Google Under Pressure to Wring Sales From Mobile Users

By Brian Womack - Oct 19, 2012

Google Inc. (GOOG)’s profit and sales are under pressure as the operator of the largest search engine struggles to wring advertising dollars from the growing number of people who surf the Web on tablets and smartphones.

The company yesterday reported third-quarter revenue, minus some items, of $11.3 billion, short of the average estimate for $11.8 billion, according to data compiled by Bloomberg. Third-quarter profit excluding some items was $9.03 a share, below estimated profit of $10.65 a share. The stock tumbled 8 percent after the results were inadvertently released early.

Google, the biggest seller of search-based advertising, hasn’t yet translated to mobile devices the success it’s had with desktop advertising. Ads generated on smartphones can cost about 40 percent less than those on traditional computers and about 25 percent less than on tablets, said Herman Leung, an analyst at Susquehanna International Group.

“Mobile is the big pressure,” Leung said. “It’s a concern for investors because they just make less on mobile right now.”

Shares of Mountain View, California-based Google fell to $695 yesterday, and earlier dropped as much as 11 percent to $676 before the company asked Nasdaq OMX Group Inc. to halt trading. The stock has gained 7.6 percent this year.

Bypassing Google

The average amount advertisers paid each time a user clicks on a promotion declined about 15 percent from a year earlier, and was 3 percent less than the prior period.

Google also struggled with its so-called sites revenue, which includes its search-related ad business, the company’s core revenue generator. It grew 15 percent to $7.73 billion from the same period a year earlier, less than half the growth Google reported in the third quarter of 2011.

That suggests consumers may be bypassing Google to seek out information on websites such as Amazon.com Inc. (AMZN) or Yelp Inc. (YELP), said Sameet Sinha, an analyst at B. Riley & Co.

“This is the main product, the most profitable product that they have,” Sinha said. “It’s just shocking.”

Google got off to a difficult start with the early release of the results. A statement in a regulatory filing -- which was issued hours before the company had planned to report earnings - - had a line at top that says: “Pending Larry quote.” Google blamed R.R. Donnelley & Sons Co., a company that handles financial printing, for the premature release.

R.R. Donnelley fell less than 1 percent to close at $10.76, following an earlier drop of 6.5 percent.

Page ‘Excited’

Google Chief Executive Officer Larry Page said he’s “really excited about the progress we’re making creating a beautifully simple, intuitive Google experience across all devices,” in a final statement issued around 3 p.m. in New York.

Page later joined a conference call with analysts, after skipping the company’s earnings call in July because of issues with his voice. He began by saying his voice was “hoarse,” and that his remarks would be “reasonably short.” Yet he stayed on the call and answered many questions from analysts, speaking relatively softly.
He said he was sorry for what he called the “scramble” of the early earnings release.

Amid questions about the performance of mobile ads, Page said the company is well-positioned to make money from the growing number of devices that people use to access the Web, including smartphones and tablets.

“As we transition from one screen to multiscreens, Google has enormous opportunities to innovate and drive ever higher monetization,” Page said on the call.

**Mobile Revenue**

Google’s revenue tied to mobile businesses now is on pace to reach $8 billion on an annual basis, Chief Financial Officer Patrick Pichette said on the call.

Unlike last year, when the company said its annualized mobile revenue would be about $2.5 billion, the new number includes sales of applications and content on its Google Play store. Still, the vast majority comes from advertising, Pichette said.

The company earlier this year spent $12.4 billion to acquire Motorola Mobility Holdings, pushing it further into the hardware market and stepping up its rivalry with Apple Inc. (AAPL)

Third-quarter total revenue, including the acquisition of Motorola Mobility, rose 45 percent from a year earlier, while expenses rose 71 percent. Net income declined to $2.18 billion, or $6.53 a share, from $2.73 billion, or $8.33 a share.

**Motorola Mobility**

Motorola Mobility contributed sales of $2.58 billion for the period. That was less than some estimates, including those from analysts at Barclays Plc, who had predicted $3.3 billion.

“We believe the miss was in large part driven by Motorola Mobility, with revenue down meaningfully versus our and Street numbers, and costs ahead of expectations,” the analysts wrote yesterday in a note.

Google is streamlining the business and trying to reduce costs. In August, it said it would cut about 4,000 jobs at Motorola Mobility, or 20 percent of the staff at the company. Google also said it would shut down some of Motorola Mobility’s facilities and simplify its wireless product portfolio.

Restructuring and related charges in the third quarter were $349 million, and related tax benefits were $76 million, Google said. Operating expenses for Google were $4.81 billion, or 34 percent of revenue, up from 33 percent in the second quarter.

Separately, the company said yesterday it is teaming up with Samsung Electronics Co. (005930) to introduce a lower-cost version of their Chromebook laptop.

The new model, priced at about $249, is powered by a Samsung microprocessor similar to those used in mobile devices, while previous versions had used Intel Corp. chips more commonly found in personal computers. The machine is available now for early online orders and goes on sale in retail stores on Oct. 22.

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