

COMPANY PROFILE

# Google Inc.

REFERENCE CODE: 5B199F61-608D-4923-B4A3-F5EE15285ADE

PUBLICATION DATE: 4 Sep 2015

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## COMPANY OVERVIEW

Google Inc. (Google or "the company") is a global technology company that offers search, advertising, operating systems and platforms, enterprise, and hardware products. The company operates in the US, the UK and in several other countries across the world. Google is headquartered in Mountain View, California and employed 53,600 people as of December 31, 2014.

The company recorded revenues of \$66,001 million during the financial year ended December 2014 (FY2014), an increase of 18.9% over FY2013. The strong growth in the revenues was driven by an increase in advertising revenues generated by Google websites. The operating profit of the company was \$16,496 million in FY2014, an increase of 7.1% over FY2013. The net profit of the company was \$14,444 million in FY2014, an increase of 11.8% over FY2013.

## KEY FACTS

<b>Head Office</b>	Google Inc. 1600 Amphitheatre Parkway Mountain View California 94043 USA
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<b>Web Address</b>	<a href="http://www.google.com/">http://www.google.com/</a>
<b>Revenue / turnover (USD Mn)</b>	66,001.0
<b>Financial Year End</b>	December
<b>Employees</b>	53,600
<b>NASDAQ Ticker</b>	GOOG
<b>NASDAQ Ticker</b>	GOOGL

## SWOT ANALYSIS

Google Inc. (Google or "the company") is a global technology company that offers search, advertising, operating systems and platforms, enterprise, and hardware products. The company enjoys strong market share and global reach, which provides sustainable advantage as the company's entrenched position in the market enables it to drive revenues. However, the growing usage of in-app searches poses threat to the company's core business which would negatively impact its advertising revenues. In addition, it would also adversely affect Google's market share in the future.

<b>Strengths</b>	<b>Weaknesses</b>
Global search engine dominance Android's success is a growth driver in the mobile market	Excessive dependence on advertising Limited success of Google's social networks
<b>Opportunities</b>	<b>Threats</b>
Structural reorganization enables the company to focus on core operations Positive outlook for smartphone and tablet market Poised to benefit from growing online video consumption Display and mobile ad spend are growth drivers	Threat from in-app searches Administrative proceedings could impact brand image Intense competition

### Strengths

#### Global search engine dominance

Google enjoys strong market share and global reach. The company's search engine has leading technology which enabled it to gain market share. Google consistently upgrades and enhances its search algorithms to achieve better results. Google's results were recognized as being highly accurate from early on, with the search engine gaining popularity very quickly. In 2001, Google started giving links to major news outlets on the Google search page, which led to the development of Google News. Subsequently, the company released image search capabilities, which were later enhanced to also include search for videos, news stories, and other rich data. In 2010, the company launched Google Instant, which provides results even before the user stops typing. Google also launched voice search and native language search capabilities, which enables users to ask questions and hear answers spoken back. This feature works on the Google Search App for iOS, Android and Chrome browsers for laptops and desktops. As such, the company's competitors have struggled to

match the search engine's accuracy and have fallen behind in popularity. However, despite the best efforts of its competitors, Google holds the majority of the share in the global search engine market, and this does not look set to change.

According to industry estimates, in FY2014, Google's search engine had a market share of more than 62%. Google gained ground in the mobile market as well. Further, the industry estimates indicate that over 89% of the mobile search is conducted through Google search engine. The company therefore enjoys technology leadership which enabled it to drive growth and gain market share. The technology leadership also provides sustainable advantage as the company's entrenched position in the market enables it to drive revenues.

Android's success is a growth driver in the mobile market

Google entered the mobile operating system (OS) market by acquiring Android, which enjoys several unique advantages and has emerged as a leading player in that market. Android operates in the burgeoning market of mobile phones. This market has seen strong growth in recent years, much of which has been driven by a surging demand for smartphones. This provides Android with excellent growth opportunities, translating into growth for the overall company. Android has exploited these opportunities better than its rivals, including Apple, Microsoft and BlackBerry, to establish itself as the clear leader in terms of the number of devices using its OS. Android belongs to a consortium of companies known as the Open Handset Alliance. This includes handset manufacturers such as HTC, Motorola and Samsung. Consequently, Android is the chosen OS on a range of phones that span a broad pricing spectrum. This gives it a competitive advantage over the likes of Apple and RIM, whose OSs are only available on their own phones. Android is the leading mobile OS with more than one billion Android devices activated globally. According to industry estimates, Google's Android platform is the leading smartphone OS in the world with a market share of approximately 83% in second quarter of 2015.

Android is the Open Handset Alliance's first joint project and was launched with the explicit goal of being the first open, complete, and free platform created specifically for mobile devices. Android powers several flagship mobile phones of leading players like Samsung and also the handsets of lower priced players. The fact that Android is the OS powering such a wide range of phones suggests that it has access to every level of the smartphone market in terms of price, and this is where it has a clear advantage over many of its competitors. It has been adopted as the OS of choice by a number of popular handset manufacturers including HTC, LG, Motorola and Samsung. The iPhone has undoubtedly been a phenomenally successful product for Apple and it is credited as the device that kick-started the smartphone revolution. iOS is, however, limited as it is only available on one phone, the iPhone. This is a high-end, expensive product and as there is no cheaper version of the device, Apple does not have access to customers at the lower-cost end of the market in the way that Android does. Android's presence on phones at both the cheap and top ends of the market gives it a much wider potential market, a clear advantage over the likes of Apple. On the other hand, the Microsoft's Windows Mobile OS has limited market share of 2.6% in second quarter of 2015. The limited appeal of the Windows Mobile OS has forced a number of Microsoft loyalists, including HP to launch devices based on the Android OS. Moreover, Nokia, which is in the process of being acquired by Microsoft

has also launched Android based mobiles in 2014. These indicate the popularity and appeal enjoyed by Android.

The increasing popularity of Android is expected to speed up innovation on the mobile front thus ensuring that more users will start browsing the net from their phones. This ensures that more and more traffic is driven to one of Google's many services, which are embedded in the Android platform, where they serve ads thus enhancing Google's revenues.

## **Weaknesses**

### Excessive dependence on advertising

The company primarily depends on advertisements for a majority of its revenues. For FY2014, FY2013, and FY2012, advertising accounted for 89.5%, 91% and 94.9%, respectively, of the company's total revenues. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Adverse macroeconomic conditions can also have a material negative impact on the demand for advertising and cause its advertisers to reduce the amounts they spend on advertising. The company's continued dependence on advertisement for a majority of its revenues indicates increased vulnerability to the ad spending patterns.

### Limited success of Google's social networks

Although Google is the leading search engine and its web properties are one of the most popular sites for up-to-date information, its attempt to achieve similar following in the social networks has resulted in only limited success. The company's tryst with social networking started in 2003, with the acquisition of Pyra Labs, the creator of the Blogger platform, which is currently languishing behind other players, including WordPress, Typepad and Tumblr. The company's Orkut social network service launched in 2004 was quite popular before the arrival of Facebook but was shut down in 2014. Similarly in 2009, Google launched the Google Wave service, but it was unsuccessful in attracting a large customer base or retaining the people who joined in the initial excitement. Google's fresh attempts at reviving its social networking position began with the introduction of Google+ in mid-2011 which resulted in limited success. As of April 2015, Google+ had 111 million active users. In comparison Facebook had 1.2 billion monthly active users (MAUs) and 890 million daily active users (DAUs) on average at the end of December 2014. Limited success of Google's social networks is a competitive disadvantage especially as the social platforms continue to attract higher advertising dollars and are forecasted to grow tremendously. Competing head to head with entrenched players like Facebook for social network user base will be an uphill task for Google.

## **Opportunities**

Structural reorganization enables the company to focus on core operations

In August 2015, the company announced its structural reorganization strategy to create a new operating structure, Alphabet, which is a collection of many companies. After the reorganization, Google would become wholly-owned subsidiary of Alphabet and all the shares of Google would be transferred to Alphabet. The restructuring will enable the company to focus on its varied businesses, including Life Sciences (that works on the glucose-sensing contact lens), and Calico (focused on longevity) among others. This will also enable the company focus on the opportunities inside of Google. Alphabet will also include X lab, which incubates new efforts like Wing, the company's drone delivery effort. It also focuses on growing its investment arms, Ventures and Capital, as part of this new structure.

The company's reorganization would enable it to strengthen its core activities and also enables it to focus on its various other businesses that would enable drive strong financial growth and enable the company to enhance its market share in the future.

#### Positive outlook for smartphone and tablet market

The smartphones and tablets market is expected to grow at a robust pace in the medium term. According to industry estimates, the worldwide smartphone market is forecasted to record robust growth in the coming years due to strong consumer demand and increased commercial buying. The tablet shipments are expected to grow at a CAGR 5.4% during 2014-18 to reach 285.9 million units in 2018. Smartphones and tablets are expected to constitute 87% of the total connected device market by 2018. Further, the smartphones market increased by 19.3% to reach a total of 1.2 billion units shipped in 2014. It is also estimated that the total smartphone shipments will reach 1.7 billion units in 2018, representing a CAGR of 11.5%.

The company's Android platform is the leading smartphone OS in the world with a market share of approximately 83% in second quarter of 2015. Similarly in the tablet market, Android is the one of the leading players with a market share of 27.6% in 2014. Android is estimated to continue to be the market leader in the medium term for both the smartphone and tablet markets. Robust outlook for the smartphone and tablet market will increase the company's number of Android devices in the coming years.

#### Poised to benefit from growing online video consumption

The demand for online viewing of video content has been rising at a robust pace. According to industry estimates, the global online video consumption is expected to grow at 23.3% in 2015 and by 19.8% in 2016. The growth is expected to be driven by proliferation of broadband access and expanding viewership in emerging markets. The US represents the largest market for online videos, which is expected to account for 16.5% of total advertising spending in 2017. The online video market in the US is projected to witness significant growth primarily driven by the increased options for viewing videos among online consumers.

Google has significant presence in the online video market. The company operates YouTube, a video-sharing website which allows users to upload, view and share videos online. According to industry estimates, YouTube held a market share of more than 18% in the US video ad market.

YouTube experienced strong growth in the recent times particularly from mobile viewers and has established key partnerships with content companies to help monetize mobile video. The company's YouTube is well positioned to lead the penetration into the online video market which will enhance top line growth and also facilitates expansion into a high growth market.

Display and mobile ad spend are growth drivers

Display advertising trends indicate a positive momentum. Advertisers in the US are expected to spend on various display ad formats served to desktops, laptops as well as mobile phones, tablets and other devices. Rising display ad spend will enable the company to boost its revenues, as it generates major portion of its revenues from display advertising. According to industry estimates, the US online display ad spending is expected to reach over \$38 billion in 2019 growing at a CAGR of over 14% during 2014-19. The US digital ad market is expected to reach \$103 billion in 2019, growing at a CAGR of 11.3% during 2015-19. In addition, display ads targeted at smartphones and tablets would account for nearly 40% of all online display ad spending by 2019. Further, the global mobile ad spending is expected to reach over \$196 billion by 2019 growing at a CAGR of over 36% during 2014-19.

A key growth area for Google would be mobile advertising space, which is an emerging opportunity and will shape to be a prominent one for the company. The growth in mobile advertising market is primarily due to increased uptake in smartphones and tablets, as well as the merger of consumer behaviors on computers and mobile devices. Google has a strong presence in the mobile ad segment and will benefit from the growth in the segment.

## Threats

Threat from in-app searches

The increasing demand for specific apps that take users directly to e-commerce and other types of websites to search for products and services pose a serious threat to Google's general web search platform. In-app searches prompts users to shift their searches in those categories away from Google's general Web search platform. As users move to vertical search websites, those websites could, in turn, become more attractive vehicles for advertisers, thus resulting in potentially significant revenue losses to the company.

For instance, users tend to use Amazon's app to search for products they want to buy; Yelp's app to search for services; Yellow Pages app for local business information; LinkedIn app for information on professional credentials of associates; and Reuters, New York Times, Wall Street Journal, and MoneyWatch for news, among others. In addition, Facebook has its focus on developing in-app search feature with an aim to continue the centralization of mobile users' activity to its own platform. Facebook's in app search engine enables the advertisers to reach the target customers to drive strong mobile advertising revenues. Furthermore, Google does not link to information within apps



the way it can with websites that makes search through specific apps more convenient on mobile than it is to go to Google.

As a result of the changing consumer behavior and the growing in app search poses threat to the company's core business which would negatively impact its advertising revenues. In addition, it would also adversely affect Google's market share in the future.

Administrative proceedings could impact brand image

The company has been involved in antitrust investigations in several geographies. For instance, in 2010 the European Commission (EC) initiated an inquiry into allegations that Google abused a dominant position in online search, in violation of European Union rules. The company was alleged to lower the rankings of unpaid search results of competing services which are specialized in providing users with specific online content such as price comparisons and by according preferential placement to the results of its own vertical search services in order to shut out competing services. The EC probe also included allegations related to Google lowering the 'Quality Score' for sponsored links of competing vertical search services.

In 2012, the EC investigation identified four concerns where Google business practices were considered as abuses of dominance. The EC expressed concerns over the company's specialized search; content usage; exclusivity agreements with publishers for the provision of online search advertising on their websites; and contractual restrictions on the portability and management of online search advertising campaigns across Google's AdWords and competing platforms. Although, the company submitted new proposals to address the antitrust concerns, those were rejected by the EC. If any new commitments proposed by Google fails to provide a satisfactory solution to the EC's competition concerns, the EC could impose fine of up to 10% of the company's annual worldwide turnover.

Similarly, the Competition Commission of India (CCI) commenced an investigation on Google for allegedly abusing violating anti-monopoly regulations, in 2015. The CCI received complaints from leading companies in India which accused that Google abused its dominant market position to rig search outcomes, both the actual search result as well as sponsored links. The company has been allowed to file its response by September 2015. If the CCI finds Google guilty, it can ask the company to make changes in the way it does business and may also impose a fine up to 10% of Google's annual revenues.

The outcomes of the above investigations in Europe and India could restrict the operating flexibility for the company and impact the popularity of its existing products. Additionally, Google might have to witness large outlays for damages and settlements.

Intense competition

Google's business is rapidly evolving and intensely competitive, and is subject to changing technologies, shifting user needs, and frequent introductions of new products and services. The company faces formidable competition in every aspect of its business, particularly from companies

that seek to connect people with information on the web and provide them with relevant advertising. Google faces competition from general purpose search engines, such as Yahoo, Microsoft's Bing, Yandex, Baidu, Naver, WebCrawler, and MyWebSearch; vertical search engines and e-commerce websites, such as Kayak (travel queries), LinkedIn (job queries), WebMD (for health queries), and Amazon.com and eBay (e-commerce); and social networks, such as Facebook and Twitter. The company also faces competition from other forms of advertising, such as television, radio, newspapers, magazines, billboards, and yellow pages, for ad dollars; mobile applications on iPhone and Android devices; and providers of online products and services. A number of the company's online products and services, including Gmail, YouTube, and Google Docs, compete directly with new and established companies, which offer communications, information, and entertainment services integrated into their products or media properties.

Technology is disruptive and sustainable competitive advantages are not assured. If Facebook is more cost effective for advertisers, they might eventually find a way to reach audience through these sources. Similarly, other companies have been gaining ground in Google's forte of search advertising. Furthermore, its closest competitors, Yahoo! and Microsoft have launched several initiatives to capture share in these markets. Yahoo!'s strategy involves connecting all of its online services, such as its search engine, maps, and so on. Meanwhile, Microsoft is attempting to integrate its internet searching and desktop so that its search engine will be embedded in all of its software, in the hope that there will no longer be a need for Google. Additionally, applications like Siri for iPhone have introduced the users to a reality without Google search.

In addition, the company faces a fierce competition in the mobile markets. Google's significant competitors in mobile operating systems market include Microsoft, BlackBerry, and Apple. Also the growing consolidation in the industry will put pressure on the company's growth. For instance, Microsoft's acquisition of Nokia's devices and services business is expected to further strengthen Microsoft's market position which will compete more strongly with Android devices. The intensifying competition has the potential to impact the market share and growth prospects for Google.

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