Cash, Paranoia Fuel Tech Giants' Buying Binge

By Reed Albergotti and Rolfe Winkler

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Facebook Inc. FB-6.94% is spending $2 billion to get into virtual reality. In the real world, the deal highlights a high-stakes race among the tech industry's giants for continued dominance over a rapidly changing digital landscape.

The acquisition of Oculus VR Inc. comes just weeks after Facebook agreed to buy mobile-messaging company WhatsApp for $19 billion. Google Inc. GOOG-2.31% recently paid $3.2 billion for Nest Labs, which makes Web-connected home gadgets.

From messaging to watches and thermostats, Facebook and Google, along with Amazon.com Inc. AMZN-3.19% and Apple Inc., AAPL-0.96% each want to own the digital platform where people communicate, shop and seek entertainment. The competition is driven by their ability to pay—their combined market capitalization exceeds $1 trillion—and long memories of faded tech stars that didn't evolve quickly enough.

This combination of fear and primal ambition is leading to one of the biggest buying and investing sprees since the dot-com era of the late 1990s. Facebook and Google, in particular, have enjoyed wide latitude to make big investments, thanks to their booming stock price and their founders' supervoting shares.

Facebook Chief Executive Mark Zuckerberg "is aware of all the big companies that died because they rested on their laurels," said Jeff Richards, a managing partner at venture-capital firm GGV Capital. "It once took decades to build a company as large as Facebook. Now it takes 10 years," he said.
Facebook has been drawn to social networks with huge user bases, as it seeks to pull more people into its sphere and gather more knowledge about them for advertising purposes. In 2012, Facebook acquired photo-sharing app Instagram for $1 billion. It followed that up with the WhatsApp deal last month.

Google aims to expand beyond delivering information, into tools for communication, entertainment and transportation, among others. In addition to Nest, Google has designed laptops, smartphones, streaming-video devices, eyewear and watches, all the while investing in artificial intelligence and robotics companies to stay on the cutting edge.

Apple and Amazon have been less bold in making their deals but are plowing the proceeds of their core businesses into new arenas, such as video and payments.

Apple, traditionally focused on well-designed consumer electronics, is looking to offer live television and cautiously moving into the advertising industry.

Amazon has moved far outside its core retail business to place multiple bets on the future, from streaming video to cloud computing to its own mobile device, the Kindle Fire.

The four companies are competing to control as much as possible of the tech ecosystem. In Silicon Valley parlance, it's all about controlling “the platform.” A big reason is to gather data about users, to serve them ads or to anticipate their next purchase.

Most Google and Facebook services are free. Users pay, in essence, by offering up their personal information. The more Facebook and Google know about their users, the more they can charge advertisers to reach potential customers.

Amazon and Apple aren't primarily advertising companies, though Apple brokers ad space on iPhones and iPad tablet apps. But they, too, gather a lot of data. Amazon wants to make shopping as simple as possible and know customers so well that it can begin shipping items before they are ordered. Apple knows what users watch, listen to and play.

All are acutely aware of the consequences if they don't adapt quickly. Yahoo Inc. YHOO -1.34% ceded Web search to Google and has never fully recovered. Microsoft MSFT -1.36% has yet to develop a following on smartphones; it is trying again with its pending acquisition of Nokia Corp.’s NOK1V.HE +1.62% handset business.
"The main thing that has caused companies to fail, in my view, is that they missed the future," Google CEO Larry Page told a conference audience last week.

In the beginning of the personal digital revolution, Microsoft's operating systems were the dominant platforms for personal computing. The vast user base attracted software developers, who devised applications, from spreadsheets to games, that kept users in Microsoft's orbit.

Apple grabbed an early lead in the smartphone era, as users, and developers, flocked to the iPhone. But Google countered by giving away its Android operating system to smartphone makers; today, about four of every five smartphones world-wide uses Android.

Facebook also turned its Internet-based social network into a platform. It attracted developers to create games that Facebook users could play with one another. But when the mobile revolution came along, Facebook found it was at the mercy of Apple and Google.

Wearable devices may be a new platform battleground. Google recently unveiled Android Wear, an operating system for "smartwatches" and other such devices. Apple is working on a smartwatch, according to people familiar with the matter, and the company has hired medical-industry experts to help build devices to monitor fitness and health.

"History suggests that there will be more platforms to come," Facebook's Mr. Zuckerberg said Tuesday. The companies that control those platforms will "benefit financially and strategically," he said.

Mr. Zuckerberg said he believes virtual reality may be another platform battleground, with many potential services, beyond just games, that might prove useful to consumers.

On Facebook's campus in Menlo Park, Calif., the front of a sign shows its signature "like" button, a thumbs-up signal. But the back of the sign, obscured by trees, still displays the name of Sun Microsystems Inc., which used to occupy the campus, and was swallowed by Oracle Corp. ORCL +1.77% in 2009. Facebook left Sun's name on the sign to remind it of what happens to companies that fail to innovate.

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