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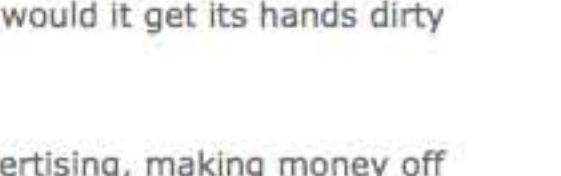
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What Google Wants With Its Own Phone: Control

Search Giant's Move Is An Attempt to Pry Open the Mobile Ecosystem

by [Rita Chang](#)
Published: [December 14, 2009](#)



SAN FRANCISCO (AdAge.com) -- With all the attention Google's plan to launch its own phone is receiving, a sensible question remains: Why, when it makes billions off the high-margin business of search and online advertising, would it get its hands dirty launching a mobile handset?

Google's fortunes come from advertising, making money off eyeballs and user experience. As the online world matures and growth from advertising revenue slows, Google is looking to reap ad dollars from mobile. EMarketer has online advertising revenue growing 6% next year, compared to 40% for mobile.

Consider that the search juggernaut last week showed off its [vision of mobile search](#) -- from the promises of visual search to using voice commands to find stuff -- it makes sense that Google wants to have a direct hand in accelerating the promise of these applications and control the user's experience with them.

Control its destiny
"Mobile is the next frontier for everyone," said Bill Ho, analyst at Current Analysis. By directly controlling the handset experience and its specs, "they can control their own mobile destiny. At the end of the day, it's adding more subscribers, adding more eyeballs," Mr. Ho said.

Google has already hinted at how it plans to be the go-to service on Android handsets for everything from local search to the ability to retrieve coupons. Already services such as Google maps and Google voice are on every Android device. To activate the inaugural Android handset, the T-Mobile-exclusive G1, for example, users were required to have a Google e-mail account. "It's all about making Google's core services stickier," Mr. Ho said.

Trying to wrest control away from handset makers and carriers that has the most say on the user experience is also fueling Google's motivation to get into the handset business, observers say.

"On the Web, Google has near-total control over its relationship with consumers," said Harry McCracken, a Google-watcher who [edits Technologist](#). "A true Google phone would give Google the opportunity to control the look, feel and functionality in a way it hasn't so far."

Bypass carriers
If Google can successfully bypass wireless carriers and sell its phones directly to consumers, it would be testing the same waters that Apple tread before but without much success. When Apple tried to sell its first-generation iPhone for upward of \$400, it didn't move many units. It wasn't until AT&T subsidized the handset that the iPhone became a mass device.

Google has not confirmed its phone's launch, other than by posting a [blog entry](#) from Mario Queiroz, Google VP-product management, which said a select number of employees were given a device to test new mobile technologies. Still, reports suggest Google is looking to bypass the carriers and sell the device directly to users online, presumably through outlets such as Amazon.com and its partner Best Buy.

By some accounts, a number of technophiles outside the company have played with the Google device, and reviews have been positive. Although questions swirl about whether the Google phone could give Apple a run for its money, the real issue isn't whether the king of smartphones can be unseated. The test is whether Google, which has been a vocal advocate for an open mobile ecosystem that would loosen the stranglehold dominant U.S. carriers have on the market, can offer a viable alternative to how consumers buy their handsets in the U.S.

It's common for handset makers to circumvent carriers in Europe and Asia, where prepay plans are popular, but in the States, carriers subsidize the handsets, making back the money they shell out for aggressive subsidies on the long-term contract plans that tether subscribers to their services for two years and beyond. As Forrester analyst Charles Golvin sees it, Google would lean on advertising to recoup its handset development and manufacturing costs.

Enough mobile dollars?
"They're not getting the service revenue," Mr. Golvin said. "The only scenario is subsidizing it on ad revenue." One scenario could be installing specific ad-supported apps on the Google phone. Either way, Mr. Golvin sounded a note of skepticism that ad subsidies could realistically offset the phone's costs, considering that, on average, smartphone users pay \$70 to \$80 per month for voice and data plans. When you add everything up -- even supposing Google's operating costs are lower than the operator -- "it's a pretty strong statement about what advertisers are willing to pay to advertise on those devices," he said.

In the near-term, given Google's cash position, it can afford some losses on the device, but for Mr. Golvin the question is whether mobile-advertising revenue will accelerate fast enough in the long-term to make the investment worthwhile. Mobile ad spending worldwide will grow 74% this year to \$913.5 million, according to Gartner, but not really ramp up until 2011, when advertisers bulk up their digital budgets with mobile buys.

For a company like Google that has a sizeable cash trove, this undertaking is a test to see if the mobile ecosystem can be pried open. "This could be an interesting experiment to see if they can sell directly to the public," said mobile analyst Greg Sterling.

3 Comments

By charles | new canaan, CT [December 14, 2009 11:44:41 pm](#):

Bill, Mobile is not the next frontier it is the final Frontier! And advertising as we know it is going to change. The sad part about it, is how Madison avenue will be forced to change. And getting catch without a pipeline will result in Google Controlling the Mobile Gateway.

And yes Google will be able to bypass Version, AT&T and Sprint. And pay as you go is a approach I would use. But I would go a step farther a implement what they use in Europe, only charge the person that makes the call... This will be the U.S. Carriers downfall.

And what they give up on the fee side they will make up on the advertising side. It a win, win situation for Google.

Advertising Network Like WPP, IPG and others just don't get it! they are still repackaging old ideas but as more and more companies bring their Advertising structure in house you will see more and more Ad dollars going Google Mobile pipeline. A single pipeline with many outlets...

Awareness, Consideration, Integration and Engagement are Madison Avenue Buzz Words, but at the end of the day if these words doesn't translate into sales, guess who wins?

GOOGLE... You can only beat Google is you take their pipeline out of play? Easy to do!

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By charles | new canaan, CT [December 15, 2009 12:44:40 am](#):

System crash before I could edit:

GOOGLE... You can only beat Google if you Build off their pipeline, that's how you take their search engine out of play? It easy to do...

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By Rodney33 | FRISCO, TX [December 15, 2009 01:16:45 am](#):

Google's Android Platform, regardless of who manufactures it, already trumps iPhone in distribution in the US. Google will continue to push smart phone advancements. If it doesn't, it will be extinct in a few short years, here's why;

Smart phones will outnumber computers in the US in the first half of 2010. A Deloitte survey just released found - 39% of 18 to 29 year-olds planned to use smart phones for holiday shopping in the US and the number is only going to expand at an accelerated rate as a record number of smart phones are being purchased right now.

GPS and Blue tooth proximity based messaging with augmented overlays on video enhanced cameras, combined with snap tag information, real time on-line comparison shopping and instant coupons connect the web with packaging, point of purchase, store shops and even routes to the store, all in real time one-one-one communication.

Consumer consumption for all things web has been running at 3-4 years ahead of marketers' spend, simply because marketers haven't been sophisticated enough to catch up. This chasm has made marketing spend on the web value priced. Now the mobile web is coming on board at a 3G pace, and consumption is already well ahead of anything anticipated.

Significantly faster 4G is just beginning to come on and the lightening speed of 700 Mhz, the old TV spectrum, was slated for now, however, the new administration doesn't think it is appropriate to simply unleash it on the open market, because it's too advanced.

The US Federal Government auction for the 700 Mhz spectrum took place in 2008 with the top bidders being AT&T, Verizon, Craig McCaw's consortium that included Sprint and T-Mobile, Cablevision regionally, and Google.

Google asked and was granted that if any bid for spectrum came in over \$4B, then the access provider for the spectrum could be switched at a moments notice on any device (open platform) for the best price. This would make carrier exclusive phones, even the iPhone, and cable set top boxes, a thing of the past.

This scenario would create an environment where app bots continuously shop for the lowest access cost for spectrum and immediately switch to the best provider, similar to roaming on a cell phone.

A scenario like this will lead to price compression in exchange for locked-in connectivity that guarantees sizable audiences for advertisers. Equipment will become a commodity that is driven by open source developers. Sitting atop this food chain?, Google and few other developers/search giants/ad networks.

That's why every marketer needs a mobile strategy right now. The \$1B anticipated in mobile media spend in 2010, should be 3-4x that. Additionally, the majority of spend in the space should not be media. It should be on the development of content and interaction with customers. Very soon mobile will be the primary way consumers access and interact with the web.

We cover these topics in our XL Market Trends reports available free on our web site.

Rodney Mason, CMO
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WHITE PAPER: 2010 AMERICA

What the 2010 Census Means for Marketing and Advertising



The US population will top 309 million on census day, April 1, 2010. In the past decade, 8% of the nation's growth has occurred in the South and West.

2010 America explains what you need to know about the biggest consumer market-research project of the decade: the 2010 U.S. census. Demographics expert Peter Francese, author of this highly readable Ad Age white paper, analyzes what the census will reveal about the changing face of consumers.

40% for mobile.

last week showed off its promises of visual search -- it makes sense that Google is leveraging the promise of these experience with them.

one," said Bill Ho, analyst at Current Analysis. By directly controlling the handset experience and its specs, "they can control their own mobile destiny. At the end of the day, it's adding more subscribers, adding more eyeballs," Mr. Ho said.

plans to be the go-to service on Android handsets for everything from local search to the ability to retrieve coupons, such as Google maps and Google voice are on every Android device.

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But Evian's 'Rollerbabies' and T-Mobile 'Dance Reassert' Themselves as Dominant

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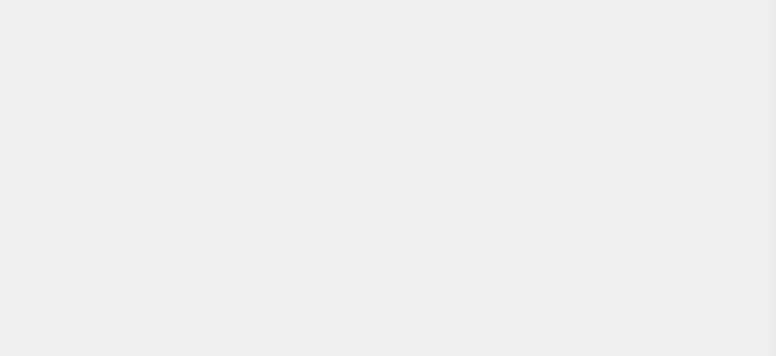
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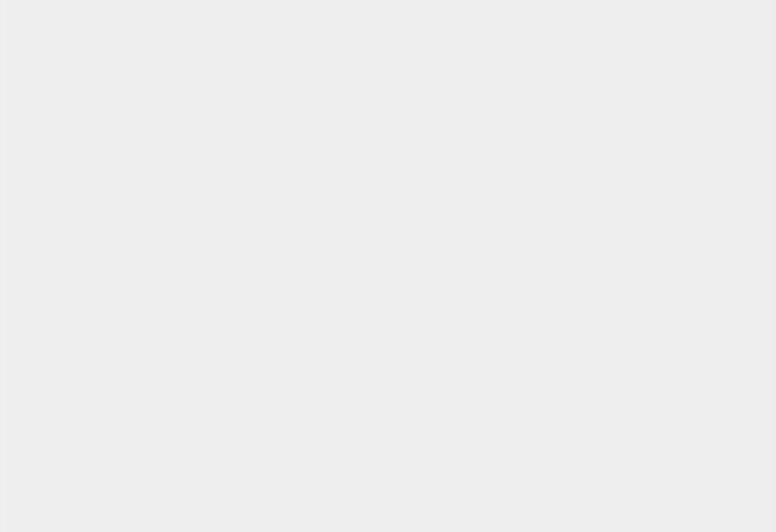
2009 Ad Network & Exchange Guide



Also See: [Networks That Reach Your Target Audience](#)

WHITE PAPER

The New Female Consumer: The Rise of the Real Mom



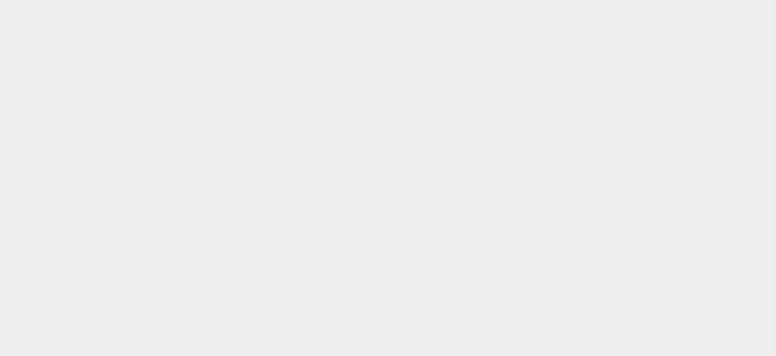
This Advertising Age and JWT white paper explores what multiple generations of American women want when it comes to family, work and life in the 21st century, decades after the women's liberation movement.

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