



Risky Business: John Harris, Jim VandeHei, and *Politico* **Part B: A Winning Model?**

In late January 2007, media entrepreneurs Jim VandeHei and John Harris launched a new kind of product into the crowded political news marketplace. While most newspapers were struggling to decide how best to repurpose their daily newspaper content for the website, Executive Editor VandeHei and Editor-in-Chief Harris turned that model on its head. In *Politico*, they created a news organization whose primary outlet was a website; a small subsidiary newspaper adapted many of the Web articles.

After a tough inaugural edition—Harris and VandeHei had to rewrite or exhaustively edit every article in the initial newspaper—*Politico* settled down and a production pattern emerged. A stellar group of name journalists, recruited from some of the country's top news organizations, produced some two dozen Web articles Tuesday–Thursday (the three days a week that Congress usually met), and somewhat fewer on the remaining days. Meanwhile, the staff at the newspaper—also called *Politico*—rewrote many of the Web articles for the thrice weekly paper and did some modest reporting of their own.

Harris and VandeHei had deliberately started their venture to coincide with what would prove to be the most exciting presidential election campaign in recent memory. Senator Barack Obama (D–IL), if he won, would be the nation's first black president. Senator Hillary Clinton (D–NY), if she won, would be the country's first female president. Governor Sarah Palin (R–AK), Arizona Senator John McCain's running mate, would be the nation's first woman vice president if the Republican ticket won. *Politico*, whose focus was Washington–insider national politics, rode the wave of national excitement about the campaign.

From a business standpoint, first results were encouraging. In 2007, daily unique visitors to the website rose from 269,773 on its first day to a high of 625,523 in August, when House of Representatives Republicans walked out on a vote as a protest against Democratic legislative tactics.¹ Circulation for the newspaper also grew at a steady pace.

¹ *Politico*, "The Brief History of Politico," January 23, 2008.
http://www.politico.com/pdf/PPM43_080122_webtimeline.pdf

The business model was straightforward. *Politico's* revenues—both online and for the print edition—came almost exclusively from advertising. The paper was distributed free on Capitol Hill to lawmakers, lobbyists, opinion leaders and others (subscriptions, while available outside Washington, DC, were relatively few). For 2007, the organization lost some \$3---4 million on revenues generally estimated at \$10 million.² Losses for 2008 were on track to reach \$2 million. But investor Robert Allbritton was prepared to take some losses in the start---up's early years.

During 2008, as election fever rose to a new pitch, the website continued to attract readers at a steady rate, and *Politico's* articles won gratifying attention in the broader press. But as the election date of November 4 approached, VandeHei and Harris found themselves worried. The election campaign had been remarkable for the high readership it generated. What would happen to the enterprise after national interest in politics flagged post---election? How could *Politico*, which had done so well at electoral coverage, distinguish itself when it came to covering the minutiae of legislation and congressional affairs? To draw readers, *Politico* would need not only to match, but to surpass, the excellent work from established organizations like the *Washington Post* and the *New York Times*.

Early days

There was no doubt that *Politico* had done remarkably well for less than two years in business—despite a rough start. Harris and VandeHei had worked for two nights before the launch on January 23, 2007 to produce acceptable copy for the first newspaper edition. Of some 40 articles the largely young and inexperienced newspaper staff had contributed to the first issue, Harris and VandeHei managed to salvage about four after heavy editing; they entirely rewrote a few others. VandeHei recalls his growing panic:

We'd never put out a newspaper. You've got to fill the damned book...
[I]t was a horrifying experience... And you know what? Time's up.
We're going live. You can't postpone it.

They had 24 pages to fill. They managed to shrink some of the yawning space with promotional ads for the website, politico.com, and illustrations by Politico Editorial Cartoonist Matt Wuerker. "We just somehow managed to fill the paper," VandeHei recalls. Still, neither he nor Harris was happy with the result. Says VandeHei of the first issue: "It was beyond terrible." The two were happier with the website—which went live at 5:07 a.m. on January 23, 2007—but even that was far from perfect. It had a spare design emphasizing three lead stories, four blogs by prominent political reporters, three photo sideshows, and about a dozen other features by Politico correspondents. Including blog posts, the website featured about 25 articles on its first day.

² *Politico* is a privately-held company and its financial figures are proprietary. All financial results in this case study were obtained from public sources.

Harris was mostly relieved that they had met their deadline with a reasonable product. “I just hope people will judge us over time,” he told *Washington Post* media reporter Howard Kurtz. “We had never expected to create a revolutionary new brand of journalism on Day One.”³ After its first week, Kurtz wrote of the site:

The political---junkie Web site, led by two former Washington Post reporters, wasn't as jam---packed as I expected, or as colorful, and is rarely updated during the day. In fact, most of what is on politico.com—and the print version, distributed free mainly on the Hill—could easily have run in an Old Media relic like this newspaper. It strikes me as solid and substantive, but not knocking anyone's socks off.⁴

Work in progress. Harris, VandeHei, and Chief Technology Officer Ryan Mannion considered the website in particular a work in progress. They solicited reader feedback about the website's design—which column widths and layouts were easiest to read, for example—and content. In its first iteration, politico.com's front page included a poll, labeled “The Pollitico,” that asked readers what areas of the site they would like to see expanded, and offered a choice among Capitol Hill news, news about lobbyists, news about Congress, videos and pictures, and chats and forums.

On the technical side, Mannion had warned Harris and VandeHei that many problems with the website would not become apparent until after the launch. For example, it was impossible to gauge beforehand how much traffic the site would attract, and thus how many servers would be required to support it. VandeHei and Harris did not know whether to expect a few dozen readers, a few thousand, or a few million.

But *Politico* did have the advantage of substantial free publicity. Its nationally---known reporters brought their own reputations, readers, and networks of sources with them from the major publications they had left. Mike Allen of *Time*, political writer Roger Simon from Bloomberg News, and Ben Smith of the New York *Daily News* were all on staff. Several political and national news outlets had profiled the new venture. In addition, Media Director Kim Kingsley, whom VandeHei and Harris had hired from the *Washington Post*, had devoted the weeks leading up to the launch to booking *Politico* correspondents on television political shows, creating additional exposure for the news organization.

To explain their project to readers, Harris and VandeHei composed a mission statement, which ran both in the newspaper and on the website. In it, they hailed the quality of *Politico's* writers, and promised to report “with enterprise, style and impact.” *Politico* aimed to focus on the “backstories” behind the daily national political news. They continued:

Reading a story should be just as interesting as talking with the reporter over a sandwich or a beer. It's a curiosity of journalism that

³ Howard Kurtz, “Politico: Niche Website Isn't Yet A Notch Above,” *Washington Post*, January 29, 2007.

http://www.washingtonpost.com/wp-dyn/content/article/2007/01/28/AR2007012801355_2.html

⁴ Kurtz, “Politico: Niche Website Isn't Yet A Notch Above,” *Washington Post*.

this often isn't true. The traditional newspaper story is written with austere, voice-of-God detachment. These newspaper conventions tend to muffle personality, humor, accumulated insight—all the things readers hunger for as they try to make sense of the news and understand what politicians are really like. Whenever we can, we'll push against these limits. In the process, we'll share with readers a lot more of what we know instead of leaving it in our notebooks.⁵

Gaining ground

In its first few months, the Politico website settled into a steady pace of about 25 articles a day when Congress was meeting. If Congress was out of session or not active, there could be as few as 10 new pieces a day. Some of those Web articles were repackaged for the paper, which published Tuesday through Thursday (when Congress was not in session, it published Tuesdays only). The newspaper staff also did their own reporting.

Meanwhile, *Politico* began to establish itself as a media player in its own right. In February 2007, Allbritton arranged for *Politico* and cable news station MSNBC to co-sponsor the first debate, scheduled for May 3, among the candidates vying for the Republican presidential nomination. *Politico* readers would submit questions to reporters through the website, and the reporters would select those to ask the candidates. *Politico* also had its own 30-minute TV show that aired weekdays on NewsChannel 8 (a sister Allbritton property), plus partnerships with a DC-area all-news radio station (WTOP) and with CBS news programs.⁶

Harris and VandeHei's hunch that renowned journalists would pull in readers seemed to have hit the mark. Correspondent Mike Allen, notorious in Washington for his workaholic schedule, was particularly popular for his prolific commentary and wide-ranging sources. His early-morning political news roundup, "Playbook," was on the website by 8:30 a.m. and quickly became a must-read item for Washington insiders. Other *Politico* reporters focused on gathering news available nowhere else. Blogger Ben Smith scored *Politico*'s first major scoop in November 2007, when he reported that presidential contender Rudy Giuliani had as New York City mayor billed "obscure city agencies" for a series of expensive trips. Based on the dates of the expenses, Smith wrote, the travel appeared to relate to an extramarital affair Giuliani was then beginning with his future wife, Judith Nathan.⁷ The story was widely cited in other news outlets. By securing this and similar scoops consistently over a period of months, *Politico* earned a reputation for high-impact reporting.

⁵ John Harris and Jim VandeHei, "Welcome to Politico," *Politico*, January 27, 2007.

<http://www.politico.com/news/stories/0107/2422.html>

⁶ SourceWatch, February 19, 2009: http://www.sourcewatch.org/index.php?title=The_Politico

⁷ Gabriel Sherman, "The Scoop Factory," *New Republic*, March 4, 2009.

<http://www.tnr.com/politics/story.html?id=82d8d496-d402-4863-b98d-8967de7cc6ab&p=2>.

Ben Smith, "Giuliani billed obscure agencies for trips," *Politico*, November 28, 2007.

<http://www.politico.com/news/stories/1107/7073.html>

Who pays? The funding model for *Politico* was multifaceted. Owner Robert Allbritton was indispensable to helping the organization find its financial feet. He had been willing to invest more than \$10 million in a Capitol Hill newspaper; he presumably was ready to spend at least that on his hybrid project. Allbritton had made it clear that he expected the publication's expenses to exceed revenues—that is, the publication would lose money—for some 18---24 months. "That's a pretty realistic time frame for a startup," he said in an interview.⁸

Politico held down operating expenses with a small, specialized staff of around 50; at the same time it had several revenue sources. Least among these were subscriptions. While the newspaper was free at specific distribution sites across Capitol Hill, and delivered at no charge to lobbyists and lawmakers, those without physical access could order it delivered. Subscriptions were \$200 for domestic subscribers for one year, and \$350 for two years. Overseas subscriptions were \$600 per year. But about 90 percent of *Politico's* 30,000 paper copies were distributed for free.⁹

Outside of Allbritton's funding, *Politico* was almost entirely advertiser supported. The newspaper offered good rates to those who wanted to reach the policymakers that made up much of its audience. A full---page color ad in a national newspaper like the *New York Times* could cost over \$100,000; the same kind of ad cost only \$11,000 in the paper edition of *Politico*.¹⁰ *Roll Call* and *The Hill*, the two established Capitol Hill---only newspapers, charged similar rates, but *Politico*—thanks to the website—had the advantage of a burgeoning national brand. Then there was revenue from Web advertising. Advertisers paid about \$300 a week for an online ad. (An existing print advertiser could purchase a Web advertisement for \$85 a week.)¹¹

In November 2007, *Politico* appeared for the first time on the magazine *Editor & Publisher's* list of top 30 most---visited newspaper websites, ranked at number 26. That was a valuable laurel. But it did not mean the enterprise was making money: *Politico* lost between \$3---4 million in 2007.¹² Allbritton had expected to lose money, but it was still a substantial sum. In fact, to the surprise of many (though not to Allbritton, champion of the newspaper), for all the recognition accorded the website, the advertiser---supported *Politico* newspaper was out---earning the website—bringing in 60---70 percent of the organization's revenues.

⁸ Kara Rowland, "Editor sees room for Politico coverage," *Washington Times*, January 22, 2007, p. C11.

⁹ Chris Kirkham, "Yet Another Newspaper Aimed at Capitol Hill," *Washington Post*, September 6, 2006. <http://www.washingtonpost.com/wp-dyn/content/article/2006/09/05/AR2006090501376.html>

¹⁰ Sherman, "The Scoop Factory," *New Republic*.

¹¹ Politico Rate Card, January 27, 2007, via Archive.org.

<http://web.archive.org/web/20070127052948/http://www.politico.com/index.html>

¹² Peter Osnos, "Turning Politics Into Cash," *Daily Beast*, April 21, 2009. <http://www.thedailybeast.com/blogs-and-stories/2009-04-21/turning-politics-into-cash/>

Banner year

The fiercely---contested election year of 2008, with its dramatic political ebbs and flows, was a boon to journalism with seemingly endless grist for news stories. The contest for the Democratic presidential nomination was particularly hard---fought. Senators Clinton and Obama were in a dead heat at the beginning of the year, with Senator John Edwards (D---NC) in third place behind them. January's Iowa caucuses, the first of the Democratic votes, delivered a surprise victory to Obama; Clinton prevailed in the New Hampshire primary a few days later. Edwards dropped out of the race on January 30, but Obama and Clinton continued to compete until June. July saw the Democratic convention, when the Democratic Party formally nominated Obama for the presidency. August was the Republican convention, with an electrifying speech from newly---selected vice presidential candidate Palin.

For *Politico*, the year started well. In February, it boasted a robust 26 million page views and was still going strong in May with 25.1 million page views. It also scored on average 3 million monthly unique visitors.¹³ *Editor & Publisher* ranked it the 10th---most---visited newspaper website that month. Its three---person publicity department was working overtime sending links to *Politico* stories to bloggers, television producers, and anyone else who might be remotely interested. Said VandeHei, "We're pretty damn methodical about making sure anybody who cares about a story we wrote knows about it."¹⁴

Their ad salesmen were also working hard. They pointed out to potential advertisers that, according to the Nielsen ratings, *Politico* attracted more male readers in the 18---49 cohort; more readers with annual household income over \$150,000; and more readers with post---graduate degrees than business websites like *Forbes.com*, *WSJ.com* or *CNNMoney.com*.¹⁵ *Politico* was also able to offer interested advertisers an attractive multi---platform ad delivery system: via Internet, newspaper, television and radio.

But interest in the site seemed to be eroding by July, when *Politico* attracted only 12 million page views. Even within its politics---only niche, *Politico* did not appear to stand out. The left---leaning, Web---only *Huffington Post* attracted almost triple the number of *Politico's* page views in July. It also drew more unique visitors in the same month—3.9 million to *Politico's* 2.3 million.¹⁶ Meanwhile, though *Politico* was intermittently profitable on a month---to---month basis, the enterprise was still losing money overall—despite evidence that online ad revenues were gowing. In August 2008, VandeHei told *Forbes* magazine: "I won't

¹³ Lindsey McPherson, "Politico Animal," *American Journalism Review*, August/September 2008.

<http://www.ajr.org/Article.asp?id=4587>

Web audience is usually gauged according to two estimates: "page views" measures how many times the site is accessed; "unique visitors" indicates the number of individual users who frequent the site.

¹⁴ Sherman, "The Scoop Factory," *New Republic*.

¹⁵ Adify press release, *Marketwire*, September 9, 2008. <http://www.marketwire.com/press-release/Adify-897867.html>

¹⁶ James Erik Abels and Carl Lavin, "Politico's Moment," *Forbes*, August 28, 2008 (estimates from Nielsen)

http://www.forbes.com/2008/08/28/dnc-politics-politico-biz-media-cx_ja_cl_0828dnc-politico.html

say it's a slam dunk that we're going to be a success... The truth is we're spending a lot of money."¹⁷

Media Group. In September 2008, the three founders saw an opportunity to increase revenues in anticipation of the post---election season. Small to mid---size newspapers were suffering the effects of a nationwide downturn in advertising and subscriptions; they were cutting staff and closing bureaus—especially Washington bureaus. *Politico* decided to offer newspapers its own content. Instead of a membership model like the Associated Press, or a paid subscription model like Reuters, *Politico* came up with a novel strategy: a content and ad distribution network it dubbed Politico Media Group.

The Politico Media Group was a network of some 30 hand---picked news organizations, including major newspapers (*Atlanta Journal---Constitution*, *Cleveland Plain Dealer* and others), TV and radio websites and political news websites. *Politico* offered advertisers—targeting especially national brands—a deal: access with a single media “buy” to an exclusive, national audience of educated, affluent and politically engaged consumers logged onto websites that interested them. *Politico* would handle the ad placement with its media partners.¹⁸

For its partners, *Politico* offered to share revenue from the ad sale.¹⁹ So partners could earn money without having to make the sale themselves. At the same time, *Politico* offered partners the opportunity to print *Politico* articles for free, both in their print products (if applicable) and online. It was a win---win proposition for publishing companies in the beleaguered news industry. They would have access to high---quality, free content to replace the articles lost with their disbanded Washington bureaus, and Politico Media Group would pay them to run ads. “We were looking for new ways of providing original political content, and business models to fund that, without charging the publisher directly,” said Roy Schwartz, vice president of business development and marketing.²⁰

As *Politico* set its budget for 2009, it saw reason for optimism.²¹ The budget, says Harris, “called for a substantial increase in '09 revenue. We placed a very large bet on a ‘governing’ year from a publishing viewpoint” because most *Politico* advertisers came from advocacy organizations which would be eager to swing congressional votes, and public opinion, their way.²² *Politico* planned to hire new reporters, and it predicted respectable revenue growth. Whether it could maintain readership, however, was another question.

¹⁷ Abels and Lavin, “Politico’s Moment,” *Forbes*.

¹⁸ The vertical ad network management company Adify partnered with *Politico* to provide the supporting technology.

¹⁹ There was no set formula for sharing revenue; different levels of partnership had varying arrangements.

²⁰ Meghan Keane, “Politico will pay you to use their content,” *Wired.com*, September 9, 2008.

<http://www.wired.com/epicenter/2008/09/politicocom-the/>

²¹ *Politico*’s fiscal year ran from October 1-September 30.

²² John Harris telephone conversation with Knight Case Studies Initiative on September 8, 2009.

Election looms

As the election approached in November 2008, Harris and VandeHei took stock. Many aspects of their business looked positive. *Politico* was fortunate that, as a deep global recession in the fall of 2008 bit painfully into the budgets of retail merchants—the backbone of newspaper advertising—its advertiser base of lobbyists and others who sought to influence lawmakers was relatively insulated from the business cycle. In some months, *Politico* broke even or even turned a small profit (ad revenues were noticeably higher during months when Congress was in session).²³ It was on track to earn online ad revenues of some \$300,500 a month, or about \$3.6 million for the year—not shabby for a start-up.²⁴ Average monthly overall revenue in 2008 grew by 105 percent over 2007.²⁵

Moreover, *Politico* had benefited from the presidential campaign. All the major candidates took out ads. But the greater benefit was in readers: “We knew we’d ridden a great wave in the election. It was great for readership; traffic was off the charts several times,” recalls Harris. “The election was an opportunity to build our profile and be seen by a national audience.”²⁶ By the end of October 2008, *Politico* had locked in an average of 3 million unique visitors a month—an improvement of 132 percent over the previous year.²⁷ In September alone, it reported 7 million unique visitors.²⁸ Among websites affiliated with newspapers, *Politico* ranked 12th in terms of average monthly unique visitors.²⁹

But it wasn’t beating the competition on the Web side. The *Washington Post* website still far outranked *Politico*. The *Post* came in third in average monthly unique visitors to newspaper websites, with 10.3 million, up 19 percent from the previous year. Then—Executive Editor Len Downie says, “Our growth in page views for our political coverage during the campaign exceeded the page views for *Politico*, despite all the publicity *Politico* has gotten.”³⁰ (The *New York Times*, ranked number one, had almost twice as many average monthly unique visitors as the *Washington Post*, with 19.5 million, an increase of 33 percent from 2007.)

²³ John Harris and Jim VandeHei memo to *Politico* staff, November 3, 2008, via Patrick Gavin, “Matthews Fawns Over Politico, ‘Is the Washington Post Even Around Anymore,’” *FishbowIDC*, November 3, 2008. See: http://www.mediabistro.com/fishbowIDC/television/matthews_fawns_over_politico_is_the_washington_post_even_around_anymore_99500.asp

²⁴ Abels and Lavin, “Politico’s Moment,” *Forbes*.

²⁵ John Harris and Jim VandeHei memo to *Politico* staff.

²⁶ John Harris telephone conversation, September 8, 2009, with Knight Case Studies Initiative.

²⁷ Zachary M. Seward, “Top 15 newspaper sites of 2008,” *Nieman Journalism Lab*, February 17, 2009. <http://www.niemanlab.org/2009/02/top-15-newspaper-sites-of-2008/>

²⁸ Adify press release, *Marketwire*, September 9, 2008. <http://www.marketwire.com/press-release/Adify-897867.html>

²⁹ Seward, “Top 15 newspaper sites of 2008,” *Nieman Journalism Lab*.

³⁰ Author’s telephone interview with Leonard Downie Jr. on March 16, 2009.

On the newspaper side, the situation was more heartening. Circulation by 2008 was a respectable 27,000, on a par with two other Capitol Hill---only broadsheets.³¹ *Politico* was less reliant on its paper product than established national newspapers, which often got over 90 percent of their revenue from print advertising. Nonetheless, in 2008 the *Politico* newspaper accounted for some 60 percent of the organization's ad revenue—bringing in somewhere around \$10 million. That was something of a surprise for a news organization whose website was its flagship product. Observed one blogger:

That means only 40 percent of their revenues are derived from their *huge* online audience... In revenue terms, that means a print reader is worth *about 200 times* what a unique visitor is online. Print is by no means residual... It's still the chief revenue source.³²

In the same vein, a writer on theatlantic.com observed:

Politico got the online readership it dreamed of, but it hasn't come even close to figuring out how to monetize it. So they're reliant on the Congress---section of their print paper, which can extract huge rates from lobbying organizations and pressure groups. Were they actually web only, they'd be losing catastrophic amounts of money.³³

Even with that newspaper income, the news organization was on track to lose \$2 million in 2008 on revenues of some \$12---\$15 million. While these results were well within expected parameters, they were still cause for concern. The editors were bullish on financial prospects for 2009, but a lot rode on fulfilling those expectations. Not only did it have to satisfy Allbritton (as its owner and backer); *Politico* also needed strong earnings to retain—both with salaries and reputation—the talented journalists Harris and VandeHei had attracted with promises that *Politico* would be *the* authoritative political news site.

Harris and VandeHei worried about the transition from the election to covering daily politics on Capitol Hill. “Our plan was very ambitious to cover the Obama White House,” says Harris. “We’d have to demonstrate that we could do it as a newcomer... We were nervous.”³⁴ The two men recognized that readership—and ads—would level off after the election as public interest in national politics waned. How could the entrepreneurs ensure that *Politico* would continue to occupy a unique, influential—and profitable—niche?

³¹ Ezra Klein, “The Plight of *Politico* – and Everyone Else,” *Ezra Klein* [an *American Prospect* blog], August 4, 2008. See:

http://www.prospect.org/csnc/blogs/ezraklein_archive?month=08&year=2008&base_name=the_plight_of_politico_and_everyone_else

³² Joshua Benton, “How stealable is *Politico*’s success? Not very,” *Nieman Journalism Lab*, November 7, 2008. <http://www.niemanlab.org/2008/11/how-stealable-is-politicos-success-not-very/> from Nov 7 2008.

³³ Klein, “The Plight of *Politico* – and Everyone Else,” *Ezra Klein*.

³⁴ John Harris telephone conversation with Knight Case Studies Initiative on September 8, 2009.

On November 3, 2008—the eve of the election—Harris and VandeHei issued a memo to reassure their staff that *Politico* would remain viable into 2009. In a scant 21 months, the memo said, *Politico* had had frequent months when it was profitable. The goal for 2009, they wrote, “one we fully expect to achieve—is profitability on an annual basis.” It continued:

For all our satisfaction with these numbers, it is important to be realistic about traffic. We have no doubt that traffic will dip—how much, we don't know—following the election. When it does, this won't be cause for alarm. The reason is that *Politico*'s business success—what will sustain our editorial success over the long haul—is not primarily dependent on a mass audience. The main part of our revenue, in print and online, comes from advertisers who want to reach our audience of Washington influentials— and know that the best way to do it is to buy space next to coverage that has impact and that people are actually reading.³⁵

That was what Harris and VandeHei put out for public consumption. Privately, they fully appreciated how much would have to go right for those words to prove prescient. Two years into their experiment, while their prototype had been road---tested, it had yet to earn the highest accolade of a successful business model: imitation.

³⁵ John Harris and Jim VandeHei memo to *Politico* staff.