

Google buys HTC's Pixel team in \$1.1B bet on devices

September 21 2017, by Ryan Nakashima And Michael Liedtke



Rick Osterloh, senior vice president of hardware for Google, second from left, and Cher Wang, chairperson of HTC, shake hands during a press conference in New Taipei City, Taiwan, Thursday, Sept. 21, 2017. Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services. At left is Mario Queiroz, vice president of product management at Google, and at right is Chia-Lin Chang, president of smartphones and connected devices for HTC. (AP Photo/Johnson Lai)

Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services.

It's buying the HTC engineering team that built the Pixel smartphone for Google in a cash deal, the companies said in a joint statement Thursday. Google is also getting a non-exclusive license for Taiwan-based HTC's intellectual property to help support Pixel phones.

The deal underscores how serious Google is becoming about designing its own family of devices to compete against Apple and Amazon in a high-stakes battle to become the technological hub of people's lives.

"We think this is a very important step for Google in our hardware efforts," Rick Osterloh, Google's senior vice president of hardware, said at a press conference in Taipei. "We've been focusing on building our core capabilities. But with this agreement, we're taking a very large leap forward."

The deal, which needs regulatory approval, is expected to close by early 2018.

Over the past decade, Google had focused on giving away its Android operating system to an array of device makers, including HTC, to ensure people would keep using its ubiquitous search engine, email, maps, YouTube video service and other software on smartphones and other pieces of hardware.



Senior vice president of hardware for Google Rick Osterloh, second from left, speaks during a press conference in New Taipei City, Taiwan, Thursday, Sept. 21, 2017. Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services. With Osterloh is, from left, Mario Queiroz, vice president of product management at Google, Cher Wang, chairperson of HTC, and Chia-Lin Chang, president of smartphones and connected devices for HTC. (AP Photo/Johnson Lai)

But that changed last year when Google stamped its brand on a smartphone and internet-connected speaker. HTC manufactured the Pixel phones that Google designed last year, paving the way for this deal to unfold.

HTC's Chief Financial Officer Peter Shen said about 2,000 engineers will be transferred to Google, Taiwan's Central News Agency reported. The staff are "primarily focused on research and development," Osterloh

said.

Although Android powers about four out of every five smartphones and other mobile devices in the world, the software can be altered in ways that result in Google's services being de-emphasized or left out completely from the pre-installed set of apps.

That fragmentation threatens to undercut Google's ability to increase the ad sales that bring in most of the revenue to its corporate parent, Alphabet Inc., as people spend more and more time on smartphones and other devices instead of personal computers.



Cher Wang, chairperson of HTC, second from right, speaks during a press conference in New Taipei City, Taiwan, Thursday, Sept. 21, 2017. Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services. With Wang is, from left, Mario Queiroz, vice president of product management at Google, Rick Osterloh, senior vice president of hardware

for Google, and Chia-Lin Chang, president of smartphones and connected devices for HTC. (AP Photo/Johnson Lai)

Apple's iPhone and other hardware products are also particularly popular among affluent consumers prized by advertisers, giving Google another incentive to develop its own high-priced phone as a mobile platform for its products and ads.

Google also wants to build more internet-connected devices designed primarily for home usage, such as its voice-controlled speaker that's trying to catch up with Amazon's Echo. The Home speaker includes a digital concierge, called Google Assistant, that answers questions and helps manage people's lives, much like the Alexa in Amazon's Echo.

Google's previous forays into hardware haven't panned out to be big winners so far. It paid \$12.5 billion for smartphone maker Motorola Mobility for \$12.5 billion five years ago only to sell it off to Lenovo Group for less than \$3 billion after struggling to make a dent in the market. And in 2014, Google paid more than \$3 billion for home device maker Nest Labs, which is still struggling to make money under Alphabet's ownership.

The latest purchase is a big gamble for Google Inc. and parent company Alphabet Inc. but analysts say this time it could pay off. That's because it gives a financial lifeline to Google's struggling Taiwanese partner while giving the Silicon Valley giant access to the strong R&D talent it needs in order to expand its share in the coveted premium smartphone market.



Construction crews work near the HTC headquarters building in New Taipei City, Taiwan, Thursday, Sept. 21, 2017. Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services. (AP Photo/Johnson Lai)

It's "a business decision to have access to one of the best R&D teams," said Neil Shah, research director at Counterpoint Technology Market Research. But it's also "a sort of emotional decision to save its close partners."

HTC, which teamed up with Google in 2008, has seen its market share shrink dramatically in the past decade in the fiercely competitive smartphone market. Its share of the global smartphone market fell to less than 1 percent last year from nearly 9 percent in 2011, according to

Counterpoint data.

One risk, though, is that expanding into hardware threatens to further alienate Android-based device makers like Samsung Electronics, which has been forging closer ties with Google's rival Facebook, and China's Huawei.



In this July 27, 2010, file photo, a Chinese model holds up a phone from Taiwan's HTC at a press conference in Beijing to introduce the brand into China's market. Google is biting off a big piece of device manufacturer HTC for \$1.1 billion to expand its efforts to build phones, speakers and other gadgets equipped with its arsenal of digital services. The company is buying the HTC team that built the Pixel smartphone for Google in a cash deal, they said in a joint statement Thursday, Sept. 21, 2017. Google is also getting a non-exclusive license for Taiwan-based HTC's intellectual property to help support Pixel phones. (AP Photo/Ng Han Guan, File)

Analysts also predicted Samsung could be the biggest loser as Pixel phones undercut the South Korean tech giant's market-leading smartphone business as consumers potentially turned off by high priced Galaxy devices defect to the Pixel, which is slightly cheaper and has Google's newest software.

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