

Google completes Motorola deal, heralding new era

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This undated photo provided by Motorola shows newly appointed CEO Dennis Woodside. Woodside was previously president of Google's Americas region. (AP Photo/Motorola)

(AP) -- Google has completed its \$12.5 billion purchase of device maker Motorola Mobility in a deal that poses new challenges for the Internet's most powerful company as it tries to shape the future of mobile computing.

The deal closed Tuesday, nine months after [Google Inc.](#) made a surprise announcement that it wanted to expand into the hardware business with the most expensive and riskiest acquisition in its 14-year history. The purchase pushes Google deeper into the cellphone business, a market it entered four years ago with the debut of its Android software, now the chief challenger to Apple Inc.'s iPhones.

In Motorola, Google gets a cellphone pioneer that has struggled in recent years. Motorola hasn't produced a mass-market hit since it introduced the Razr cellphone in 2005. Once the No. 2 cellphone maker, Motorola now ranks eighth with 2 percent of the worldwide market share, according to Gartner.

As had been expected, Google CEO [Larry Page](#) immediately named one of his top lieutenants, Dennis Woodside, as Motorola's CEO. He replaces Sanjay Jha, 49, who will stay on just long enough to assist in the ownership change.

Woodside, 43, has spent the past three years immersed in online advertising as president of Google's America region, which accounted for \$17.5 billion of Google's revenue last year. Motorola Mobility Holdings Inc. booked \$13.1 billion in revenue during its final year as an independent company.

Nevertheless, Woodside's background in online advertising is likely to raise questions about whether he is the best choice to oversee a company that specializes in making smartphones, [tablet computers](#) and cable-TV boxes.

"It's a bit concerning because online advertising is quite different than the hardware business," [Gartner Inc.](#) analyst Carolina Milanesi said. "Google is so focused on advertising that it doesn't consider that kind of thing."

Google depends on digital ads for 96 percent of its revenue, which totaled \$38 billion last year.

In a statement, Page praised Woodside as an outstanding leader who has "been phenomenal at building teams and delivering on some of Google's biggest bets."

The takeover became possible only after government regulators were satisfied that the acquisition wouldn't stifle competition in the smartphone market. China removed the final regulatory hurdle by granting its approval Saturday. Regulators in the U.S. and Europe had cleared the deal three months ago.

Google wants Motorola largely for its trove of 17,000 cellphone patents, which the search company can use to defend Android phones against lawsuits accusing them of copying key features from the [iPhone](#).

But in recent months, Google has been signaling that it has been drawing up more ambitious plans for the newly acquired hardware business.

Macquarie Securities analyst Benjamin Schachter believes Google is particularly interested in developing a snazzier tablet computer powered by its Android software to compete against Apple's hot-selling iPad and Amazon.com Inc.'s Kindle Fire.

Owning a handset and tablet manufacturer will also allow Google to exert more control over how Android runs on the devices. That has been difficult for Google to do because it gives away Android to other hardware manufacturers, which can tweak the software to suit their own agenda.

In moving beyond its expertise in search and software into manufacturing a wide range of equipment, Google will test its ability to keep Android partners, shareholders and employees happy.

Google will have to reassure its Android partners such as Samsung Electronics Co. and HTC Corp. that Motorola's devices won't get souped-up versions of the software or receive other preferential treatment.

If it appears Google is favoring Motorola, manufacturers might consider

building their own mobile operating system or defect to Microsoft Corp.'s Windows software, which is getting a major facelift this year.

"This gives Google a chance to develop and showcase a 'next generation' device for mobile computing," said N. Venkat Venkatraman, a Boston University professor specializing in technology and management. "But it could also create a complex issue for Google. How do you balance the desire to create something that consumers love without upsetting the rest of the Android ecosystem?"

Milanesi suspects Google might also try to design a Motorola smartphone that caters to the needs of companies and government agencies.

"Like almost everything Google does, I think they will try a lot of different things and then do whatever is best for them," Milanesi said.

Signaling its intention to experiment, Google said it has created an "advanced technology and projects group" at Motorola. It will be run by Regina Dugan, a former director of the U.S. Defense Advanced Research Projects Agency, or DARPA, which specializes in coming up with national security innovations. DARPA was how the Internet got its start more than four decades ago.

In a statement Tuesday, Motorola spokeswoman Jennifer Weyrauch-Erickson said the plan under Google's ownership is to make "fewer, but bigger launches." She said Woodside wasn't available for an interview.

Motorola's cable-TV boxes could provide Google with a springboard for delivering more of its services, including advertising, to living rooms. However, cable companies control the market for set-top boxes, and they resist any intrusion into their realm.

Google also will likely have to do some hand-holding with investors who have been worried about Motorola's troubles eroding Google's hefty profit margins.

"If it looks like Motorola is just a lab or toy for Google, investors are going to be asking themselves whether the company is spreading itself too thin," Venkatraman said.

As its line of smartphones has waned in popularity, Motorola has suffered losses totaling \$1.7 billion during the past three years. Google has earned \$25 billion over the same stretch.

Page already has decided to operate Motorola separately partly because of the contrasting fortunes of the two companies. That will make it easier for investors to track how the different lines of business are faring. For now, Motorola will continue to have its headquarters in Libertyville, Ill., far from Google's Silicon Valley home in Mountain View, Calif.

Google shares fell \$13.17 or more than 2 percent, to close Tuesday at \$600.94.

Turning around Motorola will likely require layoffs, a painful process that belies Google's carefully cultivated image as a cuddly employer.

Google laid off about 300 people in 2008 after it paid \$3.2 billion to acquire online advertising service DoubleClick Inc., which was previously the biggest deal in the company's history. The cutbacks represented about one-quarter of the workforce that Google inherited from DoubleClick. If Google imposes a similar reduction on Motorola's 20,500-employee payroll, it would translate into about 5,000 layoffs.

Taking on so many new employees also raises the risk of cultural clashes

with the 33,000 people already working at [Google](#).

Motorola Mobility is one half of the old Motorola Inc. It split at the beginning of last year. The other half, Motorola Solutions Inc., is still independent. It sells police radios, barcode scanners and other products aimed at government and corporate customers.

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