The One Bit of Info Google Withholds: How It Works

Advertisers, competitors and Wall Street analysts are frustrated by the company's secrecy.

By Chris Gaither, Times Staff Writer
May 22, 2006

MOUNTAIN VIEW, Calif. — Google Inc. evolved from a tiny start-up to the shining star of American enterprise in less than a decade by bringing knowledge to billions of people.

There's still one thing almost no one knows: How Google works.

"It's somewhat of a paradox," said Jordan Rohan, a financial analyst at RBC Capital Markets. "Google's whole purpose is to make information easier to access — unless, of course, you want to know information about Google."

The Internet giant's business model sounds simple. It attracts audiences through search and other Web services, displays targeted ads and charges marketers only when their ads are clicked on.

All that depends on imponderably complex mathematical formulas, a sophisticated accounting system, an aloof corporate culture and a growth strategy secret to all but the upper echelon of the company — making Google one of the most mysterious companies of this century or last.

Although Google playfully reveals how much chicken and coffee its engineers consume every month, as it did during Google Press Day last year, the company won't disclose much potentially helpful information about its core business, such as how many search queries it returns, how many companies advertise through Google and whether ad prices are increasing or decreasing.

Google's unwillingness to disclose little more than the legally required basics of how it does what it does — and where it's headed — has left advertisers puzzled, partners confused, competitors nervous and investors frustrated. Even seasoned Wall Street analysts are left scratching their heads at precisely how Google posted $6.1 billion in revenue last year.

So far, Google's secrecy doesn't appear to have put too much of a damper on the leading search engine's financial or investment prospects. Google in March performed 49% of all U.S. Web searches, up from 47% the previous year and more than double its nearest competitor, Yahoo Inc., according to research firm Nielsen/NetRatings. Marketers continue to increase their ad spending, as evidenced by Google's 93% year-over-year revenue growth in 2005. And, even after a bit of a slump in the last month, its shares have risen 53% in the last year.

But pressure is mounting on Google to be more forthcoming. The very secrecy that helped the company vault to the top of the media-industry pyramid — its $112-billion over-year revenue growth in 2005. And, even after a bit of a slump in the last month, its shares have risen 53% in the last year.

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long it can continue to do that before the other kids say, "We're not going to play with them anymore.""

All search companies are secretive. But as the largest and most idiosyncratic, Google has drawn the most scrutiny.

Google executives say they are trying to operate more transparently.

"Google's concluded that our interests as a company are better served by being more open about what we are doing, and what we aren't," Elliot Schrage, Google's vice president of global communications and public affairs, said at the start of the company's annual meeting for media and analysts May 10.

"Of course," he quickly added, "there are limits."

He and other Google executives acknowledge that there is much internal debate over where to draw that line. How does Google shake the mantle of being so mysterious without giving an edge to competitors and those trying to game the search rankings?

"It's a very good question," Google Chief Executive Eric Schmidt said. "I don't know how to answer it."

After all, Google has some very good reasons for keeping parts of its business secret.

A top ranking in the search results has become such valuable online real estate that an entire industry has sprung up to try to boost websites. But Google's popularity depends on its ability to deliver relevant search results. Bogus results could drive away users. So Google has kept its ranking formula — which the company says includes more than 200 signals — more secret than the recipe for Coca-Cola.

Google also is locked in a battle with deep-pocketed competitors, including Yahoo and Microsoft Corp., which would be happy to use Google's secrets in their own favor.

It was discretion that allowed the company a few years ago to sneak up on those Internet giants, whose executives had little idea how profitable search-related ads could be until 2004, when Google's decision to go public forced it to begin revealing its finances.

Consumers had already been dazzled by Google's search engine for years, with little idea of how it worked. Co-founders Larry Page and Sergey Brin created the core technology as graduate students at Stanford University. They said it ranked results by analyzing the links to a website to determine its relative importance, but they — and their competitors — have remained vague to keep people from artificially raising their sites' rankings.

"You don't want to give the game away," said Danny Sullivan, editor of SearchEngineWatch.com, an industry newsletter. "At the same time, your lack of talking causes people to mistrust you. Perhaps it's the culture of search — you've got these enemies all around you."

Google pokes fun at its own evasiveness. A Google search for "How does Google work?" delivers, as the first result, a link to a website explaining that results are delivered by a cluster of birds working together in a system called PigeonRank. The page was created by a Google employee as an April Fools' Day gag in 2002.

The ranking method is no joke for the thousands of businesses that depend on Google for the flood of traffic that a top search result delivers. Companies have found their websites dropped from the results without explanation, and it can take months to get back into Google's good graces.

Google publishes a list of guidelines "for maintaining a Google-friendly website," warning against such tactics as loading Web pages with irrelevant words or hidden text to try to artificially boost search rankings. It also periodically changes the way it ranks sites, to counteract more sophisticated tactics in the cat-and-mouse game with "search engine optimizers." Whenever it does, online message boards fill with complaints from webmasters saying their sites got the "Google death penalty."

A few dropped companies have sued Google to no avail, including a website operator who argued that his business had been hurt when Google dropped his sites. An Oklahoma federal judge dismissed that case in 2003, saying Google's rankings amounted to a constitutionally protected expression of opinion.

Advertisers who pay to appear in "sponsored links" alongside the regular search results also have felt the frustration.

Search advertising is praised as a cost-effective way to reach consumers when they have something specific on their minds. It's also maddeningly complex. Unlike Yellow Pages or newspapers, many marketers have little clue when or where their ads will
appear. That's because Google's system is a dynamic auction. Advertisers bid for placement, but price is only one factor in ranking the ads. Google also uses "click-through-rate" — if ads aren't clicked on much, they will be replaced by others that are. Searchers are more likely to be interested in those ads, which helps marketers sell products and Google get paid.

"It's a great system," said Joshua Stylman, managing partner at Reprise Media Inc., a New York firm that manages search campaigns for advertisers such as Warner Bros. Entertainment Inc., BellSouth Corp. and Guess Inc. "Inherently all of the constituencies have the same incentive."

But it's tricky to do well, and Google in August made it even harder when it began adding other factors to the ad-ranking mix, including some it wouldn't disclose.

"It's become more of a black box, because they don't tell you specifically what those attributes are, nor do they explain the interplay between them," Stylman said. "The opacity of the auction is making it more challenging to manage."

Even people who are making money from Google are puzzled by its secrecy. In addition to search ads, the company brokers ads for display on content sites such as blogs and newspapers; every time someone clicks on one of the "contextual ads," Google shares the revenue with the publisher. But Google won't tell most website owners how much commission it's taking.

The secrecy extends to Wall Street. When it went public in 2004, Google vowed to eschew several standard practices of public companies, including issuing financial predictions each quarter. As a result, seasoned analysts trying to chart Google's growth path often look like hapless day traders.

Wall Street knows how many iPods and computers Apple Computer Inc. ships, how many items EBay Inc. lists for auction and how many vehicles Ford Motor Co. sells because the companies disclose that information.

Google, in contrast, discloses only basic financial information, such as its profit, expenses and balance sheet.

"Google has taken an approach that, in everything from their IPO on down, the less information they convey, the better," said Ellen Siminoff, a former Yahoo executive who now runs Efficient Frontier Inc., a search marketing firm. "They don't have to provide more metrics to Wall Street because people are buying the stock anyway."

CEO Schmidt recognized that Google faced a perception problem, but said that Google could be at a big disadvantage if it unilaterally began releasing more information than its competitors did.

There's another big barrier to disclosure: Google is really complicated.

Schmidt said he relied on a team of engineers with a background in physics to calculate how the company was performing from financial, technological and operational standpoints. The Google system is such "a complex box," Schmidt said, that when he wants an update, "I have to have a one-hour meeting with the physicists to get it all right."

If Google were to start releasing specific data, he said, the company's market valuation could swing by billions of dollars in a single day because investors don't understand how those metrics fit into the big picture.

"That's hogwash," said Rohan, the RBC analyst. "Google doesn't have to give away trade secrets to make the company a little bit more transparent."

All this intrigue shouldn't be such a surprise to people who read the letter that Google's founders wrote to prospective shareholders when they took the company public, UBS Investment Research analyst Ben Schachtler said.

"They are running their business as they laid out in their letter to shareholders," he said. "The letter says, 'Trust us.' That's essentially what you have to do if you're investing in this company."
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