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AMERICA, ONLINE

AOL and the Early Online Services

The way that Microsoft leveraged its platform was not exactly subtle. If you bought a computer in 1995, there was a 90% likelihood you purchased a computer with a Microsoft operating system preloaded on it. If you were a web neophyte in 1995 and you wanted to give this “web thing” a try, chances were very good that you clicked on the bright blue Internet Explorer “e” icon to do so.

Netscape recognized the value of the preloaded icon on a Windows 95 desktop and tried to cut deals to get Navigator preloaded on various computers. Compaq was one such manufacturer that began replacing Internet Explorer with Navigator on some of the models it sold; or, at least, it offered consumers a choice of preloaded browsers. But in June 1996, Compaq received a “Notice of Intent to Terminate” from the Microsoft legal team. In no uncertain terms, Microsoft threatened to cancel Compaq’s Windows 95 license unless the company returned the Internet Explorer icon to the Windows 95 desktop on all computers it shipped.

Compaq, of course, backed down.

Netscape wasn’t the only major player in 1995–96 that felt disadvantaged by Microsoft’s, shall we say, political decisions vis-à-vis the desktop real estate on Windows 95. Before a user could even select a browser to surf the web with, she first needed to engage a service that would allow her to “log on” to the Internet. She needed an Internet service provider, or ISP. It just so happened that

Microsoft provided a strategic default solution for that as well: the Microsoft Network.

MSN had been developed to compete with existing online services such as Prodigy, CompuServe, and especially AOL. But along with the great pivot toward Internet Religion, MSN had been quickly reconfigured as an online service–ISP hybrid. Then on March 12, 1996, a curious thing happened. AOL—that online service competitor that MSN had been designed to vanquish—announced that it would make Internet Explorer the default web browser for its service. No money changed hands, but as part of the "partnership," an AOL icon would be placed in a new folder on all Windows desktops called "Online Services."

The quid pro quo was implicit, if not explicit. Microsoft would grant AOL the desktop real estate it was fighting tooth and nail to deny to Netscape. It turned out that Microsoft saw the battle for the browser as the key strategic war it was fighting in this dawning Internet Era. Bill Gates felt it was imperative to grow Internet Explorer's market share and surpass Netscape's Navigator. He made this decision despite the fact that Microsoft had already spent hundreds of millions of dollars to develop and market MSN. Gates doubled down on software at the expense of online services. He made the calculation that the browser wars were more important to win than the scramble to connect people to the Internet. Subsequently, Microsoft struck similar deals with CompuServe, the number-two online service, as well as AT&T's Worldnet Internet service and NETCOM, a leading independent ISP. All of these new partners got icons in the "Online Services" folder. Netscape Navigator remained something you had to download yourself.

In the coming years, MSN would always be seen as an also-ran behind the eventual online service leader, AOL. Later in the nineties, as the browser wars faded into memory—and especially near the turn of the century, as America Online grew to become the one truly dominant player on the Internet that had the muscle to go toe-to-toe with mighty Microsoft—many in the industry would wonder if Gates might have picked the wrong strategic horse to champion.

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ONLINE SERVICES HAD a long history that predated the World Wide Web. In the 1980s, when PCs were still struggling to find a "killer" use case that would justify their entry into Americans' lives, online services were dreamed up as "something else to do" with computers once you brought them home. Online services promised games, unique content from trusted media properties, software downloads, databases and vague concepts of real-world utility like online banking. PC manufacturers started bundling these services with their machines as an extra selling point to entice consumers. The fact that consumers would have to cough up hourly fees to “dial in” and use these services (fees that were shared with the PC manufacturers) didn’t hurt either.

The granddaddy of the online services was CompuServe, which was born in 1969 as the CompuServ Network. CompuServ began life as a time-sharing computer service, allowing businesses to rent computing time from remote mainframes during business hours. The tax preparation company H&R Block purchased the company in 1980, and the focus on consumer online services expanded. Renamed CompuServe, the service developed a suite of prepackaged features like newsfeeds, databases and one of the world’s first online chat applications, called the CB Simulator. These features became the basic template for what an online service could provide users. Consequently, CompuServe became the home of many online firsts. The first recorded online wedding took place in 1983 between two users who met on the CB Simulator and thought it fitting to say their vows in the medium that brought them together.[1] CompuServe became the first online service to offer Internet connectivity in 1989, when it allowed its proprietary email service to send messages to outside email accounts. CompuServe also pioneered online commerce with what it dubbed an “Electronic Mall.” Even the humble .gif graphics file format, still popular on the web today, was developed in-house at CompuServe. But the main feature of CompuServe throughout its life was its forums, hundreds of moderated special-interest sites catering to almost every interest and niche imaginable. CompuServe gained a reputation as the geek and hobbyist’s playground, with forums catering to everything from stamp collecting to *Star Trek*.

Other companies copied CompuServe’s model, launching with a varying mix of email, forums, bulletin boards, software libraries for download, and chat. They all had one thing in common: they assumed that a user would be somewhat computer-savvy. Another early online service, Prodigy, assumed the exact opposite. It was designed from the very beginning to attract mainstream users. Formed in 1984 as a joint venture between IBM and Sears (another partner, CBS, dropped out in 1986), Prodigy launched in September of 1990 on the back of a nationwide advertising blitz. Prodigy had vector-based graphics, which were primitive and cartoon-like, but were interesting and colorful compared to CompuServe’s all-text environment. Newspapers and magazines repurposed some of their content for Prodigy, and big-name media personalities such as Howard Cosell and Liz Smith wrote columns exclusively for the service.

Prodigy was also conceived as an advertising medium. It was organized into magazine-like sections of interest focused on promoting or selling products. Every screen had a three-line graphic advertisement at the bottom.[2] The imprimatur of Sears and IBM attracted commerce partners such as Neiman-Marcus, Levi Strauss, Ford, Columbia Records and even Sears's archrival J. C. Penney. Prodigy hoped to make the bulk of its money via advertising fees or by taking a share of product sales.

Though the focus on ads and commerce never quite went away, Prodigy's commercial efforts quickly proved to be a bust. It turned out that when people went online what they really wanted to do was interact with each other. Prodigy's bulletin boards and email services were limited and archaic, and these systems quickly became overwhelmed. Prodigy attempted to compensate for the resulting bandwidth issues by actually *discouraging* users from using the service so much. The introduction of a 25-cent surcharge for each email a user sent over an allotted thirty emails a month led to a member revolt. Prodigy was forced to reverse course and refocus its offerings on user-created content like message boards and forums, but even then, the stodgy corporate culture of Sears/IBM was not comfortable leaving users to their own devices. "We did not think [member-to-member] communications was going to be a big part of what we were doing," Prodigy CEO Ross Glatzer told *Wired* magazine.[3] Esther Dyson, the technology analyst, summed up Prodigy's conundrum this way: "They thought they'd make revenues from people making purchases. But they discovered people were less interested in shopping on the service than communicating. And they didn't know how to charge for communications."[4]

Despite all the efforts of these pioneers, online services were still a niche business, even among computer users. By 1995, Prodigy could boast only about 1.35 million members, and that was behind CompuServe's 1.6 million accounts.[5] The company that would truly take online services mainstream was another early online pioneer that would concentrate almost religiously on allowing users to interact with each other in whatever way they wished.

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AMERICA ONLINE ACTUALLY HAD its origins in another of the early online services, The Source, which was a competitor to CompuServe, launching in 1979. Through a convoluted series of business pivots, the company that would become AOL also shared its DNA with Control Video Corporation, a company that produced an online game service for the Atari 2600 video game console. After the video game business temporarily collapsed in the mid-eighties, the company evolved into Quantum Computer Services to produce a dedicated online service for Commodore 64 and Commodore 128 computers. It also built online services for Apple, IBM and Tandy and in 1989 evolved all these offerings into an online service called America Online, or AOL.[6]

AOL was one of the first online services to focus on Windows users, which made good business sense because it was able to ride the coattails of user adoption as Windows came into its own as the inheritor of the DOS operating system throne. This strategy also positioned the service as the most mainstream and user-friendly in the industry. AOL was built from the ground up to feature clean, dynamic modern graphics—actual pictures, not the digital line drawings of Prodigy. And first and foremost, AOL fixated on building a sense of community among its membership. AOL users were encouraged to email, argue, play and above all chat.

"From the early days, we recognized that communications—a combination of chat and e-mail—were critical building blocks," AOL CEO Steve Case would later say. "So our bias was on creating tools, empowering people, and letting them use them in any way they thought appropriate—sort of 'Let a thousand flowers bloom.' "[7]

AOL's installation process was simple. You put a disc—and later, a CD—into your computer, installed a program, clicked the icon that appeared on your desktop, and five minutes later you were online. Like CompuServe and Prodigy, the process of getting online meant using a modem to "dial in" via a phone line to an AOL computer that would serve the content to your machine. This was literally a phone call to a local number, so all the online services maintained a network of local modems for people to dial in to and avoid paying long-distance charges. While you were online, the phone line you were using was occupied, so anyone trying to call your number would get a busy signal. A monthly fee entitled users to a fixed number of usage hours per month. If a user went over the monthly limit, they were charged by the hour. On AOL, $9.95 a month got you five hours of unlimited access; each additional hour cost $2.95.[8] Once you hung up, the connection was terminated.

The sounds of first a phone number being dialed, and then the harsh crackle and hiss of the modem making a connection to the network, became a ubiquitous noise across America in the 1990s. To this sound, America Online added friendly touches: "Welcome," "You've Got Mail," and when the connection was terminated, "Goodbye." The voice was that of Elwood Edwards, a broadcaster and the operations manager of WFTY-TV in Washington, D.C., who was paid $100 for his trouble. Americans heard Edwards's friendly voice billions of times as they logged in to AOL over the course of the 1990s and early 2000s.

AOL allowed users to create screen names, or online personas that served as their identity as they surfed AOL's offerings. When you played games or posted to forums on AOL, your screen name was your calling card. Your screen name was also your email address. But most important, when you entered AOL's famous chat rooms, your screen name was your name tag.

The house of AOL was built on chat. There were public chat rooms organized by topic or theme. Then there were user-created chat rooms that were dedicated to any topic under the sun. Both of these public types of chat rooms were nominally overseen by AOL staff and/or volunteer member-monitors. It was possible to get yourself kicked out of a chat room if you misbehaved. But in addition to these, there were also private chat rooms that were invite-only and monitored by no one. In the private chat rooms, it was very much anything goes. It's a well-established notion in business theory that sex often drives the lifecycle of new technology adoption, the most famous example being the way porn movies brought VCRs into America's living rooms. It's safe to say that the popularity and growth of AOL was driven by sexy chat. Lots and lots of sexy chat.

For one thing, it was easy to attach and send photos to other users in chat rooms; trading of pornography was a common pastime. But the anonymity of the screen name meant you could be anything or anyone you wanted. Paraphrasing the famous New Yorker cartoon ("On the Internet, nobody knows you're a dog"), in AOL chat rooms, nobody knew if you were a twenty-two-year-old blonde with a pinup's body or a fifty-five-year-old divorced guy with a beer belly. Americans by the millions took to AOL chat rooms to talk dirty, role-play, and act out sexual fantasies. The company didn't like to publicize it, but chat was AOL's bread and butter. The more chat, email and picture trading users did, the more money AOL made. Some users spent hours in chat, racking up monthly overage costs running into the hundreds of dollars. An October 1996 article in *Rolling Stone* estimated that half of all AOL's chat was sexually oriented and, given the hourly fees, such adult chat netted the company $7 million a month.[9] CompuServe was too serious an operation for such lewdness, and conservative, corporate Prodigy absolutely fled screaming from any hint of unwholesome behavior on their service. By the time Prodigy started experimenting with chat rooms in earnest, AOL basically had the market cornered.

AOL has often been described as training wheels for the Internet. The nickname is apt. For millions of Americans, their aol.com address was their first experience with email, and thus, their first introduction to the myriad ways that networked computing could change their lives. Suddenly, you didn't have to exchange letters or phone calls with relatives across the country. When you wanted to say something to a distant loved one, you could just shoot them an email. And it was free! And you could attach pictures! AOL was also where people discovered communities centered around interests that heretofore had been isolated or obscure. If you were into breeding miniature dachshunds, suddenly you could connect with everyone in America who shared your interest. AOL was where Americans first wrestled with concepts of anonymity and identity in an online world. All of those dirty chatters on AOL chat rooms were at the vanguard of learning what it was like to live life in cyberspace.

In a way, AOL embodied that most American of dichotomies: wholesome, friendly, mainstream on the outside, with all sorts of prurient stuff going on behind closed doors. AOL's chief executive, Steve Case, fit at least the wholesome part of that narrative. A native of Hawaii, prone to wearing Hawaiian shirts, Case seemed like the classic middle-class baby boomer, the guy with two kids who lived next door and loved Jimmy Buffett. With his quiet, calmly earnest demeanor, Case still looked like the Procter & Gamble assistant brand manager he once was. With America Online attempting to entice users from market leaders CompuServe and Prodigy, Case put himself forward as the friendly leader of the AOL "community." Case appeared in AOL ads and would roam AOL chat rooms to personally interact with members or solve customer service issues. He sent folksy, service-wide letters to AOL users signed simply, "Steve." In the late nineties, he appeared in Gap ads modeling his trademark khakis.

Perennially the number-three online service behind the deeper pockets of Prodigy and the greater experience of CompuServe, AOL scrambled for members and struggled with mountains of red ink throughout the early 1990s. AOL was arguably the first IPO of the online era; going public on March 19, 1992, it had only done so as a part of its never-ending struggle to raise enough money to remain solvent. Shortly after its IPO, AOL could boast only 200,000 paying subscribers.[10]

Slowly but surely, however, AOL's user-friendliness paid off. Members fed up with Prodigy's heavy-handed censorship and nickel and diming over email jumped ship. And mainstream users increasingly preferred AOL's pictures and graphics over CompuServe's continued text-only environment. The previously mentioned focus on Windows users was also a major strategic coup. AOL surpassed the 500,000-subscriber mark for the first time in December of 1993.[11]

Chronically in need of fresh infusions of capital, and because it was the only independent company in the online service game, AOL had several run-ins with larger players attempting to take it over. The closest AOL came to assimilation was when Microsoft was first considering an entrance in the online services market. AOL's Windows-centric philosophy seemed like a good match, and so a Microsoft approach to AOL was made. At the very first meeting between executive teams of the two companies, Bill Gates led off by musing to Steve Case, "I can buy 20 percent of you or I can buy all of you. Or I can go into this business myself and bury you."[12] Microsoft would later assert that Gates was just thinking out loud, stating the obvious realities of the situation in a sort of philosophical manner. But that wasn't how AOL saw it. The AOL executives saw Gates's "musing" as a threat.

"We didn't trust Microsoft's motives, because we knew they could emerge as a major competitor," Case later said. "At one point in the meeting, [Russell] Siegelman [a Microsoft executive who eventually ran MSN] proposed a 50-50 joint venture, but from our point of view, it was 'OK, we'll help you build it, teach you all about it, then just when it gets interesting, you'll shoot us.'"[13] As another AOL executive put it, AOL was offered an unappealing choice: become "a footnote on Bill Gates' resume," or stand and fight and maybe become "the king of the online industry."[14]

AOL chose to stand and fight. It would be one of the smartest business decisions of the decade, because AOL would soon embark on a period of growth that would leave the rest of the industry in the dust.

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AOL'S TRIUMPH CAME in large part thanks to one of the greatest marketing campaigns in consumer history. Jan Brandt had a background in educational publishing and insurance sales before she was hired as AOL's vice president of marketing in 1993. Tasked with growing the user base, Brandt had an intuition that online services weren't a typical consumer product when it came to marketing. Selling consumers on the virtue of one online service over another was not as important as educating consumers on just what an online service *was*. It was during market research that she realized she needed to go back to basics. According to Brandt, during a focus-group study, "Someone took a computer mouse and started pointing it at the computer like a remote control. And one person put it on the floor and tried to use it like a sewing machine pedal."[15]

Brandt realized she just needed to get users to try the service. If she could somehow get the AOL experience into people's homes, the service would sell itself. Brandt approached Steve Case and requested $250,000 to mass-produce thousands of AOL trial discs to hand out to consumers for free. “It was a lot of money for us at the time,” Brandt admits. But, building off her background in direct mail campaigns, she sent out her first shotgun blast of diskettes, around 200,000 pieces, in the spring and summer of 1993.[16]

The results were immediate and startling. The response rate to the first campaign was a staggering 10%, an unheard-of percentage for direct marketing. “And remember,” Brandt says, “this isn’t people who are saying, ‘I think I want this.’ These are people who are taking the disc, putting it into the computer, signing up, and giving us a credit card. When I saw that, honestly, it was better than sex.”[17]

Brandt immediately doubled and then quadrupled down on the strategy. The idea was to get an AOL disc offering a free trial into the hands of every person who might conceivably get close to a computer at some point in their lives. AOL discs began arriving in Americans’ mailboxes seemingly daily. Almost every computer maker shipped an AOL disc with a new computer. There were AOL discs given away with movie rentals at Blockbuster. There were AOL discs left on seats at football games. At one point, Brandt even tested whether or not discs could survive flash freezing so that she could give away AOL discs with Omaha Steaks. Once CD-ROM players became common in computers, it almost felt like there wasn’t a magazine or newspaper in the country that didn’t have an AOL CD inside it.

Over the next half decade, AOL would spend billions of dollars on its “carpet bombing” marketing campaign. At one point, 50% of the CDs produced worldwide had AOL logos printed on them.[18] Brandt lived in fear that competitors like Prodigy or Microsoft would copy her technique. At one point, a CompuServe executive struck up a conversation with one of Brandt’s AOL colleagues at a conference. “You guys are crazy,” the CompuServe exec said, referring to the CD carpet bombing and the money it had to be costing. When the AOL executive reported the conversation to Brandt, she retorted: “ ‘Next time someone says that, agree that I’m a dumb broad, and that you’ve been trying to get me fired from the company for a long time.’ And the reason for that, really, was, I couldn’t believe that they weren’t trying it!”[19]

Prior to Brandt’s marketing campaign, AOL was languishing around the 500,000-member mark. Post-Brandt campaign, AOL was signing up 70,000 new members monthly.[20] AOL passed the million-member mark in August of 1994, tripling in size in one year.[21] It hit 2 million subscribers a mere six months later and proceeded to blow past both CompuServe and Prodigy to become far and away the largest online service.[22] In May 1996, AOL surpassed 5 million subscribers, ten times the number of subscribers AOL had when Jan Brandt started shoving trial discs into packages of Omaha Steaks.

But then came Windows 95 and the MSN service that launched with it. The outlook for AOL seemed precarious. A research firm predicted that between 11 million and 19 million users would sign up for MSN in its first year, based on sales projections for Windows 95. There was a grand total of only 10 million users of online services at the time.[23] Microsoft, Case insisted, should offer all online service options as part of a level playing field. "The fact that Microsoft has an 85 percent market share . . . and wants to hardwire their own service into it in an anticompetitive way is not a good thing," he told *Wired*.[24] The AOL CEO even appeared at a joint press conference with the CEOs of CompuServe and Prodigy to release an open letter to Bill Gates, demanding the unbundling of MSN from Windows 95.

But in the end, MSN never exactly took off. Even though a reported 190,000 users signed up in the first week after MSN launched in August 1995, it had only around 375,000 users by that November. This was during a time period when AOL was bringing in 250,000 new members every month, thanks to its avalanche of free discs.[25] And then came the deal to make Internet Explorer the default browser for AOL users. After that, both AOL and the market at large knew that Microsoft's heart wasn't really in the online services business. Bill Gates had ceded de facto control of online services to AOL. If Microsoft wanted to neuter its own online offering, who was Steve Case to look a gift horse in the mouth? He threw Netscape under the bus and put AOL firmly on the road to dominance of the online services arena.

AOL would succeed in branding itself as "America, online," and neither MSN nor anyone else was ever able to challenge this. What Bill Gates didn't really appreciate at the time was how powerful being the "training wheels" for the Internet Era would eventually become.

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JUST AT THE MOMENT that AOL was successfully fending off MSN, it faced perhaps an even greater existential threat. The web was something that online users were clamoring for by 1995–96. To be sure, more than a few unsophisticated users had no idea that AOL *wasn't* the web. Everything "online" seemed the same to them. But other users began to forgo AOL's curated content for the freedom of the web. For AOL, this was troubling. The company had spent the better part of a decade and hundreds of millions of dollars building out its content offerings. Suddenly, it faced the prospect of users fleeing its online Eden.

AOL, CompuServe and Prodigy were all what the industry liked to call "walled gardens." They were online services that provided their users with proprietary tools and packaged content developed by the services themselves or their media partners. Little of what the online services did (with a few exceptions, such as email) interacted with the larger Internet, and none of the services were based on Internet standards. In a very real sense, online services like AOL didn't actually want users wandering outside of their networks and their control of the content. They much preferred if users stayed to play in the garden. The rise of the World Wide Web changed all this radically.

AOL always had a schizophrenic relationship with the Internet. The web provided a new, wilder alternative online environment, and in some ways this was in tension with AOL's carefully cultivated online "community." After all, would AOL prefer you researched cars on a *Car and Driver* "channel" on AOL proper, or by going on the web and visiting *Car and Driver*'s website? In interviews from the time, Case repeatedly floated the notion that the web was complicated and "niche" while AOL was targeting a mainstream audience by providing simplicity: "One disk to install. One price to pay. One customer service number to call. Building web sites and hoping people will find them is a significant leap of faith."[26]

"Their attitude toward the Web is a little grouchy," an industry researcher said of AOL at the time. "They have a hard time getting past their own resentment that this disorganized cousin is taking over in the public's mind. But it is a bias against inescapable realities."[27]

At the same time, however, the web also presented AOL with a rare opportunity. AOL's millions of users were still paying by the hour to dial in, and if AOL simply turned on access to the wider web, those same users would still be paying for the privilege of going through AOL's pipes. As AOL executive Ted Leonsis put it, AOL could become "the Carnival Cruise Lines" of the Internet, the trusted guide to places unknown.[28] Prodigy was actually the first online service to allow its users to browse the web, in December 1994, but AOL soon followed suit.[29] AOL then rushed headlong into a $160 million Internet-based spending spree in order to keep abreast of the changing landscape.[30] A perfect example was BookLink and its Internet browser, which AOL snatched from Microsoft's clutches in November of 1994. AOL bought companies like Advanced Network & Services Inc. to build out its dial-up network (and thereby burnish its credentials as an ISP), and it bought a website called the Global Network Navigator, an early version of a search engine/Internet directory.[31] There were even very serious discussions about AOL doing some sort of investment in the young Netscape.

AOL's pivot to position itself as America's most popular on-ramp to the Internet quickly paid dividends. The number of subscribers grew to 6 million. Almost overnight, one out of every three people surfing on the Internet in the United States did so via AOL's dial-up lines.[32] This growth showed up on the bottom line. AOL recorded revenues of $1 billion for the first time in 1996, tripling what the business had brought in only a year before. AOL's stock had risen thirtyfold since its IPO; its market cap reached $5 billion.[33] While it still insisted on paying lip service to its own walled garden of content, AOL had wisely ridden the web's growth like a bucking bronco.

But the bronco was not always easy to ride.

Starting at 4 A.M. on August 7, 1996, AOL's services went down for nineteen hours.[34] The outage made front-page news around the country and made AOL the butt of jokes on late-night talk shows. For AOL, it was a major public relations black eye, but at the same time, a validation of how important the service had become in a few short years. This wasn't just an early adopter's playground anymore; AOL was how Americans were increasingly living their online lives every day. Imagine the chaos that would occur today if there were no email, no web, no anything online for nineteen straight hours. The Internet itself hadn't crashed, but America's ability to access it had. Suddenly, that was a big deal. The service outage came on the same day that NASA announced the discovery of indications of water on Mars, but AOL was the lead story on CNN.

Worse was to come. While AOL was now the country's largest Internet service provider, it was still competing in a crowded field. In addition to Prodigy, CompuServe and MSN, there were thousands of independent mom-and-pop ISPs spread around the country. An independent ISP didn't have the packaged content and proprietary chat rooms that AOL had. The indies gave users one thing: the Internet. You dialed in and you were on the web, quick and dirty. Increasingly, that seemed to be all people really wanted. To stand out from their online service brethren, ISPs competed on price. A low monthly fee of $19.95 got you unlimited hours of usage. This put quite a bit of pressure on AOL, which still depended on hourly rates and overages for the bulk of its revenue. Why was the Internet worth $2.95 an hour on AOL when you could browse unlimitedly elsewhere for a flat fee? The pressure from cheap competition threatened AOL's meteoric growth. In a quarterly report at the end of 1996, AOL announced signing up 2.1 million subscribers, but at the same time losing 1.3 million subscribers who fled the service for other ISPs.[35] AOL was still the market leader in terms of sheer numbers, but this competition and customer churn started to worry Wall Street.

The hourly fee structure was unsustainable. MSN announced in October of 1996 that it would provide unlimited access to its service for $19.95 a month, copying the business models of the independents. AOL had no choice but to follow suit. Starting with the December 1996 billing period, AOL announced that it would switch all of its users over to unlimited usage plans for the price of $19.95 a month. There were concerns internally about whether or not this move would kill AOL's hourly golden goose. "I had data and I had projections on how much money we would lose," Jan Brandt says. "We had so many people that were paying us 50, 60, $70 [a month]."[36] Flat-rate pricing would bring that to an end. More seriously, there were concerns about the network's ability to handle the increased usage that would inevitably occur. After all, members who had previously tried to limit their time to a few hours here and there could now, if they wanted, leave their America Online connections going 24/7. AOL testing suggested that actual usage would only increase 50% or so in an unlimited paradigm, and theoretically, the network could handle that.[37] But those assumptions were only taking into account existing users. Wasn't the point of flat-rate pricing to stop the churn, win back old customers, and maybe entice new ones? Steve Case told a *Wired* reporter that he thought the company had the infrastructure in place to handle "runaway growth."[38] He could not have been more wrong.

The very first day that user accounts were switched to "unlimited" pricing, member sessions leapt from 1.6 million hours to 2.5 million hours.[39] The numbers would only go up from there as, over the course of the month, more member plans were switched over. In addition, December was, of course, the height of the holiday season, and plenty of new computers were unwrapped as gifts that month. Now, with the promise of unlimited usage, all those bundled AOL trial discs were suddenly a lot more enticing. AOL signed up a record half-million members that December alone.[40] AOL's daily usage numbers were now up to 4.5 million hours each day.

There were too many people trying to log in all at once. The service couldn't handle it. Across the country, instead of the familiar guttural noises of the modem connecting, users began to hear only busy signals. Frustrated members would try over and over again to connect, hoping to get lucky. If users did get online, they tended to stay on as long as possible because there was no telling when they'd have the chance again. Once more, there was nationwide consumer outrage. The jokes began to circulate again about "America OnHold." CompuServe launched an advertising campaign to attempt to take advantage of its rival's misfortune, using the phone number 1-800-NOT-BUSY.

"We didn't really have an internalized grip on how important we were to people's daily lives," Jan Brandt says of the crisis. "What we didn't calibrate was the ferociousness of the response. It was crazy and it was really enlightening. It was like, 'Oh my God! People love us! They really love us!' Or, at that point, they love-hated us."[41]

In the end, AOL would spend hundreds of millions of dollars in a crash program that attempted to increase network capacity and bandwidth. Millions more were set aside to refund users and head off lawsuits and government scrutiny. Television ads were suspended so as not to encourage too many new sign-ups until the problems were fixed. Over the first few months of 1997, the busy signals slowly went away and service went back to normal. And the especially positive news was that the users stayed loyal. Even in the face of this well-publicized fiasco, user churn subsided. And, once they could actually use the service again, members did so in ever-increasing numbers.

AOL survived on the strength of its branding as America's online gateway. A lot of Americans didn't want any other way to get online; many didn't even know there was any other way. "Long lines are endemic at Disney World," a new AOL executive named Bob Pittman said. "Folks hate them. But offer Six Flags as an alternative and they look at you like you are crazy. They don't think anything is a substitute for Disney." AOL survived and continued to thrive for one reason, according to Pittman: "It's the brand, stupid."[42]