

## [Now this is how you value a company](#) [1]

Written by [Tim Worstall](#) [2] | Friday 8 November 2013

Finally we've got someone valuing a company, a producer, in the correct manner. Which isn't by the amount of tax the company pays (no, sorry Margaret, Lady Hodge, it simply isn't), nor by the number of people it employs and most certainly not by either the stock market valuation nor turnover of the organisation.

No, the greater value of a producer is what it delivers to us, [the consumers](#) [3]:

Calculating the value of search to users was a bigger challenge, and Varian pointed to a study called 'A day without search engine?' by Yan Chen at the University of Michigan. As a part of the study, students were hired to answer the same questions using A) Google and B) Library. Students who were using Google to find answers got the same or even better quality answers and saved 15 minutes per search. It took an average of 22 minutes for students to locate the answer using the library books, as opposed to an average of 7 minutes needed for the same search using Google. Varian calculated that Google search saves people 3.7 minutes a day which translates into \$1.37, the number he got using the average US hourly wage of \$22. Multiplying that with 365 days in a year, Google saves users \$500 yearly. He then multiplied that with 130 million, which is the number of employed people in the United States, and got \$65 billion. The total value of Google to US users adds up to more than \$119 billion.

We can argue a little about those numbers, are all of those estimates correct sorta thing. But the basic method is absolutely correct: the value to us is the value in use, the utility of consumption if you prefer. Now extend those US only numbers out across the roughly 2 billion richish world people and we've got something like \$800 billion or so of value delivered to consumers each year through the simple existence of Google.

I'd add another point, that the number is going to be significantly higher than this. Firstly, there's all of the other Google services that people can and do use. And secondly he's only measuring the savings in time from doing more quickly what people already used to do. But we're also able to do new and different things as a result of the company's existence.

But even if we exclude those things, even if we aren't all that happy with the detail of the valuation, we can see that the value delivered to consumers is some \$800 billion each and every year. Please note that this number does not appear in any calculation of GDP. The only part of it that does is the small portion of this that Google manages to appropriate unto itself as either the wages paid to employees or profits in the bank. All the rest of that value is entirely left out of all forms of national accounting. Roughly speaking

therefore there's something like \$750 billion of value being delivered that while we all enjoy it no one is actually writing down anywhere.

And, as I've said repeatedly, this number is so vastly larger than whatever tax bills Google has or has not been paying as to make them irrelevant. It dwarfs their turnover, let alone their profits or putative tax bills. So perhaps we might all stop worrying so much about those tax bills? In the grander scheme of things they are tiny details.

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