Google: beware the eBay curse

Sarah Lacy

Here are five things the Web search giant should do to avoid the fate that befell eBay after the last recession.

There's a reason why cocky Silicon Valley startups fancy themselves the "The Next Google." The search giant embodies Silicon Valley at its best: product developed by nerds in a Stanford dorm room; humbled venture capitalists who turned down the chance to invest, declaring Web search "done;" now-defunct companies such as Excite that refused to buy Google (GOOG) for peanuts when they had the chance; and of course, a storied initial public offering, stellar balance sheet, market dominance, and entrenched, multiyear position as the tech stock darling. In a downturn that's ravaged every industry and most companies, Google is holding up quite well.

Turn back the clock to the last recession, and you could have said almost all of those things about another company: eBay (EBAY). But I bet in a few years Google doesn't want to look anything like eBay does now: a company with a solid core business whose growth is nonetheless slowing rapidly and has little to pick up the slack, despite billions of dollars spent on acquisitions. I'd also wager Google's shareholders don't want their stock to drop more than 80%, suffering the same fate as eBay investors in the years since that stock peaked in December 2004.

No one says Google is headed for a rapid descent any time soon. It commands 63.5% of Web search and none of its rivals has been able to mount a credible threat for years. Yet this do-no-wrong tech darling can't afford complacency, especially when some of its best and brightest are heading for the exits. As venture capitalist Peter Thiel explains, the further a startup gets from its initial share sale, the more quickly it loses star employees—one of the main reasons even the best newcomers don't stay on top for long.

In the interest of avoiding eBay's fate, let me humbly suggest five ways Google might retain its edge.

1. Buy Twitter. Google CEO Eric Schmidt earlier this month likened Twitter to "poor man's e-mail." At best, the remark was an attempt to negotiate publicly; trash the asset so you don't want to appear to need. At worst, the analogy signals Schmidt isn't aware the new battlefield online is not organizing information, but organizing people, and Twitter is quickly demonstrating prowess in that regard.

In fact, Twitter may end up becoming the first company to crack so-called natural-language search, where the user types in a question using common language. Interactive Corp.'s (IACI) Ask.com tried it with scant success. But with Twitter, I can type in exactly what I seek—and real people actually respond. I recently bought an Amazon (AMZN) Kindle 2 and wanted to get recommendations for a carrying case. So I Twittered, "Taking the plunge and getting a Kindle 2. What do you guys think about cases?" I got a flood of real-time, digestible 140-word reviews from people I know who'd bought a Kindle cover already. In fairness, I have quite a few followers on Twitter, but others who have fewer followers say they experience comparable responsiveness. What took about 10 minutes on Twitter would have taken substantially longer on Google, and I still wouldn't have had as good an answer.

The marketing capabilities are clear as well. A savvy company monitoring Twitter might have taken the opportunity to push a review of their product or offer me a coupon the way keyword ads operate on Google.

Obviously, Twitter is still a youngster. That's precisely why Google should do what Yahoo didn't have the guts to do in 2001. Yahoo's then-CEO, Terry Semel, met with Google founders Sergey Brin and Larry Page, asked what it would take to buy the company, and balked at their $3 billion asking price. Mr. Schmidt, no one wants to be a Terry Semel. Make an outlandishly large offer to buy Twitter before someone else does. It's a startup with no revenue; it has to listen.

2. Get better at acquisitions. Like eBay, Google is great at spotting promising companies. And like eBay, it's bad at getting the most out of them. Google recognized the potential of Blogger early on but has failed to make the most of the purchase. If it had, competitor WordPress wouldn't have had the chance to get as big as it is. And Blogger is a success story compared with smaller acquisitions like DodgeBall and Jaiku, which Google has already shuttered.

Google has wisely let YouTube run mostly independently. But while YouTube is growing, it still hasn't solved its two greatest challenges: copyright issues and making money. Meanwhile, NBC-owned Hulu has come out of the gate with permissions to show copyrighted content, a better video search engine, and soaring U.S. traffic. It's still Google's market to lose, but it'll be a huge embarrassment if they do after spending $1.65 billion on YouTube.

3. Step it up in mobile. When the rumors first started flying about a Google phone, many tech watchers predicted a battle royale between the two hottest companies in Silicon Valley: Google, backer of Android, a new open-source smartphone operating system, and Apple (AAPL), maker of the iPhone.

But so far, the first device featuring Android has failed to dazzle. Carrier T-Mobile USA has gotten nowhere near the sales bump Apple partner AT&T (T) is getting from the iPhone.

The most surprising part of this is that Google executives continue to talk up how important mobile is to the future of their business. Perhaps there's more to the Android than we've seen so far. Investors should hope so.

4. Don't neglect your good in-house products. Google famously throws dozens of test projects at the wall, giving little idea which ones it really backs. Google has shuttered several, but there are some real gems there.

One is e-mail. Despite all the talk that young people don't even use e-mail, it's still the No. 1 application on the Web by several measures. And what's more, Gmail is a shining example of what Google does best. As with search, Google took a category of the Web that everyone considered "done" and reinvented it with massive memory and threaded conversations. Gmail has actually outranked YouTube as the 10th most trafficked site on the Web, according to Hitwise.

But Google can't get complacent in e-mail. Yahoo is having its own success in that area; newly hired CEO Carol Bartz has said e-mail is a core part of the company's strategy. Thanks in large part to Yahoo's $350 million acquisition of Zimbra in 2007, Yahoo's Web mailboxes make up more than one-third of Yahoo's gargantuan traffic and more than 50% of all U.S. Web e-mail traffic. And remember that Zimbra's 40 million customers are paying. Google's 30 million are not.

5. Keep innovating in search. From early on, Google raced ahead of search engines that came before it. It's still better than any on the market today. But it's still not very easy to find what you're looking for online, especially if it's buried in the so-called deep Web that's mostly hidden from Web crawlers.

It may not be any of the incumbents like Yahoo or Microsoft (MSFT) that gives us better search. And it may not even be any of the search startups like the ill-fated Cuil. But some company will—because there's too big a need.

Again, look at eBay. The company got complacent with its core auction business, the one former CEO Meg Whitman said a monkey could run. It charged users more, but didn't deliver any more value. And while it's still the largest auction site, eBay faces very real threats as small businesses defect for Amazon or build their own sites.

Nearly every technology has started out with a great, groundbreaking service people loved. But technology and users don't stand still, and companies that want to profit from that relentless appetite for innovation can't either.

BusinessWeek, New York, 20 mar. 2009, Technology, online. Disponível em <www.businessweek.com>. Acesso em: 24 mar. 2009.