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Google set to reap China rewards after re-entry

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The end is in sight for Google's seven wilderness years in China. With none of the theatrics that accompanied its voluntary withdrawal from the country due to web-search censorship in January 2010, Google is now firmly on a path not only to return to China but also to potentially seize a spot alongside Apple as one of the most profitable tech companies there.

This is a likely outcome of Google's announcement last week that it is entering with full force the global consumer hardware industry. Google Pixel mobile phones, Google Home artificial intelligence-enabled speakers, Google Daydream View virtual reality headsets, these will be the engines of Google's revival in China. Based on what Google has so far revealed – including pricing – these products may find a large market among Chinese consumers.

The company has made no specific mention of plans to re-enter China. China's government will not likely strew the ground with rose petals to welcome Google back.

Instead, Google can rely on China's enormous grey market for electronics hardware to bring its products into China's on-and-offline retail network. Hong Kong is usually the main transshipment point, not only because prices are lower than in the PRC, but the quality of hardware sold there is considered to be higher.

There is a precedent here. Apple took six years after the iPhone's launch to ramp up its official sales channels in China by doing a deal with the main carrier, China Mobile. By that point, an estimated 30m to 50m grey market iPhones were already in use in China.

Mobile phones running Google's Android system already dominate the Chinese market, with about 300m sold this year. Most are sold unlocked without carrier subsidy. None can freely access Google search, storage or maps. The Google Pixel will likely have similar limitations.

But Pixel will have huge advantages no other Android phone can match of closely integrating the operating system and device hardware to optimise the performance of everything else on the phone.

All of China’s many Android brands will be impacted, but none more so than the current market leader, Huawei. It now dominates the high-end Android market in China, even more so with Samsung’s recent woes. The Pixel will be priced to compete directly with Huawei’s flagship models.

It is not only in its home market of China that Huawei may get battered. It has also set great store on becoming the world’s leading Android phone brand in Europe. That will certainly be far harder to achieve now.

As it happens, Google’s announcement came at a time when just about everyone at Huawei, along with everyone else in China, was enjoying a week-long national holiday. They return to their desks this week to find the tech world disrupted. No one quite predicted Google would amp up its hardware strategy to this level.

Google had toyed around before, selling small volumes of its outsourced Nexus-branded mobile phone to showcase more of Android’s features. Huawei was one of the companies making Nexus phones. Google also bought in 2011 Motorola’s mobile phone business and unloaded it two-and-a-half years later to China’s Lenovo, a deal that has not worked out at all well for the Chinese company.

But, this time Google says it is not dabbling. It defines its future strategy as becoming, like Apple, a fully vertically-integrated hardware and software business, but one with the world’s most powerful system of proprietary voice and text-enabled artificial intelligence.

Google introduced three hardware products last week. More are certain to follow, including perhaps a mid-priced phone that will take aim squarely at China’s Xiaomi (among others), already reeling from falling sales and an inability to crack the more lucrative higher-end Android market.

Google’s advantages run so deep they can seem unfair. Not only does it own and develop the Android software its competitors except Apple rely on, it also already has one of the world’s best and most recognizable brands. Also worth noting, Google now has about $70bn in cash, mainly sitting outside the US, looking for new markets to conquer.

As for the other new Google hardware products – the home speaker and virtual reality (VR) headset – the market seems ripe for the taking. Despite billions of government dollars invested into Chinese companies working on machine-learning, artificial intelligence and VR, none has come to market in any significant way.

Even if they now do, none can match Google’s enormous breadth, capability and experience in human-machine dialogue.

Though a success in the US, Amazon’s Echo home speaker, which is capable of interacting with the human voice, is a non-entity in China. It does not understand spoken Chinese. Google, on the other hand, is quite adept at Chinese. While Google Maps, Gmail, Drive are all blocked in China, Google Translate is not.

Indeed, the Chinese government quietly stopped blocking it about a year ago. It's the only one of Google's major online offerings that can be readily accessed in China. The reason: Google Translate has become an essential tool for Chinese companies active internationally, as well as for many of the 150m middle class Chinese now vacationing abroad each year.

If Sundar Pichai, Google's CEO, is correct, the world including China is moving from a "mobile-first to an AI-first world". Google is already miles farther down this path than any Chinese company. It need not reestablish its search engine business in China to be a major force there.

As for China's government, however it chooses to react to Google hardware products sweeping into China, its own aspirations to nurture globally-competitive indigenous tech companies probably just got a lot harder to achieve.

In the seven years since Google departed, China became in many areas even more of a tech Galapagos. Poised now to reenter China by the back door, Google should like the way the competitive landscape looks there.

If Google takes just 1 per cent of the China Android market – and my prediction is it will do markedly better – it will have $2bn of annual revenues in China, a business larger, more valuable and unassailable than when it pulled out.

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http://blogs.ft.com/beyond-brics/2016/10/10/google-set-reap-china-rewards-after-re-entry/