

Case study on googles strategy

Business, Company



1. Discuss competition in the search industry. Which of the five competitive forces seem strongest? Weakest? What is your assessment of overall industry attractiveness?

The assessment of the search industry attractiveness can be done using the Porter's Five Forces analysis. The framework was developed in 1979 by Michael Porter in his article "How Competitive Forces Shape Strategy". It suggests that the competitiveness of an industry is shaped through five forces that are exerted by the main players in the market: customers, suppliers, competitors, new entrants and substitutes. In more recent versions of the framework it is also common to include complements or the products/services that are consumed together with the product/service analyzed. The demand for complementary products/services is usually directly correlated. The stronger the five market forces identified by M. Porter, the harder it is for companies to make a difference and to influence market dynamics (Hill & Jones, 2010).

The threat of new entrants is derived from the possibility that companies, which do not currently compete in the market, may enter it, thus capturing the market share of incumbents and intensifying competition. In order to prevent profitability decline and price competition, established companies try to erect entry barriers in order to discourage potential entrants from joining the industry. Despite this fact, new rivals are attracted into the business by relatively high profit margins, due to low marginal cost of every search query and high market growth. Furthermore, search engines are easily scalable and there is no significant customer loyalty among users. Moreover, the cost of developing a search engine is mostly related to the IT

infrastructure and the break-even can be easily achieved in case the company manages to gain the necessary scale. Additionally, search engine development could be combined with other offers and created on the basis of existing platforms, thus lowering costs even further and threatening Google by delivering an integrated solution that would bring more value to the customers than a pure search engine. Thus, Microsoft Live search offered an integrated solution that built up on the concept of cloud computing. The pace of industry development also increases the threat of new entrants as the number of related industries increases and rapidly changes over time. Thus, smartphones created a new market for search engines, where Google could get into direct competition with companies that also try to develop search engines to complement their core offering (e. g. Apple). It is important to note, however, that search industry is hardly accessible for smaller players and it is unlikely to be penetrated by small and medium companies. This conclusion can be drawn from the cost structure of the industry that implies high fixed costs as well as from the network effect and standards set by the industry leader.

In order to evaluate consumer bargaining power it is firstly necessary to segment the market and to identify then target customer groups. Unlike many industries, where there is a clear definition of the target audience, Google needs to satisfy two customer groups. On the one side, search engine is used by the web community, who search information online and usually obtain the service for free. On the other side, Google is targeting business users, who aim to sell their products online and buy advertising services rather than the search per se (Iyer & Courtney, 2005). The influence of the

two customer groups on search engine companies differ, however both web community and business users possess quite significant bargaining power. The reason behind this fact is the relatively low switching cost for both user groups and relatively low loyalty of the customers to a specific search engine. This fact is further exacerbated by the relatively low differentiation of the final product, search results. The large number of substitutes also contributes to the high bargaining power of customers. Thus, advertising could be done in multiple ways, both search-based and non-search-based, hence business users may switch whenever they believe the price or the quality of service does not meet their needs. Customers could also easily switch between search engines as well as use other sources of information, such as online encyclopaedias (e. g. Wikipedia). The bargaining power of web community is weakened by their low consolidation, however this is not the case for business customers, who are concentrated and each of them can have a significant impact on the profitability of the company.

Supplier bargaining power is perhaps the weakest force in the search industry, as most of information suppliers are small and non-consolidated. However, there is a certain threat from the few suppliers and partners that may limit the functionality of Google in order to raise their bargaining power or to integrate forward. Thus, the strategic move of Mozilla and Microsoft to add extra security features to their browsers greatly hampered Google's ability to collect user-specific information.

The threat of substitutes in the search industry is relatively low, but the degree of substitutability differs according to the customer group considered. Thus, there is hardly a substitute for online search tools,

however in the offline environment people may use other sources such as print media, television etc. to obtain information. Advertisers, on the other hand, enjoy a wider array of substitutes, both online and offline. In online media advertisers could use non-search-based advertising that is located on the sites of specific publishers. Moreover, offline advertising, such as banners, TV and magazines remain an attractive alternative to search-based promotion.

Rivalry in the search market is perhaps the strongest force that affects industry attractiveness. The competition here is quite intense and strongly depends on the geographical and language characteristics of a specific country. Although in most regions Google's leadership is hardly questionable, in other areas its results are below expectations. Thus, according to DIWecon review in 2009 Google held 65% market share in the U. S., 91. 3% in the U. K., but only 27% and 31. 2% in China and Russia respectively. In these two markets Google's performance was below that of local search engines Baidu and Yandex (Pavel, 2009). The strength of bargaining power in the search industry stems not only from the large number of players, both regional and global, but also from the level of consolidation that is driven by network effects, cost structure and established standards.

In general, search industry is highly attractive for existing market players. The gross margin (ttm) of the industry is approximately 0. 59 with Google outperforming the market with the profitability of 0. 60 (Yahoo! Finance, 2012). The relatively weak bargaining power of suppliers and customers makes it easy for search companies to set prices and to establish market

condition that would be most beneficial for their business. Moreover, the industry is well-protected from the potential rivals due to the high entry barriers established by incumbents. Thus, high cost of entry, importance of scale economies, network effect and industry consolidation make it hard for new rivals to penetrate the search market. In addition to that, there is hardly an alternative product that could serve as a perfect substitute for an online search engine. Moreover, search-based advertising is one of the fastest growing segments of the otherwise rather saturated advertising business. Therefore, business customers are unlikely to abandon search-based advertising, while web community has no incentive to use another channel of information, as the service of search companies is provided to them for free and so far offers the most effective way to access information (Pavel, 2009).

2. What are the key factors that define success in the industry? What are the key competencies, capabilities, and resources of successful search engine companies?

The success in any industry is determined by numerous factors, which are usually specific to the particular industry profile. The success of a company within the industry depends on the ability to identify key success factors and to use resources and capabilities in order to excel in these areas.

As search engine industry is a rapidly developing business with high growth and market volatility, the most important success factor for companies like Google is the ability to predict market dynamics and to respond accordingly. In order to retain leadership it is important not just to follow these trends but to anticipate them and to offer superior products to customers before

competitors do that. In this case innovative capabilities and strong leadership would be important factors to drive the industry towards success.

Customer focus is another success factor that is important in search engine business. As the industry trends are shaped by customer demand, in particular by that of the web community, it is crucial to be able to sense the needs of the people, who use the engine, and to respond accordingly. The popularity of a search engine also affects the demand from business users, as companies are only interested in advertising on the websites that enjoy high user traffic.

Advantage in technology development is also an important factor to succeed in the search industry. Technological progress is the key driver of the industry, therefore the ability to set standards and to advance in technological development is very important for success. As the search industry is also tightly related to other IT fields, such as hardware development, companies should pay careful attention to the developments in related industries and actively search for partnerships and synergies (Haberberg & Rieple, 2008).

Moreover, search engine companies offer very similar products that are only mildly differentiated. Thus, in some cases it is hard for a person to appreciate the difference in quality between two engines, because the difference in response time does not go beyond a few seconds. Therefore, strong brand recognition and positive image are key to attracting customers and to developing some level of loyalty among the users.

Based on the identified key success factors for the search engine industry it is possible to describe capabilities and resources that a company should possess in order to succeed. As it is of paramount importance for search engine companies to adapt customer focus and to anticipate market trends, one of the most crucial capabilities for them is market knowledge and customer orientation. Only if the company is able to understand what people currently want and to anticipate what they would need in the future, it will secure its leadership position in emerging market segments. Thus, Google managed to understand early enough that smartphones were going to be the future of internet business, therefore they invested in the development of Android operating system. This step helped the company to penetrate smartphone market and to gain market share long before Windows managed to propose its Windows Phone equipped with WP7 operating system (Zhou, Zhu, Zheng & Yang, 2011).

Innovative capabilities are another important ingredient for the success in the search industry. Google is constantly trying to foster innovation by empowering employees and by encouraging them to look outside the box and beyond the boundaries of routine tasks. Firstly, their hiring process targets people, who are able to work independently and to look for creative solutions even to the most common problems. Secondly, every person in the company could spend 20 percent of his/her time on own projects that potentially could become one of the next Google's products (Girard, 2010).

Lastly, high brand recognition and positive image are important factors for the success of any search industry. As most customers are unlikely to

differentiate between similar offers of different search engines, brand image could make a difference and convince people to choose one engine over the other. Google has been very successful in promoting its brand and developing brand recognition. Thus, Google has been named the 5th most valuable brand according to Forbes with the brand value of \$37, 6 billion in 2012, indicating a decrease by 5. 3% as compared to 2011 (Badenhausen, 2012).

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