The effects of M&As within the mobile ecosystem on the rival's shareholder value: The case of Google and Apple

Seung Ho Yang*, Changi Nam, Seongcheol Kim

ARTICLE INFO

Keywords:
M&A
Rival effects
Google
Apple
Event study
Mobile ecosystem

ABSTRACT

As a result of the speed of information and communications technology convergence, the concept of the business ecosystem has been adopted for understanding the business value chain. Within the business ecosystem, keystones play a central role. Currently, Google and Apple are the keystones of the mobile ecosystem, and they have been quite active in acquiring firms over the past years. This study empirically examines the effects of these two firms' mergers and acquisitions (M&As), especially the different effects on the acquirer and the rival depending on the type of target firm. After the target firms are classified according to the businesses of the acquiring firm that each target firm is related to, the study examines the effects of different types of M&As on the values of the acquirer, the rival, or both. The results provide a basis for understanding the complex relationship between two keystones within the mobile business ecosystem.

1. Introduction

Since the widespread adoption of smartphones, the rate at which innovative changes have been introduced in both mobile and other industries has accelerated. In addition, because of technological developments and the convergence of many industries, the boundaries between industries have disappeared and more industries are becoming interdependent. Consequently, businesses are forming many complex inter- and intra-industry relationships. In particular, the pace of ICT convergence is now faster than ever before, and an increasing number of businesses are forming close relationships with the mobile sector. Under these circumstances, conventional business relationships in which firms operate almost independently, maintaining only loose relationships with each other, cannot be used to understand the recent trends in mobile business relationships. Instead, the ecosystem concept has become a powerful analogy for explaining the entire business network (Iansiti & Levien, 2004; Moore, 2006). As the network of mobile businesses is very complex and there are many interdependent industries involved, this paper utilizes the new concept of a mobile business ecosystem to analyze the relationships between firms since the recent development of business networks in the mobile business sector.

The business ecosystem concept was first proposed by Moore (1993). Just like a biological ecosystem, there are certain functional groups within a business ecosystem, including the keystone players. These keystone players play a key role in the ecosystem by focusing on creating platforms and sharing solutions throughout their network (Iansiti & Levien, 2004). Keystones not only try to innovate and create value for themselves, but also provide the platforms and resources necessary for other firms (known as “niches”). Niches use these common platforms and resources to create the wealth, value, and innovation that are necessary for the ecosystem to evolve.

* Corresponding author.
E-mail address: hiddentrees@korea.ac.kr (S. Kim).

http://dx.doi.org/10.1016/j.telpol.2017.07.004
Received 24 December 2016; Received in revised form 8 July 2017; Accepted 9 July 2017
Available online xxxx
0308-5961/© 2017 Elsevier Ltd. All rights reserved.

Please cite this article in press as: Yang, S. H., et al., The effects of M&As within the mobile ecosystem on the rival's shareholder value: The case of Google and Apple, Telecommunications Policy (2017), http://dx.doi.org/10.1016/j.telpol.2017.07.004
In analyzing the mobile business ecosystem, this paper focuses in particular on Apple and Google, because they are currently the main keystones in the mobile business ecosystem. Although the business lines of the two firms are not limited to mobile, this paper adopts a mobile-centric approach because they, following the introduction of iOS by Apple and Android OS by Google, have strategically changed their position to become the keystones of the mobile ecosystem. With the introduction of iOS and the App Store by Apple, and Android OS and Google Play by Google, these two firms have driven the widespread adoption of smartphones and have changed the mobile information and communications technology (ICT) environment dramatically. In 2014, the combined market share of the two firms within the smartphone OS market reached 96.3% (Hahn, 2015). With the two firms leading the smartphone market, by the first quarter of 2015, global smartphone subscription reached 52% of all mobile subscriptions (Ericsson, 2016). The mobile sector has been a key driver for the growth of these firms during the last decade. For Apple, the revenue generated by iPhone grew at a 56.7% cumulative annual growth rate (CAGR) from 2008 to 2015. The portion of iPhone’s revenue surpassed 50% of total revenue in 2010 and the mobile sector became the main source of growth for Apple. For Google, how much of the total revenue was generated from the mobile sector was undisclosed. However, it was possible to infer the importance of the mobile sector in the growth of Google. In 2010, the CEO of Google announced that the mobile sector has “continued to show significant momentum.” Also, in the digital advertising market, the mobile sector grew at a CAGR of 100% while the non-mobile sector only recorded 9% CAGR from 2010 to 2015. As Google has been the leader of the mobile advertisement sector during this period, it can be assumed that the mobile sector has been one of the key factors in the growth of Google.

In the mobile business ecosystem, competition takes place at the ecosystem level rather than at the company level, and sometimes keystone players try to strengthen the competitiveness of their own ecosystems through strategic mergers and acquisitions (M&As) with related companies. Apple and Google have been actively involved in M&As in recent years. Google has always been, and still is, very active in M&As, with 163 known acquisitions from 2001 to 2014, an average of over 11 acquisitions per year. Apple, on the other hand, has not been very active in acquiring firms, with only 29 acquisitions from 1988 to 2009, an average of around one per year. However, in recent years, Apple has used M&As as a core part of its business strategy, with 33 acquisitions from 2010 to 2014, an average of over six acquisitions per year.

Despite such active participation in M&As by both keystone companies, little empirical research exists regarding the cross-effects of their M&As on one another. Analyzing the acquirer–rival cross-effects is especially important in the current business environment, because the criteria that define competitive relationships among firms have become highly complex with the introduction of the ecosystem concept. Traditionally, competition took place between firms within the same industry. However, Apple and Google are categorized as operating in different industries, and compete against each other as keystones within the same mobile ecosystem by providing platforms that niches from various industries can use to create, distribute, and host products and services. Put simply, while the traditional model of competition was based at the individual firm level, the new competition model focuses on the roles of the firms in the business ecosystem. Therefore, the question of which companies a keystone should add to its business ecosystem is now a more important issue, because it might influence the competitiveness of both the acquirer and rival business ecosystems. By empirically examining the acquirer–rival cross-effects of M&As by Google and Apple, we can gain a better understanding of the relational context of the M&A effects on the two keystone firms.

This paper aims to explore the cross-effects on keystone players of their M&As using an event study methodology. In other words, this study investigates the effects of M&As by Google and Apple on the rival, in addition to the main effect on the acquirer. This paper is composed as follows. After reviewing literature in the next section, the research design is described including methodology and analytical framework. The empirical results and interpretation follow, and finally, the implications are discussed in the conclusion.

2. Literature review

2.1. The keystones of the mobile ecosystem

A business ecosystem can be defined as “a business community that brings together firms from various interdependent industries” (Isckia, 2009, p.2). To understand the ecosystem, one should keep in mind that there are certain functional groups within the ecosystem classified by the roles they play within the ecosystem. According to Iansiti and Levien (2004), the functional groups are dominators, keystones, and niches. A dominator’s role is to dominate all the niches in the ecosystem through integration strategies, to control as many nodes as possible within its network, and to capture value for its own benefit. The keystones play a significant role in the creation and redistribution of value within the ecosystem. They take a leadership role, but not in a dominant way. They only control a few nodes, rather than trying to control the whole network. Finally, niches are primarily composed of small actors within the ecosystem who try to specialize in order to differentiate themselves from others, and to create maximum value within the environment provided by the keystones. This paper focuses on the keystones because they play a central role in the development, or co-evolution, of the whole ecosystem.

The keystones focus on creating platforms and sharing core resources and solutions throughout the network (Iansiti & Levien, 2004). It should be noted that the keystones are platform providers. They provide platforms that the niches can use to create value through innovation. According to Song (2010, p.9), a keystone strategy can be most effectively carried out if a keystone’s “business is at the center of a complex network of asset-sharing relationships and operates in a turbulent environment”. In this sense, Google and Apple are the most influential keystones in the mobile ecosystem, with the Android platform and iOS platform, respectively.

Apple’s mobile ecosystem was formulated when it entered the mobile market with iOS, the App Store platform and its iPhone device. Through iOS and the App Store, Apple provides a partially open platform which enables third-party developers to create and sell applications. Apple manufactures the devices embedded with the OS and store platform, and then distributes them to consumers either
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات