

# Marketing mistakes and successes

[Business](#), [Marketing](#)



Welcome to the 30th anniversary of Marketing Mistakes and Successes with this 11th edition. Who would have thought that interest in mistakes would be so enduring? Many of you are past users, a few even for decades. I hope you will find this new edition a worthy successor to earlier editions. I think this may even be my best book. The new Google and Starbucks cases should arouse keen student interest, and may even inspire another generation of entrepreneurs. A fair number of the older cases have faced significant changes in the last few years, for better or for worse, and these we have captured to add to learning insights.

After so many years of investigating mistakes, and more recently successes also, it might seem a challenge to keep these new editions fresh and interesting. The joy of the chase has made this an intriguing endeavor through the decades. Still, it is always difficult to abandon interesting cases that have stimulated student discussions and provoked useful insights, but newer case possibilities are ever contesting for inclusion. Examples of good and bad handling of problems and opportunities are forever emerging. But sometimes we bring back an oldie, and with updating, gain a new perspective.

For new users, I hope the book will meet your full expectations and be an effective instructional tool. Although case books abound, you and your students may find this somewhat unique and very readable, a book that can help transform dry and rather remote concepts into practical reality, and lead to lively class discussions, and even debates. In the gentle environment of the classroom, students can hone their analytical skills and also their persuasive skills—not selling products but selling their ideas—

and defend them against critical scrutiny. This is great practice for the arena of business to come.

### **New to This Edition**

In contrast to the early editions, which examined only notable mistakes, and based on your favorable comments about recent editions, I have again included some well-known successes. While mistakes provide valuable learning insights, we can also learn from successes and find nuggets by comparing the unsuccessful with the successful. With the addition of Google and Starbucks, we have moved Entrepreneurial Adventures up to the front of the book. We have continued Marketing Wars, which many of you recommended, and reinstated Comebacks of firms . Preface ising fromadversity. I have also brought back Ethical Mistakes, becauseI believethat organizations more than ever need to be responsive to society's best interests. Altogether, this 11th edition brings seven new cases to replace seven that were deleted from the previous edition. Some of the cases are so current we continued updating until the manuscript left for the production process. We have tried to keep all cases as current as possible by using Postscripts, Later Developments, and Updates. A number of you have asked that I identify which cases would be appropriate for the traditional overage of topics as organized in typical marketing texts. With most cases it is not possible to truly compartmentalize the mistake or success to merely one topic. The patterns of success orfailuretend to be more pervasive. Still, I think you will find the following classification of cases by subject matter to be helpful. I thank those of you who made this and other suggestions.

**Targeted Courses**

As a supplemental text, this book can be used in a variety of undergraduate and graduate courses. These range from introduction to marketing/marketing principles to courses in marketing management and strategic marketing. It can also be used as a text in international marketing courses. Retailing, entrepreneurship, and ethics courses could use a number of these cases and their learning insights. It can certainly be used in training programs and even appeal to nonprofessionals who are looking for a good read about well-known firms and personalities.

**Teaching Aids**

As in previous editions, you will find a plethora of teaching aids and discussion material within and at the end of each chapter. Some of these will be common to several cases, and illustrate that certain successful and unsuccessful practices are not unique. Information Boxes and Issue Boxes are included in each chapter to highlight relevant concepts and issues, or related information, and we are even testing Profile Boxes. Learning insights help students see how certain practices—both errors and successes—cross company lines and are prone to be either traps for the unwary or success modes.

On Exercises encourage and stimulate student involvement. A recent pedagogical feature is the Team Debate Exercise, in which formal issues and options can be debated for each case. New in some cases are Devil's Advocate exercises in which students can argue against a proposed course of action to test its merits. A new pedagogical feature, based on a reviewer's recommendation, appears at the end of the Analysis section: students are

asked to make their own analysis, draw their own conclusions, and defend them, thereby having an opportunity to stretch themselves.

In some cases where there is considerable updating, a new feature invites students to Assess the Latest Developments. Invitation to Research suggestions allow students to take the case a step further, to investigate what has happened since the case was written, both to the company and even to some of the individuals involved. In the final chapter, the various learning insights are summarized and classified into general conclusions. An Instructor's Manual written by the author accompanies the text to provide suggestions and considerations for the pedagogical material within and at the ends of chapters.

### **Acknowledgments**

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**About the Author**

Bob Hartley is Professor Emeritus at Cleveland State University's College of Business Administration. There he taught a variety of undergraduate and graduate courses in management, marketing, and ethics.

Prior to that he taught at the University of Minnesota and George Washington University. His MBA and Ph. D. are from the University of Minnesota, with a BBA from Drake University. Before coming into academia, he spent thirteen years in retailing with the predecessor of Kmart (S. S. Kresge), JCPenney, and Dayton-Hudson and its Target subsidiary. He held positions in store management, central buying, and merchandise management. His first textbook, *Marketing: Management and Social Change*, was published in 1972. It was ahead of its time in introducing social and environmental issues to the study of marketing.

Other books, *Marketing Fundamentals*, *Retailing*, *Sales Management*, and *Marketing Research*, followed. In 1976 the first *Marketing Mistakes* book was published and brought a new approach to case studies, making them student-friendly and more relevant to career enhancement than existing books. In 1983, *Management Mistakes* was published. These books are now in the eleventh and ninth editions, respectively, and have been widely translated. In 1992 Professor Hartley wrote *Business Ethics: Violations of the Public Trust*. *Business Ethics Mistakes and Successes* was published in 2005. He is listed in *Who's Who in America*, and *Who's Who in the World*.

The first edition, back in 1976, was 147 pages and included such long-forgotten cases as Korvette, W. T. Grant, Edsel, Corfam, Gilbert, and the Midi. In this eleventh edition, seven cases from the tenth edition have been

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dropped, and seven added, several of these being modified from earlier editions. Other cases have been updated, and in some instances reclassified. Two exciting new entrepreneurial cases, Google and Starbucks, are introduced, and the entire Entrepreneurial Adventures moved to the front of the book as Part I. I think your students will find these cases particularly interesting and even inspiring.

The popular “ Marketing Wars” is again included, this time as Part II, and it follows major competitors in their furious struggles. Two new parts have been added from older editions: Part III Comebacks, and Part VI Ethical Mistakes. In response to your feedback, the section on notable successes has been continued. Some cases are as recent as today’s headlines; several still have not come to complete resolution. A few older cases have been continued or brought back. For example, Borden last appeared in the ninth edition, but some of you thought the learning insights were important enough to reintroduce the case.

We continue to seek what can be learned—insights that are transferable to other firms, other times, other situations. What key factors brought monumental mistakes to some firms and resounding successes for others? Through such evaluations and studies of contrasts, we may learn to improve batting averages in the intriguing, ever-challenging art of decision making. We will encounter organizational life cycles, with an organization growing and prospering, then failing (just as humans do), but occasionally resurging. Success rarely lasts forever, but even the most serious mistakes can be (but are not always) overcome.



As in previous editions, a variety of firms, industries, mistakes, and successes are presented. You will be familiar with most of the organizations, although probably not with the details of their situations. We are always on the lookout for cases that can bring out certain points or caveats in the art of marketing decision making, and that give a balanced view of the spectrum of marketing problems. The goal is to present examples that provide . Introduction somewhat different learning experiences, where at least some aspect of the mistake or success is unique. Still, we see similar mistakes occurring time and again.

From the prevalence of such mistakes, we have to wonder how much decision making has really progressed over the decades. The challenge is still there to improve it, and with it marketing efficiency and career advancement. Let us then consider what learning insights we can gain, with the benefit of hindsight, from examining these examples of successful and unsuccessful marketing practices.

### **Learning Insights**

In looking at sick companies, or even healthy ones that have experienced difficulties with certain parts of their operations, it is tempting to be overly critical. It is easy to criticize with the benefit of hindsight.

Mistakes are inevitable, given the present state of decision making and the dynamic environment facing organizations. Mistakes can be categorized as errors of omission and of commission. Mistakes of omission are those in which no action was taken and the status quo was contentedly embraced amid a changing environment. Such errors, often characteristic of conservative or stodgy management, are not as obvious as the other

category of mistakes. They seldom involve tumultuous upheaval; rather, the company's competitive position slowly erodes, until management finally realizes that mistakes having monumental impact have been allowed to happen.

The firm's fortunes often never regain their former luster. Mistakes of commission are more spectacular. They involve hasty decisions often based on faulty research, poor planning, misdirected execution, and the like. Although the costs of eroding competitive position due to errors of omission are difficult to calculate precisely, the costs of errors of commission are often fully evident. For example, with Euro Disney, in 1993 alone the loss was \$960 million from a poorly planned venture; it improved in 1994 with only a \$366 million loss.

With Maytag's overseas Hoover Division, the costs of an incredibly bungled sales promotion were more than \$300 million, and still counting. Then there was the monumental acquisition of Chrysler by Germany's Daimler, maker of proud Mercedes, for \$36 billion in 1998. After nine tumultuous years, Daimler gave up and sold Chrysler to a private equity firm in 2007 for only \$7.4 billion. Although they may make mistakes, organizations with sharp managements follow certain patterns when confronting difficult situations: 1. Looming problems or present mistakes are quickly recognized.

The causes of the problem(s) are carefully determined. Alternative corrective actions are evaluated in view of the company's resources and constraints. Corrective action is prompt. Sometimes this requires a ruthless axing of the product, the division, or whatever is at fault. Learning Insights . Mistakes provide learning experiences. The same mistakes are not repeated, <https://assignbuster.com/marketing-mistakes-and-successes/>

and future operations are consequently strengthened. Slowness to recognize emerging problems leads us to think that management is incompetent or that controls have not been established to provide prompt feedback at strategic control points.

For example, a declining competitive position in one or a few geographical areas should be a red flag that something is amiss. To wait months before investigating or taking action may mean a permanent loss of business. Admittedly, signals sometimes get mixed, and complete information may be lacking, but procrastination is not easily defended. Just as problems should be quickly recognized, the causes of these problems—the “ why” of the unexpected results—must be determined as quickly as possible. It is premature, and rash, to take action before knowing where the problems really lie.

Returning to the previous example, the loss of competitive position in one or a few markets may reflect circumstances beyond the firm’s immediate control, such as an aggressive new competitor who is drastically cutting prices to “ buy sales. ” In this situation, all competing firms will likely lose market share, and little can be done except to stay as competitive as possible with prices and servicing. However, closer investigation may reveal that the erosion of business was due to unreliable deliveries, poor quality control, noncompetitive prices, or incompetent sales staff.

With the cause(s) of the problem defined, various alternatives for dealing with it should be identified and evaluated. This may require further research, such as obtaining feedback from customers and from field personnel. Finally, the decision to correct the situation should be made as objectively as

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possible. If drastic action is needed, there usually is little rationale for delaying. Serious problems do not go away by themselves: They tend to fester and become worse. Finally, some learning experiences should result from the misadventure. A vice president of one successful firm told me.

I try to give my subordinates as much decision-making experience as possible. Perhaps I err on the side of delegating too much. In any case, I expect some mistakes to be made, some decisions that were not for the best. I don't come down too hard usually. This is part of the learning experience. But God help them if they make the same mistake again. There has been no learning experience, and I question their competence for higher executive positions. Analyzing Successes Successes deserve as much analysis as mistakes, although admittedly the urgency is less than with an emerging problem that requires quick remedial action.

### **Organization of This Book**

In this eleventh edition we have modified the classification of cases somewhat from earlier editions. As mentioned before, Part I, *Entrepreneurial Adventures*, describes and analyzes well-known recent endeavors.

In Part II, *Marketing Wars*, we examine the actions and countermoves of archrivals in hotly competitive arenas. Part III, *Comebacks*, studies three firms that faced adversity, and came back better than ever. In Part IV, *Marketing Management Mistakes*, we delve into seven firms guilty of a variety of mistakes that offer great learning insights. Part V, *Notable Marketing Successes*, offers paragons of successful marketing strategies and operations. Finally, in Part VI, *Ethical Mistakes*, we examine three firms whose mistakes had major ethical and legal consequences.

Let us briefly describe the cases that follow. Entrepreneurial Adventures  
Google is arguably the most outstanding successful new enterprise ever. It was founded by Sergey Brin and Larry Page who dropped out of Stanford's Ph. D program to do so. With its search engine, it raised advertising to a new level: targeted advertising. In so doing, it spawned a host of millionaires from its rising stock prices and stock options and made its two founders some of the richest Americans, just under Bill Gates and Warren Buffett. How did they do it?

Starbucks is also a rapidly growing new firm—not as much as Google, but still great—and a credit to founder Howard Schultz's vision of transforming a prosaic product, coffee, into a gourmet coffee house experience at luxury prices. Boston Beer burst on the microbrewery scene with Samuel Adams beers, higher priced even than most imports. Notwithstanding this—or maybe because of it—Boston Beer became the largest microbrewer. It proved that a small entrepreneur can compete successfully against the giants in the industry, and do this on a national scale.

### **Marketing Wars**

Pepsi and Coca-Cola for decades competed worldwide. Usually Coca-Cola won out, but it could never let its guard down; however, it recently did so in Europe. Now a Organization of this Book • 5 trend toward noncarbonated beverages along with Pepsi's non-drink diversifications is swinging the momentum to Pepsi. But Coca-Cola is trying hard to recover. Dell long dominated the PC market with lowest-prices, direct-to-consumer marketing. Hewlett-Packard, the world's second biggest computer maker, chose Carly

Fiorina, a charismatic visionary, to be its CEO, and she engineered a merger with Compaq.

But growth in profitability did not follow, and early in 2005, the board fired Fiorina. Mark Hurd, an operational person, replaced her, and brought the company to PC dominance. But Michael Dell is fighting back. Boeing long dominated the worldwide commercial aircraft market, with the European Airbus only a minor player. A series of Boeing blunders, however, coupled with an aggressive Airbus, brought market shares close to parity. Both firms are now introducing strikingly new planes, but are finding problems with their outsourcing key components to foreign suppliers.

Comebacks McDonald's had long dominated the fast food restaurant market. Then it began to falter, and hungry competitors made inroads into its competitive position. As it fought to regain its momentum, it explored diversifications and ever more store openings, while profitability plummeted. Recently, it found a new formula for profitable growth. In the early 1960s, Harley-Davidson dominated a static motorcycle industry. Suddenly, Honda burst on the scene and Harley's market share dropped from 70 percent to 5 percent in only a few years.

It took Harley nearly three decades to revive, but now it has created a mystique for its heavy motorcycles and gained new customers. And its Rallies are something else again. The comeback of Continental Airlines from extreme adversity and devastated employee morale to become one of the best airlines in the country is an achievement of no small moment. New CEO Gordon Bethune brought marketing and human relations skills to one of the

most rapid turnarounds ever, overcoming a decade of raucous adversarial labor relations and a reputation in the pits.

Marketing Management Mistakes Borden, with its enduring symbol of Elsie the Cow, was the country's largest producer of dairy products. On an acquisitions binge in the 1980s, it became a diversified food processor and marketer—and a \$7 billion company. But Borden allowed consumer acceptance of its many brands to wither through unrealistic pricing, ineffective advertising, and an unwieldy organization. United Way of America is a nonprofit organization. The man who led it to become the nation's largest charity perceived himself as virtually beyond authority.

Exorbitant spending, favoritism, conflicts of interest—these went without criticism until investigative reporters from the Washington Post publicized the scandalous conduct. With its public image plummeting, contributions nationwide drastically declined. The real concern was whether United Way could ever regain its former luster. 6 • Chapter 1: Introduction The merger of Chrysler with Daimler, the huge German firm that makes Mercedes, was supposed to be a merger of equals. But Chrysler's management quickly found otherwise, and the top Chrysler executives were soon replaced by executives from Germany.

Assimilation and coordination problems plagued the merger for years. Nine years later, Daimler sold Chrysler to a private equity firm for tens of billions of dollars less than it paid. Newell, a consumer-products firm, successfully geared its operations to meet the demands of giant retailers, particularly Wal-Mart, whereas Rubbermaid had in recent years been unable to meet those stringent requirements. In 1999, Newell acquired Rubbermaid, <https://assignbuster.com/marketing-mistakes-and-successes/>

confident of turning its operation around, only to find that Rubbermaid's problems were not easily corrected and that they negatively impacted Newell's fortunes as well.

What do you do now? In April 1992, just outside Paris, Disney opened its first theme park in Europe. It had high expectations and supreme self-confidence (critics later called it arrogance). The earlier Disney parks in California, Florida, and more recently Japan were all spectacular successes. But rosy expectations became a delusion as marketing miscues finally showed Disney that Europeans, and particularly the French, were not carbon copies of visitors elsewhere. The problems of Maytag's Hoover subsidiary in the United Kingdom almost defy reason.

The subsidiary planned a promotional campaign so generous that the company was overwhelmed with takers; it could neither supply the products nor grant the prizes. In a miscue of multimillion-dollar consequences, Maytag had to foot the bill while trying to appease irate customers. What can we learn from Maytag's travails? Two faltering retail chains, Kmart and Sears, merged under the auspices of a hedge fund manager, Edward Lampert. Whether two weaklings could become one strong operation to compete with the likes of Wal-Mart and Target was uncertain, though investors bid both stocks up to extravagant levels in anticipation.

The rosy expectations collapsed as we moved into a recession in 2007 and 2008. Notable Marketing Successes Southwest Airlines found a strategic window of opportunity as the lowest cost and lowest price carrier between certain cities. And how it milked this opportunity! Now it threatened major airlines in many of their domestic routes. However, by 2008, competitors

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were beginning to counter Southwest's price advantage. Nike and Reebok were major competitors in the athletic footwear and apparel market. Nike was overtaken by Reebok in the late 1980s, but then Nike surged far ahead, never to be threatened again.

What is the secret of Nike's increasing dominance? Vanguard has become the largest mutual fund company, charging past Fidelity. Vanguard's strategy is to downplay marketing, shunning the heavy advertising and overhead of its competitors. It provides investors with better returns through far lower expense ratios and relies mostly on word of mouth and unpaid publicity to gain new customers, while old customers continue to pour in money. Is Vanguard vulnerable to aggressive new competitors? Ethical Mistakes

Merck, the pharmaceutical giant, learned that its blockbuster arthritis drug, Vioxx, doubled the risk of a heart attack or stroke. Over five years and \$500 million in advertising, it had 20 million users in the United States at the time it recalled the drug September 30, 2004. Critics and tort lawyers assailed the company for waiting so long to recall this drug, since some research studies as early as five years before had raised questions about the safety of Vioxx. What can we learn from Merck's handling of its great profit-making drug now discredited?

The huge insurance firm MetLife, whether through loose controls or tacit approval, permitted an agent to use deceptive selling tactics on a grand scale, in the process enriching himself and the company. Investigations by several state attorneys general brought a crisis situation to the firm that it was slow to react to. Eventually, fines and lawsuits totaled almost \$2 billion.

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Product safety lapses that result in injuries and even loss of life are among the worst abuses any company can confront. Worse, however, is when such risks are allowed to continue for years.

Ford Explorers equipped with Firestone tires were involved in more than 200 deaths from tire failures and vehicle rollovers. After news of the accidents began surfacing, Ford and Firestone each blamed the other for the deaths. Eventually, inept crisis management brought a host of lawsuits resulting in massive recalls and billions in damages.

### **General Wrap-Up**

Where possible, the text depicts major personalities involved in these cases. Imagine yourself in their positions, confronting the problems and facing choices at their points of crisis or just-recognized opportunities.

What would you have done differently, and why? We invite you to participate in the discussion questions, the hands-on exercises, the debates appearing at the ends of chapters, and the occasional devil's advocate invitation (a devil's advocate is one who argues an opposing viewpoint for the sake of testing the decision). There are also discussion questions for the various boxes within chapters. While doing these activities, you may feel the excitement and challenge of decision making under conditions of uncertainty. Perhaps you may even become a fast-track executive and make better decisions.

By 2007, the stock had gone over \$700, and lots of people had become very rich. But this was to cause some serious concerns for the firm. Brain Drain Craig Silverstein, a fellow Stanford Ph. D student, was the first hire of Page and Brin. He helped them move their equipment out of Page's dorm room

and into a place with more space and, more importantly, a garage. In early 1999, five months later, the enterprise had grown enough to move into offices on University Avenue in downtown Palo Alto. The firm's fortunes continued to improve, and Craig became director of technology in charge of product development.

Before many years, Craig realized he had become very rich indeed. From the beginning, Google gave its employees stock options in lieu of competitive salaries that in those days it could ill afford. These options gave employees the right to purchase a given number of shares of stock at a certain price, called a vested price, some years in the future. Even before going public in 2004, it had granted two big batches of such options. A 2002 grant that was priced at 30 cents a share vested in 2006. Another, priced at \$4 a share in 2003, also vested in 2006.

In May 2008, another round of options would be exercisable at \$35, far more costly than the 30 cent option, but the way the stock was going up since the IPO, this higher price was of little consequence. By 2007, Craig was worth well over \$100 million in Google stock and was becoming richer with every passing day. He knew that some 700 of his associates were worth at least \$5 million, and he knew that many of them were talking about quitting, with some wanting to start their own businesses. He knew that Bismarck Lepe, for example, who began working

An Entrepreneurial Juggernaut or Google in 2003, had left the firm immediately after his four-year options vested in 2007. He now had a few million dollars that would help him start his own firm—2 million in only four years, wow! Craig couldn't help pondering whether he should do the same.

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After all, how many hundreds of millions does one man need? But he did not really see himself as an entrepreneur. At his young age, about the same age as Sergey and Larry, he was not ready to retire to some South Sea island and count coconuts. So he stayed, caught up in the challenge of solving tough problems with other smart Googlers. Making the brain drain all the more tempting for many of these employees was Google's hiring of the brightest young people, the very ones most likely to become entrepreneurs, if given the chance. Their ambitions fed on the great example of Google, as well as a plethora of smaller enterprises in this hotbed of innovation that was Silicone Valley with its great research universities such as Stanford.

### **Sergey Brin and Larry Page and the Start of Google**

In 1998 when the venture that was to be Google was only an idea, Sergey and Larry were both 25 years old and were doctoral students at Stanford.

Sergey was a math whiz, having completed his undergraduate degree at 19, and aced all ten of the required doctoral exams on his first try, and teamed easily with professors doing research. His parents' backgrounds were rich in science and technology. His mother was a scientist at NASA's Goddard Space Flight Center. His father, Michael, taught math at the University of Maryland. Sergey was born in Moscow, but he and his family left the Soviet Union when he was six, fleeing anti-Semitism and seeking greater opportunity for themselves and their children.

Larry Page grew up in Michigan, also the son of a professor whose Ph. D was computer science, and who taught at Michigan State University where Larry's mother also taught computer programming. He followed in the footsteps of his father and brother by going to the University of Michigan

where he studied computer engineering, receiving his undergraduate degree in 1995. At first he had felt uneasy about being one of the select few to be admitted to Stanford's elite Ph. D program. In those early days, these sons of esteemed professors were focused on pursuing their Ph. Ds, not on getting rich. In their families, nothing trumped the value of a great education. Neither of them had the slightest idea just how soon their heartfelt commitment to academia would be tested. " 2 The Beginning In the mid-1990s, the Internet was just emerging. Millions of people were logging on and communicating through email. But researchers grew frustrated with the clutter of Web sites. Searching it for relevant information often resulted in an abundance of completely meaningless data. Search engines began to organize the Internet, and thus Yahoo and AltaVista among others were born.

The answer to more relevant research seemed to be a better use of links, such as a highlighted word or phrase. In 1996, Page and Brin teamed up to work on downloading and analyzing Web links. In the process they developed a ranking system for searching the Internet that yielded prioritized results based on relevance to the object of the search, and useful answers could be found swiftly.

In 1997, they made the search engine available to students, faculty, and administrators on the Stanford campus, and popularity grew by word of mouth. As the database and number of users burgeoned, more computers were needed. In these early days, Brin and Page were able to scrounge around for unused computers and string together inexpensive PCs. By July 1998, they had an index of 24 million pages, with more coming. But their

growth was stymied by lack of capital. They decided to take a leave of absence from the Ph. D program and start their own firm.

This way they could develop a business of their own that would fit their search engine. If it was as good as they thought, and with Internet use growing so rapidly, growth could be virtually unlimited. Rather than selling out to some existing firm, wouldn't they be better off keeping control? Still, by August they had run out of cash and badly needed an "angel." One of their professors suggested they meet his friend, Andy Bechtolsheim, a legendary investor in a string of successful start-ups. After listening to their presentation, he said, "This is the single best idea I've heard in years.

I want to be part of this," and he left them a check for \$100,000 made out to Google Inc.<sup>3</sup> It took them two weeks before they could formally incorporate the company, Google Inc., and then open their first bank account. The check sustained the two entrepreneurs at first, and in fall 1998 they moved their computers from a dorm room into a garage and several rooms of a house. They also hired a friend, Craig Silverstein (mentioned earlier), as their first employee. After five months they outgrew the garage and moved into offices in downtown Palo Alto, barely a mile from the Stanford campus.

By now, their search engine was handling 100,000 queries a day, all this through word of mouth, emails, and instant messages. But they were again running out of money, despite the now \$1 million in funding that they had collected from Bechtolsheim and other early investors, and through borrowing on their credit cards. But it was clear that with upward of 500,000 searches per day toward the end of the year, they needed much more

money. In the boomtown climate of Silicon Valley in early 1999, a public stock offering was one option, even though Google had no profits.

But Brin and Page resisted this option, not wanting to reveal their trade secrets and lose some control. Efforts to license their search technology to other firms wishing to use it for research, found few takers. Eventually they went the venture capital route. But Brin and Page insisted on keeping control of Google's destiny and remain majority owners, or it was no deal. On June 7, 1999, less than one year after they left Stanford, they issued a press release announcing that two venture capital firms, Kleiner Perkins and Sequoia Capital, were investing \$25 million in Google.

On the Stanford campus and around Palo Alto, amazement reigned at the enormity of the sum seemingly without the two giving anything up in return. “ The announcement included details of the funding as well as additional information about Google, its impressive list of investors, and its growth.

An Entrepreneurial Juggernaut rate of 50 percent per month. All this put the company in the global limelight, giving it the opportunity to grow further through free media publicity. But Google still had not earned any appreciable revenue to support its heady growth, and no plan for this was revealed in the press release.

### **The Early Growth Years**

By the end of 1999, Google was averaging 7 million searches per day, but its revenue from licensing remained small. If the business could not be reasonably profitable, they could hardly maintain their vision of vast information available to users without charge. With licensing its search

technology to businesses proving to be such a limited revenue source, they finally were forced to consider allowing advertisers access to their multitude of users.

Brin and Page could see a relationship between their search engine and the television networks: those offered entertainment and news for free, while charging millions for the advertising. But the two shuddered at the flashy banner ads that littered the Internet. Still, they belatedly recognized that advertising was where vast sums were being spent, not in licensing, Creating a Different Advertising Model They wanted to avoid the clutter of almost out-of-control, irrelevant ads, and they developed strict standards for size and type of ads.

They separated the free search results from the ads, which they would label “ Sponsored Links. ” These “ Links,” because of their relevance to the search, would be clicked on more often than if they were labeled simply “ Ads. ” They decided to display the links in a clearly marked box above the free search results. The ads would be brief and look identical, with just a headline, a short description, and a link to a web page. But these would be targeted ads, offering a major advantage for advertisers confronted with the huge wastage of advertising reaching uninterested audiences.

At first Google sold this advertising to large businesses that could afford expensive ad campaigns, but it soon found substantial market potential in letting smaller advertisers easily sign up online with a credit card, and their ads could then be running within minutes. This gave Google an edge over similar providers unable to offer such fast service, and also minimized its own costs of selling advertising. Shortly after turning to its advertising <https://assignbuster.com/marketing-mistakes-and-successes/>



model, Brin and Page had another innovative idea—they would rank ads based on relevance.

And relevance would be determined by how often ads were clicked on by computer users. This would provide valuable feedback to advertisers and influence the selling and pricing of ads.

### **Charging Ahead**

When the Internet stock price bubble burst in 2000, it ravaged the former highflying entrepreneurial firms of Silicone Valley with major layoffs and bankruptcies. But Google stood poised at the nadir of its great growth to come and was one of the few firms able to hire outstanding software engineers and mathematicians, many holding worthless stock options.

This pool of talent stimulated Google's growth as it moved to a large headquarters in Mountain View, named the Googleplex, forty minutes south of San Francisco. There Brin and Page developed a work environment practically unprecedented. See the following Information Box for some examples of this culture that was designed to cultivate strong loyalty and job satisfaction and to foster a creative, playful environment where Google's employees, mostly young and single, would be willing to spend their waking hours. By early 2001, Google was recording 100 million searches per day.

It was also entering the dictionary as a verb, as for example, to "google each other before dates." Now large firms, such as Wal-Mart, the world's biggest retailer, and Acura, a major automobile manufacturer, joined the entourage of firms advertising their wares on Google. What was the secret behind the rapid growth of Google's advertising program? As we saw before,

Google came up with an unique approach to advertising, an Information Box Work Climate at Google . Employees worked long hours but were treated like family. There was even a gourmet chef, with free meals, healthy drinks and snacks.

The chef took pride in providing better meals than found in area restaurants. Given the international mix of employees, the menu was varied to cater to all tastes: Southwestern, classic Italian, French, African, Asian, Indian, etc. The Wall Street Journal sent a reporter out to investigate. “ Where else but the Plex can you zip around on a bicycle and choose from multicultural comfort food, American regional food, small plates, entrees made with five ingredients or less, and dishes based on raw materials supplied from within 150 miles of Mountain View?

Many employees eat three meals a day at the Plex’s 17 food venues, open any time day or night. We were told that Messrs. Brin and Page chow down with the troops. ” (Raymond Sokolov, “ Googling Lunch,” Wall Street Journal, December 1-2, 2007, pp. W1 and W5. ) Also furnished were such conveniences as on-site laundry, hair styling, dental and medical care, a car wash, day care, fitness facilities with personal trainers, and a professional masseuse. Brightly colored medicine balls, lava lamps, assorted gadgets and sports equipment gave the appearance of a college campus.

Chartered buses had internet access so that commuters to San Francisco could use their laptops. Social events and entertainment were Friday afternoon and evening features. As a spur for creativity, a policy was set that software engineers spend at least 20 percent of their time, or one day a week, working on whatever projects interested them. Do you see any

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downside to these workplace amenities? Would these influence your choosing to work for Google despite less money? Would some of these be appropriate to other firms? If so, what kind of firms?

An Entrepreneurial Juggernaut approach that most advertisers previously could only dream of: i. e. , Targeted Text Ads. The unobtrusive ads are seen only by potential customers who are searching for information on that specific topic. In one swell swoop this advertising virtually eliminates the great waste of most mass media advertising that is viewed by a vast audience who have no interest whatever in the product being advertised despite millions and hundreds of millions of dollars being spent. For an example of the waste of such untargeted ads, consider an airline spending \$1 million or more on a TV ad campaign that gains only 100 new first-class customers as a result. Furthermore, in Google-placed ads no intrusive banners compete for attention. The text ads (links) and websites are read carefully by users or potential users, and these often find the ads as valuable as the actual search results. A New CEO In early January 2001, at the urging of its venture capitalists, Larry and Sergey reluctantly consented to hire a chief executive officer to run operations. Eric Schmidt was highly recommended by one of the venture capitalists. He not only had entrepreneurial experience as founder of Sun Microsystems, and CEO of Novell, but also academic credentials—a Ph.

D in computer science from the University of California at Berkeley, and a degree in electrical engineering from Princeton. Then there was research experience at Xerox Palo Alto Research Center and Bell Labs. At 46, he was a seasoned tech executive and brought a needed mature balance to this

organization of young people. Besides, he was willing to invest \$1 million of his own money to buy preferred stock in Google, this at a time when the company was running short of cash again. (It would soon never again run short of cash. ) Google entered into pacts with Yahoo, AOL, EarthLink, and Ask Jeeves.

This gave it relationships with most of the biggest Internet properties. By the end of 2002, Google and its venture capitalists could see that the search engine was going to be a huge financial success. For the year, it had recorded \$440 million in sales and an amazing \$100 million in profits. Virtually all of these profits came from people clicking on the text ads that were on the right side of search results pages at Google. com and the pages of its partners and affiliates. But the world did not realize the extent of this profitability since Google was still a private company.

This silence about the profitability of the online search and advertising business model undoubtedly kept other firms, especially Microsoft and Yahoo, from investing in or developing search engines of their own—until Google had an almost insurmountable head start. The advertising industry was being transformed as well, as billions of dollars of advertising was being shifted from television, radio, newspapers, and magazines to the Internet. But the time was nearing for Google to go public, and with this full disclosure would shock the investment community and make Google stock the darling of investors and employees alike. Example cited in Seth Godin, “ Your Product, Your Customer,” *Forbes*, May 7, 2007, p. 52. Going Public • 17

GOING PUBLIC Finally in early 2004, Larry and Sergey reluctantly started the process of taking Google public. In truth, their decision was practically

dictated by federal rules that required public disclosure of financial results by companies with a substantial amount of assets and shareholders, and Google had exceeded these limits with many of the company employees having been given stock in the then-private firm. This move would enable them to convert their holdings to cash.

The venture capitalists who had supplied the early crucial funds would also benefit from the liquidity that going public would provide. For most entrepreneurs, taking their new firm public was the ultimate goal since the IPO (initial public offering) would often make them instant millionaires. But for Brin and Page, the reality of being billionaires was not all that appealing. They both lived relatively modestly, loved the privacy, and cared little for the accumulation of wealth and the accoutrements of wealth—such as grand homes, planes, and yachts to attest to their success.

The company was debt free, self-funded, had plenty of cash, and had no need to sell stock to the public to raise money. They were not sure they wanted the immense publicity and what it would entail and affect the freedoms they had enjoyed, and that of their families. For example, would they need bodyguards? How about the paparazzi? And their employees who would become instant millionaires, how would this affect their intensity and focus? And would they even stay with Google, or go out on their own? (We know that many left to start their own enterprises. In early 2004, the employees were quietly told that the company was going to file a public offering. And thousands of Google employees, spouses, and interested others began an eight-month guessing game of how much the company and themselves would be worth. The eight months proved to be a stressful time

for almost all concerned, but probably most of all for Brin and Page. Their reluctance to disclose much before the public auction did not endear them to the media. Then an ill-advised Playboy interview did not go well and even triggered a SEC investigation.

To make matters worse, the stock market was tanking as world oil prices spiked, and many analysts were warning of a global recession. Also, the Athens Olympics were starting amid great fears of terrorism. Google and its bankers realized that the initial price range of \$108–\$135 would probably not be acceptable to the market at this time, and on August 19, Google finally went public at \$85 a share. By the end of the first day, the stock had reached nearly \$100. By the next day it was \$108. It reached \$200 in November and kept climbing from there.

Forbes, in its listing of the 400 Richest Americans cited Brin and Page's wealth at \$4 billion each at the end of 2004, due to the success of the IPO. Then in 2006, "The Google Guys crack the top 10 of the Forbes 400, each now worth \$18.5 billion." This placed them as the fifth richest Americans, in the company of Bill Gates and Warren Buffett, ahead of Michael Dell of Dell Computer, and way ahead of Donald Trump. And they were both only 34.66

Forbes, Forbes 400 The Richest People in America, October 8, 2007, p. 78.

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### **After the IPO**

After the IPO, the pace of innovation at Google got into high gear. New products and innovations were being spawned and made available to millions of customers around the world. Google became the darling of the media; no other firm or individual got the press coverage of Google. The fact

that it was now a public company with its financial performance readily available—and as such now well covered by financial analysts who did not cover private firms—made its promising results and potential very visible. It expanded the lead in its core search and advertising business in the United States and much of the world.

And with its new cash horde, it eagerly branched out into new areas, even such far out visions as a Green renewable-energy program to find ways to generate electricity more cheaply than by burning coal. 7 Not surprising, the growth of Google was being compared with that of Microsoft two decades earlier. Google was also becoming a major competitor of Microsoft, not in PCs, but in a later phase of technology that was surpassing the earlier technology, this time by the power of the Internet revolution. But perhaps the real competition was in recruiting and retaining the brightest technology minds in the world.

But more about this later. For now, let us compare this early growth of Google with Microsoft in the Information Box beginning on page 19. Google's Poaching of Talent As the business burgeoned in the spring and summer of 2005, Google added more than 700 employees in just three months. The total headcount now was 4, 183, nearly double the total the previous year. Google was hiring Ph. Ds from the top universities across the country, and even trespassing on Microsoft's own neighborhood, at the University of Washington.

It opened a facility in a Seattle suburb just down the road from Microsoft's Redmond plant, and now it was easy for their engineers and scientists to move over to Google. They didn't even have to move to a new city or change

their commute. In these days, Microsoft was viewed as a mature business. It no longer had the sex appeal that Google had grasped. Microsoft was struggling to keep its best people, even offering more money and perks. But the amazing growth and potential of Google brought the lure of great riches as stock options became valuable.

As mentioned before, not the least of the perks that Google offered were the free restaurants and other amenities at its Googleplex headquarters in the Silicone Valley 40 minutes south of San Francisco. The increasing poaching of talent climaxed with Dr. Kai-Fu Lee, a highly regarded scientist, who wanted to leave Microsoft to become president of Google China. Microsoft began an all-out legal assault alleging that Google improperly sought to induce Lee to violate the terms of his employment contract with Microsoft. A temporary triumph over Google raised the specter of litigation for any senior Microsoft employee who left for Google.

The wide publicity served to illustrate how seriously Microsoft regarded the threat posed by its smaller rival. 8 7 Rebecca Smith and Kevin J. Delaney, “Google’s Electricity Initiative,” Wall Street Journal, November 28, 2007, p.

Here we have seen perhaps the greatest growth ever of a new enterprise. In the exuberance of this growth, investors bid up its stock market price to make the company more valuable than such long-established firms as Coca-Cola, Hewlett-Packard, Time Warner, AT&T, Boeing, Disney, McDonald’s, and General Motors and Ford.

The much faster start of Google is mind-boggling. The experts thought Microsoft was the model of the most successful entrepreneurial start ever.



Bill Gates did not rush to take his venture public, waiting 11 years to do so, at which time revenues were almost \$200 million. Google on the other hand delayed only six years before going public, but its revenues were already over \$3 billion. As we can see, the year-to-year growth rate also strongly favored Google, with around a hundred percent growth since 2004. The two years before going public showed growth over 400 percent and 200 percent each year. ) The comparison between a young growth company and a mature Microsoft is clearly evident.