

# Aol and time warner merged

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A decade ago, America has witnessed its biggest merger of their history when AOL and Time Warner merged for an all stock deal with a combine value of \$ 350 billion which also created the world's largest media and Communication Company, but today I want to re-examine this ill-fated deal and try to explore what went wrong. In an initial statement about this merger and probabilities of new company it was stated that this merger will lead to a speedy development and growth for all its businesses.

It will not only provide AOL a new broadband interactive platform, but the companies can also grow their revenue through cross marketing from movies, music, and internet to telephone. Unfortunately, instead of delivering according to the promises made, the merger turns a disaster, which brings a loss of almost \$ 100 billion in shareholder value.

In my opinion the new company has so many management issues for example; lack of long-term planning, inferior product development, difference in organizational culture which is more prone to imitation than innovation, and most important of all the main players of the deal Mr. Gerald M. Levin (chief executive, Time Warner) and Mr. Stephen M. Case (co-founder of AOL) fail to transform their passion and vision to their people. Before I move any further let's rewind the whole scenario, and look at the history of the companies as well as the market situation before merger and the reason for the merger; History of Time Warner Time Warner belongs to four Warner brothers, who somehow convinced their father to sell his golden wristwatch to buy cinematographs. This was the start of their film journey.

In the beginning they use to show films on that cinematograph to the farmers in rural areas and later they register themselves in Hollywood in 1923 and started producing their own movies in 1925, in 1930 they launched their cartoon series which went very popular among public. The name of their popular cartoon series are Bugs Bunny and Daffy Duck and Looney Tunes. These brothers had won many awards and produced an amazing amount of well-known classic films, which includes a huge number of Hitchcock thrillers and Casablanca.

Warner Brother's got merged with Time magazine to form Time Warner in 1989. This acquisition was made in US\$14Billion. This new merger has formed a number of multi-media companies which included record labels, motion picture as well as television production and distribution, studio facilities and film libraries, television networks, book and magazine publishing. In 1996 Time Warner acquired Turner Broadcasting System, and became 2nd largest cable operator. Its printing side had made its prominent place in the printing world and became a dominant figure in 2000.

Market before Merger The future growing media was considered as the new media sector in 2000. It was believed that successful media business is not just acquiring one media channel. It was considered important to provide the customers high quality information as well as entertainment content which is possible through media including internet. The internet can link all the customers in the world and it is an important partner of modern media. Time Warner has considered that its successful journey needs a major internet player in the market.

So the company got a merger with AOL in 2000, at that time internet industry was in boom and most of the companies were overvalued, so the merger with one of the biggest player in the industry was fully justified at that time. Reason for the Merger To Time Warner Company, merging with an already existed internet company was a valuable deal as they were gaining world fame through internet channels. It was a wise decision at the end of Time Warner Company to merge with pre existing Internet Company as it could save the company, the cost of building an entirely new internet company.

Through an internet facility now the media content was available on internet anytime anywhere. Now Time Warner Company got its access up to 30 million customers. That's why this merger was expected to earn more revenue for Time Warner Company. History of AOL (America online) AOL was founded in 1985, at first it was Quantum Computer Systems, which was a popular interactive service providing Company served with content and its dial up modems services to the residential customers. This internet service provider Company was the first company which does not required a terminal standard program but only needed use of proprietary software.

It was an easy service for even those customers who were almost unfamiliar with the computer or internet use. ; Where as its main competitor “ CompuServe “ was only focused to the technical community. In 1991 Quantum Computer Systems changed its name into American Online Inc (AOL)and start providing its service to World Wide Web. In late 1990's, its simple and spontaneous interface and the forceful marketing strategy made

it a fast growing company, which afterward made huge acquisitions and geographical expansion. AOL made an aggressive marketing strategy to create its appearance more attractive and more desired.

Market situation before Merger When AOL got merger with Time Warner it was capturing 40% US online subscribers which means 27million subscribers. AOL got this height in just 8 years. In its beginning it was not a big company but was competing with comparatively big companies at that time. The internet growth and revenue journey were soon diverted into the advertising and e-commerce deals from the subscription and time usage. AOL in 1996 changed its strategy plan, for the investment community, when it turned into a media giant.

One feature which was still not changed was its easily understandable business model. In October 1996 to January 2001 AOL stock price were increased 1, 468% as compared to 100% increase in S&P 500. AOL joined S&P500 in December 1998. Reason for the Merger AOL and Time Warner got a merger for their own different interest, Time Warner Company got a successful pre existing internet operator with this merger which gave a boot-up to its broadcasting and AOL got a new meaning of internet surfing for its customers rather than general searching and e-mailing, which AOL was not into before this merger.

This merger gave AOL more amount of revenue through three major parts. \* Subscriptions. \* Advertising and e-commerce. \* Content. Both the companies were assured that, the merger will give a better opportunity to the AOL computer service to grow its business through cable service and will create

new business opportunities through cross promotion. In my opinion, under such circumstances the decision to go for a merger was fully justified and both of the companies were pretty confident about its outcome.

Expectation from the Merger At the time of merger, both of the companies had a clear vision about their strategies to reach more customers and to further penetrate in the market, which seems a reality as well “ A merger which will combine two world class companies one with a world class media, entertainment and news group and which also has an advanced broadband system with a group which has a huge network of online customers.

The merger of those titans means a creation of a world largest cyberspace community with an unmatched capability to do e-commerce. Many analysts thought this merger will start a new era in business, as a result some of the investors and computer gurus start predicting about the growth rate of the newly formed company. Reasons for failure What went wrong with so many high expectations from all around?

The answer to this question is one of the main problem in this merger was, at the time of merger the stock value of AOL was overpriced due to the internet bubble and in reality both the companies were never equal due to this overpriced stock value AOL received a lot more then what they really deserved. In my opinion AOL already has an idea about this, because of the fact that Mr. Stephen M. Case sold a huge portion of his stock right after the merger and approximately he make a profit of about \$ 200 million.

Secondly, the new company was failing to develop a marketing model according to their vision. Jointly they lack the ability to recognize the modern needs of change in technology; especially there idea to launch a more efficient music platform for their customers and other companies like Apples took advantage of this delay to become the pioneer in this field in my opinion the reason for all the delay was the difference in organizational culture Mr. Richard Parsons also said the same thing in a board meeting where they approved this merger, that the life will be different after this merger because of the difference in the cultures, latter he admit by saying “ I underestimate how different”. Third reason in my opinion was after they finalize the merger, as an effective management they need to launch a personalized web services like FaceBook or MySpace which not only provide the customers to share their thoughts but the company can also use this tool to their advantage to gain batter market share.

Recently, when Mr. Gerald M. Levin and Mr. Stephen M. Case came on media they admit that this merger was a mistake and Mr. Gerald M. Levin even apologies on camera stating “ I presided over the worst deal of the century. I am really very sorry about the pain and suffering and loss this has caused. ” Further they said without the implementation of vision there is no value of it, and in our case we focus more on internal politics then our customer desires.

In conclusion I would say in capstone there is one simple rule, which is one reason with one single strategy is the essence of success. If we look at the press release of AOL and Time Warner merger where they said possibilities are truly endless. In my opinion when the possibilities were endless, we

sometimes avoid the actualities and that is what happened in their case where both of the companies become a victim of mismanagement and undisciplined strategic approach resulting in a loss of about \$ 100 billion of shareholders money.

#### Bibliography

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