

TEACHING NOTE 5: Alphabet Inc.: REORGANIZING GOOGLE

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Teaching objectives

When used in conjunction with Chapter 5, this case can be used to meet the following teaching objectives:

- *Understanding the difference between the 'portfolio organization perspective' and the 'integrated organization perspective'.* Alphabet very clearly made the shift from an integrated organization to a portfolio organization. To remain relevant in the quickly shifting landscape of technological enterprises, companies need to always be looking for the 'next best thing'. Google has been doing so admirably for the past decade, resulting in very wide ranging horizontal diversification. Although product and market insights were leveraged highly successfully on the central level, external pressure from shareholders for the increased transparency of a portfolio organization. This shift gives students insights in some of the reasons to be engaged in either of the perspectives.

Teaching guideline

Students can learn from Google restructuring itself into a holding company named Alphabet. Starting as a clever way to index websites, Google has grown to a multi-billion-dollar company through both horizontal integration and diversification. Within its core business of search and ads lie such enterprises as Chrome, Android and YouTube. The link to these activities is obvious, as they are means that allow users to interface with Google money making activity – showing you relevant ads. In its search for the next big thing, Google has dabbled in biotech, self-driving cars, smart homes and wearables. Completely separate from this core business, although insights from the vast amount of data that Google gathers from its users were surely leveraged to ensure its success. Discussing whether or not the different activities Alphabet engages in are core- or non-core will make for an interesting class discussion.

Furthermore, students can delve deeper into the reasons for Google's Alphabet restructuring. As investors found it difficult to separate and evaluate core- and non-core activities, Google created the transparency they have asked for. This has, in turn, led to an increase in share prices. In fiscal 2016, Alphabet brought in US\$90.3 billion in revenue, a 20% growth from US\$75 billion in 2015. Revenues from the Google segment were US\$89.5 billion while that of 'Other Bets' were US\$809 million. Besides investor pressure, talent retention was an important reason for the restructuring. In the tech world, many talented engineers and leaders leave large behemoths such as Google in favor of smaller, newer and faster-growing firms. By splitting of the high-tech products and investment funds, it has become easier to create a culture which made employees feel purposeful and relevant to be a part of the organization. Having people believe that by working for you they are changing the world tends to achieve this goal. The restructuring made this easier. Analysts also speculate that, although Google hardly has any debt, the restructuring would make lending money easier, possibly hinting towards a share buy-back in the future. Lastly, potential challenges of this move can be discussed with students. Google tries to remain relevant by being a 21st-century innovator by creating bold new products, rather than harvesting profits from its lucrative search engine business. By rigorously handling capital allocation and work to make sure each business is executing well, sounds well, but it is a rather different *modus operandi* than employed before the restructuring. Several projects have incurred billion dollar losses but can still be carried on with because their time horizon demands it and the financial problems are compensated by the enormous returns from search engine ads. Will this remain the case once investors get more transparency? And will talent indeed be attracted to these 'start-ups' within the incumbent, or would they rather join up with a fresher and faster alternative?

Case questions

1. *Group Alphabet's activities according to the four growth directions in Figure 5.1*
2. *What are the reasons behind the Alphabet restructuring?*
3. *What are the potential challenges of the Alphabet restructuring?*