



## Is Google More Open than Apple?

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By Thomas W. Hazlett

Google's Android has blasted off. In the first quarter of 2010, it blew by Apple iPhone's 21 percent market share, accounting for 28 per cent of all smart phones sold in the US according to industry consultancy NDP. And its momentum appears unstoppable. Analysts predict that it will soon roar past Research in Motion (Blackberry), now at 36 per cent.

This tsunami was predicted by many who warned Mr Jobs: Apple's 'closed model' is doomed. Both Silicon Valley and Wall Street literati have touted the 'open platform' path of Google, which licenses the (open source) Android mobile operating system to all handset makers, free of charge, placing few restrictions on its use. More than 60 separate Android devices are now manufactured by firms such as Samsung, Motorola, and HTC. Some 160,000 new units are sold every day.

The conventional wisdom is that Apple is one terrific company -- key word: "one." To compete with the vast ecosystem emerging from Android's innovative playland - will Jobs never learn? Fanaticism for the vertically controlled space, making the phone, controlling apps via the App Store and media sales via iTunes, centralizes ingenuity. Wasn't that the botched business plan that handed Microsoft its Windows operating system fortune, with software far inferior to the Mac OS, a generation ago?

Google loves to think so. Launched as the anti-Microsoft, it is now re-positioning as the anti-Apple. The FT's Richard Waters and Joseph Menn report that company executives offer their business model as mankind's last hope against the "Orwellian vision" of the iPhone. "We faced a draconian future where one man, one company, one device, one carrier would be our only choice," Google's Vic Dundostra ominously intones. "That's a future we don't want."

The path to resistance is clear: "Our strategy is very different," boasts Google CEO Eric Schmidt. "We license our code for free, so that's pretty revolutionary."

Google co-founder Larry Page explains the logic of "free" by noting that the more Android devices access the web, the more Google gains "through more searches and other things we do." Schmidt concurs: "while it's true that we're very happy to give away Android, the applications and the services that can be provided on a very large, very broad framework can be enormously valuable over the next five or 10 years."

Oh, that kind of revolution. Giving away razors to sell razor blades; under-pricing printers to sell ink jet cartridges; broadcasting "free TV" to sell audiences to advertisers. More capitalist plot than Decembrist Uprising.

All great market innovations challenge entrepreneurs to do two things: (a) get other firms to help create specialized products, and (b) maintain sufficient control to guide the process while extracting a generous portion of its returns. These tasks carry obvious tensions. Builders of complex ecosystems handle them differently.

The iPhone/iPod/iPad/iTunes product space embeds numerous Apple-set restrictions. Buyers purchase devices on the proviso that they lock-in for applications purchased down the road. So long as the innovator incentivizes its developers to bring exciting new stuff to market, while producing slick, iconic handheld devices that insert themselves into the dreams of teen-age girls and boys, vast riches ensue.

Google's structure features more semi-independent partnership layers. But calling it "free" or "open" is less an economic description than a stroke of marketing genius. Google's enterprise is to capture new game to feed to its vaunted search engine. That product enjoys overwhelming dominance - perhaps 75 per cent market share -- due to its competitive superiority. No other firm can rival its popularity. Moreover, the firm's innovation cluster brilliantly scales - its lead over rivals becomes more formidable as the web expands.

Because the market position of Google Search is so secure, distributing "free" access to Android is simply another form of Apple-like tie-in. Once the customer web searches, Google reasonably expects to profit. And no "open platform" governs. Google prices access to its engine - with its proprietary databases, secret algorithms, and private global transport network - to maximize firm profit.

The Apple and Google models are two sides of the same coin. Both leverage innovations in the smart phone market for revenues in ancillary services. Apple has in many respects the more ambitious mobile plan, integrating heavily into hardware design and manufacturing, and has been an industry disruptor forcing Google to mostly play catch-up. It makes its economic demands explicit, requiring iPhone users to patronize the App Store and iTunes. Google need not be so fussy; with what the U.S. Department of Justice would likely characterize as "dominance in the search market," it simply leaves customers to their own devices.

Since January 1, 2007, when the iPhone was announced (Android launched later in 2007), Apple shares have risen about 200 per cent while Google shares have slightly declined. Lots else is happening, but mobile strategies are clear pivots for both firms. Because the bottom line is the bottom line, not market share, the game so far belongs to Apple. Google just plays.

But it is playing to win, and on terms not so different than Apple's. Resistance to openness is not futile -- it's ubiquitous. What looks "open" or "free" is a misdirection

hand gesture, diverting attention from where proprietary products are inserted into the chain, with returns surgically extracted. All the rest is "revolutionary" hype.

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