

A STRATEGIC ANALYSIS OF AN ONLINE INVESTING PORTAL

by

Jason Pamer
B.A., University of British Columbia, 1994

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

Master of Business Administration

EMBA Program

in the Faculty

of

Business Administration

©Jason Pamer 2004
SIMON FRASER UNIVERSITY
August 2004

All rights reserved. This work may not be
reproduced in whole or in part, by photocopy
or other means, without permission of the author.

APPROVAL

Name: Jason Pamer
Degree: Master of Business Administration
Title of Project: A Strategic Analysis of an Online Investing Portal
Supervisory Committee:

Dr. Jill Shepherd
Senior Supervisor
Faculty of Business Administration

Dr. Ed Bukszar
Associate Professor
Faculty of Business Administration

Date Approved:

August 10, 2004

SIMON FRASER UNIVERSITY



Partial Copyright Licence

The author, whose copyright is declared on the title page of this work, has granted to Simon Fraser University the right to lend this thesis, project or extended essay to users of the Simon Fraser University Library, and to make partial or single copies only for such users or in response to a request from the library of any other university, or other educational institution, on its own behalf or for one of its users.

The author has further agreed that permission for multiple copying of this work for scholarly purposes may be granted by either the author or the Dean of Graduate Studies.

It is understood that copying or publication of this work for financial gain shall not be allowed without the author's written permission.

The original Partial Copyright Licence attesting to these terms, and signed by this author, may be found in the original bound copy of this work, retained in the Simon Fraser University Archive.

Bennett Library
Simon Fraser University
Burnaby, BC, Canada

ABSTRACT

This subject of this paper is the investing portal StockHouse.com, which is owned and operated by Stockgroup Media. StockHouse is currently facing two important strategic issues. First, at the firm level, the company must determine the level of investment to allocate to its two primary lines of business: StockHouse and Financial Tools. Second, StockHouse must decide which small player strategies to pursue in an industry dominated by large firms such as Yahoo Finance, CBS MarketWatch, and MSN Money.

The paper's external analysis of the financial content industry provides a number of important insights. First, firms differentiate their product offerings through research and development, sales activities, and customer service. Second, it is very difficult to maintain a competitive advantage through product innovation, as the online market place facilitates rapid imitation of new products. Third, the key success factors in this industry include deep pockets, economies of scope, and multiple revenue streams, traits that are difficult for small players to achieve.

The internal analysis assesses the degree of strategic fit between Stockgroup's business activities and generic strategy of differentiation. Stockgroup scores high in product strategy, labour practices, marketing, and financial structure, and scores low in research and development and organizational structure. These strengths are aligned with Stockgroup's core competencies in programming and sales.

The paper concludes that the appropriate level of investment in StockHouse is moderate, which allows the company to preserve StockHouse revenues and allocate the majority of new investment to the Financial Tools division. The paper also recommends that StockHouse focus on the strategies of product innovation, marketing alliances, and price in order to gain market share in the financial content industry. These two decisions will greatly increase the clarity of Stockgroup's overall strategic planning.

DEDICATION

To my wonderful (soon-to-be) wife Chenoa, for her patience and support during the past two years.

ACKNOWLEDGMENTS

Thank you to my friends and family who helped me endure a busy schedule and many long days. Thank you also to my employer, Stockgroup Media, for their support and encouragement during this program. Thank you also to the SFU EMBA program, the professors, and my project supervisors Jill Shepherd and Ed Bukszar, for making this program such a fulfilling experience. And finally, thank you to the members of team ZenBA, Dietz, Lydia, and Alex. I have many great memories of our classes, projects, and of course, presentations.

TABLE OF CONTENTS

Approval	ii
Abstract	iii
Dedication	iv
Acknowledgments	v
Table of Contents	vi
List of Figures	ix
List of Tables	ix
1 Introduction	1
1.1 Subject and Purpose of the Analysis.....	1
1.2 History of StockHouse Media Corporation	1
1.2.1 1995 – 1998: Pre-Internet Bubble	2
1.2.2 1999 – 2000: Internet Bubble.....	2
1.2.3 2001 –2004: Post-Internet Bubble.....	3
1.3 History of Stockgroup Media Inc.....	3
1.3.1 1995 – 1998: Pre-Internet Bubble	3
1.3.2 1999 – 2000: Internet Bubble.....	4
1.3.3 2001 –2004: Post-Internet Bubble.....	4
1.4 Stockgroup’s Current Business Operations	5
1.4.1 StockHouse.....	6
1.4.2 Financial Tools.....	7
1.5 Overview of the StockHouse Business Unit.....	7
1.5.1 Post-Acquisition Transition	7
1.5.2 Key Web Metrics.....	8
1.5.3 Revenue Channels.....	10
1.5.4 Audience Demographics	10
1.6 Scope of Analysis and Key Issues.....	11
2 Industry Analysis	13
2.1 Chapter Overview.....	13
2.2 Overview of North American Online Financial Content Industry.....	13
2.3 Industry Value Chain	14
2.3.1 Content Acquisition and Creation.....	14
2.3.2 Research and Development.....	15
2.3.3 Technical Infrastructure.....	15
2.3.4 Marketing and Sales	16

2.3.5	Delivery	16
2.3.6	Service	17
2.3.7	Industry Value Chain Summary	17
2.4	Five Forces Analysis	18
2.4.1	Threat of Entry	20
2.4.2	Bargaining Power of Suppliers.....	21
2.4.3	Bargaining Power of Customers.....	22
2.4.4	Rivalry Among Existing Competitors.....	24
2.4.5	Threat of Substitutes.....	25
2.4.6	Overall Industry Attractiveness.....	26
2.5	Key Success Factors.....	27
2.5.1	Deep Pockets	27
2.5.2	Differentiation	27
2.5.3	Economies of Scope	27
2.5.4	Actionable Content.....	27
2.5.5	Multiple Revenue Streams	28
2.6	Key StockHouse Competitors.....	28
2.6.1	Part of Larger Web Property	28
2.6.2	Stand-alone Sites	30
2.6.3	Niche Players.....	31
2.6.4	Summary of Competitive Analysis	32
2.7	Chapter Summary	32
3	Stockgroup Internal Analysis	34
3.1	Chapter Overview	34
3.2	Generic Strategy.....	34
3.3	Strategic Fit Assessment	34
3.3.1	Product Strategy	35
3.3.2	Research and Development Expenses.....	36
3.3.3	Structure	37
3.3.4	Decision Making	37
3.3.5	Production	38
3.3.6	Labour	38
3.3.7	Marketing	39
3.3.8	Risk Profile.....	40
3.3.9	Capital Structure.....	40
3.4	Summary of Strategic Fit	40
3.5	Stockgroup Value Chain Analysis	41
3.5.1	Support Activities.....	43
3.5.2	Primary Activities.....	45
3.5.3	Core Competencies	49
3.6	Chapter Summary	49
4	Strategic Issues	51
4.1	Chapter Overview	51
4.2	Firm Strategic Issues - Stockgroup	51

4.2.1	High Investment	51
4.2.2	Moderate Investment.....	52
4.2.3	Low Investment.....	54
4.2.4	Summary	54
4.3	Business Unit Strategic Issues – StockHouse	55
4.3.1	Niche Focus.....	55
4.3.2	Alliances.....	56
4.3.3	Innovation.....	57
4.3.4	Speed.....	58
4.3.5	Price.....	59
4.4	Chapter Summary	60
5	Recommendations	62
5.1	Chapter Overview	62
5.2	Decision Criteria	62
5.3	StockHouse Recommendations	63
5.3.1	Niche	64
5.3.2	Alliances.....	65
5.3.3	Innovation.....	67
5.3.4	Speed	69
5.3.5	Price.....	71
5.4	Chapter Summary	72
6	Conclusion.....	74
6.1	Chapter Overview	74
6.2	Implementation of Innovation Strategy	74
6.3	Implementation of Alliances Strategy.....	75
6.4	Implementation of Price Strategy.....	76
6.5	Additional Strategic Considerations	77
6.6	Chapter Summary	77
	Reference List	78

LIST OF FIGURES

Figure 1 - Employees by Department at Stockgroup.....	5
Figure 2 - Revenues by Quarter (2003 Annual Report: Stockgroup Media, 2004)	6
Figure 3 – Page Views by Month (WebTrends Report: Stockgroup Media, 2004).....	8
Figure 4 - Monthly Unique Visitors (WebTrends Report, Stockgroup Media, 2004).....	9
Figure 5 - Page Views per Session (WebTrends Report: Stockgroup Media, 2004).....	10
Figure 6 - Primary Strategic Decisions	12
Figure 7 – Value Chain for the Online Financial Content Industry (Based on Porter, 1985).....	14
Figure 8 - Five Forces of Industry Competition (Based on Porter, 1980).....	19
Figure 9 - Stockgroup Strategic Fit Chart (Based on Bukszar, 2004)	35
Figure 10 - Stockgroup Firm Level Value Chain (Based on Porter, 1985).....	42
Figure 11 - Stockgroup Data Warehouse	45
Figure 12 - Boston Consulting Group Matrix (Based on Boston Consulting Group, 1975).....	53
Figure 13 - Primary StockHouse Strategies and Tactics	61
Figure 14 - StockHouse Strategy Diagram with Strategic Recommendations.....	73

LIST OF TABLES

Table 1 – Large Players in the Investing Portal Market	29
Table 2 – Small Players in the Investing Portal Market	30

1 INTRODUCTION

1.1 Subject and Purpose of the Analysis

The subject of this analysis is the investing portal StockHouse.com, a Web site that provides comprehensive financial content and applications for investors. Visitors to the site can access stock quotes, company fundamentals, corporate profiles, public filings, and other financial information. The site offers a blend of aggregated financial news from established third party sources and user created content posted in online discussions. StockHouse has been online since 1995 and has over 450,000 registered users.

The purpose of this project is to conduct a strategic analysis of the StockHouse business unit. The first chapter provides an overview of current business activities and identifies the key challenges faced by the StockHouse team. The second chapter provides an industry analysis and a breakdown of the site's key competitors. The third chapter evaluates Stockgroup's strategic fit and outlines the company's core competencies. Chapter 4 identifies the key strategic issues for the StockHouse business unit and the viable alternatives for addressing them. Chapter 5 presents recommendations for addressing the issues and a strategic roadmap based on the industry and firm analysis covered in Chapters 2 and 3. Finally, Chapter 6 offers steps for implementing the strategic recommendations and some final conclusions about the strategic direction of StockHouse.

Chapter 1 of the analysis is focused on providing an overview of Stockgroup Information Systems, including a history of corporate events, a description of the company's products and services, and a detailed profile of the StockHouse business unit before and after being acquired. This information provides the background and context necessary to understand the key strategic issues that the company currently faces. The final section of this chapter outlines the primary strategic issues and provides a diagram of the company's strategic alternatives.

1.2 History of StockHouse Media Corporation

The following two sections provide a brief history of StockHouse Media Corporation and Stockgroup Media Inc. Due to the small size of these firms; there is limited documentation

and information available about corporate events. The information provided here has been collected from Annual Reports and discussions with long-term personnel.

1.2.1 1995 – 1998: Pre-Internet Bubble

StockHouse Media was founded in 1995 as a financial services media company. The founder, Jeff Berwick, recognized the potential of the Internet to reshape the financial content industry and began building Web sites for public companies. In 1997 and 1998, the company grew to eight people and launched the investing portal StockHouse.com. The site was an early pioneer in the online financial content market and visits to the site steadily grew. It provided stock quotes and financial information for North American public companies, with a focus on Canada.

The Internet was growing in popularity and StockHouse's early start positioned it to capitalize on the growing interest in online financial content. During 1998 the company completed a small financing round at .10 cents/share with friends and family. The founders were encouraged by the site's rapid growth and in late 1998 began making plans to raise additional capital through outside investors.

1.2.2 1999 – 2000: Internet Bubble

In early 1999 StockHouse Media completed a second round of financing at .50 cents/share. Later that year \$3 million was raised through a share offering to Hollinger Inc. at a price of \$3/share. The Internet bubble was in full swing and the online financial content market was one of the hottest online industries. The company focused its operations on expanding its financial content offering and expanding the scope of the StockHouse sites to include Australia. In 2000, at the peak of Internet hysteria, StockHouse raised an additional \$20 million through a share offering at \$7/share. An office was opened in Hong Kong and the company made plans to aggressively expand and market the StockHouse brand. The company had over 100 employees and was poised to become a leading global financial portal.

The main differentiator between StockHouse and competing investing sites was the BullBoards, a proprietary platform for hosting online discussions. The BullBoards rapidly grew in popularity as investors streamed online during the Internet bubble to discuss specific companies and share information. Visits to the BullBoards grew quickly and the discussions reached critical mass, becoming a leading source of user-created investing content. The BullBoards remain popular today and have managed to retain a loyal following in Canada.

1.2.3 2001 –2004: Post-Internet Bubble

Through the end of 2000 and early 2001 StockHouse opened offices in seven additional countries including the UK and Japan. The company had a monthly burn rate approaching \$1.5 million and the staff reached a peak of 250 employees. Unfortunately, by the end of 2000 the Internet bubble had officially burst and the founders realized that raising additional rounds of financing was unlikely. Despite the huge traffic that StockHouse received, which peaked at 140 million page views in March 2000, company revenues were far lower than its monthly burn rate. Adding to the difficulties was the crash of online advertising rates, which rapidly decreased from 2000 to 2001. In early 2001 the company began cutting back staff and closing down its global offices. By 2002 only 20 staff remained and StockHouse was advised to go bankrupt. In June 2002 the company negotiated settlements with all creditors and sold the majority of its assets to Stockgroup Media Inc.

A total of over C\$35 million was invested into the development and marketing of the software, infrastructure, and content that powered the StockHouse network of global investing sites. StockHouse was acquired in return for 3,000,000 Stockgroup shares, valued at approximately US \$700,000 at the time of sale. Jeff Berwick, the founder and CEO of StockHouse Media, was appointed to Stockgroup's Board of Directors and remains involved in the site's development.

1.3 History of Stockgroup Media Inc.

Stockgroup Media Inc. is located in Vancouver, British Columbia and was incorporated in 1995. The company's current CEO, Chairman of the Board, and founder, Marcus New, recognized the potential of the Internet for distributing financial information to investors.

1.3.1 1995 – 1998: Pre-Internet Bubble

From 1995 to 1997 the company was involved in the financial markets publishing business and ran a Web site called SmallCapCenter.com. The site focused on small and microcap companies and became a leading source of information on small public companies. Development projects for the site were focused on providing investment tools such as industry news, stock quotes, and charting tools. Traffic steadily grew and revenues in 1998 were close to \$1 million on the sale of advertising and consulting contracts. By the end of 1998 the company had 55 employees across offices in Vancouver, Toronto, and San Francisco.

1.3.2 1999 – 2000: Internet Bubble

Stockgroup went public in May 1999 through a reverse takeover and began trading on the US OTC Bulletin Board. A private placement totalling an aggregate of US \$5.4 million was completed in June through the issuance of 900,000 common shares at \$6/share. The company's operations focused on expanding the content and investing tools available at SmallCapCenter.com. Revenue was derived from on site advertising, consulting contracts, and public company marketing services. During 1999 the company saw revenues jump to US \$1.9 million. At the end of 1999 the company had 66 employees and had opened an additional office in New York. Several key people with industry experience were brought aboard in 1999 to help accelerate the company's growth.

During 2000 the company continued to expand the content and investing tools at SmallCapCenter.com. The company signed syndication deals with Web content aggregators and distributors that provided access to a larger audience of online investors. The site's traffic continued to grow and the company invested heavily in product development and financial publishing. In July 2000 a private placement was completed that raised an additional \$435,000 in operating capital. At end of 2000 the Internet Bubble had begun to collapse and the company had reduced its staff to 53 employees.

1.3.3 2001 –2004: Post-Internet Bubble

Stockgroup was forced to adjust its business model in early 2001 due to the downturn in the technology sector and the financial markets. The consulting contracts were not sustainable and had proven costly to develop, so the company decided to shift its focus to more profitable lines of business. As a result of this change, the consulting arm was de-emphasized in favour of public company awareness programs and licensing contracts. From 2001 to 2002 Stockgroup underwent a significant restructuring aimed at improving the firm's cost structure, cash flow, and profitability. In January 2001 the company raised an additional \$500,000 through a private placement.

On June 24, 2002 Stockgroup acquired StockHouse Media Corporation and began running the StockHouse investing portal. The purchase of StockHouse provided Stockgroup with several key benefits and had an immediate impact on the company's operations. The benefits included a substantial increase in overall traffic and visitors to the company's Web properties, the ability to leverage the high awareness of the StockHouse brand, and a database of over 400,000 registered users. Stockgroup moved fast to integrate StockHouse into its business operations and to capitalize on the site's large audience of online investors. At the time of

acquisition StockHouse was receiving 50 million page views a month and over 600,000 unique visitors.

From 2002 until Spring 2004 Stockgroup's profitability improved and all long-term debt was eliminated. The company expanded its public company awareness products to include advertising on StockHouse. The financial content licensing division was named Financial Tools and quickly established a solid customer base. Stockgroup reported an operating profit in the fourth quarter of 2003 and maintained a cash balance of over \$1,000,000.

Stockgroup currently has 45 employees and offices in Vancouver and Toronto. The following chart provides an overview of the staffing levels in various departments across the company. Staffing is heavily focused on sales personnel and technology staff.

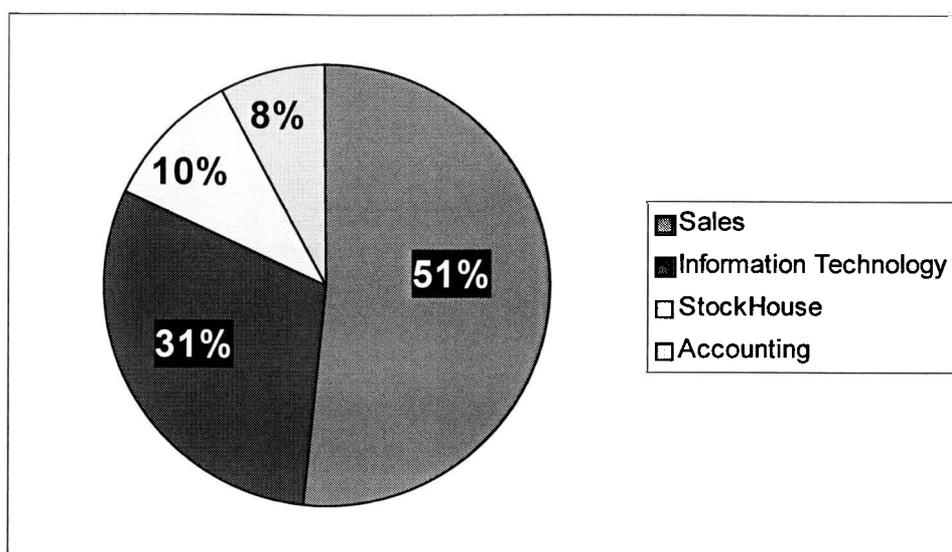


Figure 1 - Employees by Department at Stockgroup

1.4 Stockgroup's Current Business Operations

Stockgroup's operations are focused on two business units: StockHouse and Financial Tools. These divisions accounted for revenues of \$3,020,399 during 2003 (2003 Annual Report: Stockgroup Media, 2004), a 57% increase over revenues of \$1,930,521 in 2002 (2002 Annual Report: Stockgroup Media, 2003). Stockgroup achieved strong growth in revenues on a quarter-by-quarter basis during 2003 (Figure 2).

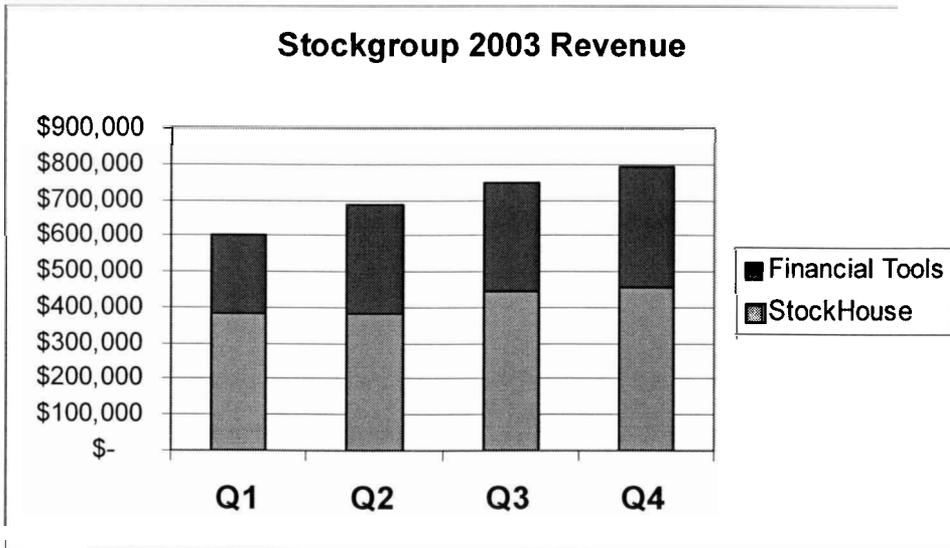


Figure 2 - Revenues by Quarter (2003 Annual Report: Stockgroup Media, 2004)

1.4.1 StockHouse

StockHouse creates revenue from public company awareness products and on site advertising. Public company awareness products include the following programs:

1. Sector Supplements: Investing guides that showcase up and coming smallcap companies in specific sectors. Profiled companies pay for placement in return for heavy promotion on the StockHouse Web site.
2. Investor Market Place: Similar to the Sector Supplement model, the IMP provides quotes and corporate profiles of 24 public companies.
3. NewsBlast: A dedicated email that's sent to over 120,000 registered StockHouse users. Companies pay to have their news releases disseminated to this list.
4. Company Showcase: A guide to Stockgroup clients that includes unique company profile data and investing information.

The Advertising team sells advertising campaigns on StockHouse to companies that want to promote their brand in front of StockHouse's audience. Advertising products include standard online creative such as banner ads and text links. Advertising and sponsorship opportunities are available throughout the different sections of the StockHouse Web site.

1.4.2 Financial Tools

The Financial Tools division was created in 2002 and is focused on licensing financial content and applications such as stock quotes, company profiles, portfolio tools, mutual fund data, and scrolling tickers. Customers include major banks, brokerages, and online newspapers across North America. The products licensed by Financial Tools are proprietary to Stockgroup and are based on content and applications developed for SmallCapCenter from 1999 until 2002.

One of the key relationships for the Financial Tools team is a reseller agreement with the Associated Press. Financial Tools currently licenses financial content to 35 different AP newspapers. This relationship provided Stockgroup with credibility in the financial content market and helped establish the company as an emerging industry player.

1.5 Overview of the StockHouse Business Unit

The StockHouse business unit is an integral part of Stockgroup's overall business activities. The following sections provide background information on the post-acquisition transition period and a description of current operations.

1.5.1 Post-Acquisition Transition

The StockHouse assets were acquired by Stockgroup Media in June 2002. At the time, Stockgroup was running a competing Web property named SmallCapCenter.com. Stockgroup quickly shifted its resources to developing and integrating the StockHouse site, which had much higher traffic and brand awareness with North American investors.

From June to December 2002 Stockgroup focused on transferring StockHouse's hosting to their in-house facilities and integrating the back-end information systems. The goal was to reduce the costs of running StockHouse without disrupting the site's service or losing market share. Very few members of the StockHouse staff were retained, and only five were still employed full time by the end of 2002. The only major change in the site's content was the shift from using internal financial writers to aggregating news from outside sources. This proved to be a more cost effective model for providing financial and business news.

From Jan 2003 until April 2004 Stockgroup selectively added new content to StockHouse and integrated their most popular financial applications from SmallCapCenter.com. The company hired a full-time Product Manager to oversee the site's development and to further expand the revenue generated from the public company awareness campaigns and advertising

sales. New investment remained low and staffing dedicated to StockHouse did not increase during this period.

1.5.2 Key Web Metrics

Tracking measurements such as page views, unique visitors, and session length are a critical component of understanding the size and loyalty of an online audience. Internet business experts such as Jim Sterne have stressed the importance of tracking key Web metrics: “Web analytics has provided the tactical and goal-oriented tools necessary to understand the interactions and behaviours of Web site visitors” (Sterne, 2002, p.34). The following tables and graphs provide a macro view of key StockHouse metrics as measured by WebTrends Analytics from April 2003 until March 2004.

Figure 3 displays the total page views received by StockHouse on a monthly basis. Page views are defined in this report as full pages of content served to visitors, excluding search engine crawlers and other non-human traffic. The large increase between September 2003 and January 2004 was primarily due to the rebound in the North American stock markets. Traffic to financial content sites is strongly correlated with the composite indices for the major exchanges.

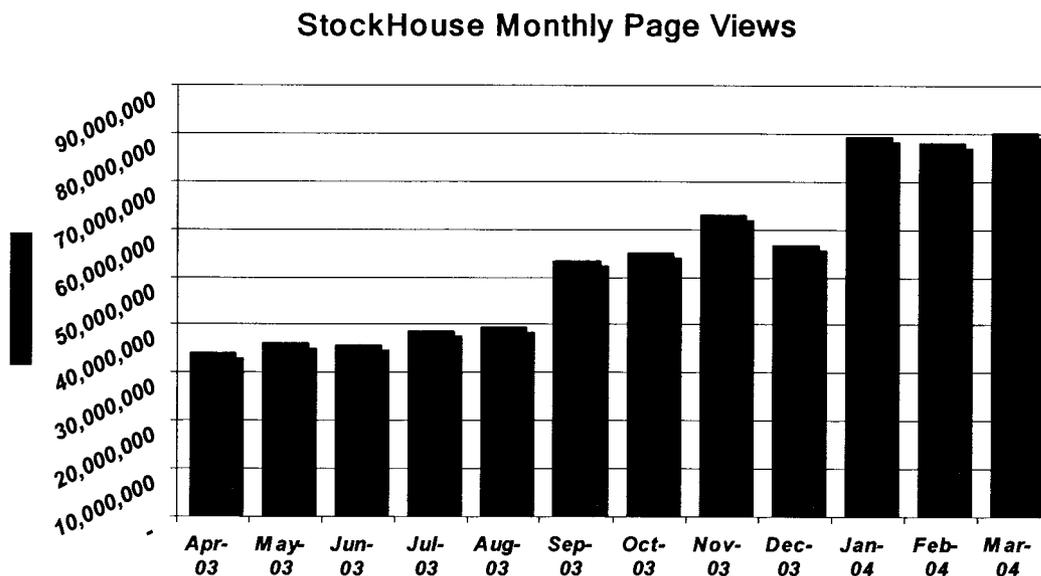


Figure 3 – Page Views by Month (WebTrends Report: Stockgroup Media, 2004)

Unique visitors are defined as the number of unique individuals that visit a site at least once within a specific time period (Interactive Advertising Bureau, 2004). Figure 4 displays total

monthly unique visitors over a twelve-month period. The total percentage increase is smaller than page view growth during this period due to the increase in session length and visits as the stock market improved.

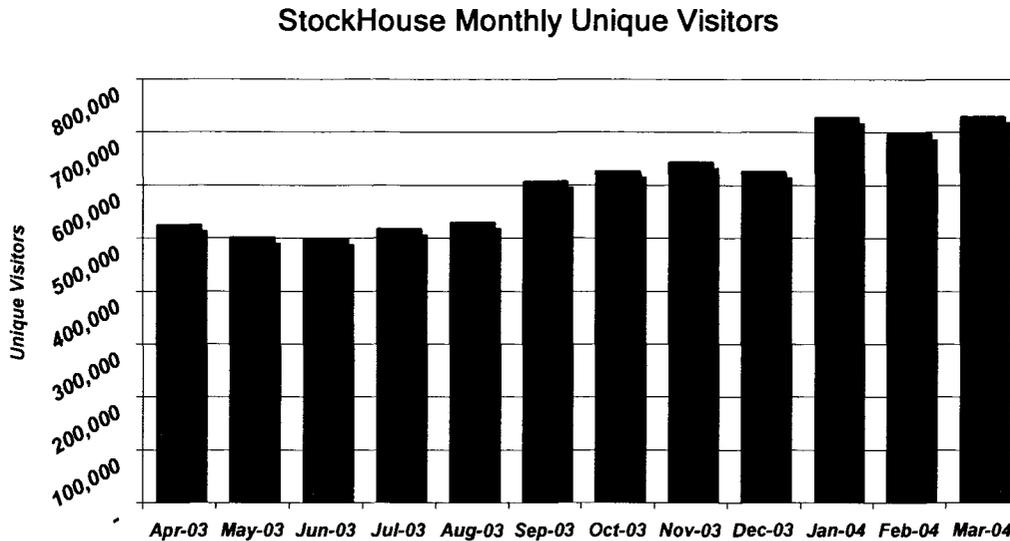


Figure 4 - Monthly Unique Visitors (WebTrends Report, Stockgroup Media, 2004)

Another important metric is page views per user session (Interactive Advertising Bureau, 2004), which displays the number of pages that are viewed during an average visitor session on StockHouse. An average page views per visit of 15-20 is considered high, and indicates that StockHouse is able to keep visitors on the site for long periods. The increase in page views per visit provides support to the belief that investors spend more time on investing sites when the markets are experiencing an upswing

StockHouse Average Page Views Per Session

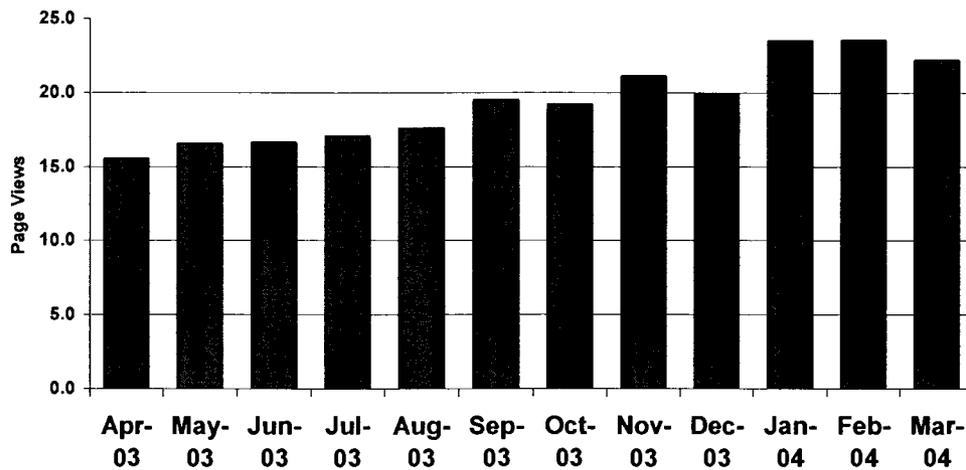


Figure 5 - Page Views per Session (WebTrends Report: Stockgroup Media, 2004)

1.5.3 Revenue Channels

The two primary revenue channels for StockHouse are the Public Company Awareness Products (“Pubco”) and Advertising. The Pubco marketing products are sold to companies that wish to promote their corporate news and events to the StockHouse investing community. StockHouse is an ideal site for reaching a targeted audience of investors due to the singular focus of its content. A separate sales team is responsible for selling advertising placement on StockHouse. Advertising clients consist of companies that wish to advertise their products or services to the StockHouse audience.

A third revenue channel for StockHouse is direct user purchases of premium subscriptions and content. Premium products include real-time quotes, value-added BullBoard tools, and a java stock portfolio application. This channel is underdeveloped and accounted for only 2% of total StockHouse revenues in 2003.

1.5.4 Audience Demographics

The visitors to the StockHouse Web site compose a lucrative demographic. The following list summarizes demographic information that’s collected when users sign up for a free StockHouse membership. Visitors to financial content and investing Web sites are predominately

male, older than the average Internet user, and earn a higher than average income. The data below was compiled from April 2003 to March 2004.

- Average age is 47
- 93% male
- 82% have post-secondary education
- \$90,000 average household income
- \$94,000 average portfolio size (excluding real estate)
- One in four hold a portfolio over \$180,000

The StockHouse audience is Internet savvy, educated, and wealthy. This is an appealing audience for online advertisers and direct selling of premium content. Current advertisers on StockHouse include Cadillac GM, Porsche, and a variety of financial services firms such as Ameritrade, Bank of Montreal, and eTrade Canada. StockHouse provides a media buyer with a targeted demographic that is differentiated from other segments of online content. This is especially true within Canada, as Canadians account for over 85% of StockHouse traffic.

A StockHouse survey completed in April 2003 found that users averaged seven online purchases per year and over 80% had made an online purchase in the previous 12 months. Direct sale of premium financial content is an underdeveloped revenue channel on StockHouse. The only premium content that is available is real-time quotes through the StockHouse Power Membership. The lack of revenue through direct user purchases is a weakness in the StockHouse revenue strategy that will be revisited later in the analysis. StockHouse's competitors, who have similar audience demographics, have successfully established strong revenues through direct online sales.

1.6 Scope of Analysis and Key Issues

This paper addresses two primary strategy decisions. The first decision is a firm level decision for Stockgroup based on determining the level of investment in the company's two lines of business. The StockHouse and Financial Tools business units will both require significant investment in order to achieve strong growth over the next three to five years. Stockgroup has already committed to investing heavily in Financial Tools, and must make a business decision on the level of investment for StockHouse. The alternatives are to aggressively grow and expand StockHouse along with Financial Tools, to invest minimal funds and treat StockHouse as a cash cow, or to sell StockHouse and focus operations entirely on Financial Tools. The option to divest is eliminated due to attractiveness of the Financial Content market described in Chapter 2 of this

paper, and because of the company's dependence on StockHouse revenues to achieve profitability.

The second major strategic issue this paper addresses is how the StockHouse business unit should compete against larger online investing portals. Once a decision has been made at the firm level regarding the level of investment, there are a number of different strategies that StockHouse could employ to overcome the large discrepancy in resources compared to industry leaders such as CBS MarketWatch, Yahoo Finance, and MSN Money. Strategies that smaller firms can utilize include a niche focus, speed, building innovative products, forming alliances with other small players, and offering a lower price. Once the level of investment is determined, one or several of these strategies should be employed.

Figure 11 displays an overview of the two main strategic decisions for StockHouse. The arrows between these two decisions indicate that success or failure at the firm or business unit level will influence future decisions. This diagram will be used throughout the analysis to frame the company's strategic decisions. The diagram will be expanded in Chapter 4 to illustrate the tactics available to StockHouse for executing small-player strategies. In Chapter 5, the diagram will reflect the final recommendations for the two primary strategic decisions that Stockgroup must confront.

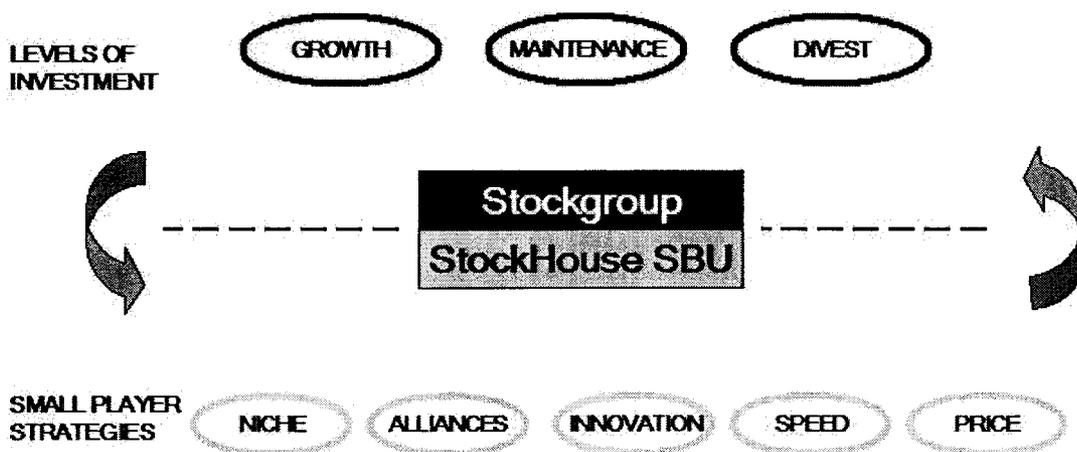


Figure 6 - Primary Strategic Decisions

2 INDUSTRY ANALYSIS

2.1 Chapter Overview

This chapter provides an analysis of the North American online financial content industry and outlines the factors that shape industry competition. The analysis includes an in depth review of the financial content value chain and a discussion of the key industry success factors. The main competitive forces in the financial content industry play an important role in determining whether StockHouse or Financial Tools should receive high investment. The final section of this chapter identifies StockHouse's main competitors and outlines their strengths and weaknesses. The competitive analysis provides a number of insights into the challenges faced by small firms in this highly competitive industry. The findings in this chapter will be compared against the Stockgroup internal analysis contained in Chapter 3 and will help form the strategic recommendations for StockHouse.

2.2 Overview of North American Online Financial Content Industry

The following industry analysis is focused on the North American online financial content industry. The term "financial content" includes the full spectrum of stock market related data: business and financial news, professional analyst reports, stock quotes, fundamentals, technical analysis tools, and user generated content (online discussion forums).

The analysis is confined to Web sites providing North American market data for several reasons. First, there is very little demand from North American investors for global financial content due to regulations on holding foreign equities and the lack of infrastructure for executing global trades. Second, there are extensive fixed costs and regulatory hurdles involved with providing market quotes from exchanges outside of North America. As a result, North American investing portals are primarily focused on providing market data for companies listed on exchanges based in the U.S. and Canada. The major exchanges in the US are the NYSE, AMEX, and NASDAQ. The Canadian exchanges are the TSX and the TSX-Venture.

2.3 Industry Value Chain

The following Industry Value Chain (Porter, 1985) illustrates how a firm in the online financial content industry creates value. The size of each segment represents a relative measure of the resources allocated to that segment's activities. Activities coloured blue are highly differentiated between firms and play a prominent role in creating overall value. Clear coloured activities are moderately differentiated between firms and play a lesser role in creating value.

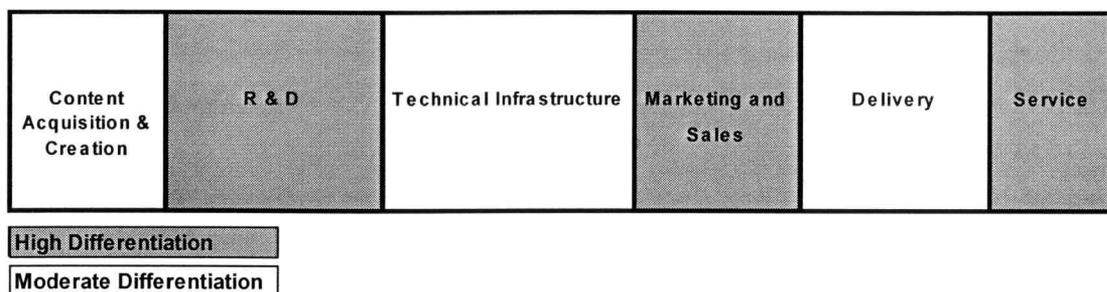


Figure 7 – Value Chain for the Online Financial Content Industry (Based on Porter, 1985)

2.3.1 Content Acquisition and Creation

Firms in the financial content industry either create financial content themselves or acquire it from content vendors. Content that is typically created in-house includes hourly market updates, market wrap-ups, investing newsletters, and financial advice. In-house content represents a small portion of the overall data and content that's delivered by the financial content industry.

Content that is acquired from third party vendors covers a wide spectrum of market information. Company stock quotes, basic profiles, analyst reports, technical analysis/ratios, indices, and mutual fund data are some of the main categories. There are numerous content vendors to choose from that range in quality, and firms can differentiate their offering by selecting expensive, high quality vendors. For example, basic company profiles are integral to online investors and vary in quality based on accuracy and update frequency. Low cost company profiles range from \$100 - \$250 a month compared to high quality vendors that charge \$500 - \$1000 a month.

Stockgroup creates very little content in-house and relies heavily on third party content vendors. This strategy allows Stockgroup to lower its operating costs and focus on core activities, but the company misses out on the high margin profits that can be attained with proprietary financial content.

2.3.2 Research and Development

Research and Development (R&D) is a critical segment of the financial content industry and is one of the primary differentiators between firms. R&D activities include product development, consumer research, industry research, and competitor analysis. Firms achieve competitive advantage by investing heavily in R&D and producing innovative financial applications. Investors are highly motivated to seek financial content that helps them make smart investing decisions. The downside of being an industry innovator is that competing firms can copy successful innovations with relative ease. The advantage gained by a single product innovation is fleeting.

An example of a product that all firms in this industry offer is an online portfolio tool that allows investors to organize and track companies of interest. Portfolio tools range from basic to highly customizable. A basic online portfolio allows the user to view an alphabetical list of specific companies and track quotes, price changes, bid/ask levels, press releases, and news. Advanced tools allow investors to track more categories, such as last 10 trades by size, dividends, market cap, and trend indicators. In addition, portfolio lists can be sorted by any category and individual trades and performance can be tracked. Firms that strive to innovate will appeal to investors who trade heavily and rely on portfolio tools to track their investments as efficiently as possible. These investors are highly sought in the financial content industry because of their willingness to purchase premium content such as real-time quotes, analyst reports, and newsletters.

During 2003 Stockgroup invested very little in research and development and focused the majority of its resources on sales activities and order fulfillment. As a result, the programming and design resources were primarily allocated to completing work orders. The lack of investment in research and development activities such as product development and consumer research will harm the competitiveness of the Stockgroup product mix over the long term.

2.3.3 Technical Infrastructure

Firms in the financial content industry are required to maintain a complex and expensive technical infrastructure for receiving, developing, and delivering online financial applications. The technical infrastructure can be organized into systems administration, database administration, and servers. These components are critical to success in this industry but are not a primary source of differentiation between firms. Most firms choose to manage the technical infrastructure in-house and maintain control. The costs of managing a firm's technical infrastructure internally increase directly based on the number of end users. Figure 11 (3.5.2)

illustrates how Stockgroup receives data from financial content vendors and steams the information into the financial applications on StockHouse and Financial Tools client sites.

Systems administration involves coordinating the delivery of financial content to customers and end users and maintaining adequate levels of uptime and reliability. Database administration involves optimizing how vast sums of related data are stored and delivered. Optimizing the database structure is critical for ensuring that load time for data intense Web pages remains fast. The server infrastructure provides scalability for online traffic growth and also affects load time. This includes email servers, which send out millions of email messages each month to users of financial content.

Stockgroup has outsourced very little of its technical infrastructure in order maintain strict control. The advantage to keeping this area of the business in-house is that it facilitates the development of customized financial content solutions for customers. It also speeds up the time to market for development projects that require tight integration with the company's technical infrastructure. There are also very few Canadian companies capable of providing an outsourcing solution that would cover Stockgroup's requirements. The company has been willing to absorb higher costs and has not allowed financial pressures to weaken this segment of its activities.

2.3.4 Marketing and Sales

This segment includes running internal and external online advertising campaigns, maintaining targeted email lists, and personal selling by in-house sales teams. It is important that firm in this industry create awareness of their financial content by purchasing advertising and ensuring that search engine indexing is optimized. The total budget allocated for marketing and sales is influenced by whether the firm delivers financial content directly to end users, to client sites, or to both. If a firm derives revenue by supplying financial content to client sites, it will be required to organize and run an internal sales team.

Stockgroup manages a large internal sales force across the StockHouse and Financial Tools business units. One of the primary goals of top management is to ensure that the sales teams have the tools and resources necessary to be successful. The focus on sales driven initiatives and the continual improvement of sales collateral and strategies has differentiated Stockgroup from competitors.

2.3.5 Delivery

The delivery segment is primarily focused on maintaining a firm's Service Level Agreement with clients and end users. It is critical that online financial content is delivered

accurately and with minimal downtime. Users who receive inaccurate data or experience service delays will quickly switch to a new provider, as this information is critical for making investment decisions. Switching costs are low, and firms cannot afford to lose credibility with investors through poor delivery.

Firms that provide financial content to client sites can lose large customers and experience significant downturns in revenue if their delivery systems fail. Stockgroup has come close to losing large clients and has seen the StockHouse Power Membership subscriptions decline due to problems with the accuracy of real-time quotes. This has resulted in switching the company's primary quote provider from a low cost vendor to an expensive, high quality vendor. Stockgroup has made it a priority in 2004 to ensure that its service level uptime is on par with the big players in the financial content industry. This will help to differentiate Stockgroup from some of the smaller industry players.

2.3.6 Service

This segment involves the level of customer service that's provided to end users and clients and is defined by how quickly help questions are answered and by the amount of resources dedicated to maintaining help files. Many users will email questions, complaints, error reports, and general feedback. A firm can achieve differentiation in service by responding immediately to queries, problems and good suggestions. Cultivating a high level of user interaction aids in product development, loyalty, and viral marketing programs.

Client service is defined by the flexibility and willingness of a firm to respond to client requests for unique financial applications. Firms can achieve significant differentiation based on their responsiveness to clients. Stockgroup is able to compete with larger firms in the financial content market by offering highly flexible products and building customized applications for clients. Clients are often won due to the willingness of Stockgroup to build customized applications and new tools for individual sites.

2.3.7 Industry Value Chain Summary

The online financial content industry has three main activities that provide differentiation between firms: research and development, sales and marketing, and service. Stockgroup currently invests very little in research and development and has seen the value of their product portfolio decline. Stockgroup invest heavily in sales, ensuring that sales personnel have the collateral and support necessary to win clients. This has been the main focus for the company over the past 18 months. Stockgroup also invests in the services component of their

business, responding quickly to requests from clients. These areas of focus within the industry value chain have far reaching effects across Stockgroup's strategic planning activities.

2.4 Five Forces Analysis

The following analysis is based on Michael Porter's five basic competitive forces that drive industry competition (Porter, 1980, p.4). The five forces are the threat of new entry, bargaining power of suppliers, extent of bargaining power of customers, rivalry among existing competitors, and the threat of substitutes. For each of the forces, a (+) sign indicates an industry trait that increases competition between firms, and a (-) sign indicates a trait that decreases industry competition.

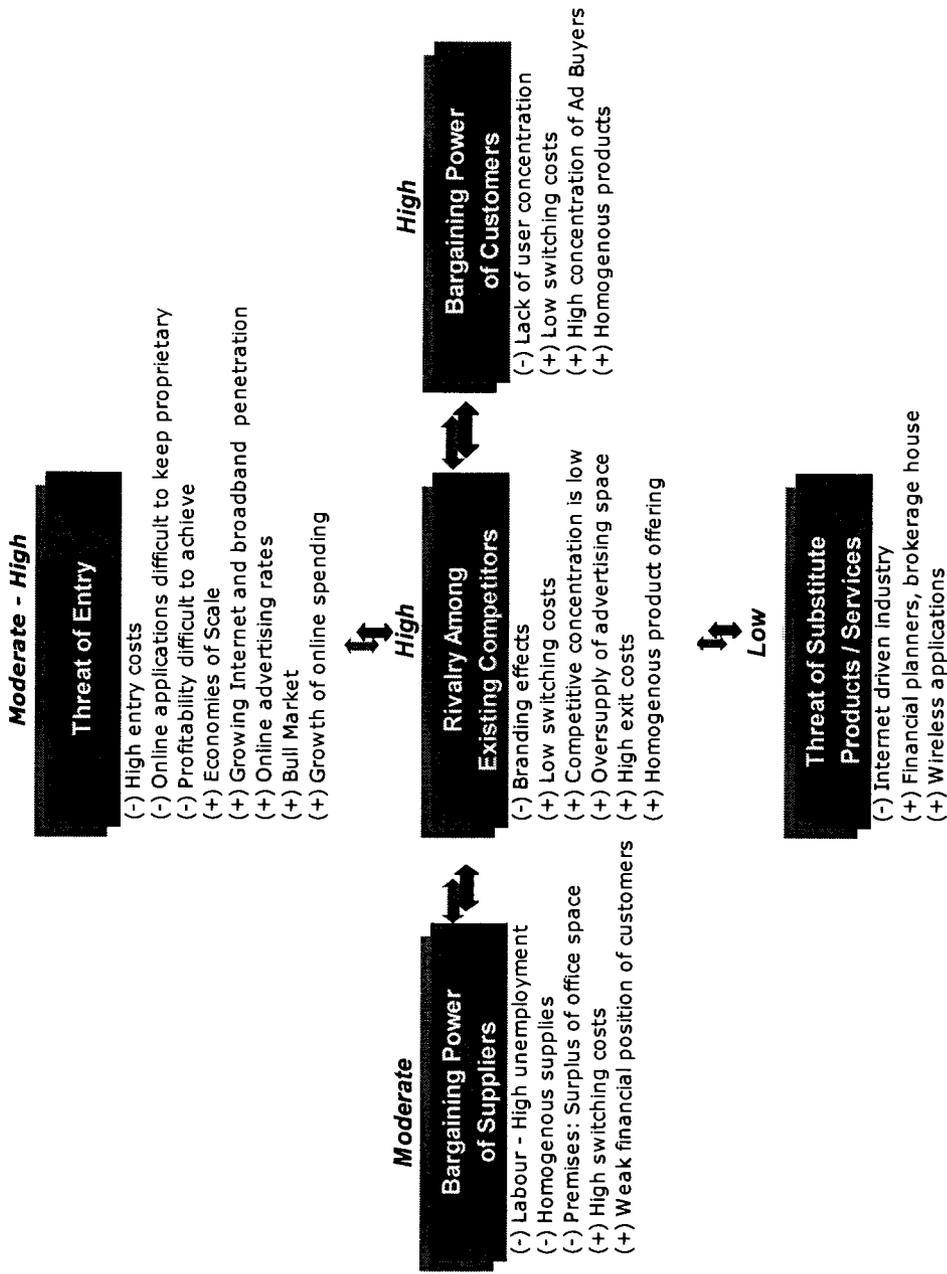


Figure 8 - Five Forces of Industry Competition (Based on Porter, 1980)

2.4.1 Threat of Entry

(-) High Entry Costs: A new firm wishing to enter this market is faced with high entry costs. These costs include bandwidth, servers and technical infrastructure, staffing, office space, and data acquisition¹. The technical expertise and equipment required to run a web site that receives millions of daily page views can easily cost upwards of \$500,000 year.

Entry costs also include significant branding and advertising costs that are necessary to create awareness of your site. This includes the cost of search engine marketing services and keyword advertising², two of the primary drivers of new visitors.

(-) Online Applications Difficult to Keep Proprietary: Differentiation is difficult to achieve due to the ability of competitors to copy or reverse-engineer new applications. For example, portfolio tools that allow users to track specific companies are offered for free by all competitors. If a firm launches a unique value added feature for their portfolio it will enjoy only a very brief period of competitive advantage.

(-) Profitability Difficult to Achieve: Online financial content sites have struggled to achieve operating profits and no longer have easy access to venture capital funding. The primary source of revenue is advertising, and the industry has suffered from declining rates since the tech bubble burst in 2001. Attempts to charge users directly for premium content or services has been met with mixed success. For example, most financial content sites offer a premium product for displaying real time quotes, but consumer demand for this level of service remains low.

(+) Growing Internet and Broadband Penetration: Internet penetration is continuing to grow in North America, though at a slower pace than previous years. In addition, broadband connections are growing in popularity and have increased the number of pages that an Internet user can view during an online session. Broadband connections are required for many of the premium real-time tools that firms are marketing in an effort to earn revenue direct from users.

(+) Economies of Scale: Large Internet portals such as the Microsoft Network, Yahoo, and AOL can increase their financial content product offerings with minimal additional costs. Their vast technical infrastructure is highly scaleable and can handle the additional bandwidth.

¹ Data acquisition includes the cost of stock quotes from the exchanges, fundamental and company profile data, public filings, and business and financial news, all of which must be attained through licensed vendors.

² Keyword advertising is available through all major search engines such as Google, Yahoo, and LookSmart. It involves purchasing ad space within the results pages for specific keywords that are relevant to a site's content.

The staff expertise is already in-house and data acquisition costs can be minimized due to cost efficiencies attained by high traffic.

(+) Online Advertising Rates: The primary source of revenue in the online financial content industry is advertising. Advertising rates experienced a steep decline after the tech bubble burst in 2001, but have been rebounding in the past 12 months. The increase has been partly driven by wider acceptance of online advertising and the creation of industry standards for campaign measurement. These factors have increased the attractiveness of advertising driven business models.

(+) Bull Market: Traffic and visits to financial content sites are heavily correlated with the North American stock markets. The market downturn that started in 2001 resulted in a significant reduction in overall interest in financial content. However, the markets experienced a turnaround in 2003 and demand for financial content has increased substantially. For example, in the absence of any other external drivers, traffic to StockHouse.com doubled from September 2003 to January 2004. A prolonged bull market would entice more firms to enter the financial content industry.

(+) Growth of Online Spending: Acceptance of e-commerce is growing at a fast pace as consumers become comfortable with making online purchases. In addition, the willingness of consumers to pay for online content is growing, albeit at a much slower pace.

To summarize, financial content became one of the most successful online applications during the Internet's rise from 1996 – 2001 and a large number of firms entered this market and competed for market share. These firms underwent a period of significant consolidation during the tech downturn of 2001-2003. Profitability proved difficult to attain and the attractiveness of this industry suffered. However, there are a number of factors that have combined to increase the potential for entry over the past year. Rising ad rates, a bull market, and the growing acceptance of e-commerce have been the key drivers.

2.4.2 Bargaining Power of Suppliers

(-) Labour – High Unemployment After Tech Downturn: The crash of the Internet bubble left an oversupply of labour for the few companies that managed to survive. The remaining firms were able to pay much lower wages and were flooded with applicants when advertising for new positions. As a result, technology workers had very low bargaining power and most felt lucky to be employed.

(-) Homogeneous Products: Bandwidth, equipment, and market data are essential components of an online financial content site. All of these supplies are characterized by low

differentiation, forcing suppliers to compete primarily on price. Suppliers have also undergone a period of consolidation as a result of the overall reduction in demand from the technology industry. Some suppliers have been successful at differentiating their products with customer service, but most compete with a low cost strategy in order to sell into the depressed technology sector. For example, the cost of tier one Web servers has dropped dramatically since the late '90s. Low cost suppliers were able to quickly gain market share as IT budgets were slashed.

(-) Premises – Over Supply of Office Space: During the technology boom office space became very expensive as new firms entered the market and existing firms rapidly increased their staff. New office space was constructed to meet demand but the market began to drop sharply in 2001 during the technology crash. As a result, there is now an over supply of office real estate and firms are able to negotiate low cost leases or renew leases at a much lower monthly rate.

(+) High Switching Costs: Competitors in the financial content industry are able to enjoy the benefits of fierce price competition between suppliers that are desperate to sign-up customers. However, once a firm has signed a contract and implemented a supplier's service or equipment, the switching costs become significant. For example, once a market data provider is chosen, it takes six to eight weeks to customize the site's technical infrastructure and to begin running live data. Switching providers mid-contract is a lengthy and expensive process, as it requires re-writing unique code and customizing the data connections to a new platform.

(+) Weak Financial Position of Customers: As discussed previously in this paper, competitors in the financial content industry face severe financial pressures to reach profitability. As a result, suppliers can leverage this weakness when renewing contracts or setting credit terms.

In summary, labour and real estate providers suffer from low bargaining power. The crash of the technology sector left many skilled workers unemployed and left behind a huge supply of office real estate. The bargaining power of bandwidth, equipment, and market data suppliers is low during the initial negotiation phase due to price competition and the homogeneous nature of their product offering. However, once installed the suppliers enjoy the benefits of high switching costs and hold a much stronger bargaining position.

2.4.3 Bargaining Power of Customers

(-) Lack of User Concentration: The individual users of a financial content site, which represent the aggregate audience that is sold to advertisers, number in the millions. In this regard, users of a Web site are considered a customer of the firm's product offering. These customers have very low bargaining power because there are inherent difficulties with organizing or

grouping individual users. Users decide to visit a site based on individual preferences and are unlikely to mount a credible effort to leave a site en masse.

(+) **Low Switching Costs:** There is very little stopping the user of a financial content site from switching to a competitor. The only inconvenience is setting up a new online portfolio, which can usually be accomplished in 15 – 20 minutes. The remainder of the activities that a user engages in, such as reading financial news and viewing company quotes, can easily be accomplished at a competing site.

(+) **High Concentration of Ad Buyers:** The most important customer of financial content sites is the advertising buyer. Advertising typically represents 90%³ of a firm's total revenue. As discussed earlier in this paper, there is an excess capacity of advertising space in this industry and rivals are forced to compete on price to lure advertisers. This environment provides advertising buyers with a strong bargaining position as firms clamour for their business.

Adding to the strong position of advertisers is the high concentration of advertising firms. Online advertising has experienced a slow adoption rate from traditional advertisers who question its effectiveness. Industry standards for counting unique visitors and ad impressions have also been slow to develop. As a result, very few online advertising firms exist and each represents a significant portion of the overall market. Competitors in the financial content market are forced to negotiate with a small number of firms that represent a large percentage of the total advertising expenditures.

(+) **Homogeneous Products:** The audience demographic of financial content sites differ very little across competitors, which means advertising buyers can focus mainly on price. The audience profile is primarily male, aged 30-45, with a high income and a university level education. This is an appealing demographic, but financial content sites have a difficult time differentiating their audience from rival sites. Efforts to shift site demographics have been met with moderate success. For example, some sites increased the amount of educational and “how-to” content in the hopes of attracting more female visitors.

In summary, the primary customers in this industry are individual site visitors and advertising buyers. Site users have low bargaining power or influence over the product offering due to the difficulties involved with organizing a group of users who access a web site independently. However, the low switching costs make it easy for users to switch between competitors. Advertising buyers are in a dominant position because of overcapacity and high

³ The remaining 10% is spread between premium content offerings such as real-time quotes and subscription based investing newsletters.

concentration. Firms in this industry are engaged in a fierce competition for advertising revenue and have a difficult time differentiating the demographic profile of their audience.

2.4.4 Rivalry Among Existing Competitors

(-) Branding Effects: Successful branding of online properties is expensive and difficult to achieve. It is also a crucial component of a successful online business and one of the few means of differentiating financial content sites. Users identify with the branding and positioning of different sites, raising switching costs. Only a few competitors have managed to achieve a high level of branding differentiation, but their success has allowed them to reduce overall competitive pressures.

(+) Homogeneous Product Offering: It is difficult to differentiate financial product offerings and applications. Competitors offer very similar features and are quick to copy each other. Unique features such as portfolio tools, company snapshots, stock screeners, and graphical charts are among the content offerings that have become commoditized by financial content sites. In addition, vendors that supply the raw data that online investors seek such as fundamentals, quotes, and company profiles offer very similar products and compete primarily on price.

(+) Low Switching Costs: Users of online financial content can easily switch between competitors. The only cost involved with switching sites is re-entering company tickers into a new online portfolio tracker. Some effort is required to adapt to the layout and functionality of a new site, but this is minimized by the standardized format and navigational structure that competitors share.

(+) Low Concentration of Competitors: This industry has 10 major players and hundreds of smaller sites that compete for the attention of online investors. The competitive landscape is difficult to follow and firms spend significant resources on branding and advertising that is aimed at stealing market share from competitors. The emergence of online financial content at Web sites for banks, brokerage houses, and newspapers is further fragmenting this crowded industry.

(+) Oversupply of Advertising Space: The total available advertising dollars available for financial content sites is not sufficient to fill all of the available advertising space. As a result, firms are forced to reduce advertising rates and create advertising bundles that are significantly lower than their published rate cards. Firms are also forced to allocate resources towards analyzing audience demographics in an effort to differentiate their offering from competitors. Signing up advertisers is critical to achieving profitability and the excess supply of advertising space places financial pressure on the entire industry.

Summary: The low degree of differentiation between competitors, the difficulties achieving profitability, and low user switching costs make this a highly competitive industry. The large players in this industry are forced to contend with many smaller sites such as online newspapers and banks that are chipping away at their user base. These smaller sites are offering basic market data as part of their offering and reducing the need for site visitors to click away to one of the larger financial content sites.

The financial content industry has undergone a significant degree of consolidation over the past two years as many firms were forced to close down, merge with a stronger competitor, or sell their assets at a heavy discount. This consolidation has not alleviated the pressures to achieve profitability and to grow market share to a viable level. Competition for users is intense, and the recent growth in online advertising rates has not yet diminished the high degree of rivalry among existing firms.

2.4.5 Threat of Substitutes

(-) Internet Driven Industry: The emergence of the Internet caused a dramatic shift in the accessibility and popularity of financial content. The Internet was a revolutionary substitute, as previously investors were dependent on newspapers, television, and their financial advisors to provide information about the stock markets and their investments. The Internet is the primary driver behind the growth in the financial content industry and will not easily be replaced.

(+) Wireless Applications: Mobile devices have captured a small percentage of the financial content market by displaying stock quotes and other market data delivered to handsets. However, wireless devices are limited by their size, functionality, and the slow adoption of mobile commerce. The potential for wireless services to reduce the online financial content market is limited.

(+) Financial Planners and Brokers: There are signs that banks, professional financial planners and brokerage houses are attempting to differentiate their investment services by improving their customer service and personal interaction with customers. This approach could potentially steal market share from the online financial content industry but thus far the effects have been minimal.

In summary, there are very few credible substitutes for the online financial content industry. The Internet has drastically changed how North American investors access financial information and manage their investments. This industry shows no signs of slowing down and will not be significantly impacted by the rise of wireless applications and personalized selling.

2.4.6 Overall Industry Attractiveness

This industry has several positive characteristics that influence its overall attractiveness. First, the Internet continues to grow in popularity and online spending shows no signs of slowing down. The financial content industry has been one of the fastest growing segments and continues to demonstrate tremendous growth. A successful product offering in this industry can result in massive traffic and a huge online audience. Second, there is an oversupply of technical expertise in the labour market and firms can pay lower wages than in past years. Many technology workers are still out of work and desperate to return to full-time employment. Third, online advertising rates are improving and the medium as whole is gaining wider acceptance. As more traditional advertisers start to include online advertising in their campaigns, rates will increase and the viability of advertising driven business models will improve. Fourth, the high fixed costs of entry can be mitigated if a firm already has the technical infrastructure and a built-in online audience. The ability to leverage economies of scale is a critical factor. Last, the North American stock markets are bouncing back and appear to be headed towards positive returns in the coming years. The traffic and popularity of online financial content is strongly correlated with the North American exchanges. A prolonged upswing will have a significant impact on the attractiveness of the financial content industry.

There are also several negative characteristics that influence the attractiveness of this industry. First, the incumbent firms are having a difficult time achieving profitability and have not been able to prove that a viable model exists for providing free financial content. This factor alone is a major deterrent to new entry and lowers the overall attractiveness of the industry. Advertising has not provided adequate revenues to cover the costs of running an online financial content business. Second, it is very difficult to differentiate a financial content product offering. The result is low switching costs and the need to launch expensive branding campaigns aimed at establishing a loyal audience. This factor is exacerbated by the ease at which competitors can copy online applications. Last, the low concentration of competitors causes intense rivalry for customers. The large players in this industry must contend with hundreds of smaller sites that offer basic market data as a complement to their existing content. For example, most online newspapers now offer stock quotes and company profiles as part of their online service.

The overall attractiveness of the North American online financial content industry is moderate. The factors described above describe a moderately attractive industry that has the potential to improve in the coming years. The growth of Internet usage, the popularity of financial content, and the wider acceptance of paying for online content all point toward a

growing market that could provide lucrative returns down the road. However, the inability of existing firms to achieve profitability and the slow growth of online advertising will deter new entry in the short-term.

2.5 Key Success Factors

Success in the North American online financial content industry is dependent on several important factors summarized below.

2.5.1 Deep Pockets

It requires substantial funds to support the inherent risks involved with running a large Internet-based operation. A new firm must be able to cover the significant start-up and branding costs. An established firm looking to add financial content to their online offering must be prepared to subsidize this expansion for a prolonged period. Building and hosting a large online audience is an expensive and challenging endeavour. New and existing firms must also be able to ride out a downturn in the stock market and the resulting drop in demand for online financial content.

2.5.2 Differentiation

Financial content sites offer a homogeneous product and must be prepared to invest heavily in finding ways to differentiate its content and the demographics of its audience. Differentiating content requires constant innovation, despite that fact that competitors will quickly copy any successful moves. Success in this regard has been rare, but sites that have achieved a degree of differentiation have been able to raise switching barriers and increase the appeal of their audience for online advertisers.

2.5.3 Economies of Scope

Firms that are able to leverage an existing online audience and the infrastructure necessary to support a high traffic site will have a distinct advantage over competitors. They will also lower their overall risk and will have an easier time achieving a positive return on their investment. Differentiation will be easier to achieve when financial content is added as a complimentary offering to existing online services or content.

2.5.4 Actionable Content

Financial content sites are able to increase loyalty and repeat visitors by providing actionable investing advice from established industry writers. The personality and writing style

of the experts employed by many investing portals becomes a part of the site's overall identity. For example, TheStreet.com leverages the high awareness of Larry Cramer to attract repeat visitors who seek his advice on industry trends and quality investments. Actionable content also includes timely publishing of analyst up and downgrade reports, which are valuable indicators for investors. These reports are expensive to access and must be published in close to real-time in order to be used effectively.

2.5.5 Multiple Revenue Streams

Firms that able to establish multiple revenue streams have the best chance of becoming profitable. Available revenue streams for online financial content sites are on site advertising, email advertising, premium content, and premium services and tools. When the Internet bubble burst in 2000 it became clear that these revenue streams were individually unable to support a major content site. Successful financial content sites must be dedicated to developing multiple revenue channels and must make shrewd business decisions on how to balance these strategies according to the unique characteristics of their audience.

2.6 Key StockHouse Competitors

There are nine primary Web sites that compete with StockHouse for the attention and loyalty of online investors. They can be separated into two groups: sites that are part of a larger Web property and sites that are stand-alone investing portals. There are numerous smaller players such as online newspapers, banks, and financial services providers that own a small percentage of the market. The following competitive analysis compares the strengths and weaknesses of the nine primary investing sites that compete with StockHouse.

2.6.1 Part of Larger Web Property

The investing sites listed below are part of larger Web properties and enjoy significant advantages over stand-alone investing portals. The advantages include high brand awareness, economies of scale, deep pockets, and massive traffic.

Table 1 – Large Players in the Investing Portal Market

Globeinvestor.com	
Description	Run by BellGlobe Media and part of a larger site that includes the Globe and Mail, Globefund, Globetechnology, and the careers site Workopolis. Leader in Canadian market news and advice, with many high profile writers and columnists.
Strengths	<ul style="list-style-type: none"> ● Globe and Mail financial writers regularly contribute articles and investing advice. ● Strong online portfolio tools that include the ability to add mutual funds, real estate, and other investments.
Weaknesses	<ul style="list-style-type: none"> ● Poor overall site usability and design ● Limited technical analysis tools
CBS MarketWatch.com	
Description	Owned by CBS Broadcasting Inc. and run in conjunction with BigCharts.com. A leading publisher of investing newsletters and a comprehensive online resource for investors.
Strengths	<ul style="list-style-type: none"> ● Quality and breadth of content, which includes opinionated editorials, personal finance, market news, and industry reports. ● Powerful charting tools powered by BigCharts.com ● The CBS brand and crossover with CBS radio and TV
Weaknesses	<ul style="list-style-type: none"> ● Credibility damaged by resignation of senior writer due to securities and disclosure violations in December 2003.
Yahoo Finance	
Description	Part of Yahoo, one of the largest and most successful portal sites. Separate versions for over 20 different countries.
Strengths	<ul style="list-style-type: none"> ● Unrivalled for overall data and content provided on individual public companies. ● Comprehensive technical analysis tools ● Yahoo brand awareness and audience reach.
Weaknesses	<ul style="list-style-type: none"> ● Reliant on third-party providers for majority of market and business news.

MSN Money	
Description	One of the leading sources for financial content and investing information. Part of the Microsoft network of sites.
Strengths	<ul style="list-style-type: none"> ● Large selection of proprietary content and investing tools ● Deep pockets and strong brand awareness. ● Partnership with CNBC
Weaknesses	<ul style="list-style-type: none"> ● Lacking the breadth of financial content and data provided by other top tier portals.
RagingBull.com	
Description	Provides basic financial content, best known for community discussions on individual public companies. Owned by Terra-Lycos.
Strengths	<ul style="list-style-type: none"> ● Online community has reached critical mass. ● Partnerships with other Terra-Lycos sites
Weaknesses	<ul style="list-style-type: none"> ● Poor usability due to integration with Quote.com. Site design has not been updated since 2000. ● Limited selection of market news and company data, reliant on community content to attract visits.

2.6.2 Stand-alone Sites

The following investing sites are not part of larger Web properties and focused solely on providing investing and financial content. The advantage of being a smaller, independent site is a singular focus, the ability to quickly respond to market changes, and a faster development cycle for new tools and financial content.

Table 2 – Small Players in the Investing Portal Market

Motley Fool	
Description	One of the most successful independent investing sites and successful publisher of print and electronic investing books and guides.
Strengths	<ul style="list-style-type: none"> ● Best run investing community with loyal user base ● High brand awareness and reach ● Successful in establishing paid subscription model
Weaknesses	<ul style="list-style-type: none"> ● Technical analysis and charting tools inadequate for serious traders

TheStreet.com	
Description	Strong market news and commentary from established team of experts. Focused on content and personality of writers.
Strengths	<ul style="list-style-type: none"> ● Successful crossover into radio and TV behind Larry Cramer. ● Content and tools targeted at experienced online traders
Weaknesses	<ul style="list-style-type: none"> ● Poor site usability and design ● Poor integration of premium content offerings
StockWatch	
Description	Provides basic stock quotes and financial content. Primarily focused on selling subscriptions for their real-time streaming quote platforms.
Strengths	<ul style="list-style-type: none"> ● Proprietary real-time platforms and tools for advanced investors. ● Leading source of real-time stock quotes for Canadian exchanges.
Weaknesses	<ul style="list-style-type: none"> ● Only basic quotes and financial content available for free.
Silicon Investor	
Description	Basic stock quotes and company information provided. Primarily driven by interest in community content.
Strengths	<ul style="list-style-type: none"> ● Online community has reached critical mass
Weaknesses	<ul style="list-style-type: none"> ● Poor content offering and limited business and financial news. ● Very little investment or changes since 2000

2.6.3 Niche Players

There are hundreds of smaller sites that offer financial content such as stock quotes, local business content, and market updates as a value-add service. These niche players are the third competitor segment for StockHouse. Examples are online newspapers, banks, brokerages, and financial services firms. They do not offer the breadth of content available at the larger financial Web properties described above, but manage to capture enough users to fragment the market. There has been an upswing over the past 18 month in the number of smaller sites adding financial content to their offering. This is due to the rise in the stock markets and the low cost of licensing basic financial content from third-party providers.

2.6.4 Summary of Competitive Analysis

The financial content industry is dominated by a number of large investing portals that are able to leverage cost efficiencies and audience share across multiple content offerings. Their massive reach and brand awareness create a significant barrier for smaller investing portals to overcome. Stand-alone investing sites are forced to differentiate their content offering and produce unique investing tools in order to compete. Visitors can be drawn away from giants such as Yahoo and MSN if a smaller player manages to create features and content that larger players are unable or unlikely to copy. Online community discussions, proprietary investing tools, and personality driven content are examples of strategies used by stand-alone investing sites. Another key strategy is developing a high-involvement development process with site users. The concept of co-creation is a strategy that will be discussed in Chapter 4 as a potential differentiator for StockHouse.

2.7 Chapter Summary

The analysis in Chapter 2 has a number of important implications for Stockgroup's strategic planning. First, the industry value chain demonstrates that Stockgroup chooses to differentiate itself from competitors by focusing on the sales and service segments. Stockgroup creates value and gains a competitive advantage by maintaining a highly flexible and aggressive sales process. The decision to focus on sales and service over research and development has caused product development to suffer. This decision will have significant strategic implications through the remaining chapters of this analysis.

The five forces industry analysis illustrates the competitive nature of the online financial content market and the challenges that prevent profitability. The rewards will be high for the winning firms, but outside factors such as the stock markets and online advertising rates will have a tremendous impact on the overall attractiveness of this industry. Despite the many positive signs that the industry is poised for growth, it remains a highly competitive and risky environment for incumbent firms. It will be difficult for Stockgroup as a small player to establish a strategy that drives the company towards profitability given the uncertain economic climate.

The key success factors for the online financial content industry will have a strong bearing on Stockgroup's future strategic planning. Small players have a difficult time overcoming the deep pockets and economies of scope that provide a competitive advantage for industry giants. However, small firms should have an easier time differentiating their offering,

which is a critical component of building a loyal audience base. Stockgroup needs to ensure that it continually develops proprietary and unique financial applications.

The industry analysis in Chapter 2 provides a context for the internal analysis that follows in Chapter 3. It is important for Stockgroup to determine whether the company's current strategic focus is detrimental or helpful towards establishing long-term competitive advantage within the financial content industry.

3 STOCKGROUP INTERNAL ANALYSIS

3.1 Chapter Overview

This chapter provides an internal analysis of Stockgroup through a strategic fit assessment and a breakdown of Stockgroup's value chain. The strategic fit assessment evaluates whether the company's operations are aligned with its strategic goals. The value chain analysis identifies Stockgroup's core competencies and describes the activities that enable the company to create value. The industry analysis in Chapter 2 combined with the internal analysis in this chapter will be used to help determine the optimal strategic decisions for the StockHouse business unit. It is vital that the paper's strategic recommendations are aligned with industry factors as well as the firm's core internal strengths.

3.2 Generic Strategy

Stockgroup's generic strategy is differentiation, achieved by creating innovative financial applications and by providing highly responsive customer service to its clients. Stockgroup provides quality, highly flexible products and strives to customize its offering to the unique needs and requirements of each individual client. These two forms of differentiation have been present throughout Stockgroup's corporate history but have received varying levels of investment over the years. During 2003 the company was focused on customer service and sales initiatives. Product development and innovation was neglected and received far less funding.

3.3 Strategic Fit Assessment

Stockgroup's strategic fit is evaluated across the nine variables listed in the Strategy Fit Chart (Bukzar, 2004). Each variable is assessed individually and is graded on a score of 1 to 10. The remainder of this section is centred on analyzing how each variable contributes to Stockgroup's ability to implement its strategy.

Company: StockGroup Information Systems														
Generic Strategy: Differentiation														
	COST BASED Low Cost/Adequate Quality							DIFFERENTIATION High Quality/Adequate Cost						
	←—————→													
Product Strategy	Rapid Follower	0	1	2	3	4	5	6	7	8	9	10	Innovative	
R&D Expenses	Low R&D	0	1	2	3	4	5	6	7	8	9	10	High R&D	
Structure	Centralized	0	1	2	3	4	5	6	7	8	9	10	Decentralized	
Decision Making	Less Autonomy	0	1	2	3	4	5	6	7	8	9	10	Autonomy	
Production	Economies of Scale	0	1	2	3	4	5	6	7	8	9	10	Economies of Scope/Flexible	
Labour	Mass Production	0	1	2	3	4	5	6	7	8	9	10	Highly Skilled/Flexible	
Marketing	Comparative/Push	0	1	2	3	4	5	6	7	8	9	10	High Cost/Pioneering/Pull	
Risk Profile	Low-Risk	0	1	2	3	4	5	6	7	8	9	10	High Risk	
Capital Structure	Leveraged	0	1	2	3	4	5	6	7	8	9	10	Conservative	
AVG SCORE		7.7												

Figure 9 - Stockgroup Strategic Fit Chart (Based on Bukszar, 2004)

3.3.1 Product Strategy

Score: 8

Stockgroup has over 50 different financial applications that are used on the StockHouse.com investing portal and offered to Financial Tools clients. The overall product strategy is shaped around two goals: (1) Ensuring that all of the basic financial applications that competitors provide are included in the company’s product mix, and (2) Creating innovative financial applications and content that differentiate Stockgroup’s offering from competitors. Basic applications include online stock quotes, company profiles, fundamentals, and portfolio tools. These products have been available for over five years and are considered commodities. Recent product innovations have included StockScores⁴, company news alerts, and aggregated analyst reports.

Stockgroup’s ability to create innovative products has helped win new clients and increase page views and unique visitors at StockHouse.com. Potential clients are continually

impressed by the product mix and unique financial applications that Stockgroup has developed. However, developing innovative products requires significant human capital and programming resources to be successful, and over the past twelve months Stockgroup has gradually decreased spending. This shift has been the result of financial pressures to achieve more sales with the existing product mix and the need to transfer technical resources towards the maintenance and upkeep of Stockgroup's complex technical infrastructure. For example, the 2004 staffing goals for the technical team is centred on the need for systems and database administrators, rather than increasing design and product development capacity.

The financial pressures to achieve higher sales and the need to devote more resources to maintenance have lessened Stockgroup's ability to create innovative products. There are several competitors that have been able to gain market share by creating leading edge products over the past twelve months. Innovation remains a dormant core competency at Stockgroup but the competitive advantage gained through this variable has diminished.

3.3.2 Research and Development Expenses

Score: 5

Stockgroup's R&D expenses have dropped considerably over the past three years for several reasons. First, during the tech boom of the late 90's Stockgroup was able to raise operating capital through private placements and share offerings. These funds were used to support expensive R&D efforts and new product ideas. In today's market, Stockgroup is unable to rely on new share offerings to finance operations. As a result, Stockgroup has a much smaller product development staff and a higher degree of company-wide cost control. Second, the pressure to achieve profitability has led to a focus on R&D activities that promise a short payback period. Stockgroup can no longer afford to gamble precious R&D funds on risky product ideas that take longer than six months to develop and test.

The need for a short payback period on R&D expenses has impaired Stockgroup's ability to compete with a differentiation strategy. For example, creating innovative products often requires extensive product development meetings, continual customer surveys and intelligence gathering, and multiple rounds of testing and quality assurance analysis. Stockgroup has decreased all three of these activities in an effort to control costs and focus resources on low-risk development projects.

⁴ Stockscores are coloured arrows which provide an easy understand graphical indicator of a company's trading activity over the past 200 trading days.

Stockgroup's experience in the financial content market and its in-house expertise has enabled it to develop an adequate level of product innovation over the past few years, but there is no denying the direct correlation between a firm's R&D expenses and its ability to differentiate its products. There are several competitors that emerged during 2002 and 2003 that have outperformed Stockgroup on a differentiation basis by undertaking expensive R&D initiatives. Stockgroup is going to have a difficult time executing its current strategy without increasing its budget for R&D.

3.3.3 Structure

Score: 5

The optimal corporate structure for a firm that wishes to implement a differentiation strategy is decentralized, where authority is dispersed among small business units that are responsible for specific activities. This structure allows skilled managers to guide business initiatives and focus their expertise on the business operations they know best. Decentralization also helps facilitate efficient product development processes and responsive customer service by removing layers of bureaucracy and control.

Stockgroup does not employ a decentralized structure and its strategic fit has suffered in several ways. First, the small size of Stockgroup should be ideal for setting up fast-moving and responsive teams that are able to focus on specific objectives. However, the high involvement of upper management slows down efficiency and hinders customer responsiveness. This creates an environment where product innovation is slow to develop and customers are forced to wait while managers seek buy-in and approval from their superiors.

The second drawback to Stockgroup's strategic fit is that a centralized structure is not conducive to growth. As new staff is added and the company grows, product development and innovation will become increasingly bogged down in layers of management and control. It will be difficult for managers to act quickly and respond to market conditions if administrative authority is not dispersed among the individual teams.

3.3.4 Decision Making

Score: 6

Stockgroup's centralized structure also leads to a lack of autonomy in the decision making process. All high-level strategic decisions and customer related issues are required to have buy-in from senior management. This slows down response time and makes it difficult for

new ideas to be approved in a timely manner. A successful differentiation strategy requires employees to have the freedom to utilize their individual expertise and experience.

Low decision making autonomy not only slows down business activities and neutralizes employee talent, it also implies a lack of faith in the ability of department managers to align their department's projects with Stockgroup's strategic goals. It is difficult to make quick product development or sales decisions without a high level of autonomy across a company's senior level management.

3.3.5 Production

Score: 10

Stockgroup's production process consists of developing new financial applications for StockHouse and individual client sites for the Financial Tools team. Since each project is uniquely defined, the production process is highly flexible and aligned with a differentiation strategy. For example, Stockgroup's team of programmers and web designers are currently working on three projects that will be launching on StockHouse.com in the first quarter of 2004, and seven individual Financial Tool projects that range in size and scope. The StockHouse projects are flexible and receive adequate testing, while the FT projects are designed according to an original work order and ongoing review and discussion with clients. Flexibility in design and process is crucial to ensure that projects are completed on time and budget. It is also one of the primary differentiators between Stockgroup's product offering and the non-customizable off-the-shelf solutions that are sold by larger competitors.

Stockgroup's production process also takes advantage of economies of scope, as applications are developed concurrently for StockHouse and Financial Tools. The end user for both business units are online investors, and potential synergies are maximized whenever possible. An example is the development of end-of-day market summary newsletters that are emailed to registered users at the end of trading. This product can potentially be sold to current and new FT clients and holds high appeal for users of StockHouse.

3.3.6 Labour

Score: 9

Stockgroup's employees are suited to the demands of a flexible production process. Each member of the staff was hired because they possessed specific skills that matched the requirements of their role. Great efforts are made to ensure that duplication of skills is minimized. The hiring process at Stockgroup often takes several months and decisions are made

carefully. It is paramount that new employees are highly skilled and able to contribute their expertise to Stockgroup's production process.

Stockgroup's personnel are also required to work on multiple concurrent projects and must be ready to shift focus at any time. Flexibility is a key trait, especially among the development and technical staff. One of the consequences of creating competitive advantage through customization is that developers must be prepared to accommodate the numerous changes and add-ons that clients expect. A recent example is Credential Direct, a high priority project that required the development team to quickly complete a list of changes aimed at improving the client's Gomez Rating⁵ (Gomez Inc., 2003). By working long hours and juggling priorities, Stockgroup was able to help Credential improve their ranking to second in Canada, a significant improvement.

3.3.7 Marketing

Score: 9

Stockgroup's marketing strategy is aligned with a differentiation strategy for several reasons. First, the sales teams attract new clients by creating highly targeted proposals that are aimed at attracting a particular vertical, industry segment, or individual company. For example, Stockgroup has targeted Associated Press newspapers over the past year, creating interest in using Financial Tools products to power the business section of their online editions. This marketing approach is costly, highly personalized, and is intended to appeal directly to the end customer (Managing Editors). This is a typical pull⁶ strategy (MarketingPower.com, 2004), where potential customers are convinced that your products are something they need.

Stockgroup's marketing initiatives for StockHouse also help to execute Stockgroup's differentiation strategy, as several pioneering and cutting edge marketing strategies were employed during 2003. These marketing programs included the integration of "viral marketing" tools on StockHouse, where users are able to email links and samples of the site's financial content to friends and contacts. Viral tools are a recent online invention and are destined to become an essential component of online marketing campaigns. Another example of a pioneering marketing strategy is the use of price/volume alerts, where users are contacted via email when a

⁵ Gomez Canada, a leading financial services consulting firm, releases an annual scorecard ranking online Canadian brokerages according to over 250 criteria and a ranking of 4000 investors.

⁶ Pull Strategy defined by MarketingPower.com: 1. (physical distribution definition) A manufacturing strategy aimed at the end consumer of a product. The product is pulled through the channel by consumer demand initiated by promotional efforts, inventory stocking procedures, etc.

stock in their portfolio reaches a pre-defined price level or trading volume. StockHouse was one of the first investing sites to offer this tool, and it helped increase brand awareness and loyalty across its user base.

3.3.8 Risk Profile

Score: 9

Stockgroup trades on the TSX-Venture exchange and is considered a high-risk investment because of the losses that have been incurred during the company's existence and the highly competitive nature of the financial content industry. The company has raised over (US) \$8 Million during the past five years and only has (US) \$1 Million left to fund operations (2003 Annual Report: Stockgroup Media, 2004). Despite being EBITDA positive in Q4 2003, Stockgroup has not yet proven that it can operate profitably for an extended period. The potential to raise additional funds has been hampered by the downturn in technology stocks since the Internet bubble of the late 1990's

Stockgroup's revenues are strongly influenced by stock market conditions, adding to the company's high-risk profile. Many StockHouse advertisers are small public companies that depend on investment dollars to fund their marketing and investor awareness campaigns. If a prolonged bear market were to ensue, many of Stockgroup's advertising clients would experience a drastic reduction in their marketing budgets.

3.3.9 Capital Structure

Score: 10

Stockgroup's corporate structure is highly conservative, there is currently no long-term debt and operations are funded entirely through share offerings to outside investors over the past 18 months. Stockgroup currently has \$1 million in cash that provides a cushion for funding research and development projects and general operations. This is a good fit with a differentiation strategy where dollars are allocated as necessary to ensure Stockgroup's products remain a high quality, differentiated offering among its competitors.

3.4 Summary of Strategic Fit

Strong: Stockgroup's differentiation strategy is strong in several areas. First, Stockgroup produces innovative, high quality products. It has been able to gain market share by separating its product offering from competitors and building unique financial applications. Even though Stockgroup has been shifting development projects to lower risk product ideas, the company has

been able to continue to innovate by utilizing its experience and making smart research and development expenditures. Second, Stockgroup employs a highly skilled development team that is able to build flexible products and handle the needs and requirements of a demanding client base. Third, Stockgroup's risk profile and capital structure are aligned with a "high quality, adequate cost" strategy. The company has eliminated all long-term debt and is considered a high-risk investment due its failure to reach breakeven and its dependency on a healthy stock market.

Weak: Stockgroup's differentiation strategy is weakened by the company's diminishing research and development budget and the lack of decision-making autonomy provided to the individual business units. The decline in research and development expenditures is a direct result of the pressure to achieve profitability in 2004. While it is important to monitor development projects closely, Stockgroup has to be careful that it does not sacrifice long-term gain by only investing in projects that offer an immediate payback. Upper management's preference on maintaining tight control and authority over the day-to-day business operations helped Stockgroup survive during the downturn, but could be a hindrance during a growth phase. A centralized structure is better suited to a cost based strategy, where the primary goal in ensuring cost efficiencies across the entire organization.

3.5 Stockgroup Value Chain Analysis

The following Value Chain (Porter, 1985) organizes the business activities of Stockgroup into support activities and primary activities. Primary activities are divided into three categories by colour: core competencies are green, secondary competencies are blue, and outsourced activities are beige. These activities in total demonstrate how Stockgroup creates value for customers. The remainder of this section describes the Stockgroup value chain and offers an analysis of whether Stockgroup is focused on the appropriate business activities to achieve its generic strategy.

3.5.1 Support Activities

The Firm Infrastructure support activities are divided into three components. First, the accounting team takes care of Stockgroup's financial reporting requirements. The accounting team consists of the CFO, an Accounts Payable clerk, and an Accounts Receivable clerk. The accounting team also manages the public company reporting requirements of the U.S. OTCBB and the Canadian TSX-Venture exchange. Stockgroup's operating capital has been raised through several private placements over the past six years.

The second component is the Management Team, which consists of eight senior staff members from a total of 45 employees. They are responsible for strategic planning, running Stockgroup's business units, and managing their individual teams. The management team meets every Monday for ninety minutes to discuss the week's objectives and meets daily Tuesday through Friday for ten minutes each morning to monitor progress and discuss obstacles. The management team also holds quarterly strategy sessions where each business unit presents their achievements in the previous quarter and outlines their goals for the upcoming quarter. These strategy sessions provide an opportunity for each business unit to secure the necessary resources to accomplish the company's goals. The management team holds an all company meeting once a quarter to review strategic objectives with the staff and to discuss important corporate events.

The third component is Legal Services, which are outsourced to several firms. Legal activities include reviewing filings and press releases and making sure the company is compliant with current online privacy laws. Most of Stockgroup's legal work is involved with public company requirements for the OTCBB and TSX-Venture exchanges.

Stockgroup's HR activities are done internally and consist of four basic functions. First, the company does all of its own recruiting by encouraging staff members to recommend contacts and by posting job openings in the local tech marketplace. The company prefers to hire people that have a personal recommendation from an existing staff member. Second, the firm does its own hiring, which includes evaluating resumes and conducting interviews. Department managers are responsible for this work, as Stockgroup has no dedicated HR staff. The result is a slow hiring process and a moderate level of success hiring key individuals. The third function is training, which consists mainly of sales training. Account managers are the only employees who receive training when they first join Stockgroup. The last function is compensation, which is focused on reviewing and evaluating the Stockgroup stock option plan and the commission

structures for sales staff. This is the only compensation analysis that occurs, no other formal analysis is scheduled throughout the year. Underlying the training and compensation activities is the company's focus on its sales staff. Sales personnel receive the majority of attention in all HR matters.

Stockgroup's technology activities are critical, and can be separated into primary and supporting activities. The focus of this section is the six supporting business activities, as a more in-depth analysis will be conducted later for the primary activities. First, IT Systems ensure that the basic IT infrastructure is capable of supporting Stockgroup's business operations. This includes the staff positions of Systems Manager and Jr. Systems Manager. Second, Database Structure involves general maintenance and administration of Stockgroup's complex databases of market data and customer information. A Database Administrator is assigned responsibility and plays an important role within Stockgroup. The third activity is called Web Servers, which involves general maintenance and upkeep for the Stockgroup's servers, which deliver financial content to StockHouse.com and Financial Tools clients. The next two activities, Maximizer and Sales Collateral fall under the Sales and Marketing category. Maximizer is for contacts management and all account managers are required to keep their contacts up to date on a weekly basis. Sales Collateral is the responsibility of two Sales Support personnel who create HTML and PDF sales collateral for each of the sales teams. The sixth and final support activity is Help Files, which are listed on StockHouse.com. The site's FAQ information is updated and tracked by Stockgroup's Customer Service Rep, who also answers questions sent in from users via email.

Procurement activities are centred on three main components. First, Market Data and Content refers to the selection of content vendors that provide 95% of the financial content delivered by Stockgroup. The raw data is received through direct data feeds, and Stockgroup adds value by building unique Web-based applications that display the raw data in user-friendly formats. The selection of vendors is important, but is not a primary activity. The second component is Equipment, which is purchased by the technical team and distributed as required across the Stockgroup business units. Equipment is purchased based on price, as Stockgroup does not attempt to differentiate itself based on the quality of its IT equipment. The company makes very few purchases from Tier 1 vendors. The final procurement component is Bandwidth, which is leased from Telus. The company purchases additional bandwidth as necessary based on estimated user and traffic growth across StockHouse and Financial Tools clients.

3.5.2 Primary Activities

The following primary activities are identified as either a core competency, secondary competency, or outsourced.

3.5.2.1 Inbound Logistics

Secondary Competency - Data and Financial Content Warehousing

The selection of financial content vendors is a support activity, but the strategy for storing the vast amounts of financial data is a primary activity for Stockgroup. Content must be stored so that it can be quickly and efficiently extracted and directed towards online financial applications. For example, stock trades for all North American publicly traded companies are fed to Stockgroup by a vendor named NAQ. The vast amount of raw data must be organized in a system that allows clients and StockHouse users to quickly receive the latest trading information throughout the day. This is accomplished by building complex data extraction programs for each individual financial application that Stockgroup creates. Figure 11 is a graphical rendering of how Stockgroup stores data from financial content vendors and steams the relevant information to the financial applications on StockHouse and Financial Tools client sites.

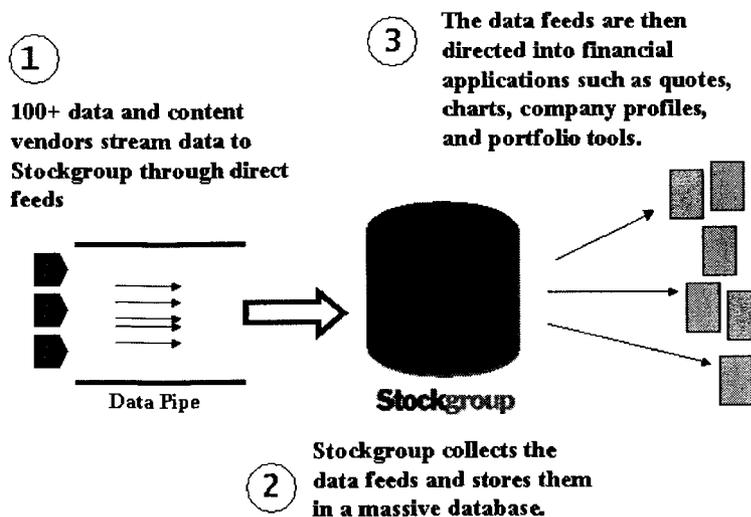


Figure 11 - Stockgroup Data Warehouse

Secondary Competency – Content Creation

Stockgroup creates approximately 5% of its financial content internally. Internal content consists primarily of hourly market updates and an end-of-day market wrap-up. These updates are published on StockHouse.com and licensed to a small number of Financial Tools clients. Stockgroup has two financial writers that are responsible for writing and publishing these updates on a daily basis. The writers are contract workers and they have limited involvement in other areas of the company. Stockgroup's content strategy differs from some players in the financial content industry who dedicate significant resources towards creating proprietary content. Many of Stockgroup's larger competitors have over fifty in-house writers on their editorial team.

3.5.2.2 Operations

Core Competency - Flexible Programming and Design

Stockgroup's creates a competitive advantage by offering Financial Tools client sites a highly customizable product offering. The programming and design teams work directly with clients and have extensive experience working in a flexible environment. Stockgroup's differentiation strategy is supported by these activities and the company has a reputation in the marketplace as having excellent customer service. Many of the larger competitors in the Financial Content industry offered more structured products and are less willing to customize their products for mid-tier clients.

Stockgroup's flexible design activities include development projects for StockHouse.com. These projects often have synergies with product development for Financial Tools, allowing similar products to be developed concurrently. Juggling these projects requires a high degree of flexibility and provides another example of how Stockgroup creates value through its programming and design activities.

Core Competency - Product R&D

In order to compete in the financial content industry with a differentiation strategy, Stockgroup is required to continually create innovative and industry leading financial applications. These applications are showcased on StockHouse.com and licensed by the Financial Tools team. Stockgroup has a reputation in the market place as an innovative firm and is able to charge a premium for their products. Innovation requires high R&D spending and the allocation of resources towards identifying new opportunities and testing new applications. Stockgroup must return to heavy investment in Product R&D in order to execute a differentiation strategy. The value created by these activities will diminish proportionately with any reductions in the overall R&D budget.

Outsourced – Audience Measurement

An important aspect of Stockgroup's operations is audience measurement analysis, the practice of studying traffic trends on StockHouse.com and Financial Tools client sites. This activity is outsourced due to the heavy server load it causes and the low monthly fees charged by vendors. Stockgroup accesses traffic reports online and is able to customize the reports to suit the company's needs. Metrics tracked include page views, unique visitors, search engine referrals, and session duration.

3.5.2.3 Outbound Logistics

Secondary Competency - Internet Portal Design and User Interface

An important aspect of Stockgroup's outbound logistics is the overall usability of the StockHouse investing portal. The user interface and navigation serve as the platform for distributing the company's financial applications to online visitors. Failing to provide an efficient and organized design structure can result in lost traffic and advertising revenue. Every Web-based application that the company presents must be thoroughly tested for usability.

Secondary Competency – ASP for Clients

Outbound logistics for Financial Tools clients is handled by acting as an ASP (Application Service Provider), where financial content and applications are streamed into specific areas of client sites. After building financial applications suited to a client's needs, Stockgroup integrates products into the client's Web site. For example, the New York Newsday newspaper site has a Stockgroup scrolling ticker⁷ on the front page of its online Business section. The scrolling ticker is hosted by Stockgroup, and runs seamlessly within the Newsday site.

3.5.2.4 Marketing and Sales

Core Competency – Personal Selling

Stockgroup creates value and differentiates its products through personal selling strategies that target specific sectors and verticals. Stockgroup's sales teams are highly trained and receive the majority of their compensation through sales commissions. Account Managers that fail to reach monthly sales targets for three straight months lose their base salary and are paid by commission only. Each of the company's three sales teams is expected to meet aggressive sales goals each quarter. The sales teams are required to participate in book clubs and other training exercise aimed at keeping account managers abreast of the latest sales strategies.

⁷ Located at: <http://www.newsday.com/business/>

Significant resources are spent on recruiting, training, and managing sales personnel, enabling Stockgroup to create value through its sales tactics.

Outsource – Online Marketing and Promotion

Stockgroup chooses to outsource two key components of its limited online marketing initiatives. The first is search engine optimization, which is handled by Acperion. Search engine optimization ensures that StockHouse is properly indexed under relevant keywords within the major search engines. The second is external advertising, which is handled by an outside firm. They are responsible for purchasing advertising at sites that provide the appropriate audience demographics and interests. Stockgroup provides this firm with a limited budget each quarter for purchasing advertising.

3.5.2.5 *Service*

Core Competency – Client Customer Service

High involvement customer service is a natural extension of the personal selling activities described earlier in this paper. When a Financial Tools client site is launched, account managers proactively stay in contact and ensure that everything runs smoothly. Stockgroup is able to create value through customer service by maintaining a high renewal rate on one year and two year contracts. Clients are less likely switch providers if a high level of customer service has been provided for the duration of the contract. This level of service also serves as a differentiator between Stockgroup and some of the larger competitors in the financial content market.

Secondary Competency – Service Level Agreements

A critical aspect of any Financial Tools contract is the SLA that Stockgroup guarantees. The SLA promises over 99% uptime of all Stockgroup financial products. In order to uphold this level of service Stockgroup has ensure that its technical infrastructure is running efficiently and that back-up recovery plans are in place. For example, members of the technical team are required to wear pagers during off-hours and weekends so they can immediately be alerted if a server crashes or if system uptime is in jeopardy. The technical team is responsible for coordinating these activities and remaining in communication at all times.

Secondary Competency – Customer Service: Users

Stockgroup receives via email several hundred questions and requests from StockHouse users during each trading day. Responsibility for answering user email is shared between general customer service staff. The company's policy is to respond to each email within twenty-four hours. This creates value by differentiating Stockgroup from competing investing sites that often fail to respond to user requests.

3.5.3 Core Competencies

Stockgroup creates value through several primary business activities. First, Stockgroup's flexible programming and design team allows the company to offer highly customizable and robust financial content. Clients are won by demonstrating a willingness to listen and respond to the unique requirements of each Financial Tools client. Stockgroup's design team has extensive experience in the financial content market and is able to produce high quality work with very little documentation and structure. A significant segment of the customers in the financial content market are seeking this level of flexibility.

Second, Stockgroup creates value through investments in product R&D and by striving to create innovative and cutting edge products. Resources are dedicated to ensuring that basic financial content applications are maintained and kept up to date, but the primary focus is on creating new applications that will provide the company with a competitive advantage. Product innovation allows Stockgroup to execute its differentiation strategy and charge a premium for its products. Failure to uphold a high level of product innovation would be detrimental to Stockgroup's strategy and would adversely impact their ability to compete in the financial content market.

The third and fourth activities that create value are closely linked: personal selling and client customer service. Both require account managers to practice high involvement customer service before and after a contract is signed. Stockgroup facilitates these activities by carefully hiring sales personnel and hosting numerous sales training seminars throughout the year. Stockgroup's differentiation strategy is dependent on the value created by exceptional selling practices and client relations.

Stockgroup takes a different approach than most players in the financial content industry by providing highly customizable financial content products. Most firms focus on delivering structured off-the-shelf products that are priced lower and can be supplied to a larger number of clients. Stockgroup's products are competitive with other market players, but the true value of Stockgroup's services is the high involvement customer service that's provided.

3.6 Chapter Summary

The strategic fit assessment demonstrated that several key areas of Stockgroup's operations are not aligned with a differentiation strategy. First, there is currently a lack of investment in research and development activities. The pressure to achieve profitability has caused product development to be minimized in order to reduce costs. Second, the operational

structure slows down the decision-making process and fails to distribute power across the firm's managers. Identifying these weaknesses in Stockgroup's differentiation strategy is an important step towards making strategic recommendations for StockHouse.

The value chain analysis provides further evidence that Stockgroup's core strength is the high level of customization and flexibility provided by the company's product offering and sales process. This includes supporting an aggressive sales team and ensuring that programming and design personnel are capable of completing a myriad of complex development projects. Product research and development is also a core competency, but there is currently a low level of activity in this area and inadequate funding to sustain a competitive advantage.

4 STRATEGIC ISSUES

4.1 Chapter Overview

This chapter analyzes the two primary strategic decisions that are the focus of this project. The first is a firm level decision by Stockgroup on the amount of investment to allocate to the StockHouse business unit. This will depend on the level of investment dedicated to other divisions, the company's financial position, and the company's long-term strategic vision. The second decision is at the business unit level, and is centred on how to compete against industry giants in the financial content market. StockHouse has a number of different strategies it could implement based on the level of funding it receives. The information in this chapter, combined with the findings from the internal and external analysis, provide the foundation for the strategic recommendations described in Chapter 5.

4.2 Firm Strategic Issues - Stockgroup

At the firm level, Stockgroup has three basic investment alternatives for the Financial Tools and StockHouse business units. These alternatives must be weighed against each other, since Stockgroup does not have the necessary cash and staff resources to invest heavily in both. The three alternatives are: high investment aimed at strong growth in revenues and market share, moderate investment aimed at preserving revenues and market share, and low or zero investment aimed at divesting or selling off one of these divisions. Identifying these alternatives is an important step for Stockgroup that will bring a greater sense of clarity to the company's strategic planning. Once the level of investment and growth expectations are agreed upon, Stockgroup will be able to design a more targeted and strategically viable roadmap for each business unit.

4.2.1 High Investment

One of the downsides of having two district business units that compete in different market segments is that Stockgroup's small size precludes it from investing aggressively in both. In order to achieve high growth in revenues and market share in both Financial Tools and StockHouse, Stockgroup would need access to greater financial resources. Stockgroup's cash position at end of 2003 was \$1.4 million (2003 Annual Report: Stockgroup Media Inc., 2004),

but the company suffered significant losses during 2003. Current market conditions make the prospect of raising additional funds bleak, so Stockgroup must plan its growth strategy carefully.

It is costly to grow Financial Tools revenues and market share for several reasons. First, a high level of product research and development investment is required to keep pace with competitor offerings. There are numerous competitors in the financial content licensing market and new financial applications must be continually developed. Second, Stockgroup has differentiated itself in this market by offering high levels of customization. This requires significant development resources in order to build and create personalized applications for each client. Third, the marketing and selling of Financial Tools is based on a highly targeted pull strategy and requires talented sales personnel that are able to recruit and win customers. Top sales personnel expect generous base salaries and commission rates.

StockHouse also requires significant investment in order to increase revenues and market share. First, increasing monthly page views and unique visitors is difficult and expensive proposition. It requires a significant investment in marketing, branding, and advertising. Page views and unique visitors will grow organically when the North American markets experience an upswing, but each investing portal enjoys the same relative benefit. Building audience share is daunting task for small Internet companies, and StockHouse is fortunate that it achieved high brand awareness in Canada during the Internet bubble. The benefits of the millions of dollars spent on marketing in 1999 and 2000 (before acquisition) are still felt today.

Another reason that StockHouse requires high investment is that building audience share is only worthwhile if a site has a viable way of capitalizing on increased traffic and visitors. This is achieved by creating multiple streams of revenue such as advertising and direct user purchases of subscriptions or premium financial content. StockHouse is well positioned to increase advertising revenues, but has thus far failed to build a compelling subscription or paid content offering. Significant investment would be required to both improve StockHouse's e-commerce capabilities and to create a competitive line of premium subscriptions or products.

Stockgroup has determined that the Financial Tools division provides the greatest opportunity and is investing heavily to grow and expand this part of its operations. StockHouse therefore will not receive the same level of investment, staffing, and management attention. The remaining two options, moderate or low investment, are the only viable options.

4.2.2 Moderate Investment

A moderate level of investment in StockHouse would have a number of benefits for Stockgroup. First, moderate investment would allow Stockgroup to treat StockHouse as a cash

cow⁸ and Financial Tools as a star,⁹ according to the Boston Consulting Group's Growth Share Matrix depicted in Figure 12 (Boston Consulting Group, 1975). The cash generated from StockHouse can be used to fund the growth and expansion of the Financial Tools product offering.

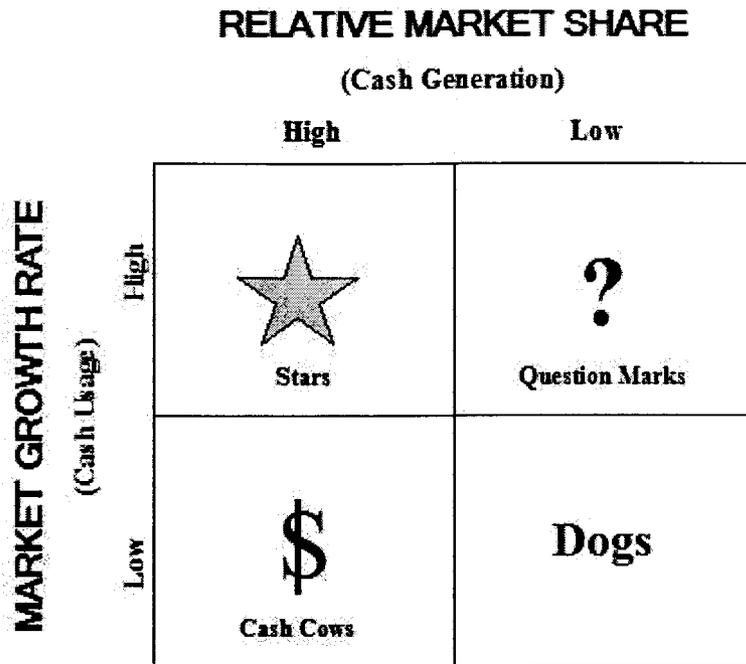


Figure 12 - Boston Consulting Group Matrix (Based on Boston Consulting Group, 1975)

StockHouse's market growth rate was slow or flat through 2003 but the cash generation potential remained high. Consistent revenues through on site advertising and public company awareness campaigns are reasonably secure through 2004 and 2005. StockHouse has achieved a critical mass of loyal users, so maintaining these revenue streams will require minimal investment. The user base provides a sufficient audience for public company awareness services and a large surplus of advertising inventory. They are unlikely to switch to competing investing site as long as Stockgroup invests a minimal amount of resources towards site performance and basic upgrades in financial content. Stockgroup is able to treat StockHouse as cash cow and reap

⁸ Defined by the Boston Consulting Group as products with high market share and slow growth that are able to generate large amounts of cash, in excess of the reinvestment required to maintain market share.

⁹ Defined by Boston Consulting Group as high share, high growth products.

the benefits of millions in development and marketing dollars that were spent before the site was acquired in June 2002.

A second benefit of moderate investment is that preserving StockHouse's earning power enables Stockgroup to enjoy joint cost synergies with the Financial Tools division. Costs that can be shared across both business units include bandwidth, product development, market data, and hosting. Sharing these costs improves profit margins for Financial Tools contracts and creates a cost-based competitive advantage.

A third benefit is that StockHouse can be used as a testing ground for new financial applications or content for the Financial Tools team. New applications can immediately receive testing and feedback from StockHouse visitors. There's also the potential to glean valuable insights into investing trends by monitoring the StockHouse audience and watching traffic patterns to different segments of the site. The Financial Tools team has an audience of investors that it can tap into at any time, which is a significant competitive advantage.

Finally, a moderate level of investment provides Stockgroup with the ability to increase investment in future quarters. If the stock market experiences a prolonged upswing the demand for online financial content will increase. StockHouse will be well positioned to take advantage of improvements in the overall attractiveness of this market. There is also the potential for some of the smaller players in the financial content market to consolidate or exit, providing a momentary opportunity to increase market share.

4.2.3 Low Investment

The final investment option for the StockHouse business unit is low investment, which includes the possibility of selling StockHouse and focusing solely on Financial Tools. This option is unlikely due to company's dependency on StockHouse revenue, the benefits of shared costs, the recentness of the StockHouse acquisition, and the potential for the site's value to significantly increase in the coming years. Selling StockHouse outright is not currently an alternative, but could become a more attractive option in the future.

4.2.4 Summary

Stockgroup's decision to focus on growth opportunities in Financial Tools market leaves two investment options for StockHouse: moderate or low. Low investment or selling StockHouse is not an attractive option and would adversely affect Stockgroup's overall economic health. As a result of these conditions, it is clear that a moderate level of investment in StockHouse is the best alternative. This will allow the company to maintain current StockHouse revenues, enjoy shared

costs across both divisions, and use StockHouse revenues to fund the expansion and growth of Financial Tools.

It is important for Stockgroup to acknowledge at the firm level that it is treating Financial Tools as a star and StockHouse as a cash cow. This will remove some of the confusion that currently exists over the strategic direction of the two business units. The exercise of reviewing the three investment options provides a degree of clarity about Stockgroup's strategic plans.

4.3 Business Unit Strategic Issues – StockHouse

The decision to treat StockHouse as a cash cow and to allocate a moderate level of investment has a number of strategic implications. The remainder of this chapter provides an overview of the strategic alternatives that are available and the key issues that StockHouse must confront.

The primary strategic issue for StockHouse is that it competes against large industry players with much greater financial resources. Giants such as Yahoo Finance, MSN Money, and Globeinvestor have a number of inherent advantages that make it difficult for stand-alone investing portals to compete. Given StockHouse's size relative to its major competitors, the issue of how to maximize the benefits of its small size is central to StockHouse's strategic planning. Strategies for small players include focusing on a niche content offering, striking industry alliances, providing innovative investing tools, moving fast to capitalize on industry trends, and offering lower prices. Reviewing these options provides a number of key insights into the internal issues that impact StockHouse's strategic planning.

4.3.1 Niche Focus

A strategy employed by small industry players is to focus on a niche industry segment. This allows a small firm to provide a level of detail and speciality that larger players are unlikely to copy. Rather than struggling to compete directly against the scope of offerings from large players, a firm can establish a reputation as the leading source of information for a particular customer or industry segment. Google successfully executed this strategy in 2001 when it chose to focus all of its resources on Internet search. While industry leaders such as Yahoo, Lycos, and MSN focused on expanding their content offering to new segments, Google devoted all of its efforts to designing better searching tools and amassing a larger index of searchable content.

Google quickly became the number one search engine and one of the most recognizable online brands.

A niche strategy would allow StockHouse to focus content development on a particular segment, industry, or country. For example, 85% of StockHouse visitors reside (Internal Red Sheriff Report: Stockgroup Media, 2004) in Canada, which opens the possibility of focusing exclusively on the Canadian stock exchanges. Another niche segment is micro and smallcap companies¹⁰, which currently receive the highest level of traffic on StockHouse. Both of these strategies would be broad enough in scope that StockHouse would not experience a significant decline in audience share or site traffic.

The downside to this strategy is could adversely impact StockHouse revenues. StockHouse currently generates 40% of advertising revenues from US-based advertisers and would risk losing these customers if the site specialized in Canadian markets. In addition, during the Internet boom Stockgroup developed and marketed its own investing portal SmallCapCenter.com, which was focused on micro and smallcap companies. The site failed to receive the traffic and branding necessary to reap significant advertising revenue and struggled to achieve a critical mass of loyal traffic.

4.3.2 Alliances

Strategic alliances can help small firms compete against industry giants by linking products and services across a network of sites. This provides a larger total audience for each individual member of the alliance and is faster and cheaper than other alternatives. An alliance between Internet firms can be marketing or product based. A marketing alliance consists of reciprocal linking between partners. A product alliance involves selling complementary products and services directly and sharing revenues.

An example of a successful alliance is between the Globe and Mail and Workopolis, one of Canada's largest online employment sites. Workopolis provides a valuable service to the Globe and Mail's Web property by providing a leading index of classified job positions and career help. In turn, Workopolis is able to enjoy strong traffic referrals and branding through its association with one of Canada's leading publishers. This partnership has helped Workopolis gain the audience and market share necessary to compete with giant career sites such as Monster.com and CareerBuilder.com.

¹⁰ Micro cap companies are typically defined as having a market capitalization of under \$250 million. Small cap companies have a market capitalization between \$250 million and \$1 billion.

An alliance with a major Web property or a number of smaller sites would provide StockHouse with a quick and cost efficient increase in traffic and visitors. StockHouse has significant brand awareness in Canada and could leverage this to strike an alliance with a complementary site. The downside to this strategy is that StockHouse lacks the ability to capitalize on a large increase in visitors. Advertising revenues remained flat despite a large surge in traffic in between September 2003 and January 2004. StockHouse lacks a direct selling channel and has no premium products or services. Developing a direct selling revenue stream would require significant upfront development costs that are beyond the resources allocated to StockHouse. In addition, StockHouse would experience an increase in bandwidth costs and would need to ensure this cost was offset with increased revenues.

An alternative to developing proprietary premium products is to sign revenue share contracts with providers of premium investing content. Several of StockHouse's competitors provide newsletter subscriptions, streaming real time stock quote applications, and other premium offerings that are hosted by outside vendors. The downside to this approach is that host vendors typically claim 60-75% of total sales.

4.3.3 Innovation

Building innovative products is a strategy that many smaller firms utilize to compete against larger players. It is difficult to compete against the breadth and scope of industry giants, but smaller firms can choose a particular aspect of their product offering and develop leading edge applications. It is often the small start-ups or relatively unknown companies that advance specific technologies or products. Innovation can take many forms but the underlying characteristic is that a new product is differentiated from current competitors and has achieved market acceptance from early adopters.

An example of innovative online application is Salesforce.com, the first Customer Relationship Management (CRM) vendor that provided a low-cost hosted solution for small and mid-sized enterprises. Formed in 1999, Salesforce.com was able to quickly gain market share by providing enterprise applications through a simple Web site, saving companies from the expense of internal hosting costs and the long implementation schedules of traditional CRM suites. The larger players in the CRM industry, such as Siebel, Peoplesoft, Onyx, and Pivotal Corp were forced to retrench and create their own hosted, on demand products. Salesforce.com changed the CRM industry by creating innovative, low-cost, and easy to install CRM services.

Stockgroup made a minimal effort to build innovative financial applications for StockHouse during 2003, but did develop some innovative solutions for Financial Tools clients.

The innovative applications were not built as part of a research and development initiative, they were developed because of direct customer work orders. The Financial Tools team often wins new business because of their willingness to build customized financial content. They work closely with customers to understand their needs and then agree on pricing and development timelines before building. This process is aligned with the Stockgroup's core competency of high involvement selling, and explains why StockHouse has launched very few innovative applications. StockHouse rarely enjoys the benefit of a work order or contract that will fund development projects.

There are several strategies StockHouse could utilize with a moderate level of investment that would enable it to build and launch innovative applications. First, StockHouse is well positioned to employ a development strategy based on co-creation (Prahalad and Ramaswamy, 2004), where users are highly involved in the process of determining requirements for new products. By establishing a strong connection with the site's audience, StockHouse would be able to tap into the intellect and needs of its users and build innovative financial applications that are targeted to its user base. Second, StockHouse could choose a core component of the site's tools and look for ways to build innovative upgrades. The obvious choice is the StockHouse BullBoards, the financial message boards that are the main differentiator with competing sites. By developing unique add-ons and extra tools for BullBoards users, StockHouse would be able to ensure that its message board popularity remained intact. StockHouse has the opportunity to further solidify its status as the one of the top sites for reading and posting messages on North American public companies.

4.3.4 Speed

An advantage for small firms is that they can make strategic decisions and launch new applications at a faster rate than larger competitors. Small players achieve this by leveraging their small staff size, the lack of decision-making bureaucracy, and avoiding the need for numerous rounds of quality assurance testing. The speed strategy is closely related to innovation, as often a small firm can innovate by capitalizing on larger industry trends at a faster rate. For example, if a specific financial sector becomes popular, a small firm can launch a new section dedicated to covering that sector in weeks as opposed to months. By decreasing the time to market small firms can win loyalty from investors who grow impatient waiting for larger financial sites to provide tools that address the current market environment.

An example of a company that created competitive advantage with speed is Dell computer. Dell's supply chain and ordering efficiencies have been well documented by the

media, but Dell's success can also be attributed to its knowledge management practices that enabled it to build a loyal customer base. Early on, when they were competing for market share against the giants in the computer industry, Dell differentiated itself by responding to customer needs and fast-moving technological changes before their competitors. Customer information was stored and distributed across Dell's ordering facilities, enabling customer service reps to quickly respond to customer requests. By streamlining the sales cycle and building an entire strategy around speed, Dell was able to quickly gain market share and forever change the computer industry.

StockHouse's flexible and diverse programming team is experienced at quickly building and launching new applications for the Financial Tools team. This process also extends to StockHouse, where new features or content are launched at a very fast rate. StockHouse could better utilize this strength by focusing on projects that have a high correlation between speed-to-market and project ROI. The commodities section that was launched on StockHouse in Q1 2004 is an example of a speed driven initiative that beat competitors to market. StockHouse was able to capitalize on the surging precious metals sector by quickly building a comprehensive section dedicated to commodities.

4.3.5 Price

Another way for small online firms to compete with larger firms is to offer comparable products or services at a discount or for free. This allows small players to win cost-conscious consumers and establish a strong customer base. This strategy works in a number of different ways, but the relevant price strategy for this analysis is the amount of free content provided at a portal Web site versus the amount of paid content. By providing more free content and not forcing users to pay for premium offerings, small players gain an advantage.

StockHouse is an example of a site that offers more free content than competitors. The BullBoards are one of the few remaining community platforms that require no subscription fees. The majority of investing sites that rely heavily on community traffic, such as Motley Fool and Silicon Investor, have introduced paid models for community access. This provides an advantage for StockHouse and has enabled the site to maintain high level of traffic despite a minimal amount of investment since 2001. If StockHouse can derive ample revenue to offset the bandwidth and server costs of providing free content, this model will remain an effective way of differentiating the site from competitors.

The price strategy has a number of inherent risks. First, this strategy is difficult to maintain long-term as potential revenue streams are sacrificed in order to win customers, gain

market share, or build traffic. For online players, the choice to move to a paid content model is not an easy one, as the trade-off is a loss in traffic and unique visitors who leave to seek free content elsewhere. Second, if a price-based strategy becomes successful, large competitors may decide to match the free offer and drive traffic back to their online properties. With deeper pockets, large competitors can attempt to drive small sites out of business and then raise prices again. This means that a price-based strategy alone is a risky differentiator for a small firm that may only provide temporary gains.

4.4 Chapter Summary

The two major strategic decisions for StockHouse have been outlined in this chapter. First, at the firm level Stockgroup needs to establish the role of StockHouse and the level of investment it will receive. Stockgroup has already decided that Financial Tools provides the greatest growth opportunity and has dedicated the majority of its resources and strategic planning around expanding this side of the business. StockHouse's role is to produce revenue to support Financial Tools growth and will therefore receive only enough funding to preserve current cash flows. It is very unlikely that Stockgroup's senior management will change course and focus their operations on the expansion of StockHouse. However, acknowledging internally that StockHouse is the company's cash cow will significantly increase the clarity and understanding of Stockgroup's business strategies.

The strategic decision diagram for StockHouse that was introduced in Chapter 1 can now be updated to reflect the level of investment (Figure 13). It also lists some of the available tactics across the five main strategies for small players. Chapter 5 provides recommendations on the small player strategies and tactics StockHouse should focus on.

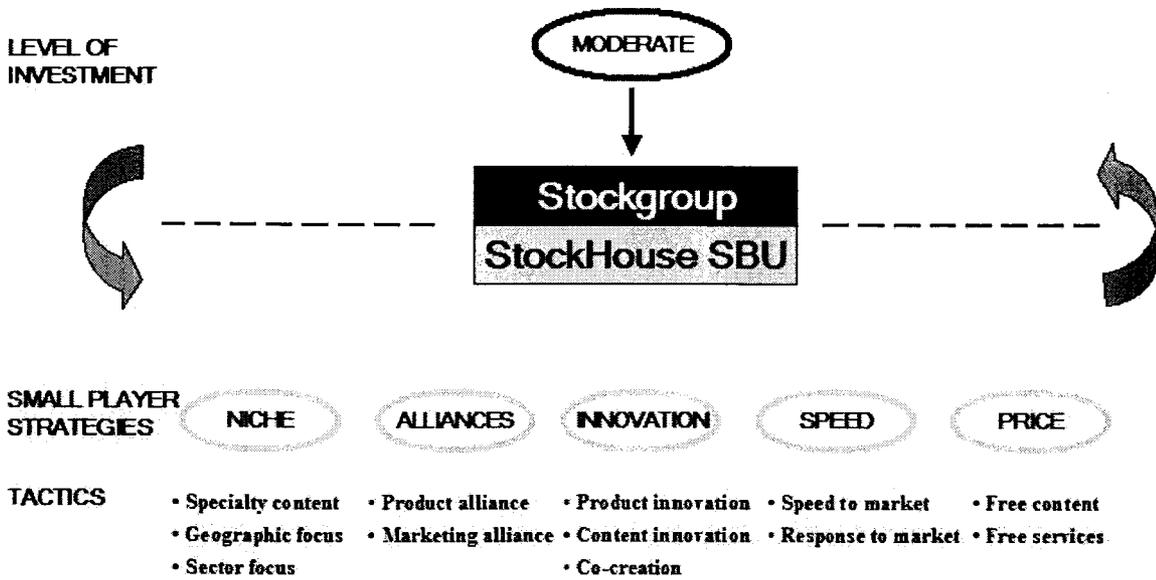


Figure 13 - Primary StockHouse Strategies and Tactics

5 RECOMMENDATIONS

5.1 Chapter Overview

This chapter provides strategic recommendation for the StockHouse business unit based on the external and internal analysis that was completed in chapters one through four. Financial Tools has been chosen as the high growth segment of the company's operations and will receive the majority of new investment. StockHouse will receive a moderate level of investment aimed at preserving current revenues. The firm level decision to treat StockHouse as a cash cow will increase the clarity of Stockgroup's strategic goals.

The primary strategic issue to resolve is how the StockHouse business unit can best compete as small player in the online financial content market. Given that investment will remain moderate, Stockgroup must determine the best strategies for maintaining current revenues. This chapter will assess each of the small player strategies described in Chapter 4 and make recommendations on which strategies should be pursued. The final step is to provide an overview on how to implement these strategies over the next twelve months.

5.2 Decision Criteria

The recommendations for the StockHouse business unit must meet the following conditions in order to have a realistic chance at long-term success and acceptance within the company.

- **Moderate Investment:** The role of the StockHouse business unit is to support the operations and growth of Financial Tools. Therefore, recommendations for StockHouse must be compatible with a low to moderate level of investment. Strategies that require a large upfront investment and a long-term ROI are not feasible. For example, a decision to start creating large amounts of financial news content internally would require a large upfront investment to secure the necessary writing talent.

- **Supporting Role:** StockHouse strategies must support the goals and growth of the Financial Tools business unit. Examples of supporting strategies including sharing costs, assisting in product development, and generating leads for the Financial Tools clients.
- **Revenue Preservation:** Strategic decisions that would result in a decrease in StockHouse revenue from advertising and public company marketing campaigns must be offset with a corresponding gain in revenue through new channels. This includes the avoidance of high-risk scenarios that have large up and down sides. Avoiding a loss in revenues is more important than gambling on potential gains. For example, a decision to charge subscription fees for access to StockHouse would result in substantial decline in overall traffic, which would adversely impact advertising revenues.
- **Strategic Fit:** StockHouse strategies must be aligned with the company's core competencies, generic strategy, and culture. Failure to align StockHouse decisions with the company's overall strengths will result in strategic goals that are difficult or impossible to achieve.
- **Industry Factors:** Strategies must also be aligned with the factors that influence competition with the online financial content industry. A strategy that fails to address the industry factors outlined in Chapter Two will have little chance of success.

The conditions outlined above provide a framework for establishing appropriate small player strategies for the StockHouse business unit. If a small player strategy meets these conditions, it becomes a viable option that StockHouse should consider.

5.3 StockHouse Recommendations

The following section assesses each of the small player strategies described in Chapter 4 according to the conditions described above. At the end of this section, the StockHouse strategy diagram will be updated to reflect the final recommendations.

5.3.1 Niche

A niche-based strategy involves focusing on a specific investing segment or geographic region. This allows a small player to avoid direct head to head competition against the broad content offering of large investing sites. StockHouse could focus on Canadian equities or smallcap companies, two segments that are a good fit with the interests of StockHouse's audience.

5.3.1.1 Moderate Investment:

Shifting to a niche strategy would require a moderate upfront investment but would not require a major shift in operations. The transition would include some basic changes to on-site branding, focusing the site's news and editorial content on the appropriate niche, and ensuring that new visitors to the StockHouse homepage understand the site's focus. There would also be some marketing expenditures to optimize search engine placement and to update collateral for the sales teams.

5.3.1.2 Supporting Role:

A niche strategy would still allow StockHouse to share bandwidth and data costs with Financial Tools, providing a cost-based advantage in the Financial Tools market. The StockHouse audience could be utilized for product development and testing, providing another advantage over competitors that do not have a large audience of investors to consult. Finally, the traffic to StockHouse would remain a potential source of sales leads. The downside to a niche strategy is that the Financial Tools division is focused on a broader market. For example, some synergy would be lost if StockHouse was focused on Canada and Financial Tools remained focused on North America.

5.3.1.3 Revenue Preservation:

A niche strategy would have a negative impact on StockHouse revenues. First, advertising revenues from U.S. based media buyers would decline if StockHouse focused on Canadian equities. The site would experience a significant decrease in U.S. traffic and would have a difficult time recouping these losses by increasing Canadian advertising dollars. Second, a niche strategy focused on smallcap stocks would also result in an overall decrease in traffic, reducing advertising inventory. Finally, public company marketing campaigns would suffer, as clients outside the site's niche would drop off.

5.3.1.4 Strategic Fit:

A focus on Canadian equities or smallcap companies has high strategic fit with Stockgroup's core activities and strengths. Stockgroup built an investing portal during the Internet boom called SmallCapCenter.com and has extensive experience working with small and microcap clients. Stockgroup is also very familiar with Canadian equities, and has built relationships with hundreds of TSX listed stocks. A niche focus would not require Stockgroup to make any major shifts away from its core competencies of high involvement sales and flexible programming and design.

5.3.1.5 Industry Fit:

A niche strategy would not have any dramatic effects on the Stockgroup's ability to compete in the financial content market. However, it would decrease competitive concentration by eliminating direct competition with general investing portals and would increase the degree of differentiation. On the downside, StockHouse would be competing in a smaller segment of the overall financial content market with fewer advertising dollars available

5.3.1.6 Recommendation

A niche strategy should not be pursued for several reasons. First, the high costs involved with repositioning StockHouse as a niche financial site would be difficult to recover and would reduce the funding available for the growth of Financial Tools. Second, the resulting drop in page views and unique visitors would adversely impact StockHouse revenues. Third, a niche focus would decrease synergies with the Financial Tools team, unless both divisions decided to target the same segment. Finally, Stockgroup was previously unsuccessful at achieving a critical mass of users at SmallCapCenter.com, which was an investing site targeted at investors looking for information on small and microcap stocks.

5.3.2 Alliances

A strategy focused on forging marketing alliances can provide a rapid increase in total audience for both partners. This is a fast and cost effective means of increasing traffic and brand awareness. Many small players online have depended on marketing alliances to growth their audience base since the crash of the Internet bubble.

5.3.2.1 Moderate Investment:

A strategy built on establishing alliances does not require a major investment in new funding. The majority of the costs result from time and travel to meet with potential partners,

lawyer fees, and development time for integrating reciprocal links. There are also some reporting costs, as both sides need to produce accurate reports of how much traffic has been delivered to each site. It often takes time to establish fair and equitable traffic flow and to find the right marketing balance. The downside to this strategy is that very few potential partners exist, as many of the top Canadian Internet properties have already added financial content to their Web properties. The window of opportunity has passed, and a search for a viable partner would be a difficult task.

5.3.2.2 Supporting Role:

This strategy would still allow StockHouse to support the Financial Tools division and would improve the site's ability to generate sales leads. However, the expected difficulty finding a partner could drain company funds and the attention of senior management. The alliances strategy has some inherent risks that could end up disrupting the overall focus on building and growing the Financial Tools side of Stockgroup's operations.

5.3.2.3 Revenue Preservation:

Establishing alliances would have a positive impact on revenues and advertising inventory. The boost in monthly page views and unique visitors would improve advertising click-through rates and the effectiveness of public company marketing campaigns. If the alliance partner had high brand awareness, the association would benefit StockHouse's marketing efforts. Overall, a successful alliance strategy would likely provide a boost in StockHouse revenues, but there is no guarantee that a suitable partner could be found within the next twelve months.

5.3.2.4 Strategic Fit:

An alliances strategy is aligned with Stockgroup's core competencies and would not require any major shifts in operations. A downside to this strategy is that it would require the time and energy of the company's CEO and senior staff, who are currently focused on growing and expanding Financial Tools. In addition, it is unlikely that the task of building alliances would be distributed to middle management.

5.3.2.5 Industry Fit:

A successful alliances strategy would provide a cost effective solution for building StockHouse traffic and persevering revenues. If an appropriate partner were located with a complementary content offering, StockHouse would be in a better position to compete against

industry giants such as Yahoo and Microsoft. An alliance would also enable to StockHouse to build traffic during market downturns.

5.3.2.6 Recommendation

An alliances strategy should be a secondary focus for the StockHouse business unit. A successful marketing alliance with a large Internet property would provide several benefits, such as an increase in advertising and public company revenues, a steady stream of new users, and a competitive advantage against other small investing sites. However, these benefits must be weighed against the search costs, the attention required by senior management, and the drain on technical resources to properly monitor the terms of the agreement.

5.3.3 Innovation

Small players can differentiate their product offering by creating innovative financial applications. A small firm has the ability to focus their product development planning around key features that will build a competitive advantage in the market place. An innovative product helps validate a company's product line and can help small players gain recognition in their respective industry.

5.3.3.1 Moderate Investment:

A strategy based on building innovative financial content and tools requires a significant investment in research and development. During 2003 and the first quarter of 2004 Stockgroup invested very little in research and development projects, focusing instead on building new applications ordered by Financial Tools clients. This strategy would require a shift in Stockgroup's current development process and would require product managers to make smart product planning decisions. Successful innovation would allow StockHouse to attract more new users to its audience base and would help distance the site from the some of the other small players that cannot afford to develop new applications or content. An innovation strategy based on developing a culture of co-creation with customers would keep research and development costs down and would increase the chances for market acceptance. An innovation strategy based on co-creation is a good fit for StockHouse, and the site's loyal users would be receptive to providing feedback and help through online forums and focus groups.

5.3.3.2 Supporting Role:

An innovative strategy for StockHouse is a good fit with the product planning strategies used by the Financial Tools team. StockHouse provides a perfect testing environment and a

successful product launch on StockHouse would demonstrate a strong likelihood of acceptance in the Financial Tools market. The end users for Financial Tools customers share the same demographics and investing interests as StockHouse users. The synergy in product development would complement the support StockHouse provides through shared costs and infrastructure. An innovation strategy provides several advantages for both business units and enhances StockHouse's ability to fund the growth of Financial Tools.

5.3.3.3 Revenue Preservation:

Focusing on innovation would not have any detrimental effects on StockHouse revenues. If successful, this strategy would attract more visitors to the site, thereby increasing advertising revenues and improving the performance of public company marketing campaigns. There is also the potential for innovative applications to receive recognition within the industry and through media outlets. The downside to an innovation strategy is the potential research and development costs, so revenues would remain intact but StockHouse profitability could suffer.

5.3.3.4 Strategic Fit:

Despite a lack of research and development activities over the past eighteen months, Stockgroup successfully built a number of innovative financial applications between 1998 and 2002 after raising large sums of cash through private placements. As a result, a shift to an innovation-based strategy would not require any major changes in company culture or personnel. Many of the programmers and senior staff that oversaw the development of innovative financial applications are still working for Stockgroup. However, the company will have to focus some attention away from sales activities towards research and development projects and product planning strategies. Currently, a safety net exists when building new applications because a customer order has covered the development costs. There is more risk involved when new applications are built before a customer has agreed to buy it.

5.3.3.5 Industry Fit:

Creating differentiation within the financial content industry is a challenging but important goal. The content offering across most of the major competitors are very similar, and new financial applications are quickly copied. A successful innovation strategy would provide a critical advantage for StockHouse and would help increase its market share. Switching costs are low for users of investing portals, and an innovative tool that helps investors assess public companies and make smart investment decisions will quickly attract new users.

5.3.3.6 Recommendation

An innovation strategy should be a primary strategic focus for the StockHouse business unit. The benefits of a successful innovation strategy include higher traffic and revenues for StockHouse, a differentiated product offering for Financial Tools, and higher brand awareness due to the attention and press awarded to innovative companies. The increase in research and development costs is a worthwhile investment that will benefit both divisions. The large StockHouse audience provides the ideal product development and testing platform, a resource that very few Financial Tools competitors have access to.

5.3.4 Speed

Small firms can differentiate their products or services from large players by using speed to their advantage. This includes faster decision-making, strategy planning, and product development timelines. This strategy complements an innovation strategy, as the ability to quickly respond to changes in the stock markets or popular investing sectors can help differentiate a site's content offering.

5.3.4.1 Moderate Investment

A strategy based on speed and beating competitors to market with new financial applications does not require a large investment in research and development or new staff. The key to a successful speed based strategy is close monitoring of investment trends and a streamlined decision-making process. The funding for this strategy can be controlled by making smart investment decisions and avoiding high-risk product ideas.

5.3.4.2 Supporting Role

A speed strategy for the StockHouse business unit would require Stockgroup to place a priority on building new applications for StockHouse in a timely manner. A speed-based strategy would not be successful if urgent StockHouse projects were delayed because of Financial Tools contracts or other competing interests within the company. This situation is not compatible with StockHouse playing a supporting role to the Financial Tools division. The Stockgroup development team is not large enough to handle high priority projects for both divisions. The potential for conflict presents a significant downside to any StockHouse strategies that rely on speed.

5.3.4.3 Revenue Preservation

StockHouse revenues would not be adversely impacted by the deployment of a speed-based strategy. If anything, success would provide a boost to both revenue streams by helping StockHouse attract more users. In addition, advertisers may be convinced to buy advertising sponsorships in newly created sections. The creation of new content targeted directly at emerging investing trends would also be appealing to small public companies looking for exposure to investors.

5.3.4.4 Strategic Fit

A strategy based on speed is not aligned with the current operations of the StockHouse business unit. The majority of development projects are planned well in advance and are often assigned secondary status within Stockgroup. A strategy that requires StockHouse projects to be organized and launched quickly will conflict with the company's focus on providing highly responsive customer service. Financial Tools contracts are often won because of Stockgroup's ability to quickly build large financial content packages for clients. It would be very difficult to successfully execute a speed strategy across both business units.

5.3.4.5 Industry Fit

A successful speed strategy would create a significant advantage for a small player in the financial content industry that was able to quickly respond to market conditions and trends. Online investors are continually seeking timely information that aids investment decisions, and will flock to sources of quality, time sensitive content. The downside to a speed strategy is that competitors eventually catch-up or copy fast moving sites. An advantage gained through speed is fleeting, and firms must continually launch new applications in order to maintain a reputation for being first to market with new financial content.

5.3.4.6 Recommendation

There are several significant drawbacks to a speed strategy. First, executing this strategy would require Stockgroup to place a high priority on timely StockHouse projects. This would create conflict with important Financial Tools contracts and would likely lead to internal conflict. Stockgroup is not a large enough company to handle high priority projects across both divisions. Second, Stockgroup's decision-making culture is not designed for speed, as most large decisions require significant involvement from senior management.

5.3.5 Price

Small players can gain market share and a competitive advantage by charging lower prices than industry giants. For StockHouse, the amount of free content provided can distinguish the site from other investing portals, as many of StockHouse's competitors have shifted to a fee based strategy. This is a recent change for online investment information, as noted by Barron's 2003 Best of the Web (Barron's, 2003) rankings for investing portals, which was the first year that fees were taken into consideration when determining the winners.

5.3.5.1 *Moderate Investment*

StockHouse currently provides free access to the site's financial content, including the BullBoards community discussions. The only exception is access to real-time quotes, which require expensive exchange fees on a per user basis. Users that sign-up for real-time quotes are required to pay a US \$25 monthly subscription fee. Since StockHouse already provides most of its content for free, maintaining this policy will require no additional investment. StockHouse has distinguished itself from many competitors that have chosen to charge for access to community discussions. In addition, a shift towards charging for access would require a major investment in the site's e-commerce capabilities.

5.3.5.2 *Supporting Role*

Providing free access to the content on StockHouse allows the site to enjoy higher page views and unique visitors on a monthly basis. The site would experience a significant drop in traffic if users were asked to pay before receiving access to the BullBoards. The free strategy supports the goals of the Financial Tools team by exposing the maximum number of users to Stockgroup's financial content. It also provides the highest number of potential sales leads for the Financial Tools division, as visitors interested in licensing financial applications are prompted to contact the sales team. The downside to the free strategy is that Stockgroup has to absorb high bandwidth costs due to the traffic the site receives. Running a free site with high volume traffic is expensive, and is one of the main reasons that many of StockHouse's competitors have switched to a paid model. Finally, if StockHouse began charging for access, the changes to the site's e-commerce scalability and the increase in customer service expenditures would require significant attention from Stockgroup's senior technical staff.

5.3.5.3 Revenue Preservation

A price-based strategy does not require any changes to StockHouse and will help maintain the current audience size for advertising and public company marketing programs. Current revenues from both channels will be unaffected. However, a move towards limiting the amount of free content on StockHouse could have a negative impact on revenues.

5.3.5.4 Strategic Fit

A price strategy provides a good strategic fit because it does not require Stockgroup to shift attention away from Financial Tools. Maintaining the status quo allows the company's senior staff to remain focused on expanding the Financial Tools line of business. StockHouse can remain a testing platform for Financial Tools products and the site's large audience can be leveraged as a competitive advantage. The advertising sales team will continue to have a surplus of inventory and public company sales team will have a large pool of potential investor leads for clients.

5.3.5.5 Industry Fit

StockHouse's price strategy helps the site achieve a moderate level of differentiation and maintain a large, loyal audience. StockHouse is one of the few investing sites that provide free access to online discussions, as most competitors have moved to a paid model over the past three years. The downside to the competitive advantage gained by allowing free access is that StockHouse is forced to support high bandwidth and server costs, making profitability difficult to achieve.

5.3.5.6 Recommendation

A price strategy should be a secondary strategic focus for StockHouse. There are a number of cost based advantages to maintaining the status quo, as a move towards paid access would require significant funding and technical resources. Free access to StockHouse's financial content also provides the necessary traffic and unique visitors to preserve current StockHouse revenues. Stockgroup will have to carefully monitor bandwidth and server usage to ensure that costs do not rise beyond a manageable level.

5.4 Chapter Summary

The primary small-player strategy that StockHouse should employ is product innovation. This strategy will provide a number of cost-based benefits and has a high level of synergy with

the strategic goals of the Financial Tools business unit. Secondary strategies that StockHouse should focus on are alliances and price. As described in this chapter, these strategies are aligned with Stockgroup's interests and have the potential to help the company achieve its corporate goals. The StockHouse strategic diagram can now be updated (Figure 14) to reflect the firm and business unit level strategic decisions. The final section of this analysis, Chapter 6, provides implementation steps for executing the recommended StockHouse strategies and some concluding thoughts on the analysis presented in this paper.

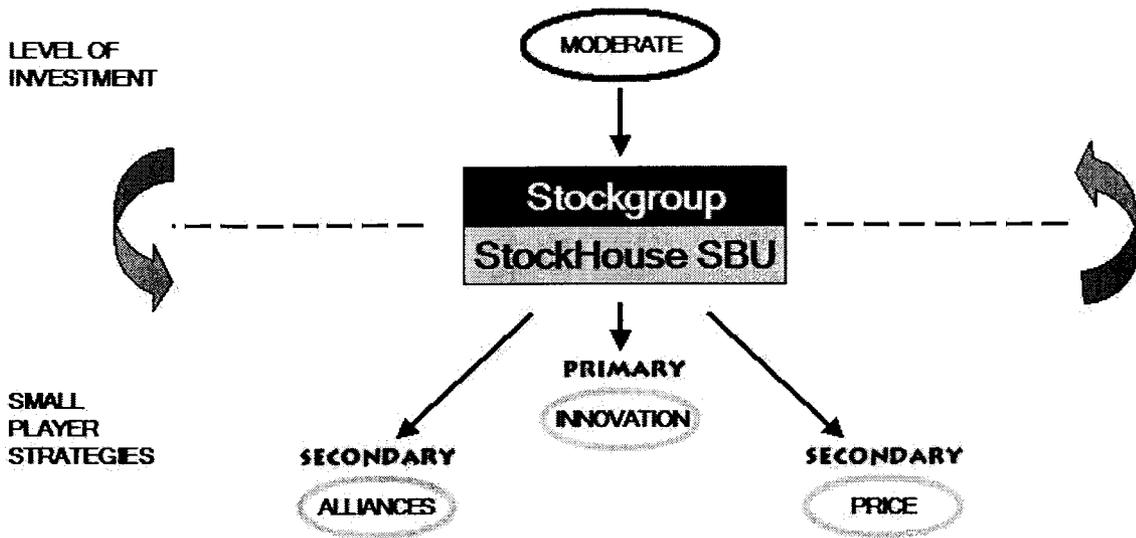


Figure 14 - StockHouse Strategy Diagram with Strategic Recommendations

6 CONCLUSION

6.1 Chapter Overview

This chapter describes how to implement the StockHouse strategies recommended in this analysis. These strategies are achievable in the next twelve months and should become an integral focus of the StockHouse business unit. The description of how to implement these strategies is not comprehensive and will require further study to ensure success.

6.2 Implementation of Innovation Strategy

The innovation strategy will require several important steps. First, a team of StockHouse users will need to be organized to help with StockHouse and Financial Tools product development initiatives. The ideal team size is 75-100 committed users who are willing to donate a few hours a month to participating in online focus groups, surveys, and discussions. A good starting point is the team of 25 users that were gathered over the past six months to assist with StockHouse development projects. The balance of the team can be organized by posting information on StockHouse and by emailing open invitations to the StockHouse mailing lists. Invitations should require users to answer some questions and demonstrate their interest level. In addition, the Financial Tools team should ask clients if they want to be involved with the product testing process. Once a qualified team is organized, private discussion boards should be set-up on StockHouse to facilitate discussions.

Remuneration should be budgeted at \$200 per active participant annually, in the form of online gift certificates or free real-time quotes on StockHouse. An investment of \$20,000 to maintain an active product development team of 100 users should easily be recouped by the improvement in Financial Tools products and customer strategy. In the book, *The Future of Competition - Co-Creating Unique Value with Customers*, the authors discuss the impact of customer focused product development:

“The dimensions of choice in co-creation experiences suggest the potential richness of the relationship through the quality of interactions between companies and consumers. Business managers can compete in myriad ways by discovering new opportunities through an individual-centric lens of choice in

consumer-company interactions, and carefully managing the quality of co-creation experiences” (Prahalad and Ramaswamy, 2004, pp 95).

The second step is to organize internal meetings with the Stockgroup management team to discuss a blue-sky list of product development ideas that have synergy across StockHouse and Financial Tools. This includes reviewing industry trends, analyzing competitors, and determining the type of financial applications that Stockgroup can realistically launch and deploy in the next four to six months. The goal of these meetings is to create a list of product initiatives to be reviewed with the newly created product testing team. The testing team should be given an opportunity to review these ideas and add new ones.

The third step requires Stockgroup management to allocate a fixed budget for new research and development projects. The amount allocated should be based on the estimated development hours required to complete three large development projects over the next twelve months. A timeline should be created for each project, designating time for industry research, internal analysis, reviewing features with the product testing team, and quality assurance testing. In addition, a launch plan that covers marketing programs and sales collateral should be formed. Building innovative products with a limited budget requires careful planning before and after new products are built.

6.3 Implementation of Alliances Strategy

Building marketing alliances is one of two secondary strategies recommended for StockHouse. This strategy should only become a top priority if a promising partner is located. Executing this strategy requires several important tasks. First, a list of ten complementary content categories should be created. This list can be compiled internally by analyzing current industry partnerships and polling the newly created StockHouse user team. Forming this list should involve a comprehensive review of Internet content segments.

The second task is to narrow the list of ten content segments to three. The final three should be categories that have a large online presence, are complementary to financial content, and are of interest to investors. Then, a list should be compiled of ten viable Web sites for each of the three categories. The final group of 30 potential marketing partners can be gradually targeted over the next 12 months.

The final task is to create a plan for contacting each of the potential alliance partners. This includes identifying contacts within each company, writing form letters, determining the

structure of the alliance, and designing proposal templates. Then, the StockHouse management team should begin contacting each of the sites individually to gauge interest. This work can be completed as time permits throughout the year, but a goal should be set to contact three sites per month. If a promising lead is established, the Stockgroup management team should get involved to determine whether time and resources should be allocated towards building an alliance.

6.4 Implementation of Price Strategy

The other secondary strategy recommended for StockHouse is a price strategy. This involves maintaining free access to all StockHouse content and features. Since it requires no major changes, the steps required for executing this strategy are centred on evaluating its effectiveness moving forward. The majority of StockHouse competitors have switched to a paid strategy for premium content based on the need to derive revenues from direct user purchases. Advertising alone has not proven to be a sustainable revenue model in the financial content industry.

The first step is an internal review of the monthly bandwidth and equipment costs that are incurred by StockHouse. At present, the company does not have clear picture of the allocation of costs across the Financial Tools and StockHouse business units. Once the true costs are determined, the company will be in a better position to evaluate the benefits of running a free site.

The second step is estimate the potential impact of moving to a paid model. This would require reviewing different scenarios of paid and free content on StockHouse, and estimating conversion rates for current users. The conversion rates would be used to predict how many page views and unique visitors would be lost on a monthly basis, and whether monthly subscription fees would be capable of replacing lost revenues. This step also requires the technical team to assess StockHouse's current e-commerce capabilities and to estimate the costs of significantly increasing payment transactions. The transaction processing scalability of StockHouse has not been analyzed post acquisition.

Finally, StockHouse should consider the impact of a hybrid strategy, where users are forced to sign-up for a free membership in order to access sections of the site's content. Currently, users are asked to fill out a membership form if they wish to post in the BullBoards or set-up an online portfolio. The benefit of creating a mandatory free membership is that approximately 60% of new members sign-up for the StockHouse mailing lists during the membership process. The StockHouse email lists are the primary source of investor leads for

public company marketing programs. The analysis of this strategy should include an estimate for the loss in page views and unique visitors that would occur. There would be no corresponding subscription revenues to offset the loss in traffic.

6.5 Additional Strategic Considerations

In order for the strategic recommendations for StockHouse to be accepted and supported by Stockgroup's senior management, there are several tactics that the StockHouse managers should employ. First, the best strategy for solidifying StockHouse's role in the company is to use the site to establish a clear competitive advantage for the Financial Tools division. It will be easier for StockHouse to secure additional funding once a clear advantage has been established that extends beyond cost savings or marginal product development assistance. The StockHouse business unit should continually work towards this goal by testing new product R&D initiatives and by looking for ways to leverage the StockHouse site to provide value-added services for Financial Tools clients.

The second tactic that should be utilized by StockHouse is to demonstrate that preserving current revenue channels and market share may create a future windfall. One of the attractive features of the online financial content market is the potential to capitalize on renewed interest in the stock markets during a strong bull market. As demonstrated during the first quarter of 2004, investors flock to investing sites as soon as the markets shows signs of improving. Future earnings for StockHouse would also benefit from a sharp rebound in online advertising rates. The medium as a whole is gaining wider acceptance and the emergence of industry standards is fuelling its growth. A bull market or an advertising rebound would provide a tremendous boost to Stockgroup earnings, but requires StockHouse to remain an active and growing investing portal.

6.6 Chapter Summary

This chapter has provided an action plan for implementing each of the three strategic recommendations formed as part of this analysis. The plans outlined here are achievable within the next twelve months and are aligned with Stockgroup's current business operations and core strengths. Successfully executing these strategies will improve the competitiveness of the StockHouse investing portal and will help the Financial Tools division gain market share and traction within the financial content industry.

REFERENCE LIST

- Interactive Advertising Bureau. (2002). *Glossary of Interactive Advertising Terms*. Retrieved June 5, 2004 from http://www.iab.com/resources/glossary_u.asp
- Boston Consulting Group. (1975). *The Growth Share Matrix*. Retrieved May 17, 2004, from http://www.bcg.com/this_is_bcg/mission/growth_share_matrix.jsp
- Bukszar, E. (2004, Jan 21). *Strategy Seminar*. Presented at a MBA 607 lecture at Simon Fraser University.
- Gomez Inc. (2003). *2003 Gomez Ratings for Discount Brokerages Firms in Canada*. Retrieved March 20, 2004 from <http://www.gomezadvisors.com>
- MarketingPower.com. (2004). *American Marketing Association Dictionary of Marketing Terms*. Retrieved Mar 15, 2004, from <http://www.marketingpower.com/live/mg-dictionary-view3763.php?>
- Porter, M.E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.
- Porter, M.E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competition*. New York: Free Press.
- Prahalad, C.K., & Ramaswamy, V. (2004). *The Future of Competition: Co-Creating Unique Value with Customers*. Boston, MA: HBS Press.
- Sterne, J. (2002). *Web Metrics: Proven Methods for Measuring Web Site Success*. New York: Wiley Publishing Inc.
- Yakal, K. (2003). *Best of the Web: Investing*. Barron's, 83 (42), 20.

STOCKGROUP MEDIA CORPORATE DOCUMENTS

- 2003 Annual Report. (2004). Vancouver, B.C.
- 2002 Annual Report. (2003). Vancouver, B.C.
- Internal WebTrends Audience Measurement Report. (2004). Vancouver B.C.
- Internal Red Sheriff Audience Measurement Report. (2004). Vancouver B.C.