Semi-Organic Growth - Tactics and Strategies behind Google's success

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We live in a world where traditionally a company can grow in two ways - either organically i.e. by growing internally through increase in production or customer base, etc. or inorganically by way of mergers and acquisitions. Now, the Author explains to us in the book an alternate growth path - the Semi-Organic Growth way.

The Author has defined Semi-organic growth as under,

"Semi-organic growth is generated when revenue results from products or services that emerge when acquired technology-related assets attach to a company's existing capabilities in a complementary manner."

The questions that immediately pops up in our minds are - How do you understand the semi-organic growth way? How is it different from the traditional paths? Why is it even necessary to have a third way?

The Author has answered all the pertaining questions through judiciously choosing a company that has been a serial acquirer in a patterned manner in the last decade and has followed a semi-organic growth model. He picked Google, a Fortune 500 company, with a history of more than 200 acquisitions out of which two-third have been successful and synergic. Not only the Author analyzes the mergers and acquisitions of Google in the past decade in order to explain the readers the semi-organic growth pattern but also answers questions in mind deftly.

The Author explains how Google, unlike its competitors, have had a series of acquisitions since its inception, even before it went public on August 19th, 2004. This company boasts about 200 odd purchases in various related as well unrelated fields while being more than successful in it as per the industry standards, commands a study on it from Mergers & Acquisitions (M&A) perspective. The author usesinfographics so to make the readers understand and appreciate the deals in a better way and attempts to answer any question that the readers may have on acquisitions done by Google.

At the beginning of the book, he provides a framework to measure the impact of an M&A and attempts to explain it to the readers with respect to Google. It is essential to follow a pattern, if any, by which Google makes these acquisitions and does it have anything to do with its first acquisition and the way it was done? The book throws light on this aspect in the initial chapters. The author explains the following main aspects of M&A program for it to be sound:-

1. Strategy - This point revolves around thoroughly understanding the rationale behind the M&A.
2. Deal Economics - It mentions that the valuation of the target using a constellation approach (i.e. using more than one valuation methodology) instead of going for North Star valuation metric. Synergy analysis is also a part of this aspect.
3. Organizational Design - This part of the program tries to measure how well the integration will happen. Also, the reader gets an idea that organizational design's process of integrating varies from one acquisition to the other.
4. Deal Dynamics - Finally, we come to a position where the company talks about the structure of the M&A deal, like whether they deal would be cash or stock or a mix both.

Then, the performance evaluation of the M&A deal is done. The M&A effectiveness of a deal can be measured by value-creation, strategic relatedness or organizational behavior. Google's performance evaluation in its M&A activities is done by the value-creation school of thought as well as strategic relatedness. However, the Author explains how the acquisition of NEST labs (a home automation producer, acquired for USD 3.2 billion) is an example of strategic un-relatedness as the acquisition doesn't pertain to Google's core ad-tech business. The third school of thought for M&A effectiveness involves organizational behavior.

The book introduces the reader to new terms like Acqui-hire, which has been practiced by Google while making smaller acquisitions. Acqui-hire means acquiring a company for its talent, where technology, product, etc. may or may not be the reason for the acquisition. The perfect example of acqui-hire for Google is the acquisition of Applied Semantics (ASI) which was a pre-IPO acquisition done in April 2003. This acquisition also imprinted Google and charted a way for its future acquisitions.

The Author states the fact about an acquisition for which Google paid USD 41.5 million in cash plus stock and USD 60.9 million worth of stock options in a cash plus stock deal for ASI. This acquisition proved to be extremely fruitful for Google as it resulted in a massive contribution to its advertising revenues for the years to come. AdSense (an ASI product) contributed around 25% to Google's advertising revenues in the next decade. This acquisition provided Google with an inclination towards M&A activities as well as performing the M&A activity in a certain way i.e. the semi-organic way. Hence, the book contains an entire chapter on this acquisition and its details in which even the problems that Google had to go through for the semi-organic integration of the ASI to Google are mentioned.

Going forward, the book forces the reader to think whether Google's acquisition spree is a result of merely using its ideal cash pile or part of experimentation by the inquisitive founders or a well-thought of a plan. Once the reader starts asking these questions, the book tries to answer it in its upcoming chapters.

Generally, in a business book, competition is talked about in a cohesive manner. However, this book does it differently. Google's competition with Apple is discussed in an initial chapter in which its competition with Facebook and Amazon is addressed in the later chapters. It looks like a well thought of move. Once you get the basic understanding of Google's M&A activity, the reader expects that the next chapter would talk about the M&A deals in a detailed manner. The book doesn't, in fact it takes a turn and brings Apple in the picture.

The book explains that Apple and Google have displayed an extreme behavior when it comes to M&As. While one is a serial acquirer, the other has been organically growing by choice barring a few small acquisitions, possibly believing, as mentioned in the book "real men don't do M&A." This was the case till 2009. Enter 2010, Apple and Google have got into dyadic cascading. In November 2009, Google acquired Admob for USD 750 million in stock and in reply, Apple bought Quattro Wireless from the same industry. Then in March 2010, Apple acquired Intrinsity to enhance battery life in mobiles while Google in April 2010 acquired Aguilux. This dyadic cascading has continued from that point forward. Apple started making huge acquisitions (eg.Beats for USD 3.2 billion), unlike its earlier attitude of growing organically. The book provides infographics of acquisitions of Google and Apple for 2010 and 2013 to let the reader appreciate how Apple changed its attitude towards acquisition.

Keeping aside the information this book provides on Google's M&A deals, the key takeaway of the book is learning how to build an M&A market model. As per the author, "M&A market modeling fundamentally involves chunk building- accumulating meaningful pieces of information about market segments/ subsegments, companies, and deals. A robust market model can only be built with persistent effort." The book attempts to develop a robust M&A market model for Google and its acquisitions where the categories and the basis are described vividly. To begin with, the Google M&A model is divided into three main categories - 1) Media deals, 2) Internet software/services deals, 3) Technology platform deals, and 4)Others. Further, the model subdivides these categories.For instance Media deals are divided into Advertising that is further subdivided into Internet Advertising, Mobile Advertising, Publishing Advertising, Radio Advertising, Television Advertising etc. The author also tries to make the reader understand the difference between

M&A modeling and the traditional classifications such as SIC (Standard Industrial Classification) or NAICS (North American Industry Classification System). The M&A model distinguish each and every acquisition on the basis of its connection (direct or indirect) with the main category and provide it with an icon. A click on the icon gives all the available information on that particular deal in a prescribed format. The model also accepts specific queries that relate to the problem. A comparison between two principal companies' specific acquisitions can also be made. The book provides step-to-step instructions on building the model and also speaks about its scope.

The forthcoming chapters are dedicated to the three categories and descriptively talks about the various acquisitions that Google performed in the field of Media, Internet and Technology Platform. The book provides an exhaustive summary of the deals related to that particular area. For instance, the technology platform mentions the acquisition of Nest Labs by Google in USD 3.2 billion. This is an entirely unrelated to core business acquisition for Google, but Nest Labs are in the company of producer of home automation products. Hence, this deal comes under technology and a different subcategory.

While going through the first half of the book, a question arises in the reader's mind as to know certain other aspects of the M&A deals like the failed deals and the repercussions of those or may be the extent to which Google and its competitors made the deal disclosures. As the reader moves further, these questions are answered in the book. The book has put Motorola Mobility acquisition by Google under the chapter that talks about the failed or shuttered deals. As the reader goes through it, the book has inputs that says that Motorola Mobility deal hasn't been a failed deal for Google per say. These instances and the numbers supporting the discussion ignite curiosity in the mind of the reader. Also, considering the wide variety of acquisitions that Google has made, the book suggests that it should have different parameters for evaluation of a deal with respect to target's position in the life cycle, product expectations, etc.

The book also touches upon how secretive American companies like Apple, Google etc. are when it comes to deal disclosures. SEC guidelines for disclosure give the leeway in the materiality concept as it says, "The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." It is because of this reason that Google mentions its acquisition of Waze Limited for a cash consideration of USD 969 million separately whereas it clubs the rest of the acquisitions of the same period together and hence the public doesn't come to know the target's name at times. Here, the M&A model comes in handy if the user wants to run a query asking for the M&A details of the deals whose values are disclosed by Google. The last portion of the book talks about the deal dynamics of the M&A program. Like, Google has used stock consideration in four deals till now (as per the disclosures) that includes ASI and YouTube.

Semi-organic growth's most essential aspect is the talent the target brings. It is the most important trait of this type of growth. The author emphasizes on the fact that how important it is for the founders to be a part of the team post the acquisition and that comes under contingent consideration. To make the founders stay for a while, there is an Earn-out provision where in some milestones are set post-acquisition based on which the target would receive a remaining deal amount. The book talks about other such mechanisms to motivate founders as well as employees and how well semi-organic growth has become Google's way of acquiring the firm. The last part of the book emphasizes on the M&A integration and describes four major types of acqui-hires and how each and every type has enhanced Google's offering. An interesting part of the book is that it also tells the reader where the founders of the target company went after they left Google. It is a piece of information that the reader would don't mind knowing. Like, Twitter co-founder Evan Williams previous firm Pyra Labs (Blogger) was acquired by Google. Twitter was founded by him after he left Google.

Once the reader finishes Semi-Organic Growth - Tactics and strategies behind Google's success, it is clear that the book has lived up to its title as now the reader has valuable information on mostly all the aspects of the M&A deals undertaken by Google. Having said so, the book lacks with respect to letting the reader know about the company's perspective over any deal post an acquisition. The content would have been richer if there were quotes directly from the Horse's mouth which in this case is Google. However, one can't shy away from appreciating the references that are provided at the end of each chapter that helps in substantiating the author's writing. There are aspects of the book that are explained in great detail like the deals under the three categories namely Media, Internet and Technology Platform but there are also elements in the book that have been touched at the periphery like Google's competition with Amazon. As they say, too many cooks spoils the broth. Luckily for this book, despite concentrating on many subtopics, it doesn't look fragmented. A reader from the finance/strategy/Information Technology background might feel the necessity of a deeper understanding in building the M&A market model after going through the book but the book suffices in the construction of the foundation of the model. The provision of 50 info-graphics at various places in the book provides visualization to the user who would result in enhancing the reader recall when there will a discussion on such topics.

A curious thought may run into the reader's mind after looking at the title of the book as Google is now Alphabet. Alphabet has become the holding company and has Google Ventures, Google Capital, Fiber, Calico, Nest as the heads along with Google. Google comprises of YouTube, Android, Search, Apps, Maps and Ads. The change in organizational structure questions a lot of inferences drawn in the book as when the book was written it was Google, not Alphabet. The silver lining being, the book can be used to draw a comparison between Google and Alphabet's semi-organic growth path if need be. If Google had become Alphabet in 2014 instead of 2015, the book might have been written differently.

About the Author - George T. Geis teaches at UCLA Anderson in the areas of mergers & acquisitions, financial modeling, entrepreneurship, and accounting. He has been voted Outstanding Teacher of the Year at UCLA Anderson five times, the most recent honor being given by the MBA class of 2012. Geis has also served as Associate Dean and Faculty Director of UCLA Anderson's Executive MBA program. He is currently Faculty Director of Anderson's Mergers and Acquisitions Executive program. Dr. Geis is an expert on M&A activity in technology, communications and media markets. Geis received a B.S. "summa cum laude" and with "honors in mathematics" from Purdue University , an M.B.A. from University of California, Los Angeles, and a Ph.D. from the University of Southern California. (Source:http://www.anderson.ucla.edu/programs-and-outreach/information-systems-research-program/faculty-and-staff/geis)

Kakul Modani currently pursuing FPM in finance and accounting from IIM Indore. She holds a Masters degree in Financial Engineering from NYU and have worked as an Equity research analyst for the FMCG and Media sector. Monitoring the capital market is my favorite hobby. Apart from this, she has a penchant for urdu poetry, good vocals, kids and clouds.