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How Did the AOL-Time Warner Merger Go Wrong?

Steve Case, *AOL, Revolution*

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How did the AOL-Time Warner merger become the worst merger in history? Steve Case, former CEO and chairman of America Online, says that while the dot.com bubble bursting may have added to demise of the venture, he believes that the core reason goes back to the three P's: there was a culture clash between the two companies; the passion that pushed AOL forward diminished; and people wanted a quick fix to profit loss and didn't persevere.

Transcript

What happened? If these two great companies with great, great histories come in together at the turn of the century to create this new company that would really drive convergence and help reinvent digital music and a whole wave of services, yet 10 years later, people look back at what was the largest merger, and still is the largest merger in history - at the end of the day, when we announced the merger, the market value of the combined company was $350 billion. And the announcement was such a big deal. It was the lead in all the network news. I remember, the weekend after we announced it, I was walking through Dulles airport, looked at the newsstands and sensing every cover of any - Time, Newsweek and Business Week and Fortune were all focused on this merger. Everybody thought this was the next big thing and almost guaranteed to work - indeed, that's why there was so much lobbying to oppose it - yet now is looked back as the worst merger in history. It is! So what happened? As I dissect it, there are a few things that I think are important lessons to learn as you think about your entrepreneurial futures. The first - and this was only a factor, but it's worth mentioning - there was a perfect storm of things that really were unfortunate, a lot outside of our control. Almost immediately after the merger closed, the economy went into recession. Almost immediately, therefore, the advertising revenue, where the core revenue streamed into the company, was kind of in freefall. And the Internet boom that had been driving market value in the later part of the decade really became the Internet bust.

So, I mean, we called it the sort of the Internet's nuclear winter. So a variety of kind of broader systemic things were happening. But that really only accounts for part of it. And I think that did translate to some things that led to some anger and resentment a bit since we actually ended up, in retrospect, doing this deal at the peak of the Internet values. And as I recall, AOL, at the time of the merger, was twice as valuable as Time Warner even though Time Warner had four times more revenue and earnings. So it was a little bit of a mismatch. And when things slowed down, people on the Time Warner side were none too happy about that. And so that created a factor. But the core of it goes back to these three P's: people, passion and perseverance. On the people side, what seemed like a good idea quickly became a culture clash.

People were focused on the wrong things: not really focused on innovation, more focused on their own issues. On the passion side, frankly, a lot of what drove AOL in the 1990s was lost. Some of the most creative, pioneering, innovative people kind of wandered off and became more corporate. And on the persevering side, probably because things had corrected in the Internet sector, there was a sense that maybe this Internet really was just a fleeting phenomenon. It wasn't really a sustainable phenomenon. So instead of continuing to invest in innovating, their tendency was to back away from it. I remember one of the last deals I did before I stepped down was we invested in Google. We bought 5% of Google for essentially next to nothing. But that stake was sold immediately when Google went public. If they had held on to the stake, that 5% in Google would be worth more today than AOL is today.

But their sense was just kind of, you know, "Let's monetize this and move on." So it was disappointing at a variety of levels, even though I didn't have any day-to-day role as Chairman of the company, I was sort of the visible target, frankly, and decided about eight years ago to step down as Chairman. I thought it would be good for the company to have a fresh start and be able to kind of look, focus more on the future than the past. And also frankly, for me, it was recognizing that having a role where you're kind of held responsible but don't really have a day-to-day authority to make things happen is kind of not a great place to find yourself. So, I left. And it was a disappointment because we had such a great run up until then and the merger was launched with such fanfare and promise. As I think back on it, it's not just the three P's to keep in mind on. It's also what Thomas Edison said, which I think summarizes this merger in five words, which is: "Vision without execution is hallucination." We had a really good idea, but we didn't focus with the right people, the right passion, the right perseverance on executing.