Semi-Organic Growth
Tactics and Strategies Behind Google's Success
George T. Geis
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Tactics and Strategies behind Google’s Success

GEORGE T. GEIS

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To George S. Geis, Terri L. Geis, and Anne L. Geis—three ongoing sources of semi-organic growth
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A round 1995, I became intrigued with developing a methodology and related visualization technology to systematically analyze company acquisitions, minority equity investments, alliances, and other corporate development activities. At the time, I was concentrating on companies that included Microsoft, Intel, and Cisco.

Then along came Google. Starting with the early days of Google, acquisitions appeared to play a particularly important role in the strategic unfolding of this iconic company. Google was becoming an experimental lab, not only for products and services but also in utilizing M&A to further its purposes.

I wanted to understand in depth why Google was engaging in what was an unprecedented level and type of M&A activity.

As of 2015, Google had acquired some 200 companies. But there’s much more to the story than numbers. The major thesis of this book is that early in the company’s existence, a playbook for M&A activity (which I dub semi-organic growth) was established, and that this pattern became a core element of Google’s success.

*Semi-Organic Growth* presents a unique analysis of Google’s distinctive expertise in the area of mergers and acquisitions. The book provides insights derived from the many Google acquisitions completed over the company’s brief history. While organizational revenue growth has traditionally been characterized as organic (internally generated) or inorganic (from acquisition), this book features Google’s use of a blended, semi-organic strategy to accelerate product and service revenue.

Google’s extensive use of M&A during its period of rapid growth has been in sharp contrast to rivals such as Apple. In addition, Google’s overall success in M&A further contrasts with the failures of many other companies in this area of corporate business development. All readers will gain distinctive insights from the M&A expertise and practices of this iconic company.

*Semi-Organic Growth* illustrates how Google’s M&A moves can be explained through a unique sector/subsector classification scheme that dynamically maps the media, Internet, and technology platform markets. Market modeling dynamics are illustrated with some 50 infographics to help understand important categorical M&A dimensions and visualize deal
constellations. These market-modeling techniques are applicable to any company.

The book examines Google’s practices in disclosing M&A deal structure (such as valuation and form of consideration) and in using contingent consideration in the form of earn-outs and stay bonuses.

But perhaps most importantly, we examine how Google has integrated its acquisitions, thereby accelerating the growth of its array of products and services.

Chapter 1 describes the challenges of building a successful M&A program in domains that include strategy, economic valuation, organizational design, and deal dynamics. This chapter discusses each of these activities, emphasizing approaches linked to positive outcomes.

Chapter 2 features Google’s acquisition of Applied Semantics, a watershed transaction in that it imprinted on Google a methodology for revenue acceleration through semi-organic growth. This chapter provides a history of the Applied Semantics deal and how the acquisition led to the creation of AdSense, which grew into a highly significant service within Google.

Chapter 3 contrasts Apple and Google, two companies that have had dramatically different corporate philosophies with respect to the role of M&A in strategy. Until 2012, Apple engaged in M&A only sparingly, believing that innovation should essentially originate from within. In contrast, Google was acquiring companies at a rapid clip and using technology and talent from the purchases as a major part of its innovation efforts.

Chapter 4 introduces marketing modeling, which involves connecting knowledge chunks comprised of three elements: market segments, companies, and deals. The chapter illustrates market modeling by developing a sample model for Google in the MIT (media, Internet, and technology infrastructure) spaces.

Chapter 5 highlights advertising as Google’s core business. The chapter develops a market model for media and then analyzes Google’s acquisitions in sectors such as online content and advertising.

Chapter 6 analyzes numerous acquisitions that Google has made to strengthen its position in Internet search, as well as accelerate its move into a range of additional Internet products and services. This chapter develops a market model to explain Google’s Internet-related purchases.

Chapter 7 explains how acquisitions have played a key role in extending Google beyond its core search/advertising business to an ever-expanding technology platform for new products and services. The chapter explores acquisitions that relate to subsectors of this platform, including smartphone, smart home, robotics, and artificial intelligence.

Chapter 8 illustrates that although Google is regarded as having developed the most successful technology M&A program in history, certainly not
all of its deals have done well. This chapter examines some of Google’s abortive transactions and suggests reasons for these failures. We also provide an analysis of gains and losses associated with the purchase of Motorola Mobility.

Chapter 9 examines when a publicly traded company such as Google announces an acquisition. When must the company disclose deal valuation and other key terms? This chapter focuses on the M&A disclosure practices of Google and Apple and explores possible motives for deal disclosure or secrecy.

Chapter 10 describes how an acquirer can pay for a target using accumulated free cash flow, using cash raised from a new debt or stock offering, exchanging shares of its stock for shares of the target, or combining these forms of payment. How often has Google used stock in purchasing a company? What are the motives for using stock as opposed to cash? How does Google’s consideration choices in its M&A transactions compare to those of other major technology companies such as Apple or Facebook?

Chapter 11 highlights that for some M&A transactions, not all consideration is paid out by an acquirer at the close of the transaction. Earn-out consideration contingent on the target meeting performance metrics can be used. Or retention bonus consideration (in cash or in stock) can be provided to motivate target employees to stay on with the acquirer for a period of time. We’ll explore how these forms of contingent consideration have been used by Google and other leading technology and media companies.

Chapter 12 stresses that successfully integrating an acquisition is vital if M&A value is to be captured. This chapter explores some classic strategic dimensions that provide a high-level framework for M&A integration. We examine how Google’s semi-organic form of acquisitions fits into this scheme and how Google has learned to be more effective in executing a challenging integration strategy. We also describe some notable Google failures in M&A integration.

Chapter 13 highlights that a substantial amount of M&A activity is undertaken to support specific products or services that can reach customers. This chapter uses Google as an example to illustrate a market model that maps a company’s products and services and how a particular acquisition might enhance these offerings. We also identify four major types of acqui-hires, talent/technology purchases designed to accelerate sales of both existing and new products and services. Finally, we explore career moves by a number of Google M&A alumni, company founders who sold organizations to Google, worked to add value to a Google offering, and subsequently made significant career changes.

Chapter 14 examines how competitive contests such as the Amazon/Google struggle for market control in e-commerce and advertising can be
understood by developing M&A deal constellations. We next illustrate the concept of ecosystem synergy and demonstrate how this type of synergy can strengthen competitive positioning and add value to a company. We show how a number of Google’s acquisitions have achieved this higher order of synergy.

I hope you enjoy and benefit from this journey through the land of Google’s semi-organic M&A!

Watch the Videos

This book is accompanied by a companion website that includes a short introductory video, together with 14 additional online videos, each about 10 minutes in length. The content of each video is designed to add to your understanding of key concepts found in a given chapter. You’ll find these videos referenced at the end of each chapter.

For the URL and access code for your online videos, please refer to the instructions at the end of this book.
I have greatly benefited from the insights and support of many colleagues, friends and students in writing this book.

Debbie Foster, Olaf Westheider, and Steven O’Toole provided inspiration and outstanding technical support in the development of the concept of market modeling.

Sean Carr, Executive Director of the Batten Institute at the Darden School of Business, University of Virginia, suggested that I give a talk while on campus as a visiting professor. The talk, which involved Google’s acquisition strategy, was uploaded to YouTube and subsequently viewed by Bill Falloon, Executive Editor of Finance and Investment at Wiley. Bill encouraged me to write a book expanding upon the talk. Thus the origin of *Semi-Organic Growth*.

My special thanks to Bill Falloon and Meg Freeborn, Development Editor at Wiley, for their encouragement throughout this project. I also appreciate the assistance of the entire Wiley team for their support in completing this effort.

I regard the M&A writings of Bob Bruner, Dean of the Darden School, as foundational to a number of ideas that appear in this book. I’ve benefited from my ongoing conversations with Bob.

I am indebted to many students and research collaborators for insight and assistance. These include James Biskey, Debadutta Bhattacharyya, Neelima Clark, Tom Crow, Zubin Davar, John Dearing, Reggie Hall, Kevin Hopkins, Ahreum Hong, Kyle Jansen, Joey Lei, K. Burns McNamee, Alisa Sommer, Emily Scadden, Renu Senjalia, Joshua Schachter, Jacqueline Sutro, and Miao Wang. Please forgive any omissions.

I am not writing this book as a Google insider. However, I have benefited from interviews with numerous present and past Google employees, conducted as reality checks. I am extremely grateful for the insights provided.

I deeply appreciate the entire UCLA Anderson environment for decades of support. Special thanks to Al Osborne, Elaine Hagan, Martin Lieberman, and George Ingersoll.

Finally, I’d like to thank my wife, Penny, who graciously postponed getting our new Springer Spaniel until the first draft of this book was completed. Now it’s time for many more long walks along the Cambria ocean bluffs.