

Alphabet earnings outstrip Apple, but transparency issues still cloud results

Written by The Conversation

Google [reported](#) its first-ever quarterly earnings this week under the new structure of Alphabet. The earnings surpassed analyst expectations and Alphabet is now worth more than Apple with a [market value](#) of around US\$555 billion, compared to Apple's US \$535 billion.

The majority of Google's revenue continues to come from advertising through YouTube, other ads, search and in particular, mobile search. What makes this interesting is that Facebook has [posted](#) a 40% increase in its revenue this quarter with most of it driven by mobile advertising.

Both Facebook and Google are benefiting from the continuing [shift](#) in advertising spending towards digital. The fact that Facebook doesn't seem to be impacting Google's revenues highlights the fact that advertisers see both platforms as being valuable rather than choosing one over the other.

What Google's restructure into Alphabet was able to highlight however was the amount of money being spent on what has been [classed as](#) "Other Bets". This includes the sections of Alphabet which include Access/Google Fiber, Nest, Verily (formerly its Life Sciences Division), GV (formerly Google Ventures), Google Capital, Calico (biotech) and X, the division that is responsible for the driverless car and Google Glass.

Together, these different areas [lost](#) US \$3.5 billion in 2015 with just US \$448 million in revenues. The results don't go down into enough detail to know how much is coming from what specific projects and whether those projects are in themselves profitable.

Although it would be easy to just look at the revenues of companies like Google and Facebook and see them as being driven by advertising, the point of these companies is that it highlights how important the functionality that they deliver is. Gmail for example, Google's email system [n](#)
[OW](#) has 1 billion monthly active users.

Facebook itself has 1.59 billion monthly active users with 1.44 billion monthly active users on

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their mobile platform. Facebook's messenger app has 800 million monthly active users and WhatsApp has 1 billion.

Messaging, search, and social media (along with word processing) are the apps that have become core to our use of the internet, especially through mobile phones. What is ironic perhaps is that 75% of Google's mobile advertising revenue comes from Apple devices. Apple's share price [has seen](#) a 20% decline in the past 2 months, with analysts marking its prospects down because of slowing iPhone sales. Apple's [net income](#) was three times that of Google's for the last quarter.

It is difficult to see where any of these companies go to from their current mainstream revenue generators. All of the sideline projects are still in their infancy and even if they ever do become successful, will not achieve the same level of importance in global reach or revenue as advertising is for Google or the iPhone is to Apple.

When Alphabet was first announced, it [was thought](#) that splitting off the "Other Bets" into separate entities would enable them to be held to account financially. In fact, the entire Alphabet organisation was seen as a way to enable transparency in Google's various business interests. This does not appear to have been the case however.

As far as money flows go, the massive losses the "Other Bets" are still incurring may be more apparent, but the money to keep them going is still coming from the same source, namely Google. The "Other Bets" are not being allowed to sink or swim on their own merits or their ability to generate their own revenue and profits. Other Bets losses represent 5% of Alphabet's total annual revenues and perhaps as such, it isn't a concern, although it is hard to believe that the losses would be tolerated on an ongoing basis without showing any sign of changing.

What was also not really made transparent was the performance of Google's Cloud Platform. Cloud revenues are derived from providing other companies with computers and other services hosted by companies like Google, Amazon, Microsoft and IBM. Amazon Web Services generated [revenue](#) of nearly US \$8 billion. Microsoft are now claiming annual revenues of US \$9.4 billion and IBM US \$5.3 billion.

Cloud services are to global enterprises what email and social media are to individual

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consumers. They are becoming integral to how companies will run their IT services in the future. So far, it doesn't seem however that Google is making as much of an impact in this area as Amazon and Microsoft, at least, not that they are prepared to admit to.

David Glance owns shares in Apple and Facebook.

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