Chief of AOL's Parent Is Open to Deal
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Lucas Jackson/Reuters
Jeffrey L. Bewkes, chief executive of Time Warner, expressed tepid optimism on Tuesday for the AOL Web portal.

AOL, the company that introduced millions of people to the Internet, has tried to reinvent itself many times. The latest effort, like those before it, does not seem to be going well.
On Tuesday, Jeffrey L. Bewkes, the chief executive of Time Warner, AOL's parent company, acknowledged weakness in the business and said he was open to combining AOL with another company — "whatever configuration makes it the strongest and the most valuable."

But he may have been soft-pedaling what seems to be an increasingly troublesome situation at AOL, which has bet its future on a new strategy of selling advertising across the Internet and has spent more than $1 billion on related acquisitions.

On Monday, the third of four top executives installed last summer to run the new advertising division, known as Platform A, left the company. The executive, Curtis G. Viebranz, was fired and replaced by the executive who had been battling his strategy through the fall, Lynda Clarizio.

Several recently departed executives contacted this week described the climate at AOL as acrimonious. They said there had been confrontational meetings of employees as well as screaming matches in offices, as senior executives worried about making their aggressive quarterly ad sales goals. Mr. Bewkes acknowledged Tuesday that revenue at AOL would be flat for at least another quarter.

AOL still enjoys many advantages that most companies can only dream about, from a prestigious brand name to an enormous revenue stream ($5.2 billion in 2007, down 33 percent from 2006). AOL's Web sites attract 112 million visitors a month, and 9.3 million Americans still pay the company for Internet services.

But in an age when search engines send users in many directions, a portal is not enough to attract a large audience, and AOL thinks it must build a network to sell ads on thousands of other sites.

While the current problems may amount to little more than growing pains at a business that is trying to compete with the likes of Google, Yahoo and Microsoft, they characterize the steep obstacles that AOL faces as it tries to pull off its latest strategy, announced last August.

The goal is to expand AOL's advertising networks, which sell ads on thousands of Web sites, by knitting together the seven advertising and technology companies that AOL bought and rolled

into Platform A. Until recently, these fiefs have continued to operate separately — in some cases, fiercely so.

"We were ahead of the curve in the creation of Platform A and remain in a great position to compete in this intensely competitive marketplace," said Randy Falco, the chief executive of AOL. The management changes, he said, were necessary to be able to move quickly. After spending dearly to amass assets, "the trick was to get them working together and integrated in a very meaningful way."

Mr. Falco said his sales goals were reasonable. "We are not asking anyone to grow any faster than the market or our competitors are growing," he said.

On Tuesday Mr. Bewkes, who spoke to analysts at a conference in Palm Beach, Fla., confirmed that AOL no longer saw a meaningful future for its dial-up Internet subscription service, which may be spun off.

He expressed tepid optimism for the AOL Web portal, which has lost ground to other portals, and indicated that the company wanted to keep AOL.com and Platform A together, saying they complemented each other.

AOL remains the single biggest problem that Mr. Bewkes must deal with. On one hand, Time Warner needs a strong Internet operation to hedge against the declines in its traditional business. On the other hand, AOL has been troubled for years and may not have the scale or ability to survive on its own. Time Warner explored merging AOL with Microsoft's online operation two years ago and is now discussing a potential deal with Yahoo.

If there is one thing AOL executives do agree on, it is that the future of their business lies in selling advertising on AOL sites and those of other companies.

The company's overall revenue has declined as it lost dial-up access subscribers. Its advertising revenue totaled $2.2 billion in 2007, up 18 percent from the previous year, but the pace of growth has slowed each quarter.

AOL will not meet its revenue goal for the first quarter this year, according to several of its senior executives, who also say it is unlikely to achieve full-year objectives. Advertisers say the company has fallen into a pattern of calling clients at the end of each quarter to offer last-minute price cuts on additional ads.

"The supply of advertising has increased so dramatically, I do think that it is putting pressure on the pricing in the industry," said Ms. Clarizio, who on Monday was named president of Platform A. "How couldn't it?"

Ms. Clarizio most recently was the president of Advertising.com, the largest ad network at AOL and the first one it acquired, in 2004. In an interview Tuesday, she said she was taking quick action to turn things around.

For instance, she told AOL's many ad sales teams that they would be merged into one. About 1,600 people work for Platform A; Ms. Clarizio declined to say if there would be any layoffs.

Morale may be an issue for some time. In November, after AOL laid off 2,000 employees, Mr. Falco and Ron Grant, AOL's chief operating officer, traveled among the companies' offices and met with employees. At Advertising.com's headquarters in Baltimore, the session grew heated when the executives told them to avoid selling ads to customers who had been paying higher rates to AOL's own sales force.

Ms. Clarizio, described by her colleagues as a "mother hen" to Advertising.com, said she had forcefully argued for the view of her sales staff.

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Soon afterward, Dave Morgan, a founder of Tacoda who had stayed on at AOL, tried to persuade Time Warner to sell Advertising.com in order to avoid conflicts between the fast-growing network and the rest of the company, according to a senior AOL executive, who was given anonymity to disclose details about internal matters. Mr. Morgan has recently left AOL.

Ms. Clarizio had opposed buying Tacoda, saying that Advertising.com could build its own ad customization technology, the senior executive said. The leadership of other companies that AOL had acquired — like the ad network Quigo — chose not to join AOL, so by the end of last year, a schism emerged between the people from Advertising.com and those from Tacoda.

This week, AOL's leadership decided to change course. Mr. Falco said in an interview that he had fired Mr. Viebranz because did not move quickly enough to blend AOL's acquisitions and energize the sales force.

"What is important to me is to have somebody in that job integrate and bring together Platform A," Mr. Falco said. "I need somebody to do it fast enough. The marketplace was not going to wait for us."

Mr. Viebranz declined to comment. Kathleen Kayse, who oversaw ad sales for Platform A and left AOL early in February, also declined to comment.

Some executives familiar with AOL's plans see progress. "They're playing catch up, but they're trying to do the right thing," said Henry Vogel, former chief revenue officer at Quigo.

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