INSEAD The Business School for the World®

KNOWLEDGE

In search of blue oceans: AOL (Europe)

Internet business America Online (AOL) has had a chequered history since its marriage to the US media giant Time Warner in 2002. In fact, Time Warner's $106 billion deal to buy the internet business is regarded today as one of the worst in corporate history.

When Time Warner's chief Dick Parsons hands over the reins at the end of the year to his second in command, Jeff Bewkes, he can be satisfied in that he has steered the company through very tough times and started to rebuild its fortunes. However, its shareholders are not too happy, as the value of the company's shares at around $18 is roughly the same now as when Parsons took charge in 2002. And much of the trouble stemmed from AOL. Larry Haverty, the portfolio manager at Gabelli, a long-time shareholder of Time Warner told the Financial Times recently: "Dick played an incredibly bad hand very well. AOL could have brought the house down."

The problem with AOL at the time of its merger with Time Warner was that the dial-up subscription model was becoming outdated. The likes of Google, Microsoft and Yahoo were pushing ahead with web advertising models which looked like a much better way to make money. Today, AOL is playing catch-up and aims to compete in the same advertising space. For this reason, it has made its e-mail and other software services free to the user and has sold off its internet access business in the UK, France and Germany. Eventually, it may also sell off its internet access business in the US which currently has 11 million subscribers.

AOL has always focused on the US market but has also built a small business in Europe, mainly France, UK and Germany. Its HQ in Hammersmith, West London is currently undergoing a cosmetic refit to its front entrance. But things have not gone well in Europe in recent years either. The local head office has been plagued by one of the fastest revolving doors in boardroom history. Dana Dunne, a former McKinsey consultant, is AOL Europe's latest CEO. He replaced Philip Rowley earlier this year, who in turn had been asked to take over the reins again after a spell as non-executive chairman in order to replace Carlo d'Asaro Biondo who resigned after only around 40 days in the job.

If any company needs to find blue oceans and new open spaces of uncontested market space, this is certainly one of them. Strangely, however, it's walking into one of the bloodiest spaces in commerce today: trying to make money through online advertising. Players such as Google lead the world in this sphere, followed by Microsoft and more latterly Yahoo.

AOL Europe discovered Blue Ocean Strategy during Rowley's tenure. He recalls that he had become interested after hearing INSEAD Professors W. Chan Kim and Renée Mauborgne speak at a conference and had then read the book. He added that the company had used the information in their book to help the firm come up with an idea that the management felt at the time had great potential. Although AOL credits Rowley for having turned around the company, he says the blue ocean initiative did not get sufficient backing from corporate HQ. "The US controlled the resources needed for something like this and, though they liked the idea, they were not able then to release the resources," Rowley told INSEAD Knowledge.

In spite of that apparent dead-end, AOL Europe's current CEO Dana Dunne is bullish about the relevance and importance of Blue Ocean thinking to the company. However, for him it is more about finding incremental innovation within the market space that the firm is already in, rather than finding entirely new spaces. Dunne told INSEAD Knowledge in an interview that it's about "looking at the world from a different point of view that then allows you to combine whatever pieces it takes, to be much more exciting and engaging for a customer or for your shareholders, or a combination of both." Several of the company's top people read Blue Ocean Strategy, Dunne says, and then the ideas were communicated throughout the organisation. This is important, as he wants blue ocean thinking to become ingrained into the company culture. He explains the first stage: "We created work groups that brought people together under the same premise – really thinking Blue Ocean Strategy for our business. And then, as a result of this exercise, after months and months of it, a number of things came out that were really beneficial for the business."

One example of this thinking, he explains, resulted in a new web section called Eleven. "(This) was actually a word-play on 'elevenses' as it was about giving little snacks and little gossip news," says Dunne. "From the consumer's point of view there was a new look and feel. We introduced it about twelve months ago and back then when you looked at all our web pages, they had a very different look from this one. That was because we thought about where those blue spaces out there (markets of uncontested space) could be that we could actually occupy in a very crowded market." Dunne says that Blue Ocean is not just about specific products and services like Eleven. For him, it is also about spreading the idea through the culture of the organisation so that it brings about a behavioural change. "Eleven has been very profitable. But it covers one fiftieth or one hundredth of our organisation. I always think of the multiplier effects and how we can really get an even bigger impact by making sure everyone (is being innovative in this way.) That's why I think the exercise was important more in terms of behavioural change."

So after having introduced the concept to the staff, how is it being embedded in the company's culture? Dunne says this is being done in two ways: one is to constantly push and challenge people. The other, Dunne says, is to have cross-functional teams who visit people on different projects and help to challenge people to think differently.

"So the leader should say, 'You need to think differently. How would you do this in a blue-ocean sense?" he says. "A number of people look at case studies like Apple (in Blue Ocean Strategy) and say, 'How would they do it?'"

Dunne seems confident that his approach is working. He may even be close to a blue ocean breakthrough: "I can't disclose the specific ideas right now. But there is one idea we are pushing which will, if it goes ahead, differentiate ourselves."

If the initiative pays off, it may also help to bring some much-needed stability to the company.

Find article at
https://knowledge.insead.edu/strategy/in-search-of-blue-oceans-aol-europe-1960