

# ***Beyond the Deal Newsletter***

***Mergers and Acquisitions that  
Achieve Breakthrough Gains***

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**August 2012**

## **Quote of the Month**

**"I wouldn't be surprised if Mountain View had a list of Microsoft's mistakes and are going down the list to ensure they repeat every one of them and more."**

**Rob Enderle, of TG Daily** (<http://www.tgdaily.com/opinion-features/63555-google-motorola-a-tragedy-in-three-acts>)

## **In the August Newsletter:**

### **Google: A Tale of Two Cities - Part 2**

Google has come to have two acquisition/integration "cities" or approaches. The first acquisition "city" is the one which Google successfully evolved over the last decade for its smaller acquisitions. The second "city", which can be called "Googlerola", involves Google's \$12.6 billion mega-acquisition and integration of Motorola Mobility. This acquisition is a class by itself by virtue of its size and complexity. Even so, Google can utilize much of what it learned from integrating its much smaller cousins to create value in the post-acquisition Motorola business unit.

In this issue we will look at how Google's integrating the mega-Motorola acquisition is (or is not) taking shape. Firstly, there are many questions about what Google's strategic intent was when it acquired Motorola. Several months after Day One that intent is yet to be apparent. That is a real problem.

A second and related question is whether Google will draw from - or disregard - the integration practices that made it successful with smaller enterprises as it brings Motorola into its fold.

At issue is whether Google can transform a faltering Motorola into the kind of value creating organization that will help it play a key role in going to its next level of development.

## **Glencore: The Best Laid Plans of Mice and Men Continues:**

Once again the unforeseen has intruded into the Glencore acquisition of Xstrata. Qatar, one of the wealthiest sovereign states in the world, now has built up more than an 11 percent stake in Xstrata, making it the company's second-largest shareholder. Qatar has said it was "firm" in its demand for an improved offer for the mining group from commodities giant Glencore, raising the prospect of a stalemate in negotiations between Xstrata's two biggest shareholders.

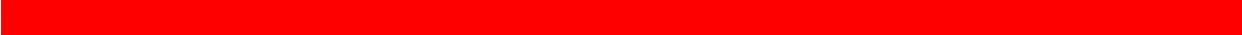
Qatar, usually seen as a passive investor, surprised the market after months of silence, with a rare eleventh hour demand for an improved offer. If Qatar refuses to back the deal and Glencore does not give ground, "the tie-up would be put on ice for this year at least and perhaps lead to the shelving of the deal."

This proposed \$90 billion acquisition highlights the volatility and unpredictable nature of factors that are in play in such a large scale acquisition.

Does this mean that large scale acquisitions should not be pursued? Not at all. What it does mean is that the leading actors in these mega acquisitions are not in as much control of events as they would like to believe. Too tight focus on the deal and inadequate appreciation of stakeholders can misjudge the degree of significant difficulties at all stages of both the acquisition and the integration.

This would not be the first time that a mega-acquisition is upended by lack

of appreciation of the requirements of external stakeholders (e.g., how the European Union's suspicions led to the unraveling of the proposed GE-Honeywell transaction). Such hubris carries a quite large price tag. Very sizable costs come from unnecessary delays in carrying out the acquisition, but the biggest costs comes as the acquisition yields outcomes that significantly below what they could have been.



## **The Motorola Acquisition: Googlerola - The Second Google City**

Google is going down a very different path in its acquisition of the \$12.5 billion Motorola Mobility than it has taken with its smaller acquisitions. The core criterion for all of these smaller acquisitions has been a "strategic fit" to major areas of Google operations. The strategic tie in for the Motorola acquisition has yet to be satisfactorily explained.

Google announced on July 25 that it will not seek to fully integrate Motorola into Google. Instead it will keep Motorola as a separate business unit. There are some reasons that justify this but many other reasons that this choice just does not make sense. For one thing, the initial reason Google said it acquired Motorola was for its 17,000 plus patents. But did Google have to spend \$12.5 billion to gain the kind of control of Motorola's patents it sought? Could Google have taken a major stake in Motorola for that purpose or determined other options. The valuation of Motorola's intellectual property has been placed at \$5.5 billion, far less than the Motorola acquisition price.

Secondly, Google is not just keeping these patents and then divesting the rest of Motorola. Rather, on Day One of its takeover Google installed a whole new set of leadership and even began to move its headquarters from its longtime suburban Libertyville campus to downtown Chicago, budgeting \$300 million for the move. This is clear evidence that Google is taking a lead role to, as it puts it, "to reset, and reprioritize" the new Motorola rather than supporting the claim that Motorola will operate as an autonomous business unit.

### **Adding an Ailing Company versus Acquiring Emerging Entrepreneurial Start-Ups**

Google is taking on a Motorola company that has a great history but perhaps more importantly one that has recently had poor leadership and has lost its way. Motorola's workforce had strongly negative views of its leadership. While that can put Google in the position of being a "white knight", that also requires that Google step up to the role of active leadership and management of its Motorola acquisition. Another negative for Motorola is that it has shifted from being an innovative leader to being a company that

competed more on efficiency and price, as it lost market share to Asian and other competitors.

In contrast to ailing Motorola, Google's smaller acquisitions are cutting edge startup companies with entrepreneurial leadership. Google has learned how to fold those entrepreneurs into the company, not just promising, but actually giving them the kind of massive support base that allows them to operate at a "Google" level that they could have done on their own. Being part of Google was not solely a money gain, but a real opportunity to live out their dreams.

**"People are not investing in Google in order for Google to be a passive investment fund"(Anton Wahlman - The Street, July 9, 2012)**

The Motorola that Google acquired needs a transformation and a recasting if it is to become the value creator Google needs it to be. The necessary scope of such a transformation involves a massive undertaking of time, attention and dollars in order to remake the acquisition from top to bottom and bottom to top. Google needs to grow a Motorola that operates in sync with its brand and strategic goals, as well as one that will start yielding positive returns.

**To take it a necessary step further, Google does not only need to transform Motorola, Google needs to transform itself at the same time. This is an enormously powerful challenge for Google.**

**Why is this important for Google?**

Google faces a twofold challenge. First, Google is at a point where it needs to make its next great leap in development. Google no longer has the unlimited areas for growth in "search", its main area of strength. It has reached about as high a level of market penetration as it can in many parts of the world and has found strong competition in places like China (with Baidu, etc.) and in other developing countries. At the same time it has an uphill battle to gain market share in cell phones and tablets where Apple is dominant and the rest of field is fragmented. A reinvigorated Motorola could be good lever in the scheme to move to the next level. But it also may become an albatross if Google never does quite figure it out. This is area where the type of mistakes that Microsoft has tended to make may rear their ugly heads.

To understand the challenges Google faces with leveraging Motorola, think

about the challenges the design innovator Apple would have if it acquired the search engine based Yahoo! Would the investment of time and effort pay off in reworking a company that has such a different basis and culture? That would be a tough call.

The second challenge to Google is whether it has the time to develop and implement that type of transformation game plan. It is fairly certain that Google does not have the five year learning windows it had as it evolved its small business acquisition approach. Google has to provide active leadership and a strong strategy to execute in both the immediate future and the long term.

Tied to this challenge is that there is a very good chance that Google has a very limited sense of what might be the most valuable assets of Motorola, i.e. its intangible resources. These resources go far beyond the patents and licenses that get the lion's share of attention. Intangibles also include Motorola's core processes, its informal leadership, the soft and embedded knowledge of its workforce, its relations with its customers as well as those with the companies in its supply chain. These intangibles can be more valuable than all other organizational assets. What is Google's plan here?

## **Questions for Google**

Is Google open to sorting through the remaining leadership at Motorola to determine who has the best fit with the culture, values and skills that are necessary to support the necessary remaking of Motorola? Is it engaging Motorola staff to get their views of what in the pipeline that could be of most value in the near and long term? Is Google seeking out the ideas, product offerings and connections that were not nurtured by the last leadership?

Most likely the Motorola staff has many valuable ideas and knowledge of how they could come to reality. But how open is Google to the deep knowledge that Motorola staff has developed over the years concerning its processes, relationships with suppliers and customers, its informal as well as its formal communications? This active engagement has the hallmark of Google's small start up acquisition game book. Will the same be true in Google's relationship with Motorola?

We certainly hope so. The challenges for a company that does not have a strong hardware background to revitalize a hardware company are huge. Whether it is called integration or maintaining separate autonomous standing, it is a myth that these two entities will not breathe the same air and be in the same world as one another.

There is too much at stake for both companies not to fully understand each other and jointly leverage their capabilities for the unprecedented gains that are part of moving to their next levels. Google may be able to financially afford a less than successful Motorola, but can it afford not to capitalize on the opportunities Motorola may be able to avail?

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All the best,

Jay Chatzkel  
Progressive Practices

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