The CASE Association

Embryo Case
Summary Sheet
(Not to exceed 3 pages total)

Working title of the case: Reigning in Google's Moonshots

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Source of case data: ___x__ Library research _____ Interviews ______ Consulting

_____ Personal experience _____Combination (check all that apply)

Expected level: ___x__ Graduate ___x__ Advanced Undergraduate ____ Undergraduate

Industry setting: Multi-Industry

Main character, job title: No main character

Relevant theory to be applied: Corporate level strategy – advantages or disadvantages of a conglomerate structure vs. a more centralized company, as well as the pros and cons of transparency with respect to investors and talent retention/acquisition.

Envisioned case issues (for the Teaching Note):

I envision this case as a platform for the application of concepts of related and unrelated diversification and appropriate corporate level structure. In general, there is a tension between more centralized structures that aim to facilitate synergies, versus decentralized structures (e.g., conglomerate, holding company, or even separate, independent companies) that provide more clarity and accountability. This case provides an extra layer of interest in that attracting top talent and investment is very important for these businesses. Pros and cons exist here with respect to retaining/attracting top talent. Tensions also exist with how external clarity might be valued by Wall Street in the short-term versus resulting pressure that may hurt longer-term returns.

Questions/issues I'd like help with:

I would like this to be a short, perhaps "Compact" case that could be used in class to debate, or perhaps roleplay, the pros and cons of the issues. Corporate level strategy is a broad topic by nature potentially resulting in unwieldy cases if too much detail is included. In the case of Alphabet and Google, there are many actors and many complex business ventures. I hope keeping the case simple could still provide enough information to debate likely synergies between various units and appropriate structure, and the pros and cons with respect to investors and talented employees.

I think there are at least reasonably debated positions on both sides of these issues. Even with much more information on each business, I don't believe we in a classroom can really make very definitive pronouncements as to the reality of synergies between the various ventures. The question I would like help with is does my vision make sense. The case would be longer than what follows but I would prefer to keep it as short as possible. Shorter is the direction of preference in cases.

Synopsis of the case as you currently envision it: (Attach no more than one page)

In August 2015, Google announced a reorganization of its businesses into a company called Alphabet. The new company would be a holding company with Google as one of its subsidiaries. Google's search engine was the main profit generator and would contain other related endeavors such as Advertising, YouTube, Android, and Maps. Other subsidiaries would be the various "moonshot" businesses that Google had started or bought:

- Calico, an anti-aging biotech company
- Sidewalk, a company focused on smart cities
- Nest, a maker of Internet-connected devices for the home
- Fiber, high-speed Internet service in a number of American cities
- Investment arms, such as Google Ventures and Google Capital
- Incubator projects, such as Google X, developing self-driving cars and delivery drones

The reason for the change was explained by co-founder Larry Page: "We've long believed that over time companies tend to get comfortable doing the same thing, just making incremental changes. But in the technology industry, where revolutionary ideas drive the next big growth areas, you need to be a bit uncomfortable to stay relevant."

Financial results broken out separately for Google and Alphabet as a whole would increase financial transparency and accountability. Many analysts felt this move was primarily a response to a stagnant share price due investor unease with slowing growth in search ads and the lack of transparency, discipline, and accountability that allowed substantial resources to be spent on questionable projects.

Analysts weighed in with other reasons and benefits of the reorganization. The new, more decentralized structure would allow the right culture, personnel types, and strategic approach for each of the different ventures. This structure would also be more modular, facilitating the acquisition and selling of business ventures. Page volunteered another meaning to the name, taking "bets" on "alpha" projects, alpha being a financial term for above benchmark returns.

The reorganization would also have important management implications. The centralized Google bureaucracy would give way to executives of the various ventures having direct access to Page for resources. Page would be able to devote more time to developing these smaller emerging businesses.

A key benefit according to some analysts would be attracting talent. The availability of more high ranking positions should stem the poaching of well-trained executives by other tech companies. In addition, more autonomy should be attractive to the executives of the various ventures as well as to executives from important potential acquisitions. Keeping entrepreneurial leaders from leaving was also one of three reasons given by Larry Page for the reorganization.

A year following the reorganization, things looked somewhat different than expected. With Alphabet listing sales and losses from its "moonshot" projects, top employees complained about too much pressure to manage costs. Some common overhead costs previously born by Google were now being put on individual units. They felt they had originally signed up for freedom to innovate for the longer-term with support from Google. Google had lost three Alphabet CEO's and several other key executives in the last year. The reorganization was called a "mess" and a "failure" by several analysts.

From a Wall Street perspective, it was working. Alphabet CEO Ruth Porat, previously CFO and Executive Vice President of Morgan Stanley, was credited for this newfound financial discipline. In February 2016, Alphabet briefly overtook Apple as the company with the highest market capitalization.

Was this really a mess or a just a bump in the path of the right direction? What are the longer-term implications of this direction, good or bad? Should Alphabet stay the course or make adjustments?