Teaching Note:

Alphabet Inc.: Reorganizing Google

This teaching note was written by Syeda Maseeha Qumer and Debapratim Purkayastha, IBS Hyderabad.
Alphabet Inc.: Reorganizing Google

ABSTRACT

The case discusses the restructuring of global technology giant Google Inc. as it takes on a holding company structure that separates its highly profitable search and advertising business from its non-core “other bets”. The new slimmed down Google will focus primarily on its core search business with many of its former subsidiaries being spun off under the aegis of a parent holding company named Alphabet Inc. (Alphabet). The case discusses the rationale behind the move and how it had become inevitable for Google to opt for a change in its structure as it pursued potentially new businesses in industries far from its search-engine roots.

The case highlights the benefits of the reorganization to the company, its employees, customers, and shareholders. The reform is likely to breathe new life into the company by making its investments and spending on research transparent and allowing for cleaner operations and more accountability while keeping investors happy. Though Google’s decision to restructure itself with a holding company has been lauded by investors, it is a risky bet that may create some problems for the company down the road. The case presents the challenges that Alphabet could face going forward. Alphabet’s moonshot businesses are experiencing growing pains with the company stressing financial discipline and accountability across its subsidiaries. Moreover, some key leaders have exited Alphabet over unprecedented pressure to bring costs in line with revenue. Will the creation of Alphabet spell a new successful era for Google? Can Alphabet maintain Google’s lead as an innovator and challenge competitors in a wide array of industries?

COURSE USE & TARGET AUDIENCE

This case has been written to facilitate classroom discussions for MBA/MS-level students as a part of their Organizational Behavior/ General Management and Strategy curriculum. The case focuses primarily on the topic of reorganizing and the strategy/structure relationship.

TEACHING OBJECTIVES

The case will help the students to:
- Understand key issues and concepts in reorganizing and the strategy behind Google’s restructuring
- Understand the strategy/structure relationship
- Understand the pros and cons of a holding company structure
- Discuss and debate whether Google’s reorganization efforts will bear fruit for the company.
- Examine the future strategy of Alphabet
IMMEDIATE ISSUES

- What steps should the senior leadership team at Alphabet take to turn the company’s moonshot projects profitable, build sustainable business models out of them, and remain favorable in the eyes of the investors?
- How will Alphabet respond to the concerns of investors as the company continues to invest in far off fields? How can it convince investors about its theory of value creation?
- What should the management do to tackle the leadership crisis (high executive turnover) at the company?
- What should Alphabet’s future strategy be, given the tough competition in the technology industry? How can it remain competitive in the face of significant threats from Facebook, Apple, and Amazon?
- What are the implications of the restructuring going forward? How can Alphabet successfully unleash the benefits of the reorganization and ensure value creation?

BASIC ISSUES

- Organizing; Organizational design; Formal and Informal organizations; Different types of organizational structure; Functional structure; Multidivisional structure; Matrix structures; Holding company structure; Grouping mechanisms; Linking mechanisms;
- The Brand Relationship Spectrum; House of Brands; Branded house
- BCG matrix

ASSIGNMENT QUESTIONS

1. **What kind of structure did Google have prior to restructuring? What are the pros and cons of having such a structure?**
2. **Why did Google change its organizational structure? What kind of a structure did it adopt? What are the pros and cons of having such a structure?**
3. **Was creating Alphabet a wise decision for Google? Why (or) why not?**
4. **Discuss the challenges ahead of the new company Alphabet. What should the management do to overcome these challenges?**

SESSION PLAN

1. **Introduction of the case (5 min)**
2. **Class discussion for question 1: (10 min)**
3. **Class discussion for question 2: (15 min)**
4. **Class discussion for question 3: (15 min)**
5. **Class discussion for question 4: (10 min)**
6. **Summary (5 min)**

*Distribution of Case and discussion questions 2-5 days before class.*

SUGGESTED TEACHING APPROACH

The instructor may initiate the discussion by giving a brief summary of the case study. He/she can set the context by discussing some formal or informal types of organizational structure and their linkage to strategy of the organization. He/she may discuss the cross-functional structure at Google.
Alphabet Inc.: Reorganizing Google

and the changes that were brought about in 2015. The students may then discuss various issues relating to the case. The instructor may start by asking the first question:

1. What kind of structure did Google have prior to restructuring? What are the pros and cons of having such a structure?

Exhibit I in the case shows that Google had a cross-functional organizational structure prior to restructuring, which is ideally a matrix organizational structure with a considerable degree of flatness. This type of structure is often used when the company has to respond to a rapidly changing external environment. The structure is a vertical approach to management where the decision making is done at the top and orders are sent down to the operational employees at the bottom of the organizational hierarchy. This kind of an organizational structure has three main features

- **Function-based definition**: Google used function as a basis for grouping employees. For example, the company has a Sales Operations team, an Engineering & Design Team, and a Product Management Team, among others.

- **Product-based definition**: The Company used products as a basis for grouping employees. For example, employees who develop different devices are grouped under different divisions such as the Google Nexus team, X team, etc.

- **Flatness**: The cross-functional organizational structure has considerable flatness. A flat organizational structure means that Google’s employees and teams can avoid middle management and report directly to CEO Larry Page. Employees can also meet and share information across teams.

**Advantages of a cross-functional structure:**

- Integrates knowledge across organizational boundaries
- Lends flexibility
- Has a short chain of command
- Allows focus on dual dimension (e.g. cost efficiency and customer centricity)
- Creates lateral communication channels and reduces the need for vertical communication by creating teams with specific tasks, focused on one defined project.
- Has the capacity to manage a large amount of information.
- Since the information flow is better, the resources are easier taken from unproductive divisions and used for the real productive purposes.
- Employee motivation and self-involvement are higher.
- There is technical excellence. Technical information is shared faster allowing execution of some innovative solutions in the production process.
- There is strong product/project co-ordination.
- There is quick response to change.
- There is flexible use of resources.
- There is efficient use of support systems.

**Disadvantages:**

- Slow decision making
- Weak line of authority
- Unclear job and task responsibilities
High degree of conflict.

High administration costs.

Potential confusion over authority and responsibility.

Harder to control due to hands off management style.

This kind of a structure supports key aspects of Google’s strategy such as its push for innovation and growth by providing employees the flexibility to achieve the objectives that they had set for themselves and for the company as well. This structure has a focus on team approach to management and offers Google the flexibility to adapt to changes in the market and the external environment. This hybrid form of functional and multidivisional structure works well for Google. It ensures the kind of centralized planning a large company needs while giving its various divisions the flexibility to innovate. Since its inception Google has evolved from an innovator focused on the search-engine business providing consumers with a better way to search and selling ads to businesses to a multi-faceted organization that invests in everything from self-driving cars to finding new ways to extend life.

2. Why did Google change its organizational structure? What kind of a structure did it adopt? What are the pros and cons of having such a structure?

Google’s shift to a new organizational structure can be studied under three motives – Business, Financial, and Legal.

**Business Rationale:**

- To build strong, independent brands using Google’s resources.
- Issue of scale. As Google has grown and diversified the sheer size and scope of its mission demanded a more efficient and structured approach.
- Brands can be diluted when they are applied to too many things. Google needed to free the non-search brands.
- To avert the risk of different entities being lost in the crowd or hampered by any form of red tape that generally seeps into large organizations.
- To maintain Google’s lead as an innovator.
- With many innovations coming out of X, things became too big to control. And when things become too big, employees tend to lose focus on the goals and objectives they have.
- To avert a substantial loss that might happen to the company in case one product or multiple product lines fail because if there is a break in one part of the chain, the whole is affected.
- To deal with the complexity of mergers and acquisitions.
- To allow businesses to flourish through autonomy and strong leadership.

**Financial Rationale:**

- To enhance financial transparency across divisions.
- To increase accountability to the shareholders who were annoyed with Google’s increasingly wild investments in far off fields.
- To prevent stagnation of Google’s stock prices due to investors’ unrest.
- To respond to the pressure from Wall Street to make the company more accountable as shareholders invested in Google ‘as a company’ and not Google ‘as an innovator’.
- To ensure easy analysis of Google’s diverse and vast business.
- To carefully manage capital allocation in each business and strive to ensure each business executes well.
Legal Rationale:

- To insulate liability. The parent of a subsidiary company is not liable for the latter’s debts, and the subsidiaries are not liable for each other’s debts.
- To avoid anti-trust regulation. Google, as a single entity, had been a target of anti-trust legislation in the US and Europe. Spinning off its arms might pacify regulators.

Exhibit III in the case shows that Google had adopted a Holding Company structure

A Holding Company Structure

Bonbright and Means (1969) defined a holding company as “any company, incorporated or unincorporated, which is in a position to control, or materially to influence, the management of one or more other companies by virtue, in part at least, of its ownership of securities in the other company or companies.”

When a company becomes too diversified, a holding company structure is a response to the need for autonomy of all divisions, which are then changed into independent companies. A holding company is a form of business organization which is created for the purpose of combining other business units by owning a controlling amount of their stock. A holding company does not have any operations, activities, or other active business itself. It does not produce any goods and services. Its only purpose of existence could be to exercise control over other companies by holding their shares or voting power. However, it is not necessary for a holding company to own the majority of the nominal value of shares of its subsidiary. Control can be exercised even by owning less than 50% of the nominal value of shares, provided the holding company enjoys the majority of voting power or the power to control the composition of the board of directors. The company whose shares are purchased by the holding company is known as a subsidiary company.

Hanafizadeh and Moayer (2008) classified holding companies into:

1. Investment holding company: The investment holding company derives its profits solely from the investments in the securities of its subsidiaries.
2. Managerial holding company: The managerial holding company in addition to earning from the subsidiary’s profits also intervenes in the subsidiaries’ transactions.
3. Operating holding company: The operating holding company is also in the business of selling some products or services to its own customers in addition to having investments in subsidiary firms.

The holding company manages a portfolio of companies that are independent and are often very different. Each of its entities has its own strategy, customers, and its own resources. The logic of a holding company is less strategic than financial. The head of the holding company makes decisions to purchase or sell but does not get involved in steering the companies within the portfolio.

The holding company as an organization structure is used for managing diversification and growth of business operations. This model is suitable for the technology industry because the industry is extremely competitive as the barriers to entry are very small. Some of the world’s largest companies operating under holding company structures are Berkshire Hathaway and General Electric.

On October 2, 2015, Google completed a reorganization whereby Alphabet became a holding company with no business operations of its own. Alphabet is a suite of companies, the largest of which is the slimmed down Google. Rather than producing tangible goods, Alphabet will be responsible for owning the shares of each of its companies. Alphabet has no customer facing role as its job is to give subsidiaries room to develop their own identities and flourish. As an
Alphabet Inc.: Reorganizing Google

Alphabet Inc. is an investment holding company. Alphabet will be dependent on the cash flows from subsidiaries to meet its obligations. Alphabet’s only significant assets are the outstanding equity interests in Google and other subsidiaries of Alphabet. The reorganization is basically a renaming and an internal consolidation of the enterprise with no effect on ownership or management. The company is headed by co-founder Larry Page while the subsidiaries have their own CEOs.

Advantages of a Holding Company Structure

- A holding company structure is usually robust and stable. It contains the risk of a particular business to a subsidiary without putting the whole business group at risk.
- It empowers great entrepreneurs and companies to flourish.
- It provides the founders with more management scale, as they can run things independently that are unrelated.
- It aids in investing at the scale of the opportunities and resources.
- It ensures better deployment of capital with lower risk to various moonshot projects.
- It offers more transparency in individual businesses.
- It ensures more visibility. The split makes it easier to model the main search business from the distracting moonshots.
- It results in cleaner operations and more accountability. Investors will get a more detailed insight into how their money is being spent across Alphabet’s various projects and get a chance to choose for themselves a more profitable and less risky venture,
- It ensures better management retention with independent CEOs.
- It provides more accountability. Detailed segment level reporting gives a clearer insight about cash flows, thereby allowing better analysis and valuation of the overall business.
- It leads to strong internal controls and systems and processes.
- It provides financial flexibility. For instance, Alphabet may borrow money and pass it down the line to its subsidiary as equity.
- It allows each unit to deploy the right approach to strategy and execution.
- It limits liability. Alphabet subsidiaries will be standalone operations, to rise or fall on their own. Instead of hiding under a single mantle like Google, they will be individually accountable.
- A holding company structure insulates Alphabet’s vague and risky moonshot businesses from successful ones like Search, Ads, Apps, Android, YouTube.
- It allows for decentralized management by delegating responsibilities to capable CEOs to handle each of the company’s diverse businesses.
- Separating Google’s core business from its moonshot projects may make it easier for Google to issue debt, possibly allowing it to buy back shares from investors.
- It lowers the hurdles to acquiring and growing companies. An umbrella organization makes forming and buying new businesses a lot easier.
- Subsidiary companies can maintain their unique independent identity. The subsidiaries will be freed from the matrix management of Google. They will get their own legal departments, be able to set their own benefit structures and culture to some extent.
- It offers a tax advantage in the form of exemption of corporate income tax on incoming dividends from subsidiary companies.
- Risk Management. Risky operations can be segregated similarly. Keeps Alphabet in a very balanced position, where it can shut down weak ventures or open up new options depending on the market situation of each entity.
- It provides for easier sale of a product or service line.
- It offers subsidiaries that have limited access to financing the possibility of raising large capital.
- It optimizes allocation of management resources
- It improves communication within the group
- It attracts new talent.

Disadvantages
- It is difficult to manage and control.
- There is no clarity on authority and control to give to division managers.
- There is difficulty in maintaining an overall corporate image.
- Its role is restricted only to the disposal of unprofitable business units.
- The financial flexibility offered by a holding company structure can encourage hasty dissolution of business units at the very first sign of trouble.
- There are liquidity issues. In a highly volatile market or during market crisis, the holding company may find it difficult to remain profitable or convert its assets in a timely manner to avoid substantial losses.

3. Was creating Alphabet a wise decision for Google? Why or why not?

Students favoring the decision may point out the advantages associated with adopting a holding company structure discussed so far. The reorganizing can be also explained with the help of ‘The Brand Relationship Spectrum’ introduced by Professor David Aaker and his co-author Erich Joachimsthaler. It is a brand architecture tool that differentiates brands on the basis of driver roles. The position on the spectrum reflects the degree to which brands are separated in strategy execution and in the minds of customers. It involves four basic strategies and nine sub strategies (See TN Exhibit I).

1. **House of Brands**: This strategy involves an independent set of stand-alone brands, each maximizing the impact on a market. In the House of Brands strategy, the brands are independent and it allows firms to clearly position brands on functional benefits and to dominate niche segments. The whole point of a house of brands structure is that the corporate brand becomes essentially invisible to the external world, and is relevant only to senior employees and investors.

2. **Endorsed brand**: Endorsed brands though independent are also endorsed by another brand, usually an organizational brand.

3. **Subbrands**: These brands are connected to a master or parent brand and enhance associations of that master brand.

4. **Branded House**: A branded house uses a single master brand to extend a set of offerings that operate with only descriptive sub brands. The branded house puts a lot of eggs in one basket. It is the default brand architecture option.
Prior to restructuring, Google adopted the ‘Branded House’ strategy wherein it used a single master brand ‘Google’ to operate a large number of products. Initially for Google, the advantages of a single brand far outweighed the impediments. But with success comes growth and with growth comes complexity and scale. As Google grew and diversified, the sheer size and scope of its mission called for a more efficient and structured approach. As a result, Google moved from a ‘Branded house’ to ‘House of Brands’ by creating a silent holding company Alphabet under which a plethora of brands operated (See TN Exhibit II).

### TN-Exhibit II

The Brand Separation

<table>
<thead>
<tr>
<th>Google (A Branded House)</th>
<th>Alphabet (A House of Brands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the master brand contribute to the offering by adding:</td>
<td>Is there a compelling need for a separate brand because it will:</td>
</tr>
<tr>
<td>- Associations enhancing the value proposition?</td>
<td>- Create and own an association?</td>
</tr>
<tr>
<td>- Credibility with organizational associations?</td>
<td>- Represent a new different offering?</td>
</tr>
<tr>
<td>- Visibility?</td>
<td>- Avoid an association?</td>
</tr>
<tr>
<td>- Communication efficiencies?</td>
<td>- Retain/capture customer/brand bond?</td>
</tr>
<tr>
<td>Will the master brand be strengthened by associating with the new offering?</td>
<td>- Deal with channel conflict?</td>
</tr>
<tr>
<td></td>
<td>Will the business support a new brand name?</td>
</tr>
</tbody>
</table>

Shift from a single ‘Branded House’ approach toward a pure ‘House of Brands’ architecture makes strategic sense on a number of levels:

For the Company:

- The ‘House of Brands’ approach helps to create unique cultures within the Alphabet umbrella that support new business models.
- It facilitates innovation, which is vital for the future success of a company.
- It reduces corporate risk.
- It offers greater transparency for better investments
- It helps the company to stay focused. Alphabet’s new structure will allow Google to do things in its own way while allowing other brands like Nest to do it their way.
- Google will become lean and nimble like a startup.
- It prevents Anti-Trust. By slimming down Google may be able to placate regulators.
- The Alphabet Model has put constraints on how much the company’s founders can invest in moonshots. As separate businesses it is much harder to fund moonshots under the radar.
- It helps the founders of Google to push innovations far beyond the core business as the new approach sets them free from the complexity of managing multiple brands.
- Google’s new House of Brands architecture speeds up acquisitions as it is a much more suitable structure to buy and sell companies.
- Alphabet can now look to acquire new businesses and offer them a level of independence and freedom to maintain their unique identity that Google’s previous structure made more difficult.
- It offers a balanced brand portfolio.
- It promotes competition and the entrepreneurial spirit among its many arms
- It can help create path breaking products that may result in windfall gains for Alphabet shareholders.
- It will make Alphabet much less susceptible to scandals.
- By creating a ‘House of Brands’ Alphabet can distance corporate risk from brand equity and reduce any potential impact of corporate misdoings on its consumer brands.
- Employee acquisition. The conglomerate could attract talent from a variety of scientific and technical fields and challenge incumbents in a wide range of industries.
- The move sets up succession planning. Brin and Page can take control of the bigger picture and chase exciting new projects. It creates a set of CEOs under them.
- The move to operate in parallel rather than in series is a wise decision as Alphabet is competitively positioned against competitors such as Apple and GE with smart investments.

For Employees

- The opportunity to offer a high level of independence, fancy executive titles, and build autonomous brands will appeal to existing and potential employees.
- There will be targeted focus of management
- It offers more leadership opportunities for its employees. Individual companies under Alphabet can help teams by granting everyone unique, well-defined responsibilities and different leadership styles, with clear metrics for success.
By reorganizing their employees into tighter, more empowered, simplified units, every team and product can move more swiftly and challenge competitors.

Talent Retention. Promising executives can be promoted before they are poached by other powerful corporations.

By creating a portfolio of separate businesses, Google will also open up many more high-ranking executive opportunities. The pitch may just keep Google executives firmly locked in Alphabet.

Google has created a highly distinctive culture. The new modular approach toward a ‘House of Brands’ realized by Alphabet allows it to vary that unique culture according to the needs of each business, thereby satisfying employees.

For Customers

The ‘House of Brands’ approach creates value for customers. New products will be launched by various divisions. Existing products and services will continue to be available.

Creating Alphabet will allow the founders of Google to tinker with new ideas. And that could be a boon for consumers if it leads to more innovation.

For Investors

In the BCG matrix, Cash Cows (high relative market share but growing slowly) are used to subsidize the Question Marks (high market growth, low market share) hoping to turn them into Stars (high market growth, high market share, and growing rapidly with potential to become cash cow) or see them degenerate into Dogs (low market growth, low market share).

### TN-Exhibit III

<table>
<thead>
<tr>
<th>BCG Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earnings:</strong> low, unstable, growing</td>
</tr>
<tr>
<td><strong>Cash flow:</strong> negative</td>
</tr>
<tr>
<td><strong>Strategy:</strong> analyze to determine whether business can be grown into a star, or will degenerate into a dog</td>
</tr>
<tr>
<td><strong>Earnings:</strong> high stable, growing</td>
</tr>
<tr>
<td><strong>Cash flow:</strong> neutral</td>
</tr>
<tr>
<td><strong>Strategy:</strong> invest for growth</td>
</tr>
<tr>
<td><strong>Earnings:</strong> low, unstable</td>
</tr>
<tr>
<td><strong>Cash flow:</strong> neutral or negative</td>
</tr>
<tr>
<td><strong>Strategy:</strong> divest</td>
</tr>
<tr>
<td><strong>Earnings:</strong> high stable</td>
</tr>
<tr>
<td><strong>Cash flow:</strong> high stable</td>
</tr>
<tr>
<td><strong>Strategy:</strong> milk</td>
</tr>
</tbody>
</table>


By separating the Cash Cow which are Search and online Ads for Alphabet from the Question Marks (the Other Bets) *(See TN-Exhibit III)* and implementing segment reporting, Alphabet will be able to

- Provide investors with more transparency on how the core search and ad business is performing. They will get a more detailed insight into how their money is being spent across various projects and which segments of the business are driving returns and which areas need improvement.
Alphabet Inc.: Reorganizing Google

- Ensure investors have a better sense of business and get a chance to choose for themselves a more profitable and less risky venture. This would fuel better investment decisions and preferably hike the stock price of Alphabet.
- Offer intrinsic value appreciation for shareholders of Alphabet
- A restructuring like Google’s ensures that shareholders in the profitable and mature business are not exposed to risks that come with such new business forays.

Students not favoring the decision may point out the following drawbacks associated with the reorganization:

- Alphabet has to sustain and support individual businesses within the new corporate structure. This could prove to be costly from a branding perspective.
- The costs associated with a holding company structure without realizing the anticipated benefits could adversely affect the company’s reputation, financial condition, and operating results.
- Alphabet’s management is dedicating significant effort to the new operating structure. These efforts may divert management’s focus and resources from Alphabet’s business, corporate initiatives, or strategic opportunities, which could affect the company’s businesses, results of operations, or prospects.
- The subsidiaries of Alphabet may be restricted in their ability to pay cash dividends or to make other distributions to Alphabet, as the new holding company.
- Transparency may not translate into profits.
- It raises the question whether financial transparency will make Alphabet’s businesses competitively stronger.
- The transparency could cause some investors to rethink whether they want to remain invested in these other businesses and prefer to put their money in Google.
- Investors who are generally short-sighted might question the profitability of the new business entities, thereby pressuring the company to get rid of the underperforming companies.
- The new structure might impede innovation due to financial discipline across the company.
- Raising walls within the company might lead to destructive competition. The company might lose its purpose and unifying vision.
- Cultural conflicts may arise among the subsidiaries.
- Conflicts could crop up over allocation of financial and human resources, particularly during acquisitions.
- Allowing investors to know the details of cash flows might not be the wisest thing to do for a company like Alphabet that invests heavily in innovation.
- In terms of brand identity, Alphabet may not live up to the originality and quirkiness of the Google brand.
- Changing the corporate brand would hardly affect brands such as YouTube, Nest, Sidewalk, Calico, etc.
- The change would make hardly any difference to customers.

The outcome of the reorganization would, however, depend on how the new structure is implemented. Alphabet might end up being the best move that Google’s management has ever made or it might end up being just another dismal corporation.
4. Discuss the challenges ahead of the new company Alphabet. What should the management do to overcome these challenges?

Alphabet is a work in progress and its fate still remains unclear. Some of the challenges faced by the company are as follows:

- Proving the added value of the many businesses belonging to a single entity
- The challenge before the leadership team of Alphabet having to clearly define the guidelines about how to manage cultural conflicts and allocation of financial and human resources among the entities.
- The possibility that the new structure might create new obstacles to innovation within Alphabet. Alphabet’s fiscal prudence and sharp focus on the bottom line would hamper technological innovation.
- From a branding perspective, maintaining and supporting individual brands under the Alphabet structure proving costlier than building a single brand.
- Alphabet’s moonshots struggling as the company stresses discipline. The turbulence may create problems for these moonshots to become sustainable business models.
- Alphabet’s high dependence on Google for revenues. The company’s search business though unshakeable at present might face some dark clouds in the future owing to tough competition from rivals like Facebook and Amazon.

As observed from Exhibit VII in the case, in fiscal 2016 Google Segment revenues were US$89,463 million, accounting for about 99.1% of total revenues. On the other hand, the revenues of ‘Other Bets’ were US$809 million, contributing just 0.9% of total revenues (See TN-Exhibit IV).

TN-Exhibit IV

<table>
<thead>
<tr>
<th>Amount in millions of US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Ended December 31,</strong></td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>Google segment revenues</td>
</tr>
<tr>
<td><strong>Google segment revenues as a percentage of consolidated revenues</strong></td>
</tr>
<tr>
<td>Other Bets revenues</td>
</tr>
<tr>
<td><strong>Other Bets revenues as a percentage of consolidated revenues</strong></td>
</tr>
</tbody>
</table>

- Convincing investors about Alphabet’s theory of value creation.
- Remaining competitive in the face of the most significant threats from Apple, Facebook, and Amazon.
- Leadership crisis. Top executives who were appointed to turn moonshots into eventual reality fleeing the company.
- The possibility of the restructuring leading to higher costs as the company needs to hire more skilled staff in the individual segments.
- The possibility that Alphabet’s businesses may begin competing against each other or overlap in ways that may lead to conflicts of interest.
Alphabet Inc.: Reorganizing Google

The possibility that uf moonshot projects fail to deliver profits, investors could stop investing in the company.

As observed from Exhibit VIII in the case, during fiscal year 2016 ‘Other Bets’ operating loss was US$802 in Q1, US$859 million in Q2 and US$865 million. In the fourth quarter, Alphabet reported revenues of US$26.06 billion. Out of this, Google segment revenues were US$25.80 billion while the revenues of ‘Other Bets’ were a meager US$262 million. The operating loss of ‘Other Bets’ was US$1.1 billion.

The possibility that lack of a tangible, compelling corporate strategy for the overall enterprise may hinder growth.

The management can take the following steps to overcome these challenges:

- Disciplined cost allocation across core Google and Other Bets.
- Strengthen the Alphabet ecosystem by ensuring that its products are adopted by more users
- Gain a stronger foothold in the growing cloud market.
- Cull investments in Other Bets which are not profitable
- Focus on artificial-intelligence initiatives
- Find talented executives willing to work within Alphabet’s corporate umbrella.
- Promote an innovative spirit across the company’s disparate businesses.
- Bring together human talent, technology and investment approaches to strengthen existing business models
- Go in for more acquisitions to boost innovation and scale
- The senior leadership at Alphabet should ensure that at least one of the moonshot projects will be successful in order to reduce Alphabet’s dependence on Google.
- Senior management at Alphabet must focus more on growing their core company and invest heavily in technical innovation closely related to Google including artificial intelligence and machine learning, in order to beat competitors.

From a corporate perspective, the restructuring marks an important step forward for the continued growth and development of Google’s products, services, and employees. Alphabet is headed into a very exciting and impressive future as it has the potential to become a huge conglomerate that could attract talent from a variety of scientific and technical fields and challenge competitors in a wide range of industries. Going forward, Alphabet could dramatically influence business models in many industries.
Alphabet Inc.: Reorganizing Google

Suggested Readings and References:


14


26. https://googleblog.blogspot.in/2015/08/google-alphabet.html


34. http://www.google.co.in/about/company/