

Last of the Dot.Coms

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It was “better than sex” – at least according to Ted Turner. Not bad for a corporate takeover, officially referred to as a “merger of equals”, which summed up an era and which formally ended last month as one of the biggest disasters in corporate history.

It was January 2000 and the \$181 billion USD deal which would give Ted Turner such a thrill was supposed to usher in the future of media in the new digital age. At the height of dot.com mania, the biggest thing in the internet, America Online, announced plans for an all-stock take over of lumbering old media giant Time Warner. The old media was finally capitulating to the new. AOL Time Warner Inc. was born with an estimated market value somewhere in the vicinity of \$350 billion USD.

On May 28 this year, with a combined market capitalisation now less than \$40 billion, Time Warner Inc. – it long ago stripped AOL from its name – announced it would spin off the ailing dial-up internet provider sometime before the end of the year. The move has surprised no one. The ill-fated merger has long been considered textbook for corporate deals gone wrong and even the principal architect behind the deal, AOL’s founder and former chief executive, Steve Case, has openly acknowledged the execution never matched the vision.

Times have changed. In January 2000, the dot.com bubble had yet to burst (it peaked that March, followed by the famous dramatic plummet), Wall Street was enjoying a record bull run and the World Trade Towers were still standing. Greed might have been good, but growth was gold and AOL defined the web for millions. Hard as it is to believe now, AOL was the power base in 2000 and Time Warner were signing up to find a way to survive in the shiny, new internet-era future they were not seen as otherwise equipped for.

Spinning off AOL is now the only way forward for both companies. There’s no room for a dial-up internet provider rapidly losing subscribers (from 26.7 million, down to 6 million and dropping) in Time Warner’s current strategy, which sees a return to its core strengths in content creation. To this end, the broadband cable division has already been spun off, but Time Warner Cable is bigger and more stable than AOL and can probably make it as a stand alone. It’s unlikely that AOL, with even their internet marketing business hit hard by the GFC, will last long as an independent company, but it will be free to deal with other big players. There could be interest from Yahoo or Microsoft as they look for allies to take on today’s biggest name in the game – Google.

There's a lesson here for Australia's flailing media organisations as they struggle to find purchase in a digital world where consumption has shifted online. Traditional media models may be collapsing, but Time Warner's back-to-basics strategy reflects a truth of the internet era: content will always be in demand, regardless of the technology used to access it. From AOL's glory days, through MySpace, Facebook, Twitter and now even Google Wave, today's technology moves fast and is still on shifting ground. Ultimately, this is still an immature industry. Demand for content, however, has remained remarkably consistent.

The AOL split is a case in point. In a final twist to the nine year saga, Steve Case, who parted ways with the merged mega-company back in 2003, communicated his first reaction to news via the internet's latest sensation: Twitter.

He simply said, "free at last."