THIRTEENTH EDITION

STRATEGIC MANAGEMENT AND Business Policy

TOWARD GLOBAL SUSTAINABILITY

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CASE 12

Google Inc. (2010): The Future of the Internet Search Engine

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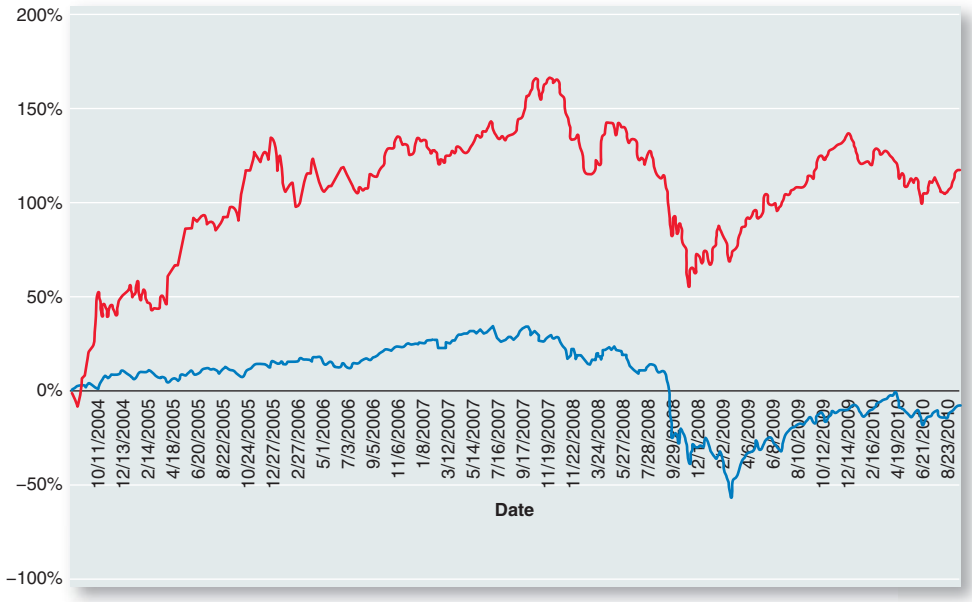
Google began with a mission: to create the ultimate search engine to help users tame the unruly and exponentially growing repository of information that is the Internet. And most would agree that when the word "Google" became a verb, that mission was largely accomplished.[1]

IT HAD BEEN NEARLY SIX YEARS SINCE GOOGLE'S ATTENTION-grabbing initial public offering and, despite overall stock market weakness, Google remained strong. Although the stock moved with the market in general, the company returned significantly higher returns to its shareholders than did the S&P 500 (**Exhibit 1**). Founders Sergey Brin and Larry Page had created a huge empire in which they now faced challenges of continued growth and innovation. These challenges would carry them through the second decade of the new millennium.

Background[2]

Google was founded in a garage in 1998 by Larry Page and Sergey Brin, two Stanford computer science graduate students, based on ideas generated in 1995. The name *Google* was chosen as a play on *googol*, a mathematical term for the number one followed by one hundred zeros. It is thought the term was appealing to the founders as it related to their mission to organize an exponentially growing web. Founded on $100,000 from Sun Microsystems, Brin and Page were on their way to creating an Internet engine giant. Google immediately gained the attention of the Internet sector for being a better search engine than its competitors, including Yahoo!

EXHIBIT 1
Cumulative Returns on Google (red line) vs. S&P 500 (blue line) (2004–2010)



By 2000, Google was in 15 languages and gaining international acclaim for its web search services. The Google toolbar was first released in late 2000. Current Chairman of the Board Eric Schmidt joined Google in that capacity in March 2001. In 2002, Google released Adwords, which was a new cost per click pricing system for advertising.

In August 2004, Google went public with 19,605,042 shares at an opening price of $83 per share. **Exhibit 1** traces the growth of Google stock to over $600 per share at the end of 2009. Gmail, an instant messaging and free e-mail service, was released in 2006, just a few months before the announced acquisition of YouTube. In that announcement, CEO Eric Schmidt stated:

> *The YouTube team has built an exciting and powerful media platform that compliments Google's mission to organize the world's information and make it universally accessible and useful. Our companies share similar values; we both always put our users first and are committed to innovating to improve their experience. Together, we are natural partners to offer a compelling media entertainment service to users, content owners, and advertisers.*[3]

DoubleClick was acquired in 2008. In 2009, Google Docs was introduced. It allowed a user to upload all file types, including ZIP files, in order to work with those files online. The company moved into public education, starting in Oregon with Google Apps for Education. Regarding the transformation of technology in education, Jeff Keltner, a senior manager at Google who worked with educational institutions to increase the use of Google's technology in higher education, commented, "We don't know what the future classrooms will look like. We want to work with schools in a continual evolution to discover what it could look like."[4] The use of Google Docs and Google Spreadsheets in team projects provided the opportunity for increased technological application in the classroom in a manner that business professors had not had the opportunity to apply in the past. Keltner stated that he did not see the biggest challenges as technology-based, but rather culture-based, in that business school professors must be willing and able to accept failure as a part of the process. He believed that the most successful adopters of Google technology will be those that have embraced the willingness to fail in order to drive to a higher level of success.

In 2010, Google was seen as a global leader in technology that was focused on the ways people obtained information. Simply by its growth and product and application development,

EXHIBIT 2
Products and Services
2010: Google Inc.

GOOGLE.COM—SEARCH ENGINE AND PERSONALIZATIONS
Google Images
Google Books
Google Scholar
Google News
Google Finance
Google Videos
Google Blog Search
iGoogle and Personalized Search
Google Product Search
Google Merchant Search
Google Custom Search
Google Trends
Google Music Search
Google Webmaster Tools

APPLICATIONS
Google Docs
Google Calendar
Gmail
Google Groups
Google Reader
Orkut
Blogger
Google Sites
YouTube

CLIENTS
Google Toolbar
Google Chrome
Google Chrome OS
Google Pack
Picasa
Google Desktop

GOOGLE GEO—MAPS, EARTH, AND LOCAL
Google Local Search
Google Maps
Panoramio
Google Earth
Google SketchUp

ANDROID AND GOOGLE MOBILE
Google Mobile
Mobile Search
Mobile Applications
Mobile Ads

GOOGLE CHECKOUT

GOOGLE LABS

the company had one of the strongest brand recognitions in the world. There were three primary groups served by Google: (1) Users, (2) Advertisers, and (3) Google Network Members and Other Content Providers. Users gained the ability to find information quickly and easily on the Internet. Advertisers provided 97% of the revenue for Google and gained cost-effective online and offline ads to reach their target market as determined partially by Internet click history. Finally, Google Network Members gained access to AdSense, which allowed for multiple consumer contacts and revenue-sharing among the companies. A full list of products and applications is presented in **Exhibit 2**.

Management and Board of Directors

In 2002, Google hired former Sun Microsystems executive Eric Schmidt to assume the role as Chairman and, later in the same year, CEO. Cofounders Sergey Brin and Larry Page were active members of the Board of Directors. Members of the Executive Team and the Board of Directors are listed in **Exhibit 3**.

EXHIBIT 3

Executive Team and Board of Directors: Google Inc.

A. EXECUTIVE TEAM

Eric Schmidt, 54, Chairman of the Board and CEO, joined Google in 2001 and helped grow the company from a Silicon Valley startup to a global enterprise. Prior to joining Google, Schmidt was the Chief Technology Officer at Sun Microsystems and the President of Sun Technology Enterprises.

Sergey Brin, 36, cofounder, served as a member of the board of directors since Google's inception in September 1998 and as the President of Technology since July 2001. From September 1998 to July 2001, Sergey served as President. Sergey holds a Masters degree in computer science from Stanford University and a Bachelor of Science degree with high honors in mathematics and computer science from the University of Maryland at College Park.

Larry Page, 37, cofounder, has served as a member of the board of directors since Google's inception in September 1998 and as the President of Products since July 2001. Larry served as Chief Executive Officer from September 1998 to July 2001 and as Chief Financial Officer from September 1998 to July 2002. Larry holds a Masters degree in computer science from Stanford University and a Bachelor of Science degree in engineering, with a concentration in computer engineering, from the University of Michigan.

Nikesh Arora, 41, has served as President, Global Sales Operations and Business Development, since April 2009. Prior to that, Nikesh worked for Deutsche Telekom, Putnam Investments, and Fidelity Investments.

David C. Drummond, 46, served as Senior Vice President of Corporate Development since January 2006 and as Chief Legal Officer since December 2006. Prior to joining Google, David served as Chief Financial Officer of SmartForce, an educational software applications company.

Patrick Pichette, 47, served as Chief Financial Officer and Senior Vice President since August 2008. Prior to joining Google, Patrick served as President–Operations for Bell Canada, a telecommunications company.

Jonathan J. Rosenberg, 48, served as Senior Vice President of Product Management since January 2006. Prior to joining Google, Jonathan served as Vice President of Software for palmOne, a provider of handheld computer and communications solutions, and held various executive positions at Excite@Home, an Internet media company.

Shona L. Brown, 43, served as Senior Vice President of Business Operations since January 2006. Prior to joining Google, Shona was at McKinsey & Company, a management consulting firm, where she had been a partner in the Los Angeles office since December 2000.

Alan Eustace, 53, served as Senior Vice President of Engineering and Research since January 2006. Previously, he served as a Vice President of Engineering since July 2002. Prior to joining Google, Alan was at Hewlett-Packard, a provider of technology products, software, and services.

B. BOARD OF DIRECTORS

Eric Schmidt, 54, served as Chairman of the Board from 2001 to 2004 and from 2007 to the present, as well as Chief Executive Officer and board member since 2001.

Sergey Brin, 36, was cofounder and President of Technology. He served on the board since its inception in 1998.

Larry Page, 37, was cofounder and President of Products. He served on the board since its inception in 1998.

L. John Doerr, 58, served as board member since 1999. He has been General Partner of the venture capital firm Kleiner Perkins Caufield since August 1980.

John L. Hennessy, 57, served as Lead Independent Director since 2007. He served on the board since 2004. He has been President of Stanford University since 2000 and previously served as Dean of the Stanford School of Engineering and Chair of the Stanford Department of Computer Science.

Ann Mather, 49, served as board member since 2005. She also served as Executive Vice President and Chief Financial Officer of Pixar from 1999 to 2004 and held various executive positions at Village Roadshow Pictures and Walt Disney Company.

Paul S. Otellini, 59, served as board member since 2004. He has been CEO and President of Intel Corporation since 2005 and served previously in various Intel executive positions.

K. Ram Shriram, 52, served as board member since 1998. He has been Managing Partner of Sherpalo Ventures, an angel venture investment company, since 2000. He previously served as VP of Business Development at Amazon.com.

Shirley M. Tilghman, 63, served as board member since 2005. She has been President of Princeton University since 2001. Previously she served as Professor of Biochemistry and Founding Director of Princeton's multidisciplinary Lewis-Sigler Institute for Integrative Genomics.

SOURCE: *Google Forms 10-K and 14-A (2009).*

Mission

Google's mission was to organize the world's information and make it universally accessible and useful. Management believed that the most effective, and ultimately the most profitable, way to accomplish the company's mission was to put the needs of the users first. They found that offering a high-quality user experience led to increased traffic and strong word-of-mouth promotion. "The perfect search engine would understand exactly what you mean and give back exactly what you want," explained cofounder Larry Page.[5]

The complete mission statement is provided in **Exhibit 4**. Management extended the company's mission statement by providing guiding principles for the company, as shown in **Exhibits 5 and 6**.

EXHIBIT 4
Mission Statement: Google Inc.

Google's mission was to organize the world's information and make it universally accessible and useful. Management believed that the most effective, and ultimately the most profitable, way to accomplish their mission was to put the needs of the users first. They found that offering a high-quality user experience led to increased traffic and strong word-of-mouth promotion. Dedication to putting users first was reflected in three key commitments:

- Google will do its best to provide the most relevant and useful search results possible, independent of financial incentives. Its search results would be objective, and the company did not accept payment for search result ranking or inclusion.
- Google will do its best to provide the most relevant and useful advertising. Advertisements should not be an annoying interruption. If any element on a search result page is influenced by payment to the management, it will make it clear to our users.
- Google will never stop working to improve the user experience, its search technology, and other important areas of information organization.

Management believed that their user focus was the foundation of their success to date. They also believed that this focus was critical for the creation of long-term value. Management stated they did not intend to compromise their user focus for short-term economic gain.

SOURCE: *Google Form 2009 10-K, modified by case author.*

EXHIBIT 5
The Philosophy: Google Inc. Ten Things We Know to Be True

1. Focus on the user and all else will follow.
2. It's best to do one thing really, really well.
3. Fast is better than slow.
4. Democracy on the web works.
5. You don't have to be at your desk to need an answer.
6. You can make money without doing evil.
7. There's always more information out there.
8. The need for information crosses all borders.
9. You can be serious without a suit.
10. Great just isn't good enough.

SOURCE: *http://www.google.com/corporate/tenthings.html, accessed October 15, 2010.*

EXHIBIT 6
Principles that Contribute to a Google User's Experience

1. Focus on people, their lives, their work, their dreams.
2. Every millisecond counts.
3. Simplicity is powerful.
4. Engage beginners and attract experts.
5. Dare to innovate.
6. Design for the world.
7. Plan for today's and tomorrow's business.
8. Delight the eye without distracting the mind.
9. Be worthy of people's trust.
10. Add a human touch.

SOURCE: *http://www.google.com/corporate/ux.html, accessed October 15, 2010.*

Issues and Risk Factors Facing Google in 2010[6]

Competition

According to top management, Google's industry was characterized by rapid change and converging, as well as new and disruptive, technologies. Google faced formidable competition in every aspect of its business, particularly from companies that sought to connect people with information on the web and provide them with relevant advertising. Google faced significant direct and indirect competition from:

- **Traditional search engines, such as Yahoo! Inc. and Microsoft Corporation's Bing.** Although Yahoo! was the first search engine to gain widespread acceptance, it lost its dominant position to Google when Google introduced its superior search engine technology. Microsoft's failed attempt to buy Yahoo! in 2008 led to the introduction of Bing, its own search engine, in 2010. Microsoft's marketing power could make Bing a serious competitor to Google. Some industry statistics are listed in **Exhibit 7.**
- **Vertical search engines and e-commerce sites, such as WebMD (for health queries), Kayak (travel queries), Monster.com (job queries), and Amazon.com and eBay (commerce).** Google competed with these sites because they, like Google, were trying to attract users to their websites to search for product or service information, and some users may navigate directly to those sites rather than go through Google.
- **Social networks, such as Facebook, Yelp, or Twitter.** Some users were beginning to rely more on social networks for product or service referrals, rather than seeking information through traditional search engines.
- **Other forms of advertising.** Google competed against traditional forms of advertising, such as television, radio, newspapers, magazines, billboards, and yellow pages, for ad dollars.
- **Mobile applications.** As the mobile application ecosystem developed further, users were increasingly accessing e-commerce and other sites through those companies' stand-alone mobile applications, instead of through search engines.
- **Providers of online products and services.** Google provided a number of online products and services, including Gmail, YouTube, and Google Docs, that competed directly with new and established companies that offered communication, information, and entertainment services integrated into their products or media properties.

EXHIBIT 7
Direct Competitor Comparison 2010

	Google	AOL	Yahoo	Industry
Market cap ($)	186.01B	2.65B	21.05B	87.07M
Employees	23,331	6,700	13,900	289
Quarterly revenue growth	22.60%	–26.20%	1.60%	28.50%
Revenue ($)	27.55B	2.65B	6.53B	82.12M
Gross margin	64.15%	42.78%	56.83%	61.03%
EBITDA ($)	11.26B	788.00M	1.40B	7.09M
Operating margin	35.86%	17.27%	11.21%	3.63%
Net income ($)	7.94B	–924.60M	1.07B	N/A
Earnings per share ($)	24.62	–7.96	0.77	0.02
Price/earnings	23.63	N/A	20.97	22.16
Price/earnings to growth	1.21	–1.12	1.45	1.39
Price/sales	6.86	1.02	3.3	2.21

SOURCE: *http://finance.yahoo.com/q/co?s=GOOG, accessed on November 23, 2010.*

Google competed to attract and retain users of its search and communication products and services. Most of the products and services offered to users were free, so Google did not compete on price. Instead, the company competed in this area on the basis of the relevance and usefulness of search results and the features, availability, and ease of use of Google's products and services.

Neither Google's users nor its advertisers were locked into Google. For users, other search engines were literally one click away, and there were no costs to switching search engines. Google's advertisers typically advertised in multiple places, both online and offline. The company competed to attract and retain content providers (Google Network members, as well as other content providers for whom the company distributed or licensed content) primarily based on the size and quality of Google's advertiser base. Google's ability to help these partners generated revenues from advertising and the terms of the agreements. Since 97% of Google's revenues were generated from advertising, this placed the company in a tight position if any advertising contracts were to dissolve or diminish in growth. However, Google was reliant on strong brand recognition and its brand identity.[7]

Legal and Regulatory Issues

Google was subject to increased regulatory scrutiny that may have negatively impacted the business. This was an increased risk with continued growth and corporate expansion. There may be regulatory issues related to potential monopolistic power as the industry faced both growth with expansion and consolidation.

Legal issues were a developing concern for Google. Many laws currently in place had been enacted prior to the Internet age and thus could not have taken into consideration the business practices and implications of the Internet and computer technology. Liability issues, such as laws related to the liability of online services, remained uncertain and were thus a legal risk for Google.

The Digital Millennium Copyright Act contained provisions that limited, but did not eliminate, Google's liability for listing or linking to third-party websites that included materials that infringed copyrights or other rights, so long as the company complied with the statutory requirements of the act. Various U.S. and international laws restricted the distribution of materials considered harmful to children and imposed additional restrictions on the ability of

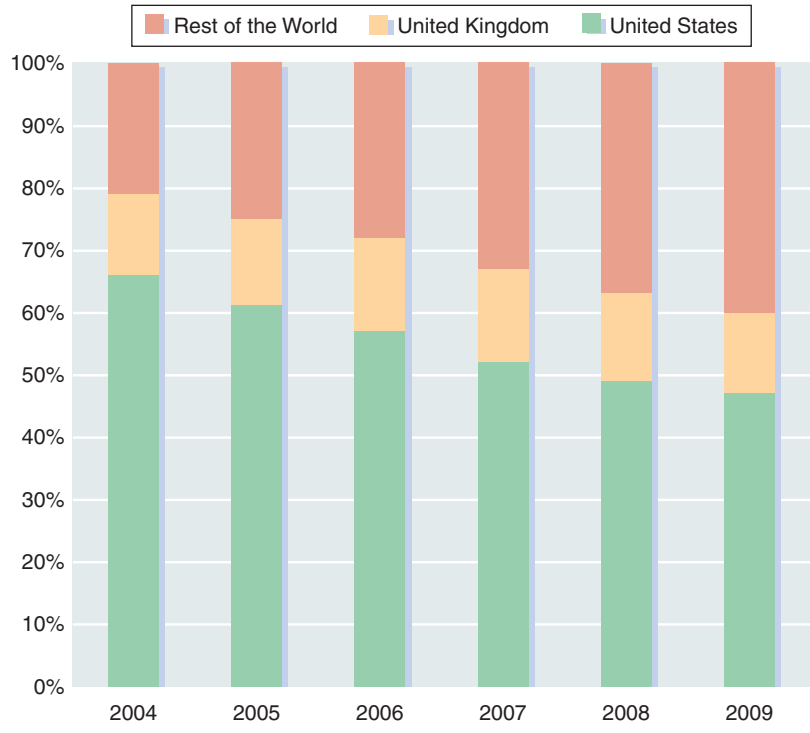
online services to collect information from minors. Furthermore, in the area of data protection, many states had passed laws requiring notification to users when there was a security breach of personal data. One example was California's Information Practices Act.[8]

International Risk

Google's international revenues were increasing annually, and amounted to 51% of corporate revenues in 2008. (See **Exhibit 8**.) Over half of user traffic in 2009 was international. There were increased challenges with international operations which included, but were not limited to, geographic, language, and cultural differences among countries. Countries had different accounting practices, and the credit risk was generally greater for international transactions. Furthermore, exchange rate risk, potential negative tax consequences, foreign exchange controls, and cultural barriers related to customers, employees, and other stakeholders were more prevalent with international dealings. Privacy laws and government censorship often varied among countries.

Government pressure led Google to censor its web content in numerous locations. For example, it was illegal to publish material in Germany, France, and Poland that denied the Holocaust. Google thus used filters to screen for such material. In Turkey, videos that mocked "Turkishness" were filtered by Google for its *Google.com.tr* website. Since China restricted Internet content and political speech, Google had to agree to censor some of its Internet search results to establish its *Google.com.cn* website in 2006. Google's management made the controversial decision in early 2010 to move its China website from China.cn where it had been under heavy censorship pressure to its site in Hong Kong (Google.hk) that wasn't filtered. According to management, there was clearly a benefit from international transactions that in general outweighed the costs.[9]

EXHIBIT 8
Revenues by Geographic Area



SOURCE: *Google Form 10-K (2009).*

Internet Security Issues

Internet security was an issue that plagued the industry, as a security breach would be potentially harmful to Google. Sophisticated software could already track users' Internet activity while they shopped for goods and services on the web. Skilled hackers from around the world were now able to enter supposedly "secure" websites to obtain user records and credit card information. Identity theft was becoming a major problem for the general population. Security/privacy issues were likely to become even more important as the amount of data and applications available on the Internet increased.

Revenue Growth and Sustainability

Google had experienced remarkable revenue growth in the past six years as evidenced by its financial statements. See **Exhibits 9 and 10** for balance sheets, and income statements for 2004–2009. Google's management recognized that the firm's revenue growth rate may soon decrease due to stronger direct and indirect competition, the developing maturity of the online advertising market, and the growing size of the firm. This could put pressure on operating margins and profits in the future, thus lowering the free cash flow available to investors. Google's management recognized that future profit margins may be tightened further by lower profit margins on revenues received from Google Network members. Furthermore, since 97% of revenue came from advertising, any blockage of online advertising would have a negative effect on operating profits.

Intellectual Property

Google, YouTube, DoubleClick, DART, AdSense, AdWords, Gmail, I'm Feeling Lucky, PageRank, Blogger, orkut, Picassa, SketchUp, and Postini were registered trademarks in the United States. Google also had unregistered trademarks, such as Blog*Spot, Jaiku, Android, Open Handset Alliance, OpenSocial, Panoramio, and Knol. The first version of the PageRank technology was created while Google's cofounders attended Stanford University—thus, Stanford owned a patent to PageRank which was due to expire in 2017. Although Google owned a perpetual license to this patent, the license was due to become non-exclusive at the end of 2011.

Google must fend off threats to their trademarks and secrets. Mainly, the company runs the risk of the name *Google* becoming commonly used by the public to describe "searching" the Internet. Google could actually lose its trademark on the name, as it would become part of the public domain. Trade secrets are also something Google defended, as an internal leak would diminish the value of these secrets.

Furthermore, intellectual property rights claims were costly to defend in the legal system. Litigations challenging the IP rights of companies within the technology industry were frequent, and as Google expanded its business, it had experienced more claims against it. Companies had filed trademark infringements against Google, usually over advertisements. Companies have also filed claims against Google for copyright infringement on the features of its website and its products. Examples include the class action settlement with the Authors Guild and the Association of the American Publishers, which will end up costing the company. In addition, some of Google's products have been attacked for patent infringements, for which Google could be required to pay damages or licensing fees. Patent infringement settlements would lead to higher costs and prevent the ability of Google to produce certain services or products, leading to lost profits.

EXHIBIT 9

Balance Sheet: Google Inc. (Dollar amount in millions)

Year Ending December 31	2004	2005	2006	2007	2008	2009
Assets						
Current assets						
Cash and cash equivalents	$426,873	$3,877,174	$3,544,671	$6,081,593	$8,656,672	$10,197,588
Marketable securities	1,705,424	4,157,073	7,699,243	8,137,020	7,189,099	14,287,187
Accounts receivable	311,836	687,976	1,322,340	2,162,521	2,642,192	3,178,471
Deferred income taxes, net	19,463	49,341	29,713	68,538	286,105	644,406
Income taxes receivable	70,509	0	0	145,253	0	23,244
Prepaid revenue share, expenses, and other assets	159,360	229,507	443,880	694,213	1,404,114	836,062
Total current assets	2,693,465	9,001,071	13,039,847	17,289,138	20,178,182	29,166,958
Prepaid revenue share, expenses, and other assets, noncurrent	35,493	31,310	114,455	168,530	433,846	416,119
Deferred income taxes, net, noncurrent	11,590	0	0	33,219	0	262,611
Nonmarketable equity securities	0	0	1,031,850	1,059,694	85,160	128,977
Property and equipment, net	378,916	961,749	2,395,239	4,039,261	5,233,843	4,844,610
Intangible assets, net	71,069	82,783	346,841	446,596	996,690	774,938
Goodwill	122,818	194,900	1,545,119	2,299,368	4,839,854	4,902,565
Total assets	$3,313,351	$10,271,813	$18,473,351	$25,335,806	$31,767,575	$40,496,778
Liabilities and stockholders' equity						
Current liabilities						
Accounts payable	$32,672	$115,575	$211,169	$282,106	$178,004	$215,867
Accrued compensation and benefits	82,631	198,788	351,671	588,390	811,643	982,482
Accrued expenses and other current liabilities	64,111	114,377	266,247	465,032	480,263	570,080
Accrued revenue share	122,544	215,771	370,364	522,001	532,547	693,958
Deferred revenue	36,508	73,099	105,136	178,073	218,084	285,080
Income taxes payable, net	0	27,774	0	0	81,549	0
Current portion of equipment leases	1,902	0	0	0	0	0
Total current liabilities	340,368	745,384	1,304,587	2,035,602	2,302,090	2,747,467
Deferred revenue, long-term	7,443	10,468	20,006	30,249	29,818	41,618
Liability for stock options exercised early, long-term	5,982	2,083	40,421	0	890,115	1,392,468
Deferred income taxes, net	1	35,419	0	478,372	12,515	0
Other long term liabilities	30,502	59,502	68,497	101,904	294,175	311,001
Commitments and contingencies						
Stockholder's equity						

EXHIBIT 9
(Continued)

Convertible preferred stock, $0.001 par value, 100,000 shares authorized; no shares issued and outstanding	0	0	0	0	0	0
Class A and Class B common stock, $0.001 par value: 9,00,000 shares	267	293	309	313	315	318
Additional paid-in capital	2,582,352	7,477,792	11,882,906	13,241,221	14,450,338	15,816,738
Deferred stock-based compensation	(249,470)	(119,015)	0	0	0	0
Accumulated other comprehensive income	5,436	4,019	23,311	113,373	226,579	105,090
Retained earnings	**590,471**	**2,055,868**	**5,133,314**	**9,334,772**	**13,561,630**	**20,082,078**
Total stockholders' equity	**2,929,056**	**9,418,957**	**17,039,840**	**22,689,679**	**28,238,862**	**36,004,224**
Total liabilities and stockholders' equity	**$3,313,351**	**$10,271,813**	**$18,473,351**	**$25,335,806**	**$31,767,575**	**$40,496,778**

SOURCE: *Google Form10-K (2009).*

EXHIBIT 10
Income Statement: Google Inc. (Dollar amount in millions)

Year Ending December 31	2004	2005	2006	2007	2008	2009
Revenues	$3,189,223	$6,138,560	$10,604,917	$16,593,986	$21,795,550	$23,650,563
Costs and expenses						
Cost of revenues	1,468,967	2,577,088	4,225,027	6,649,085	8,621,506	8,844,115
Research and development	395,164	599,510	1,228,589	2,119,985	2,793,192	2,843,027
Sales and marketing	295,749	468,152	849,518	1,461,266	1,946,244	1,983,941
General and administrative	188,151	386,532	751,787	1,279,250	1,802,639	1,667,294
Contribution to Google Foundation	0	90,000	0	0	0	0
Nonrecurring portion of settlement of disputes with Yahoo	201,000	0	0	0	0	0
Total costs and expenses	2,549,031	4,121,282	7,054,921	11,509,586	15,163,581	15,338,377
Income from operations	640,192	2,017,278	3,549,996	5,084,400	6,631,969	8,312,186
Interest income and other, net	10,042	124,399	461,044	589,580	316,384	69,003
Impairment of equity investments	0	0	0	0	(1,094,757)	0
Income before income taxes	650,234	2,141,677	4,011,040	5,673,980	5,853,596	8,381,189
Provision for income taxes	251,115	676,280	933,594	1,470,260	1,626,738	1,860,741
Net income	$399,119	$1,465,397	$3,077,446	$4,203,720	$4,226,858	$6,520,448
Net income per share of Class A and Class B common stock						
Basic	$2.07	$5.31	$10.21	$13.53	$13.46	$20.62
Diluted	1.46	5.02	9.94	13.29	13.31	20.41
Shares outstanding (mil)	267	293	309	313	315	318
Year-end stock price	$192.79	$414.86	$460.48	$691.48	$307.65	$619.98

SOURCE: *Google Form 10-K (2009).*

Alternative Technology

Each day, more individuals were using devices other than personal computers to access the Internet. If users of these devices did not widely adopt versions of Google's web search technology, products, or operating systems developed for these devices, the business could be adversely affected. These alternative devices may make it problematic to use the services provided by Google, and make it challenging for the company to produce products which capture customers' imaginations and loyalties.

Information Technology Issues

Google was susceptible to threats from false or invalid visits to the ads it displayed, and has had to refund fees charged for advertising due to fraudulent clicks. If Google failed to detect click fraud or other invalid clicks, it could lose the confidence of its advertisers, which would harm the company's image and viability.

Additionally, interruption or failure of the information technology and communications systems the company used could hurt its ability to effectively provide products and services, damaging the reputation Google worked to maintain, as well as harming its operating income. Its IT system was exposed to impairment from numerous sources, such as natural disasters, infrastructure failures, and computer hackers. Although management had contingency plans for many of these situations, such plans could not cover every possibility.

Index spammers could harm the integrity of Google's web service by falsifying users' search attempts. This could damage the company's reputation and lead to users becoming unhappy with Google's products and services, leading to a decline in website visits. This could result in lower advertising revenues from its Google Network partners. Google relied greatly on these members for a significant portion of its revenues, and both parties benefited from their association with each other. The loss of these associates could adversely affect the business.

The future of the business depended upon continued and unimpeded access to the Internet for both the company and its users. Internet access providers may be able to block, degrade, or charge for access to certain Google products and services, which could lead to additional expenses and the loss of users and advertisers.

As Google spread its operations across the globe, more and more of its receivables were being denominated in foreign currencies. If currency exchange rates become unfavorable, the company could lose some revenues in U.S. dollar terms. Although many multinational corporations used hedging strategies to lower or negate the risk of doing business overseas, Google had limited experience with many of these financial strategies. Hedging strategies also had high costs, reducing the company's overall profitability.

Culture and Employees

Like many successful technology firms, Google provided its employees with an open and collaborative culture in which ideas were exchanged and new products and application ideas were developed. Google's management strived to be transparent in their workings, making sure that employees knew about company announcements and new product or application development before the public. The company used both technology and standard processes to convey information. For example, "Tech Talks" blogs and weekly "TGIF" meetings were used to convey information and to communicate with employees.

On December 31, 2009, Google had 19,835 employees, consisting of 7,443 in research and development, 7,338 in sales and marketing, 2,941 in general and administrative, and 2,113 in operations. Given that Google relied on highly skilled workers, its continued success was strongly related to its ability to maintain and grow its strong talent pool. Once the current recession ends, it may become more difficult to attract and maintain skilled, talented employees.[10]

Google experienced rapid and strong growth with strong employee satisfaction. The company worked to gain a globally diverse workforce with different perspectives in which

employees were rewarded for performance. Google had historically worked hard to maintain a corporate culture of innovation and performance that aligned the interests of the corporation with those of employees. The company's $1,000 cash bonus and 10% raise paid to all of its employees in 2010 were examples of the lengths to which the company acted to retain top talent. This was important since Google's stock price had dropped 4.7% in 2010. According to Paul Kedrosky, a venture capitalist, "It used to be people were fine taking Google's money and stock, because they believed it would appreciate rapidly. Not it's not as attractive."[11]

The company considered cofounders Brin and Page to be a key corporate resource, even though their spending $15 million for a former Qantas Boeing 767 jet airplane in 2006 to use as a company plane was listed by *Bloomberg Business Week* as an example of "executive excess."[12]

As the company continues to grow, management will be challenged to find new and innovative ways to maintain a strong corporate culture.

Seasonality

While there were some seasonal effects on Google's business, it was generally not as significant as in retail stores, which earned much of their revenue in the last quarter of the calendar year. In Google's case, there had generally been an increase in business in the last quarter of the calendar year, as represented by commercial queries. Likewise, the summer months tended to be the slowest time of the year. While seasonality might be an issue for Google's business and revenue, it was generally not perceived by management to be a major issue.

Google's Future

Google had thus far thrived in the Internet search engine industry, garnishing a name that, for many, was synonymous with "Internet search." Up to now, growth had been strong, suggesting a bright future. Google appeared to be poised to take advantage of what the future had to offer in new technology by creating new products. In order to continue doing this, it will need to retain the best and brightest minds. For example, one of Google's new concepts was artificial intelligence software for use in automobiles that could drive themselves.[13] The company's stock price had climbed tremendously in the past, but some analysts now felt that Google was maturing as a corporation and that its stock value was leveling off.[14]

As Google continued to grow, it continued purchasing other companies, such as its acquisitions of YouTube, DoubleClick, and Postini.[15] Nevertheless, growth by acquisition may not necessarily lead to increasing growth in revenues or profits. For example, YouTube was an $1.6 billion 2006 acquisition that as of 2010 had not generated significant additional revenue for Google, despite its growth potential.

There were some indications that acquisitions might become an increasingly difficult strategy in the future. In 2010, Google failed in an attempt to purchase Groupon, a website specializing in local shopping promotions. Google's offer of $6 billion for Groupon was almost double what it had paid for DoubleClick in 2008. Groupon's rejection of the offer reflected a fear common to web entrepreneurs that their small ventures might get lost inside Google's vastness. For example, several other startups, such as Yelp, that had also been pursued by Google had opted to stay privately owned.[16]

Google's top management needed to consider these and other factors in order to plan strategically. Legal issues will likely continue, such as allegations that Google used Wi-Fi networks to take personal information. Google's management had moved on this quickly with corrective action and similar future responses to legal challenges will be important.[17] The future of mobile computing was an open, uncharted area.[18]

All of these considerations and more were relevant as CEO Schmidt and his executive team pondered the second decade of the new millennium and discussed Google's future strategies.

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DISCUSSION QUESTIONS

1. What are the **strengths** and **weaknesses** of Google?
2. What are the **opportunities** and **threats** facing Google?
3. Does Google have any **core competencies**? If yes, what are they?
4. What are the key success factors for Google's?
5. What must Google's do to develop an effective differentiation enterprise – wide strategy?
6. Would you buy stock in Google's? If 'yes' why? If 'no' why?