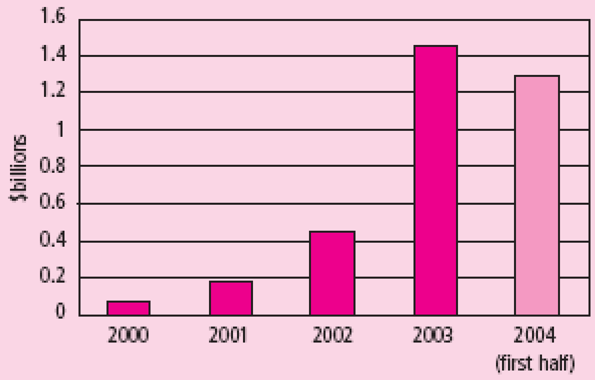
Feeling lucky with Google

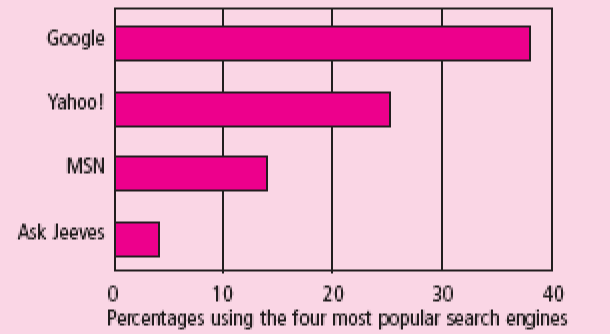
Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

The meteoric rise of Google, the internet search engine company, has lifted the gloom which followed the dot.com crash of 1999–2000. Since its launch in 1998 by Stanford University students, Larry Page and Sergey Brin, it has become the most visited site on the web, and, like its biggest rival, Yahoo!, Google has become a global brand. Google's rapid increase in revenues is shown in the figure below. Has it learnt the lessons of the earlier dot.com failures? One factor is the apparent soundness of its business model. It was conceived purely as an internet search engine. It has prided itself on its impartiality, allowing internet users to find the sites which would be of greatest value to them, rather than directing them to companies that had paid for promotion. Advertising, which generates 96 per cent of its revenue, is kept separate from the search results. The 'sponsored search' allows the consumer to click on sites related to the particular search – advertisers pay for each 'click' that the consumer makes on their website. The price is determined by advertisers bidding against each other in a real-time online auction for the privilege of having their messages displayed when certain key words are entered in the search engine. A second factor is the fact that, as a private company, Google was insulated from the investment fever that surrounded the dot.com bubble. However, with its huge popularity, the owners decided to turn Google into a public company with an initial public offering (IPO) in 2004. The prospects looked good, especially as the search engine has increasingly become a driver of e-commerce.



Google's revenues
Source: *Financial Times*, 19 August 2004.

One in every five consumers who is looking for a specific product turns first to a search engine, rather than a specialist e-tailer. Google has been particularly successful in capturing this market (see figure below). However, challengers have also been active in expanding into e-commerce. Yahoo!, in particular, has made a number of acquisitions of companies, combining search technology with other services to the consumer. For example, when the consumer turns first to a search engine to find specific products, often what is sought is comparisons of different prices and products. Yahoo! has acquired a company to provide this service, while Google's equivalent, Froogle, is still in the formative stages. Although Google is the most popular search engine, it has no unique content and no long-term customer relationship with those who use its search engine. It has been remarked that Google 'is only as good as its last search' (Gapper, 28 October 2003). This is in marked contrast with Yahoo!, which has is own databases and customer networks. Google's engineers have developed email technology and are confident that their new free email service, Gmail, will compete with rivals, Yahoo! and Microsoft.



US consumers using search engines to reach e-commerce sites, Christmas 2003
Source: Waters, 23 February 2004.

A concern for Google is that, however successful the model, the history of the internet demonstrates that competitors are soon at work copying and improving it. Biggest among these is Microsoft, which is developing a new search engine. Because of Microsoft's ability to integrate it with other services and content, bundling search with the Windows operating system, Microsoft will be guaranteed a large market, constituting a serious challenge to Google's supremacy.

A second concern is that the growing internationalization of the internet makes it more difficult for the one-size-fits-all search engine to satisfy consumers. Google's international advertising revenues are a growing proportion of its total revenues, having grown from 14 per cent in 2001 to 30 per cent in 2004. This reflects the fact that more than half its user traffic is outside the US. The number of internet users outside the US is estimated to grow at 13 per cent per annum, twice the rate of growth within the US. While Google's service is provided in 97 languages worldwide, the growth in international usage offers opportunities for internet start-ups to provide services in local markets which the 'one-size-fits-all' approach cannot satisfy. One backer of a European internet venture has said: 'You can't use overwhelming firepower with a limited number of troops on the ground and no understanding of the locals or the culture and then expect you're going to win and be the market leader' (Waters and Nuttall,10 June 2004).

In launching itself as a public company in 2004, Google chose the novel method of inviting the public to bid for its shares in an auction. The founders hoped for a sound send-off, underlining the company's value while avoiding speculation which led to the boom and bust that afflicted earlier internet companies. In the event, when shares began trading, they rose 20 per cent on the first day, in a solid, but undramatic, start. In a letter to potential investors, Google has said that it 'has a responsibility to the world', not just to shareholders who invest in the company (London, 30 April 2004.) Its apparently idealistic stance is rather tempered by the dual share structure, by which the two founders will retain control of the company. Its letter also advises investors that, as the company matures, growth will be expected to slow. This amounts to a note of timely realism in view of the multiple challenges it faces from competitors in both technology and marketing.

Sources: Waters, R., 'Google's buried treasure', Financial Times, 23 July 2003; Gapper, J., 'Why Google's technology may have reached its peak', Financial Times, 28 October 2003; Waters, R., 'A tussle for power in online shopping: the sites may have the goods, but search engines have the eyeballs', Financial Times, 23 February 2004; London, S., 'Method of sale puts onus on each investor', Financial Times, 30 April 2004; Waters, R. and Nuttall, C., 'Going global: from shopping to search, America's online giants have their sights set on international expansion', Financial Times, 10 June, 2004; Waters, R., 'Google's rivals in search for supremacy', Financial Times, 30 April 2004; Schurr, S., 'Google's offering heralds an end to boom and bust', Financial Times, 21 August 2004; London, S., 'Google search finds concern with structure', Financial Times, 23 August 2004.

Case questions

What has been Google's recipe for success?

How is its search engine supremacy being challenged?

@ You can read more about Google at http://www.google.co.uk/intl/en/about/