

Acquisition of motorola by google

[Technology](#), [Mobile Phone](#)



On August 15, Google announced an agreement to acquire Motorola Mobility, based in Libertyville, Illinois, for \$40 per share. Both companies' boards of directors have approved the deal. Benefits of the deal

Google and Motorola Mobility together will accelerate innovation and choice in mobile computing. Consumers will get better phones at lower prices. Motorola Mobility's patent portfolio will help protect the Android ecosystem. Android, which is open-source software, is vital to competition in the mobile device space, ensuring hardware manufacturers, mobile phone carriers, applications developers and consumers all have choice. Why Motorola Mobility?

- Motorola Mobility's full commitment to the Android operating system means there is a natural fit between our companies. o Motorola Mobility was a founding member of the Open Handset Alliance in 2007. o Motorola Mobility in 2008 made a big bet on Android as the sole operating system for all its smartphone devices. • Google is great at software; Motorola Mobility is great at devices. The combination of the two makes sense and will enable faster innovation.

- Motorola Mobility has a long history of innovation in communications technology and the development of intellectual property. olts many industry milestones include the introduction of the world's first portable cell phone nearly 30 years ago, and the StarTAC-the smallest and lightest phone in the world when it was launched. Motorola represents one of the thorniest strategic and operational challenges in Google's 14-year history. Oddly, few seem to be paying attention. When investors parsed Google's deal announcement in August, they focused on how Motorola's 17, 000 patents <https://assignbuster.com/acquisition-of-motorola-by-google/>

will protect Google's market-leading Android mobile operating system from legal assault. But what of the 20, 500 Motorola employees working in 92 major facilities across 97 countries, from Horsham, Pa., to Jaguariuna, Brazil? What of the factories churning out low-margin cellphones and cable-TV boxes? What of the five years of losses, some \$5. 3 billion in all? Google unveiled augmented-reality glasses with a video of the prototype of how the glasses would work.

Liz Gannes has details on digits. With Google stock down 3% year to date, compared with a 15% rise for the Nasdaq Composite, it seems logical that Google might just sell off these metal-bending headaches and focus on its strength—spreading mobile Web search around the world. So, it's gut-check time. Does Google sincerely want to be a company that makes actual stuff? I've spent the last three weeks talking to people inside Motorola and Google and out, trying to solve the riddle. The disquieting answer is that there appears to be no sense that a choice is even required. There's only a cocky belief that Google really can be all things at once: a hardware company with software margins, and a neutral Android arms dealer that just happens to be building its own Motorola army on the side.

Verizon Chief Executive Lowell McAdam may have been speaking for the rest of the tech industry when, in an interview, he mustered a tepid endorsement. " It's not illogical," he said. " I think it gives them the opportunity to push the envelope a little bit." People close to Google say it plans to make substantial investment in Motorola, whose share in smartphones is languishing at around 4%. Hairball or no, people close to Google say it plans to make substantial investment in Libertyville, Ill.-based

Motorola, whose share in smartphones is languishing at around 4%. The goal, these people say, is to build truly innovative devices, which the company realizes will take both money and talent.

Google Chief Executive Larry Page was fittingly effusive in a blog post last week, saying he was "excited about the opportunities." On its own, that sounds like a worthy idea—an opportunity for Google to compete head to head against Apple Inc. AAPL -0.73% But that's exactly the problem. Google stands as the philosophical and business leader behind Android, the free, open-source mobile operating system that it shares with 55 manufacturers around the world. The trick is to build Motorola without scaring them off. Android is a simple trade. Gadget makers get top-notch software. Google gets to preload its services, such as search and maps, on the 850,000 devices that are activated each day. Research firm Bernstein says mobile search grew by 144% last year. By 2016, it could be a \$10 billion business for Google.

All that holds—as long as the Android partners trust Google. Google's senior vice president of mobile, Andy Rubin, is conveying a message that appears to be different than his boss's. For him, favoritism is death. In February, he told reporters that there will be a "firewall" between the two companies and that he has "no idea" what Motorola's products are going to be. Perhaps Mr. Rubin sees how rapidly conditions are changing in the Android ecosystem, where there are signs that old alliances are fraying. Samsung Electronics, for instance, just signed a deal to participate in a mobile advertising network that competes directly with Google. Late last year Amazon.com used

Android to power its Fire reading device, but it so altered, or "forked," the software that most users didn't even know it was Android.

Over the next few months you'll see plenty more articles about "forking" as mobile companies try to differentiate themselves. The threat to Google is that these changes will essentially create exotic variants that will begin to circumvent Google's influence over, say, search or mobile ads. It's like Latin morphing into Spanish, French and Italian. People close to the deal argue that Motorola represents a convenient hedge should civil war break out in the Android device world. That would be cold comfort. The reality is that Google needs to protect the breadth of its Android base at all costs. It's just common sense.

The gross margins on mobile search are estimated to be around 70%, with excellent operating margins, says Bernstein analyst Carlos Kirjner. Making devices—however cool they may be—is at best a barely profitable undertaking for companies not named Apple. Last year Motorola's operating margins were negative. "Compared to what Google does, the smartphone business has horrible economics," says Bernstein analyst Pierre Ferragu. "The reason to buy Motorola was to strengthen patents. Now they have that, the logical thing is to sell the rest."

There are already reports that Google is sizing up the cable set-top box business for sale. From Asia, rumors have swirled around the handset business, suggesting that Google has already offered it to China's Huawei at a high price. A person close to Google denies any such talks around handsets. And that may be the scariest part of all for Google's investors.