

Everything Old is New Again Online

by [Thomas W. Hazlett](#)

JANUARY 19, 2000 - The most recent merger jolting international markets -- America Online buying Time Warner -- has pundits shaking their heads and wagging their fingers about the triumph of the Digital New over the Analog Old. Such thinking is two generations buried in Internet Time.

Internet gurus were so recently preaching the death of the "mainstream" media, soon to be drowned in the tsunami of digital content distributed via the Internet. Instead, the Internet has turned into a smashing commercial success by simply delivering the old information more efficiently.

The dot-coms are doing lots of things right, and AOL is among the leaders. It made the Internet simple, aggressively marketing the new information pipeline. If you avoided the 250 million free disks that America Online "carpet bombed" the North American continent with in 1996 you're probably using advanced stealth technology. AOL was so nimble at forging critical mass, over 22 million subscribers to dial-up Internet access, it buried even the formidable Microsoft Network, which today limps along with just two million subs.

Even with its shortcomings -- jammed lines, network outages, and state attorneys-general investigations for consumer fraud -- AOL's mission to bring the Internet to the non-tekkie world was a huge success. Part of the strategy was to develop original content, new online services that would lure additional customers to AOL. Yet, with a few notable exceptions like the Motley Fool financial commentary, the strategy failed. What worked was simply hooking folks up to other networks, chat rooms, e-mail and trusted brands -- like the familiar names Time and Newsweek.

"A deal of this kind," touts one London-based financial analyst, "very much ratifies the value of Internet paper in the world beyond virtual business." Nonsense. The irony is actually the reverse: Why does AOL need Time Warner? With gale force Information Revolution winds blowing into its sails, America Online paid \$108-dollars for shares of Time Warner previously selling for \$65 -- a whopping 66% premium! (All figures are in U.S. dollars) The entire high-tech Nasdaq promptly crashed on the news, and in two days the newly-hitched AOL Time Warner lost \$25-billion in market value. Investors' initial take appeared to be: If this is how the dot-commers spend our money, it's back to the dart board.

What AOL's top management believes, and just may have right, however, is that old-fashioned branded content is still the hottest ticket on the Internet. They believe that, with the creative genius of Time Warner's magazines, TV broadcast, cable and motion picture producers filling the pipeline, 22 million dues-paying Web users is only the start.

And then toss in the deal's driver: Time Warner owns cable systems.

Enough to pass one in five U.S. homes, of which 65% subscribe (13 million households). Cable TV first became part of the mass media in 1948, when some of AOL's most valued employees' parents were being born. While built to carry conventional analog TV signals, the huge carrying capacity of coaxial cables -- broadband, as opposed to traditional narrowband dial-up service -- fortuitously allows for ultra high-speed data flow. Cable modem service offered by @Home and Road Runner (partly owned by Time Warner) has already signed up 1.5 million residential customers at about \$50 a month, more than twice the price AOL gets for narrowband. On the World Wide Wait, speed wins, and customers are racing to broadband.

Leaving AOL in the slow lane. That's because the largest cable companies, Time Warner included, have stopped AOL (and other independent Internet Service Providers) from using their high-speed links to serve

subscribers. AOL's vast international network of plain old dial-up service, a marvelous innovation in 1996, is now heading for the dustbin. Things would only get worse when another few million broadband subscribers -- and smashing new "killer apps" like video on demand -- came on line.

The megamerger is largely a defensive ploy by AOL to protect their dominance in online services. The 13 million cable subscribers, worth about \$5,000 a pop, would cost a buyer \$65-billion straight up. That's the lion's share of Time Warner, which had a pre-merger market capitalization of about \$85-billion. With 20% of the U.S. cable industry under its belt, AOL has the leverage to negotiate co-operative agreements with other cable system owners, reaching a national market. Upgrading to broadband will supercharge its online services, and -- with Time Warner's digital content -- lead the next generation in Internet Time.

If you're shocked and amazed that Internet valuations are for real, wake up and smell the Java. Today's awesome sight is the tumult of capitalist markets reconfiguring vast economic empires on the dead run, relentlessly mixing and matching old and new. Even as distribution of information is radically realigned with cutting edge network efficiencies, accidentally useful antiques like cable TV are turned into gleaming superhighways, while trusted names in news and show biz fill the conduits with the stuff consumers most eagerly surf for. In truth, not Al Gore nor anyone else invented the Internet. It is yet unfolding before our very eyes.

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