

AOL's Outlook Remains Bright, Despite Huge Charge to Earnings

Eric Paulak

AOL Time Warner's announcement of declining ad revenue and a charge of up to \$60 billion has led Gartner to change its ratings of the company. Nevertheless, the outlook for AOL Time Warner remains positive overall.

NEWS ANALYSIS

Event

On 7 January 2002, AOL Time Warner posted preliminary 2001 results that fell dramatically below forecasts. Revenue was \$2 billion less than the forecast \$40 billion. AOL also said that revenue would grow only 5 percent to 8 percent in 2002, instead of the previous forecast of 8 percent to 12 percent. Due to new accounting standards, AOL will also take a \$40 billion to \$60 billion write-down in 2002. It will also acquire Bertelsmann's 49-percent stake in AOL Europe during 2002.

Analysis

Apart from the expected multibillion dollar write-down, AOL's preliminary 2001 results came with much bad news but also plenty of good news. Advertising revenue has declined quarter over quarter. Although AOL tried to put a positive spin on the growth in online commerce by its customers (up by 67 percent to \$33 billion in 2001), most of the spending did not occur with AOL, which thus did not benefit directly from the increase. In addition, Time Warner Telecom has struggled along with all the rest of the U.S. competitive local-exchange carriers.

The good news is that, although ad revenue declined, AOL's market share for online advertising keeps growing. More than 50 percent of all online ads on the Internet are now bought on AOL sites. When the market improves, AOL will be positioned to dominate the online ad market. At the same time, AOL continues to enjoy better cross-product advertising sales through its online and publishing outlets, and AOL has benefited enormously when selling its own products, such as the Harry Potter and "Lord of the Rings" movies.

As a result of the slowdowns, Gartner has changed its ratings for AOL (see Figure 1). Its Financial rating has dropped from Positive to Promising, and its Advertising Delivery rating has dropped two points from Strong Positive to Promising. Both could move back up if AOL could capitalize more on its dominance in online ad revenue or develop an online commerce strategy.

Figure 1. AOL Time Warner's Overall Rating Remains Positive

	Old Rating	New Rating
Corporate Viability		
Strategy	Strong Positive	Strong Positive
Pricing	Caution	Caution
Financial	Positive	Promising
Product Technology		
Advertising Delivery	Strong Positive	Promising
Content Delivery	Positive	Positive
Networks	Caution	Caution
Platforms	Caution	Caution

Source: Gartner Research

Overall, AOL remains the market leader in reaching online consumers, and enterprises should continue to use it for their business-to-consumer advertising and content strategies. However, they should exercise caution in using AOL Instant Messenger and Time Warner Telecom, both of which have had problems recently.

Analytical Source: Eric Paulak, Enterprise Network Strategies Europe

Need to Know: Reference Material and Recommended Reading

- "AOL Instant Messenger Remains a Security Risk for Enterprises" (FT-15-2168) AIM provides little assurance of privacy, and enterprises should investigate alternatives for instant messaging. **By Richard Stiennon**
- "AOL's Participation Gives the Liberty Alliance a Big Boost" (FT-15-0992) With AOL, the Alliance (set up to create open standards for identity technology) gains the critical mass of support it needs. **By David Smith**

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