

A case study by Jason Ukman

# TheStreet.com

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**TheStreet.com**

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**TheStreet.com**

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# Introduction

*“It’s not brain surgery. I’ve made a lot of money for myself and for rich people. I want to make people better investors. I feel like I’m spreading capitalism.”*

— James Cramer, co-founder of TheStreet.com<sup>1</sup>

James Cramer is anything but shy. For years he made his reputation as a boisterous, in-your-face hedge-fund manager. And a highly successful one, at that. So it shouldn’t have come as a surprise that, once he developed an idea for an online financial Web site, he was determined to run with it.

Cramer wanted a smart, witty, well-written online command center full of insider know-how and the same market genius he had been dishing out for years. He was going to have it.

Only a few years after he initially pitched the idea, his creation, TheStreet.com, became the largest independent financial news organization on the Web. By mid-2000 it reached millions of information-hungry users every month.

Navigating the project through crowded and increasingly competitive waters had been tricky, however. The site still had a relatively small percentage of the Internet audience compared to other financial sites (SEE EXHIBIT 1).

TheStreet, which formerly relied heavily on its subscription services, thus had to change its business strategy.

The company’s early plans had done enough to make it popular but didn’t come close to making it profitable. Beginning in June 2000, the site launched a multi-tier network offering more free content, in addition to three subscriber-only sites. Plagued by financial trouble and public relations nightmares, the company hoped its new strategy would spark more page views, and ultimately more advertising revenue.



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<sup>1</sup> Strauss, Gary. “Wall Street’s Pied Piper of Capitalism,” *USA Today*, Dec. 2, 1997.

# The Overview

TheStreet.com tried to straddle the divide between sites that charged fees and those that were free. It offered premium subscription-based content to the more serious investors and less exclusive content to users who weren't willing to fetch their wallets. The business model was a hybrid of those used by other financial sites. Dow Jones' Wall Street Journal Interactive Edition ([www.wsj.com](http://www.wsj.com)) operated only on a subscription basis; MarketWatch.com, TheStreet's chief competitor, was primarily free.

In this format, TheStreet employed what its executives called a hub-and-spoke strategy. The hub, TheStreet.com, was a free site offering news, information and other goodies about all things financial: domestic and global market trends, specific stock data, mutual fund reports and portfolio-evaluation tools. A staff of more than 100 reporters and editors, along with more than 30 contributors, filed original content, including news and commentary.

The company's spokes included three subscription sites, each targeted at a different audience (SEE THE PROBLEM AND THE PLAN). These sites offered content and tools not available to users of the hub.

TheStreet had formerly catered primarily to subscribers, although some content was free. Subscribers were billed \$100 each year for access to everything on the site. However, the prices for access to TheStreet all changed in June 2000 when the company modified its business model.

Most of the site's users represented an affluent, Internet-savvy segment of the population. Readers had an average household income of more than \$150,000 and investments of greater than \$300,000.<sup>2</sup>

Before the site's restructuring, more than 100,000 people subscribed to TheStreet. In March 2000, 4.2 million unique visitors — those who are only counted once regardless of how often they view the site — stopped by TheStreet. Those users accounted for 43.9 million page views, according to the company.

Minority ownership of TheStreet fell into the hands of two corporate giants. The New York Times Co. owned 6 percent. Rupert Murdoch's News Corp., which owns Fox Television among other holdings, had a 1.6 percent stake.

James Cramer remained the company's biggest stockholder.



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<sup>2</sup> Alexander, Keith L. "TheStreet.com's Road to Riches Hits Financial Potholes," *USA Today*, June 6, 2000.

# The History

Investors in the mid-1990s were just waiting to be wooed by a new online content provider. The Wall Street Journal Interactive Edition and industry pioneer The Motley Fool had each taken significant bites out of the market.

But investors' insatiable appetites for figures, charts and trends meant there was room for competition. And Cramer, who was writing at the time for "SmartMoney" magazine, wanted in on the game.

Going into the field, the bold financial whiz had two vital weapons: name recognition and knowledge of the market.

Cramer had already proven himself on Wall Street time and again. His hedge fund, opened in 1987, had performed remarkably well in 10 years, well above the average of the Standard & Poor's 500-stock index.

Sometimes pegged as a shameless self-promoter, Cramer was a star when it came to publicity. He made headlines when, in the June 1995 issue of "SmartMoney," he predicted the Dow would close above 5,000 before the end of the year. Cramer's critics scoffed. But by November, his suspicion was confirmed.

While writing for "SmartMoney," Cramer developed a vision for a new online financial site. Bored by what he considered the humdrum style of Web-based financial resources, he took his idea to executives at Dow Jones. They liked the idea, but the two parties couldn't work out a deal.<sup>3</sup> Undeterred, Cramer partnered with Martin Peretz, longtime editor-in-chief and chairman of *The New Republic*. Peretz helped set up Cramer in the hedge-fund business; Cramer, in turn, made Peretz millions.<sup>4</sup>

Together, they invested \$3 million to co-found TheStreet.com. They launched the site in November 1996.

From the start, the co-founders wanted to combine worthwhile, actionable information with a lively twist to draw users to the site. Cramer also approached his audience with a candid attitude, an approach he saw sorely lacking in financial journalism.

"It makes sense to use me," Cramer told *The New York Times*. "The voice of the publication is derivative of my voice. It's suffused with a jocular, 'sportsy' attitude and spirit."<sup>5</sup>

Love him or hate him, Cramer is the kind of guy who has affected TheStreet's history. And although some investors have been turned off by the animated hedge-fund manager, his antics undoubtedly have kept others flocking toward the site.

"I've never gone through a traditional broker," one investor told *USA Today*. "I like to be hands-on, and online offers a perfect opportunity for that. What I like about TheStreet.com is Cramer. He's in your face and tells it like it is."<sup>6</sup>

Indeed, those who like Cramer — and his financial information — have been willing to pay.

The site initially charged subscribers \$12.95 per month for access to the Web site, which included daily e-mail updates. (The site's executives later changed the subscription rate multiple times, but eventually settled on charging \$100 per year).

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<sup>3</sup> Hoover's Company Profile Database.

<sup>4</sup> Elkind, Peter. "Founders Feud at TheStreet.com," *Fortune*, April 26, 1999.

<sup>5</sup> Elliott, Stuart. "Using the Boss to Pitch the Produce Comes to Cyberspace as TheStreet.com Bids For Subscribers," *The New York Times*, June 2, 1997.

<sup>6</sup> Strauss, Gary. "Sunny Side of TheStreet.com Initial Public Offering Dazzles," *USA Today*, May 12, 1999.

# The subscription decision

Web sites are defined not only by content and credibility, but also by cost. And TheStreet's decision to charge subscribers in many ways represented a daring move. *The Wall Street Journal* had a 107-year history to bank on with its online version. TheStreet was arguably one more Internet start-up.

But executives at the company insisted that theirs was not just another financial site. They had paid top dollar to acquire some of the best financial journalists around. Executive editor Dave Kansas was former senior financial markets correspondent for *The Wall Street Journal*. Managing Editor Jamie Heller reported for "SmartMoney." And columnist Adam Lashinsky had been the high-tech stocks columnist for the *San Jose Mercury News*.

In buying an experienced staff, executives thought they were adding value to their site above and beyond what competitors were offering.

For TheStreet, a subscription plan also made business sense in a way. Viewers willing to pay would theoretically represent the upper echelon of Internet users. They would earn more and manage larger portfolios. And advertisers would be more than willing to deal with a site flooded with affluent users.

Executives also thought there was an inherent danger in not charging for access. Without a fee, TheStreet would lose some of its value, some of its prominence. It would not seem any different than MarketWatch.com. Instead, they thought, it would be yet another free financial-information site.

Relying heavily on subscribers, and teasing other users with some free content, TheStreet thought it could grab enough business to please advertisers and Wall Street.

# Growth and strategy

Look behind James Cramer's ability to achieve popularity and you will find the same strategy executives have used to build and grow TheStreet.com.

One year after Cramer launched his online brainchild, one reporter observed the hedge-fund manager was "popping up everywhere. As a market commentator on ABC's "Good Morning America." On the news and financial channel CNBC. As a contributor to *Worth*, *GQ* and *New York* magazines. In print ads for casual shoe-maker Rockport. Leading an on-line chat room discussion tonight on ABCNews.com."<sup>7</sup>

Cramer spread himself across media — print, broadcast and Internet — in a way that earned him greater recognition on and, perhaps more importantly, off Wall Street.

Since its inception, executives at TheStreet have garnered credibility and name recognition by integrating various media companies into their business strategy. The result was strong growth in a short time.

In November 1999, less than a year after The New York Times Co. invested \$15 million in the site, TheStreet and the Times announced an editorial partnership. The deal created a joint newsroom between the organizations, designed to significantly expand each one's financial news coverage on the Web. Both sites agreed to publish the stories for free. Reporters' bylines identified them as writers for both TheStreet.com and NYTimes.com.

The publicity, not to mention the extra editorial content, meant more traffic for TheStreet. The site's mere mention by the Times' online version offered TheStreet a larger audience to pull from. (In May 2000, about 2.7 million unique visitors dropped by the *Times*' site.)<sup>8</sup>

Four months after the launch of the joint newsroom, TheStreet registered 3.8 million unique visitors, a 72 percent jump since December 1999.

TheStreet was equally successful in lining up a broadcast outlet for its reporters and commentators. News Corp., which invested \$75 million in the site, quickly worked out a TV deal between its subsidiary, Fox Television, and TheStreet. Together, the two companies launched in July 1999 a TV version of the site.

The weekly investing program, which aired on the Fox News Channel, gave on-air time to TheStreet's staff. At the time the channel was available in more than 40 million homes. Unfortunately for the site, after 10 months, the show was canceled because of a tiff between Cramer and Fox News.

Like any good Internet start-up, these days, TheStreet also was involved in its share of acquisitions. In December 1999 the company acquired ipoPros.com, a privately held company offering subscriber-based access to research about initial and secondary stock offerings. Such acquisitions worked to the site's advantage. After Cramer's company changed its business model, ipoPros.com became the foundation for one of its

subscriber sites.

In other online partnerships, TheStreet landed itself a spot on America Online and Yahoo! Finance. The company's decision to post some of its content on the media giants' sites was designed to drive more traffic toward TheStreet, thus building more page views. Likewise, a content syndication alliance with MSN MoneyCentral aimed to achieve the same ends.

TheStreet's ability to spread itself into different media, combining forces with other companies while improving its own content helped the company grow, at least by the numbers. In June 1997, six months after launching the site, Cramer and Peretz had nabbed only 5,700 members. Three years later TheStreet boasted more than 100,000 subscribers. The company experienced significant growth in paid subscribers and unique users in 1999 (SEE EXHIBIT 2). Yet critics on Wall Street charged that the company hadn't grown enough, let alone shown any signs of turning a profit.

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<sup>7</sup> Strauss, Gary. "Wall Street's Pied Piper of Capitalism," *USA Today*, Dec. 2, 1997.

<sup>8</sup> <http://www.nytimes.com/adinfo/audience.html>.

# Pitfalls

Not all of TheStreet's strategies went as planned. In fact, several missteps caused the company public embarrassment, not to mention financial fallout.

The most notoriously public mistake surrounded the site's weekly TV program on the Fox News Channel. During an April 1999 episode, Cramer used the "predictions" segment of the show to tout TheStreet.com's stock. Since Cramer is a major stakeholder in the company, his move represented what many people saw as a blatant conflict of interest. To them, the recommendation was simply analysis designed to advance the hedge-fund manager's own agenda. (Cramer had routinely plugged stocks he owned. He had previously faced an inquiry by the Securities and Exchange Commission on charges of doing so in his "SmartMoney" column).

After the episode aired, Fox told the *New York Daily News* it disapproved of Cramer's behavior. Cramer shot back, claiming the TV network had breached its contract by disparaging him and inventing new policies that applied just to him. Both sides filed lawsuits. After that, the squabble only got uglier. It also rattled TheStreet's relationship with Fox's parent company NewsCorp. In the end, NewsCorp. held onto its minority stake in the site, but the show was canceled and TheStreet had to face its investors.

The company rationalized the fracas by explaining its "future lies in using broad-based consumer media to send its financial news and market commentary to readers. This TV show no longer fit that strategy."<sup>9</sup>

The public embarrassment of the situation may have paled in comparison to its ramifications.

TheStreet had reportedly been searching for an equity TV partner with whom it could co-brand for promotional purposes. MarketWatch had CBS, a partnership that paid off handsomely for the site (see competition). To compete, TheStreet needed its own network partner. But NBC, ABC and CNN were all unlikely candidates for the job.

NBC already had its own financial news through its partnership with Microsoft and the formation of MSNBC. Disney, a company that has historically avoided corporate partnerships, owned ABC. And CNN had its own financial network, CNNfn.com.

Fox, then, held great potential as an ally. It is difficult to say for certain whether the partnership would have ever come to fruition. But after so many ruffled feathers at the network and at TheStreet, the relationship was downright impossible.

Only months after the TV show fiasco, TheStreet faced an internal shake-up. Between October 1999 and June 2000, six senior executives left the company.

High-level officers, including CEO Kevin English, Chief Financial Officer Paul Kothari and general counsel Michael Zuckert, all bailed out.<sup>10</sup>

In two years, a public skirmish combined with staff instability would be enough to make any executive a tad uneasy. But in 2000, the company also struggled with mounting financial troubles.

A first-quarter loss of \$13.8 million nearly doubled the loss of the same period in 1999. In April 2000, shares of TheStreet hit \$6. During the IPO shares were issued at \$19 and at one point skyrocketed to \$71.25.<sup>11</sup>



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<sup>9</sup> TheStreet.com press release, May 17, 2000

<sup>10</sup> Alexander, Keith L. "TheStreet.com's Road to Riches Hits Financial Potholes," *USA Today*, June 6, 2000.

<sup>11</sup> Henry, David. "Cramer Blames Media For TheStreet's Woes," *USA Today*, April 7, 2000.

# The problem and the plan

TheStreet's plan to rely heavily on subscribers just didn't work. As one of the editors explained, Wall Street measures the success of online companies not in subscribers but in page views. And in Wall Street's opinion, TheStreet wasn't generating enough traffic.

Again, traffic can translate into advertisers on the Web. For Internet companies, advertisers represent a significant — and oftentimes predominant — source of revenue. Before changing its business strategy, TheStreet generated about 55 percent of its revenue from advertising. Thirty-five percent came from subscriptions, and the remaining 10 percent came from partnerships and the syndication or resale of stories.

The problem with relying on subscribers had less to do with users and more to do with competitors. After TheStreet launched, online investors witnessed the proliferation of financial information on the Internet. A great deal of that information was free.

That reality placed TheStreet in a quandary. It wanted to restrict its premium content to a subscription-based site. But that model was fast becoming obsolete. The site couldn't compete with companies that were offering comparable content free. The result: TheStreet's executives decided to swallow their pride a little, risk devaluing their site and offer a more significant amount of free content. It took four years of maintaining various permutations of the same business plan before TheStreet decided to mix things up a bit.

To put that plan into action, TheStreet implemented the aforementioned hub-and-spoke strategy (SEE EXHIBIT 3). The spokes included three sites: RealMoney.com, a site with premium content for active investors and market enthusiasts; TheStreetPros.com, a site for market professionals; and ipoPros.com, a site focused on the IPO market for individual investors and professionals.

As an incentive for would-be subscribers, the site decided to post some of the premium commentary on RealMoney.com 24 hours before the columns were posted on the free hub. Subscriptions to RealMoney cost \$200 each year, twice the previous subscription price; subscriptions to ipoPros.com cost \$255 each year; subscriptions to TheStreetPros cost \$400 each year.

# Competitors

The proliferation of Internet financial information meant plenty of competition for TheStreet. The Wall Street Journal's Interactive Edition, Quicken.com, Microsoft's MoneyCentral and CNNfn.com all represented formidable contenders for the online financial crown. But two sites in particular — MarketWatch and The Motley Fool — make for telling comparative studies.

## **MarketWatch**

CBS was MarketWatch's guardian angel, its benefactor and its lynchpin to success. Jointly owned by the TV network and market-data provider Data Broadcast Corporation, the site reaped the benefits of incredible promotion. The partnership gave MarketWatch opportunities TheStreet simply couldn't buy.

After CBS news programs delivered their business segments, anchors directed viewers to MarketWatch for more information. Without a TV network partner to do the same for TheStreet, the site wasn't able to grab nearly as many users. Overcoming that handicap remained elusive.

According to Media Metrix, the Internet and digital media measurement firm, MarketWatch could claim 5.5 million unique viewers by March 2000. The site also capitalized on corporate partnership to extend its reach.

TheStreet and MarketWatch published similar content: stock quotes, news and commentary. But in addition to maintaining bragging rights when it came to promotional partners, MarketWatch was always a free site. (Although it did offer two subscription services that allowed users to view real-time quotes or set up dynamically updating charts, tickers and quote screens).

A free site is a popular site. And having generated an incredible amount of traffic, MarketWatch proved very successful when it came to securing revenue. The site typically had double the ad revenue of TheStreet. In 1999, ad revenue accounted for 72 percent of MarketWatch's total revenue, but only 55 percent of TheStreet's total revenue (SEE EXHIBIT 4). To be fair, TheStreet was a smaller site whose business strategy relied heavily on subscriptions. Still, in 1999 its advertising revenue grew to \$7.9 million from \$2.5 million the year before. In 1999, MarketWatch's advertising revenue was \$17.9 million.<sup>12</sup>

MarketWatch also drove users toward its site with a nationally syndicated radio program. The CBS MarketWatch.com Radio Network provided around-the-clock financial market updates to radio stations in major markets. It reached an average audience of 500,000 listeners every 15 minutes.

The site's partnerships with wireless data providers AT&T Digital Pocketnet and OmniSky created another niche for MarketWatch. Information from the site could now be delivered to investors on the go through handheld devices.

### **The Motley Fool**

The Motley Fool, which used the comical URL [www.fool.com](http://www.fool.com), was geared to an audience in many ways different from that of either MarketWatch or TheStreet. The Fool was targeted at a more novice investor, someone who might not know all of the ins and outs of Wall Street. But the company still offered a lot of market information, news and commentary.

Launched in 1994, the site quickly took off, becoming one of the more popular online financial headquarters for small investors. The Fool's executives managed to create a cohesive community by inventing tools like stock message boards. The witty but straightforward content kept users coming back.

The Fool also managed its company very differently than its competitors. In the first quarter of 1999, MarketWatch spent \$7 million in advertising while TheStreet spent \$3 million on ads and product development. The Fool, which was privately owned, didn't spend a penny on advertising until October 1998.<sup>13</sup>

Also, unlike MarketWatch, The Fool relied on internal growth instead of external partnerships to deliver its content and extend its reach. Offline operations brought online traffic. The company had a nationally syndicated weekly newspaper feature that was published in more than 150 papers. It had a nationally syndicated radio show carried by more than 120 stations. Finally, Tom and David Gardner, the Virginia brothers who founded the site, published four books, all of which made appearances on *Business Week's* bestseller list.



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<sup>12</sup> Calculated from Security and Exchange Commission filings, Form 10-K.

<sup>13</sup> Luh, Shu Shin. "Fools and Their Money; For Now, the Motley Investment Forum Forgoes an IPO," *The Washington Post*, July 7, 2000.

# Problems and challenges

With its new business strategy, TheStreet faced three key questions.

First, now that RealMoney cost \$200 each year, twice the fee subscribers used to pay for premium content, would the site's followers stick around? If not, if users were satisfied with being restricted to the free hub, the company would have to depend much more on advertising revenue. Executives were willing to admit the new business model might drop subscription revenue. But they thought over time it would increase site traffic and, consequently, advertising revenues.

The success or failure of the spokes represented another fundamental issue for TheStreet. Would the spokes actually bring users qualitative, valuable content users needed and could use in a practical context? Some of the spokes might struggle.

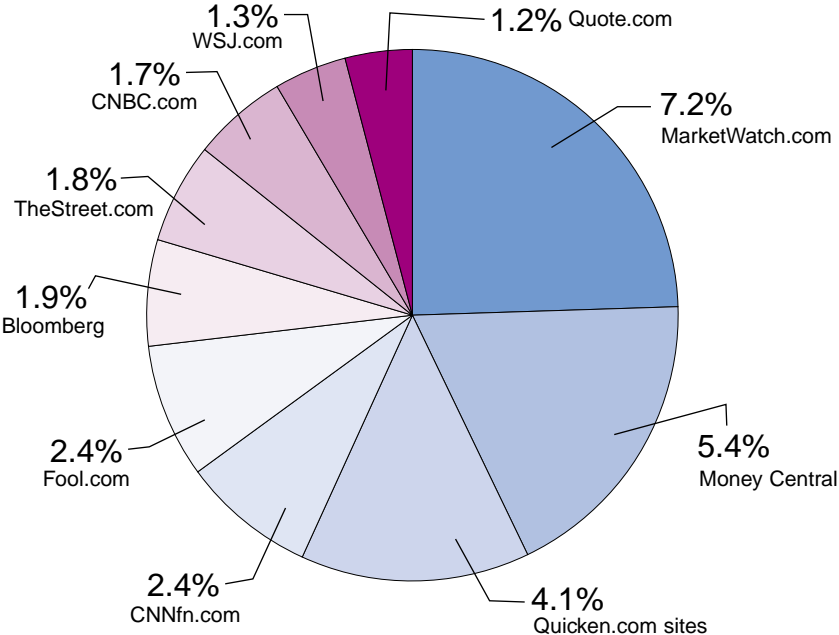
TheStreetPros.com, which was intended for market professionals, might simply not be able to compete with other tools analysts and brokers have at their disposal. Bloomberg, for example, catered exclusively to market professionals. It had 5,000 employees and estimated revenues in 1999 of \$1.8 billion.

Finally, if investors started visiting TheStreet in droves, advertisers would likely be glad to hop aboard. But whether or not new visitors would check out the site because it's free represented another dubious question. Remember executives were concerned they would devalue their site by going gratis. It was a risk they were willing to take, but the ramifications — positive or negative — were yet to play out online or on Wall Street.

*Aug. 1, 2000*

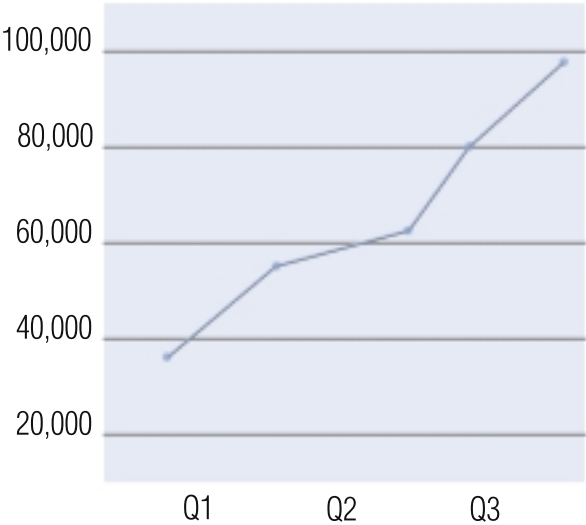
# Appendix

**Exhibit 1:** Financial sites' percentage of Internet audience, April 2000



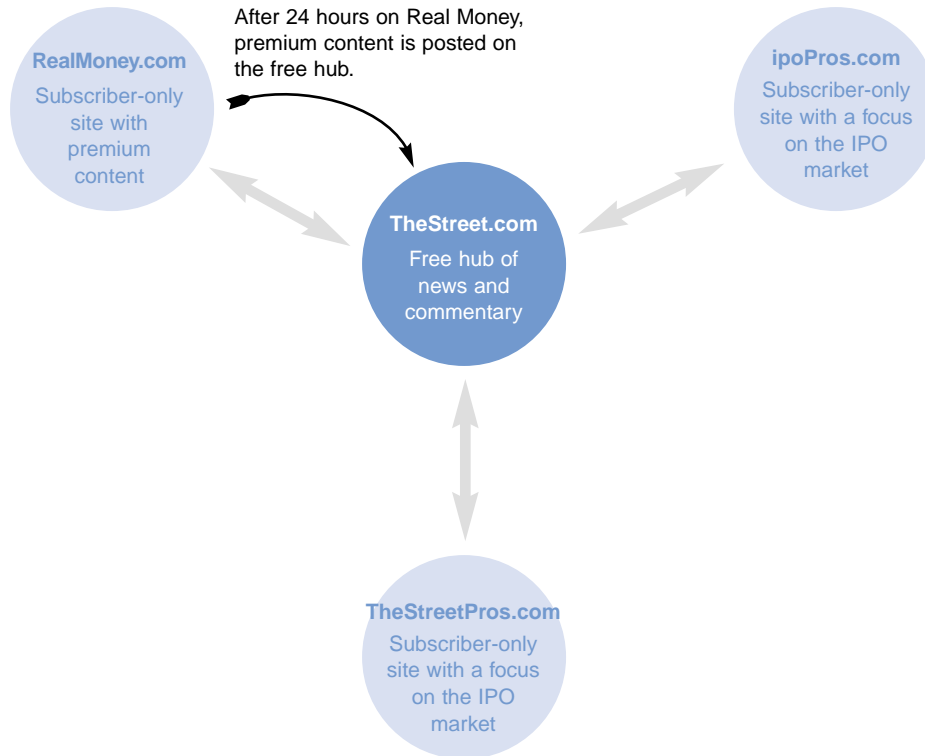
Source: Media Metrix

**Exhibit 2:** Paid subscriptions on TheStreet.com, 1999

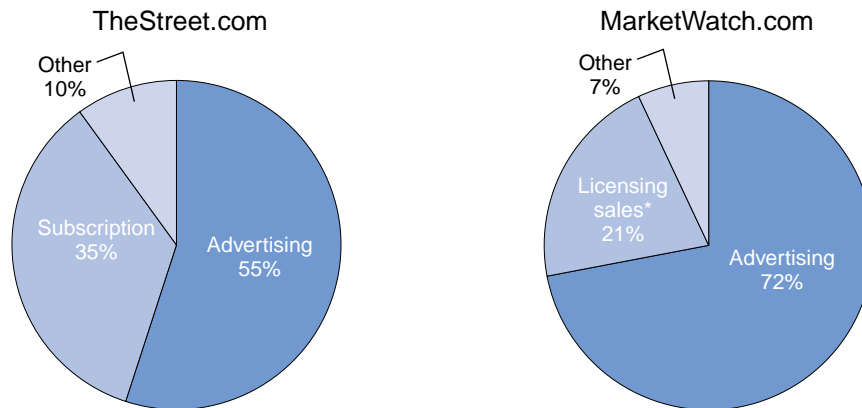


Source: TheStreet.com

**Exhibit 3: TheStreet.com's Hub-and-Spoke Strategy**



**Exhibit 4: Sources of revenue, 1999**



\* MarketWatch licenses its patented interactive charting technology, research tools and content to companies primarily in the brokerage and financial services industries. Sites such as Internet portal iWon.com publish marketWatch-branded charts.

Source: Securities and Exchange Commission, Form 10-K Filings