TCA 2: Alphabet Eyes New Frontiers

Team 7

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17968 Tuesday and Thursday 8.00 am – 9.15 am

Executive Summary

Strategic Issue:

How can Alphabet maintain a culture of innovation and entrepreneurship across its diverse subsidiaries, while funding and capitalizing on new growth opportunities in emerging technologies, and not overspending on long-term unrealized opportunities?

Causes:

- Acquisition of companies with incongruent cultures
- Necessary to stay up to date with technology to stay competitive
- Overspending on R&D

Recommended Alternative:

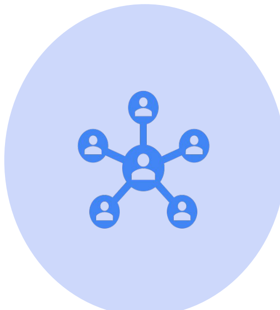
Filtering for acquisition targets that conform to Alphabet's bottom-up team structure, while also providing the Company with an attractive amount of inorganic growth opportunities, would ensure that culture clashes do not result in entities being spun off after being acquired.

Company Financials

Year-Over-Year Income Statement Analysis						
				Common-Sized		
	2013	2014	2015	2013	2014	2015
Revenue						
Google	$55,507	$65,674	$74,541	99.98%	99.50%	99.40%
Other Bets	12	327	448	0.02%	0.50%	0.60%
Total Revenues	**$55,519**	**$66,001**	**$74,989**	**100.00%**	**100.00%**	**100.00%**
% Growth		*18.88%*	*13.62%*			
Segment Operating Income (Loss)						
Google	$16,260	$19,011	$23,425	29.29%	28.80%	31.24%
Other Bets	(527)	(1,942)	(3,567)	0.95%	2.94%	4.76%
Admin. Costs & Other Items	(330)	(573)	(498)	0.59%	0.87%	0.66%
Total Income from Operations	**$15,403**	**$16,496**	**$19,360**	**30.83%**	**32.61%**	**36.66%**
% Growth		*7.10%*	*17.36%*			
Capital Expenditure						
Google	$7,006	$11,173	$8,849	12.62%	16.93%	11.80%
Other Bets	187	501	869	0.34%	0.76%	1.16%
Reconciling Items	165	(715)	197	0.30%	1.08%	0.26%
Total Capital Expenditure	**$7,358**	**$10,959**	**$9,915**	**13.25%**	**18.77%**	**13.22%**
CapEx Refresh Change		*48.94%*	*-9.53%*			

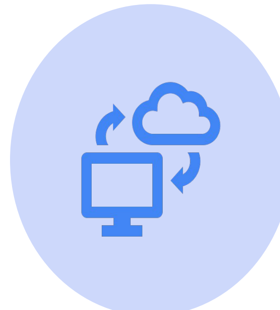
Quarter-Over-Quarter Income Statement Analysis				
			Common-Sized	
	Q3 2015	Q4 2015	Q3 2015	Q4 2015
Revenues	**$18,675**	**$21,329**	**100.00%**	**100.00%**
% Growth		*14.21%*		
Costs & Expenses				
Cost of Revenues	$7,037	$8,188	37.68%	38.39%
Research & Development	3,230	3,510	17.30%	16.46%
Sales & Marketing	2,223	2,679	11.90%	12.56%
General & Administrative	1,477	1,572	7.91%	7.37%
Total Costs & Expenses	**$13,967**	**$15,949**	**74.79%**	**74.78%**
Income from Operations	**$4,708**	**$5,380**	**25.21%**	**25.22%**
% Growth		*14.27%*		
Other Income (Expense), Net	183	(180)	0.98%	0.84%
Income from Operations Continuation before Taxes	4,891	5,200	26.19%	24.38%
% Growth		*6.32%*		
Provision for Income Taxes	912	277	4.88%	1.30%
Net Income	**$3,979**	**$4,923**	**21.31%**	**23.08%**
% Growth		*23.72%*		

PESTEL Analysis



SOCIAL

- Increased social media usage
- Societal views on technological businesses, data privacy, corporate power
- Workplace culture and retention



TECHNOLOGICAL

- Innovation: cloud services and artificial intelligence
- Need to continuously adapt technology to stay prevalent

ECONOMIC

- Performance is impacted by state of the economy
- "moonshot" initiatives and acquisitions are essential for development and innovation

Porter’s 5 Forces Analysis

Threat of substitutes

Moderate threat of main offerings: search, advertising, and consumer technology

Rivalry of industry competitors

Competitive rivalry is high with “winner-takes-all” dynamics in many sectors

VRIO and SWOT

Company Culture

Valuable: ✅
Rare: ✅
Costly to Imitate: ✅
Organized to Capture Value: ✅

Research Activities/ "Moonshots"

Valuable: ✅
Rare: ✅
Costly to Imitate: ❌
Organized to Capture Value: ❌

Strengths	Weaknesses
• The company culture • Acceptance of ideas and innovations	• Concerns over their current allocation and spending in R&D • Competition are not spending as much in comparison
Opportunities	**Threats**
• Untapped, or less crowded, markets that align with some of Alphabet's areas of advancement	• Competition (Apple and Amazon) beating them to certain innovations/ideas

Strategic Issue: How can Alphabet maintain a culture of innovation and entrepreneurship across its diverse subsidiaries, while funding and capitalizing on new growth opportunities in emerging technologies, and not overspending on long-term unrealized opportunities?

Strategic Alternatives /Criteria	the degree to which it resolves the issue	consistency with external environment	consistency with existing or needed capabilities that create a competitive advantage	strategic fit with their generic competitive strategy (and vision/mission)
Filtering for acquisition targets that conform to Alphabet's bottom-up team structure, while also providing the Company with an attractive amount of inorganic growth opportunities, would ensure that culture clashes do not result in entities being spun off after being acquired.	2	1	1	2
Search for nascent geographical markets that are not as crowded in the areas Alphabet is developing technological advancements such that an efficient market penetration strategy can be undertaken, while also helping the Company diversify its revenue streams.	3	2	3	1
A Decentralized Management Strategy somewhat like Berkshire Hathaway, Alphabet may continue to grant a great deal of operational autonomy and independence to its subsidiaries and "Other Bets" businesses. As a result, each business would be able to keep its culture of entrepreneurship, seize fresh chances with speed, and stay away from bureaucracy. Alphabet would, therefore, need to set up strong governance procedures to keep an eye on spending, performance, and strategy congruence.	1	3	2	3

Note: Rating from 1-3; 1 being the highest

Implementation Plan

Assumptions:

- Alphabet's interest sectors will continue to provide appealing purchase targets.
- There is no significant growth in acquisition activity by competitors, which would raise valuations.
- Customers accept new products and services from businesses that Alphabet has purchased.

Time frame:

- 0–6 months
  - Form an interdisciplinary M&A team of individuals from strategy, finance, HR, and legal.
  - Create cultural fit evaluation standards in line with Alphabet's guiding ideas and values.
  - Update financial models with predictions for inorganic growth.
- 6-12 months:
  - Analyze prospective targets carefully and thoroughly, paying attention to culture and finances
  - Negotiate and try to acquire the best candidates.
  - Dependable sources of funding (cash reserves, debt issuance if necessary)
- 12 months or longer:
  - Integrate purchased businesses with an emphasis on change management.
  - Keep an eye on the financial results and the state of culture.
  - Give acquisitions operational autonomy and growth resources

New Resources:

- A $10–20 million acquisition integration budget (including HR, IT, facilities, and consultants) is necessary which are financed by cash flow from operations
- M&A team of 50–100 workers including new hiring and internal transfers

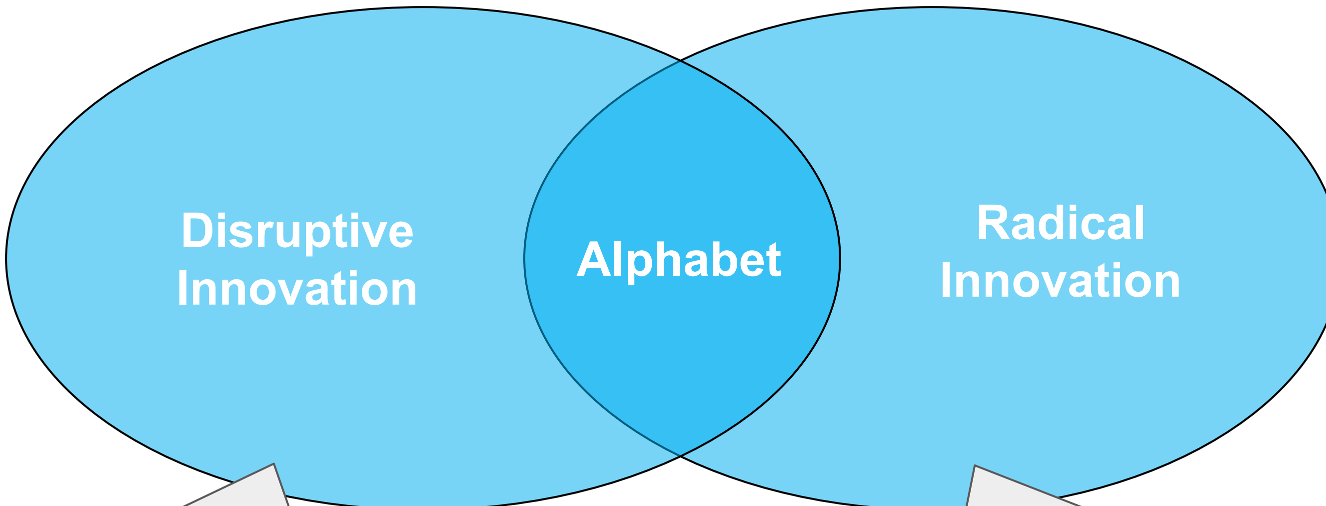
Changes to Value Chain and Capabilities:

- Robust M&A assessment and integration procedures
- Go-to-market assistance for acquisitions and commercial growth plan
- Knowledge of organizational design and change management

Infrastructure/Systems Changes:

- Tools for cultural evaluation included in diligence procedures
- M&A team incentives and KPIs based on acquisition performance metrics
- Standardized integration practices for HR, finance, and IT systems

Innovation Analysis



Marquee Products:
- Adsense
- Gmail
- Google News

Google X Projects:
- Wi-Fi Balloons
- Driverless Cars
- Smart Eyeglasses