

## Motorola learns how smartphone partner Google treats its frenemies

By: John Pletz

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When Sanjay Jha described Motorola Inc.'s relationship with Google Inc. to a convention crowd in Las Vegas last month, he used the word "tension" more than a dozen times.

Google helped Mr. Jha pull Motorola's cell phone business out of a death spiral, but the Internet search giant is proving an unpredictable partner and a potentially formidable competitor. In the months since Motorola unveiled its first smartphones based on Google's Android software, Google has crossed up Mr. Jha by launching a new version of the software, selling its own smartphone, Nexus One, and delaying his plan to roll out a smartphone in China.

"Google is keeping vendors in the dark," says Tero Kuittinen, an analyst at Connecticut-based MKM Partners LLC. "One quarter of the latest software goes to Motorola, then HTC. I think (Motorola) felt blindsided by Nexus One."



Motorola co-CEO Sanjay Jha

### BLOOMBERG NEWS

Mr. Jha, who became CEO of Motorola's phone business in August 2008, must adapt the 82-year-old Schaumburg electronics manufacturer to the frantic pace of a 12-year-old Silicon Valley Internet company. Google's run-and-gun releases of new software can quickly make Motorola's latest high-end phones look outdated. And its move to sell its own phones could swipe sales from Motorola.

It all threatens the growth Mr. Jha needs to show as he works toward a goal of spinning off Motorola's cell phone business this year or next.

The challenges were apparent last month, when Mr. Jha stopped by Silicon Valley to attend the launch party for Google's smartphones. Mr. Jha learned of the Google phone's new software features — including some that Motorola's Droid phone lacks — while standing on stage with Google executives.

"I don't see it as a threat. I see this as an expansion of the marketplace," Mr. Jha said at the launch. He declined an interview request last week, citing the regulatory "quiet period" ahead of the company's earnings report Thursday.

#### WARP SPEED AHEAD

A Google spokeswoman says, "It's not our objective to compete with our partners." But the Android 2.1 software its Nexus phones use is the fourth version Google has launched in nine months, warp speed for the cell phone industry.



That leaves Motorola little time to update its phones, which can appear obsolete when they hit store shelves. For example, the Backflip phone Motorola plans to launch this year with AT&T will use Android 1.5 software.

"Backflip will be a flop," predicts Trip Chowdhry, an analyst at Global Equities Research in San Francisco. "If you come with a product that's not as good as Nexus One, you're in trouble."

Motorola says its Droid will get the new software but hasn't said when. Google says it isn't playing favorites. "Whenever there are multiple devices going to market, one of them will inevitably be first," the spokeswoman says.

Motorola is one of five phone makers using Android. But it's more dependent on Google than are rivals HTC and Samsung, which use a variety of smartphone platforms.

When Mr. Jha arrived from Qualcomm Inc. to rescue Motorola's phone business, the company was starved for new products, especially smartphones such as Apple's iPhone. But he needed software. Without the time or expertise to create it in-house, he picked Google's.

"Google is still Motorola's savior," says Tavis McCourt, a Nashville-based analyst at Morgan Keegan & Co. "Without Google, Motorola would be toast in handsets."

#### CONFLICTING AGENDAS

Droid's better-than-expected sales of 1.5 million units in the fourth quarter of 2009 could help Motorola's phone unit break even by the second quarter of this year, says San Francisco-based analyst Ed Snyder of Charter Equity Research. The phone business must be profitable for Motorola to spin it off.

' It's not our objective to compete with our partners.'

— Google Inc. spokeswoman

But Google's agenda doesn't always match Motorola's. Last week, the search giant's dispute with Chinese authorities over censorship delayed the launch of a Motorola smartphone in China. Motorola said it would allow users to choose Chinese search engine Baidu over Google, even on Android phones.

Unlike Motorola, Google's goal isn't so much to take on Apple in the phone business as it is to create the next big market for Web-search advertising.

As Ehud Gelblum, a New York-based analyst at Morgan Stanley, wrote in a recent research note: "While Android could be one of the top two or three smartphone operating systems, we are unsure whether Google or the handset vendors will extract more of the value."