A CASE ANALYSIS ON GOOGLE’S STRATEGY IN 2010

In a bid to gain sustainable competitive advantage over their rivals, companies have over the years found it necessary to formulate both short-term and long-term strategies to enhance their internal and external capabilities in order to sustain and improve their market position. Michael E. Porter (1980) postulated three general strategies that can be adopted to this end. These include, cost leadership, differentiation and focus strategies. Cost leadership strategies can further be divided into low-cost provider and best cost provider strategies. Focus strategies on the other hand can either be based on differentiation or cost leadership. There are therefore five different generic strategies that can be adopted by companies to enhance their competitive advantage against other firms in the industry. This report is an analysis of the generic strategies that were adopted by Google Inc. to gain a competitive edge over its rivals.

The strategy adopted by a company depends on its internal capabilities, which stipulate its primary source of competitive advantage and the nature of the market within which it competes. Companies that enjoy considerable internal economies of scale are usually in a position to significantly reduce their production costs and as such, they will more often than not adopt cost leadership strategies for broad markets and cost focus strategies for narrow and niche markets. On the other hand, those that primarily depend on differentiation as a source of competitive advantage normally adopt broad differentiation and differentiation focus strategies. The success of most internet based businesses relies heavily on innovation and creativity that are usually manifested in diversified product portfolios comprised of unique products that are tailor-made to meet the needs of their customers. For this reason, differentiation is the major source of competitive advantage for these businesses. This was also the case for Google Inc. However, because of its diversified product portfolio, it targeted both broad and niche markets. Consequently, it adopted two major strategies, a broad differentiation strategy and a market niche strategy based on differentiation.

The success of the Google search engine was mainly attributed to the company’s broad differentiation strategy, which was achieved through a series of acquisitions and strategic alliances that were aimed at improving customer experience. This contributed significantly to customer satisfaction that ultimately translated to brand loyalty. Some of the notable acquisitions that contributed to significant additions to the search engine include Key-hole, YouTube and Double Click. The acquisition of Key-hole enabled the company to launch Google Earth and its companion software Google Maps, which allowed users to conveniently search for locations all over the world, while YouTube and Double Click provided more avenues to generate advertising revenue. Other additions to the google search engine include Custom Search, Book Search, Finance, Image Search, News, Scholar and Translate. While the Google search Engine targeted the entire population, several applications and additions targeted specific niche markets. For instance, Google Books and Google Scholar were specifically designed for students and academic professionals. Therefore, for these applications and additions the company adopted a focus differentiation strategy as opposed to a broad differentiation strategy.

Google’s high level of innovation and dedication to customer satisfaction ensured a constant growth in the company’s stock price from its inception in 2004 to mid-2007 when it dropped drastically due to the impacts of the global financial crisis. The stock price, however increased sharply between 2009 and 2010 when it was characterized by relatively better performance compared to most firms across all industries at the time. In fact, despite having been established long after its major competitors, Yahoo and Microsoft, the company had already acquired a majority market share, which escalated from 43.7% in 2006 to 63.7% in 2010. Yahoo and Microsoft on the other hand only managed to gain 18.3% and 12.1% of the total market share respectively in 2010.

Apart from advertising, which constituted the bulk of Google’s total revenue, the company also availed the Google Search Appliance to third parties ranging from small and medium sized enterprises to multinational corporations. Additionally, to further increase the total advertising revenue the company introduced AdWords to facilitate text-based ads that appeared alongside Google search results. AdWords also enabled advertisers to monitor the performance of their advertisements and simplified payment transactions. Other than that, the company launched AdSense, a program that allowed web publishers to retain part of the revenue that was generated by text ads.

In line with its differentiation strategy, the company conducted extensive research and development, which fostered creativity and innovation. This is evidenced by the fact that research and development activities accounted for at least 60% of the total cost of revenue annually from 2005 to 2009. The company also ventured into other countries and emerging markets including China and Russia. This would not only ensure that the company had a diversified product portfolio, but also a wider and diversified market. The diversified market would in turn insulate the company from unfavorable economic cycles in the US and attract more advertisers due to a wider target audience. In addition to diversifying into foreign countries, the search engine was available in 41 different languages, a factor that further enhanced its coverage and audience base for ads.

In light of the increasingly high number of individuals who accessed the internet from mobile devices, Google launched its Android operating System, which would later see several phone manufacturers including HTC and T-Mobile venture into the production of Smartphones, a sector that had been dominated by Apple Inc. and Microsoft. The smart phone platforms produced by the two companies included the iPhone and windows mobile respectively. Following the Apple iPhone’s exemplary performance in the market, the Android OS borrowed several features from the iPhone. It was offered free of charge to mobile phone manufacturers and also had less restrictions compare to the iPhone. For this reason, it was bound to receive widespread acceptance, which would significantly boost Google’s advertising revenue and further enhance its remarkable 60% market share in mobile search.

Apart from tapping into the mobile phone industry, the company made deliberate efforts to enhance its competitive advantage over Microsoft, one of its major competitors, through cloud computing. Cloud computing was particularly ideal for corporate users who required greater security for their documents, which could not be offered by local disks. It also facilitated better access and sharing of documents with third parties. Google was better placed to offer cloud computing services due to the fact that it had already made milestones as an internet search provider. Despite the fact that Microsoft also offered cloud data storage services through Sky Drive, Google stood a better chance in cloud computing due to the vast experience and resources it had in the internet front. The development of the cloud based Chrome Operating System would also offer greater functionality compared to what Microsoft had to offer through cloud storage. Nevertheless, it required reliable infrastructure such as internet connectivity, which rendered it impracticable for low end users. Furthermore, Microsoft was renowned for offering high quality office applications and as such, most customers would be positively predisposed to their products.

Finally, Google had made several initiatives to expand search to television by mid-2010 having entered into an alliance with companies such as Sony, Intel, Logitech, DISH Network, Adobe and Best Buy to develop the Google TV. Unlike ordinary television sets, Google TV would operate on an Android platform and support browsing capabilities through the Chrome browser that would facilitate live network and cable programming. While this would mark a revolution in TV programming, there was still inadequate infrastructure to support effective internet TV programing coupled with unfavorable government policies.

To conclude, Google Inc. adopted a broad differentiation strategy which saw the company dedicate a great deal of its resources to research and development with the aim of increasing customer satisfaction. In line with this strategy, Google acquired a series of internet based companies and entered into strategic alliances with notable companies in the information and communication technology sector, which contributed to the company’s remarkable performance throughout its Lifecycle. The strategy not only enabled the company to compete favorably with its competitors, but also contributed a great deal to its acquisition of the majority market share in the US search engine market.