Analysis the M&A in Wearable Market: Evidence from Google purchase Fitbit

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Abstract. With the continuous progress of science and technology and the improvement of people's living standards, the wearable device market is gradually rising. These devices can be equipped with various sensors and have functions such as monitoring human health and statistical movement data, which have attracted the attention and favor of consumers. The content of this paper is a case analysis of Google's acquisition of Fitbit, which is mainly analyzed by comparing the financial data of the two companies before and after the acquisition. According to the evaluations, it is found that the acquisition is a success for both companies. For Google, operating income, net profit and total asset scale have increased significantly, which has a positive impact on the company, making the company's assets belong to an upward trend. For Fitbit, the acquisition has gradually reduced its loss and made its total assets more stable, with good development potential in the future.

Keywords: Google; Fitbit; wearable device; financial comparison; company acquisition.

1. Introduction

As a matter of fact, Google Inc., the world's largest search engine provider and the world's largest online advertising company [1], is one of the most influential and innovative companies in the technology industry [2]. As a giant company in the Internet industry, its acquisition cases are worth studying and learning. In today's life, wearable devices are hot products in the science and technology category, which can improve people's quality of life and work efficiency, help people better monitor their physical conditions, record sports data, etc., so as to improve the quality of life [3, 4]. In daily work, wearable devices can also improve work efficiency and help people complete tasks better. In terms of human-machine interaction, wearable devices can interact with users through natural interaction methods such as voice and gestures, improving the efficiency of human-machine collaboration [5].

In terms of promoting technological innovation, research on wearable devices has promoted the development of related technologies such as sensors, batteries and materials, and promoted progress in the entire field of science and technology [6-8]. Wearables can also be customized according to individual needs to meet the individual needs of different users, especially in the Iot era [9, 10].

According to market research firm Gartner, the global wearables market reached $54.5 billion in 2019, up 27.5 percent year on year [4]. Among them, smartwatches and fitness trackers are the two most popular product categories, accounting for about 80 percent of the entire wearables market. From the application field, wearable devices are widely used in health care, sports and fitness, entertainment, industrial manufacturing and other fields to provide users with a more intelligent and convenient experience. With this in mind, this study will systematically discuss the case of Google purchase Fitbit to give implications for this industry.

2. Company Profiles

Google Inc. is mainly engaged in the development and sales of Internet-related services and products, such as search engine, online advertising, cloud computing, etc. It is the world's largest search engine provider and the world's largest online advertising company. The company now employs hundreds of thousands of people around the world and is one of the most influential and innovative companies in the technology industry.

Fitbit Corporation is an American consumer electronics and wellness company engaged in the research, development, production, and sale of wearable health and fitness tracking devices, such as smart wristbands and smartwatches. Fitbit is one of the world's largest manufacturers of wearable devices, whose products are widely used in the fields of health management, sports and fitness. The company now employs thousands of people around the world and is one of the leaders in the wearable device industry. Fitbit is a very important player in the wearables space, and along with Jawbone (which has since liquidized) is considered a pioneer and benchmark in wearables. It has been 12 years since Fitbit was founded in San Francisco in March 2007. In 2009, Fitbit introduced a wearable wrist device before a smartwatch, the first FitbitTracker. The product was well received upon launch and became popular in North America in less than three years, thanks to notifications and motion tracking. According to NPD's third quarter 2014 market report on fitness trackers, Fitbit's market share has reached 69%, well ahead of Jawbone's 14% share.

Fitbit went public on the New York Stock Exchange on June 18, 2015, becoming the first wearable stock. Fitbit's share price peaked at $51.90 on August 5, 2015. However, after Apple launched the AppleWatch in 2015, the market changed. Apple has been adding new health features to its AppleWatch, such as activity tracking, heart rate monitoring, electrocardiograms, and more, making it a direct competitor to Fitbit. Fitbit has been unable to keep up with the tech giants, though it has also launched a more featurerich smartwatch to compete with Apple. At the same time, Fitbit also suffered a major setback in the low-end segment. As Huami and Huawei entered the market in 2014 and 2015 respectively, their wristbands and watch devices swept the Chinese market at low prices, leaving Fitbit with little competition in the domestic market. In addition, after the tuyere, the market heat of wearable devices has cooled down significantly. One reason is that wearable devices at that time had too few functions and low user engagement. At the same time, wearables seem to collect a lot of data, but that data is not much more valuable. Grace silks source also predicted NPD DisplayS earch Wearable Device Marketand Forecast Report released in early 2014, wearable device market will cool since 2016, until the wearable devices become necessities, or industry will appear after integration. Such fierce market competition and reduced user engagement have made Fitbit's market share, which originally occupied the top position of wearable devices, continue to decline. In Q1 2019, Fitbit shipped 2.9 million units, up 35.7% year over year. Although Fitbit's growth rate is not slow, it can only be said that other competitors are running faster, and it was surpassed by Samsung in the quarter to only rank fifth.

Fitbit's continuous decline of course has its own product reasons, but the top four manufacturers are all smart phone giants with ecological construction capabilities, which is a major reason. Large companies in the smart device space have established an ecosystem through continuous product line expansion, and it is increasingly difficult for small device manufacturers to survive. In the past decade, innovative startups such as Nest, Beats, Dropcam, and Flip have all been acquired by big Silicon Valley companies.

3. Google's Motivation for the Acquisition

As a matter of fact, Google holds varisou motivations for the acquisition. For simplicity, following important and crucial motivates are demonstrated and clarifed:

Fitbit is a company focusing on wearable health devices and has a large number of users' health data, which is very valuable for the development of Google's health and medical related business.

Google itself is relatively weak in the hardware field, and the acquisition of Fitbit can help it strengthen its capabilities and competitiveness in wearable device hardware.

Google hopes to further expand its business in the consumer electronics market through the acquisition of Fitbit and compete with tech giants such as Apple and Samsung in the field of wearable devices. Combining Google's advantages in the field of software and artificial intelligence with Fitbit's hardware advantages will help develop more intelligent and personalized health management products.

Intellectual property rights. In January this year, Google acquired part of the intellectual property rights of watch brand Fossil smartwatch for 40 million US dollars. After the acquisition of Fitbit, the combination of Fitbit and Fossil's intellectual property rights can finally meet the needs of WearOS.

Fitbit's huge amount of health data. The activity, exercise and sleep database of the Fitbit platform is one of the largest health databases in the world. At the same time, it also has the leading health and fitness social network, which provides personalized guidance to users. Fitbit's fitness tracking devices monitor the number of steps a user takes, calories burned and length of trips each day, as well as the number of stairs climbed, the duration and quality of sleep, and heart rate. The company has been working with health insurers and making acquisitions in the healthcare market to expand its revenue streams. Analysts say much of Fitbit's value now may lie in its health data. Any push by Google into health data raises privacy concerns because the company already knows what users are searching for, where they are, and what they are interested in. Inevitably, the acquisition parties made a statement about the use of the database, stating that they still take the privacy rights of health and fitness data seriously, noting that "Fitbit health and fitness data will not use Google ads."

Healthcare applications. Fitbit is shifting much of its focus to healthcare after acquiring Pebble, Vector, and Coin, with several significant collaborations with healthcare companies. Google and its parent company Alphabet have already made moves into healthcare, but Fitbit has gone further than Alphabet in building relationships with the healthcare industry, already taking steps to detect arrhythmias and sleep apnea.

In general, Google's acquisition of Fitbit is an attempt to strengthen its competitiveness and expand the development space in wearables and health data.

4. The Acquisition Process

The overall process has been stated as follows. On November 1, 2019, Google announced that it was acquiring Fitbit for $2.12 billion in cash.

Negotiation phase:

In early 2019, Google and Fitbit began initial contacts and talks about an acquisition.

The two parties engaged in lengthy negotiations and consultations on core conditions such as the acquisition price and the terms of the deal.

Signing of the agreement:

On November 1, 2019, Google and Fitbit officially signed the acquisition agreement.

Under the agreement, Google will acquire Fitbit for $7.35 per share, for a total transaction value of $2.12 billion.

Regulatory review:

Since this is a large acquisition involving personal data, the transaction will need to be reviewed by regulatory authorities in each country.

Antitrust regulators in several countries and regions, including the United States and the European Union, have been reviewing the deal for up to a year.

Completion of the transaction:

In January 2021, after a 14-month-long regulatory review, Google completed its acquisition of Fitbit.

5. Financial Data, Market Share and Competitiveness

The financial data of Google is shown in Table 1 [11]. As can be seen from various data, Google's operating income, net profit and total asset scale have significantly increased, indicating that this acquisition is relatively successful for Google. The corresponding result of Fitbit is presented in Table 2 [12]. It can be seen from various data that from 2018 to 2020, Fitbit's revenue has declined, but its loss has gradually decreased. The total assets of the company are relatively stable.

In fact, Google's acquisition of Fitbit to enter the wearable market is conducive to the development of its ambient computing business. Fitbit's customer base, brand, sales channel, hardware, and IP data are all extremely valuable to Google's existing products. However, Fitbit's hardware products and Google's software products are difficult to integrate, and there is a problem of strategic choice. In the case of increasingly strict data regulation, Google's insistence on the acquisition shows its determination to find the next big opportunity, rather than distracting regulatory attention from the search business monopoly. Fitbit not only does not install Android wearable software but runs a simple operating system on a chip with general functions, which is the main selling point of long battery life. Installing Android Wearables on Fitbit hardware resulted in a poor customer experience, especially in standby performance. At the same time, Fitbit's software doesn't integrate at all with Android and Google Assistant, which are key to ambient computing. As a result, the acquisition of the initial financial problems is more severe.

Table 1. Financial data in 2018 and 2020 for Google.

	Financial data for 2018	Financial data for 2020
Operating income	$136.652 billion	$182.14 billion
Net profit	$30.895 billion	$41.98 billion
Total Assets	$151.915 billion	$293.38 billion
Shareholders' equity	$119.589 billion	$195.88 billion

Table 2. Financial data in 2018 and 2020 for Fitbit.

	Financial data for 2018	Financial data for 2020
Operating income	$1.544 billion	$1.448 billion
Net loss	$177 million	$106 million
Total Assets	$691 million	$683 million
Shareholders' equity	238 million dollars	$295 million

6. The Positive and Negative Impacts on Google

With regard to positive impact, one needs to strengthen Google's position in the field of wearable technology hardware facilities and expand Google's business in the field of wearable devices. It can enable Google to obtain a large number of users' health information, which is conducive to the development in the field of medical health. At the same time, it is necessary to enhance brand influence and popularity.

In terms of the negative side, the acquisition involves the private data of many users, and regulators may conduct antitrust reviews. During the integration of Fitbit, there may be some challenges due to different corporate culture and management style. Because the acquisition price is high, it may have a certain impact on Google's financial situation. Google's acquisition of Fitbit has raised concerns about its monopoly in three markets, including advertising, medical data and wearable devices. In the advertising business, Google may use wearable user data information to further increase the accuracy and channel of advertising, making it more difficult for competitors to match Google in online search advertising, online display advertising and the entire "advertising technology" ecosystem. In the medical data business, many participants currently access health and fitness data provided by Fitbit through Web apis in order to provide services to Fitbit users. If Google restricts access to competitors, it could hurt start-ups in the emerging European digital health sector. In the wearables market, Google has the potential to reduce the interoperability of other wearables manufacturers with Android smartphones, thus putting other wearables manufacturers at a disadvantage.

7. Suggestions and Inspirations for Similar Acquisitions in the Future

As for the future acquisitions of Google, it should be closer to its own field. In other fields, one should pay attention to the preliminary investigation work, pay close attention to industry trends and technological development, and make acquisitions on the premise of ensuring the development potential of the acquired companies. At the same time, one should pay attention to whether the corporate culture of the acquired company is compatible with own, so as to make the transition after the acquisition smoother and maximize the value. Finally, in the process of acquisition, it should strictly abide by laws and regulations, do a good job in risk assessment, and reduce the acquisition risk as much as possible.

For this M&A cases, it makes more sense in the long run, but it exposes google's biggest weakness and Apple's biggest strength: chips. Apple's smartphone chips have been ahead of competitors for several years, and its wearable chips, especially the S5 system and S5 SIP that come with the Apple Watch, are ahead even more. The problem for Google and others is that the smartphone market is big enough to attract investment from the likes of Qualcomm; But the Android wearables market isn't that big, and Qualcomm doesn't have the incentive to put a lot of effort into making a competitive chip. If Google is serious about the wearables market, they're spending a lot more than the $2.1 billion they paid for Fitbit.

There are, of course, antitrust concerns. Focusing on wearables would be a distraction from the search engine business, but Google doesn't like the sensitive data that Fitbit collects and the attention it gets on that data. Indeed, it is believed that Peter Thiel would propose about a monopolist looking for a red herring, but the fact that Google is taking this risk at this point in time shows that even the biggest monopolies are still looking for the next big opportunity, not a distraction

8. Conclusion

To sum up, through the research, one can see that the acquisition is a success for both companies. To be specific, according to the analysis, for Google, operating income, net profit and total asset scale have all increased significantly, and the company's assets are in an upward trend. Regarding to the Fitbit, the acquisition has gradually reduced its loss, and its total assets are relatively stable, with good development potential in the future. Overall, these results shed light on guiding further exploration of M&A in wearable devices industry.

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