

SOLUTIONS MANUAL



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Strategic Management

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CHAPTER 2: GOOGLE

Rake in Google Gains, Then Sit Tight

GOOGLE AND OTHER PEOPLE'S CONTENT; It sticks ads all over. But to maintain growth, it may need to own the places it puts them

AFTER A LONG GALLOP, IS GOOGLE WINDED?

Google, the world's dominant Internet search engine, went public in 2004 at 85 a share. By early 2006 it stood at about 330 and by November of 2007 it had climbed to a high of 747.24. Later that same month it fell to 648.54, however, and some analysts began to suggest that Google had peaked. Most, however, are optimistic that the stock will keep climbing. It's just a matter of when and how fast.

1. What are stock market analysts predicting for Google in 2008 and 2009? What are they basing these predictions on?

Google's 40%-50% growth rate puts it in the category-killer status according to Georges Yared of Yared Investment Research, adding that they expect the stock to reach 1,200 by 2009. His forecast is based on his 2009 earnings estimate of \$29 a share on revenues of \$29 billion, up from his 2008 estimate of \$21 on \$16.8 billion, and 2007's \$15.60 on \$15.6 billion. William Harnisch, whose company Peconic Partners bought shares at 98 in 2004, hasn't sold any of his Google stock and continues to buy more when the prices drop. He predicts that Google will hit 880 by the end of 2008 as it adds new products. For example, Google is developing software for mobile phones to broaden its markets.

2. How might Google be affected by an economic downturn?

Jeffrey Lindsay of Sanford C. Bernstein predicts that online advertising won't be much hurt by an economic downturn, "which is looking increasingly likely." Google's business model has been called "recession-proof." If companies have less to spend on advertising, they'd be even more likely to turn to the Internet where they can see the payoff of every marketing dollar.