**ECONOMIC CHECKLIST - GOOGLE**

**MARKET SCALE**

Can the company grow from a local to national or global market scale?

Yes. The company has grown to a global scale and still has markets.

**STRENGTH OF INDUSTRY**

Is your industry strong (emerging vs. maturing, fragmented, or declining)?

The industry is emerging as more people use the internet for their business and for consumer purchases. Retail is becoming much narrower and geography is becoming less important.

**SWOT**

Do your strengths, and opportunities outweigh your weaknesses and threats?

Google’s strengths are its Brin-Page partnership, strategic partnerships with other companies (referred to as “coopetition”), patent technology, custom built data centers/hardware to support its fast search, product differentiation, values, and unique management.

Opportunities still arise in new information technology products and markets that still have not adopted cheap and wide use of the internet.

Weaknesses are it’s deep pockets and other companies suing Google for copyright or trademark infringement.

Threats are other technology companies and the loss of one of the three main executives (Brin, Page, Schmidt).

**SCALABLE**

Can the company’s revenue continue to grow year after year?

Yes. The company can grow as it enters new markets.

**COMPETITIVE STRATEGY**

Do you have a competitive advantage to succeed at a strategy of cost leadership, differentiation, or focus without getting stuck in the middle?

Google has chosen “focus,” spending all of their resources to provide a better and more focused search experience for their users.

**GROWTH/SHARE MATRIX**

Can the business gain a high relative share of its market?

Yes. The business currently has a high share of the market.

**COMPETITORS**

Is there a low amount of competition in the industry?

There are not many competitors that can match the size and scope of google.

**COMPETITOR EQUALITY**

Are the competitors at unequal playing power so that no other company dominates the industry ?

No. Certain competitors such as Microsoft and Yahoo have strong playing power.

**STANDARDIZATION/SWITCHING COSTS**

Is the product unstandardized, switching costs low?

Yes.

**OVERCOMIMG BARRIES OF ENTRY**

1. provide product or service at reduced costs,
2. offer superior product, discover new niche/target market,
3. introduce marketing innovation,
4. introduce technology, or
5. use piggybacked distribution/existing relationships from other businesses

Can you overcome barriers to entry?

Google overcame barriers of entry by introducing a superior product with a superior technology. They piggybacked on their resources as Stanford.

**FORTIFYING BARRIERS TO ENTRY**

1. Provide product or service at reduced costs;
2. Use product differentiation;
3. Implement switching costs;
4. Lock up supply channels;
5. Develop proprietary technology;
6. Lock up favorable locations;
7. Block learning curve; or
8. Impose governmental regulations;
9. Create economies of scale

Can you fortify barriers (defensibility) to prevent others from entry?

The barriers to entry that google has is product differentiation, superior product, locking up supply channels, developing proprietary technology, and creating economies of scale.

**EXPERIENCE CURVE BARRIERS TO ENTRY**

Is there a large experience curve in your industry that you have achieved and others don’t?

Yes. Search algorithms can become very complex.

**HIGH MARGIN**

Does you product have high margins (product-COGS)?

Extremely high margins. There is almost no COGS.

**FIXED COSTS**

Does you product have low fixed costs?

No. Google has to pay a lot for their talent, buildings, etc.

**ECONOMIES OF SCALE**

Do you have the capital resources to achieve economies of scale?

Yes. By partnering with two venture capital firms and IPO, Google achieved economies of scale.

**OPPORTUNITY FOR DISRUPTION**

Do your competitors have economies of scale and can your product disrupt their economies of scale (i.e. cater to a new market)?

Google’s competitors had economies of scale but were disrupted by a superior product that was patent protected.

**DOMAIN EXPERIENCE**

Do competitors or clients lack the domain knowledge to replicate the product?

Yes

**VERTICAL INTEGRATION**

Do competitors or clients lack the vertical integration to develop the product in-house?

Yes. Most do not have the resources.

**VALUE PROPOSITION**

(When arranging an interview to gain industry related information, make sure you have something to offer the interviewee in return for his or her time.)

By interviewing prospective customers, is there a high demand for what your are doing (i.e. does what you are doing solve a lot of peoples problems), do they have the money to pay for you to solve their problems, and will they pay?

Brin and Page spent a lot of time interviewing their customers, especially when introducing controversial products or features.

**LOW EXPECTATIONS FOR RETALIATION**

Is there a low likelihood of retaliation by dominant players, established firms with large resources, cutthroat entrepreneurs, or firms with commitments in your industry?

No. There was a lot of retaliation by Microsoft.

**MARGINAL GROUPS**

Can tenuous or marginal companies in your industry be encouraged to exit?

Yes. Google has been known to be a serial acquirer.

**CONVERTING RESOURCES**

Can you purchase sick business assets whose resources can be converted to your industries?

Yes.

**WEAK BARGAINING POWER OF BUYERS**

(There are a large number of buyers, buyers will compete, product is an insignificant portion of buyers expenses, product is unique and differentiated, switching costs are low, buyer earns high margins, buyer does not pose a credible threat of backward integration, product is important to buyer’s quality assurance, buyer has poor information).

Do the buyers have weak bargaining power?

Yes. There are only a couple search engines to choose from.

**WEAK BARGAINING POWER OF SUPPLIERS**

(There are many suppliers that will compete for your business, obliged to contend with substitute products, industry is an important customer of the supplier group, suppliers product is not important input in buyer’s business, suppliers products are not differentiated, there are not switching costs, supplier group does not pose a threat to forward integration.)

Do suppliers have weak bargaining power?

No. Computer science talent is very expensive.

**BATTLEGROUND**

Are you in the best location to fight with competitors?

Yes. California.

**MIXED MOTIVES OR CONFLICTING GOALS**

Can you make moves for which retaliation would hurt the competitor’s broader positions or commitments?

Unknown.

**COMPETITOR INTELLIGENCE SYSTEM**

Do you have a competitor intelligence system in place?

Unkonwn.

**MARKET SIGNALS**

Are there few or no actions by competitors that indicate future competitive goals or commitments and are they true or bluffs?

There were several market signals that Googles competitors announced, including law suits.

**PROPRIETARY TECHNOLOGY**

Do you have proprietary technology?

Yes. Google had proprietary technology (PageRank).

**DIFFUSION OF PROPRIETARY KNOWLEDGE**

(The more complex the technology, the more specialized and technical personnel, the greater the economies of scale, continual investment into R&D, and patent protection or gov’t regulation can slow the diffusion.)

Can you prevent the diffusion of your proprietary knowledge?

Yes. Technology is complex, team is technical, have economies of scale, pour millions into R&D, and patent protection to prevent their technology from diffusing.

**SYNERGIES**  
Does what you are doing support other businesses you own or aspects of your life?

Yes. This was Brin and Page’s passion.

**ACQUISITION STRATEGY**

Do you have superior information, number of bidders is low, condition of the economy is bad, selling company is sick, seller has objectives/motives for sale beside maximizing the price, buyer has a distinctive ability to improve operations of the seller, buyer is buying into an industry with uses for internal development, acquisition will help buyer’s position in its existing business?

N/A

**INDUSTRY ANALYSIS**

Who is in the industry, what is the standard industrial classification (SIC) code by the Census Bureau, are their industry studies, annual reports, trade associations, who are the buyers, sellers, trade magazines, business press, company directories, government sources.

Have you done an industry analysis?

Unkonwn.

**ECONOMIC VALUE ADDED**

EVA is defined as net operating profit after tax (NOPAT), less a capital charge that reflects a firm’s cost of capital.

Is there economic value added?

Yes. There is a ton of EVA added in Google.

**RISKS**

Do the returns match the risk?

Yes. The returns have matched the risk.

Is the level of risk appropriate for your long-term goals?

The level of risk was appropriate for Brin and Page.