

October 20 — October 26, 2014

# Can Google Be as Shiny As You-Know-Who?

► **Android tries to grab attention from Apple with sleek phones and an efficient OS**

► **“The hardware makers have been demoted to commodities”**

On Oct. 15, a 10-foot-tall statue of a lollipop joined sculptures of an ice cream sandwich, a chocolate doughnut, and other confections on Google's campus in Mountain View, Calif. This was how news came of the latest major update to Android, the operating system that runs on 85 percent of the world's smartphones: not with a hyped press conference or long lines outside gadget stores, but with the installation of an oversize lawn ornament.

Lollipop is the 13th major version of Android. But it's the first to be fully developed under Sundar Pichai, the Google senior vice president and confidant of Chief Executive Officer Larry Page who took over the OS operation last year. Along with Lollipop, Pichai introduced three Google-designed devices, including the supersize Nexus 6 smartphone, manufactured by Motorola with a gigantic 6-inch screen, half an inch bigger than the one on the iPhone 6 Plus. Pichai hopes the phone will be the first of a series of new Lollipop-powered computers in living rooms, cars, and just about everywhere else. “We aren't only trying to ship two [products],” he says, obliquely referring to rival Apple's well-received pair of new iPhones. “We are trying to enable thousands.”

Lollipop has arrived at an unusually important moment in Google's attempt to control the next generation of computing devices. Samsung, Google's largest partner, warned on Oct. 6 that it expects to miss its quarterly sales targets because of price cuts on its phones. In Europe, regulators are examining whether Google violates antitrust law by forcing manufacturers that use Android to preinstall its apps, which Google denies.

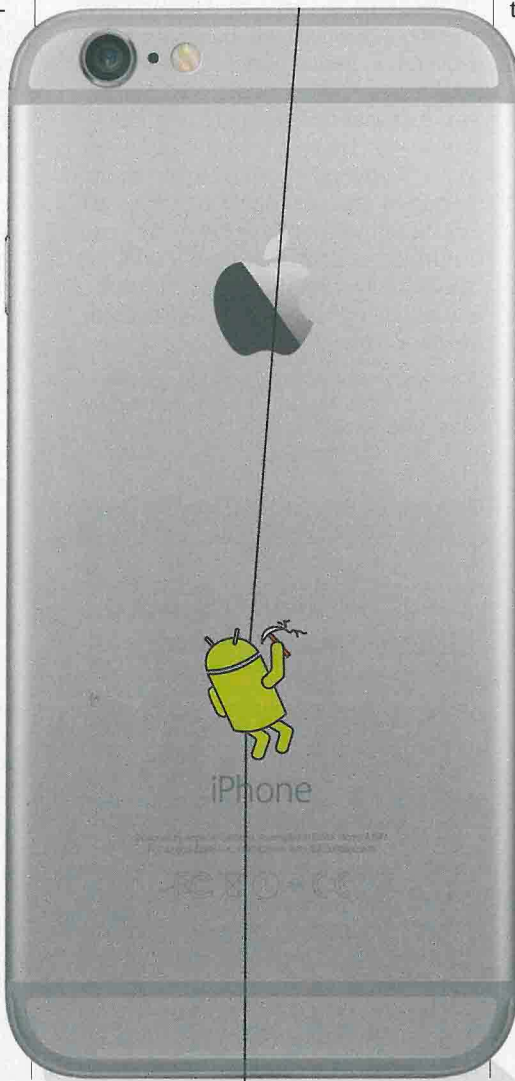
Meanwhile, Apple has gotten rave reviews for iOS 8 as well as for its hot-selling iPhone 6 and 6 Plus. On Oct. 16, Apple will convene the media to ooh and aah over new iPads. With the new version of Android, Google “has to overcome concerns that there is not parity

between Android's ecosystem and iOS,” says James McQuivey, an analyst at Forrester Research.

Lollipop is Google's answer to the ominous rumblings in Android land. It's a svelte OS, capable of running on 512 megabytes of memory, which means that even the cheap phones spreading through China and India can pack in Android's latest features. (Older versions used considerably more memory.) Lollipop's look, called “material design,” uses moving icons and shifting font sizes in an effort to more clearly organize information onscreen. It also attempts for the first time to standardize and connect the interfaces of a user's various Android devices, including a new set-top box that plays Web video on a TV.

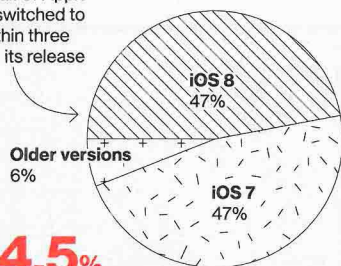
Motorola's Nexus 6 smartphone has a sleek, curved aluminum back and a crisp screen. The company says it can run for hours after charging for just 15 minutes. The phone will go on sale (subsidized) at all major U.S. carriers by the end of the year, when an unlocked version will sell online (fully priced) for \$649. Pichai studiously avoids using the word “phablet” but says the Nexus 6 screen was a response to consumer demand. Large-screen phones now make up 25 percent of Android devices, up from 1 percent three years ago, according to researcher Strategy Analytics. It's unclear whether customers who now have a supersize option from Apple will still flock to an Android version.

Google is continuing to push beyond smartphones. With the Taiwan-based electronics manufacturer **Asus**, it's also releasing the Nexus Player, a \$99 TV set-top box that offers many of the same



## Early Adopters

Almost half of Apple devices switched to iOS 8 within three weeks of its release



**24.5%**  
of Android devices have adopted 4.4 KitKat, released a year ago

DATA: APPLE, GOOGLE

◀ features as Apple TV and Amazon Fire TV. The player also integrates features from Google's Chromecast, so users' TVs can automatically stream content from phones or tablets. Google's new tablet, the Nexus 9, was developed with HTC and will sell online for \$399. It has a \$129 keyboard accessory that doubles as a portable battery. Asked whether Google is imitating Microsoft's keyboard-equipped Surface tablet, Pichai says, "We have definitely been watching all kinds of stuff." He adds that the goal of the Nexus program isn't to anoint only one must-have smartphone or tablet, but to set a benchmark and get the industry to build a critical mass of devices. "We want all kinds of devices for all kinds of people," he says. "Nexus represents the state of the art, with us guiding the ecosystem toward where we want it to go."

That ecosystem has had some trouble of late, and not just at Samsung. Android partner Sony has struggled to grab even a sliver of the smartphone and tablet market in the U.S., and HTC's slide has been brutal, with its stock down 55 percent since the beginning of last year. One side effect of Google's partnership with a diverse group of companies is that it creates furious competition that dilutes each partner's profits. "It's a lot like the old Microsoft world, where the companies that made the most money were not the ones that made PCs. They were the companies that owned the platform: Microsoft and Intel," says Carl Howe, an independent technology analyst most recently with 451 Research. "A similar situation has developed in the Android marketplace. The hardware makers have been demoted to commodities." Android's closest partners are losing share to cheap phones that run free, open-source versions—without

most of Google's apps—from companies including China's **Xiaomi**. Pichai says Android companies are "exposed to all the forces of a very competitive marketplace," and he expects Samsung to bounce back quickly.

There's also the real possibility of an antitrust investigation into Android by the European Union. EU antitrust commissioner Joaquín Almunia warned last month that regulators are edging toward a formal inquiry unless Google can resolve complaints that it has forced Android phone makers to install apps such as Google Drive and YouTube. Pichai says manufacturers are free to install any competing software and that critics cannot call Android both too fragmented and too monopolistic. "If we are telling phone manufacturers what to do, why would we see such a diverse set of experiences out there in the world?" he asks.

Lollipop will launch gradually over the next few months, and Google says the Nexus devices will be in stores by November. Pichai punts on the question of the next battleground, an Android product that can compete with the Apple Watch when it comes out next year. "Knowing Apple, I expect them to build a great product," he says, flashing his Sony SmartWatch 3—which runs Android but isn't quite on par with the specs for Apple's timepiece. "I think we will be right there along with them."

—Brad Stone

**The bottom line** Android Lollipop and new Nexus devices will have trouble drawing buzz away from Apple.