K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program: PGDM EXEC /5TH TRIMESTER

Subject: Corporate Strategy and Implementation

(Final examination)

Maximum Marks: 50

Duration: 3 hours

Date: 24th Dec, 2019

Notes:

Answer any 3 out of questions 1 to 5 ONLY. Each question carries 10 marks. Question 6 on the Google-Motorola case is COMPULSORY and carries 20 marks.

1. Explain Porter's 4 concepts of corporate strategy. How does each concept create value in corporate strategy?

2. What explains the high failure rate in acquisitions? What are the rules for making successful acquisitions?

3. What are the opportunities and challenges posed by Industry 4.0 for company strategy today?

4. In platform/ecosystem strategy, explain any three responses each to the threats of substitution and holdup.

5. How does blue ocean strategy differ from conventional competitive strategy? Explain graphically the application of value curve analysis and the E-R-R-C grid in blue ocean strategy.

Based on the case articles **Google's Big Bet on the Mobile Future, Google, Motorola and the Patent Wars** and **Does Google earn more cash from Apple iPhone than Android?,** answer the following question.

6. With respect to the Google-Motorola vertical integration (VI), analyze the advantages and disadvantages to Google in detail. **PLEASE DO NOT USE ANY INFORMATION NOT CONTAINED IN THE CASE**. Apply the theoretical concepts on VI and acquisitions where required. What is your conclusion?

Google's Big Bet on the Mobile Future

By EVELYN M. RUSLI, New York Times, AUGUST 15, 2011

Tim Boyle/Bloomberg NewsSanjay Jha, the chief executive of Motorola Mobility, who has been responsible for turning around the company, will remain as the division's top executive.

Google made a $12.5 billion bet on Monday that its future — and the future of big Internet companies — lies in mobile computing, and moved aggressively to take on its arch rival Apple in the mobile market.

Tim Boyle/Bloomberg News
Sanjay Jha, the chief executive of Motorola Mobility, who has been responsible for turning around the company, will remain as the division's top executive.

The Silicon Valley giant, known for its search engine and Android phone software, rattled the tech world with its announcement that it would acquire Motorola Mobility Holdings, allowing it to get into the business of making cellphones and tablets.

The acquisition, Google's largest to date and an all-cash deal, would put the company in head-to-head competition with its own business partners, the many phone makers that use Android software, as well as with Apple.

The deal, which requires regulatory approval, would also give Google a valuable war chest of more than 17,000 patents that would help it defend Android from a barrage of patent lawsuits.

"Computing is moving onto mobile," Larry Page, Google's chief executive, said in an interview. "Even if I have a computer next to me, I'll still be on my mobile device."

The effect of a Google-Motorola Mobility merger on consumers is unclear. But in the past, Google has shaken up the mobile industry by pushing cellphone carriers to open up their networks, and by licensing its Android system at no charge, increasing competition. With the Motorola deal, analysts said, Google may be able to accelerate innovation in smartphones and

tablets.

“For Google, it’s important for them to make sure that the mobile space is not dominated by one company, that being Apple,” said Steve Weinstein, an analyst at Pacific Crest Securities. By acquiring Motorola, he said, they “can drive down costs and create a product that is pioneering with Google services around it.”

The proposed deal would have ramifications across the tech industry, giving strength to Motorola at a time when Research in Motion and Nokia are faltering.

Google said it would continue to license its Android system to other smartphone makers, like HTC, Samsung and LG. “Many hardware partners have contributed to Android’s success, and we look forward to continuing to work with all of them,” wrote Mr. Page in a company blog post announcing the deal.

Nonetheless, while many of Google’s partners issued positive statements on Monday, analysts suggested that the acquisition would create tension because Motorola would be in an obviously favored position. That could push other phone makers into the arms of Microsoft, which offers a rival operating system.

“If you woke up today and you are one of Google’s hardware partners, the hair just set up on the back of your neck,” said Colin Gillis, an analyst with BGC Partners. “If you’re an Android partner, you may start considering the Windows platform.”

Mr. Page addressed those concerns by saying that Motorola would effectively operate as a stand-alone business. Sanjay Jha, the chief executive of Motorola Mobility, who has been responsible for turning the company around, will remain as the unit’s top executive.

Federal regulators are already investigating Google’s dominance in several areas of its business, and the planned merger will prompt additional antitrust review. But legal experts said it seemed unlikely that the deal would be blocked because the two companies are in separate, if related, businesses so a combination would not increase Google’s share of either market.

Phones running the Android system have become increasingly popular, accounting for 43.4 percent of smartphones sold in the second quarter, according to Gartner research. But many customers have complained that the phones can be confusing to use.

That is because Google works with 39 phone makers that use different versions of Android across their platforms, resulting in variable performances, said Richard Doherty, research

director for Envisioneering Group, a market research and consulting firm.

Apple, by contrast, controls its entire product — device and software. With the Motorola acquisition, Google, too, could exert greater control over its products.

But it is far from clear that Google, a $179 billion business largely built on sophisticated search algorithms and online advertising, can transform itself into a device maker. The business is costly, and the margins are slim, said Jordan Rohan, an analyst with StifelNicolaus.

“If you have the best-selling phone, you can make a lot of money,” he said. “What’s not clear to me is whether phones that sell a few million units make a lot of money.”

The chief of Android, Andy Rubin, even proclaimed, in 2009, that the company was simply “not making hardware.”

By becoming a phone maker, Google may be able to increase its clout with wireless carriers, which control pricing and distribution of cellphones.

“This is an opportunity for Google to jumpstart the market, in pricing and innovation,” said AviSeidmann, an information systems professor at the University of Rochester.

Google’s deal for Motorola comes just weeks after it lost a bid to a consortium led by Apple and Microsoft for 6,000 patents from Nortel, a Canadian communications company that filed for bankruptcy in 2009. For Google, which faces an increasing number of patent infringement claims against its Android system, the loss was a major blow.

David Drummond, Google’s chief legal officer, later accused the winning bidders of engaging in anticompetitive behavior, describing the deal as “a hostile, organized campaign against Android by Microsoft, Oracle, Apple and other companies, waged through bogus patents.” Patent fights are common in the technology industry and come with high stakes. Companies are often required to pay licensing fees to continue using technology after losing infringement claims and are sometimes blocked from selling their products.

But while Mr. Drummond was complaining, he and other executives were working on the Motorola deal.

“The best way to fight a big portfolio of patents is to have your own big portfolio of patents,” said Herbert Hovenkamp, a law professor at the University of Iowa. “That appears to be what Google is doing here, arming itself with patents to be able to defend itself in this fast-growing

market.”

Google’s bid for Motorola is an extension of what Eric E. Schmidt, the company’s former chief executive, said last year was a “mobile first” strategy. Following that approach, Google has expended millions of dollars and considerable engineering power into developing a broad array of mobile-centric services. But the bid for Motorola is its strongest move in that area.

“This is an emphatic exclamation point that Google is a mobile company,” said Ben Schachter, an analyst with Macquarie Capital. “It shows how important Android is to Google.”

Under the terms of the deal, which is expected to close by early 2012, Google will pay Motorola Mobility’s shareholders $40 a share, a 63 percent premium to Friday’s closing price. Although Motorola had casual talks with prospective suitors earlier this year, the sale of the Nortel patents at a $4.5 billion price tag encouraged Motorola’s directors to pursue a sale more actively, according to people briefed on the matter. Last week Google, led by Mr. Page, emerged as the frontrunner, and by Sunday, Motorola’s board gave the green light.

Shares of Google fell 1.16 percent on Monday, to $557.23, while shares of Motorola Mobility added 55.78 percent, to $38.12.

Shares of Nokia and Research in Motion surged, too, amid speculation that they are takeover targets as well. Nokia, which recently entered a comprehensive partnership with Microsoft, led the gains, with shares rising more than 17 percent.

Steve Lohr, Verne G. Kopytoff and Michael J. de la Merced contributed reporting.

Does Google earn more cash from Apple iPhone than Android?

By Jonny Evans, Computerworld, March 30, 2012.

Let's look at fresh claims Google makes four times as much money out of iOS as it does from Android devices. So who really has the power in that unequal relationship?

Incomplete analysis?

I can't claim to be completely convinced at the mathematics behind these claims. I'm also uncertain all Google's money-making activity is necessarily linear. In the long term it must certainly have plans to 'monetize' all that personal user data, preferences and location information it has been gathering for a decade. One day the search engine *will make you searchable*, as your digital life is transformed into its digital data.

So, to the claim: Based on data provided by Google as part of a settlement offer with Oracle, The Guardian asserts that Android devices generated less than $550m in revenues between 2008 and the end of 2011, but, tellingly, its deal with Apple generated four times as much cash.

From the report: "*The figures also suggest that Apple devices such as the iPhone, which use products such as its Maps as well as Google Search in its Safari browser, generated more than four times as much revenue for Google as its own handsets in the same period*."

Map this

That's really rather interesting. And underlines just how Apple's move toward offering up its own Mapping tools within iOS threatens Google's bottom line. Another recent move, Apple's decision to add Baidu to the search engines available as options to Chinese iPhones also threatens Google's financially.

That Android isn't earning Google too much cash could be a problem for the beleaguered search giant, which is currently facing international attention from privacy and data protection commissioners for its innovative approach to user privacy. The relative lack of success of its attempts to create a media acquisition system to rival iTunes, and its lack of control of the end

user experience of Android handsets is also damaging to its relationship with smartphone buyers.

Its manufacturing partners increasingly find themselves competing against each other for device sales in an industry in which component prices, and component scarcities, are pretty much set by the moves Apple makes.

Apple's big stick

Now we learn that Apple has the ability to take a fair chunk of Google's revenue away, revenue that Google sorely needs as the post-PC age begins.

Think about this: As well as noting the $10 per Android device Google makes, The Guardian also points out that the search machine makes around $30 per PC per year. Now consider that as iPads and smartphones increasingly supplant PCs, it is inevitable that Google's PC-based income will slowly shrink. The mobile age is upon us. Google may be fighting for its life.

But the mobile age is just that, mobile. Apple's Siri is another threat to Google. Siri allows users to search for the data they need without direct access to a Web browser. That's because the search requests are spoken with results served-up from access to a number of search tools, without direct contact with the browser. That's a true threat to Google's income, as search moves from the browser and into the air, into the cloud.

What else could Google have done?

If Apple's senior management had predicted these trends in the prelude to the introduction of the iPhone, then it is interesting to consider this: If Apple's senior teams, which then included then Google CEO, Eric Schmidt, had correctly identified the radical change in the way we use the Internet that would evolve following introduction of the iPhone (and the advanced smartphones which followed it), then Google executives would have seen the threat to Google's business, the lion's share of which is still generated by conventional browser-based search.

In that context, Google's decision to race into the smartphone space with devices seemingly inspired by the iPhone makes perfect sense. And while Steve Jobs may famously have felt betrayed by these moves, it could be argued that Google didn't have much choice but to do this if it wanted to remain a viable business entity.

However, right now in mobile, Apple is making more cash on every device, its customers are more satisfied than those using other devices, its developers are making more dollars on the

apps, and Google is making more money on iOS than on its own mobile platform. In my opinion, this puts Google in a fairly exposed position as we enter the post-PC mobile age.

Ending this, I know Google has its fans. Please think about this -- I'm not interested in "*Apple is bad, you are an Apple fan, you call yourself Apple-holic,*" forms of argument; I'm interested in how you see Google might potentially evolve its business plan to remain compelling in the future mobile era once Apple replaces it on iOS for maps and search; I'm also interested in what weak spots you perceive in Apple's current business approach. And, for a change, might it be possible to keep things civil, people?

Google, Motorola and the Patent Wars

By L. GORDON CROVITZ, WSJ, AUGUST 22, 2011

The costs of our broken patent system are often abstract, but this month Google put a price tag on the problem: $12.5 billion. That's what Google paid for Motorola's U.S. smartphone business and its 17,000 patents. This is $12.5 billion that one of America's most creative companies will not use to innovate, fund research or hire anyone beside patent lawyers.

It's not as if Motorola has some must-have patents for mobile phones. Instead, Google wants an arsenal of patents to fight the similar arsenal collected by competitors of its Android operating system for smartphones. These competitors include Apple and Microsoft, which recently teamed up to buy 6,000 wireless patents for $4.5 billion from Nortel.

The value of patents in software and hardware such as smartphones has everything to do with litigation risk. It has almost nothing to do with technology.

"A smartphone might involve as many as 250,000 patent claims" that are largely questionable, David Drummond, Google's chief lawyer, wrote in a blog post earlier this month, before the Motorola acquisition. The arbitrariness of patent grants means mobile-phone operators are inevitably infringing patents, risking billions in infringement lawsuits, but they have no way to know which broad patents will be upheld and which rejected. The best and maybe only defense is a good offense.

"Our competitors want to impose a 'tax' for these dubious patents that makes Android devices more expensive for consumers," Mr. Drummond wrote. So Google responded to what he calls "a hostile, organized campaign against Android by Microsoft, Oracle, Apple and other companies, waged through bogus patents," by buying (presumably equally bogus) patents of its own.

It's a measure of the deeply dysfunctional U.S. patent system that the most sophisticated technology companies have been reduced to investing in patents to defend themselves from one another.

Many venture capitalists and software entrepreneurs have warned that software is fundamentally different from other areas of innovation and that patents should be granted much more rarely than they are today. Software almost always builds on previous work, so patents rarely reflect the kind of original work that patent law is supposed to protect.

Part of the problem is that the law no longer distinguishes between how ideas become products and services differently in different industries. A good contrast to software is how advances are made in the pharmaceutical industry, which is made up of largely independent areas of research.

There is an "Orange Book" maintained by the Food and Drug Administration that lists all the pharmaceutical patents for each drug, so researchers can avoid infringements. It's hard to imagine a similar effort to summarize software patents. Far from giving such clear notice of patents, lawyers at many software firms tell developers not to waste time trying to parse vague patent claims.

Apple and Microsoft have already teamed up to pressure Google's mobile-phone strategy, so a logical

next step would be a patent cease-fire.

Google, Apple and Microsoft could agree not to sue one another and to defend one another against lawsuits by "non-practicing entities" (also known as patent trolls) that buy up patents and set up shop in plaintiff-happy federal jurisdictions.

Patent pools are smart self-help by companies when the law goes awry. They reduce litigation risk, but they also suppress innovation. The sewing machine industry was the first in the U.S. where patent holders had to team up or suffer mutually assured destruction. In 1846, Elias Howe got a patent for the two-thread lock stitch, which was such an improvement to sewing machines that he could charge a license fee of almost half the sales price of the machine.

But as technology developed, his patents no longer included all the required parts of the machines. Litigation in the sewing machine wars ended only when the major companies formed the Sewing Machine Combination, which included the nine key patents to build a machine. This pool began in 1856 and lasted for 20 years.

Two Stanford economists, Ryan Lampe and Petra Moser, studied this patent pool's impact on innovation. In a 2009 paper published by the National Bureau of Economic Research, they showed that the patent pool did reduce litigation for the participating firm—but slowed the overall rate of innovation. Members of the pool had less incentive to invent and, because the incumbents had amassed so much control, "increased litigation risks for outside firms lower[ed] expected profits and discourage[d] investments." As applied to software, patent pools might cut lawsuits but could suppress invention of the next big thing.

The solution lies in Washington. Congress has debated patent reform for years, but current bills don't address the key issues of overbroad patents or indeed whether software patents cause more harm than good.

Hobbled by a costly patent system, the technology industry is not the engine for global wealth and productivity it could be. If only someone could patent a process for Washington to keep patent law updated to encourage instead of stifle innovation.