

I'm in Desperate Need of a Strategy

Signing onto the internet, the user listens to the guitar solo noise that comes from his modem. Always amused by the mystery of the clicking that comes from his computer, the user waits for another sound. Three words. "You've Got Mail," his computer chimes as it finally signs in and opens the America Online homepage. For most Americans, the simple format of AOL was their first experience with the internet. However, as in any new technology market, the internet service market has rapidly evolved from its simple beginnings, calling AOL's future dominance of the market into question.

Six Forces Analysis

AOL is in the internet service market; they deliver access to the internet. AOL does this through two major methods, dial up and broadband services. Accessing the internet was once a luxury, but is now becoming more and more necessary. People can quickly communicate through email and instant messenger. Employees can work from home on their computers without ever coming into an office. The amount of products and services available on the internet encompasses everything imaginable. Sites sell anything from tickets to rock concerts to groceries, even jet planes. The internet is also an incomprehensibly large information source. With hundreds of encyclopedias and dictionaries, as well as millions of independent articles, the internet has multiple resources about every topic imaginable. If someone has thought of it, someone has a website about it.

The amount of products that complement the internet service is staggering. As stated earlier, there are thousands of services available on the internet that makes it more appealing. Nearly all computer products connect to the internet for some purpose. Email alone is enough of a reason for many individuals to require access to the internet. An email account used at home

can also be accessed from various hand held devices. New technology such as WiFi allows users to connect to the internet without even a wired connection. Such innovations are making the internet a greater and greater part of people's lives as time goes on.

There are very few substitutes for an internet service provider. Though the internet mimics many services, no single service could replace it. The internet is an excellent substitute for other devices such as mail service and telephones. However, these single commodities do little to match the diverse features of the internet. In addition to boasting a multitude of assets, internet access is very convenient. Most people receive access in the comfort of their homes. Any products ordered are shipped directly to the front door. Contrasting the number of substitutes, the amount of products that complement internet service is staggering. As mentioned before, there are thousands of services available on the internet that make it much more appealing. Likewise, most computer products can now link up to the internet. For example, the email account used at home can also be accessed from hand-held devices. New technology such as WiFi allows users to connect to the internet without a wired connection. Like the telephone before it, internet service is becoming a much more essential service.

AOL was once essentially alone in providing internet service, but the market has been flooded by entrants. When dial up or low band service was the only option, AOL was the name brand. Now, the market is full of low dial up services. AllVantage offers unlimited hours, support, anti-spam and antivirus software, and a month to month contract for only \$5.95 a month (<https://www.allvantage.com/secure/buy.asp?plan=2>). AOL was therefore forced to reduce prices in 2003 from \$23.90 to \$9.95 a month in order to help stem the outgoing tide of 1 million customers in three months. AOL saw that, "many [customers were] going to cheaper dial-up services, primarily Juno and NetZero" (http://consumeraffairs.com/news03/aol_netscape.html).

The amount of low band providers and undifferentiated products lowers the seller's bargaining power in this market. AOL's action packed content is exclusively for its broadband users, who have connections that can download the features quickly. MSN, PeoplePC, and NetZero, have all matched AOL's anti-spam and antivirus software with similar services (http://www.peoplepc.com/connect/index_FSOT161.asp). Effectively, there is no way for AOL or anyone to hold this lower end market. AOL has the best chance with its user-friendly setup, but this costs extra money that sends customers to other services. Similarly, none of AOL's exclusive content is available or could be used by these lowband users. Though a broadband customer might enjoy flipping through movie trailers and cast biographies, a lowband user would have to wait an inordinate amount of time for these features to load.

Similarly, buyer bargaining power is very limited. Most internet users are either families or businesses. No one constitutes a large enough share of the market to bring down prices. Likewise, the dial up market is a highly competitive market. This means that even if buyers could organize, the market is already at close to the cost of providing the service.

Current AOL Strategies

Though it is certainly a challenge to remain the leader in a market for over ten years, AOL's strategies have the potential to keep a secure position in the market. Specifically, AOL has differentiated its product by being easy to use and employing its "walled garden" philosophy of providing a safe environment to all of its customers. This strategy gives them a distinct edge with one of the main subscribers for their service: families. AOL's current strategies will allow the company to continue to outperform its competitors with families, but their devotion to customer service will remove them from the large price sensitive market.

AOL has kept most of the original features of its service. It still tries to be simplistic, safe, and supply bonus materials.

AOL's content keeps families safe from pornography and sexual predators. The deputy press secretary for the Department of Homeland Security was arrested in April for "charges related to the use of a computer to seduce a child and transmitting harmful materials to a minor" (Homeland 1). Stories like these are not rare. It is a common occurrence for sexual predators to attempt to prey on children through various internet services. Parents see these reports on the news and fear for their own children's safety. They realize that the internet is important for their child's education, but they want to find a way for their child to access the internet in a safe environment. The internet does allow ones children to explore the world, but it also allows some of the more despicable parts of the world to have close contact with ones children. AOL offers parents the solution to this problem by offering safety.

Even without people actively seeking to do harm, the amount of inappropriate material on the internet is staggering. Though it is just one type of obscenity, child pornography runs rampant on the internet. So rampant that Congress passed the Child Pornography Prevention Act of 1996 in order to stop "the use of children in the production of sexually explicit material, including photographs, films, videos, computer images, and other visual depictions" (Child Pornography Prevention Act of 1996). This kind of abomination is being uprooted by the government, but is still widespread today.

Internet pornography is a growing concern of parents of children with internet access. As of October, 2003, there were an estimated seven million websites dedicated to pornography. This number is constantly growing, and is certainly much larger now than it was then. It is estimated that over one fourth of all internet traffic is to pornographic web pages. Surprisingly,

seventy percent of this is done during normal work hours. In fact, it is believed that an incredible ninety percent of children with internet access have accessed pornographic material on the internet (Bickley). This problem is clearly too widespread and too intangible for the government to stop. There are really only two possible solutions. Parents can physically monitor their children whenever they access the internet or the internet service provider can control what people can and cannot access. Many parents opted for the former option, but the vast majority decided that when it came to their children's safety, they would trust AOL.

To make the internet a safe place, AOL provides a variety of ways for parents to control their children's access. AOL has a variety of safeguards to ensure that young users do not run into pedophiles or other predators. Parents can change settings on AOL to control who their children send emails to, and who they chat with (<http://discover>). With AOL's parental controls, parents can even choose what websites their children can and cannot visit. AOL also offers AOL Guardian, a feature that sends parents emails informing them of what their children have been doing online. However, AOL realizes that young users are becoming more savvy, often more knowledgeable than their parents of how to manipulate programs. In response, there are safeguards to prevent clever children from circumventing these settings by regulating what software can run. For example, these measures stop a child from opening another browser such as Internet Explorer, which would not be subject to AOL's settings.

The shelter provided by these services does, however, cut AOL users off from some features available online. Because of this, AOL has created more content for its users to access. AOL® Music gives its broadband users, “full-length concerts from pop rock superstars. Even listen online to current music hits moving up the charts with You've Got Radio™” (For Broadband 1). “one of [AOL] 8.0's most appealing new broadband features: CD-quality radio”

(Yang). These types of services prevent AOL users from having to use questionably legal download programs that are often rife with viruses or obscene material.

This free material on the internet is no longer as abundant or as stable as it once was. The list of free download sites that have been shutdown is rapidly growing. One of the most famous of these sites was Napster. Napster allowed its users to search each others' computers for MP3 music files and share them. In 2000, a judge ordered the shutdown of Napster due to copyright infringement (Lefevre). Though more sites and types of sharing have sprouted, almost all are shut down quickly. The latest form of file sharing technology is already being attacked. The bit torrent site Elite Torrent was shut down by federal agents in May 2005. Though the myth of free music still persists the reality is that these sites are constantly under attack by the recording industry (Borland). Though AOL charges for its music service, they have legal contracts with the providers of their material.

AOL also offers exclusive events with highly anticipated movie releases. "AOL [has buffed] up its broadband content with more exclusive movie trailers, music videos, and news clips." This businessweek correspondent was immediately addicted to the service, because it allowed users access to "an exclusive video promo for *Red Dragon*, Anthony Hopkins' new Hannibal Lecter thriller [as well as] order tickets, bring up biographies of the stars, and see what the reviewers have been saying. After watching the flick, you can post your own reviews and chat with other AOL users" (Yang). Three months before the release of The Lord of the Rings: The Two Towers "fans who can't wait to get a peek at the second installment in the new *Lord of the Rings* film trilogy can soon log onto America Online (AOL) and be among the first to view the main theatrical trailer" (Ball).

AOL has also renewed its user-friendly qualities. AOL's sign-on page had always looked the same for all users. Now, "You can select from six Welcome screen navigation tool sets, such as Nightlife and Great Discoveries, and six corresponding Stories and Features categories. "Based on your Welcome screen preferences, a new Quick Start guide to AOL content appears" (Brown). Jon Miller, AOL's CEO, promised that version 9.0 "will allow each person to create the online world that they want. Once again, the Company that encouraged generations of people to experience the Internet, is delivering a consumer-focused online service that provides real value, enjoyment, and the most ease and convenience available."

SWOT Analysis

AOL has many strengths that give them an edge in the ISP industry. AOL has the first entrant advantage of being the most recognized name in the market. AOL's large customer base will give its broadband venture a natural advantage. In 1998 AOL had a staggering 31.3 million subscribers (Pastore). By 2000, AOL had a fifty percent market share (Lazard 36). As long as AOL makes it easier to switch directly from their dial up service to their broadband service, customers seeking to upgrade should stay with AOL. Likewise, AOL's free instant messenger service gives the company more exposure, and allows them to display the user friendliness of their services. In August 2005, AIM had 55 million unique users (Lazard 64).

AOL's merger with Time Warner was made with the intention of helping both tap into the profitable broadband market. Both companies saw the market was shifting from narrowband to broadband internet access. TWX owned Time Warner Cable, a company that could provide broadband access. TWC would love to pick up AOL's customers as they switched to broadband. Likewise, AOL held its customers through its "walled garden" strategy of content. TWX was a media giant that could provide AOL with limitless content (Lazard 39).

However, AOL is running into a number of problems from its partnership with TWX. Although TWC can provide AOL with broadband access in most areas, AOL still has to contract with other broadband providers. AOL's association with TWX made many focused Competitive Local Exchange Carriers wary of the company. "Partnerships with other high-speed providers like DSL were made more difficult because people assumed AOL was in the cable camp. So instead of accelerating AOL's broadband push, [the Merger] slowed it" (Case). The merger that AOL and TWX had envisioned was in fact having negative, rather than positive synergies.

The partnership is not living up to the vision. Disputes over profit sharing between AOL and TWC are preventing both from receiving an advantage. TWX failed to control its different branches, which led to a much less profitable set up (Lazard 42). AOL leased network space from TWC and sold it to its customers along with AOL content. At the same time, TWC was competing with AOL with its own broadband service Roadrunner. Along with competing against TWC, AOL was tarnished by its association with TWC. AOL found it harder to lease with other cable services at the same time (Lazard 43).

The threats to AOL are numerous. AOL is banking on the fact that its service is differentiated due to its safe, easy, and exclusive content. However, more places on the internet are offering very similar services. Yahoo.com has 28 links to wide topics: automobile classifieds, job listings, news, sports, games, health, and an email service (yahoo 1). Unlike the AOL portal, anyone can access the Yahoo page. Likewise, many of the Yahoo services are free, such as the email accounts, streamed news videos, and fantasy sports leagues. Users are less likely to pay for AOL content if they can receive it for free from Yahoo or similar websites.

Conclusion

Like any technology market, internet service is constantly evolving. There are many challengers to AOL's once dominant position. AOL has not innovated dial up service or broadband technology to provide a faster service. Therefore, AOL cannot provide dial up faster or cheaper. Similarly, the actual connection speed of an AOL broadband account would have little to do with AOL. For super fast service or super cheap access, AOL has little to offer the consumer. However, AOL has carved out an excellent spot for itself in the market. While its proprietary content advantage wanes due to growth of the internet, AOL still benefits due to increased need for security in the modern world. The abundance of information on the Internet is not all good from a family's perspective. A good deal of it is inappropriate in one form or another. AOL's tight controls give them an advantage with families for this reason. Though AOL might not continue to dominate the entire market as they once did, it will continue to profit by selling its family friendly product. As the world becomes more dangerous for Internet users, AOL will profit by providing what they always have: safe, reliable Internet access.

Appendix A

AOL Strategy

In the late 1980's and early 1990's AOL outperformed its competitors by identifying a large untapped market. Early Internet service provider (ISP) CompuServe provided its tech savvy customers with a service that required their knowledge of computers to access the Internet. This was at the time the only crowd that appeared interested in the Internet. However, AOL saw this as a limited market and sought for a way to extend the customer base of ISP's to the majority of the public that was not very computer literate. With this goal in mind, AOL entered the market with a three-pronged strategy.

First, AOL sought to make itself completely user friendly. AOL's setup manager configured the dial up numbers itself while other ISP's were forcing users with little tech savvy to find the access numbers themselves (Bhargava 1). AOL also used a launch platform that greatly simplified much of the process. "AOL's connection manager implemented non-standard connection protocols and modified certain generic operating system files" (Bhargava 2). This created a much more simplistic program to look at. As Internet industry was still in its infancy, most users were novices. AOL's simplified approach appealed to these new users and encouraged them to buy from AOL.

Second, AOL flooded the market with free trials of its service. Software on floppy discs and eventually CDs generally offered around a thousand hours of free service. This allowed first time users a free way to try the Internet, and usually hooked them on AOL's platform. Finding a disc was anything but a challenge. They came with other software as well as in the mail. In fact, the discs are so prolific that California Assemblywoman Loni Hancock has proposed a bill to deal with the waste created by the discs. A company that sends the unsolicited disc would also

have to send an addressed envelope with postage for the disc to be sent to a proper disposal facility (Borland 1).

Lastly, AOL provided exclusive content to its users. CEO Jeff Chase personally looked at AOL's chat rooms and tried to make them easier to use (Swisher). No other ISP gave access to the Internet as well as other worthwhile content. The AOL manager also connected to several commercial services such as travel, online entertainment, and finance (Bhargava 3). Today, Internet users are overwhelmed by the amount of content. At the start of the Internet boom, these links and the content provided by AOL greatly increased the usefulness of the Internet to many people. AOL got people interested in the Internet and reaped the benefits of being the first to do that.

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