



ICM

MARCH 2016

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **GOOGLE**. Candidates should read this case study carefully in preparation for the examination.

Note: A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the examination a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the answer script.

DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with answer script.

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the answer script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **GOOGLE** and should provide the analysis underpinning required to answer the examination questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.



ICM

MARCH 2016

CONTEMPORARY STRATEGIC MANAGEMENT
CASE STUDY – GOOGLE

INTRODUCTION

Google Inc. is an American multinational technology company specialising in Internet-related services and products. These include online advertising technologies, search, cloud computing, and software. Most of its profits are derived from AdWords, an online advertising service that places advertising near the list of search results. As a result of its worldwide success in a number of industries, Google has now become a household name globally.

BACKGROUND

Google was founded in 1996 by Larry Page and Sergey Brin while they were PhD students at Stanford University. Together they own about 14 percent of its shares but control 56 percent of the stockholder voting power through super-voting stock. They incorporated Google as a privately held company in September 1998. An initial public offering followed in August 2004. Its mission statement from the outset was “to organise the world’s information and make it universally accessible and useful”, and its unofficial slogan was “Don’t be evil”. In 2004, Google moved to its new headquarters in Mountain View, California, nicknamed the Google-plex. In August 2015, Google announced plans to reorganise its interests as a holding company called Alphabet Inc. When this restructuring took place in October 2015, Google became Alphabet’s leading subsidiary, as well as the parent for Google’s Internet interests.

Rapid growth since incorporation has triggered a chain of products, acquisitions and partnerships beyond Google’s core search engine. It offers online productivity software including email (Gmail), a cloud storage service (Google Drive), an office suite (Google Docs) and a social networking service (Google+). Desktop products include applications for web browsing (Google Chrome), organising and editing photos, and instant messaging. The company leads the development of the Android mobile operating system and the browser-only Chrome OS for a class of netbooks known as Chromebooks.

The corporation was estimated to have run more than one million servers in data centres around the world by 2007. In 2009 it processed over one billion search requests and about 24 petabytes of user-generated data each day. In December 2013, Alexa listed google.com as the most visited website in the world. Numerous Google sites in other languages figure in the top one hundred, as do several other Google-owned sites such as YouTube and Blogger. Its market dominance has led to prominent media coverage, including criticism of the company over issues such as search neutrality, copyright, censorship, and privacy.

HISTORY OF THE TECHNOLOGY

While conventional search engines ranked results by counting how many times the search terms appeared on the page, the two founders, Page and Brin, theorised about a better system that analysed the relationships between websites. They called this new technology PageRank; it determined a website’s relevance by the number of pages, and the importance of those pages, that linked back to the original site.

Page and Brin originally nicknamed their new search engine “BackRub”, because the system checked backlinks to estimate the importance of a site. Eventually, they changed the name to Google, originating from a misspelling of the word “googol”, the number one followed by one hundred zeros, which was picked to signify that the search engine was intended to provide large quantities of information. Originally, Google ran under Stanford University’s website, with the domains *google.stanford.edu* and *z.stanford.edu*.

The domain name for Google was registered on September 15, 1997, and the company was incorporated in September 1998. It was based in the garage of a friend (Susan Wojcicki) in Menlo Park, California. Craig Silverstein, a fellow PhD student at Stanford, was hired as the first employee.

continued overleaf

In January 2013, Google announced it had earned US\$50 billion in annual revenue for the year of 2012. This marked the first time the company had reached this feat, topping their 2011 total of \$38 billion.

GROWTH

March 1999 saw the company move its offices to Palo Alto, California, which has been home to several prominent Silicon Valley technology start-ups. The next year, against Page and Brin's initial opposition toward an advertising-funded search engine, Google began selling advertisements associated with search keywords. In order to maintain an uncluttered page design and increase speed, advertisements were solely text-based. Keywords were sold based on a combination of price bids and click-throughs, with bidding starting at five cents per click.

In 2001, Google received a patent for its PageRank mechanism. The patent was officially assigned to Stanford University and lists Lawrence Page as the inventor. In 2003, after outgrowing two other locations, the company leased an office in Mountain View, California. By 2006, the name "Google" had found its way into everyday language, causing the verb "google" to be added to the Merriam-Webster Collegiate Dictionary and the Oxford English Dictionary, denoted as "to use the Google search engine to obtain information on the Internet".

Google announced the launch of a new company called Calico in September 2013 and led by Apple chairman Arthur Levinson. In the official public statement, Page explained that the "health and wellbeing" company will focus on "the challenge of ageing and associated diseases".

Google now operates 70 offices in more than 40 countries and it celebrated its 15-year anniversary in September 2013. The Alliance for Affordable Internet (A4AI) was launched in October 2013 and Google is part of the coalition of public and private organisations that also includes Facebook, Intel and Microsoft. The corporation's consolidated revenue for the third quarter of 2013 was reported in mid-October 2013 as \$14.89 billion, a 12% increase compared to the previous quarter. Google's Internet business was responsible for \$10.8 billion of this total, with an increase in the number of users' clicks on advertisements.

In November 2013, Google announced plans for a new 1-million-sq-ft (93,000 sq m) office in London, which is due to open in 2016. The new premises will be able to accommodate 4,500 employees and has been identified as one of the biggest ever commercial property acquisitions in Britain.

October 2014, according to the Inter-brand ranking, saw Google become the second most valuable brand in the world (behind Apple) with a valuation of \$107.4 billion. A Millward Brown report from the same year put the Google brand ahead of Apple's at number one.

PRODUCTS, SERVICES AND TECHNOLOGY

Advertising

In 2011, 96% of Google's revenue was derived from its advertising programs. In addition to its own algorithms for understanding search requests, Google uses technology from the company Double Click, to project user interest and target advertising to the search context and the user history.

Google Analytics allows website owners to track where and how people use their website, for example by examining click rates for all the links on a page. Google advertisements can be placed on third-party websites in a two-part program. Google's *AdWords* allows advertisers to display their advertisements in the Google content network, through either a cost-per-click or cost-per-view scheme.

Search engine

According to market research *Google Search* is currently the dominant search engine in the United States market, with a market share of about 65%. Google indexes billions of web pages, so that users can search for the information they desire through the use of keywords and operators.

Google Watch has criticised Google's PageRank algorithms, saying that they discriminate against new websites and favour established sites. The site has also alleged that there are sinister connections between Google and the National Security Agency (NSA) and the Central Intelligence Agency (CIA).

Google also hosts Google Books. The company began scanning books and uploading limited previews, and full books were allowed into its new book search engine. The "Hummingbird" update to the Google search engine was announced in September 2013. The update was introduced over the month prior to the announcement and allows users to ask the search engine a question in natural language rather than entering keywords into the search box.

continued overleaf

Productivity tools

Gmail, a free webmail service provided by Google, was launched as an invitation-only beta program in April 2004 and became available to the public in February 2007 – and the service soon had 146 million users monthly. It was the first online email service with one gigabyte of storage. It was also the first to keep emails from the same conversation together in one thread, similar to an Internet forum.

Enterprise products

Google Apps allows organisations to bring Google's web application offerings, such as Gmail and Google Docs, into their own domains. The service is available in several editions: a basic free edition (formerly known as Google Apps Standard edition), Google Apps for Business, Google Apps for Education, and Google Apps for Government.

Other products

Google Translate is a server-side machine translation service, which can translate between 80 different languages. For some languages, handwriting recognition, or speech recognition can be used as input, and translated text can be pronounced through speech synthesis.

Google launched its Google News service in 2002, an automated service which summarises news articles from various websites.

In 2007, reports surfaced that Google was planning the release of its own mobile phone, possibly a competitor to Apple's iPhone. The project, called Android, turned out not to be a phone but an operating system for mobile devices. However, in January 2010, Google released an Android phone under its own company name called the Nexus One. A report in July 2013 stated that Google's share of the global smartphone market was about 64% at the time.

Other projects Google has worked on include a new collaborative communication service, a web browser, and a mobile operating system. Google pre-announced the upcoming availability of Google Chrome in September 2008, an open source web browser, which was then released the next day. At a launch event in July 2013, in San Francisco, a newer version of the Nexus 7 Google tablet device was released to the public, alongside the Chromecast dongle that allows users to stream YouTube and Netflix videos via smartphones.

Google Alerts is a content change detection and notification service, offered by the search engine company Google. The service sends emails to the user when it finds new results – such as web pages, newspaper articles, or blogs – that match the user's search term.

CULTURE AND CORPORATE AFFAIRS

On *Fortune* magazine's list of the best companies to work for, Google ranked first in 2007, 2008 and 2012 and fourth in 2009 and 2010. Google was also nominated in 2010 to be the world's most attractive employer to graduating students. The company's corporate philosophy includes principles such as "you can make money without doing evil", "you can be serious without a suit", and "work should be challenging and the challenge should be fun".

HUMAN RESOURCES

As of 2013, Google had 47,756 employees and among them more than 10,000 software developers based in more than 40 offices.

After the company's Initial Public Offering (IPO) in 2004, founders Sergey Brin and Larry Page and CEO Eric Schmidt requested that their base salary be cut to \$1. Subsequent offers by the company to increase their salaries were turned down, primarily because their main compensation continues to come from owning stock in Google. Before 2004, Schmidt made \$250,000 per year, and Page and Brin each received an annual salary of \$150,000.

In 2007 and early 2008, several top executives left Google. In October 2007, former chief financial officer of YouTube Gideon Yu joined Facebook along with Benjamin Ling, a high-ranking engineer. March 2008 saw Sheryl Sandberg, then vice-president of global online sales and operations, begin her position as chief operating officer of Facebook while April 2011 saw Larry Page become company CEO and Eric Schmidt took on the role of Executive Chairman of Google. In July 2012, Google's first female employee, Marissa Mayer, left Google to become Yahoo!'s CEO.

continued overleaf

COMPANY POLICIES

As a motivation technique, Google uses a policy often called Innovation Time Off, where Google engineers are encouraged to spend 20% of their work time on projects that interest them. Some of Google's newer services, such as Gmail, Google News, Orkut, and AdSense originated from these independent endeavours. In a talk at Stanford University, Marissa Mayer, Google's Vice President of Search Products and User Experience until July 2012, showed that half of all new product launches in the second half of 2005 had originated from the Innovation Time Off.

PHILANTHROPY

Google formed the not-for-profit philanthropic Google.org, with a start-up fund of \$1 billion in 2004. The mission of the organisation is to create awareness about climate change, global public health, and global poverty. One of its first projects was to develop a viable plug-in hybrid electric vehicle that can attain 100 miles per gallon. In 2008, Google announced its "project 10¹⁰⁰" which accepted ideas for how to help the community and then allowed Google users to vote on their favourites. After two years of silence, during which many wondered what had happened to the programme, Google revealed the winners of the project, giving a total of ten million dollars to various ideas ranging from non-profit organisations that promote education to a website that intends to make all legal documents public and online.

TAX AVOIDANCE AND NEGATIVE PUBLICITY

Google uses various tax avoidance strategies. Out of the five largest American technology companies, it pays the lowest taxes to the countries of origin of its revenues. The company accomplishes this partly by licensing technology through subsidiaries in Ireland, Bermuda, the Bahamas, and the Netherlands. This has reportedly sparked a French investigation into Google's transfer pricing practices.

Following criticism of the amount of corporate taxes that Google paid in the United Kingdom, Chairman Eric Schmidt said, "It's called capitalism. We are proudly capitalistic." During the same December 2012 interview, Schmidt "confirmed that the company had no intention of paying more to the UK exchequer." In 2013, Schmidt responded to questions about taxes paid in the UK by pointing to the advertising fees Google charged UK companies as a source of economic growth.

Google Vice President Matt Brittin testified to the Public Accounts Committee of the UK House of Commons that his UK sales team made no sales and hence owed no sales taxes to the UK.

ENVIRONMENT

Since 2007, Google has aimed for carbon neutrality in regard to its operations. Google disclosed in September 2011 that it "continuously uses enough electricity to power 200,000 homes", almost 260 million watts or about a quarter of the output of a nuclear power plant. Total carbon emissions for 2010 were just under 1.5 million metric tons, most due to fossil fuels that provide electricity for the data centres. Google proudly said that 25% of its energy was supplied by renewable fuels in 2010.

In June 2013, *The Washington Post* reported that Google had donated \$50,000 to the Competitive Enterprise Institute, a libertarian think tank that calls human carbon emissions a positive factor in the environment and argues that global warming is not a concern.

It was reported, in July of that year, that Google had hosted a fundraising event for Oklahoma Senator Jim Inhofe, who has called climate change a "hoax". In 2014 Google cut ties with the American Legislative Exchange Council (ALEC) after pressure from the Sierra Club, major unions and Google's own scientists, because of ALEC's stance on climate change and opposition to renewable energy.

ACQUISITIONS AND MERGERS

Since 2001, Google has acquired many companies, primarily small venture capital-funded firms. In October 2006, Google announced that it had acquired the video-sharing site YouTube for \$1.65 billion in Google stock, and the deal was finalised on November 13, 2006. Google does not provide detailed figures for YouTube's running costs, and YouTube's revenues in 2007 were noted as "not material" in a regulatory filing. A *Forbes* magazine article projected the 2008 YouTube revenue at \$200 million, noting progress in advertising sales.

continued overleaf

Google bought out its first public company in 2009, purchasing video software maker On2 Technologies for \$106.5 million. They also acquired Aardvark, a social network search engine, for \$50 million, and commented on its internal blog, "We're looking forward to collaborating to see where we can take it".

In addition to the many companies Google has purchased, the company has partnered with other organisations for research, advertising, and other activities. In 2008, Google developed a partnership with GeoEye to launch a satellite providing Google with high-resolution imagery for Google Earth.

Google Energy made its first investment in a renewable energy project, putting \$38.8 million into two wind farms in North Dakota in 2010. The company announced the two locations would generate 169.5 megawatts of power, enough to supply 55,000 homes. The farms, which were developed by NextEra Energy Resources, will reduce fossil fuel use in the region and return profits. Also in 2010, Google purchased Global IP Solutions, a Norway-based company that provides web-based teleconferencing and other related services. This acquisition enabled Google to add telephone-style services to its list of products. In April 2011, *The Globe and Mail* reported that Google bid \$900 million for six thousand Nortel Networks patents.

Google made its largest-ever acquisition to-date when it announced, in August 2011, that it would acquire Motorola Mobility for \$12.5 billion subject to approval from regulators in the United States and Europe. In a post on Google's blog, Google Chief Executive and co-founder Larry Page revealed that the acquisition was a strategic move to strengthen Google's patent portfolio. This purchase was made in part to help Google gain Motorola's considerable patent portfolio on mobile phones and wireless technologies to help protect it in its ongoing patent disputes with other companies, mainly Apple and Microsoft, and to allow it to continue to freely offer Android. After the acquisition closed, Google began to restructure the Motorola business to fit Google's strategy.

February 2013 saw Google announce that it had acquired Channel Intelligence for \$125 million. Channel Intelligence, a technology company that helps customers buy products online, is active globally in 31 different countries and works with over 850 retailers. Google's strategy is to utilise this technology to enhance its e-commerce business.

In July 2014, Google purchased the online music service Songza.

THE FUTURE OF THE COMPANY

The future of the technology and media industry and its key players remains very volatile and uncertain to say the least. As a result the Google boardroom will need to fully consider all of the major stakeholders involved to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience and skills that the company has built up since inauguration. It will not be easy but the future survival of the company will depend on it.

Reference Source: Wikipedia