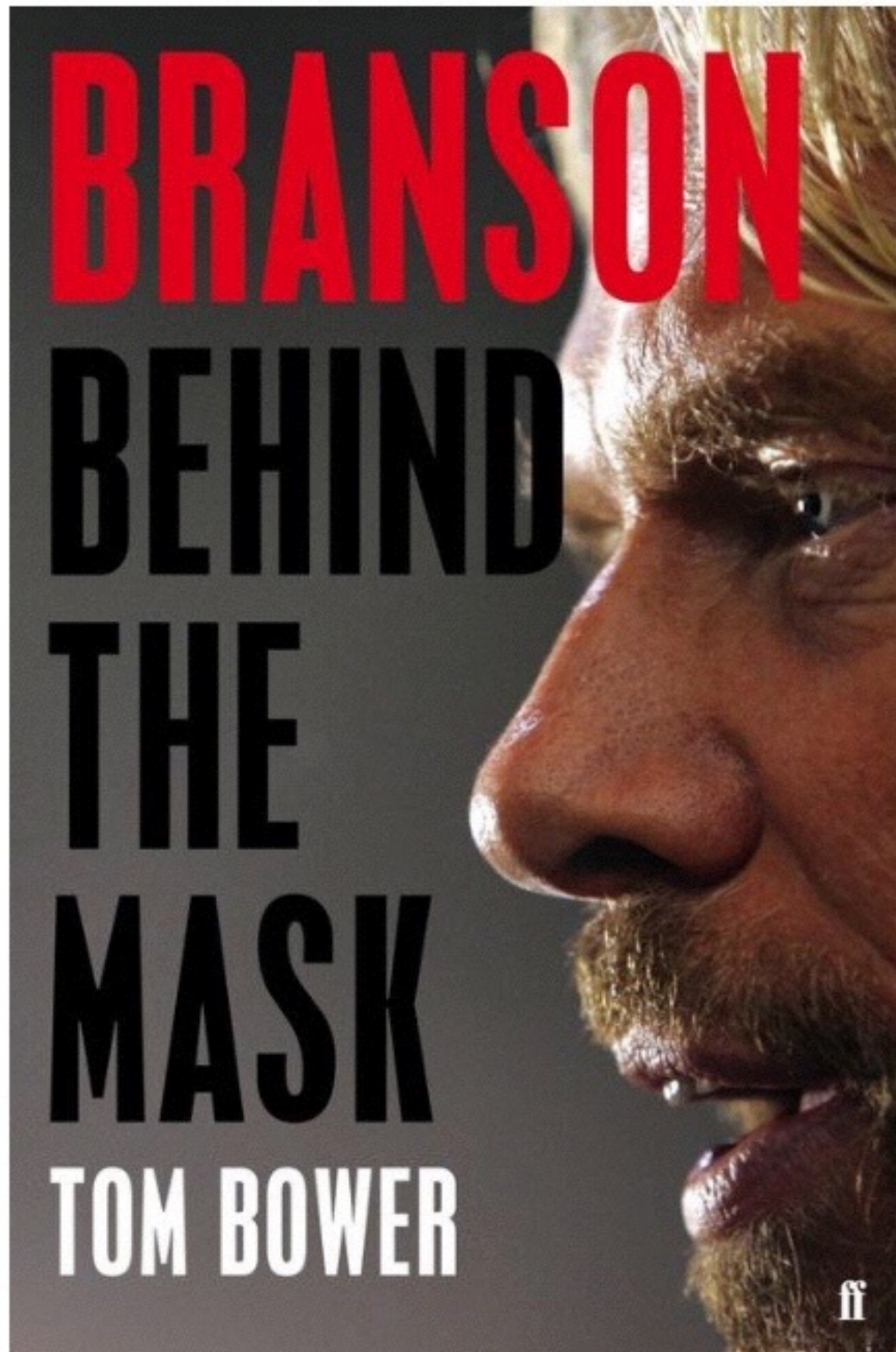




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The Project

Branson's parties at his Oxfordshire farm were fun. He was a generous host and his enthusiasm was infectious. In 2010, he had, as usual, invited the winners of the *Sunday Times*' annual 'Fast Track' business competition to his home. The coveted prize for the aspiring entrepreneurs was an opportunity to meet the idol.

Among the guests was Sean King, the chief executive of Seven Squared, a digital-publishing group producing advertisements and content for retailers' magazines, including Waitrose and, later, Sainsbury's. Ranking thirty-seventh on the *Sunday Times* list, Seven had once successfully pitched to supply Virgin Atlantic's in-flight magazine, but the airline's losses had terminated the deal. The disappointment did not prevent Giovanni Donaldson, Virgin's development director, from approaching King at the party. Just as Alex Tai had introduced Branson to Formula One, Donaldson was an out-rider competing for Branson's attention. Donaldson knew about Branson's irritation at having missed out on the internet revolution and his hankering to become a media mogul by owning a TV station or a Hollywood studio. Recently, Branson had created Virgin Produced to co-produce two films a year with Rogue Pictures in Los Angeles. 'The Rogue and Virgin brands seem an obvious fit for each other,' Branson had said. *Movie 43*, their first film, starring Kate Winslet, would be described as 'unremittingly awful', 'barrel-scraping sleaze' and 'the worst film ever'. There was a

solution, Donaldson believed, and King was an ideal partner.

Apple had unveiled the revolutionary iPad in March, and Donaldson wanted to publish the first global magazine for the creative community as an app on the tablet computer. 'It'll be new and exciting,' he told King. 'It's where the new media is heading.' Virgin Galactic would be first in space, said Donaldson, and Virgin would publish the first iPad magazine.

Days after the party, Donaldson visited King with an offer. If Seven could assemble an editorial team and launch *The Project*, as he called it, their iPad magazine would be 'the start of a new era'. Ownership would be shared between Virgin and Seven. Virgin would invest £300,000 in cash, while Seven would invest more by employing the staff and paying for the production. The difference, Donaldson explained, was accounted for by Virgin's contribution of its brand.

Seven was not a risk-prone publisher, but Donaldson's proposition made the directors feel especially chosen. In common with most guests at the Oxfordshire party, they regarded Branson with awe. Donaldson's repeated mention of 'Richard thinks ...' and his encouragement of Seven's participation in other Virgin ventures suppressed their doubts. The clincher was Donaldson's prediction that the magazine would attract advertisements from many of Virgin's 300 companies and be purchased by millions of its customers. To be certain, Seven's executives read Branson's book. 'I always wanted Virgin to be a strong model of social entrepreneurship,' he wrote. 'All my businesses have always focused on giving everyone a "fair go".' In print and in person Branson spoke with an honest-sounding voice and, with that testament, the directors clung to the magic. They decided to take the risk.

'We'd like to get Holly on board,' added Donaldson. 'It would be good to get her involved.' The directors of Seven did not object: Holly's participation would bring them closer to Branson. In Virgin's headquarters, Donaldson had spoken about 'giving Holly an ambassadorial role, possibly as the publisher'. Her involvement, he hoped, would secure the support of her father, who would surely be enticed even further by Rupert Murdoch's announcement of *The Daily*, an iPad newspaper to be published in collaboration with Apple. Revenge for his fate over the ITV bid tilted the odds, and Branson approved Donaldson's proposal.

Anthony Noguera, an acclaimed former editor of *Zoo*, *FHM* and *Arena*, was appointed as the editor. His brief was to 'do something new and exciting in the digital space', focusing on entertainment, culture, design and travel. Since the iPad was not yet on sale in shops, no one was quite certain about the technology for a magazine's format. Donaldson's instruction to 'white-label something' hardly helped. Nevertheless, in May Donaldson approved Noguera's dummy of *Maverick*, the agreed name, and authorised the employment of twelve staff with an initial budget of about £500,000. Normally, a new glossy magazine targeting a large readership recruited around thirty editorial staff and would be given a launch budget of £5 million. *Maverick*'s limited funds restricted the advertising department to just one man, Charlie Parker, who was employed by Seven. Highly rated in the industry, Parker would usually have led a team of five salesman for a start-up. But since the budget was small and Parker expected Virgin's companies to advertise, no one complained. In anticipation of *Maverick*'s launch before Christmas, potential advertisers were introduced by Parker to a tablet offering unprecedented technology which allowed the publication of 'a monthly magazine that will change daily, hourly – minute by minute at all times'. *Maver-*

ick would be promoted on Apple's app store as 'truly revolutionary' and sold at £1.79 an issue.

In August 2011, Donaldson summoned a meeting at the School House in Hammersmith to view Noguera's latest dummy. Even Apple's representative was excited by the links to the web, producing novel high-tech 3D content juxtaposing words, pictures and video clips with pop-up audio surprises. But Donaldson's excitement was tempered by disappointing news: Virgin's lawyers had discovered a music magazine called *Maverick*. The title had to be jettisoned and, bereft of other ideas, they reverted to *The Project*. Another dampener was Gordon McCallum's lack of enthusiasm. The chief executive was renowned for his grinding scrutiny of every business's financial viability, but he eventually approved *The Project* on Donaldson's assurance that Virgin's investment would, as usual, be minimal. With Richard and Holly Branson's support, Donaldson could brush McCallum's pessimism aside, disguising from the visiting journalists the fact that within Virgin he was a small fish swimming alone.

Any final misgivings during the meeting were suffocated by the euphoric tone of Catherine Salway, Virgin's marketing director. Salway spoke in 'super-positive words' about the 'amazing things that will happen' to promote, finance and sell *The Project*. As part of the Virgin family, she said, the magazine could expect 'a flood of advertisements'. Virgin took care of its partners. Like Donaldson, she ignored the industry's expectation of magazines being loss-makers during the first three years. Instead, to satisfy Branson's criteria, she forecast instant break even.

Light-headed, the editorial team left the building, exchanging smiles and high fives. But as they walked through Hammersmith, a Virgin employee unexpectedly appeared. 'None of those things will happen,' he whispered. 'It's all a

lot of hot air.’ None of the team believed his gloomy warning.

The honeymoon was brief. Eight weeks later, the initial budget had been spent and neither Virgin nor Seven was prepared to invest more money. Suddenly, *The Project* seemed likely to die. The lifebelt was thrown by Noguera. Committed irrevocably to the vision, he bought a stake in the company for about £30,000. Donaldson was thrilled: he needed a success to disprove McCallum’s scepticism. The electronic magazine, featuring a video of the actor Jeff Bridges on the ‘front cover’, was launched on 30 November 2010 in New York.

In Branson’s life, every minute was carefully programmed. His time was too valuable to waste. To those producing *The Project*, Branson was akin to the Pope, the figurehead of a vast, rich organisation. Until the launch, he had remained the invisible power. As the big day approached, they realised that the venture was of little importance to Virgin. The company’s management was focused on the new bid for Northern Rock. Nevertheless, Branson’s schedulers allotted four hours for him to personally promote the magazine across Manhattan. In their timetabled programme, Branson would meet journalists at a launch party and then perform colourful stunts to attract free publicity.

‘Richard’s on his way from Switzerland,’ a Virgin publicist confided. ‘He’s been speaking to Kofi Annan, one of the Elders.’ The image of Branson bidding goodbye to an international statesman and flying in his private jet to New York made one journalist swoon: ‘*The Project* is only a small part of his amazing life but he’s coming.’ He clutched the alluring profile provided by the publicist, which described Branson as the man who ‘wants to revolutionize the consumer airline industry on multiple continents, take tourists into space and save the planet’. Branson’s arrival with Holly

was ‘low key’, one guest would say. Holly’s presence, the editorial team agreed, aroused curiosity. They were meeting their publisher for the second time.

One hundred journalists and freeloaders turned up at the breakfast party at the Crosby Street Hotel to meet Branson and hear his comments about Murdoch’s *The Daily* – also on the eve of its launch. The clash excited a frisson of interest among those enjoying the food, which had been provided, as usual, by sponsors in exchange for free publicity. Branson, the journalists knew, could never resist poking a Goliath with hype. ‘I’ve read quite a bit in the last few days about a battle I’ve launched with a certain newspaperman,’ said Branson to the crowded room. ‘This is not a battle, it’s not a war, it’s the future of publishing.’ Having secured his audience’s attention, he continued, ‘This was Holly’s idea. She showed me the amazing, innovative editorial and advertising in *The Project* and then I got to know how groundbreaking digital publishing can be. To be frank, it blew me away. It’s the future of publishing.’ Branson looked at his daughter.

‘It looks really cool,’ Holly agreed. She was not heard to say anything more about the magazine. Ever.

Before arriving, Branson had been briefed on the facts. As he worked the room with encouraging words, he knew the answer to the question, ‘How many downloads have had you so far?’ But the second question – ‘What’s your capacity for downloads?’, referring to the speed of the downloads and how many the site could handle – left him speechless. ‘An awkward moment,’ thought a Virgin aide. More troubling was his admission that ‘If bloggers don’t like it, we’ll be dead very quickly.’

Despite the rain and cold, next he climbed into a dilapidated van. While driving uptown, he changed into a suit made of newspapers and pulled a mask over his face. At

that moment, no one could doubt his commitment. At pre-selected spots – starting with Apple’s flagship store – Branson sprang out of the back doors like a man possessed to surprise pedestrians who were invited to meet a celebrity. The waiting photographers recorded his pose beside a newsprint-covered mannequin. In Virgin-speak, the cheap promotion was part of their ‘guerrilla’ tactics.

Exactly four hours after arriving at the hotel, Branson bid everyone goodbye. He briefly reappeared in the evening at a reception for 300 people, but was not introduced to Charlie Parker and his guests from BMW and other big potential advertisers. Branson left, unaware of Parker’s concern. ‘It’s a great opportunity,’ Parker confessed to his employer, ‘but Virgin’s expectation of what it can earn without proper investment is ridiculous.’ On the basis of the circulation which Virgin had predicted, Parker had obtained for the first issue the high rates the company demanded for advertisements, from BMW, Panasonic, Ford and Kronenbourg. Virgin’s reputation, Parker acknowledged, had won the advertisers’ trust.

Over the following days, Donaldson and King congratulated each other on the positive coverage for the first issue. Apple ranked *The Project* among the best apps. The absence of similar ones convinced Donaldson that the thousands buying iPads would automatically subscribe to the magazine, and he spoke optimistically about Virgin leading the revolution. At the company’s headquarters, he was collating the real-time financial results. Gradually, his optimism faded. For a start, Catherine Salway had sold hardly any advertising, and Virgin’s companies had declined to co-operate. Launching a magazine without a marketing budget was folly and, to Donaldson’s surprise, Virgin’s customers had not yet started to buy iPads. Contrary to the popular image that Virgin was for the hip and young, many of its customers

were in fact quite old. Finally, Donaldson’s requests to Apple to promote the magazine were ignored. Apple, he discovered, refused to create an accessible point-to-buy app to encourage sales. The corporation’s enthusiasm for *The Project* had vanished after discovering that Virgin was unwilling to invest in the magazine or the marketing. Worst of all, no one had realised that most potential subscribers lacked the cable or wireless capacity to download the magazine’s big file. At best, downloads took ten minutes, but repeated glitches disrupted the transfer. Donaldson’s discomfort grew after Salway declared, two weeks after the launch, ‘People think Holly shouldn’t take any role and stay out of it.’ Donaldson feared that his career was at stake, and instead of bracing himself to improve the magazine plunged into protecting his position. The editorial staff watched a confident executive metamorphose into a bit player uneasy in the spotlight. ‘We’ve got to protect Virgin’s reputation,’ was his coded expression of fear.

‘We need more money,’ Basil Hassan, a Virgin accountant placed into the magazine’s editorial office, regularly told Charlie Parker. ‘How much are you getting? The sales aren’t good enough.’ The advertising executive was in a dilemma. Virgin wanted instant income from its paltry investment, but the advertisers wanted the first sales figures before making a further commitment. Since the circulation of the first edition was much lower than predicted, Parker could not sell new advertising. ‘We need more money before we can invest,’ Hassan told him. Without investing in marketing, replied Parker, the circulation would remain low and the advertisers would not commit. ‘And Virgin wants too much for ads,’ he exclaimed. Their disagreements became vicious, but *The Project* needed £1 million to survive.

‘We want to carry on, but there’s no more money from Virgin,’ said Donaldson in the second month of the maga-

zine's existence. In its own bid for survival, Virgin was not only refusing to invest more money but was issuing invoices to *The Project* for its management costs. Sean King was surprised that Virgin's financial support was less than expected. 'It's been sweat, blood and tears,' he told Noguera 'and we've got to get out.' Seven was proud of its product but could not afford to spend more money.

Donaldson found a buyer for Seven's shares. Over a cup of coffee in Kingsway in April 2011, he introduced himself to Francis Malone, an aspiring publisher from Waterford in Ireland who would describe himself as 'one man and a dog'. With his brother Martin, Malone was the owner of Other Edition, a registered company selling *Interview*, an American magazine app which was also available on Apple's iPads.

'*The Project* is fantastic,' Donaldson told Malone. 'Apple are using it as a showcase. But we now need a new partner.' Donaldson proposed that the Malones buy Seven's shares: 'You can use the Virgin name to sell both apps,' he said 'and with Virgin's help you'll be getting free publicity.'

Francis Malone had no money and little experience but as he told his brother, 'It's not every day that Virgin call me up and says, "We think you can help us."' Martin, a Citigroup trader, agreed to fund his brother's venture. The buy-in price, Donaldson said, was £500,000, plus 11 per cent of the gross revenue as a royalty for using the Virgin brand plus a further £500,000 to cover Virgin's historic investment. To prove their interest, Martin Malone paid Virgin an unrecoverable deposit of £54,000.

'Have you checked out the Malones?' Donaldson was asked by Seven's executives and journalists.

'Yes,' he replied reassuringly. 'We've done the due diligence. They are OK.'

With Donaldson's encouragement, Seven transferred its shares to Virgin Digital Publishing, and Virgin's lawyers is-

sued a 142-page agreement to the Malones. The brothers imagined the legal process would take two weeks and the fees would be £20,000. Instead, two months later their lawyers would charge over £100,000 and then complain that they were not paid. After the contracts were signed, Virgin and the Malones became partners in that company and in Virgin Interactive Publishing.

Convinced by Donaldson's assurances, Seven lent the Malones their Apple Macintosh computers worth about £50,000, and Noguera and his small team of journalists moved into the Malones' rented office in Park Lane. Charlie Parker refused to follow. 'I don't trust Francis Malone as far as I can throw him,' he said. 'And all Virgin wants is more money, more money, but they've got no interest in people.'

Unknown to the journalists and Seven, the relationship between Virgin and the Malones had already fractured. Without Parker, the Malones could not sell advertising and thereafter pay Virgin.

'You sold us a pig,' Martin Malone told Donaldson. 'Virgin Digital Publishing is just a shell company. It hasn't got a single employee.'

'Francis knew what he was buying,' replied Donaldson.

'All you want is money,' Francis Malone spluttered. 'We're a backyard company without any money.' Malone felt sorry for himself and posed as the innocent wide-eyed country boy. 'We're poor Irish people,' he said. 'I believed Virgin would boost our credibility. Instead, everything was on their terms. They thought we should feel grateful. I got caught up in it.'

The journalists were unaware of the rupture. Their last salaries had been paid two months earlier but, trusting Donaldson's assurances – reinforced by the Malones' promises – they continued to produce the magazine. New editions were published as an Apple app, subscriptions

were sold and revenue from advertising originally sold by Parker was banked, including \$100,000 from BMW. Although Basil Hassan drew his salary and Virgin was paid its fees, the editorial team went unpaid. Over the following weeks, Francis Malone was repeatedly asked by the journalists for their salaries. 'The money's on the way,' he would reply. Trusting the Malones and Virgin, Noguera mortgaged his home to pay his staff. Neither Donaldson nor the Malones objected. His fears were placated by an assumption that 'Virgin will look after us.' After all, Hassan, an accountant, had been placed in the office by the company. 'I saw money was coming in,' Hassan said later, 'and Virgin did receive money from the Malones.' But he failed to persuade Virgin or the Malones to pay the journalists.

On the internet, complaints began appearing about the magazine. 'A complete rip-off,' wrote one subscriber. 'Not worth it,' agreed another after receiving only two issues for one year's subscription. 'You guys suck,' wrote a disgruntled blogger. 'How do we get our subscription money back?'

By November 2011, the editorial team was owed about £200,000. Donaldson insisted that under their agreement, the Malones were obliged to pay. The brothers made more excuses.

'You got us into this,' one of the writers told Donaldson.

'How do you think I feel?' Donaldson replied. 'I could lose my job over this.'

'Virgin don't give a shit about us,' shouted the writer. 'All you're interested is your own job and Virgin's reputation.'

'I just can't get into McCallum's head space,' retorted Donaldson. 'He's buying a bank for £700 million and this doesn't really matter.'

The journalist became particularly incensed by the simultaneous publication in the media of photographs showing

Branson with his arms around a young businessman. 'What a bastard,' said one editor. 'Branson posing as the champion of young entrepreneurs.'

Re-reading Branson's philosophy about the new age of capitalism was revealing. 'The Age of People', he wrote, 'is all about shifting the focus to how businesses can and must deliver benefits to people and the planet – as well as shareholders.' Branson, the journalist thought, was playing with the emotions and ambitions of his awestruck believers. The journalist became doubly angry after reading a news post by Virgin's publicists stating that *The Project* had been nominated as Apple's 'App of the Year'. In the midst of its self-congratulation, Virgin ignored the unpaid editorial team. The reporter's anger was aggravated by Donaldson's lack of remorse. 'You said the Malones were reliable,' said the writer, who recalled one passage in particular from Branson's *Screw Business*: 'It is becoming more and more clear that there is no incompatibility between doing business in an ethical and transparent manner and achieving good financial results. This is the "false dilemma" which needs to be eliminated from business talk.'

Donaldson headed for the black-tie party at a hotel in Victoria, where the Malone brothers had booked a table to celebrate the nomination of *The Project* as 'App of the Year'. At the climax of an argument, he was ordered by the Malones to 'piss off'. He obeyed. Shortly after, *The Project* team walked out of their offices. They agreed to return only after they were paid. On their computers was sufficient material for three more issues.

The Malones relocated to London's East End to continue publishing the magazine but did not pay the journalists or Seven for the computers. When they failed to pay the rent, the landlord seized the Apple Macs. The crisis alarmed Donaldson's superiors. Virgin's reputation was threatened

by Sean King's decision to take legal action in a bid to recover Seven's money. 'Like Anthony [Noguera],' King emailed Donaldson on 27 November, 'we had concerns with the Malones but were given comfort by Virgin's involvement. These guys have a plan and it seems like that it involves not paying us.'

In February 2012, Seven petitioned the High Court to recover its money. At a hearing in March, the Malones did not appear in court. On King's second petition, Virgin Digital Publishing was struck off the register at Companies House. Just before the next hearing on 23 July to wind up Virgin Interactive Publishing, Virgin changed the name to Project Interactive Publishing to avoid further damage to the Virgin brand. King's legal victories were pyrrhic. The Malones had no money, and Virgin was legally protected from any complaint.

'We've done the best we can,' said Branson.

'He knows he fails at some things, but at least he tries,' said his publicist.

The casualties at Seven and *The Project* won no plaudits and lost money. One journalist and his wife lost their life's savings, while others were unemployed for many months. But like most of Branson's injured partners and employees over the previous forty years, they remained silent. No one, they knew, had ever benefited by publicly complaining about Branson.

There was a piquancy in the sad saga. Several of those who had lost money had read one of Branson's homilies: 'Too many business leaders', he wrote in his book, 'are too quick to jump down people's throats, or rule by fear, which is foolish. You should lead by praise – you can't launch an idea if no one likes you.'

Virgin's values could be so confusing.