

Background

Last week Google announced an acquisition of Motorola Mobility for \$12.5 billion. The board unanimously approved the sale, the largest in their short history. The deal offered Motorola shareholders \$40 per share, a 63% premium on the closing price the previous Friday. Although subject to regulatory approvals in the US, EU and other territories the takeover is due to be complete by the end of 2011.

Details and Implications

For Motorola, the acquisition will enable them to largely maintain their independence while significantly accelerating their growth and profitability plans by being at the forefront of new Android and Google technologies. It is well known that Motorola originally embraced Google's Android operating system in 2008 as a means to rebuild their brand in the face of declining sales and the emergence of Apple's iPhone. Results have been mixed; Motorola Mobility still registered a net loss of \$81m in 2011 Q1; not brilliant but an improvement on their \$212m Q1 loss the previous year.

What does Google get from the acquisition? In short, a significant reinforcement in their efforts to own the mobile sector, and a further demonstration of Eric Schmidt's claim that the answer should always be mobile first. The reinforcement comes from Motorola's 17,000 technology patents. These patents will enable Google to mitigate or eliminate the numerous lawsuits Apple and others are filing to try and make their user experiences and operating systems unique. In an industry that thrives on speed and new features, these lawsuits run the risk of bogging down Android mobile device manufacturers and carriers. Google now has a defensive weapon to counter these claims as well as potentially making their own countersuits. The result: greater Android adoption from previously worried manufacturers and carriers.

The deal will also enable both companies to innovate together elsewhere. Motorola is a significant investor and patent owner in set-top TV boxes, including addressable TV technologies, which gives Google greater momentum in their TV ambitions. Motorola will also further strengthen AdMob, Google's mobile advertising platform. Finally, Google will work with Motorola on their broader cloud computing and OS efforts, including leveraging new products and services such as ATRIX.

Despite the acquisition, Google still insists their vision for scaling Android as a device-neutral platform remains unchanged. In short, Google's main interest is in making Android as ubiquitous as possible. So rather than threatening other brands, particularly mobile device manufacturers who have embraced the Android operating system, Google will work hard to ensure these companies continue to be fully supported, arguably even more so via the new patent protection from Motorola. In fact, Google are currently claiming that their other hardware partners have even openly endorsed the deal.

Summary

If you weigh up the deal and see what it means for both parties, let alone the future of mobile, one thing is for certain; Google will now control both hardware and software capabilities to rival Apple in this space. Furthermore, Google will have the means to further scale Android by eliminating obstacles such as litigation from competitors like Apple. Finally, Google will also seek to explore other ways to leverage Motorola assets, particularly in IPTV. The acquisition is a bold move from Google and a further demonstration that Larry Page is not resting on his laurels. The response from Google's competitors will be interesting. Microsoft may make the next move on the chess board by further deepening their relationship with Nokia, perhaps even making a full-blown acquisition.