

Google tests new phone to profit from mobile Web

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Nexus One. Photo via Twitter

(AP) -- Google Inc. is determined to gain more influence over how the Web is used on mobile phones, even if the next step in the quest tramples some of the relationships forged during its two-year expansion into the wireless industry.

The focus on Google's mobile ambitions is sharpening now that the Internet search leader is working on a new phone called "Nexus One." The handset is being tested by Google's 20,000 employees, who received the device just before the weekend.

[Google](#) declined to comment on the reason for the Nexus One's development.

But The Wall Street Journal and The New York Times have described

the employee testing as a prelude to selling the phone directly to consumers early next year.

The phone - manufactured by Taiwan's [HTC Corp.](#) - wouldn't be tied to a specific carrier, unlike other devices using Google's mobile operating system, "Android." The autonomy of a so-called "unlocked" [mobile phone](#) could give consumers more freedom to select the carrier of their choice, although the unique technology running competing U.S. wireless networks will probably limit the options.

It's not clear how wide-ranging Google's ambitions are for the phone. Unless Google is willing to sell the phone at a loss, the Nexus One is likely to be much more expensive than Apple's [iPhone](#) and similar devices, which receive subsidies from wireless carriers.

With those subsidies, most "smart" phones sell for \$50 to \$200, instead of the \$400 to \$600 price they'd have without the financial aid. The carriers recover their expense through service plans that cost \$800 to \$1,000 a year.

Without a sharp discount, Nexus One won't make much of a dent in the [mobile phone market](#), predicted Forrester Research analyst Charles Golvin.

Google, which is based in Mountain View, started selling an unlocked version of the first "Android phone," T-Mobile's G1, for \$399 last year. It was aimed at Android developers, but anyone who registered as such could buy one.

If it intend to keep the Nexus One's price low enough to pique consumer interest and protect its earnings, Google might still have to negotiate subsidies from [wireless carriers](#) - an arrangement that wouldn't change the status quo.

Or Google could be hoping to generate enough revenue from ads shown on mobile Web sites and applications downloaded on the Nexus One to cover the cost of any discounts.

But the mobile advertising market in the U.S. is still small, with \$416 million in revenue expected this year, according to research firm eMarketer Inc. In the United States, Google generates more than \$10 billion annually from the sale of online ads shown on personal computers.

Google hopes to improve its mobile advertising network with the \$750 million acquisition of AdMob, a pioneer in the field. That deal is expected to close early next year.

"Mobile is clearly the next big business opportunity and (Google) wants to do everything possible to control its own destiny," Golvin said.

Selling equipment would mark a significant shift for Google, which has consistently said it prefers to leave the design and marketing of [smart phones](#) to manufacturers and carriers that have embraced Android since the system's November 2007 introduction.

At that time, Google downplayed the need for a "Gphone," saying its mobile software and alliance with dozens of partners have a bigger impact on the market than any single device.

Android has given Google a strong foothold in the mobile market, although it's not nearly as large the one Apple has carved out while selling more than 30 million iPhones during the past 2 1/2 years.

Motorola Inc. is pinning its smart-phone hopes on the Android and Verizon Wireless has thrown its weight behind phones running on the Google software, too. Over the past month, Verizon has been heavily

promoting the Google-powered Droid phone as a compelling alternative to the iPhone.

William Blair & Co. analyst Anil Doradla believes Google may alienate some of its partners and thwart Android's expansion by selling its own phone.

"Given that Android is still in its initial stages of deployment, Google needs all the good will it can get to ensure success," Doradla wrote in a Monday research note.

Verizon Wireless said it isn't upset about Nexus One yet.

"We are still looking at different possibilities with our friend Google," Verizon spokesman Jeffrey Nelson said.

If Google decides to sell its own handset, it would intensify its budding rivalry with Apple, a former ally that shared antipathy toward Microsoft Corp. Apple spokeswoman Natalie Harrison declined to comment Monday on the Nexus One.

Google shares gained \$5.22 to close Monday at \$595.73 trading, while Apple shares increased \$2.31 to \$196.98.

The brewing competition between Google and Apple sparked a Federal Trade Competition inquiry into the two common directors the companies shared on their boards. That was resolved when Google Chief Executive Eric Schmidt resigned from Apple's board in August and Genentech Chairman Arthur Levinson quit Google's board in October.

The iPhone has been the biggest source of mobile traffic to Google's mobile services during the past two years, according to Google executives.

Nexus One apparently is a reference to a line of replicants, or androids, in the 1982 science fiction film "Blade Runner." Its name was confirmed in a Federal Communications Commission filing released Monday.

Based on Internet photos of the phone, Nexus One will run several [Google](#) applications, including a recently introduced feature that lets mobile users submit pictures of landmarks, products and other objects to get a pertinent list of search results.

The FCC filing indicated the Nexus One will be compatible with many networks overseas, but T-Mobile has the only 3G network that would support it in the U.S. It would only take minor tweaking to make it work on AT&T Inc.'s 3G network in the U.S. as well, Golvin said.

T-Mobile declined to comment on the Nexus One.

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