AOL-Time Warner Merger And Its Failure

AOL and Time Warner have been one of the biggest mergers in US corporate history but unfortunately also amongst one of the worst merger decisions. The case is now taught in business schools as one of the worst decisions ever made in the history of the business sector where the greatest minds in media and technology came together to form something which is now accepted by everyone as being nothing short of a disaster.

There is long history behind it in terms how it actually happened, what were the reasons that led to its collapse and how it finally decended into turmoil.

Background

AOL was the company which was amongst those that laid the groundwork for internet in the mid-1990s and also the most famous company on the net. It allowed Americans to search the web, make emails and go for instant messaging which is why it gained a HUGE amount of popularity. It wouldn't be wrong to say that it was the Google of its own time. Time Warner, on the other hand, was founded in 1990 and was initially a merger between Time Incorporation and Warner Communications. Time Warner Company then took care of telecom services as well as the entertainment services with HBO being one of its most recognized assets in the entertainment television industry.

How the deal was made?

AOL was a big company and a reputed one on the stock market. M. Case (chief executive) of AOL had already made up his mind of combining their valuable stocks with another big company so that the scope could be widened and returns multiplied.

They had even hired an investment bank to sit with them and financially analyze the various target acquisitions they were thinking of. At this very sametime, Mr. Levin (owner of Time Warner) was thinking of how to take the company and step towards the digital age. Mr. Case was the one who made a call to Mr. Levin, but they first just met for an informal dinner and chit chat at a hotel in Manhattan. A week or two later they actually met for a formal discussion over a dinner at New York. Once there they discussed how the two companies together would be better strategically and also how its effect on society would be massive as well.

This led to a series of discussions which had included only a bunch of people and kept things confidential until the year 2000. The deal was finalized at Mr. Case's house over a dinner. There they decided that the merger would be shown as being equal but in reality, AOL had much more valuable stocks which are why they were going to own 55 percent of the joint stocks and Time Warner would have 45 percent; making it in effect an acquisition by AOL. The new board, however, was planned to have an equal number of directors from both the companies.

The deal was publicly announced on January 10, 2000, and came to be known as the AOL Time Warner Incorporation; it was a 164 billion dollar deal. When the merger was announced, the vision and mission of the company were pretty clear. Time Warner Company would experience a really good growth rate because of the fast internet speed which would be provided by AOL. Time Warner would be able to reach into the homes of millions of people. AOL, on the other hand, would make use of the high-speed cable lines of Time Warner to distribute their magazines, movies, books, and movies. This combined culture would earn them millions of more subscriptions.

Why it failed?

Unfortunately, things didn’t go well and weren’t as transformative as they had thought it would be. The growth and profitability of the division were going down because they were losing a lot of market share as other high-speed broadband providers were growing. In 2002, they suffered a total loss of about 99 billion dollars which was huge (and the biggest loss in the history of companies at that time.) There was a massive loss on the overall value of the AOL-Time Warner Company too as it fell from being valued at 226 billion dollars to just 20 billion dollars. The failure of this division was accelerated by a number of factors which include some flaws in its different strategies and the external competition as well.

Rise of broadband

AOL was clearly the King of the dial-up world, but it got stuck into something known as a transient advantage in which the capabilities which make one company the obvious leader of an industry become the reason for its downfall; just like when they are replaced with better or improved innovations. For AOL, things went bad when dial-up internet service was replaced with the much faster broadband service. Large telephone companies made their place by being the first ones to avail broadband services. AOL could have also done this easily because it was a reputed organization with a good brand name and was considered credible by many, but the issue was with the infrastructure for broadband services which they didn’t have.

Not the right time to merge

When the two companies were thinking to merge, AOL was not in a good position as it was facing a downfall in profitability and the overall growth as well. Still, the deal was made because they both overvalued the company's position. Since then, the market capitalization for the newly formed merger went down by 75 percent, and this was majorly because the value of AOL was deflating. The two companies had set really unrealistic expectations that AOL was going to grow after the acquisition. Instead of growing, AOL lost about 4 million of their subscribers in the time period of 2002 to 2005. Things got worse for them because Time Warner wasn't giving the marketing services which were needed by AOL and just kept its own Road runner ISP.

Clash of control and accountability

The newly merged company did not have a proper communication pyramid in which instructions were sent down, and the employees were made accountable to their supervisors.

No one tried to brief the employees of the two companies separately and explain to them how they were supposed to work together in order to make the deal work. No employee got any instructions about making joint efforts, and therefore everyone continued in their old ways. There was a great absence of a strong leadership and due to this the two companies, even after being merged, had the prevalence of an "us vs. them" culture amongst their employees. This, therefore, led to another issue which was that of lack of motivation. When there is no strong leadership and no binding force for the workers, they will not feel motivated to move the venture to success and growth. The same case happened with the employees of AOL-Time

Warner Company who kept doing their separate jobs irrespective of what the joint company now required.

Politicized executive positioning

AOL had a greater capital and market value which gave it considerable control over who to place on the executive board and AOL rightly took advantage of it. Even though the operational entity of AOL was smaller than that of Time Warner but still on the executive board, AOL enjoyed 2/3 of the positions. This automatically developed resentment in the employees and managers of Time Warner Company which affected their performance in delivering for the strategic goals that were made or just generally being ready to collaborate with their fellow workers from AOL. AOL should have kept such politics away from business, but it didn't, and they didn't know that this would end up sabotaging their chance of benefitting from the merger opportunities at the time and the long term period as well.

Different working cultures

The working culture of both the companies was not in any way similar and had a lot of differences which led to a lot of issues. AOL had more of a high tech culture whereas Time Warner had their traditional corporate way.
People that were working for AOL were used to coming to work in their casual clothes like khaki pants but those at Time Warner strictly had to follow suit and tie culture. AOL managed their employees centrally, and there was a group of people who were allowed to take the decisions, but Warner employees were used to doing things on their own as there was a lot of decentralization. Warner encouraged more diversity amongst their employees and instructed them to focus on the overall business

growth, but AOL employees were focused on improving and maintaining their stock price only.

These were just a few of the many differences in their working culture which came as a hurdle and did not allow for a smooth transitioning of ideas and worker efforts. The team tasks would never be a success because AOL employees were young and enthusiastic, but Warner employees were comparatively older in age and more formal with their approach. This all led to a lot of clash between them and affected the work; for instance, decision making processes took more time than they originally did.

Lessons learnt

AOL-Time Warner sure was a bad decision in the history of US corporate sector, but it did give something that people in future would take a lesson from. Things didn’t turn out well for this merger, and it taught us a lot of things which can help people in the business sector if they are considering to merge or have already merged two different entities.

i. Unified culture

Culture may not seem that important, but it is the unseen force which helps to bring people together. Bringing two diversified cultures together is a difficult task but not an impossible one. The one thing which should be taught to workers of both the sides should be to respect the opposite culture and its ways. It is important to bring together all the employees and give them a motivational lecture in which they are asked to settle and adjust to the opposite culture and decide upon ways which are acceptable to both parties, instead of just going on with their separate ways.

ii. Structure

As soon as two different entities come into a single existence, certain changes should be made to the structure so that hurdles in future can be avoided. The structure should be such that there is a free flow of information and employees are easily able to communicate with the management and subordinates to put forward ideas or recommendations which may help the company.

iii. Common goals

Somehow, even after the acquisition, the two companies and their executives were working for their own benefits. They weren't interested in the common growth of the division, and this led to its failure. It is important that when such a business merger takes place, the owners and executives should put away their personal goals and should take out time to devise *new* goals which take into consideration the interests of everyone involved in the *one new organization*.

This merger teaches the entrepreneurs of today and tomorrow a lot about how to incorporate the diversity of two different companies and smoothly transition into one unified force.

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