



UMLAUTS, THE ALPHABET AND WORLD PEACE

What's in a name?

The Renaming Game: The odyssey of an eating place



Reasons for name changes

- ❑ To decontaminate: To separate yourself from a name that has become tainted and is affecting you in adverse ways.
- ❑ As a lead-in to substantive change: In some cases, it may be easier to change the way you do things, if you can start with a fresh name.
- ❑ To market: Some names are easier to market than others, either because people can relate to them more easily or because they sound exotic.
- ❑ To fool: In some cases, the name change is purely cosmetic (and fake), designed to fool some of the people all of the time, all of the people..

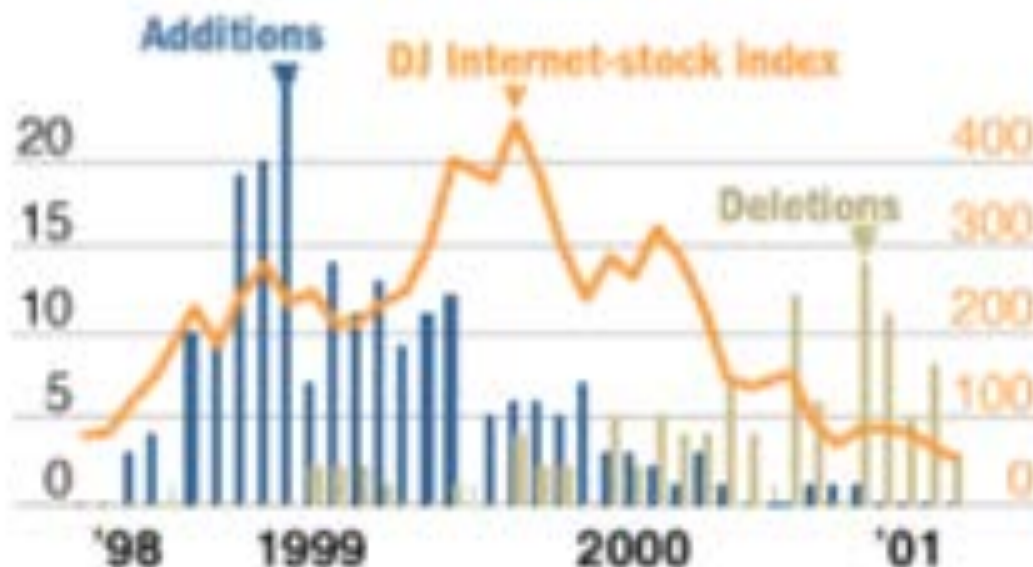
Valuing a name change

Reason for change	Value Effect
To decontaminate	Increased revenues (because customers are more likely to buy product) and higher cash flows.
To change	Change in business model and resulting changes in investment, financing and dividend policies will translate into new fundamentals (cash flows, growth and risk) and new value.
To market	Increased revenues (if marketing attracts new customers) or higher margins (if name is exotic enough to charge a premium)
To fool	None

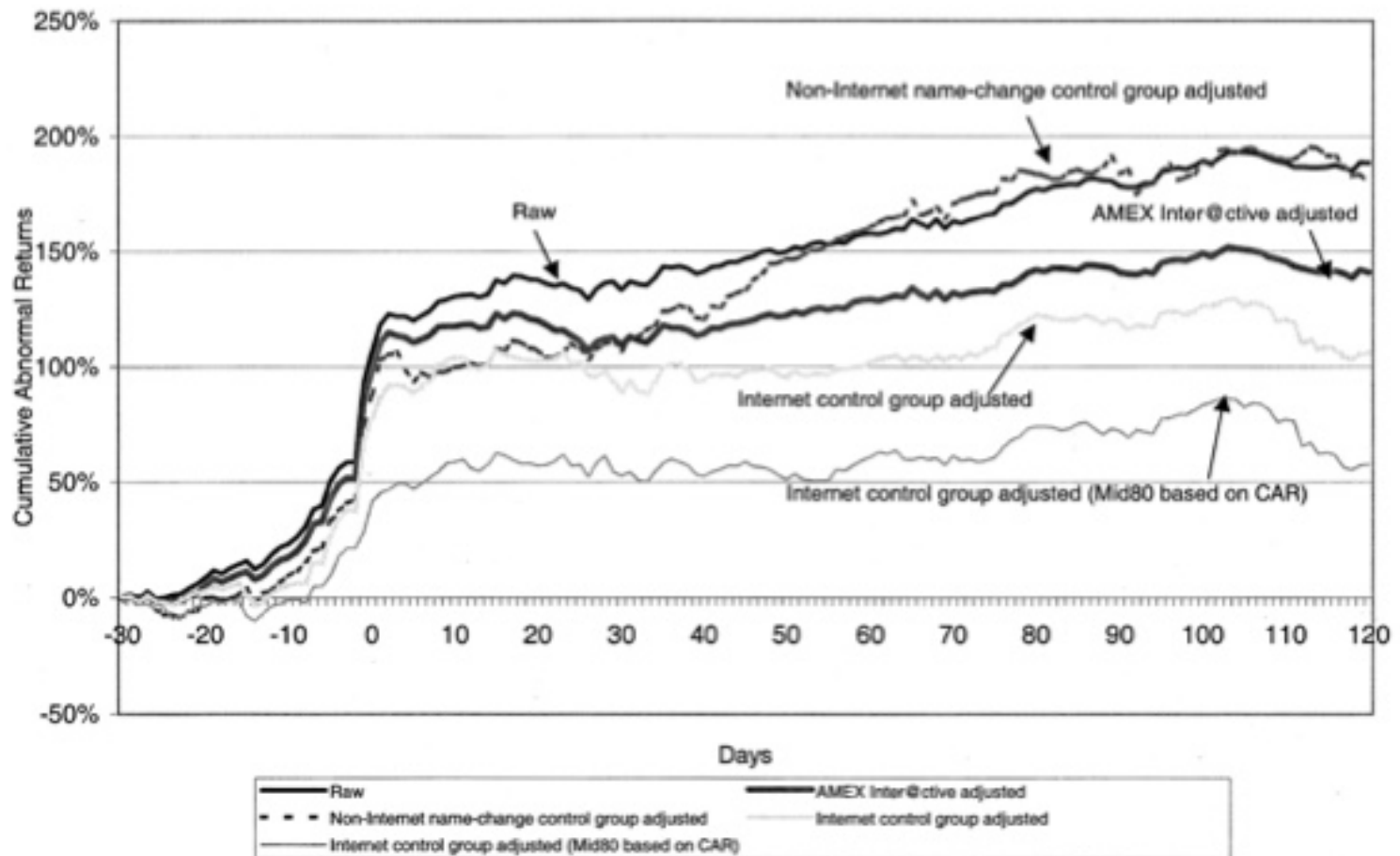
Pricing a name change: The dot.com phenomena

New Markets, New Names

In the bull market, adding dot-com to a company name made a stock soar. Lately those zippy new monikers are disappearing.



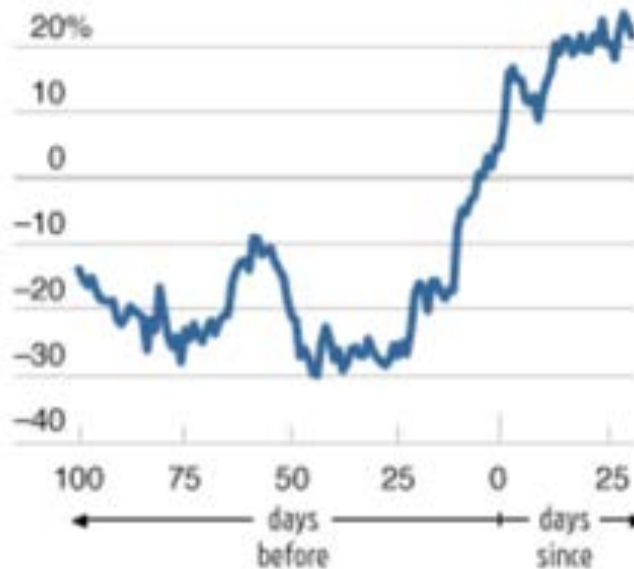
The dot.com add on



And the dot.com take out..

New Name, Higher Price

But the stocks still get a bounce when dot-com goes away. Chart shows returns in the days before and after the name change.



Sources: Thomson Datastream; P. Raghavendra Rau, Michael J. Cooper, Igor Osobov, Purdue Univ.; Ajay Khorana, Virginia Univ.; Ajay Patel, Wake Forest Univ.

Google becomes Alphabet

- A few weeks ago, Google announced that it was changing its corporate name to Alphabet and that it would move to a holding company structure.
- The Google search engine, YouTube and assorted add ons (which are Google's primary revenue generators) would be moved into the Google subsidiary, headed by Sundar Pichai.
- The rest of Google's businesses, mostly start ups in various segments, would be structured as individual businesses, and presumably given some independence.

The Why

- The reason for the name change cannot be
 - ▣ To decontaminate, since Google is one of the most recognized and valued brand names in the world.
 - ▣ To market, since it cannot be easier to market an Alphabet product than a Google product.
 - ▣ To fool, since there is no allure to the Alphabet name
- The only reason that we are left with is change, i.e., that Google does not like some aspect of how they are operating right now and believe that the name change can allow for operating changes.

The Lead-in

- The timing is odd, since Google just reported record profits and its market capitalization surged almost 16% after its recent earnings report.
- The one troubling aspect of Google's success is that a decade after going public, its revenues and earnings come from one business (advertising) and everything else that it has tried has generated more publicity than profits.
- This is a guess, but the only reason that I can think for a name change is that Google wants its non-advertising ventures to do better in terms of adding to its bottom line.

The Diagnostics

- Sugar Daddy Problem: The immense success in advertising and the cash flows that Google generates may be giving its other ventures a cushion that is leading to bad (or sloppy) choices in what products to pursue and how to pursue them.
- Benevolent Dictatorship Problem: Larry Page and Sergey Brin are brilliant men but they also dominate the Google landscape, sucking up the publicity oxygen and perhaps getting in the way of change.

The Odds

- For this name change to lead to substantive other changes, two things have to happen:
 - ▣ *A change in the relationship between the new ventures and Google (Advertising):* Perhaps, the new ventures will run like start-ups (lean, mean and focused) and Google Advertising will behave like a VC with other options for investing.
 - ▣ A change in corporate governance, first internally (with the top managers are each subsidiary given the freedom to make choices, and especially those that are in conflict with the Page/Brin view of the world) and then externally (with investors being given more input into how the company is run).
- The odds of these changes occurring are low, given the history of Google's founders.

The Naming Game

- If your focus is on value, your first reaction to a name change might be to scoff. After all, value changes come from substantial changes to how you do business, not names.
- However, name changes can sometimes be precursors for changes in business mix, models and ultimately, value.
- More importantly, name changes can cause price changes, as investors (rationally or otherwise) attach significance to names (that they may not possess).