



The Google Gold Rush

For many technology start-ups, getting swooped up by the world's biggest search company has become the ultimate goal. In fact, a growing number of small ventures are launched for the sole purpose of being acquired. So what does it really take to woo Google?

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For Matt Sanchez, grooming your company to be acquired by Google (NASDAQ:GOOG) is akin to flipping a house in a shaky real estate market. It can be lucrative -- but comes with a very serious risk of losing everything.

"It's like waiting to get hit by lightning," says Sanchez, the CEO of VideoEgg, a small online video advertising firm based in San Francisco.

Yet despite the risks, Google's growing appetite for small technology start-ups in recent years has encouraged many high-tech entrepreneurs to do just that, spawning what industry insiders call "Googlebait" companies -- small ventures launched for the sole purpose of getting acquired by the search engine giant and cashing out.

What's driving them is the increasing speed at which technology start-ups can now go from idea to launch with very little seed capital, market watchers say. That, and an initial public offering market that's been creeping upscale in recent years, leaving smaller firms with fewer exit options.

"We see a lot of companies built to be acquired," says John Burley, the head of Burley & Associates, a Washington-based business acquisitions services firm. "They come to us talking about how Google or some other large firm should buy them. More often than not, we decline to take these clients."

Last year, when Google announced its record-high \$3.1 billion purchase of DoubleClick, an online advertising company -- a deal that took until February to close -- CEO Eric Schmidt made a special point of reassuring these entrepreneurs, venture capitalists, and other investors that mega-deals would remain the exception in the search engine giant's acquisitions strategy. At a briefing in the company's Mountain View, Calif., headquarters, Schmidt said Google was committed to making small technology firms the cornerstone of its business development plans.

Indeed, for every DoubleClick-sized acquisition, Google has snatched up dozens of much smaller companies, beginning with the purchase of Deja.com's usenet archive back in February 2001. Last year alone, Google paid undisclosed amounts for Zingku, Trendalyzer, Tonic Systems, Zenter, Panoramio, Jaiku, GreenBorder Technologies, PeakStream, Adscape, ImageAmerica, and Keyhole. That's on top of the DoubleClick



deal, \$100 million for Feedburner and \$625 million for Postini. All told, the company has made 51 acquisitions to date.

"Google is certainly a powerful force," says Arthur Marks, a general partner at Valhalla Partners, a Vienna, Va.-based venture capital firm. "Their ability to pay top dollar for a good product, typically in cash, can have a big impact on the market."

According to company officials, Google has some 15 employees working full-time on acquisitions, meeting with dozens of companies or more every week, answering e-mail pitches, and working the phones. True to its own technology, the company even uses computer algorithms to gauge the value of a potential purchase, a technique known as the Monte Carlo analysis.

"We look at everything very carefully," Salman Ullah, the company's director of corporate development, told members of the Los Angeles Venture Association last year. "The really crazy ones do really well."

By crazy, Ullah said he meant start-ups that have freed themselves from accepted design or investment constraints in pursuing a new technology, application or service. Tellingly, he added the company isn't all that interested in online firms that can only offer extra traffic without having already built a solid revenue stream from its users.

"Companies, whether Google or otherwise, set out to buy viable businesses," Burley says. "A business or technology in an acquisition is only as valuable as its ability to produce profits for the buyer," he says.

Instead, start-ups need to show that they have overcome a barrier of know-how or development time to end up with something attractive to Google.

"All of this requires a lot of capital, which is not well spent if success is depending upon being acquired," Burley adds.

The alternative, of course, is to try to anticipate what Google will be shopping for by second-guessing its M&A strategy -- a favorite pastime of market analysts and tech bloggers across the Web.

"Even if you can see how Google is expanding itself, it's not that easy to develop your company in that direction and in a way that it matures at just the right time," Marks says.

Typically, large companies buy smaller ones to instantly gain additional content, customers, services, products, applications or other technologies. For instance, when Google wanted a toe hold in the audio advertising market, instead of investing in its own research and development, it paid \$102 million for dMarc Broadcasting, an automated radio ad placement company. When it needed e-mail security and compliance tools for Google Apps Premiere Edition, it bought Postini.



In return, purchased companies get a big injection of capital and a wider market. Whether that is good for your business depends on its level of maturity, says VideoEgg's Sanchez.

"Do you continue to grow on an independent path, or will a bigger company offer a chance to scale up?" he asks. "Those are the kinds of questions you should be asking."

Burley says to date, none of the 50-plus companies looking to be acquired by Google that his firm declined to represent have succeeded.

"We usually see them on the market for a really long time," he says.

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Inc.com, 7 World Trade Center, New York, NY 10007-2195.