Making sense of Google's seemingly kooky concepts

October 13 2010, By MICHAEL LIEDTKE , AP Technology Writer

A consortium of technology and investment companies including Google, announces that they are devoting $1.8 billion to building a network of transmission lines to connect future offshore wind farms along the Atlantic from New Jersey to Virginia, during a news conference in the National Press Club in Washington, Tuesday, Oct. 12, 2010. From left to right, are Dan Reicher and Rick Needham, both from Google, John Breckenridge, from Good Energies, Richard Straebel, from Marubeni Power, and Bob Mitchell, from Trans-Elect. (AP Photo/Pablo Martinez Monsivais)

In its self-proclaimed drive to make the world a better place, Google has immersed itself in far more than Internet search and online ads. But driverless cars and a wind energy farm in the Atlantic Ocean?

It may not always be immediately apparent to frustrated investors - they wish management would be more frugal and focus more on the stock price - but there's usually some calculated logic underlying Google's

unconventional strategy.

Google's brain trust - founders Larry Page and Sergey Brin, along with CEO Eric Schmidt - clearly think differently than most corporate leaders, and may eventually encourage more companies to take risks that might not pay off for years, if ever.

The time is ripe for long-term thinking, with memories still fresh of the financial meltdown - a byproduct of Wall Street's demands for companies to deliver ever-higher profits every three months and meet earnings targets set by analysts.

"Everywhere you look in this country, it seems that we are suffering from the consequences of too much short-term thinking," said longtime Silicon Valley forecaster Paul Saffo, managing director of foresight for Discern Analytics.

"Google doesn't have this disease," he said. "It is one of the few lone bright spots we have in that regard."

Even so, it might be difficult to fathom how Google can justify paying for the development of robotic technology that has driven cars thousands of miles on California roads without a major accident and committing potentially hundreds of millions of dollars to help build a wind farm hundreds of miles from the Eastern Seaboard.

With a little imagination, it's easier to see how Google might benefit. For instance, Saffo surmises that the driverless technology eventually could be implanted into a fleet of vehicles used for car sharing.

Google then could use a camera to take new pictures of streets and highways that appear in its online maps, another example of a service that once seemed like a diversion from its Internet search engine but is

now an indispensable tool that helps the company sell advertising.

The company announced Tuesday it would buy a 37.5 percent stake in the Atlantic Ocean wind energy project, investing in a network of deepwater transmission lines to bring power from still-to-be-built offshore wind farms.

That makes more sense when you realize Google already sucks up massive amounts of energy from the power grid and expects to consume even more in the next decade as it opens more data centers filled with row upon row of computers to run its Internet services.

And if the value of renewable energy rises, as many analysts expect, Google eventually could even sell its stake for a tidy profit.

Or it could turn out to be a total bust, something Page and Brin warned potential investors could happen in April 2004 when they laid out their iconoclastic approach to business before Google sold its stock in an initial public offering.

"Our long-term focus may simply be the wrong business strategy," they warned. "Competitors may be rewarded for short-term tactics and grow stronger as a result. As potential investors, you should consider the risks around our long-term focus."

The Google founders also told investors that the company would be willing to finance projects with just a 10 percent chance of yielding a return of at least $1 billion - bets that seem "very speculative or even strange."

Google's transparency about its unorthodox ways may be one reason the company hasn't been stung yet by an outcry from its shareholders, although most analysts agree the stock price probably would be higher if

management were to use some of the company's $30 billion in cash to pay a quarterly dividend or buy back shares.

Google stock closed at $541.39 on Tuesday, down 13 percent for the year and far off its all-time high of nearly $750 three years ago.

The company's uninterrupted streak of prosperity since its August 2004 IPO hasn't hurt, either.

Google can afford to gamble more frequently than most companies because it dominates the Internet's most lucrative market, the ads running alongside search results. And Google has seized on that opportunity in a manner that would make Gordon Gekko proud, beating back its competitors to boost its annual revenue from just $86 million in 2001 to nearly $30 billion now.

The company, based in Mountain View, Calif., began branching out beyond search well before it went public.

It set up an online news section that compiles the day's top stories in 2002. Just a few months before its August 2004 IPO, Google unveiled a free e-mail service that boasted an unprecedented - and still expanding - amount of space per inbox.

In 2004, it bought an obscure digital mapping service called Keyhole that eventually turned Google into the place to go for directions. Even rival CEOs, such as Yahoo's Carol Bartz, say it's the best around.

More recently, Google created a free mobile operating system called Android that now powers millions of smart phones. This month, it's rolling out technology with Sony that weds traditional television viewing with Web surfing.

Google's expansion into mobile phones and television never seemed like quantum leaps for the company because they are little more than attempts to transplant its advertising model onto other Internet-connected screens that attract a lot of eyeballs.

The company also has poured money into building more widely available and faster ways for people to connect to the Internet, reasoning that it will make money if more Web surfers have the opportunity to use its ubiquitous services.

Schmidt, Google's CEO, frequently tries to defuse the perception that the company is frivolous. He contends the company's formula is disciplined: 70 percent of its resources go to the main search business, 20 percent to other projects connected to search, and 10 percent to initiatives that have nothing to do with search.

It's difficult to argue with the formula so far, said Colin Gillis of the stock market research firm BGC Financial.

"As an analyst, I do hammer them on their (rising) expenses and some of their questionable investments," he said. "But as a user of all their products, I love them. And from a purely personal perspective, I appreciate that Google is trying to use technology to solve the world's problems."

Citation: Making sense of Google's seemingly kooky concepts (2010, October 13) retrieved 21 May 2024 from https://phys.org/news/2010-10-googles-seemingly-kooky-concepts.html