

ILLUSTRATION 14.2

Google gets a new name and a new structure

In August 2015, Google became a subsidiary of Alphabet Inc.

Google had been founded in 1998 as an internet search company by two Stanford PhD students, Larry Page and Sergey Brin. The search activities were funded by advertising (Ads). In the following years, the company had diversified radically, entering for example maps, video (YouTube) and mobile operating systems (Android). It had also established Google X, for so-called 'moonshot' initiatives such as Google Glass, which displays information on a headset (like glasses). Google Ventures invested in start-ups such as Uber. There were also acquisitions such as Nest, involved in home automation. Another major venture was Calico, a health business dedicated to extending lives through better use of information.

In August 2015, Google CEO Larry Page announced a major change of structure. A new parent company Alphabet Inc. would be created, under which Google would become a subsidiary responsible for a group of businesses (Ads, Maps, Search and so on) that would no longer report directly to Page. The Google X, Ventures, Nest and Calico subsidiaries would continue to report directly to Page. Each of the subsidiaries would have their own CEOs (Pichai, Teller, Marris, Fadell and

Levinson). Financial results would be reported for each subsidiary, instead of just consolidated for the whole as previously. Brin explained: 'Fundamentally, we believe this allows us more management scale, as we can run things independently that aren't very related. . . . In general, our model is to have a strong CEO who runs each business, with Sergey and me in service to them as needed.' News of the restructuring lifted the Google/Alphabet stock price by seven per cent, an increase worth \$29bn (£17.4bn, €21.6bn).

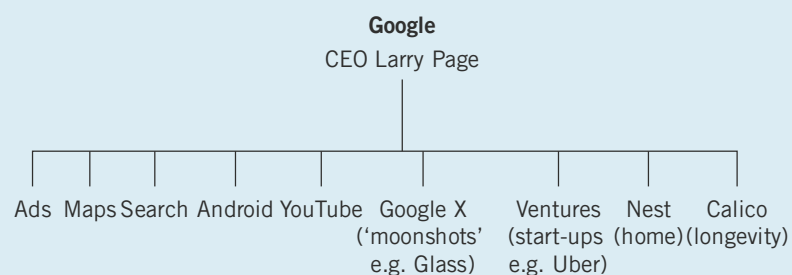
Sources: *Business Insider*, 11 August 2015; *Financial Times*, 11 August 2015; *Google Press Release*, 10 August 2015.

Questions

- 1 In what respects is the change consistent with Alfred Chandler's phrase, 'structure follows strategy'?
- 2 Why do investors think that the new Alphabet structure is worth an extra \$29bn?

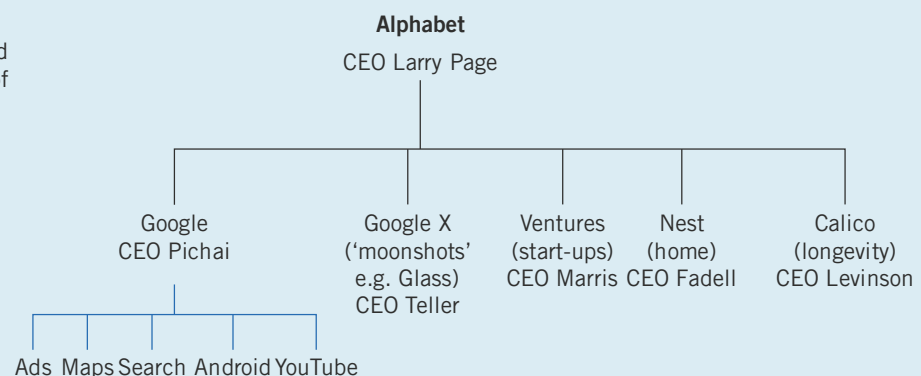
Pre-August 2015

(performance reported for Google group as a whole)



Post-August 2015

(performance to be reported for Alphabet *and* for each of its five main subsidiary companies)



Source: Simplified from *Business Insider*, 'One chart that explains Alphabet, Google's new parent company', 11 August 2015, Wright's Media, LLC.