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## How Free Bananas Launched Blue Heron

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The AOL/Time Warner merger will go down as one of the greatest blunders in corporate history. For me, however, it launched a new career.

**I suppose it began** with the disappearing bananas. I had been a journalist—and a happy one—for a decade by the time I joined *Fortune* in the late 1990s. My experience had taken me from covering the crime beat in Birmingham, Alabama, to Mercedes-Benz in Germany. At *Fortune*, I was lucky to be surrounded by a group of journalists I likened to the 1927 New York Yankees. We were at the height of our influence. And then, in January of 2000, our parent company, Time Warner, decided to sell itself to America Online. The merger will go down as one of the greatest blunders in corporate history. For me, however, it launched a new career.

How did this come about? As I said, it began with the bananas. Soon after Time Warner's Gerald Levin and AOL's Steve Case consummated the deal, platoons of fresh-faced McKinsey consultants encamped themselves in our offices. Their mission: To improve upon our record profitability. Anyone who has studied the history of Time Warner and its predecessor, Time Inc., knows that its leaders have had a long-time love affair with McKinsey. And those who know this much probably also know that McKinsey has a history of missing the point. In our case, the consultants seemed fascinated by the fact that *Fortune's* managing editor had a display of ripe bananas in the break room each day. Sometimes he added fresh bagels as a way of thanking us during particularly rough weeks when we were closing the issue. This morale booster made little impression on our inspectors. When the McKinsey army decamped, the consultants recommended that the company cease giving us free bananas.

Now there's nothing wrong with keeping a lid on costs. Runaway costs can wreak havoc on profit margins and create a culture of entitlement. I've seen plenty of companies that engender a culture of accountability by closely monitoring the use of Post-It notes and expense accounts. But while a company like *The Washington Post* or General Electric might understand the link between costs and margins, the leaders of the new AOL/Time Warner just didn't get it. Case in point: they took the savings from the bananas and an assortment of job cuts and other changes and invested \$68 million to acquire an ailing publication known as *Business 2.0*. After rebranding their own rival product (the former *eCompany Now*) as *Business 2.0*, they dumped in millions of dollars more over the following six years before finally announcing in mid-2007 that the magazine would shut down. The lesson for investors is not that the company should have spent \$68 million on bananas (272 million pieces of the fruit at market prices) or that its managers shouldn't have tried to invest capital in potential growth ventures. What the company's leaders—and the Wall Street analysts who praised them for so long—failed to recognize was that Time Warner had been blowing its capital for decades.

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All the while, I was reading these glowing reports from the big Wall Street firms about AOL/Time Warner. Part of my job at *Fortune* was to put together an annual report called the “All Star Analysts.” This was a feature article that told the story of how the very best analysts at brokerage houses and investment banks did their jobs. In the process of trying to find the very best—exceptionally thorough, “outside the box” thinkers like Mike Mayo who is now at Deutsche Bank, former UBS analyst Andrew McQuilling and Colin Devine at Salomon Smith Barney—I also qualitatively and quantitatively reviewed the performance of thousands of other not-so dogged analysts. Many of these analysts told me they never wanted to offend companies they researched with a “neutral” rating or that they got their insight because of close relationships with a CEO or CFO. I remember the time my wife (veteran investigative journalist and Blue Heron co-founder Marcia Vickers) was researching a story about alleged bid rigging by insurer Marsh & McLennan. She spent months on the story. Near the end of her reporting, she phoned the analyst who was widely known as the “ax” on the stock and asked whether he thought the investigation could hurt the share price. The analyst openly mocked her and hung up. The very next day, New York’s AG Elliott Spitzer announced a civil action against the company. The stock was halved by the afternoon and has never recovered.

The lesson: Again and again, these supposedly highly educated, highly paid and highly influential analysts offered evidence suggesting that their way of work was extremely flawed. The analysts covering AOL/Time Warner were no exception. They trumpeted the merged company’s powerful portfolio assets. They talked about synergies. They allowed the company to load up on debt while promoting oddball metrics for measuring financial results.

What’s more, no matter how vehemently institutional investors will claim to disagree, an awful lot of big-time fund managers bought into every word they were told. It gradually struck me that these analysts and investors often hadn’t the slightest clue what was really happening at AOL/Time Warner. It wasn’t that they didn’t want to know. They just didn’t know how to know. Most of them thought it merely required access to a CEO or CFO or endlessly creating spreadsheets. They simply could have paid attention to some of the articles out there written by smart, aggressive journalists who were able to routinely obtain leaks from angry company executives. Or they could have telephoned one of the hundreds upon hundreds of employees who quit their jobs or were laid off. Or they could have reached out to suppliers who weren’t getting paid on time and customers who were angry about changing in advertising and circulation policies. The fact that things were going terribly at AOL/Time Warner was far, far from a secret.

That is when it struck me. I asked myself: Why couldn’t a journalist—an old-fashioned ink-stained wretch like myself who’d been covering complex business issues for years—tell investors the true story of managements and corporate cultures? Who better to investigate a company than someone who understands how to talk to people from the executive suite to the factory floor? After all, good reporters want to know the same things that good investors want to know. How good or bad is the CEO of company X? Is product Y really selling as well as a company is saying or perhaps better? Did the rain really cause that earnings shortfall at company Z?

And so in late 2004, I walked into my editor’s office and gave notice. Three months later, I started this company with a promise to dig hard and tell the truth. And keep the break room fully stocked with free bananas. 