

Time warner case study

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Case Summary

The merger of AOL-Time Warner hit rock bottom in January 2003, when the Company posted a loss of \$98.7 billion for 2002, the largest corporate loss in US history. Being an employee of the company, TJ (we) have to give fact-based answers to Memos, which are assigned to us. In 2000, AOL purchased Time Warner for \$164 billion, resulting in formation of AOL Time Warner. FCC, Federal Trade Commission and European Commission approved the deal a year later. AOL owned 55% of the new company, while the remaining 45% went to Time Warner, although AOL had very less assets and revenues.

Also, the merger was supposed to keep equal positions for top executives from each side. Gerald Levin, the CEO of Time Warner was appointed CEO of new company. Steve Case became Executive Chairman of BOD, Robert W. Pittman and Dick Parsons served as Co-COOs, and J. Michael Kelly was appointed the CFO. The deal was considered to be a very intelligent strategy, as Time Warner will now reach almost tens of millions of new customers. Also, AOL would use Time Warner's high-speed cable lines to deliver branded magazines, books, music and movies to over 130 million subscribers. However the economic recession of late 2001 and the 'burst dot-com bubble' slowed the advertising and subscriptions resulting in a stalled growth and profitability of AOL division.

The value of AOL division felt drastically as company reported a loss of \$99 billion in 2002. The value of AOL stock fell from \$226 billion to \$20 billion. Disputes at the annual BOD meeting resulted in the resignation of CEO Gerald Levin in May 2002. Dick Parson was appointed the new CEO and all other executives were demoted or promoted from their positions. Issues

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start to come from division heads too, as most divisions of Time Warner Inc. worked independently. They blamed AOL for not performing the part and resisted any convergence. COO Pittman's strategy to bring all divisions together was not welcomed by print media division Time, Inc. and resulted in a dispute between Pittman and CEO Parsons. Pittman resigned after July 4, 2002. His departure was seen as a victory to all those executives, who wanted to undo the merger. Now, Jeffrey Bewkes and Don Logan were appointed the co-CEOs. In 2003, CEO Richard Parsons became the Chairman of BOD. The same year, company dropped AOL from its name.

The ex-Chairman of BOD, Steve Case resigned from board on October 31, 2005. By 2007, there were talks among BOD to sell some divisions of the company along with AOL division. This decision was opposed by many executives, and resulted in resignation of co-CEOs Bob Shaye and Michael Lynne, who were on board for about 40 years. In 2009, AOL was removed from Time Warner and installed as a separate independent company. In 2010, Time Warner bought Chilean nationwide television station Chilevision, and established CNN Chile. Prior to merger, both AOL and Time Warner were very prosperous in their fields. AOL had been providing a considerable amount of social networking, advertisement, subscription and online media services. Warner Bros. Entertainment has been a major film industry company since its inception in 1918 by 4 brothers, and has given many blockbuster movies, with the most recent being Sherlock Holmes and Clash of the Titans.

With many subsidiaries such as New Line Cinema, Time Warner held the highest share of the 2003 box office receipts, with 23%. Disney was second

with 21%. Independent production houses weren't much of competition, but boosted the market share of the owners. The US domestic box office revenues were \$ 9. 45 billion in 2003, while the admission crossed 1. 8 billion. The cost of the film industry rose 312% from 1988-2002, while revenue increased only by 262%. Also, a movie's life cycle, including the release date, determines the amount of sales. Time Warner is into TV programming, with serials such as Friends, and The West Wing. Its home video distribution business, which includes DVD and VHS sales, was around \$ 425 million worldwide. The publishing arm of Time Warner earned around \$ 5. 5 billion in 2003, with a net income of \$ 664 million. Time Warner's synergy with AOL may have been disastrous, but it's up to the company to pull its fortunes around now.

TJ can be very help and influential, bring in new thoughts.

We are TJ.