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Google Online Internet

Google, Inc. is the world's leading online search engine company founded by Larry Page and Sergey Brin while they were students at Stanford University and the company was first incorporated as a privately held company on September 7, 1998. Google's business is related to Internet Search, web-based emailing, online mapping, office productivity, social networking and video sharing as well as advertising services like Adwords and Adsence.

Founded at Menlo Park, CA on September 7, 1998 and now has head quarters at Mountain View, CA (" The Rise of Google". USA Today). It is the largest American company (by market capitalization) that is not part of the Dow Jones Industrial Average (as of October 31st, 2007). Google currently has 16, 805 full-time employees and Eric E. Schmidt, is the current CEO/Director of the company. Google is now traded on both NASDAQ and LSE.

The first Google's IPO took place on August 19, 2004. 19, 605, 052 shares were offered at a price of US\$85 per share. The Google is the largest trading company on NASDAQ index with a revenue of US\$16. 593 billion, net income of US\$4. 203 billion, total assets of US\$25. 335 billion and total equity of US\$22. 689 billion (Financial Data Quest, 2007). Google is listed as top 5 companies traded on NASDAQ with total volume as 6, 557, 543.

Google gets its name from the word " Googol" which is the mathematical term for a 1 followed by 100 zeros. Google is the most used search engine on the web with a 53. 6% market share, ahead of Yahoo! (19. 9%) and Live Search (12. 9%) making Google has a market leader.

The main revenue for Google, Inc. is the advertising application launched by Google called Adwords, where thousands of advertisers advertise their products and services. Started in the year 2000 Google Adwords is treated as flagship advertising product and main source of revenue. It offers Pay Per Click (PPC) advertising, and site-targeted advertising for both text and banner ads. Google has tremendous competition in the industry with Yahoo, Inc., MSN, AOL and others. Google, Inc. is vaulted to more than 6 Billion \$ sales last year (Business Week, Estimation 2007).

Google also faced a number of Law suits for Violation of trademark law and Click fraud. Google settled a click fraud lawsuit for US\$90 million. In April 2002 a company called Overture Services, Inc.(A Yahoo Company) sued Google for patent infringement for launching Adwords. Google agreeing to issue 2.7 million shares of common stock to Yahoo! in exchange for a perpetual license under the patent. (Google, Yahoo bury the legal hatchet, Stefanie Olsen, CNET News. com, August 9, 2004).

II. Firm's Current Situation – Internal Analysis

Strengths of Google, Inc: Google is the current market leader with more than 53% share in the Search Engine and advertising industry, the factors that made possible to acquire this position are:

Technology: Google uses high defined user end technology such as open source search, which enables easy and sharp search to customers. Google uses high speed servers which can tackle millions of searches a minute. The technology used by Google is also used by NASA and US Defense. This type

of technology help customers to find relevant answers for their enquiries online, making Google the most trusted reliable search engine in the world.

Online Advertising: Google's online advertising is the main strength for generating revenue, Adwords is a premier service offered by Google for its online advertisers. Through which one can market their product or service. After the Click Fraud Law suit Google has formulated the new procedures for Adwords. Advertisers mainly attract to Google Adwords even though there are many pay per click advertising networks.

Employees: Google employees are highly trained in technical aspects and on working procedures. Google had more than 16000 full time employees in more than 50 countries working 24/7. The HR policies and work environment at Google is well designed for longer retention and highly productive from the employees. Google also listed in Fortune 500 companies and the Best place to work, with employees as strength Google is treated and trusted brand online.

Research and Development: Google with high user end technology which requires continuous Research and Development. Google has separate R & D division which involves implementation of new innovation of different business models. R & D of Google is making Google to stay ahead of its competitors. (R&D power of Google, Google Guide, 2006)

Acquisitions: Google has acquired several small start-up companies often consisting of innovative teams and products. Google acquired companies like Upstartle, Pyra Labs and Youtube which made Google to launch more

innovative products to the market. Acquisitions of Google are treated as important strength of Google.

Weakness of Google, Inc: Growing business and strengths of Google also resulted in weakness for the firm, even though Google is regarded as World's top Search Engine.

Investors: Google Investors are not happy with the performance of shares in the company, says the research of The Economist in 2007 its found that Google Investors are not happy with the Google law suits with the cases of trade mark and click fraud which turned Google to pay more than 160 million \$ as a fine. Investors are also concerned about the low pricing of the stock from last 2 months.

Copyright: Google's business relies on exploiting content the company doesn't own. To technophiles and those who understand the flow of attention and Web traffic, Google is nothing but a highly effective guide to the wilds of Internet content says " Mark Cuban and Howard Stern, 2007" Google admitted its vulnerability recently in a recent SEC filing in France court. Adverse results in these lawsuits may result in, or even compel, a change in Google practices which could result in a loss of revenue or even which could harm business.

Low Wage Disputes: Recently Low wage disputes are arising among the employees of Google, Inc. It is said that a system administrator get 35, 000\$ as yearly salary in Google, when compared to its competitor Yahoo pays around 50, 000\$ as yearly salary for the same position. These issues may

leave Google with low productivity and low retention periods of the employees. (Google Wage Survey and Disputes, 2006)

B. Evaluation of Strategic Position

1. Key Success Factors: Drummond pointed the Key Success Factors (KSF). David Drummond, Google's General Counsel, in his presentation at Stanford Law School explained the key factors for success of Google, Inc.

Technology: Along with its innovative approach to page ranking, Google is a purpose-built hardware company, building all its own servers from components it buys directly for their manufacturers. According to Drummond, Google now operates the world's largest distributed computer system.

Business Model Innovation: By perfecting the nature of targeted ads, Google not only has created a highly effective revenue generator, it has produced what it hopes to be a better experience for its users. It is Google's goal to make their targeted ads at least as relevant and useful to users as the search results themselves.

Brand: According to Drummond, a European study recently determined Google to be the number one most recognized worldwide brand. Indeed, Google has become a verb (I can't wait to get home and Google him) which poses real challenges to a company seeking to protect the strength of its mark.

Focus on The User Experience: Product decisions at Google are driven by optimizing for the user experience first and for revenue second. The folks at

Google firmly believe that the better the user experience, the more easily money will follow. (David Drummond, Google's General Counsel, speech at Stanford Law School, 2007)

2. Distinctive Competencies of Google, Inc:

Marketing Style: Google adopts a unique marketing style which leads prospects into potential customers; this creative activity is developed by a team of experts at Google, Inc. driving millions of sales in Adwords. Its brand image and performance in online advertisement made Google as leader in the market. Google keeps on changing its marketing strategy according to economic and political fluctuations in the market.

High Website Indexing: Google has the largest website indexing into its search engine, making it the most popular and frequent user search engine in the world. Google performs exact search according to the page rank. High Website Indexing is a key competency that made Google the market leader.

New Business Development: Google is now exploring different other business like mobile technology and other online business, CNET news recently announced that Google is already started testing a action performed advertising system, for which advertisers will make a rush. (CNET, Google New Entry, March 2007)

C. Finance

Google is growing at an alarming rate. Google's initial public offering took place on August 19, 2004 with a total of 19, 605, 052 shares were offered at

a price of \$85 per share. The sale raised US\$1. 67 billion and gave Google a market capitalization of more than \$23 billion.

The company is listed on the NASDAQ stock exchange under the ticker symbol GOOG. The current market price of the share was 430\$. Google has touched its all time high of 730\$ in Nov-Dec 2007 and again came down to 400\$ due to market fluctuations (Investopedia, Google Index).

Form 10-K of Google, Inc. presented to public on 1st March, 2007 says “ Google is going to launch some other web based applications for web advertisers, which will double the income of Google” also announced the launch of Google Checkout a new online payment system. The reports present income of Google, Inc. for 2004 - 20. 4 billion \$, 2005 - 34. 9 billion \$, 2006 - 37. 8 billion \$ and 2007 - 44. 6 billion \$ at the rate of change increasing year by year by more than 10%. By studying the rate of growth of Google, Inc. is going to cross its 50 billion \$ mark next financial year making it as the best investment option. (Google 10-K, Yahoo Finance)

Current Market: Google having more than 53% of the market share and leader by no doubt having the best current market on NASDAQ. The demand for Google shares is very high, because of the bullish market and the growth of the company. (Parker James, Analyst Finance2007).

Since the inception of share in the market the stock performance is boosting, from 85\$ to 430\$ with in just three years of performance. Stock performance is the main strength of the company because it maintains good relationships with investors. Analysts say that Google is going to rise by 15% yearly. (Money Control Analysis, 2007)

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Liquidity Ratio: Liquidity ratio can determine the substantial stability of the company, Google short term solvency ratio (Liquidity Ratio) is strong and clearly indicates substantial growth remaining for future years shown in chart below.

The financial ratios of the company show constant increase in the past three years, which is the significance of companies growth, Google continuous to grow by implementing new applications and methods to its working procedures.

Analysts say that these profitability ratios are the key to success of the firm. Google's gross profit margin is expected to stay at a level of roughly 60% over the next 20 years. Furthermore, the profit ratios show that in 2026, Google is expected to have a return on assets of only 8.6%, and a return on equity of 9.0%, significant decreases from current figures. (Matt Decuir, 2008)

Google projections are estimated as increase in sales as \$25.726 billion in 2008, and \$39.791 billion in 2009. The share market trend is also in favor of Google. The performance of the mean price in 5000 trials was \$719.65, while the median share price was \$476.85. In 2007, Google replaces Coca-Cola as the most competitive company, but not just because of its brand. According to consumers, the Google brand is only one source of its economic and consumer advantages. (Top 40 Most Competitive Companies in 2007 at www.wratings.com)

III. External Environment: Opportunities and Threats

A. Strategic Group Maps: Google accounts for nearly 50% of the market share of all searches on the internet; it has a few main competitors. Yahoo is the biggest competitor by far, at around 28.5% but Microsoft isn't too far behind with 10%, while other competitors include Ask.com and AOL, which both hold around 5% market share. Yahoo has already started launching same advertising applications that Google have and even more technologically advanced.

Yahoo and MSN are definitely a concern for Google, because of the high end technology already Yahoo and MSN have already launched beta version of web applications.

B. Societal Environment:

Economical: Analysts predict that with over performance of Google in the stock market may lead to devaluation of shares and may lose investor attention. With supporting economic reforms all over the world search engine industry is looking for an innovative change.

Technological: Google uses high end technological web applications.

Recently Google also announced that its researching on action performed advertising. Yahoo and MSN have already gone past Google in launching beta version of web applications. Search Engine companies are making experiments on different advertising systems.

Political-legal: Google already faced a number of law suits for violating trade mark and cyber security. Google paid 194.65 million\$ till now for exploiting legal laws. Click fraud has shocked the entire industry making it a legal

issue. Political and Legal reforms have changed the working of search engines.

Socio-cultural: Since Google and other search engines are open end search engines, they are opened for pornography and other gambling. Many societies and culture are making these sites unworthy. China banned Google search in schools and other areas. Socio-cultural factors are also advantage for the search engine as they can index relevant culture pages and get noticed.

Demographic: Google has low brand value in some countries where as Yahoo search is used mainly. In United States Google as became a common word, making it the largest used search engine in United States. Children starting in internet have a common name on there mind Google.

C. Task Environment - Porter's Five Forces:

Rivalry among competing firms: Rivalry among companies is used to have new innovations, and change management procedure and others. Result as medium

Threat of new entrants: New entrants have a very small market in the beginning of there inception. New entrants will continue there business for getting brand name and user access. Market performers will acquire such companies many times. Result as low

Bargaining power of buyers: A buyer is a potential mover of the business, most valuable asset of the company. Buyer is one who generates sales and profit for the company. Result as high Bargaining power of suppliers: A

supplier is also regarded as the main entity in a business function. Suppliers are also associated with the company for generating sales and revenue.

Result as high.

Threat of substitute products or services: Substitute product can take out sales of the product. For example: Adwords sales have decreased with the launch of Yahoo search marketing. Google have updated the Adwords by providing extra benefits. So substitute products or services are important for driving competition among companies. Result as high.

IV. Key Issues

Being a market leader now Google has many difficulties in retaining the brand name and value of the company

Employee satisfaction: Low wages for Google employees may decrease the productivity and lead the company to losses.

Click fraud: Click fraud is now an international issue that Google should have as a key issue.

New Innovations: Google should continue R & D on various web based applications, so that Google will be a competent player in the industry.

Strategic Recommendations

Customer service at glance is the generic strategy I recommend to Google, because in search engine industry and online advertising the companies need repeated customers. Making the customer as potential customer is more important. A repeated customer provides profitable business to the company.

Important Strategies and tactics that Google should employ:

- Acquiring small companies in web based advertising will be the important strategy. This makes Google to increase its revenue and market share.
- Since 99% of the revenue of the Google is generated by Adwords, attracting customers by offering them free access (not credit limit) to the members areas would be important tactic. This makes the customer to repeatedly depend on the business.
- Launch of innovative web applications like online accounting software and Human Resource software would be an important option to try a new market.

Rationale behind all decisions: Since Google is a market leader and a innovative company, it should also try in new markets like online software and other web applications. My opinion is Google already had a brand name which is popular world wide, so entering or creating a new market is really profitable for the company.

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