

# **The Financial Performance Analysis of Google Inc. V/S Industry Technology**

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## **Abstract**

The area of work in this case to evaluate the financial data and find out the possible reasons which reflects the Google performance in financial terms and how the ethical issues impacts on its revenue. Moreover in this case study ROE and ROA focused mainly and reasons also identified in this research that are inefficient use of assets and no balance in debt and equity ratio. In this case study formation a review of existing financial data being used which provided in Google annual report and several of sites related with stock market. A brief financial review used to sort out and analyze the challenges and suggest valuable recommendation to improve Google financial weaknesses. There is no questionnaire being used in this analysis only existing data evaluated by us and results are produced. In this case study the analysis technique is used. As a vast study and operations related with financial data and its review Google most of the time loses its return on assets and equity. In this case study clearly defined the reasons regarded low ROE and ROA and its findings. The article provides knowledge and experience about how to understand the short term and long term performance of firm. The Google inc. is very famous all around the world as a search engine. Google covers 68.65% operations related with browsing and web searching (net market share April, 2014). It faces various challenges during working like privacy issue, hacking issue and controversy with China browsers. This case study contains deep financial analysis of Google inc. vs. industry technology, Horizontal and vertical analysis of last five years and Google Inc. segment analysis. **Keywords:** Google Inc., Financial Ratio Analysis, Industry Technology, Google Segment Analysis, DuPont Analysis, Debt and Equity.

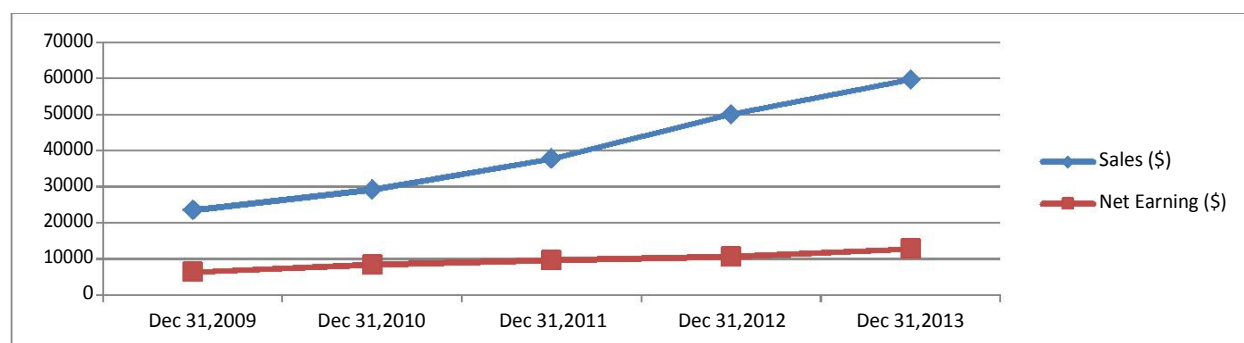
## **Google Segments Analysis**

Google is global search engine which operates in different segments. It builds products and services which is useful globally. The mission of Google Inc. is to organize world information and make it universally accessible. 2012 is highly successful year for Google during this year it earns billions of profit. It is possible, because Google operates in different segments. Advertising is an important segment of Google, most of the profit comes from this segment. Advertising derived from Google .com, it generates 87% of revenue. It is noted that over the last five years growth in revenue comes from ads on Google website has increased as compared to any other source. Through Google display service ads and text run across the web. Which provide the information to the user when they open any site on Google? Through Google local it provides information more than 80 million places globally. Google deals in operating system and Platforms. From the alliance of 75 technologies and mobile companies they develop android technology. By the use of android technology the

developer can create applications for the mobile. Google earned 2.8 million dollar from android technology. Android technology can cause greater innovation in mobile ecosystem and provide user a great experience. Google chrome is designed for those users who spend most of their time on web; chrome is new approach to operating system. Google +is a service which is used online, it like the user deals in real world. Google play is a store that contains about 7000000 applications and games and user can download these applications by creating an account on Google play. Google drive is a service like a drive the user can place all of their important documents on that drive safely. Google wallet is a virtual wallet the user can stores their debit and credit card securely. Through Google TV service the user can watch their favorite programs. Google is most used search engine on web. Revenue of Google Inc. is 16.86 billion dollar for Dec 31, 2013 an increase of 17 % as compared to 2012. Flight search is a feature by using this service the user can find those flights that can meet the needs of user. It can provide best trip options. It also provide product listening ads, this services can be useful to hear the price, image, and merchant information. Google also provide the Google now and Google knowledge graph service .Google provides the right thing at right place. It tells user about whether before you start the day and informs you how much expect traffic before you go for a work and Google knowledge service informs user about celebrities, sports teams and about buildings. Google enterprise segment provide information to user how to use Google technologies in business. Google apps which include services like Gmail, Google calendar, Google docs etc. The Google enterprise generates revenue of 1.37 billion dollar, and it is growing at the rate of 30% per year. The user can use these services on any computer by using internet connection. It also provides software that is used within any organization. To help its user to find any location it provides Google map service, the user can view any place on map and find it easily. Google also deals in Motorola mobility business, Motorola mobile segment generate revenue of 1.18 billion dollar, and it consist of two operating system. The mobile segment deals with the wireless devices, while home segment deals in technologies that provided video entertainment services to users.

**Table 1.0 Statement of financial performance 2009 to 2013**

	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
<b>Sales</b>	59,825	50,175	37,905	29,321	23,651
<b>Net Earning</b>	12,920	10,737	9,737	8,505	6,520



Google sales and profitability is fluctuated to last five years in the very first it is less while it increases gradually. Sales are at peak level as time passing and profitability is also increases. The most recent data shows that the users of Google are increases day by day and business expands it sales and profits. In 2009 Google sale is not very high, but it increase in 2010 a little bit, from 2010 to 2013 it increases to a fast moving growth industry.

### Google Inc. VS Industry Technology Analysis

Google is a global search engine. Which provide a variety of different services like Google maps, image search, Google news, Google + etc. are the best services provided by the Google. From august 2007 Google is most used search engine on web with a market share of 53.6%.the users can search desired information on Google which they want. Google provided a service namely Google earth by using this service the user can visit any place in earth virtually, for this purpose they acquired a satellite. They also launch a service Google SMS by using this service the people can get business listening. This year now Google moves towards different segments so due to this reason Google is clashing with its main rivals as well as with cable and wireless carriers. Google purchased Motorola in 12.5 billion dollar and plans to use it in making new android phones to help knock apple iPhone. Following this year this Web-search will work together to manipulate a Search engines Wallet (which enables individuals work with their particular smart phones on the market as being a digital camera wallet). In addition to manufacturing smart phones the tablets are also by way of Motorola through these services the user can connect to internet at any time at any place. So it is user friendly. In April 2004 release the Gmail with 1 GB free storage

which is helpful in recruitment and people moves towards the Google. One of the main achievements of Google is innovation and work culture which is helpful for Google to vote no 1 by fortune magazine in 2004 Google is a nonprofit organization with a startup fund of 1 billion dollar. In 2013 apple can prove that it can protects itself from rivals. Apple share of a global smart phone down to 15 percent in the third quarter, IDC says that it down about 23 percent in the start of the year. Smartphone are not sufficient that is helpful to apple to compete in the market. They also launch tablet pc which earns sufficient revenue .they also launch cheap cell phone in the market which is not as successful as the products of apple people not buy him, because traditionally apple will not deal in cheap products. So due to this they gain loss, and Google also enter in the competition by launching Motorola android phone which capture most of the segments. The Apple spokesman said the corporation did not desire to examine future goods in addition to ideas. Comparing apple and Google performance in 2013 tell a different story, the two companies having big profit difference, apple earn high profits by providing high quality services and products at premium price. Google take a tiny profit from billions of online services and advertising.

Facebook partnership with Microsoft advance and becomes a biggest company which is threat for Google. Facebook and Microsoft announced that they enter in to a partnership contract to make searching services more social. So when someone use Microsoft search engine to purchase a car or a book so he can take opinion from his friend before purchasing the product. It is easier for searchers to get best option, before purchasing decision. This is an interesting deal, but what is the reason the Facebook enter in to a contract with Microsoft not with the market leader Google. There is specific reason which is helpful in dealing with Microsoft. Microsoft have all the smart employees and trying to do all the new things. They also announce we enter in to competition with Google by this means the user can get best and premium services. Industry analysis tells that Facebook Microsoft partnership create trouble for Google, the fact that search giant handled 72.15 percent of all US searches last month. So there is growing bigger conflict between Facebook and Google. This battle is not for search engine but for also social media.

### Financial ratio analysis

A glimpse of financial ratio of Google incorporation and Technology industry is shown in the table below. The financial analysis data shows over all satisfactory report about the Google incorporation, moreover company has the trend which represent the good solvency and liquidity position to meet the challenges in future respectively.

Evaluating Google Company relatively industry technology in2013, we analyze that Google is most strong according to its liquidity in the industry. Both current and quick ratios are higher in this period for the Google Company; it means financial institutions more interested to give them loan because they have the strong liquidity position.

**Table 1.1 Financial Ratio analyses**

Years	2009		2010		2011		2012		2013	
Google VS Industry	Google	Industry	Google	Industry	Google	Industry	Google	Industry	Google	Industry
<b>Current Ratio</b>	10.62	1.97	4.16	1.84	5.92	1.95	4.22	1.96	4.58	2.13
<b>Quick Ratio</b>	10.07	1.83	3.092	1.66	5.62	1.63	3.90	1.66	4.25	1.83
<b>Avg. Collection Period</b>	49	48	53	49	52	45	57	44	54	46
<b>Inventory Turnover</b>	-----	-----	-----	-----	108.3	29.63	99.36	32.20	140.43	32.89
<b>Working Capital</b>	0.90	2.85	0.93	3.11	0.86	3.02	1.09	3.00	1.05	2.54
<b>Total Asset Turnover</b>	0.58	0.66	0.51	0.63	0.52	0.65	0.53	0.70	0.54	0.69
<b>Debt to Equity Ratio</b>	-----	-----	0.07	0.25	0.07	0.28	0.08	0.26	0.06	0.27
<b>Interest Coverage ratio</b>	-----	-----	2,160.2	51.91	213.52	50.12	159.75	44.36	184.16	46.50
<b>Net Profit Margin</b>	27.57%	15.21%	29.01%	18.86%	25.69%	19.24%	21.40%	16.57%	21.60%	18.91%
<b>Return on Equity</b>	18.11%	21.27%	18.39%	26.03%	16.75%	26.64%	14.97%	21.65%	14.80%	23.32%
<b>Return on Assets</b>	16.10%	10.98%	14.70%	13.51%	13.42%	13.85%	11.45%	11.58%	11.65%	12.53%

Average collection period concerned Google is inefficient as compare to the industry technology it indicates that Google should have to revise their credit policies in operations. Both fixed assets turnover and inventory turnover digits reflect the satisfactory report, it identifies that Google using its assets very efficiently to deploying the resources. Google's debt to equity ratio tells us how efficient and more leveraged as compare to the industry and Google made optimistic use of the debt for prosperous grounds without making sure trend according to economic cycle. Such ratio indicates the maximum level of sales as compare to the industry technology. Google Company has incredible interest coverage ratio in 2013, Google make it most advantageous that interest earned ratio collected as per the schedules in overall operations of company. Net profit margin of Google incorporation are not significant in the period of 2013, it means Google has not make proper control of the indirect costs in the operations and it leads Google to low effective and inefficient manners. While examining

the Google performance situation comes with a different face which carries the net profit margin, optimistic use of debt, secure financing and reasonable duration for credit policies. It is confirmed Google is most liquid firm as compare to the technology industry; any financial institute could advances loan after judging the quick and current position of the Google incorporation. Google should find out the reasons for the inefficient average collection period to recall the payments of credit sales, make an authenticity to build new trends regarded with new credit policies which lead Google to use efficient to his resource. There are various explanations are available to compare the position of Google incorporation in 2013, these Explanations lead Google to make a significant deviance to the technology industry but it does not make all this. Google yields a significant output as shown in the table, has good net profit margin and equity turnover as well as optimistic use of the assets of the company. Return on investment is the reasonable in the Google profile for 2013 economic year as comparing it to the technology industry, it shows that all things regarding output going well. If we talk about the return on equity and the return on assets no desired results come on scene in Google performance for the year 2013. It means some things are in escape from the Google and need to rectify things. Moreover we can say poor return on asset and poor return on equity existing in the Google incorporation leads to inefficient usage of assets and the equity. Google has significant net profit margin (21.60 %) as compare to its industry technology which is on (18.91 %) this indicates future outcomes are in the favor of Google as it involves in the different segments. It is not actually done with the Google that all segments used synergistically to increase the value of business under the corporate umbrella. If there is no any additional benefit gained by Google within its various segments, it means shareholders can divert to any other attractive one firm. Most of the other firms in the industry do not have to absorb the costs associated with managing such diverse business activities.

### DuPont Analysis of Google Inc.

DuPont analysis of Google Inc and the technology industry is shown in the table below. The story told by the DuPont analysis is similar to the story told by analyzing ratios: Google must focus on controlling operating costs. Relative to the technology industry as a whole, Google has an advantage in its leverage ratio (ROA of 11.65% compared to 12.52 % for the industry) and in its use of assets (Total Asset Turnover of 54% compared to 66%), yet has a poorer return on equity due to its low net profit margin. While one would expect a somewhat lower net profit margin for a firm with a higher leverage ratio (the firm has to pay interest to service the debt that gives the higher leverage ratio), in the Google case there are apparently other operational inefficiencies impacting the net profit margin because the overall return on equity is less than the industry average. A similar story, though not quite as obvious, is told by comparing Google to the telecommunications and technological equipment industry averages for the DuPont analysis, where Google again stands out as being deficient in its ability to generate profits from its sales. Increases in sales revenues may also help the ROA situation. Although poor overall market conditions can be blamed for a portion of Google's low sales figure, Google also needs to critically evaluate why it has lost market share in some of its key business areas over the last several years at standing in 2013.

**Table 1.2 DuPont Analysis**

Ratios	Google Inc.	Industry. Technology
<b>Return on Equity (ROE)</b>	14.80%	23.32%
<b>Net Profit Margin (NPM)</b>	21.60%	18.91%
<b>Total Asset Turnover (TAT)</b>	54%	66%
<b>Assets/ Equity(A/E)</b>	1.27	1.74
<b>Return on Assets (ROA)</b>	11.65%	12.53%

The impact of Google's decision early in the lifecycle of the technology industry not to participate in developing digital technology likely opened the door for firms such as yahoo to gain significant market positions, and Google's sales – and its financial position - still suffer from this decision. New product development investments must be closely evaluated to assure that Google is developing products that will be valued in the marketplace. However, competitors will not simply let Google gain sales and market share at their expense. Technology capitalized on Google's incorrect earlier strategic decision to forego entry in the digital technology arena.

### Short Term Liquidity Management

The technology industry averages a current ratio of 2.13 and a quick ratio of 1.83 so Google's current ratio and quick ratio of 4.58 and 4.25, respectively, compares favorably to the industry. This, combined with the observation that both ratios are above one, leads to the conclusion that Google is in a solid short-term liquidity position. While this favorable absolute liquidity position is important, perhaps just as important to debt investors in Google is the trend over time in the ratios. In Google's case, there have been very solid improvements in its

liquidity position in 2013. Some of this improvement in liquidity comes from reductions in notes payable and the current portion of long-term debt. But a significant portion of the improvement is attributable to large increases in cash and cash equivalents.

**Table 1.3 Short term liquidity management**

Years	2009		2010		2011		2012		2013	
Google VS Industry	Google	Industry	Google	Industry	Google	Industry	Google	Industry	Google	Industry
<b>Current Ratio</b>	10.62	1.97	4.16	1.84	5.92	1.95	4.22	1.96	4.58	2.13
<b>Quick Ratio</b>	10.07	1.83	3.092	1.66	5.62	1.63	3.90	1.66	4.25	1.83
<b>Working Capital</b>	0.90	2.85	0.93	3.11	0.86	3.02	1.09	3.00	1.05	2.54

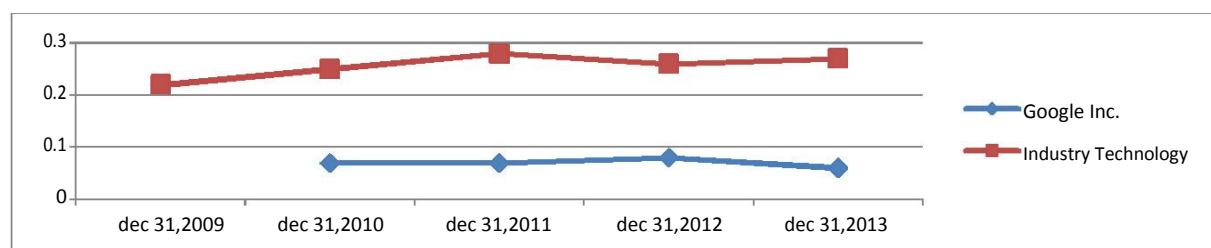
The cash and cash equivalent balance increased during period. The cash had increased extra ordinary between the span of 2009 to 2013, it show that positive trend happened with the current assets specially with cash. The increase in cash is due to improving the collection cycle and efficient usage of resources for cash Oriented transactions. A best deal of organization's cash balance to recover the expenses as direct and administrative which are successfully paid by the Google since 2009 and these expenses also have the increasing trend. Here a question arises that is Google currently keeping too high cash to meet the obligations and is cash generating the return for investor. Yes, both situation going to be fulfilled in the Google incorporation. The continuous and extra ordinary increase in cash may lose the firm value for example for example; keeping 25 million shares of ABC stock may well enhance firm value more than having the proceeds of the sale sit idle as cash. Perhaps the increase in cash balances is in fact contributing to the decline in firm value observed over the last several years as investors see the cash sitting idle rather than providing at least a risk free market rate of return. Some of this improvement in liquidity also derived from reductions in notes payable and the current portion of long-term debt in 2013. Deferred revenues increased in 2013 as compare to the technology industry and other current liabilities also rose at acceptable level.

### Capital Structure & Debt Management

A company's proportion of short and long-term debt is considered when analyzing capital structure. When people refer to capital structure they are most likely referring to a firm's debt-to-equity ratio, which provides insight into how risky a company is. Usually a company more heavily financed by debt poses greater risk, as this firm is relatively highly levered.

**Table 1.4 Debt to equity ratios**

	Dec 30, 2013	Dec 30, 2012	Dec 30, 2011	Dec 30, 2010	Dec 30, 2009
<b>Google .Inc</b>	0.06	0.08	0.07	0.07	–
<b>Industry Technology</b>	0.27	0.26	0.28	0.25	0.22



From provided data, it is evident that there has been a significant change in Google's capital structure over the last several years. When viewed from either a book value or market value basis there is a significant increase in leverage. Google's long term debt increased by more industry average from 2009 to 2013, while equity dropped on both a book value and market value basis, Google long-term debt, specific short-term debt, common equity and preferred equity in company. The capital structure of Google Company is finances its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while equity is classified as common stock, preferred stock or retained earnings. Short-term debt such as working capital requirements is also considered to be part of the capital structure. In 2013 Google mostly funds are needed beyond which are available internally, Google may have no choice but to turn to the equity market, which is generally considered to be unfavorable at this point in time. The increase in long-term debt may, in part, support the free cash flow hypothesis, which asserts that bad investment decisions are often made in the presence of a large amount of free cash flows. While we have examined Google capital structure from an absolute

perspective, it is worthwhile to look at the capital structure relative to the industry segment that Google primarily participates in, the technology industry.

## CONCLUSIONS

Google operates in five different segments and covers the all aspects of technology industry. These segments are Advertising, search engine, Enterprise, operating systems platforms and Motorola) all containing different financial data. Several segment of Google Inc. having different characteristics. The case shows the complexity of financial analysis. The article provides knowledge and experience about how to understand the short term and long term performance of any firm. When the data is not homogeneous it is difficult to apply the principles of financial ratio analysis this paper show what are those problems or issues. Google is a global search engine, which provide a variety of different services like YouTube Google maps, image search, Google news, Gmail, Google + etc. Google Inc. has solid short term liquidity position; it means that Google has sufficient cash and liquid Assets to meet the liabilities. The whole financial data retained in this case study on real basis for the students to get efficient calculation material about Google. Google Inc liquidity position is batter the average industry technology. This article of financial Ratio analysis is not only describing the Google services but also a brief knowledge and experience of that how to analyze the financial performance of any organization. According to this article it came to know that from the analysis of financial statements of Google Inc. it is clear that Google Inc. earning good profit. So the firm should focus on maintaining the profits in the coming years by taking care internal as well as external factors. The overall Google Inc. has developing trend by deploying its resources effectively. Moreover Google standing at first to innovate this world trough long lasting connectivity and browsing. This research paper is based on actual financial data to elaborate the financial ratio analysis. There is a comparison of Google Inc. with industry, technology which show students how to analyze the financial ratios of actual financial data.

## LIMITATIONS

There are some limitations in this research article,

The ratio analysis is based on just Google Inc. so the information is limited.

Many micro components are not considered during the financial ratio analysis. If we consider all micro components the result will be more accurate.

All ratio analysis tools are not used for the analysis, so there are chances of variation in the results

Many other variables and ratios can be explain and include in future according to this kind of research article

This research study is very limited and at narrow level to cover the concept related to financial statements analysis, and in-depth study and research is required for the reliable outcomes.

## RECOMMENDATION

The Google Inc. is well known and most respected company in the world, so it is essential for the organization to maintain its position. Google should focus on the continuous improvement, and should enhance their operations to generate revenue and remain dominant on other search engines. The human rights and awareness of ethical issues are also very important. Google should focus on R&D. Google should reduce their threats and weakness by utilizing their strength and the opportunities. By improving understanding and relationships with their customers and advertising companies, it is possible for Google to enhance their market framework and get more profit.

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