

TECHNOLOGY

By Burt Helm

Gauging Google's Gaffes

The settlement of a class action underscores concerns over how the search king is communicating about click fraud -- and other pressing issues

Google ([GOOG](#)) boasts some of the Internet's hottest technology and biggest brains. Even after a recent stock drop, it's still got an enviable market cap. With regularity, the Web search giant wows consumers with new ways to scour sites, blogs, books -- even satellite photos of the neighbor's house. But while Google may be tops in managing the world's information, it appears to be struggling with how to handle its own.

Recent missteps that have whipsawed or irked investors include the inadvertent release of sales projections and an agreement to censor its own search results in China. Then on Mar. 8, Google used a vaguely worded blog on its site to disclose a settlement of as much as \$90 million in a case concerning click fraud. That came days after the company said the case was without merit and told investors the impact of click fraud on advertisers is immaterial.

In a matter of years, Google has exploded from a hot Internet startup to one of the largest companies in the U.S., with \$6.1 billion in sales last year and a market capitalization of more than \$100 billion. Yet investors say it shares too little financial information and can be overly flip about company announcements, often posting statements on a corporate blog instead of through a press release.

GROW UP. Analysts and marketing gurus say that when it comes to communicating with the public and shaping its image, Google has some growing up to do. "It's inevitable that at some point [Google's technological edge] is going to be neutralized, and online search is going to become a Pepsi-and-Coke market -- that's when marketing becomes much more important," says Peter Sealey, a consultant and professor of marketing at Stanford who was a chief marketing executive at Coca-Cola ([KO](#)) and Columbia Pictures. "When people start warming to other brands, Google won't know how to stop it because they won't know enough to understand why it's happening."

Take the issue of click fraud, where a scam artist or prankster clicks repeatedly on an online ad with no interest in buying a product. By jacking up advertisers' online bills without creating any sales, the practice could undermine Google's business model. In the class action brought by advertisers led by Lane's Gifts & Collectibles in Texarkana, Ark., Google was accused of not doing enough to stop it (see BW Online, 2/27/06, "[Click Fraud Gets Smarter](#)").

Google says it does an effective job of stopping the practice, but won't share with advertisers or investors exactly how it does it, or how much money it is spending on the problem. Chief Executive Eric Schmidt told analysts on Mar. 2 he believes the cost of click fraud to advertisers was "immaterial," and on Feb. 24 a Google spokesperson told the press the Lane's Gifts case was "without merit and [Google] will defend against it vigorously."

ANALYSTS ANNOYED. So when the company announced the settlement without giving much detail, some analysts were left scratching their heads. "I think a lot of folks who were at that meeting felt pretty chagrined," says Scott Kessler, an analyst with Standard & Poor's who had asked Google executives about the click-fraud problem at the Mar. 2 meeting. While \$90 million is a drop in the bucket compared with Google's total annual revenues, "I would argue this is still pretty material information, given the high profile nature of this company and the emergence of click fraud as a high-profile subject," he says.

Kessler also questioned why Google disclosed the settlement in a blog post, rather than a press release or a Securities & Exchange Commission filing. "When the company has been so widely scrutinized in terms of their disclosures, you'd think tighter policies and practices would be implemented," he says.

Nor did the settlement quell advertiser concerns, since Google still won't share how it deals with the problem, and the settlement doesn't address future instances of click fraud. "In some ways I think [this case] is a really good first step toward industry-wide acknowledgement that the click-fraud issue is a legitimate one," says Jessie Stricchiola, a click-fraud expert who runs Web search consultancy Alchemist Media and was a consultant to the plaintiff's attorney on the Lane's Gifts case. "But does [this settlement] mollify the problem? No. It doesn't make any of the worries go away."

"BUSH LEAGUE." Another recent case of miscommunication: On Mar. 7, Google filed a statement with the SEC saying that it inadvertently had released on its Web site a slide that included financial projections and said its ad business was "healthy and growing and... on a strong trajectory."

"Come on, this is bush league," says Sealey. "It's inconceivable to me that a company like [General Electric ([GE](#))] or Anheuser Busch ([BUD](#)) would do something [like release figures by accident]."

To be sure, there are many areas where Google discloses relevant information quickly and to the full satisfaction of investors. "They've done a good job from a disclosure point of view, once something does happen," says Gregory Pettit, director of financial communications for Hill & Knowlton. Pettit says that as a company in a fast-growing industry, Google is in a tough place when it comes to predicting its own performance and giving guidance. By the very speed at which the company is growing, the stock would be volatile regardless of what the company says, says Pettit.

CLEAR IT UP. Google spokesman Steve Langdon says, "Our aim is to be transparent in our communications about Google's finances and as part of that to add clarification when necessary. That, we believe, is the responsible thing to do."

Still, Google may need to do a better job of sending consistent and clear information to the outside world, experts say. A chief marketing officer who could focus on how to communicate and understand how the company is perceived would be in order, says Sealey. "They need to know what they stand for and how people perceive them while they are on top of the world," he says. A little care to public perceptions now, while the times are still relatively good, could make a big difference down the road, in times when they may not be.

