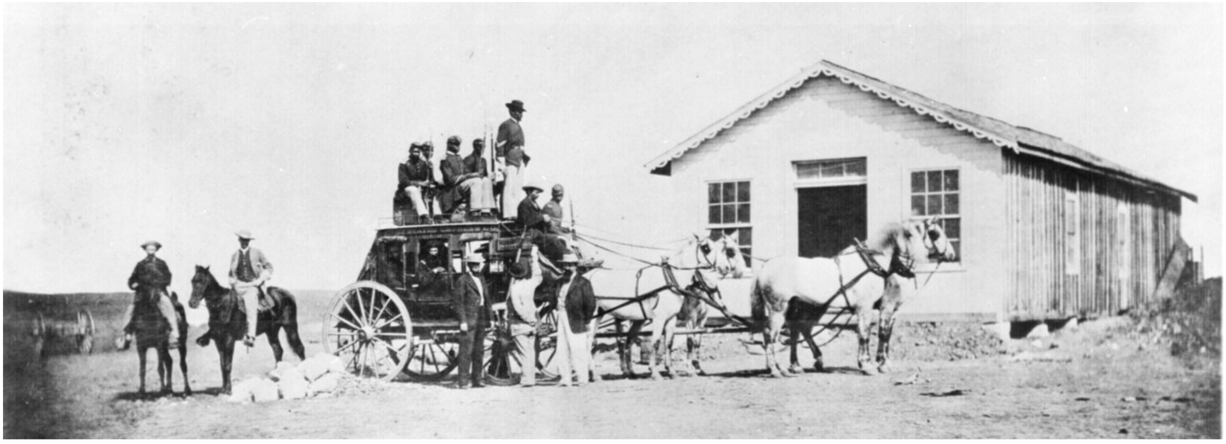
## When Google Fails



What do you think - is there a big difference between operating a pub and running a coach company?

A pub or an inn is stationary, with all operations firmly attached to the ground. A coach company needs mobility to make money. A pub needs a prime location – just like in real estate – and a steady supply of fresh beer. A coach company needs a reliable service – just like in telecommunications – and fresh horses on time. Both businesses have only one thing in common: They are "service businesses" catering to consumers. However, as soon as you connect them, they lose even this last commonality, since one of them suddenly turns into a "platform business".

The term "platform" in its current meaning was first used back in the 16th century. It referred to the wooden stage in front of countryside inns where stagecoaches used to stop at to drop off and pick up passengers, and to feed or change horses. An inn as such is primarily a service business in the "Food and Drug" industry, catering to consumers. As soon as the inn builds a platform in the front of the building and a horse stable in the back, it diversifies as a platform operator into the "Transportation" industry, catering to transportation service providers (i.e. coach companies). It is very important here to understand that both businesses are in entirely distinct industries!

There are obvious synergies, though. An inn as a platform will thrive the more service providers it can simultaneously attract and retain since success in this industry will attract consumers in its "Food and Drug" business.

So, what is Google? The quick response usually is that Google, like Facebook, Amazon, Alibaba, or eBay, is a platform operator, thriving on critical mass and the network effect. However, this is not entirely true. In fact, Google is a collection of businesses, with its heritage in services, namely “Google Search”, based on a platform called “the Internet”. And Google has had remarkable success stories in platform businesses as well, like “Android”, for example.

But if Google can obviously excel in both business models, what has caused its most prominent failures such as “Chrome”, “Google+”, and “Compare”?

We tend to think that Alphabet formerly known as Google is a hugely successful corporation run by the smartest bunch of geniuses in the world. We assume that their critical mass, their intellectual prowess, and their financial fire power will help them to control whatever they attack as long as it is in IT. That notion might be a little off.

## Where do you want to stand on?

Google’s management is obviously smart but it may not be aware of the fact that a platform’s key success factors are kind of opposite to the ones of a service business. The management might even think that offering both a platform and a service in the same industry will create synergies. Let us look at some specifics of the platform business to find out the mechanics.

- Buyer and supplier: In most instances a consumer is not the buyer of a platform operator. A consumer is usually not even in touch with the operator unless the operator offers any proprietary services on the same platform to consumers in addition. So, no synergies from identical relationships.
- Critical mass and network effect: For both the platform operators and the service providers critical mass may be important. But critical mass is an output variable rather than an input variable. You need to reach it at some point in time to make money. It might give you a better position on your cost curve but it does not differentiate you from competition. The network effect, however, is an input value which only applies to certain types of platforms, not to services! Every platform service provider has an additional benefit from other service providers entering the platform. The more coaches stop at a pub’s stage, the more connections can be offered by every coach operator. Airports try to become hubs, not just stages.

Simply said, as a consequence you got to decide on which side you want to be. It is nearly impossible to become successful on both sides simultaneously because of inherent and strong conflicts of interest. Even in case you are in a natural monopoly platform position like power transmission it will be hard to become the dominant player in power supply in a non-regulated setting.

## Where are you standing on?

Now let us look at what Google had done before it failed in the "Compare" case. Google had tried to market "Compare" to consumers like a service. The "Compare" service is a fully unbiased comparison. The value add to the consumer is total independence from platform operations. "Compare's" platform is a yellow pages type publication business. It is a publishing platform for any business, product, or service on the market. And consumers have learnt for ages that bigger yellow pages entries are more expensive than a standard listing. This is why Google was not able to convince consumers of their independence from the platform operator. Google did not have the slightest chance because they did not understand which business they really were in.

How could they have found out? Simply by identifying the one who actually pays. If the consumer is not paying you, you are definitely in the platform business. In the "Compare" case, the consumer does not pay Google directly. So, either you charge advertisers for space, which is what a platform operator would do, or you introduce a hidden currency, namely trust, which is what a service provider would do. Trust is a scarce resource, and if you collect it from consumers, their balance will shrink over time. Google tried to charge money for advertising space to advertisers, and at the same time to collect trust from consumers. Not a very smart approach, from our point of view. If they would have charged the consumers money, they would have had a chance.

The case of "Google Search" is a whole different story. Consumers still trust in Google's extremely powerful search algorithm. And that trust is not being collected as long as consumers are well aware that Google is not putting a bias into Internet information. The company makes money from data extraction after the search, not from search results bias. This is very different from "Compare". It is a clean-cut business model.

## Money to go or to stay?

This should tell investors a crystal-clear story: Size and prowess cannot make up for adverse reality. Mixing up a platform business with a service provider business in the same industry right from the start is a recipe for disaster. It is a so-called “instant forward integration”, where the supplier to an industry approaches the customers of his own potential customers directly at market entry. This is a bad idea as long as you are not in a monopoly position. And a market entrant is typically not a service monopolist in this very industry. Your platform will never take off.

Is this when Google failed? Yes it is!

- In the case of “Google+”, the network effect put Facebook in a much better position than Google. Their idea though was to compensate this huge disadvantage by integrating the “Media” platform into a wide array of Google “Media” services.
- In the case of “Google Chrome”, they tried to introduce an “Internet” browser service targeted at becoming an “Internet” operating system, i.e. a platform business.

If the management of Google keeps mixing up things, keep off. They will keep burning money big time, time and time again.

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