



## Are Free Motorola Phones in Our Future? A VC's Take on Why Google is Buying Motorola

Rebecca Lynn 8/17/11

I was invited to go on [Bloomberg West TV](#) on Monday when news broke of [Google's plan to acquire Motorola](#) for \$12.5 billion in cash. I hadn't had much time to digest the news before going on live television and found myself verbalizing my gut instinct: that is, I think Google will at some point give Motorola phones away for free in a profoundly disruptive move to own the mobile advertising framework.

I now have had a day to think about what I said—and I still stand by it. As a venture capitalist with investments across a number of mobile startups, my advice to my portfolio companies is simple: plan for a scenario in which Google gives away Motorola phones for free and imagine how the market would be shaped in its wake.

### **What Google Did and Didn't Say**

Most commentators believe it's all about the patents. Motorola's 17,000 patent portfolio and 7,500 pending patents could be used to defend Google's ecosystem of handset manufacturers who embed the Android operating system against lawsuits, such as the one Apple lobbed against HTC. That's certainly logical and a plausible position for Google to take. Google's handset partners have been asking for relief from patent suits for some time. Pundits also point out that Motorola has a set top box business, and Google could use the acquisition to push Google TV. Another good point.

But here's what I believe. Google's business is search advertising. Everything they do is an effort to grow search. Why buy a handset manufacturer? Answer: To make more money on search. Google's mobile search business is estimated to be \$1 billion and growing by year end. Since mobile is undergoing the most rapid technology adoption in history, Google needs to own the "last mile" to the eyeballs. What better way to own that last mile than to control both the hardware and software environment, like Apple does with the iPhone today?

Right now, Google has little or no control. The Android ecosystem is "open" and increasingly fragmented with Android available on some very good phones as well as some cheap ones with varying quality. Google would like to control both the quality and "the deck" of services that's embedded on the phone. They want to see all Google services baked into the phone right out of the box—from search, to maps, to their new and rapidly growing [Google Wallet](#) that allows you to use your smartphone like a credit card.

### **Data Fuels Advertising**

Owning the consumer interface means having control over future monetization opportunities. Search, maps, and Google Wallet alone would give the company a treasure trove of data including personal,

location and shopping data. The more data Google has, the more they will be able to algorithmically target consumers with advertising. Let's look at Google Wallet specifically. Google needs credit card numbers and purchasing information—something that Apple has today through iTunes. With credit card numbers, Google could facilitate app purchases (which would motivate more app developers to build on Android). With purchasing information, Google could target ads based on purchase history. Handset manufacturers today are not obligated to embed Google Wallet on their phones. When (and if) this deal goes through, I bet we'll be seeing Google Wallet on all Motorola phones.

Sound a bit too far-fetched? Not to me. Google has played this hand before. Google started Google Maps with a licensing deal from Tele Atlas and NavTeq. They then launched an army of cars to create Google Street View and gave turn-by-turn directions away for free. Needless to say this didn't do good things for the stock of GPS makers. Why did Google do this? To own local advertising. Give navigation away for free and more than make it up with local search and advertising.

I acknowledge the arguments that Google's bill of materials on smartphones, perhaps in the hundreds-of-dollars range, would be too big a subsidy to absorb—at this present time. That cost is increasingly decreasing. If Google is betting on a future that is mobile-centric, this is a bet that's worth taking.

### **I Believe in Free**

Free breaks down barriers to distribution, enables network effects in winner-take-all markets, and is an effective Trojan horse. If a company can give a product away for free, and has a long-term business model at scale, it can jump over existing competition.

**Practice Fusion** and **Pageonce**, both companies I've invested in, are two prime examples. Practice Fusion offers a free, cloud-based, ad-supported electronic medical record system for doctors. Other products cost \$20,000 to \$30,000. The company encountered resistance until the product was free. Now, with over 18 million patients, and stacking on 1,000,000 new patients every two weeks, they are already bigger than the VA or Kaiser combined. Free works. And their business model will be bigger than a paid model could every be.

Pageonce is the wallet of the future and recently surpassed five million users. Currently, it is a free mobile app that aggregates financial accounts and enables customers to choose their preferred payment option. The company will be announcing an expanded service later this fall.

What's next for Google? I know what you're thinking: If we follow this line of reasoning, why doesn't Google buy a carrier too? They already share a portion of their app sales and search dollars with their carrier partners. I don't know about that ever happening. But one thing is for certain. Google can't go in front of the Federal Trade Commission and hint at the prospect of buying Motorola and giving their phones away for free. It would be like admitting they have a plan to conquer the world.