

Microsoft China braces for Google

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Analysts see Microsoft's announcement it was consolidating its Chinese R&D assets as a move preparing for increased competition from Google.

Zhang Yaquin, vice chairman of Microsoft China, said the company's new Microsoft China Research and Development Group aims to nearly double in 2006 by recruiting 800 people, plus add up to 3,000 more personnel within the next three to five years.

Zhang, who was appointed to head the new group on Wednesday, was quoted in the Chinese media saying, "Our goal is simple and clear: to allow this group to become a world-class technological and product R&D center."

At present, the Redmond, Wash.-based company has more than 800 personnel doing R&D in five big groups and several regional teams. Zhang listed the main reasons Microsoft wanted to place all R&D units in one group was to increase coordination and communication for strategic development of local market opportunities.

The company is expected to boost investment in China R&D after consolidating all units under one umbrella organization. Zhang said Microsoft's annual investment in R&D was about \$100 million, a figure that will rise as more personnel are added.

Other objectives of the new group are to work more closely with indigenous firms and establish a department for strategic cooperation. Microsoft promises to outsource more work to local partners in a move

to reduce costs and gain goodwill by helping Chinese companies grow.

Analysts say Microsoft is circling the wagons, opening the purse strings and increasing localization ahead of what portends to become one of the big tech battles of the year to watch in China: Microsoft and Google going head to head.

Google, a major threat to Microsoft, is also expected to launch an R&D center in China, headed by Dr. Kaifu Lee. Lee is a former Microsoft corporate vice president and the man who founded its R&D operations in China.

Lee's defection to rival Google last year sparked a bitter legal battle and bad press for Microsoft in the China market. While it won an injunction to delay Lee joining Google, it was unable to stave off his move to the keenest enemy camp from ultimately happening.

The China Daily reported the Web search giant initially planned to recruit 50 people but has decided to expand more quickly. Most analysts expect this will be possible with Lee at the helm, given his good relations with Chinese officials and solid track record of innovative technology.

Many industry watchers see Microsoft being in the fight of its life. Earlier this week China announced it had 111 million Internet users, third-largest worldwide after the United States and Japan. The country also has more than 350 million mobile-phone subscribers, the biggest single market.

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