

Author Interview

Nina Munk

Q: When the deal to merge AOL Time Warner was announced in the first days of the year 2000, the news terrified everyone involved in the media business. Rumors started immediately of other mammoth media companies that would soon be sold to internet companies. Nearly four years later, everyone in the media business smugly dismisses the deal. What happened? Why was the deal so fearsome to begin with and how did it turn into such a disaster?

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A: It's hard to believe it now, but the announcement of the AOL Time Warner deal caused widespread panic. It was unbelievably crazy news. It was like

nothing else mattered. It was the biggest merger ever! An Internet company was buying the world's biggest and most important media and entertainment company!

AOL Time Warner's proposed marriage made the front page of every newspaper in the country. The banner headline in the *New York Times* took up three lines and was an inch and a half high. That day alone, the paper devoted 16 articles to the deal. *The Washington Post* featured 15 stories on the subject; the *Wall Street Journal*, 21. The deal was an "awesome megadeal" and "a fusion of guts and glory"; it was "the deal of the century" and "a mega-marriage of earth and cyberspace"; and so on, in giant-speak. Breathlessly, *Business Week* proclaimed that the deal was evidence of a new world order. Roger McNamee, the well-known Silicon Valley venture capitalist and investor, attested to *Time* magazine: "Let's be clear: This is the single most transformational event I've seen in my career."

Trading in stocks was frenetic on the day of the announcement. The Nasdaq posted its biggest single-day gain ever. Time Warner's shares went wild. In Internet chat rooms and on trading floors, speculation began: who was next? Internet analyst Henry Blodget proposed that AOL would now go after Wal-Mart. Others said Yahoo would buy Disney. Some suggested Microsoft would take out Viacom. In response to the raging rumors, Disney's stock jumped 15 percent on January 10; News Corp climbed by 19 percent; Seagram by 11 percent; and Viacom by 9 percent. Executives at competing media and entertainment companies felt their stomachs drop. Overnight, everything had changed. The combination of AOL and Time Warner would transform American business, it seemed. "My first thought was, 'Oh my god,'" recalled Edgar Bronfman, head of Seagram run Universal Studios and Universal Music Group. Rupert Murdoch, chief executive of News Corp. explained: "You suddenly realize, from being a reasonable-sized company you are pretty much a minnow in a pool with a very big fish in it." Pundit Peter Huber wrote apocalyptically: "For the old media, now it's go digital or die."

It didn't work out that way, of course. As everyone now knows, the AOL Time Warner merger was brilliant in theory but a disaster in practice. What went wrong? Everything, just about. But I won't say more; you'll have to read my book for the full answer to this question!

Q: All the central figures in the deal-Steve Case, Jerry Levin, Robert Pittman, Ted Turner and dozens of lesser known executives-have left the company. What role did the personalities of these men play? Could another team have made the merger work? Can the current team bring the company back to health?

A: I'm not sure anyone could have made the AOL Time Warner merger work. Major corporate mergers and acquisitions obscure hard, sober business facts. With so much at stake, mega-marriages make people irrational, giddy; egos and status get confused with the bottom line.

In retrospect, the AOL Time Warner debacle should have been predictable. As one perceptive insider remarked to me: "Like all great Greek tragedies, you knew the plot before it played out??you knew who'd be sacrificed at the alter." As my book will report, Steve Case and Jerry Levin were at each others throats even before the deal was announced. As for Bob Pittman, he was referred to as a "wind-up CEO" by Steve Case and viewed as a hustler and a conman by just about everyone at Time Warner. Ted Turner underestimated Jerry Levin's ruthlessness. And Levin, convinced that in this deal he would leave behind a legacy to rival Henry Luce, refused to acknowledge the obvious: Steve Case had just taken him and his shareholders to the cleaners.

Q: Many mergers founder on a clash of cultures between the companies. Certainly, that was an important issue here. Will you briefly describe how the two companies differed in the way they did business?

A: It wasn't just that the companies were different, or that they had nothing in common; what tore apart AOL Time Warner was the utter contempt in which each side held the other. During the due diligence process, on the weekend before the deal was announced, one Time Warner executive, chaffing at the arrogance of his new partners, cried out: "You talk like you're buying us." Without hesitation, an AOLer shot back: "We are, you schmuck."

In the view of AOL, people at Time Warner were lazy, plodding, and feckless. "That place is full of people who don't have real jobs, who walk around in their suspenders and call themselves 'executive director' of this and of that and don't do anything," is how one AOLer described Time Warner. Another told me: " It was a loaded, fat organization that you could cut until you were blue in the face and still not hit a bit of bone or muscle."

To the folks at Time Warner, meanwhile, AOLers were ruthless, unprincipled, arrogant barbarians. A Time Warner executive explains, "They were in way way way over their heads."

Given the hostilities between the two sides, is it any surprise they were never able to work together?

Q: Time Warner was a famously de-centralized and contentious company. Many of the division managers were famous in their own right. Today, it's much harder to think of who manages the companies various divisions. Some see this as a good thing, others miss the romance of the larger-than-life characters who used to run the company. What's your take on the transformation of the corporation?

A: It's true that AOL Time Warner is now run by colorless men. But do hot-headed executives do a better job running companies than dullards? Who knows. I'll leave that question to the academics.