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## Google's 'Apple envy' means Motorola lives to fight another day

By: John Pletz August 16, 2011

(Crain's) — Google Inc.'s \$12.5-billion buyout of Motorola Mobility Holdings Inc. means the mobile phone technology it has been developing for nearly four decades will live on.

But it could mean much more if, as he said Monday, Google CEO Larry Page lets Motorola Mobility endure as an independent company: The Libertyville-based phone maker and its 3,000 metropolitan Chicago employees will have the new lease on life they couldn't get from a **spinoff earlier this year**.

**The acquisition** also gives Motorola Mobility CEO Sanjay Jha, who will stay on to run what will still be called Motorola, more time and resources to complete the turnaround of the phone maker that he started three years ago.

All parties agree that the primary attraction to Google was Motorola Mobility's arsenal of 17,000 patents and another 7,500 applications — giving Google's Android software, which has become the world's leading platform for smartphones, the protection to withstand legal assaults from Apple Inc. and others.

But many analysts say that's just a starting point.

They say the Internet search giant wants to emulate Apple, which owes its success with consumers and investors to its iPhone and iPad. To do that, Google needs not only Motorola's intellectual property library; it needs its hardware expertise as well — which, for the time being at least, should provide job security for Motorola's 20,000-person global workforce.

While Google has used a strategy of licensing its software virtually free to phone makers such as Motorola — including Taiwan's HTC Corp., and Samsung Electronics Co. Ltd. and LG Corp. of South Korea — to give Android the No. 1 spot as a smartphone platform, Google isn't making much money on it. Tavis McCourt, an analyst at Memphis, Tenn.-based Morgan Keegan, estimates Google gets about \$5 in gross profit from each Android smartphone sold, vs. \$100 for Motorola and \$300 for Apple.

Apple has become the technology industry's giant, with \$100 billion in sales and \$355 billion in market value, on the strength of controlling hardware and software.

“There's no business model that makes sense selling a third-party (software operating system),” Mr. McCourt said. “Google has zero device-engineering talent in house. This is Google's opportunity to become like Apple and use Motorola as its design house. That's potentially a phenomenal position for Motorola employees and Sanjay.”

Also, if Google wanted only Motorola's patents, it could have bought them, as it did in a recent purchase of more than 1,000 patents from IBM Corp., noted Rob Enderle, a technology analyst who runs Enderle Group in San Jose, Calif. “If they just wanted to get patents, there was a cheaper way to do it,” he said. “It's very unusual to spend that kind of money and then shut a firm down to just take the patents. Google has had Apple envy for a long time.”

That's the wager by the state of Illinois, which in May **gave Motorola \$100 million in tax breaks** to stay put

and keep workers in Libertyville and Chicago, where many of Motorola's product designers work. Most of Motorola's employees here do hardware engineering, distribution, sales and support — capabilities Google doesn't have but needs if it wants to be a major phone player.

Google already employs 500 people in its River North office. Adding the Motorola Mobility workforce will make Chicago one of Google's largest centers outside its Mountain View, Calif., headquarters, and a few other cities. Chicago almost obtained that stature late last year, when Google was negotiating a takeover of Groupon Inc., only to be spurned.

Paul O'Connor, a former head of World Business Chicago who's now an adviser at Chicago architecture firm Skidmore Owings & Merrill, said the deal could have a big upside for the city: "The combination of Motorola and Google downtown is a powerful force. Maintaining a role with a successful company is what's important — it's not the brand. A healthy company here bodes well for the tech scene."

Until Monday's takeover was announced, Motorola Mobility had been lagging its twin, Motorola Solutions Inc. Stock in the Schaumburg-based company, which sells emergency radio systems and bar-code scanning equipment, had soared as much as 28% this year, though it has fallen back near its spinoff price of \$37.30 a share. Motorola Mobility's stock was below its spinoff price of \$30.24 for most of the year.

To jump into the phone business would be a huge departure for Google. Previous acquisitions — from Internet video pioneer YouTube to travel-software company ITA Software — have avoided hardware. It also would undercut Google's strategy of broad partnerships that has led Android to the top.

While Google insisted it will continue to partner with other phone makers, and Motorola will have to compete to get first crack at the latest software as it does today, it's doubtful HTC, Samsung or LG will remain as devoted to Android as they are now.

"The problem with keeping the handset business is, you don't compete with your customers," said San Francisco-based analyst Brian Modoff of Deutsche Bank, who argues that Google is buying Motorola for its patents and will seek to sell off or wind down the hardware components.

Mark McKechnie of San Francisco-based ThinkEquity LLC said he also expect Google will sell the hardware components of Motorola's mobile phone and set-top businesses. "I wouldn't be surprised if they try to spin out both."

While Google's purchase of Motorola may send some phone makers into the arms of Microsoft Corp., the defections will be limited, said Ed Snyder, a San Francisco-based analyst at Charter Equity Research.

"Most of the (manufacturers) employing Android do not have the resources to develop their own smartphone operating systems and, given the choices, will probably stick with Android," he wrote in a note to clients.

But the upside potential to Motorola will be significant, with Mr. Page a more patient backer than investor Carl Icahn, who pushed for the breakup and sale of the company's phone business.

"As part of Google, Motorola Mobility will have ample resources that will go a long way to stabilize and expand its product portfolio," Mr. Snyder said. "This will amplify Motorola's impressive record of product development under Sanjay Jha and lead to faster growth and better products."

If Google's previous acquisitions are any indication, the company will let Motorola operate with considerable autonomy, said Stuart Larkins, who was a Chicago-based vice-president of DoubleClick when it was bought by Google. "At YouTube and DoubleClick, the main guys are still running the core operation."

For now, Google is trying to have it both ways, as Mr. Page told investors Monday: "Motorola will remain a licensee of Android, and Android will remain open. We will run Motorola as a separate business."