

Smartphones cut into Google profit and share price

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The rise of smartphone use to access the Internet, and slowing clicks on ads, cut into profits by Google in the third quarter, the company has revealed.

Shares in Google fell after the technology giant said that although overall revenues had risen sharply, underlying performance suffered from a buying spree to recruit top talent.

Google said Thursday its profit in the past quarter dipped slightly from the level a year earlier.

Net third-quarter profit fell five percent to \$2.8 billion, while revenue grew 20 percent to \$16.5 billion.

Shares in Google tumbled 2.3 percent to \$512.20 in after-hours trading on the results, which disappointed Wall Street.

Paul Ausick at the finance blog 24/7 Wall Street said Google's revenue fell short of expectations, and that revenue from "paid clicks" from online ads was also disappointing.

A key indicator for the market, the number of clicks on ads on its sites rose by 17.0 percent on a 12-month comparison, but this was sharply down from growth of 28.0 percent in the second quarter.

Each click generates a payment by the company which has placed the ad.

The market also pays close attention to another indicator, the average price of each click. This fell by 2.0 percent after a fall of 9.0 percent in the previous quarter.

This is in line with a falling trend for two years.

Analysts say it reflects the rise of use of smartphones on which companies can run ad campaigns at lower cost.

Google's expenses were also higher, led by some \$2.4 billion in costs for data centers.

Chief finance officer Patrick Pichette said however that the company "had another strong performance this quarter", and added that "we continue to be excited about the growth in our advertising and emerging businesses."

Pichette said expenses were higher in part because of aggressive hiring by the California tech giant—with some 3,000 jobs added to bring the company's headcount to 55,000.

"We continue to attract and hire the best talent from the best colleges and universities around the world," he said in a conference call.

"It's very clearly an extraordinary quarter from a hiring perspective."

While Google has been the undisputed leader in online advertising, it is facing new challenges, notably from firms like Facebook.

According to the research firm eMarketer, Google is expected to slightly boost its market share in online advertising to 32.4 percent this year, while Facebook will grab around eight percent. But in the US market, Google is losing market share, according to eMarketer.

Google earlier this week ramped up its mobile arsenal, upgrading its Nexus line of devices with a new tablet and smartphone, and unveiling its revamped Android software, to be dubbed "Lollipop".

Additionally, the US tech giant announced the launch of a streaming media player for music, movies and videos, which also allows users to play games via the Android TV device.

The new devices give Google and its Android partners a broader portfolio to compete against Apple, which launched two upgraded large-screen iPhones last month and unveiled new iPads on Thursday.

Omid Kordestani, who was officially named chief business officer at Google, said the company showed "continued momentum in our core business and exciting innovation in other areas."

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