

Will shift to mobile change balance of power between Apple and Google ?

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Google and Apple have created a wonderful bit of drama in recent years as their brotherly love devolved into a cutthroat rivalry. Google's introduction of the Android mobile platform created an ugly schism that prompted one of Steve Jobs' most memorable tirades in his recent biography:

"I will spend my last dying breath if I need to, and I will spend every penny of Apple's \$40 billion in the bank, to right this wrong. I'm going to destroy Android, because it's a stolen product. I'm willing to go thermonuclear war on this."

But the relationship between these two Silicon Valley superpowers is far more complex. Up to now, they have badly needed each other, which means going "thermonuclear" isn't really an option.

Lately, though, there have been some small signs that Apple might be trying to distance itself from Google. That has me wondering just how big the risks are for Google.

It was a small thing, but during the recent iPad event, Apple executives said they were dropping the use of Google Maps in favor of an open mapping product. Hardly a killer, but it did start speculation about Apple's relationship with Google.

Ben Schachter, an analyst at Macquarie, wrote a note to clients asking of Apple: "What if it takes a bigger step?" What if, in other words, Apple ditched Google as the default provider of search on its Safari browser.

"If Apple continues to dominate tablets ... the long-term impact (on Google) could be much more significant," Schachter wrote.

This is where we see how their relationship is more complicated than it first appears. Many users assume Apple uses Google's search engine because it's the best. But while neither company likes to talk about it, Google pays Apple a significant amount of money to be the default search engine on Apple's browser.

Indeed, Google in 2011 paid about \$1.5 billion in total on such distribution deals last year to companies like Apple and Mozilla (which makes the Firefox browser) and

MySpace. Schachter estimated that \$1 billion of that goes to Apple, but the truth is that no one knows.

In fact, Google has successfully fought the U.S. Securities and Exchange Commission, which wanted the company to release information on the number of such deals as well as whether each deal made money. Google has acknowledged that it loses money on some of these deals.

The nature of such agreements appears to be at the heart of a subpoena that Bloomberg News reported the U.S. Federal Trade Commission had served to Apple last week as part of its antitrust investigation of Google.

Apple declined to comment, and Google did not respond to a question about Schachter's estimate and its relationship with Apple.

But even without knowing the payment figure, Schachter says one thing is clear: Apple's products have become an increasingly important source of search traffic to Apple. So if Apple maintains its dominance of tablets in the coming years and more computing shifts to mobile, does it gain even more leverage over Google?

"If Apple were to maintain that share, that would be a problem for Google," Schachter said. "The question Apple has to ask going forward is: How much do you want to help your direct competitor?"

In this regard, the business importance of Android makes more sense. Many folks, while impressed with its adoption, have criticized Android for not goosing Google's bottom line. But here's another way to look at it: If Apple had the same dominant market share in smartphones as it does in tablets, how much more would Google have to pay to be the default search provider? It's possible that Android saves Google hundreds of millions of dollars every year, Schachter said.

However, Danny Sullivan, one of the most respected commentators on the search industry, isn't convinced that any of this will really change things between Apple and Google. Sullivan is founder of the Search Engine Land blog and has covered search for 15 years. He argues that the chance that Apple would ditch Google as its search engine is remote at best.

For one thing, Apple doesn't have its own search engine. While Siri has generated a lot of interest, people's experience with it has not been great, Sullivan said. And while Microsoft has invested a lot in Bing and was reportedly in the running to become Apple's

default search engine, it's still not rated as highly by users as Google.

"Google is a strong enough brand that if Apple switched over to Bing, many people would seek out Google," Sullivan said. "It's not the nightmare scenario people make it out to be."

But Sullivan said Google does seem to be paranoid about such doomsday scenarios, which led it to create things like Android and its Chrome browser. And that in turn has made rivals out of former partners -- such as Apple and Mozilla -- who might not be as willing to stick up for Google in its antitrust battles, he said.

For now, Google and Apple will remain locked in an uneasy dance with each other, despising the other and yet unable to let go. If Apple ever does step away, well, pass the popcorn and grab a seat to watch what surely would be one of the most dramatic breakups the valley has ever seen.