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AOL Time Warner Well Positioned Despite Case's Resignation

The departure of AOL Chairman Steve Case will change little. Most changes in business strategy have already occurred. AOL remains the leading media/communications conglomerate with a good future.

Event: On 12 January 2003, Steve Case resigned as chairman of AOL Time Warner, effective at AOL's shareholders meeting in May 2003.

First Take: Case's departure concludes a chapter rather than begins AOL's woes. Although headlines may trumpet that the "old" media has bested the "new" media, the reality is not that simplistic. Most key executives from the AOL side of the company left since 2H01 because, Gartner believes, they lacked the skills and experience necessary to run operations during a downturn. With them gone, Case's leaving will likely have a modest impact on the company, at most. Case chiefly focused on vision, with Time Warner executives in charge of business strategy.

AOL still stands tall as *the* player in the combined media and communications market. Just because investors aren't happy, that doesn't mean that AOL lacks a rosy future. Here's why:

- AOL Time Warner properties — mainly AOL — control more than 50 percent of all online advertising spending.
- The U.S. broadband market is poised to reach 25 percent of households in 2003 — Gartner believes that's a trigger point for accelerated growth in 2004 and beyond.
- Online ad revenue will likely increase by year-end 2003.

Nonetheless, AOL does face key challenges. Advertising revenue has halved in each of the last two years. Subscriber growth has slowed. Therefore, AOL must keep customers from defecting. With deals with AT&T/Comcast and its own Time Warner Cable, AOL will have more than 50 percent of the cable modem market to sell to. However, Gartner believes AOL will fail in this area if it cannot adopt a tiered pricing structure. With Time Warner Cable, AOL can make that happen but must wait for AT&T/Comcast to move on this issue first. By year-end 2003, all major cable providers will adopt a tiered consumer pricing structure (0.7 probability).

Enterprises should still look to AOL for their business-to-consumer content and advertising strategies. They should also plan on cable modem service to play a larger role in their remote access strategies. Since AOL is strongly positioned in the enterprise messaging market, Enterprise AIM Services should be on enterprise messaging evaluation lists.

This news doesn't change Gartner's vendor rating of Promising for AOL (http://www.gartner.com/1_researchanalysis/vendor_rating/vr_aol.html).

Analytical Source: Eric Paulak, Gartner Research

Recommended Reading and Related Research

- "AOL Returns To Its Roots" — By emphasizing content over Internet access, AOL is moving in the right direction. **By Patti Reali and Lydia Leong**

- "AOL Time Warner Woes Help to Crush Media Conglomerate Myths" — To succeed, AOL and other media conglomerates must return to building strong businesses with effective operations and shared cultural values. **By James Brancheau and Charles Abrams**

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