"A" Is for Alphabet and "G" Is for Google: Alphabet's Corporate Strategy and Google's Strategy Process

Alphabet's Corporate Strategy

"GOOGLE IS NOT a conventional company. We do not intend to become one," wrote founders Larry Page and Sergey Brin in 2004 when going public. This unconventional company brought the world the most successful online search engine and mobile operating system, the Chrome browser, and driverless cars to name just a few of its contributions. It was also hugely successful. Exhibit MC19.1 shows Google's stock performance since its initial public offering (IPO) in 2004 vis-à-vis the tech-heavy NASDAQ 100 stock market index. Google outperformed the NASDAQ 100 by some 1,000 percentage points (or 10 times)!

In the summer of 2015, Google yet again proved that it is not a conventional company, by splitting itself and creating a diversified multidivisional

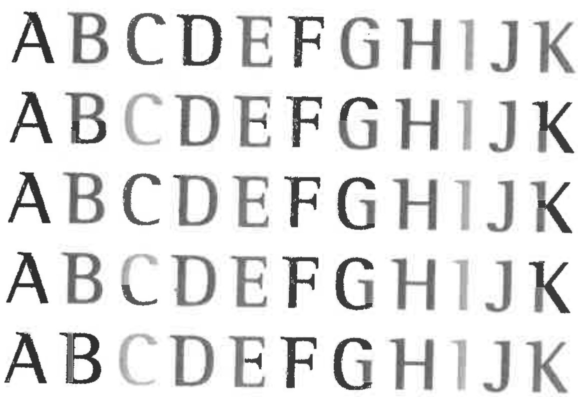

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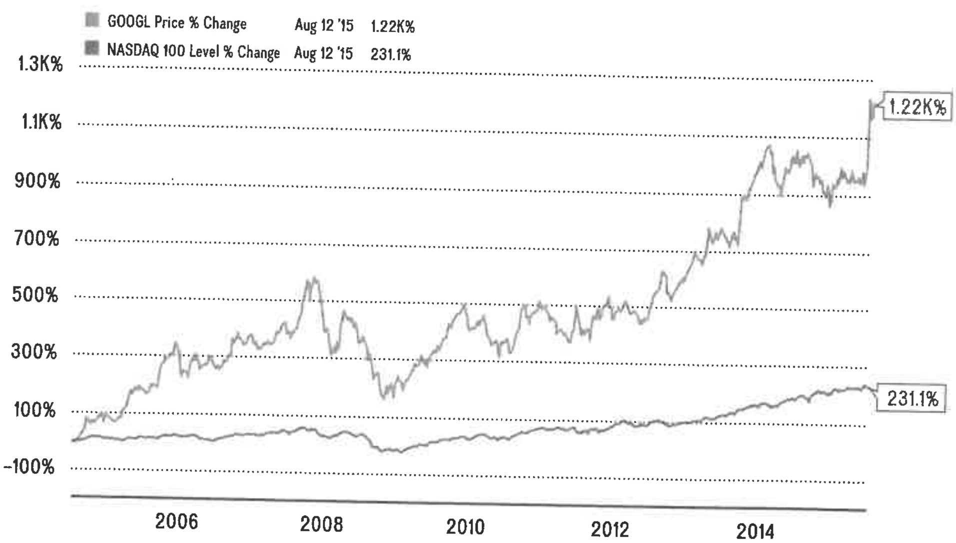
EXHIBIT MC19.1 / Google Stock Performance vis-à-vis NASDAQ 100 Index, 2004–2015



Source: Depiction of publicly available data using YCharts, www.ycharts.com.

structure overseen by Alphabet, a new corporate entity. As Google had become much more complex over the years with a number of unrelated lines of businesses (think online search and longevity research), it moved from a functional structure to a multidivisional structure. Alphabet is the new parent company, overseeing seven strategic business units, each with its own CEO and profit-and-loss responsibility (see Exhibit MC19.2).

The six business units in addition to Google Inc. are: Google X (self-driving cars, delivery drones, Internet balloons), Nest (smart thermostats), Google Fiber (broadband service), Calico (longevity research), Life Sciences (contact lenses), and Google Ventures (start-up investments). This sweeping restructuring allows the company to separate its highly profitable search and advertising business from its "moonshots" such as providing wireless Internet connectivity via high-altitude balloons or contact lenses that double as a "computer monitor" and provide real-time information to the wearer. At the time the restructuring was announced, Google's market capitalization was some $450 billion. The new structure allows Alphabet to pursue new business far from Google's roots in online search, but that could be worth billions of dollars. Moreover, it also frees Google from huge outlays it occurred funding "moonshots" over the years, of which investors had become much less tolerant.

Larry Page is Alphabet's CEO, while Sergey Brin is president. Former Google CEO Eric Schmidt is executive chairman, and Ruth Porat is CFO, joining Google from Morgan Stanley just a few weeks before the reorganization. Page said he modeled Alphabet's new organizational structure after that of conglomerate Berkshire Hathaway led by Warren Buffett, whom he admires for effectively managing a set of unrelated businesses.

Google, the core business unit, is now being led by Sundar Pichai, who serves as CEO. The Google unit overseas the company's most profitable lines of business including Search, Ads, YouTube, Android, Chrome, and Infrastructure. Of Google's $69 billion in revenues (in 2015), the new Google unit generated $66 billion, or 96 percent. Exhibit MC19.3

EXHIBIT MC19.2 / Alphabet's Corporate Structure

depicts Google's key events and net income since its IPO in 2004 until 2015. Given Google's huge success over the years, let's take a closer look at its strategy process.

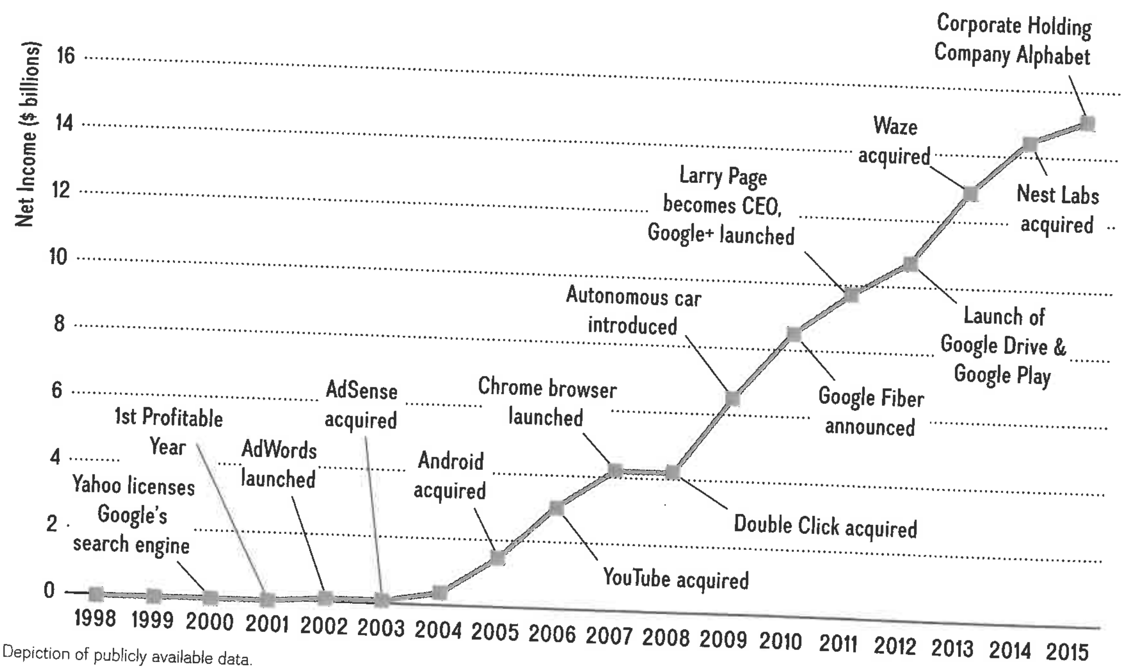
Google's Strategy Process

Google is famous for developing many of its most well-known products and services through planned emergence, where the impetus for strategic initiatives emerged from the bottom up through *autonomous actions by lower-level employees.* The Internet company organizes the work of its engineers according to a 70-20-10 rule. The majority of the engineers' work time (70 percent) is focused on its main business, search and ads. Google also allows its engineers to spend one day a week (20 percent) on ideas of their own choosing, and the remainder (10 percent) on total wild cards such as Project Loon (now part of Google X), which is an envisioned network of high-altitude balloons traveling on the edge of space to provide wireless Internet services to the two-thirds of the world's population in rural and remote areas that do not yet have Internet access.

Google reports that half of its new products came from the 20 percent rule, including Gmail, Google Maps, Google News, and Orkut. Even Google's billion-dollar business AdSense, which enables creators of content sites in its network, such as those that publish posts on Google's blogger site, to serve online ads that are targeted to the site's content, came from the 20 percent time. In particular, it started with an experiment by two Google engineers to match the content of e-mail messages in its Gmail system with targeted ads based on the e-mail's content.

Although Google has a stellar track record through its strategy process of planned emergence, it fumbled its social networking opportunity presented by Orkut. In 2002, some two years before Facebook was started (equating to eons in Internet time), Google engineer Orkut Buyukkokten had developed a social network using his 20 percent discretionary time. Marissa Mayer, then Google's vice president in charge of this project, liked what she saw and provided initial support. After adding more engineers to further Orkut's development, Google was astonished at the early success of the social network: within the first month after release, hundreds of thousands of people had signed up.

EXHIBIT MC19.3 / Google's Key Events and Net Income, 1998–2015



Source: Depiction of publicly available data.

In 2014, Google shut down Orkut. At that time, Orkut had a mere 30 million users, mostly in Brazil and India, which pales in comparison to Facebook's more than 1.5 billion users worldwide.

Why did Google fumble its lead over Facebook? Google had a huge opportunity to become the leader in social networking because MySpace imploded after it was acquired by News Corp. Despite initial support, Google's top executives felt that social networking did not fit its vision *to organize the world's information and make it universally accessible and useful.* Google relied on highly complex and proprietary algorithms to organize the knowledge available on the Internet and serve up targeted search ads. Social networking software, in comparison, is fairly pedestrian. Google's co-founders, Brin and Page, both exceptional computer scientists, looked down on social networking. They felt their PageRank algorithm that accounts for hundreds of variables and considers all available websites was far superior in providing *objective* recommendations to users' search queries than *subjective* endorsements by someone's online friends. As a consequence, they snubbed social networking. Moreover, given the many different projects Google was pursuing at that time, Orkut was ranked as a low priority by Google's top executives. Starved of further resources, the social networking site withered, making Facebook the undisputed leader.

In 2011, Google launched Google+, its newest social networking service. By integrating all its services such as Gmail, YouTube, Chrome, and others into one user interface and requiring users of even just one Google product to sign in to its portal, the company tried to catch up with Facebook. Not being able to access Facebook users' activities limits Google's ability to serve targeted ads, and thus cuts into its main line of business. On the other hand, Facebook has a captive audience 1.5 billion strong who spent on average 45 minutes daily on its sites (including Facebook Messenger and photo-sharing app Instagram). AdWords is Google's main online advertising product and garners some 85 percent of Google's total revenues of $66 billion (in 2015). Meanwhile, Facebook's search and mobile advertising business is growing rapidly. While Google still leads and captures roughly 35 percent of the $70 billion mobile advertising industry, Facebook is growing faster.

DISCUSSION QUESTIONS

1. Why did Google restructure itself and create Alphabet? What is it hoping to accomplish? For additional insights, see Larry Page's blog post announcing the restructuring at http://googleblog.blogspot.com/2015/08/google-alphabet.html.
2. Do you think the reorganization is beneficial for Alphabet's "moonshots," now housed in their own business unit with profit-and-loss responsibility?
3. As of the fall of 2015, Alphabet is a "one-trick pony," with Google's online search and advertising business bringing in basically all the profits. Why has Google "failed" to develop other profitable businesses? Is Google's strategy process of planned emergence to blame? Why or why not?
4. Given that Google is now a standalone business run by Sundar Pichai, do you expect that its strategy process will change? Why or why not? If so, how?

Sources: This MiniCase is based on: "Facebook, Google tighten grip on mobile ads," *The Wall Street Journal,* July 29, 2015; "Google creates parent company called Alphabet in restructuring," *The Wall Street Journal,* August 10, 2015; Carlson, N. (2015), *Marissa Mayer and the Fight to Save Yahoo!* (New York: Hachette Book Group); various Google 10-K reports filed with U.S. Securities and Exchange Commission; Edwards, D. (2012), *I'm Feeling Lucky: The Confessions of Google Employee Number 59* (New York: Houghton Mifflin Harcourt); Levy, S. (2011), *In the Plex: How Google Thinks, Works, and Shapes Our Lives* (New York: Simon & Schuster); and www.google.com/loon/.