

# Performance of google and its management



\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Industry Position:](#) \n \t
2. [Comprehensive Analysis](#) \n \t
3. [Current performance of Google and its management](#) \n \t
4. [Google's Future Prospects Summarization](#) \n \t
5. [Google's Corporate Governance](#) \n \t
6. [Recommendation for Google Investors](#) \n

\n[/toc]\n \n

Since Google Inc. was founded in 1998 and incorporated in 2003, it has been focused on technology innovations to help its users find the information with unprecedented levels of ease, accuracy and relevancy. Google primarily concentrated on the areas of search, advertising, operating systems and platforms, enterprise and hardware products. These programs include AdWords, AdSense, Google Display and Google Mobile, with Android and Google Chrome serve as its operating system and platforms.

Google generate revenues primarily through delivering advertising to promote products and services for businesses. Currently, it moves to new area, except for providing specific features to mobile device users, Google also operates in mobile segment, as it made an acquisition of Motorola Mobility Holdings Inc. (Motorola) on May 22, 2012 (acquisition date).

### **Industry Position:**

Google Inc. competes with other players in the Internet Information Providers industry within the technology sector. Although there are competitors

<https://assignbuster.com/performance-of-google-and-its-management/>

worldwide, the key players are recognized as general-purpose search engines, such as Yahoo and Microsoft's Bing, and social networks, such as Facebook and Twitter. Because of its years of focus on technology innovation and huge amounts of expenses in R&D every year, Google has become the global technology leader and one of most well known general Internet search engine all around the world.

## **Comprehensive Analysis**

Part 1: Liquidity situation analysis (see Exhibit 4 graph)

Based on the statistics on Google Inc.'s financial statements, there is a continuing increase in its revenues and net income, showing a tremendous and overall healthy growth path. Moreover, from the ratio exhibit, from 2008 to 2009, Google's current ratio (change from 8.77 to 10.62), quick ratio (from 8.03 to 10.08) and its free cash flow (from 1754 to 2510) all have a big jump. However, we all know that the severe worldwide recession happened at the same time period, it seems Google didn't feel the shock if we only see from these numbers-but it is not true.

On the one hand, the recession spread all over the world, even the mighty search giants cannot escape from it. If we put aside those annual numbers that only show final results, Google revealed its first quarter in 2009 web search declined in sales, which forced Google to make cutbacks in online advertisements spending. At the same time, Google announced two rounds of job cuts. Because of the actions of cutback on cost, Google finally beat its 2009 profit expectations -this can be shown in Google's income statement exhibit, the " Total operating expenses" of 2009 is \$6494 million, which is

lower than \$6542 million of 2008, given Google is expansion scale, it proves the management's action of cutting cost sharply.

However, on the other hand, even influenced by recession, Google's investors were relatively optimistic than others', since Google's slowdown still looked good compared with the other players. Moreover, some investors and observers believed that the recession gave a golden opportunity for Google to increase its value and gain more shares in the overall market-since almost all of Google's revenue come from advertisements that are placed next to customers' search results, during recession, more and more businesses would choose cheaper advertisements to promote their products, such as Google's online " Pay Per Click (PPC)", rather than the traditional offline advertisement which used to work well before recession. From this point of view, as their competitors in traditional media cannot keep up, Google got this opportunity to effectively control the online space. As a result, during recession, Google's liquidity situation improved as shown the increase of their current ratio, quick ratio and free cash flow (as the reduced cost and shut down of some projects have released more capital that can be used to reinvest).

However, after the recession, from 2009 to 2010, we can see a rapid decline of its liquidity ratios (e. g. Current ratio from 10. 62 of 2009 to 4. 16 of 2010), this is because after recession, Google continued to reap the growth of digital economy. It gave Google a huge opportunity to stretch in the market since the shift of consumers and advertisers from offline to online continued unabated, and it fueled Google's growth in its core business-search advertising.

If we look deeper to seek the causes for the liquidity ratio declines, it is simply the management wanted to take full advantage of this opportunity, as Google decided to invest aggressively and heavily to achieve rapid innovations in its search technologies. It also made big investments to make notable enhancements to search including Instant Previews, Google Instant and Place search. During 2010, Google invested \$1.8 billion to acquire products, services, companies and technologies. As a result of these huge investments made in 2010, Google liquidity ratios have a big drop, as well as its free cash flow. But this doesn't mean its competitive situation is weakened, on the opposite, these investments may have opened the doors for large amounts of future profits for Google Inc. and its stockholders.

From 2010 to 2012, its current ratios and free cash flow have an overall increasing trend but are much lower than 2009 numbers. The quick ratio in 2012 is lower than that of 2010, this is because Google started to sell real goods, e. g. mobiles, so it had to rely on the inventory to be sold to convert to cash, so this reduced quick ratio. This might indicate that Google's ability to cover its current liabilities by those assets (which are expected to be converted to cash in the near future) is weakened, however, using benchmarking to compare with the industry average (industry average: current ratio 3.2, quick ratio 1.52), Google's liquidity situation still plays as competitive advantage.

Part 2: Asset management analysis (see Exhibit 4 graph)

From 2008 to 2012, Google's days sales outstanding (DSO) has increased from approximately 44 days to 57 days. DSO normally represents the average

number of days it takes for a company to collect outstanding receivables. The increasing DSO of Google indicates that there is a bigger amount of customers owing payments on its sales; this will make Google unable to collect cash on its sales in time, also expose the risk of ending up with bad debts. It would also limit the company's ability to make reinvestment due to lack of cash. Moreover, DSO is a component of the Cash Conversion Cycle (CCC), which is usually used to determine how long cash is tied up in working capital. Thus, a big DSO contribute to make a larger CCC, it will also deteriorate Google's growth and its value in the long run. While the reason that longer DSO appeared, it is mainly because the growth of international business in this search advertising market, competition is getting awful that some of its powerful customers are testing the paid search model, and they request longer payment terms. By this way, credit terms of the company tend to be longer, as well as extended credit to certain big customers. This is a common issue for all the major players (e. g. Yahoo!), so it should not degrade the management performance just by the increase of DSO.

For the asset turnover ratios, we can see that the changes of it correspond with the liquidity ratios as analyzed before: they go up in recession since a good use of the opportunity, decline sharply in 2010 as the huge investments for growth, and continuing increase from 2010 to 2012. This indicates Google is on a healthy growing path with its management making proper decisions to deal with problems, and to invest for greater future profits.

Part 3: Profitability analysis (see Exhibit 4 graph)

As shown in exhibit, Google's Return on Assets (ROA) ratio goes up in 2009 as a peak, while decline all the way till 2012 after the peak. ROA shows the rate of return (after tax) that is earned on all of Google's assets regardless of its financing structure (debt/equity), it measures the management effectiveness using all stakeholders' assets to earn profits for investors. The same trend shows in ROE ratios.

For Google, this indicates that Google continues to dedicate a lot of money to new ventures that are not paying off, as the declining shows that assets are growing much faster than profits. For example, Google acquired Motorola and expect to make money off the patents in the way of exciting hardware. Also, Google+ is relatively unprofitable and potentially will be a cash cow, although Google+ is used as a defensive weapon to Facebook and other social networking business. These kinds of segments of Google are dragging down its ROA and ROE ratios. However, we can conclude that the declining ROA and ROE is basically derived from its aggressively expansion and investment, and Google is still showing growth every year, but the uncertainty of the profitability of these investments will bring bigger risk for Google. At the same time, the decline in its returns can also indicate that revenues need to grow much quicker in the future to achieve its expected earnings.

Other profitability indicators of Google, such as operating margin and basic earning power are showing the same trend, exemplifies the causes analyzed above.

Part 4: Debt management analysis (see Exhibit 4 graph)

<https://assignbuster.com/performance-of-google-and-its-management/>

Google's debt to asset ratio shows a small drop in 2009 and an overall increasing trend from 2009 to 2012. Combined with the asset management analysis in part 1, it's reasonable to explain Google's higher profits and faster growth in recession compared with other companies result in its assets increase more than debt. Also, after 2009 recession, continuing expansionary strategy adopted by Google has driven large amounts of investments, as Google has to borrow more from its investors and creditors to reach the investment requirement, its debt grows more than assets and consequently increases its debt to asset ratio.

### **Current performance of Google and its management**

Recently, after the acquisition of Motorola that brings Google the Mobile segment, Google is spending a fortune to expand its already huge Googleplex site, such as preparing to break ground on a 42-acre campus. Most obviously, Google continues to diversify its business to move to mobile and shift to social networks. Google expects Motorola patents that it acquired can be used to develop a phone to compete with some big players such as Samsung and Apple, it has already tried to feature its Android service. It is also moving into the Internet market with Google Fiber to help acquire advertisements.

However, as the ratios and trends analyzed before shows that there are problems of short-term returns and higher risks, and fortunately the management has already recognized it. We can find that it has been revealed in Google's annual report that the management are making good efforts to prioritize their products, they shut down a number of products in 2011, including Google Buzz, Google Desktop and Google Labs. The

<https://assignbuster.com/performance-of-google-and-its-management/>



management has learned a lot from those discontinued products and are putting that learning to work every day in new products.

To conclude, during recession, Google's management reacted properly and took good use of its online ads advantage, to gain more market. However, the aggressive investment to grow bring uncertainties to the returns, its management should pay more attention to this issue and operate Google business with more caution and conservation, thus maximize its stockholders' wealth in the long run.

### **Google's Future Prospects Summarization**

It is obvious that Google has strong ambition to diversify and dominate its products in different fields, as shown from its many historical acquisitions and its recent moves. Because of its fast growth model, their short-term foreseeable profits are shrinking, however, Google is still a technology leader in the field with unparalleled competitive advantages. If managed properly, Google's investments will bring optimistic returns in the future.

### **Google's Corporate Governance**

Corporate governance mainly focuses on the way that top managers operate and interface with its stockholders. For Google, its code of conduct is well known as " don't be evil." However, concerning its investors' interests, the corporate governance in Google is not optimistic.

Since Google initially made the IPO, it has been using dual-share-class structure, under which its shareholders can buy class A shares with one vote per share, while Google founders and co-president Larry Page and Sergey Brin and CEO Schmidt control the majority of its class B super-voting stock

<https://assignbuster.com/performance-of-google-and-its-management/>

with ten votes per share. This makes it hard for outside parties to take over or influence Google. Even as Google's latest actions regarding corporate governance to make stock split via a new class of stock, this would not change its top management already overwhelming voting power, since the power would decay very slowly while Google's shares get diluted.

This structure has advantages, as they can avoid hostile takeovers and allow Google to concentrate on its long-term strategies rather than obsessed by tactical short-term moves. But it has much more negative effects, as there is more risk that the CEO make bad decisions. For example, Google stopped its China mainland operations, and this decision made in haste by Mr. Brin, has caused huge loss for Google and its investors. This directly reflects a lack of input from investors on Google's decision-making.

In conclusion, although Google has focused on core strengths to make profits, the really challenge right now is to change the way that pushing ideas top-down and improve their current corporate governance condition, because whatever industries Google break into, good corporate governance is the fundamental insurance of keeping all its operations on the right track.

### **Recommendation for Google Investors**

Although Google bear potential problems in its management investment strategy, Google's business is rapidly evolving and intensely competitive. The overall optimistic attitude held by its current investors shows their confidence in Google's investment returns, but since Google's declining ROA and ROE as well as its shrinking margins reveals higher risk or probable late returns, investors should be careful when making investment, because

Google's ongoing investment in new business, products and services is inherently risky, and may disrupt its ongoing business. Besides this, investors should be aware of its internal issues that may deteriorate their investment given its corporate governance situation.

#### Exhibit 4

Representative graphs of ratios during five years

Part 1: Liquidity graph

Part 2: Asset management graph

Part 3: Debt management graph

Part 4: Profitability graph

#### Cited References:

(n. d.). Retrieved from <http://news.techeye.net/business/google-plans-enormous-real-estate-expansion>

(n. d.). Retrieved from <http://www.aqueous-seo.co.uk/sem/seo/did-google's-profits-increase-despite-the-recession-or-because-of-it/99787>

(n. d.). Retrieved from <http://www.businessweek.com/stories/2009-04-17/google-the-recession-takes-its-tollbusinessweek-business-news-stock-market-and-financial-advice>

(n. d.). Retrieved from [http://ycharts.com/companies/GOOG/return\\_on\\_assets](http://ycharts.com/companies/GOOG/return_on_assets)

<https://assignbuster.com/performance-of-google-and-its-management/>

(n. d.). Retrieved from [https://ycharts.com/companies/GOOG/days\\_sales\\_outstanding](https://ycharts.com/companies/GOOG/days_sales_outstanding)

(n. d.). Retrieved from <http://baike.baidu.com/view/105.htm>

(n. d.). Retrieved from <http://seekingalpha.com/article/506281-what-google-s-split-means-for-investors>

(n. d.). Retrieved from <http://www.preservearticles.com/2012010319733/here-is-your-short-essay-on-corporate-governance.html>

(n. d.). Retrieved from [http://en.wikipedia.org/wiki/Takeover#Tactics\\_against\\_hostile\\_takeover](http://en.wikipedia.org/wiki/Takeover#Tactics_against_hostile_takeover)

(n. d.). Retrieved from [http://www.businessweek.com/the\\_thread/dealflow/archives/2006/01/why\\_is\\_dso\\_risi.html](http://www.businessweek.com/the_thread/dealflow/archives/2006/01/why_is_dso_risi.html)

(n. d.). Retrieved from [http://en.wikipedia.org/wiki/List\\_of\\_mergers\\_and\\_acquisitions\\_by\\_Google#cite\\_note-63](http://en.wikipedia.org/wiki/List_of_mergers_and_acquisitions_by_Google#cite_note-63)

(n. d.). Retrieved from <http://www.marketwatch.com/investing/stock/goog/profile>

(n. d.). Retrieved from <http://www.google.com/about/company/>

(n. d.). Retrieved from <http://www.reuters.com/finance/stocks/financialHighlights?symbol=GOOG.O>

(n. d.). Retrieved from <http://www.marketwatch.com/investing/stock/goog/insideractions>

<https://assignbuster.com/performance-of-google-and-its-management/>

(n. d.). Retrieved from <http://www.hoovers.com/company-information/cs/company-profile>.

Google\_Inc.  
fb3f79c4d1791506.html#megamenu.html

(n. d.). Retrieved from <http://finance.yahoo.com/q/ct?s=GOOG+Components>

(n. d.). Retrieved from [https://www.google.com/finance/related?q=](https://www.google.com/finance/related?q=NASDAQ%3AGOO&ei=FlozUbDVCNG30AHxRQ)

[NASDAQ%3AGOO&ei= FlozUbDVCNG30AHxRQ](https://www.google.com/finance/related?q=NASDAQ%3AGOO&ei=FlozUbDVCNG30AHxRQ)

(n. d.). Retrieved from [http://seekingalpha.com/article/236438-google-is-still-](http://seekingalpha.com/article/236438-google-is-still-a-consumer-services-and-tech-leader)

[a-consumer-services-and-tech-leader](http://seekingalpha.com/article/236438-google-is-still-a-consumer-services-and-tech-leader)

(n. d.). Retrieved from [http://seekingalpha.com/article/506281-what-google-](http://seekingalpha.com/article/506281-what-google-s-split-means-for-investors)

[s-split-means-for-investors](http://seekingalpha.com/article/506281-what-google-s-split-means-for-investors)

(n. d.). Retrieved from [http://seekingalpha.com/instablog/1101721-james-](http://seekingalpha.com/instablog/1101721-james-demasi/252598-don-t-rely-on-corporate-governance-ratings)

[demasi/252598-don-t-rely-on-corporate-governance-ratings](http://seekingalpha.com/instablog/1101721-james-demasi/252598-don-t-rely-on-corporate-governance-ratings)

(n. d.). Retrieved from [http://seekingalpha.com/article/580961-behind-](http://seekingalpha.com/article/580961-behind-google-s-smoke-screen)

[google-s-smoke-screen](http://seekingalpha.com/article/580961-behind-google-s-smoke-screen)

(n. d.). Retrieved from [http://seekingalpha.com/instablog/3774191-ecpofi/1483231-beware-google-s-drop-in-margins-](http://seekingalpha.com/instablog/3774191-ecpofi/1483231-beware-google-s-drop-in-margins-roa-and-roe)

[roa-and-roe](http://seekingalpha.com/instablog/3774191-ecpofi/1483231-beware-google-s-drop-in-margins-roa-and-roe)

(n. d.). Retrieved from [http://seekingalpha.com/article/1114161-google-not-](http://seekingalpha.com/article/1114161-google-not-a-buy-suffering-from-declining-return-on-assets)

[a-buy-suffering-from-declining-return-on-assets](http://seekingalpha.com/article/1114161-google-not-a-buy-suffering-from-declining-return-on-assets)

(n. d.). Retrieved from <http://business-ethics.com/2012/08/14/10058-is-22-5-million-dollars-a-big-enough-penalty-for-google/>