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Google: In Search of Itself

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In a span of four days earlier this month, Google launched an initiative to enable social networking tools to work across dozens of web sites and rounded up 33 partners to develop software to power a new generation of cell phones. While these efforts illustrate Google's determination to keep expanding its territory, they also increase the challenges faced by the $200 billion company. And they pose a question that seems to crop up more and more these days: Where is Google headed?

Coming up with an answer, says Wharton legal studies and business ethics professor Kevin Werbach, is difficult for an outsider. "Google understands Google much better than most people on the outside," says Werbach. "It's fundamentally an engineer-driven company, and engineers love to find new challenges and solve problems in novel ways. The company's founders have always questioned accepted wisdom in every area."

Google's knack for doing that has created something of a paradox, say experts at Wharton. Given its size -- it had 15,196 employees as of September 30, up from 13,786 on June 30 -- some of its efforts look like defensive moves aimed at protecting its advertising dominance. Indeed, its latest initiatives raise some interesting questions. Can Google manage its growth? Should it diversify beyond its current focus on advertising revenue? Can it remain nimble enough to stay true to its entrepreneurial roots while defending its current turf? Does it risk a backlash as it moves into new markets?

On November 1, Google announced the release of OpenSocial, a set of software building blocks for adding features to social networking web sites. While the best known social networking sites are MySpace and Facebook, there are dozens of similar sites that bring people together around mutual interests. Google's OpenSocial would allow programmers to use a single standard to create applications to perform tasks such as letting users share music, interests, contacts and other online content. A bevy of social networking sites -- including Bebo, Friendster, LinkedIn, MySpace and Ning, all of them rivals of Facebook -- plans to support Google's OpenSocial architecture. "The web is fundamentally better when it's social; we're only just starting to see what's possible when you bring social information into different contexts on the web," said Jeff Huber, Google's senior vice president of engineering, in a statement.

But Google's OpenSocial plans aren't just about creating web software, notes Wharton management professor David Hsu. It's no coincidence, he adds, that Google announced OpenSocial a few days before Facebook launched its own online advertising system. Facebook's ad system allows marketing partners -- including Blockbuster, CBS, Chase, The Coca-Cola Company, Sony Pictures and Verizon -- to be "friends" with users. It is also no coincidence that Google's OpenSocial partners include many of Facebook's rivals. On October 24, Microsoft paid $240 million for a 1.6% stake in Facebook, which would value the company at about $15 billion.

"Google wants to insulate itself against being disrupted by a startup or another [rival]," says Hsu. "Facebook represents another entry point to the Internet beyond search. Google wants to forestall [any encroachment on its ad business] and preserve its model."

According to Hsu, Google was playing defense like any large, dominant company protecting its turf. Werbach, however, suggests that "with OpenSocial, the issue is much more than just competing against

Facebook. Google built a massive business in search by aggregating massive amounts of data, and then optimizing transactions around that data with both end-users and advertisers. There is a similar opportunity to aggregate and transact around social data."

Meanwhile, on November 5, Google and others announced the Open Handset Alliance, a group of wireless technology companies -- including Sprint, T-Mobile, NTT DoCoMo, Qualcomm and Motorola -- that stated their intention to use the search giant's software to power cellular phones. Google's software, called Android, includes a mobile operating system and mobile software applications being distributed by the company for free under an "open source" software license. According to the Open Handset Alliance web site, Android is available under a "commercial-friendly" open source software license that, unlike some open source models, allows handset manufacturers and mobile operators to develop their own proprietary extensions to the software and does not require them to contribute their enhancements back to the open source community.

The initial version of the software development kit for Android was released this Monday, November 12, along with the announcement of the "Android Developer Challenge" to award a total of $10 million in amounts ranging from $25,000 to $100,000 to developers who build "great mobile apps built on the Android platform." The first Android-powered phones are expected to be available in the second half of 2008. "This partnership will help unleash the potential of mobile technology for billions of users around the world," said Google chairman and CEO Eric Schmidt in a statement. "Our vision is that the powerful platform we're unveiling will power thousands of different phone models."

Experts at Wharton say Google's plans reveal a company that is entrepreneurial and willing to take on established mobile players, such as Microsoft, Verizon Wireless and AT&T. "My intuition is that Google is playing offense here," says Thomas Lee, Wharton professor of operations and information management. "[The Open Handset Alliance] is an anticipatory move to shake up the wireless market."

Wharton management professor Lawrence Hrebiniak agrees. "Google is testing the wireless waters," he says. "Google is floating the idea of open software on wireless phones so it can eventually sell more ads. Partners go along because Google has clout even though the technology isn't ready yet."

But Hrebiniak also adds that many details about Google's Android software are currently lacking. In this respect, Google is preannouncing its plans in a way that freezes the market -- a strategy that Microsoft has long been known to follow. These announcements, says Hrebiniak, illustrate Google's ability to shift gears between being a dominant player protecting its market position and an upstart ready to attack established companies in mature markets such as telecommunications and publishing.

Hedging Its Bets

But to an outsider, Google's various experiments might seem unfocused. Google has dozens of projects that haven't turned into moneymakers. With Google Docs, the search giant is looking to thwart Microsoft Office. Other Google projects underway include Google Earth, Google Trends, Google Web Accelerator and even Google Mars.

The common thread between most of Google's efforts, however, is advertising, which accounts for nearly all of the company's revenue. Google's expanding collection of services offers more opportunities to sell ads. Should Google remain focused on advertising, look for ways to grow the company or find new businesses to diversify its revenue base?

Experts at Wharton say that Google is likely to be focused on all of the above. Kendall Whitehouse, senior director of technology at Wharton, notes that diversification of Google's business makes sense. "Advertising revenues have ebbed and flowed in the past. If I were Google, I'd worry more about the single revenue source than the focus problem," says Whitehouse. "Google has so much cash [$13.1 billion as of September 30] they can afford to experiment. It makes sense for Google to place bets on a lot of different things."

Hrebiniak also questions whether Google's advertising business can hold up as the economy cools, but for now there are no signs of worry. And Google's focus on advertising has thus far paid off brilliantly. For the nine months ended September 30, Google reported a profit of $2.99 billion on revenues of $11.76 billion, up from revenues of $7.4 billion for the same period in 2006. "Whatever the new opportunity is, Google will do what it has always done: sell ads. That is its core competence," says Hrebiniak.

Kartik Hosanagar, an operations and information management professor at Wharton, downplays concerns about whether Google can remain focused. "As Google looks for the next multi-billion dollar opportunity, it has to expand its portfolio while making sure there is a common thread (advertising) tying it all together," says Hosanagar. However, he -- like Whitehouse -- argues that Google may want to diversify beyond advertising revenue. "If and when the economy slows down, advertising is among the first items to take a hit.... Google should develop alternative revenue sources," he suggests.

Other Wharton experts were split on their views of Google's fundamental mission. Hsu says Google is focused on being the primary way consumers access the Internet. "That means Google competes with online applications, media companies, social networking and any category of software that can be an entry point to the Internet," explains Hsu.

Google's real priority is search, Hsu adds, since that's the way the company believes the web is navigated. However, it's unclear whether search is the long-term winner. It's possible that a social network such as Facebook may become the primary on-ramp to the web. In that context, it's not surprising that Google is leading what could be viewed as an anti-Facebook alliance.

Lee concludes that Google's primary focus is on growing the company. "Google is very focused on trying to grow. It is focused on figuring out where it can win and spreading out a bit. Google has a huge army of really smart people, but there is a question of whether it is scatter shot."

Trying to pin down Google's priorities also illustrates some of the paradoxes that surround the company, adds Werbach. "Google does two seemingly contradictory things extremely well: It has a laser-like focus on efficiency for its core assets, and a radical openness to innovation and experimentation for everything else. When it comes to optimizing the performance of its search and advertising platform, Google is incredibly disciplined and performance-driven. Because it generates such phenomenal wealth from its core business, Google can afford to be profligate about anything else that might create growth opportunities."

Beyond Advertising

While Google's strategy may appear scattered to some, few expect the company to slow the pace of new initiatives and product launches.

Hsu suggests that Google is likely to make a big move into medical data -- storing user data for easy access and developing related information management tools. This would follow the path of the October 4 launch of Microsoft's HealthVault, an online service to let people manage their personal health information. Marissa Mayer, Google's vice president of search and user experience, said at the Web 2.0 Summit on October 17 that the company has "a broad interest in this area." Google had already disclosed last May that it has invested $3.9 million in 23andMe, a company focused on allowing individuals to access and understand their genetic information through web-based software tools. Anne Wojcicki, co-founder of 23andMe, is married to Sergey Brin, Google's president of technology and co-founder.

"I wouldn't be surprised if Google goes out on a limb in some areas, especially with medical data," says Hsu. "Gmail [Google's email product] already captures personal data, and people who use it know emails are scanned to deliver ads. If Google can solve the privacy and security worries, medical data could be the next step."

Another possibility is that Google will broaden its business model beyond one that is fueled by advertising. For instance, Lee says that products like Google Docs (formerly called Google Docs and Spreadsheets) could be viable subscription services. Google could also license some of its software. "It's not clear that advertising will be the dominant model in the future. Google could become a hosted application provider. There are many small- to medium-sized businesses that would use Google technology." The service provider model has already been adopted by Amazon.com, which is charging customers to use its computing infrastructure services -- known as Elastic Compute Cloud (EC2) and Simple Storage Service (S3) -- similar to the way public utilities operate.

One thing is certain: Google's experiments will continue, says Werbach, noting that because Google's technology infrastructure is already built, it can create products without additional expense. "Google has [created] a technology platform of massive scale, so that additions to the platform have minimal cost," he says.

Risk of a Backlash

The Google story is still being written and upcoming chapters will include a number of challenges. The biggest challenge for Google is managing its growing pains. "In many ways, this is similar to a political campaign," says Lee. "Initially, you attack the incumbent [Microsoft], but once you win you have to do something. For Google it was much easier to be the young, fast moving entrepreneurial firm. Now Google is a 10,000 pound gorilla and that comes with a different set of responsibilities."

Part of that responsibility is being a good partner and a fair competitor, says Whitehouse. "Google has a strong consumer brand, but I wonder if it has the same image within the industry. If you're a software company or an online service, is Google seen as a potential partner or a feared challenger?"

Human resources are another big issue for Google. The company has grown so rapidly that it's difficult to maintain its culture and keep a compensation structure that motivates employees. For instance, experts at Wharton point out that stock options priced at $700 a share aren't nearly as motivating for new employees compared to the options granted to those who joined the company when the stock price was lower.

"Google has done a remarkable job in growing from a small, private company to a 15,000-person organization in just a few years, without killing its startup-like innovation culture," says Werbach. "The big question is whether that can continue, because it's so dependent on people. Google hires out of the same talent pool as everyone else, and as the company grows, it no longer has the same financial and other incentives to motivate phenomenal people that it once did. It's much harder to make a difference in a company of Google's current scale."

Hosanagar suggests that Google can handle the human resource challenge by keeping internal teams nimble. "Google should ensure that teams remain relatively small so that bureaucratic decision-making does not slow down entrepreneurial minds. Employees should be encouraged to start independent initiatives and [they should] have the time and resources to pursue new ideas," says Hosanagar. "Small teams keep the entrepreneurial culture going, but these will be precisely the things to go when Google's revenue growth slows down and it faces pressure from Wall Street."

And then there's a possible backlash against Google. The more Google grows, the more people worry about its intentions -- despite the company's informal motto: "Don't be evil." Wharton professors note that Google's dominance could lead to a perception problem, but Hrebiniak suggests those fears are overblown. "The backlash issue is overrated. There has been a backlash against Microsoft for years over Windows, but it hasn't mattered."

Werbach isn't so sure. "Google has to struggle with the fact that, for the first time, it is no longer the scrappy new entrant, but the dominant market player," he says. "Google has a hard time understanding why people are suspicious of its motives or its power, because its internal conception hasn't changed from that of a startup. It's hard not to be arrogant when you're as successful as Google, but arrogance is ultimately a dangerous trait for any company. The question is whether Google can mature without losing the youthful vigor that is so important to its success."