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Time to Call Google's Bluff

Does Google really want a wireless network?

By MARK VEVERKA

GOOGLE IS PLAYING HIGH-STAKES POKER with America's wireless carriers. Does the search-engine giant, which has designs on the mobile-phone industry, really want to go to war with the likes of [AT&T](#) and [Verizon](#) Wireless?

Probably not. Even though [Google](#) (ticker: GOOG) is one of the few companies on the planet that could enter the wireless-service market and afford to build a network from scratch, I doubt that they will. It's too expensive, too time-consuming and too difficult to execute for a company with such little expertise.

"What they are trying to do is pressure the carriers," posits Charter Equity Research analyst Ed Snyder. "I doubt that Google wants to own spectrum or build out a network. That would be a fool's errand," he adds.

Last week, The Wall Street Journal provided a detailed account of Google's experimentation with wireless infrastructure, adding credence to the company's threat to build a wireless network.

Google also may bid on the upcoming 700MHz federal wireless spectrum auction, although that particular band would likely present considerable physical and economic limitations, notes Allen Noguee, a wireless infrastructure analyst with In-Stat, a research boutique. "It's not the ideal band for them," Noguee says.

Of course, Google could back a third-party to build a network, which could keep tens of billions of capital expense needed to acquire spectrum, lease cell towers (if you can find any available) and construct base stations off of the Internet darling's balance sheet. That would help assure that shares continue to justify a forward P/E of 40. "I would have trouble accepting the fact that they would want to do it alone," Noguee says.

So why would Google go to such great lengths? Because it needs the wireless carriers to play ball, and Google thinks it can force the carriers to cooperate where existing handset makers, such as [Nokia](#) (NOK), have failed. At the recent FourSquare Conference in New York, which was off the record for media, Google co-founder Sergey Brin nearly said as much on a panel shared with Nokia Chief Executive Olli-Pekka Kallaluvuo. Brin reportedly indicated that Google could gain more cooperation with carriers like Verizon Wireless and AT&T (T) than the major handset companies have.

The bigger question is what Google's ultimate goal is, which is unclear. It certainly isn't making phones and building networks.

A logical assumption is that Google wants to be the leading provider of consumer search and services on mobile handsets, such as location-based mobile services. It needs a network to get there. Nokia, which has network access, is already moving in that direction with its recent agreement to buy [Navteq](#) (NVT), a maker of map data for global-positioning devices.

For Google to become the last entrant to market as a regulated wireless carrier in a mature industry wouldn't turn out well for current Google shareholders. They may be willing to pay for growth of the burgeoning Internet advertising market, but they didn't intend on owning a regulated utility that needs to spend tens of billions of dollars with five-year time horizons for return on that investment. Simply put, a move to become a wireless carrier would fundamentally destroy one of the greatest growth-stock stories of our time. The wireless carriers should call the bluff.