



The Google Story

Inside the Hottest Business, Media and Technology Success of Our Time

by David A. Vise and Mark Malseed
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Focus

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Concepts & Trends

Take-Aways

- Larry Page and Sergey Brin reluctantly left their Ph.D. programs to start Google.
- They tried to sell early versions of their search technology to Silicon Valley firms for \$1 million. No one would buy.
- Google's power comes from Googleware, its powerful blend of hardware and software.
- Google was so successful that it could dictate the terms of its IPO to the banks.
- Brin and Page persuaded their financiers to accept unusual terms, and they never relinquished control of their company.
- When forced to hire a CEO, they retained the power to outvote him.
- Google's corporate culture reflects the founders' desire to have fun and be innovative at the same time.
- Page and Brin take a creative, eccentric approach to problem solving.
- Google's engineers can use 20% of their time on their own exploratory projects.
- Google's vision is to make all the information in the world instantly available to everyone. That is why it is digitizing great libraries

Rating (10 is best)

Overall	Importance	Innovation	Style
8	7	6	8

Relevance

What You Will Learn

In this Abstract, you will learn: 1) Why Sergey Brin and Larry Page started Google; 2) How they kept control of it despite pressure from their investors and financial backers; 3) How the acrimony between Microsoft and Google originated; and 4) What Google plans for the future.

Recommendation

You probably use Google when you are looking for something on the Web. But do you know who founded the company and why it is unique? Here's the inside scoop. Authors David Vise and Mark Malseed tell the story of Google founders Larry Page and Sergey Brin in fast-moving, energetic prose, from start-up to triumph. The authors spend little time considering any of the possible negative aspects associated with Google, but most readers will find that it hardly matters because their book is downright fun, and it ends with a useful set of Google search tips. *getAbstract* says you will learn so much about the founders, the company's management and its wonderfully exotic culture that you will not notice the absence of critical distance.

Abstract

A Bargain Offer

If Stanford University had offered to sell you Google's search technology for a million bucks a few years ago, would you have found a way to buy it? Yahoo, Alta Vista and various companies all passed. The dearth of buyers created a dilemma for Sergey Brin and Larry Page, the two Stanford University doctorate students who created Google. They both came from academic families and were set on technology careers. However, the lack of outside interest in their search engine ("Search doesn't matter," they were told) made them realize that to capture the value of their creation, they had to leave their Ph.D. programs and build the business. They named it by misspelling the mammoth number googol (1 with 100 zeroes), representing the almost endless universe of pages Google's engine makes available for search, for free, to anyone with access to a Web browser. From the outset, a feature called "PageRank" made Google's results unique. Google searches billions of pages and then, thanks to PageRank, lists the results in their likely order of interest to the searcher. And it does that job better than any other search engine.

Google's power comes from the way it merges its hardware and software into an integrated system, "Googleware." As young inventors, Page and Brin proved especially adept at scrounging equipment and software tools to increase the program's capacity and expand its code. But when Stanford could no longer support the project, they had to find other funding. Their first underwriter, Andy Bechtolsheim, a serial investor and brilliant technologist, put in \$100,000. With this money, Brin and Page incorporated Google. Other investors followed and the men made important friends, including Amazon's Jeff Bezos and Yahoo's David Filo (a fellow Stanford alumnus). Bezos and Filo introduced Brin and Page to venture capitalists, and gave Google credibility.

The pair needed cash, but wouldn't go public because they didn't want to give up their trade secrets or lose control of their company. Even without income, they drew pioneer venture capitalists John Doerr of Kleiner Perkins and Michael Moritz of Sequoia

"When Larry met Sergey... they connected instantly...there was no denying the chemistry between them; the energy was palpable."

"The potent Googleware blend of software and hardware gave the company more computing power than anyone else."

"I didn't know how big this could be at the time. Nobody knew." [– *Andy Bechtolsheim*]

“Page and Brin remained convinced that Internet search was the most important long-term problem they could solve, and that doing so would bring new users in droves.”

“The Internet revolution fundamentally changed the nature of advertising, and the marketing of goods and services, and Google was poised to make the most of it.”

“Google... technologists think first of ways to solve problems; only later, if ever, do they worry about how to ‘monetize’ them.”

“Larry and Sergey agreed to do it their way...Neither Wall Street nor anybody else was going to tell them how to do the deal.”

Capital. Eventually, Brin and Page got \$25 million in investments, while maintaining control. Next, they had to figure out how to make money with their technology.

The Right Path

Brin and Page had no interest in building a standard company. Their offices resembled student dorm rooms more than corporate headquarters. But licensing their technology did not bring in the expected revenues and they struggled with the decision to sell advertising. They had even written a college paper on “The Evils of Advertising,” saying that combining search results with ads would diminish credibility and corrupt search results. They tried, but failed, to get companies to pay fees to search. Next, they wrestled with how ads might affect their core service: free Internet searches.

After studying advertising services, they chose to sell highly targeted advertising, showing “sponsored links” (paid ads) on the right-hand side of the search response page. They developed a new way to rank ads based on how much advertisers offered to pay and how often users clicked on the ads, breaking with the tradition of giving top-paying ads the best billing. The ads ranking highest on both metrics rose in presentation order and the others fell. Google charged advertisers only when someone clicked on an ad, giving advertisers an innovative way to measure their return on investment.

In 2001, Google made a profit of \$7 million. The company was growing, but its financial results weren’t spectacular. Investors insisted that Google hire an experienced executive. Brin and Page had no intention of losing control or of reporting to anyone, but the moneymen pressured them. They procrastinated for about a year. Doerr tried to get Eric Schmidt (formerly of Novell and Sun Microsystems) to talk to Brin and Page. Neither side was interested, but when they finally had their first meeting and their first argument, both sides were impressed. After lengthy negotiations, Schmidt joined Google as a CEO who could be outvoted. The three men complemented each other’s talents: Brin made deals, Page handled technology, and Schmidt minded the store and helped Google function in the business world. As the company grew, it formed crucial strategic alliances, such as providing searches to AOL and ad services to Ask Jeeves. Both deals generated huge traffic. In 2002, Google turned over more than \$400 million, with \$100 million in profits.

News and Gmail

Google became a worldwide phenomenon spreading by word-of-mouth. People searched in many languages (including joke ones, such as Klingon and Elmer Fudd) and incorporated Google into the way they worked. People found it easier and quicker to find data about their own employers with Google than by wading through stuffed files.

Google’s policy of encouraging its engineers to take one day a week or 20% of their time, to work on anything that interested them yielded many great ideas. Two of the most visible are Google News, born from attempts by Google’s principal scientist, Krishna Bharat, to get news on 9/11, and Google Product Search, which lets users search the Web for anything they want to buy. Searching remains Google’s bread and butter, but brand extensions popularized the name. Google launched Gmail in 2004 on April Fool’s Day. At first, many people thought the announcement of Web-based e-mail with a free gigabyte of storage was a joke by the Google guys. Its large investors, who were working on an initial public offering (IPO), were aghast that such a major announcement had been made almost off the cuff, and were upset by Google’s refusal to put ads on its pristine home page. Others worried about security, because Gmail scans e-mails and puts focused ads in them.

“Brin and Page unleashed a series of practical jokes to test Schmidt’s mettle, disrupt his momentum, undermine his authority and make sure he understood his place.”

“With so many brilliant engineers and mathematicians, it went about the process of innovation in ways that were more like a university than a business.”

“[By 2003] businessmen would consider themselves fools to do a deal without googling the other party... CIA agents use Google to track terrorist groups... Employees google their bosses.”

“Operating inside China came with strings attached. Google would have to comply with all local laws, and that meant it would have to agree to censor the Internet.”

Going Public

When Brin and Page agreed to accept venture capital, they knew they would have to take their stock public at some point. They resisted until the last moment and then did it their way. They refused to pay the usual bank fees or to underwrite Wall Street’s expected sweetheart placements. While they set their initial stock price, they broke with tradition by holding an open auction for individual and institutional investors to determine how many shares bidders would get. They democratized the distribution of shares, but to retain control they also devised two classes of shares with unequal voting rights.

It wasn’t all easy. On the eve of the IPO, Google had to settle a patent infringement suit from Yahoo. An interview that Brin and Page had done months earlier for Playboy came out during the SEC-imposed quiet period just before the IPO and was investigated for possible violations. Although the pair considered delaying the offering, they went ahead despite the difficulties, including a tough stock market environment for new offerings. The IPO, which was sold via online auction, was priced lower than anticipated, at \$85, but that suited Brin and Page. They didn’t want a hot IPO doled out to favored Wall Street players who profited unfairly on day one by buying and dumping when the price soared. Initial trades hovered around \$100. Brin and Page were happy paper billionaires before lunch.

A Unique Culture

Brin first wanted to hire a company chef in 1998, when Google had only a few employees. The idea was that serving delicious, free food to the employees would energize them and unite the team. Brin tried to hire Charlie Ayers, but Ayers couldn’t see how a dozen or so employees needed a full-time chef. However, he joined later when he realized how fast the company was growing. Charlie – a master of fried chicken and biscuits – became an icon of Google’s unique culture. After five years, he cashed in his stock options to launch his own restaurants.

Brin and Page’s fight with Yahoo over AOL Europe demonstrated their determination to remain on top. When Yahoo beat them out for AOL Europe, they appealed to AOL exec Philip Rowley in London. He initially turned them down, since AOL had already told Yahoo that it had the contract. Brin diverted a Spain-bound flight to meet with Rowley one-on-one in London, increasing Google’s offer so much that Rowley reconsidered. To be fair, AOL told Yahoo it had to increase its bid to win. Yahoo refused and Google won AOL Europe.

During this period, Google rolled out Google Desktop Search and Google Earth. Desktop Search lets you find any file on your desktop. Google Earth is a gee-whiz product that enables you virtually to fly around the globe, zoom down into cities, and even see some buildings in 3-D. Now, Google is digitizing libraries. The University of Michigan’s libraries hold seven million volumes. Page, a Michigan alumnus, proposed to pay for digitizing their contents if he could add the data to Google’s index. Many other libraries, such as Harvard, Stanford and Oxford, have joined the project, aimed at making the contents of millions of books instantly available online. The books give Google the option of more inventory space for ads. Authors and publishers sued, but Google claimed it was respecting copyrights and sped up its digitizing, while focusing on how to deal with copyright issues on materials published after 1923. The dispute appears headed for the Supreme Court.

Back to Earth?

Geico Insurance sued Google in 2004, the same year Google launched Gmail. The insurance firm’s lawyers contended that Google’s agreement allowing Geico’s competitors to buy ads on search results pages that used Geico’s name and other trademarks violated

“Perhaps in the future, we can attach a little version of Google that you just plug into your brain...then you’d have all the world’s knowledge immediately available, which is pretty exciting.”

“I can’t explain it – it’s just a funny feeling that I’m being Googled.”
[– New Yorker cartoon]

the law. The judge ruled in favor of Google, because its policy protected trademarks overall. The court also found that searchers who checked insurance company sites were only comparison shopping.

“Click fraud” is another contentious issue. Some advertisers said their click-rates had spikes and valleys that diverged from the usual rate of activity. If a lender knows that 5% of the consumers who click on its ads will fill out a mortgage form, it can calculate how much that traffic is worth. However, if the rate is zero over a large number of clicks, the advertiser bears the costs without receiving any benefits. This fraudulent activity has jeopardized Google’s advertising model and remains an issue with advertisers. Some find Google less responsive to complaints than its competitors. Google says its technology discards apparently fraudulent clicks, and advertisers get such a strong response to Google ad campaigns that they have come to worry less about click fraud.

Despite these issues, Google’s stock continued to soar. As the price became more than \$200 per share, many wondered if employees would sell. Would the founders sell? Would a piece of news or aberrant technology bring everything crashing down? Investors voted with their money and said, “No!,” nothing is going to go wrong here. The stock zoomed upward, creating more value in a short period than any firm in American history.

Hiring and Firing

Google opened an office near Microsoft’s Washington state headquarters in 2004 and has hired ambitious employees away from the Redmond giant. In retaliation, Bill Gates claimed he would put a search function into every pixel of Windows. Google and Microsoft’s ongoing fight for talented employees now extends to China. Microsoft already had 1,000 employees in China when Google entered the market. In 2005 it tempted Dr. Kai-Fu Lee away from Microsoft to head Google China, sparking a lawsuit. Google prevailed. Then censorship became Google’s biggest political problem in China. The company had the choice of pulling out of the country altogether, and forsaking its talented engineers and growth opportunities, or complying with local laws and self-censoring its search services. After much soul searching, it decided to do the latter. Many Western human-rights organizations criticized the decision, leading to bad publicity for the usually popular company that has always had the motto, “Don’t Be Evil.”

Breakthroughs

Google’s leaders believe that it can facilitate breakthroughs in numerous realms simply by making unprecedented amounts of information available to scientists, researchers, students and regular folks. Google searches can boost every data-based endeavor, from genomics, economics, medicine and environmental studies to an individual’s attempt to find lost friends. Brin, Page and Schmidt foresee the day when even those in the most remote regions of the world will have access to vast knowledge, thanks to the benefits of Google and the Internet.

About the Author

David A. Vise won a Pulitzer Prize at the *Washington Post* and works for a hedge fund. This is his fourth book. A Wharton M.B.A. named to the school’s list of most influential alumni, he began his career at a major brokerage house. He wrote for a financial analysis Web site and the *Wall Street Journal*. Mark Malseed is a former senior researcher for Bob Woodward on two major books about the Bush administration. He has contributed to several publications, including the *Washington Post* and the *Boston Herald*.