

Strategic position of the google corporation commerce essay



**ASSIGN
BUSTER**

This individual case study analyzes the strategic position of the Google corporation in its market and references some of the competitive forces as described by Michael Porter (1980). The analyses will also include some of the axioms from Sun Tzu and the art of business by Mark McNeilly (1996). Bernard Girard's book on The Google Way (2009) was used primarily for this case study. Investor relation websites along with internet articles supplemented the review of Google and to present financial numbers for market comparison.

Google is arguably one of the most innovative and interesting companies today in their industry. Their beginning can be seen as the classic Silicon Valley company formation. Two friends from Stanford University, Larry Page and Sergey Brin, had a vision to make an impact on the information technology industry. To be more specific their mission was "to organize the world's information and make it universally accessible and useful"[1](Girard, 2009). But Google is anything but the typical company in reference to their strategies for going public and how the organization operates.

The mid to late 1990s the computing technology world was racing towards advancements and the founders of Google took advantage of this. Prior to this date, computer technology was more expensive for less in relation to storage, components, processing, and performance. Computers and the internet were still limited to a narrow group of people which included universities, government and researchers, along with only a small population fortunate enough to afford this technology. The mid 1990s experienced more rapid advancement in information technology including the World Wide Web, faster processors, upgraded memory, accelerated graphics cards, more

<https://assignbuster.com/strategic-position-of-the-google-corporation-commerce-essay/>

storage, and user friendly operating systems (Windows). That affect made personal computing a household name.

A large factor in this was price per technology. As Bernard Girard (2009) points out, Asia was emerging as technology manufacturers at the same time advancements in computer components were maturing, yielding lower prices for computing technology. The phenomenon allowed the Google founders to capitalize on the market conditions which were favorable to them as it applied to building the computing power they needed to accomplish what they set out to achieve. Not only were they becoming the “new entrant”[2] into the information technology industry, but the competitive force principle that Michael Porter (1980) describes that gave Google favor in the market from their start was “the bargaining power of suppliers”[3] (Porter, 1980).

To create their massive database and sophisticated algorithms based on artificial intelligence (AI), they would need talented programming people as well as the highest technological computer components which there were plenty of, limiting the bargaining power of the suppliers. There was also no shortage of venture capitalists at that time willing to invest in the next Silicon Valley start up. According to Entrepreneur. com in a 2007 study of the top one hundred venture capital firms in the United States, found that approximately half of them were located in California (Girard, 2009). This made it easier for Google to obtain the capital necessary for their ideas from the financial perspective.

Public Offering

When it came time to open Google up to Wall Street in 2004, founders Larry Page and Sergey Brin along with new their new partner Eric Schmidt made a tactical move to improve their company's position[4]at its initial public offering (IPO). Analyzing the methods of an IPO, they decided to use the OpenIPO in lieu of the standard public offering. As Girard (2009) explains, the OpenIPO resembles the Dutch auction where the seller sets a bid price and the number of shares, and allows the investors to bid what they think is the fair price. In the end, all winning bids will pay the exact same price regardless if some of the bids were higher, which is in contrast of the typical Wall Street IPO which allows investment bankers to manipulate the system in their favor. The OpenIPO strategy gave Google the credibility, confidence, and favorable public opinion from the start.

Market and Financial Position

Google was not formed yet when the World Wide Web took off in the mid 1990s. The internet search market was shared by Magellan, InfoSeek, AltaVista, Yahoo, Inktomi and Northern Light (" Web Search Engine," n. d.). Although Google formed in 1998, its search engine (and main component) started to gain market share in the year 2000[5]through its unique technology and basic home page design. In 2002 Google was ahead of both Yahoo and MSN by a half of a percent to a percent in the market (29. 2%6). By May 2003, Google had fifty-five percent (55. 2%[6]) of the global search engine market share with Yahoo at a distance second (21. 7%6). As recent as March 2011, Google's claim on the search engine market is nearly two-thirds even though Microsoft has been gaining as of lately mostly due to its

Bing search engine and Yahoo which is included in the Microsoft statistics from their partnering (Parr, 2011).

Google's financial position is very strong. In terms of revenue, the company grew from eighty-six million in 2001 to over twenty-nine billion dollars reported (unaudited) in 2010[7] ("Google investor relations," n. d.). Google has managed to increase their revenues every year within that time and the majority of that comes through advertising. For example in 2010, twenty-eight of the twenty-nine billion dollars were logged in under total advertising revenues⁷.

Many dot com (. com) companies did not last in the market and faded after the early 2000s, and if they did, struggled thereafter. Google however has proven to be a profitable company. In 2001 their net income was just under seven million dollars while earning four cents per share outstanding[8] ("Google investor relations," n. d.). They have since grown to a net income of eight and a half billion dollars and impressive earnings per share of twenty-six dollars⁸ ("Google investor relations," n. d.). Though competition in the technology world is fierce, Google's financial figures still far outweigh its two closest competitors in the information technology web services industry, Yahoo and China's Baidu. To date Google's total revenues are greater than Yahoo and Baidu by twenty-three and twenty-eight billion dollars respectively[9].

Research and Development

A large factor in the success of Google comes from its commitment to research and development. Google spent over three billion dollars (\$3.7 bil)

<https://assignbuster.com/strategic-position-of-the-google-corporation-commerce-essay/>

towards research and development⁸ (“ Google investor relations,” n. d.) .

Compare that to Yahoo, according to their investor relations site, who report just over a billion dollars in 2010 for product development (up from only two hundred million in 2009), and Baidu who only allocated just over seven hundred million towards research and development⁹.

One of Google’s policies in human resource management is not only to acquire who they think is of great innovative talent, but to allow them some space to be creative. This is what is known as the twenty percent rule (Girard, 2009). Google is so committed to research that they allow their people to have twenty percent of their time to work on research and not be devoted full time on specific projects. This is not a typical policy in most organizations. The Sun Tzu and the art of business axiom that applies to Google’s theory towards innovation is “ Deception and Foreknowledge, Maximizing the Power of Market Information.”[10](McNeilly, 1996). The principle refers to staying connected to what your competition is involved in to be able to better respond to what your market is dictating at the time.

“ If ignorant of the conditions of mountains, forests, dangerous defiles, swamps and marshes he cannot conduct the march of an army.”[11] (McNeilly, 1996)

This is especially important in information technology because it is more dynamic than most other industries. As Bernard Girard (2009) points out what sets Google apart from the typical company when it comes to the attitude towards development, is that it stays connected to the world around them for ideas that can be placed into motion. One of the policies pertaining

to this is the building of networks in their Silicon Valley area to listen to what other companies are doing and what may be the next start up new entrant on the horizon (Girard, 2009). They also encourage their employees to stay connected to their alma maters and other university students to stay in touch on new ideas in the market.

Strengths and Weaknesses

Strengths

Google is a large corporation whose strength relies on its current technology and innovation. They have dynamic leadership in founders Larry Page and Sergey Brin, who have the vision and the means to put it forward as they have demonstrated from its inception in 1998. An obvious strength is their current financial position. They are in good position monetarily to invest in new technologies and combat legalities and new services. As stated in the previous section, most of their revenues are generated through advertising. What set Google apart from the competition when it launched its search engine was the model they incorporated. It is known as the cost-per-click strategy which was a system that allowed advertisers to pay what they thought their ads were worth which mathematically was translated in search rankings (Girard, 2009). Google gave advertisers a visual way of tracking the effectiveness of their marketing dollars. This was a breakthrough because before Google's method, it was difficult for companies to track their marketing efforts whether it was on the web, or even in other media outlets such as print and television. In an indirect way, Google became a substitute product or service[12], referring to Porter's force driving industry competition, in relation to advertising venues besides the internet. Google

offered companies a more fair way to judge what they thought they should price their advertisements as well as the ability to view their effectiveness. For marketers, this information can be priceless and a better opportunity than blind ads.

Another one of Google's strength is its algorithm that runs its page ranking search engine. It is different from the typical methods of other engines because its objective is to rank pages not only by its word content but also uses artificial intelligence for relevance. Their search engine algorithm approach can be viewed as "avoiding strength and attacking weakness"[13]. Instead of following methods and theories of the status quo web engines, they developed a unique system that has revolutionized internet searching today.

Weakness

It is hard to fathom weakness in a company of this magnitude, but no organization is without them. The obvious is the possible loss of key members which can include anyone from the executive management team to its software engineers. The information technology market is very competitive because it relies heavily on scientific and mathematical talent that is not easy to come by if you measure it against all disciplines overall. Key production employees may opt to leave to other organizations for better offers or start up their own technology company. Google's enormous growth could possibly be a weakness. With that in mind other companies that are competing to regain a part of that large share that Google currently owns. An example is Microsoft's Bing Maps feature birdseye view which is direct

competition with Google Earth for usage as it refers to the threat of new products and services from competitors.

They will also have to combat new companies that will enter the information technology arena looking to capitalize on the rewards Google has discovered. One such company that has developed a new computational knowledge search based on natural language and new algorithms is Wolfram| Alpha, the very company that produced the software Mathematica (" About Wolfram| Alpha," 2011). Such a company could prove to be the direct competition for Google's search engine market because of its ability to match the sophistication of the algorithms that drive both organizations search engines.

Technological Position

Google puts stock in innovation. As mentioned, they encourage collaboration and creativity. This is evident from the technology they are able to house. According to author Bernard Girard (2009), Google's data house, which is built on a very powerful software platform, may consist of approximately four hundred and fifty thousand (450, 000) microcomputers. There in house intranet known as Moma, is extremely powerful and acts as their enterprise wide application which reveals numerous statistics about their operations as well as an open view of all of their research and development. Google's technological arsenal is stocked well enough to compete against rival companies.

Advancements and Emerging Markets

Some of Google's advancements in the market include their web browser Chrome, which is one of the fastest, the popular Android mobile operating system, and their Gmail service. The Gmail service has emerged as one of the more popular email systems today that offer an extraordinary amount of free space. They accomplished this through by leveraging their cloud technology which is also emerging today. They also plan to offer almost all personal and workstation computing applications through the cloud technology which would directly compete against Microsoft. One example is the current research and development of the Google Chrome OS (operating system) which is intended to run exclusively on computers specifically manufactured from Google's partners (" Google Chrome OS," n. d.).

Google has even partnered with the company GeoEye to launch a satellite for higher quality imagery for their Google Earth service in 2008 (" Google." n. d.). They have also entered the renewable-energy market with their subsidiary, Google Energy, and invested in a wind project in the state of North Dakota (" Google." n. d.). Another market that Google is experimenting with advantageously is the broadband service. They have an agreement to install the Google fiber optic system which will offer broadband at ultra high speeds upward towards one hundred times faster than normal broadband according to Google. They are also beta testing a free home wireless service under the name Google TiSP.

International Policy

One of the negatives that always need to be dealt with in reference to large corporations is its position in the international community. Antitrust laws can

<https://assignbuster.com/strategic-position-of-the-google-corporation-commerce-essay/>

be used to limit the power one company may have. Google's already has had a negative experience abroad in relation to China. According to contributor Steven Levy (2011), Google had a rough relationship with China due to the country's censorship policies which were contrary to Google's views and style. Google's service was also different over there because it had to adapt to the possibility of turning over data to the Chinese government, something they wanted to avoid. As Levy (2011) explains it got so bad that even Google's policy for their employees to take twenty percent of their time towards independent ventures was not well received in China's culture. This is an example of not only are there different and possible unique laws a corporation may have to abide by, but also a different lifestyle and culture may hinder how a company may run its operations.

Evaluation

Answering the question about how Google can improve market share is a difficult one. Google is basically competing against itself in its own industry. This is why they expand in all directions to gain share and enter other markets. Their market share can improve greatly with the success of their ultra high speed broadband service experiment. Ultra high speed connection for everyone, even in outlying rural areas is the future. Google has the technology, resources and ability to deliver this. Another possible market Google would have the capability to enter is the smart appliance industry. This emerging technology uses programmable features in appliances that would allow control for household energy usage. The industry is still new, but a company such as Google could make an impact because of its software programming talent, internet dominance, and its new broadband technology.

Google's management is very progressive. According to Girard (2009) they took liberties to install a collaborative environment to be able to connect its employees to each other as well as to the outside world (universities, other companies) to better react to the changes in demand from customers and emerging technologies. For example users were becoming more frustrated with internet explorer in the late 1990 and early 2000s. Google responded with the Chrome web browser to take market share. When email services were cheap on storage, they answered with Gmail. Now the public has been demanding more speed for the rich applications across the internet and Google is responding with an ultra high speed service.

A couple of laws that Google needs to stay on top of are privacy laws and antitrust laws. One law in particular, The Patriot Act, may impact Google in a negative way because there are laws that all companies have to abide by, which may mean handing over of information when requested. This could have effect on usage and market share due to how the public may perceive the giant corporation. Antitrust laws can affect Google because of its growth and size. Google has a history of buying companies to acquire different technologies which included KeyHole, DoubleClick, Aardvark, and YouTube to name a few (" Google." n. d.). Laws that prohibit monopolies may impede Google's quest to grow further in certain markets.

Conclusion

One would have to ask the question, will Google be able to sustain its own growth? Information technology is a broad field that covers many aspects of the industry. Google's corporate strategy judging by the amount of services it offers and the ones it is trying to breakthrough makes it an aggressive

<https://assignbuster.com/strategic-position-of-the-google-corporation-commerce-essay/>

company that likes to stay on top of innovation and market share. Growing too fast can be an achilles heel at some point, because a company can end up spreading itself too far while ignoring advancements and changes it might need for its main services.