

MONEY MARKETS

Google's Strategy Behind The \$3.2 Billion Acquisition Of Nest Labs

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Google announced that it has entered into an agreement to acquire Nest Labs, the maker of high-tech thermostats and smoke detectors, for \$3.2 billion. The deal is the second biggest in Google's history after the \$12.5 billion acquisition of mobile phone manufacturer Motorola. Through this acquisition Google will gain a firm footing in the growing market for web-connected household appliances. Moreover, this deal can also strengthen Google's footprint in an urban household. In this note, we will briefly look at Google's strategy behind this acquisition.



(Photo credit: Wikipedia)

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Nest Acquisition To Further Google's Strategy

Google has been trying to strengthen its presence in an urban household for a long time. In the past, some of its attempts such as the launch of Smart TV have failed to deliver desired results, while other attempts such as Chromecast Dongle have met mild success. Google's support for Android OS for electronic devices is driven by its strategy to expand the footprint and

create a robust ecosystem of interconnected devices. However, despite these efforts, Google has not made much headway in this direction.

Internet of THings (IoT) refers to objects or devices that can be uniquely identified through radio frequency identification, and their virtual representations in an Internet-like structure. According to Gartner, there will be **26 billion devices on IoT by 2020**. According to a report by Progressive Policy, IoT is **expected** to contribute \$600 billion to \$1.3 trillion to the U.S. economy in 2025.

Nest Labs currently manufactures a smart thermostat, which learns a user's habits over time and adjusts the temperature accordingly. These devices run on algorithms that infuse them with the ability to talk to each other. That way they can profile human behavior and anticipate the users' needs even before they know it.

We believe that Google can leverage Nest's technical prowess and manpower to develop the next generation of Internet-enabled home gadgets and speed up the development process. Furthermore, by expediting the development process, Google can have first mover advantage and leapfrog competition in the IoT market. A platform for Internet-connected home devices powered by Google will help both companies capture a bigger share of the \$600 billion IoT market.

However, there are concerns about the use of this technology. Opponents claim that installing such devices and collecting data will invade user privacy. Google could use this data to influence consumer behavior, market products and even dictate a user's lifestyle, thereby infringing on privacy. While it is too early to speculate on the kind of products Nest Labs might develop under Google's stewardship, we will continue to watch out for any new developments.

We currently have a \$991 price estimate for Google, which is 15% below its current market price.

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