

Why Elon Musk is so desperate for Twitter to make money

It's been six days since Elon Musk took ownership of Twitter, and the changes have been both furious and fast. He's proposed cataclysmic layoffs – somewhere between 50 percent and 75 percent of the company's staff, depending on which reports bear out. He's established an entirely new user tier, in which users will pay \$8 a month (formerly \$20) to receive algorithm boosts and the prestige of verification. He's also proposed a paywall feature for videos and there are rumors of a plan for paid direct messages.

The ideas have come so fast that it's hard to keep track of it all, let alone parse a coherent strategy. But if you take a few steps back, there's a fairly straightforward theme: Twitter needs to make money and fast. The ideas have been haphazard, but they've been fairly consistent, seeking new sources of non-advertising revenue and desperately cutting costs.

This is the sort of thing you do when you're desperate to improve your new company's balance sheet and you're willing to consider just about anything.

If this seems unexpected, it's because Musk spent so much time publicly insisting that the buyout wasn't about money. In a TED interview in April, he said it straight out: "This is not a way to make money... Having a platform that is maximally trusted and broadly inclusive is extremely important to the future of civilization. This is not about the economics at all."

Crucially, though, he said this before Twitter agreed to his

offer and he got a closer look at the company's books. Once that happened, he spent the next six months trying unsuccessfully to wriggle out of the deal. So even if he came into the deal with altruistic motives, it's safe to say his thinking has evolved.

Even very, very rich people can overextend themselves

At the same time, there are clear reasons why an incoming CEO might panic about the company's balance sheet. In its last quarterly earnings report before the acquisition, Twitter posted a loss of \$344 million. With users stagnant, investors had become increasingly pessimistic about the platform's financial outlook. That chilliness was part of what drove the price low enough to allow Musk's takeover in the first place.

Now, Musk's takeover has added billions of dollars in debt to the company's balance sheet, which will make the problem even more urgent. To finance the deal, Musk took out \$13 billion worth of loans against the company itself. As noted by DealBook, that raises the company's annual interest payments to roughly \$1 billion a year – more than Twitter's total profits for 2021. If there was a path to profitability before the takeover, that path is now much, much steeper.

There's also reason to think Twitter's ad business (its primary source of revenue) has grown shakier since Musk proposed the deal in April. Overall ad spending declined all summer, and even more established companies like Facebook and Google are feeling the pinch as digital markets dry up. In the wake of Musk's takeover, a number of major ad agencies have advised clients to pause Twitter advertising completely, either because of the sudden chaos, the broader economy, or a combination of the two. Musk has tried to shore up advertiser support – most notably, publishing an open letter to assure them the platform would not become “a free-for-all hellscape” – but it's hard to believe he's in a better place than when he started.

The result is an urgent need to make money from sources other than advertising, but what's been proposed so far doesn't come close to filling the gap. Musk's most ambitious plan is the new \$8-a-month verification scheme, which would establish a new kind of premium account on the service. But even if every one of Twitter's 400,000 verified accounts signed up for the plan, it would only generate \$38 million a year – a fraction of the \$1 billion interest payments owed by the company as a result of the new debt.

This wasn't how it was supposed to work. Whether you agree with him or not, Musk has real ideas about how Twitter should be run, and the point of buying the company was to try them out. He's wildly, obscenely rich, and he just spent tens of billions of dollars insulating Twitter from public markets. But private companies can go bust just as easily as public ones, and even very, very rich people can overextend themselves. If Elon's first week on the job is any indication, he's now much more attuned to that possibility than the abstractions of free speech.

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