

STRATEGIC ANALYSIS OF SEARCH ENGINE GIANT: A CASE STUDY OF GOOGLE INC.

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Abstract

Strategic analysis is the in-depth discussion on the selection of best strategy out of the various available alternatives. Strategic analysis helps in driving the risks, profitability and competitive advantages of a firm. It provides a permanent basis for predicting the future performance and an idea of how to gauge the success of a firm's actions. The present case study is based upon the strategic analysis of the search engine giant (Google Inc.) on the basis of its potential profitability in the industry, successors & failures in the industry, political/legal, economic, social and technological forces affecting the industry. The case also highlights its current firm level, business level strategy, business strategies adopted by its major competitors, its financial position, its production cum purchasing strategies and human resources cum information systems strategies. A descriptive SWOT of Google Inc. is also discussed upon. The case concludes up with recommendations of various strategic alternatives available to Google Inc.

Founders Larry Page and Sergey Brin named the search engine they built "Google," a play on the word "googol," the mathematical term for a 1 followed by 100 zeros. The name reflects the immense volume of information that exists. Google's mission is to organize the world's information and make it universally accessible and useful.

QUICK FACTS

- Founded: 1998
- Founders: Larry Page and Sergey Brin
- Incorporation: September 4, 1998
- Initial public offering (NASDAQ): August 19, 2004
- Headquarters: 1600 Amphitheatre Parkway, Mountain View, CA 94043
- Offices: Locations of offices around the world.
- Management: Executives and board of directors.
- Motto: Don't Be Evil.

INDUSTRY IDENTIFICATION & THE COMPETITORS-

Table No. 1	
INDUSTRY	Internet Search Providers.
Current Competitors	News Corporation Yahoo Viacom WPP Pay Pal Comcast MSN

POTENTIAL PROFITABILITY OF THE INDUSTRY-

Google's main competitors, Yahoo, and Microsoft (operating under their respective brands - MSN and Live Search), posted revenues of \$7.0 billion and \$51.1 billion respectively (Google, 2007). There is a dizzying amount of money made in this industry.

Presently, Google commands 57% of internet searches in the United States (Agence France-Press, 2008). This large market share enables them to improve the quality of their search results and targeted ads more quickly than their competitors. This creates a sort of self-perpetuating draw for customers as the search results constantly improve. Yahoo and Microsoft lag behind with 23% and 11% respective market shares (Figure 1) (Agence France-Press, 2008). The competitive rivalry is strong and ongoing in this industry because large amounts of advertising dollars flow to the website that has captured the largest volume of searches.

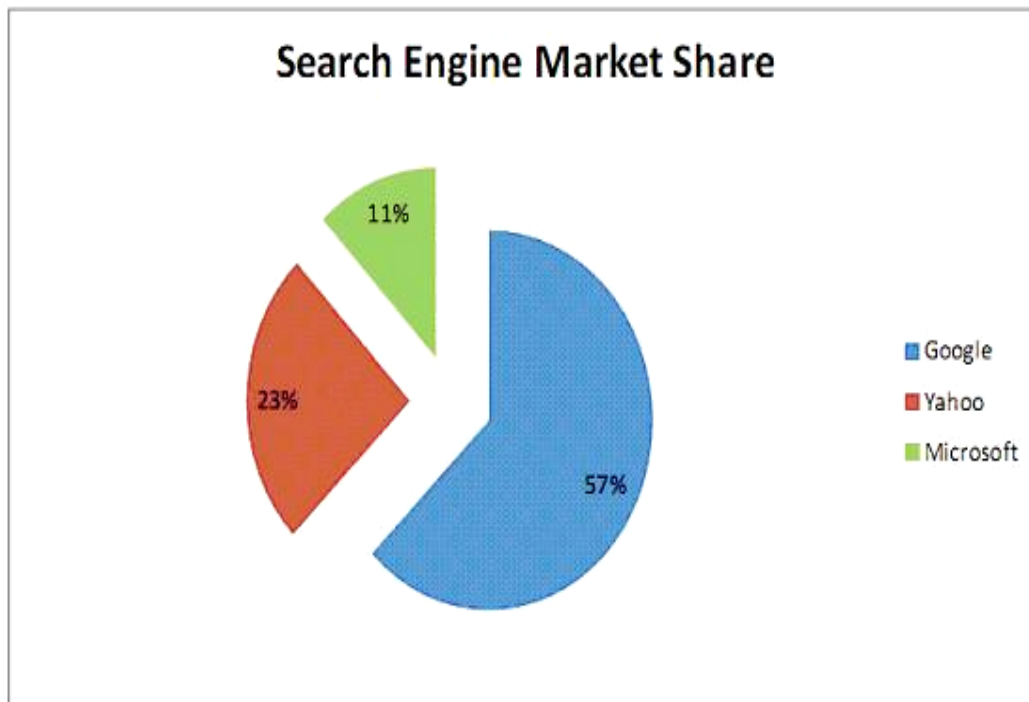


figure 1 (Agence France-Press, 2008)

Hit wise reported that Google's market share in the US was 72.11% in February 2009. "Yahoo Search, MSN Search and Ask.com received 17.04%, 5.56% and 3.74%, respectively, and are down year-over-year at -17%, -20%, and -10% respectively. "COM Score has

different numbers and they show that Google's market share in the US is much lower: 63.3%. A report from the AT Internet Institute shows that Google's market share in France was 91.23% for February 2009. The major search engines that trailed Google were Yahoo (2.43%) and Live Search (2.29%).

SUCCESSORS & FAILURES IN THE INDUSTRY-

Google Inc., starting from just a smart algorithm, has developed a totally new business model, has become in a few years the world leading search engine, has developed winning applications as Google Earth, Google Video, Google Maps, Gmail, and is enjoying a huge success. Google, starting from scratch, has won the challenge against a giant like Microsoft and against the previous search engine market leaders Yahoo, Lycos, AltaVista, hotbot and Excite.

POSSIBLE REASONS-

The innovative business model of Google is the only & the main reason for the success of Google & failure of the others players in the industry. The milestone which Google has achieved is in terms of Industries including: computer hardware and software, Advertising, publishers, entertainment and telecoms other than website visits, and also maintaining market capitalization.

POLITICAL/LEGAL FORCES AFFECTING THE INDUSTRY-

Formal institutions have not significantly affected Google's operations, although Google has faced pressure from the Department of Justice to relinquish archived search terms (Buncombe, 2006) and from the Chinese government to censor search results (Liedtke, 2005). Google's "Don't be evil" mantra has been put to the test as users ask whether cooperation with governments undermines their privacy and freedoms. In 2008, Google responded to customer concerns when it added a privacy link to its home page. This link took users to a Privacy Center where they could learn about Google's policies in regard to political and legal issues (Google, 2008). Google has also faced concern on copyright issues because the company stores copies of third party web pages and images on their servers. They have responded to this criticism by releasing a copyright information page. The page provides the relevant information regarding digital information and provides links to notify both Google and the U.S. Copyright Office of suspected infringement (Google, 2008).

ECONOMIC FORCES AFFECTING THE INDUSTRY-

The United States was currently in a period of recession and stocks were trading at 52-week lows. However, technology companies like Google are relatively isolated because search and consequently internet-based advertisements has become a staple to the world society and economy. In fact, a recent wired magazine article says that Google “looks particularly well-positioned to weather the downturn. Google's focus on highly targeted, measurable advertising makes it more recession-proof than many other businesses in tech.” (Schiffman, 2008) The crucial need to stay informed and constantly connected keeps such services vibrant despite the parched surroundings.

SOCIAL FORCES AFFECTING THE INDUSTRY-

The world is increasingly becoming more connected due to the means of communication available through the internet. And, for many people, the search giants like Google make the internet navigable. As internet use increases among all age groups and across all cultures, we will become increasingly more dependent on internet search. In addition, most new cell phones are internet capable devices. People will use these devices for driving directions, to locate restaurants, check sports scores, download music, and even quick research. Google stands to benefit from this with an increased number of search queries. To enable more people to access Google's services from their mobile devices, the company has released its Android Mobile Phone Platform and Operating System as well as the Google Mobile App that can be downloaded on other platforms such as the Apple iPhone. Google is well positioned in demographics because it has a relatively young userbase. This means that it will be less affected as the Baby Boomers age in comparison to other companies that depend on the 50 to 60 year-old demographic group. Internet search is also not a gender-specific issue, and would not be hurt by changes in the ratio of female to males. The company will however benefit when some traditional and paternalistic societies begin using the internet more frequently.

TECHNOLOGICAL FORCES AFFECTING THE INDUSTRY-

Technology is obviously always improving and Google has taken specific measures to make sure it does not fall behind. Google can use commodity computer parts (cheap components) knowing they will fail by ensuring that every component always has a duplicate. The components are attached to the computer with Velcro rather than screws which allows for quick swapping and upgrading (May, 2007). Internet search is applicable to most cultures all

over the world freeing Google from geographic dependence. In fact, the company now has 20 offices in the U.S. and international locations in over 30 countries working on research, sales, and marketing (Google, 2008). Google offers a personalized search engine for more than 115 countries, and as language support improves, the company is likely to gain market share. As computers become more affordable, many people in economically disadvantaged countries are gaining access to the internet for the first time and Google would like to route them through its search and productivity products, like Gmail, Docs, and Sites. Google's web applications are now bundled into the operating system on low-cost Linux- based computers (Blankenhorn, 2008).

CURRENT FIRM LEVEL STRATEGY-

Google regularly explores all three manners of diversification with new start-ups, with acquisition, and with strategic alliances.

➤ START-UPS

Google has a rule that employees can spend 20% of the time working on pet projects that are not part of their job description. Such motivation helps Google innovate and diversify into previously untapped businesses but usually still makes use of their core competencies and capabilities. In fact both Gmail and Google News started off as 20% projects.

➤ ACQUISITIONS

Several of Google's products are derived from acquisitions including Docs, Earth, and YouTube. These products have expanded Google's brand and brought the previous users of these services to Google. DoubleClick added the banner component of Google's advertising business and brought along significant revenue to Google's income statement.

➤ ALLIANCES

It is interesting to note the Google and Yahoo recently explored an alliance for advertising but federal judges threatened an antitrust investigation so Google backed out. This move did not cause a financial setback being prompt and respectful of other partners. Yahoo and Google in fact have a history together. Back in the early 2000's Google provided all of Yahoo's search results. Google has in the past started organizations to leverage the power of alliances. One example is OpenSocial which allows developers to create applications that will work on all the member companies' websites. By giving developers a common API, the

alliance hopes to draw some of the attention away from Facebook, which is the largest social networking site. Google also created the Open Handset Alliance to promote the use of its open source Android operating system. This alliance leverages the capabilities of both phone manufacturers and independent developers to compete with Microsoft's Windows Mobile platform, RIM's Blackberry, and Apple's iPhone. Google understands the wealth in diversification. Exploring new opportunities constantly over a solid base of research could prove profitable with the use of products that can reduce cost – cost of production, advertisements, etc. These new products are crucial in gaining leverage in the constantly changing market and providing an alternative industry if need be. Google understands that valuable profits and minimized risk can be garnered with international operations. The company's international revenue totaled over \$2.7 billion in the second quarter of 2008, 52% of their total revenue (Google, 2008).

CURRENT BUSINESS LEVEL STRATEGY-

Google's strategy is built on a strong foundation of broad differentiation of complementary products. Complimentary products serve to increase the use of the each of the other products and increase brand awareness. Several of these unique provisions include its Docs & Spreadsheets productivity suite, Picasa the image organizing and editing program, Earth and Maps. These products are the key to augmenting the company's advertising business and expanding the breadth of the brand. Google reinforces its brand image by keeping its name in nearly all its products. From Google's perspective, the more uses a person has for Google services, the more opportunity there will be to show them ads.

BUSINESS STRATEGIES OF THE MAJOR COMPETITORS-

The leading competitors to Google's work strategy are the technology giants, Yahoo and Microsoft. All of these companies' motivations are simple -- try to draw the most advertising dollars from their respective internet properties. Each of the competitors offer many services on their websites and strategically do so to try to engage users for as long as possible.

CURRENT MARKETING STRATEGY-

The core strategy for Google success is not other than Viral Marketing. As Google has never used any advertisement for its success, it only exploits the social media networks to reach out to the large number of customers, forwarding power of e-mails & comments of blogspots. Google still continues to enjoy the number one position in the industry due to Viral

Marketing itself.

PRODUCTION & PURCHASING STRATEGIES-

Google is currently testing a new advertising program that pays site owners based on a Cost-Per-Click model. The program, called Cost-Per-Action, was revealed via an invitation e-mail from the Google AdSense team to Web site owners. Google is investing in the new technologies to keep pace with the changing expectations of the users. As Google's great IT advantage is its ability to build high-performance systems that are cost efficient and that scale to massive workloads. Because of that, IT consultant Stephen Arnold argues, Google enjoys huge cost advantages over competitors such as Amazon, eBay, Microsoft, and Yahoo.

FINANCIAL POSITION OF GOOGLE-

Google reported revenues of \$5.51 billion in the first quarter of 2009, representing a 6% increase over first quarter 2008 revenues of \$5.19 billion and a 3% decrease from fourth quarter 2008 revenues of \$5.70 billion.

CURRENT HR & INFORMATION SYSTEMS STRATEGIES-

➤ LEADERSHIP & CULTURE STRUCTURE

Google follows a fairly regular functional structure with management positions specialized by various value chain activity. As a globally diversified company, these positions are further divided and grouped into regions of interest that aid the company in managing the breadth of its operations.

➤ EMPLOYEE PERKS

Google is often lauded for the way the company treats its employees. Fortune magazine ranked Google at the top of its list of the best companies to work for in 2007 and 2008 (Fortune, 2008). Perhaps that's because Google's corporate vision includes such axioms as, "You can be serious without a suit." (Google, 2008)

➤ THE 70/20/10 RULE

Google allows employees to spend 70 percent of their time on the core business, 20 percent on related projects, and 10 percent on unrelated new businesses. This rule is so important that Google has people on staff to manage the 70/20/10 rule. The engineering and design staff

makes use of the “free time” to pursue new products and technologies, but even the top-level managers adhere to the rule.

According to Eric Schmidt, they spend 70% of time on search and advertising, 20% on adjacent businesses like Google News and Google Earth, and 10% on new things like the free wireless initiative (Battelle, 2005). The 20% rule has a good return on investment since about half of Google’s new product launches occur as a result of that “free” time.

STRENGTHS-

1. **Search-** Google web service provide the facilities given to the people how to find what they are looking f in the websites. Image search, Google news, blog search, Google map etc facilities given by the Google
2. **News-** Thousands of present’s news, thousands of new stories, thousands of information in a different format, publics on their web page within a minute. On the home page of Google news page stories are presented in such a way so that the user can change it according to them. They gather all types of news from the English language from the world wide. It’s a 100% algorithms generated sites and it is an important source of different media.
3. **Communication, Collaboration and Communities-** The user can keep track important event, appointment and special occasion by using Google calendar. Google calendar is a free online sharable calendar. Google also offer free mail service like G-mail & social networks like Orkut
4. **Google GEO-** The specific function of Google is Google earth & Google maps which provide user with facility to see the location and learn about that area and they can get the satellite and aerial images from their desktop.
5. **Books-** Google books provide information to purchase the books online. User can also read the inside of the book online from the selected books.
6. **Videos-** Google Video has millions of videos indexed for viewing. In late 2006 the Google acquired YouTube for \$1.65 billion. In the YouTube the user can search and watch the most updated videos.
7. **Finance-** They provide financial information and news on companies .One of the feature is also that its sites provide the latest data and latest news from the financial industry.
8. **Photo sharing-** Google is having photo sharing option in the Picasa web album.

WEAKNESS-

1. **Commerce-** Google earns 99% of its revenues from advertising and the remaining 1% comes from licensing of service. Google portfolio does not have commerce feature.
2. **Context-** IT is very difficult to Google to capture context because Google having one search box in its delightfully simple interface.
3. **Content-** There is one area where the Google is lagging behind yahoo. Google is always known as a finder not as a producer.
4. **Personalization-** The user can customize their page and they can organize the Google page like in Orkut, Picasa, you tube etc. The user can go to the other user account and see the profile. This is the criticism of the privacy.
5. **Business model-** Google Ad sense is under serious threat from vertical AD network.

OPPURTUNITIES-

1. To survive in this tough competitive world Google can add sticky like chat rooms and email systems to attract its regular and new users.
2. It can increase switching charges by tracking users' search histories only if they permit and could remind them through emails for their relevant search updates as per their personal interest and requirements.
3. Yahoo and MSN are known as mass-market portal, Google can also become a mass-market portal and can increases witching cost for its users.
4. Google can increase localized and personalized searching and can also add localized paid listings of advertisers.
5. It can start with some new services like product search, multimedia, print media and private database.
6. Just to lock in large number of advertisers and users Google can merge with an established mass-market portal.
7. Google can start providing full fledged services on hand held mobile devices to acquire market beyond conventional internet.

THREATS-

1. **Peer Search-** There is a question asked by expert whether Google is worried about peer search. And then the expert people rank search result which shows and provide some interesting and related result than an algorithm yet can provide. Sometimes in the recent years this type of search worried Google.
2. **Competitors-** Google should be aware of new search engines which promise to improve search experience compared to them. There is one best example of new search engine which was supported by significant investors that is Powerset.
3. **Merging of Microsoft and Yahoo-** Since there were many discussions from MSN and Yahoo that at some point of time they may merge but the question here is are they really wanted to merge or just scaring Google.

RECOMMENDATIONS IN TERMS OF STRATEGIC ALTERNATIVES AVAILABLE TO THE GOOGLE-

Google is left only with three strategic alternatives namely- defending current market share, market modification & product modification.

Table No. 2	
PROS	CONS
HELP TO SURVIVE IN THE TOUGH COMPETITION	NEEDS HUGE INVESTMENTS
HELP TO OVERCOME THE CURRENT PRODUCT PROBLEMS	OVERLYING ON ANY STRATEGY CAN LEAD TO STATEGIC MYOPIA.

Out of the above mentioned strategies, market modification strategy must be adopted.

As Google can only grow its impressions by increasing:

- The frequency of searches by existing users,
- New searchers that didn't use search engines before, and
- Users that migrate from other search engines
- The traffic to sites in its search and advertising networks (over which it has no direct control, unless... no, they wouldn't do that!)

FUTURE PROSPECTS FOR THE GOOGLE-

Google™ 2084



Above figure shows a rather humorous view into the future where Google's information indices extend beyond the outside internet to a much more personal level. The sober fact is that this idea is not farfetched at all. Google's overarching strategy is to maximize its information gathering about individuals so it can transition its relevance algorithms from content-based to individual interest-based so that banner ads are just as much of a resource as text.

Case Challenges:

Can the company manage growth & will it retain bright and competent employees?

Can the company deal with intense competitors who shoot for big, successful targets & will the company mature with grace and strength?

SOLUTION FOR THE CASE CHALLENGES-**Can the company manage growth?**

The answer: So far, profits are good, but investments in future technologies have shown mixed results. “Name any long - term technology bet you can think of”, wrote Time, “genome - tailored drugs, artificial intelligence, the space elevator and chances are, there’s a team at Googleplex working on an application.” Google has been daring in its pursuit of bright ideas but has had to abandon many of them after investing a large amount of time and money.

Can it retain bright and competent employees?

Although Google doesn’t release figures on employee attrition, it appears that many early participants have taken their money and left. Yet Google is an interesting place to work and many stay.

Can the company deal with intense competitors who shoot for big, successful targets?

This will be the war that never ends. Google has a strong franchise in search technology, but that doesn’t mean it will hang onto its lead. Ben Camm - Jones, news editor of Web User magazine, points out that competitor will be chasing Google and trying to do search better. “If there is going to be anything, it will be semantic web technology that overtakes Google - if it is a really compelling proposition and if somehow we can shake people out of this belief that Google is the only way to find information on the web”.

Will the company mature with grace and strength?

The world is full of unknowns, but so far Google has had luck and brains on its side. There are heavy odds that Google will be on our lips and at our fingertips for a long time.

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