



## Career Crisis: Monster.com Has Choices to Make as It Approaches 'Middle Age'

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When the Internet was young, Monster.com, a pioneering online job recruitment firm, rocked the way people look for work. Now, Monster itself has hit a rocky patch, marked by the resignation of three top officers, a major security breach and the rise of new competitors, including Craigslist.



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According to Wharton faculty and analysts, Monster is confronting the "middle age" that all veteran firms of the Internet's early days must face. The company remains a force in employment advertising, they say, but as it settles into maturity, Monster must find new ways to protect its established markets and expand overseas.

Wharton management professor [Peter Cappelli](#) says that Monster is a survivor in the online job placement world it helped invent. "They were the biggest and then there was a host of competitors. Now, the industry has consolidated and Monster is one of the last big players in the space. The broader story is, 'How does the next wave look at the original Internet companies?' I don't think we know yet. Monster is among the first of these companies to have to make the transition."

The big gains from the structural shift from traditional print to online advertising have been made, says Cappelli. Meanwhile, the economy has changed, too, and all types of companies have incorporated the Internet into the way they do business. For example, firms now use the Internet in their own online recruitment efforts. "The Internet is not a novelty anymore," he says. "Companies have figured out how to do a lot of these things themselves."

With more than 75 million resumés on file, Monster expects to have revenues of more than \$1.3 billion this year. The company is headquartered in New York City and has 4,200 employees working in 36 countries.

### Creating a Monster

Monster was founded in 1994 by Jeff Taylor, the owner of a traditional Boston-area recruitment firm specializing in technology jobs. When Taylor began to see the potential of the Internet, he opened The Monster Board with just 20 clients and 200 job openings. In 1995, he sold the company to TMP Worldwide, a publicly traded advertising firm that was more interested in the traditional recruiting business than the electronic jobs board. As Monster grew, however, TMP sold off other businesses and renamed itself Monster Worldwide.

[Kartik Hosanagar](#), a Wharton operations and information management professor, says Monster's business model is based on a two-sided network effect in which sellers and buyers seek markets with as many parties as possible on the other side of the transaction. "Once [sites like Monster] have a reasonably big network, new participants enter the site on their own. Monster benefited from being the first mover and having an initial base of job seekers and employers. This helped it to grow really fast."

The best way to nurture a two-sided network is to subsidize one side, Hosanagar notes. Monster did just

that with its business model in which employers pay to participate, but the service is free to job seekers who want to post a resumé. "This is far more effective than charging job seekers and job providers, a strategy that would limit the size of the network and prevent it from growing the way Monster did."

As a result, Monster has been able to ride the shift in employment recruiting away from traditional print ads and other forms of recruitment to the Internet. According to [Betsey Stevenson](#), a Wharton business and public policy professor, the Internet has made it much easier for job seekers to explore other opportunities while seated at their desk. Now, they don't have to call in sick or sneak out of the office to go on a job interview.

In a 2006 research paper titled, "[The Impact of the Internet on Worker Flows](#)" Stevenson found Internet users are more likely to change jobs and less likely to be unemployed than non-wired job-seekers. She discovered that as states' Internet penetration rates rose differentially in the 1990s, employer-to-employer worker flows also increased. For every 10 percentage point rise in state-level Internet penetration, worker flows were up 5%.

The ease of cruising the employment market over the Internet can be compared to online dating, Stevenson says, citing Match.com's slogan, "It's Okay to Look." Employees use electronic listings not only to find new jobs, she adds, but to learn more about pay and benefits at other companies that can be used to better their current positions.

"I think there's more to how the Internet has changed job search than simply the job search board," she says. For example, 20 years ago when people met at a conference and exchanged business cards, they were probably less likely to follow up on potential job leads than they are today. Now, they can easily follow up with an e-mail. "If you had met someone for five minutes, would you call out of the blue and say 'Hey, I'm looking for a new opportunity. Do you know of any jobs?'" she asks. "People are willing to send bolder e-mails, and it's easier to get into someone's inbox than to get [him or her] on the phone."

## Management Shakeup

Despite the opportunity that Monster was able to exploit, it has run into problems lately. The company has undergone a management shakeup stemming from federal investigations into the back-dating of stock options. Monster CEO Andrew McKelvey resigned in October 2006, and a month later Myron Olesnyckyj, the company's general counsel, was fired before pleading guilty to fraud and conspiracy charges. McKelvey later paid restitution. Then, in April 2007, McKelvey's replacement, William Pastore, resigned and was replaced by current chief executive Salvatore Iannuzzi, a company director. Iannuzzi had previously been chief executive of Symbol Technologies, a mobile data equipment maker, and engineered Symbol's sale to Motorola in January. Iannuzzi's appointment raised speculation that Monster would be put up for sale. Deutsche Bank analyst Jeetil Patel says it is too soon to tell what Iannuzzi's long-term plans are for the company. "There has been a bit of reshuffling in the last six months," Patel notes. "It's still in the early stages."

Monster faced a new problem in August when its own security firm, Symantec, disclosed that the site had been hacked. Five days later, Monster confirmed that records related to at least 1.3 million users were at risk in the security breach linked to a network in the Ukraine. Monster announced that it would increase surveillance of site traffic, boost security staff and contact users about ways to protect their privacy. "I want to be clear and I want to be frank: There is no guaranteed fix," Iannuzzi said in an interview with Reuters. "I wish I could say there will be absolutely no way that the Monster site can be compromised. I cannot ever make that promise, and no Internet company can." A Monster spokeswoman said the company is in a "quiet period" and could not comment for this article.

Wharton professor of legal studies and business ethics [Andrea Matwyshyn](#) says Monster's security breach was especially troubling because it appears not to have been a problem with the security of Monster's site, but rather the security of its users, whose log-ins were stolen. "It shows how suboptimal security can escalate from the problem of one organization to a broader problem of many corporate organizations and society in general," she says. "In a case like Monster, the key asset of this entity is the information in its databases, and protecting that is a top priority that requires constant vigilance."

The security problem does not indicate a fatal flaw in Monster's business model, however, because "the

economy has not paid enough attention to information security breaches," Matwyshyn says. Still, consumers were concerned about the five-day lag in notification about the security breach and may be less willing to use Monster in the future, she notes.

### **The Social Network Threat**

Monster has also launched new initiatives to maintain its position in the top rungs of job placement. Last year, it entered a strategic alliance with Philadelphia Media Holdings -- publisher of *The Philadelphia Inquirer* and the *Philadelphia Daily News* -- and a leading local online site. Monster's main competitor, CareerBuilder.com, is owned by newspaper companies and operates jointly with 150 papers, along with America Online and MSN, to generate online help wanted ads.

In addition, Monster Worldwide is offering online advertising space on other sites it owns, including Tickle.com, a self-help social networking site it acquired in 2004, Military.com, FastWeb and Tickle Grapevine. The company is also adding video to its online job recruitment product.

Deutsche Bank's Patel says it is too soon to tell whether these initiatives will pay off. "Headline-wise, it was important that they were out there with the newspapers. I think it will be modestly additive, but with the management changes that were made, those types of deals have been lost as of late." He adds that a slowdown in the U.S. job market may pose an additional challenge for Monster in the short run.

Terrence Babe, an analyst at ThinkEquity, a San Francisco investment firm, notes that Monster has reorganized under its new management, cutting overhead. In July, the company announced it would eliminate 800 jobs after reporting that second-quarter profits fell 28%. "I'm cautiously optimistic," says Babe. "I like the company from a long-term perspective."

Monster's best hope for advancement may be in its global operations. In 2004, the company launched a pan-European website, and in 2005 it entered India and China. Monster has since opened a site in Mexico and a site called MonsterGulf.com, which reaches eight countries in the Middle East. "They've been investing internationally for a few years, and profitability [abroad] is poised to improve," says Patel.

Cappelli points out, however, that while Monster is entering new markets overseas, many countries already have local Internet job sites up and running -- meaning Monster does not have the clear path it had when it opened for business in the United States.

At home, Hosanagar notes that although Monster continues to face threats from online recruiters CareerBuilder and Yahoo's Hot Jobs, "this is a regular market share battle, and Monster is reasonably well positioned relative to these firms because it already has a large network." Monster faces a greater threat from social network sites like LinkedIn for high-level recruiting and Craigslist for mass recruitment efforts, he says. "The presence of a social network adds considerable efficiency to the market because of the ability to tap into the network for references regarding the job seeker or the job provider."

Wharton professor of operations and information management [Devin Pope](#) has studied the effect of Internet sites on job recruitment and found that Craigslist is gaining on Monster. A 2007 study titled, "The Effect of the Internet on Matching Markets: Evidence from Craigslist," co-authored with Kory Kroft of the University of California at Berkeley Economics Department, found that Craigslist charged much less for ad postings than the other major job sites: \$75 to post an ad in San Francisco for 6 weeks; \$25 for ads in New York City, Los Angeles, Washington, D.C., Boston, Seattle and San Diego; and free listings in all other cities.

Pope says his research shows that in the largest 40 to 50 areas of population in the United States, Craigslist posted two jobs for every job Monster listed. "Craigslist is becoming more and more popular," says Pope. "It's a matter of price, and that is something Monster is going to have to deal with somehow."

Hosanagar adds that Monster will always be competing against cycles in the economy that shape all recruiting businesses. The company has made attempts to diversify its business somewhat, he notes -- for example, offering training resources for job seekers who might be in demand during a recruiting slump. "If there is a downturn in the economy, recruiting is going to come to a standstill," he says. "If I were at Monster, I would invest heavily in building a meaningful social network within Monster, both because of

the threat from [sites like] LinkedIn, but also to address the cyclical nature of recruiting."

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