

Google out to shake up the smart-phone industry

December 17 2009, By Troy Wolverton

Google, already a disruptive presence in the mobile phone industry, seems to be itching to reshape it once more. As early as January, the company plans to sell directly to consumers a new smart-phone that will not be "locked" to any wireless carrier, according to published reports. That means consumers could pick which carrier they want to use among those whose networks are compatible with the phone.

Under such an arrangement, consumers could potentially pay a lower monthly price for cell [phone](#) service and do so without having to sign up for a long-term commitment. The catch is that they'd likely have to pay more upfront for the device.

Selling "unlocked" phones is the norm in Europe but has never gotten traction in the United States. Carriers here typically subsidize the cost of the phone, selling them for \$200 or less, figuring they'll make up the loss by locking consumers into two-year service contracts.

"Everyone keeps asking for unlocked phones, but you've got to remember that unlocked phones are \$500 or \$600," said Ken Dulaney, an analyst who covers the [mobile phone](#) industry for Gartner, a technology research firm. "I don't think the market for unsubsidized phones is all that great."

Google's exact plans for the device are unclear. Company representatives have said little about the phone, other than to announce on a blog that they were distributing it to employees and would be using it to test out

new features on its Android operating system.

The company could choose to do something in between making an exclusive deal with a carrier and selling a full-cost phone. It could allow carriers to offer discounts to consumers who link up with them. Or [Google](#) could even directly subsidize the device itself, with the idea of making up the cost through the sales of advertisements sent to the devices.

But such strategies are risky. Google has little experience at direct sales of devices or brokering deals on behalf of consumers. And other companies have had little success in offering low-cost technology products that recoup the discounts through [advertising](#).

More than 90 percent of phones sold in North America are sold through the wireless carriers, noted Avi Greengart, an analyst who covers [smart-phones](#) for market research firm Current Analysis. Meanwhile, U.S. consumers are used to buying cheap phones; Nokia and other manufacturers that have tried to sell unlocked, unsubsidized phones here have largely failed to find customers.

That said, Google shouldn't be underestimated. Despite the fact that phones running on Android have been on the market only a little more than a year, the company has already shaken up the wireless phone industry.

Thanks in large part to pressure from Google and new federal regulations that the company has been pushing, carriers have been dropping some of their restrictions on the type of devices that can use their networks and applications that consumers can run on those devices.

And Google's investment in Android -- coupled with Microsoft's missteps in developing its Windows Mobile operating system -- has

helped undermine Microsoft's position in the smart-phone market. In the past year, Motorola has ditched Windows Mobile entirely for Android, and other phone manufacturers are making similar moves.

Also, applications such as Google Voice, which allows consumers to have one phone number that will ring multiple phones, and Google Maps Navigation, a free turn-by-turn navigation service that comes with the Motorola Droid phone, are changing consumers' expectations for what they can do with their phones and how much they should expect to pay for those services.

But already?, Google has had a big impact on the market without putting many Android-powered phones in consumers' hands. In the third quarter of this year, consumers worldwide bought 1.4 million Android phones, representing just 3.5 percent of the total global market for smart-phones, according to Gartner. In the same period, they bought 7 million Apple iPhones and 18.3 million devices running the Symbian operating system.

Google has been "extremely successful, though not yet in terms of devices on ground," said Greengart.

But Greengart and other analysts expect market success will eventually come for Google. In the past year, the number of different devices running Android has grown from just one to about 20. Gartner expects Android to be the second-most-popular smart-phone [operating system](#) behind Symbian by 2012. Currently, it ranks 6th.

However, analysts generally think that the unlocked phone, dubbed the Nexus One, which the company reportedly began distributing to employees last week, will do little to help improve Google's position in the market. That's because Google would have to upset some fairly settled consumer behavior.

"They can certainly try selling something unlocked, but good luck with that," said Greengart. "Unless Google sells it in some subsidized fashion, consumers are going to look at that and say, 'ha!' and buy a \$99 or \$199 phone."

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