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WHAT GOOGLE REALLY GETS OUT OF BUYING NEST FOR \$3.2 BILLION



 TONY FADELL, NEST'S CEO AND FORMER IPOD LEAD AT APPLE, AND MATT ROGERS, NEST'S CO-FOUNDER AND FELLOW APPLE ALUMNI.

WHEN GOOGLE ANNOUNCED yesterday its \$3.2 billion cash purchase of Nest, the jokes flew. "If your house is burning down you'll now get gmail ads for fire extinguishers," Valleywag's Sam Biddle [tweeted](#).

But no one who has watched Google struggle with the hardware business in

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partnership's potential sets up some seriously great expectations of an entire world populated with Google-powered smart devices.

"Both companies believe in letting the technology do the hard work behind the scenes so that people can get on with their lives," Nest CEO Tony Fadell told WIRED in an interview just after the deal was announced.

"Our roadmap furthered letting tech do the hard work," he said. "(Google) said, can you do this more quickly?"





And for Google, speed is essential. The key lesson from the just-ended Consumer Electronics Show in Las Vegas is that serious innovation in core gadget lines like smartphones and televisions is coming to an end (see bendable screens as Exhibit A).

Google itself has never managed to make a mark in either category.

Not only that, its much heftier \$12.9 billion purchase of Motorola Mobility has mostly served as a strong drag on its bottom line.

Instead, the excitement at the show was around wearables and the so-called internet of things. The future of hardware isn't better versions of the same standalone tech. It's what you can create when you take all the smarts of the smartphone and build them into everything else.

As its own early dive into wearables with Google Glass demonstrates, Google knows it can't miss this next big leap in hardware, which would end up costing the company much more than \$3 billion in lost opportunities.

Here's what Google gets for its money:

A Product Master Who Beat Apple to the Next Big Thing

Before co-founding Nest, CEO Tony Fadell was best known for designing the iPod, an impressive enough feat on its own. But Fadell reportedly charmed the impossible-to-please Steve Jobs with a bit of conference room showmanship that ensured his place in Apple lore.

"Faddell went to the table, grabbed all the parts he'd shown earlier, and began snapping them together like a LEGO model," Leander Kahney recounts in his [biography of Apple's chief designer, Jony Ive](#). "He handed the electronic sandwich to Jobs." And so began the upending of both the tech and entertainment industries.

Buying Nest doesn't bring Ive to Google. But Fadell might be an even better





components to fit and finish, Fadel has shown he can manage a product for a company with Apple's global reach.

What's more, Nest shows he also has the chops to bring a product to market without the support and resources of a massive multinational. He even beat Apple into the so-called "smart home" with a line of products that look and feel like what Apple might have designed if it had gotten there first.

>"This allows us to concentrate on the stuff that differentiates us," Fadel tells WIRED.

It's almost tempting to think of Google and Nest as what might happen if Apple and the search giant had come together themselves. It's an impression only furthered by Nest's [apparent poaching](#) of an iPod software director to become its head of new product engineering, as first reported by [The Information](#).

Throw in Fadel's proven record as someone who cannot only design and make tech devices but has the stage presence to sell it, and Google is buying itself near-instant - and much-needed - credibility in the world of hardware.

More Than the Devices, the Network —————

Google has built nearly its entire business on its unmatched ability to wring value out of the web. But it's easy to forget that the web and the internet are not synonymous. The web is one medium made up mostly of human-crafted content. Google knows how to find that content and connect us to the pieces most relevant to what we want to know.

The value that Nest is creating, by contrast, stems from the connections it is forging among its devices themselves. Nest's thermostat, for instance, doesn't just turn itself on and off when you tell it. Over time, as the Nest Learning Thermostat uses its sensors to train itself according to your comings and goings, the entire network of Nests in homes across the country becomes smarter.

The paramount value of the devices, in a sense, lies not in the hardware itself





want before even we know.

“On the outside it’s sexy, but its workings are all about exploiting the growing infrastructure of sensors and connectivity around us,” WIRED’s Steven Levy wrote [in a feature when the Nest Protect smoke detector was released](#). “The algorithms created by Nest’s machine-learning experts are all about exploiting the growing infrastructure of sensors and connectivity around us.”

Now imagine that infrastructure not just connected, but connected by Google. With its product and design expertise, Nest provides Google an ideal platform for stretching the power of its own intelligent machines beyond the web and into the internet of things.

Nest has made no secret that it doesn’t plan to stop at the thermostat and the smoke detector. It wants to take all the mundane but important technologies you use every day in your home and make them smarter and more pleasing – what Fadell calls the “conscious home.”

As a company that has long made investments in the energy sector, Google’s ambitions likely extend beyond the home, as well. Imagine Nest extrapolated from the home-based consumer market into the world of hardcore infrastructure. If the Nest thermostat can help us be smarter about how we use energy in our homes, imagine what it could do for the entire grid.

Knowing What We Do When We’re Not on the Web





 NEST'S SECOND PRODUCT, A SMOKE ALARM THAT'S NETWORKED WITH THE THERMOSTAT.

While shoring up its hardware business is likely a key motivation for its acquisition of Nest, Google still makes nearly all its money based on an oft-repeated maxim (though not by Google): You are the product.

The value Google sells its customers – that is, advertisers – lies in its peerless understanding of our online behavior.

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someone who has already stated some interest in what they sell. Google reads our Gmail – anonymized, of course – and can target us with ads based on what we appear to be discussing in our private conversations.

One area of human behavior Google has yet to colonize as successfully is what we do when we're not directly interacting with a screen, whether on a PC or mobile device. That in theory changes with Nest.

In answer to the question of whether Nest will share its customer data with Google, the company reportedly said it's [standing by its existing privacy policy](#), which "clearly limits the use of customer information to providing and improving Nest's products and services."

But even anonymized user data would give Google incredible new insights into our behavior in the physical world that its vast roster of very smart people could figure out how to leverage in order to advance its business.

Perhaps Google could pair our movements with how we shop – say, using Google's own same-day delivery service. Or some choice we make offline that compels us to perform a particular search.

This may sound creepy, but much like using Google for search, it could become the price of admission for participation in the internet of things. Every choice we make using connected devices leaves a trace. And no one is better than Google at figuring out how to turn those traces into dollars.

Innovating in a Regulated Market —————

Nest Energy Services are a set of features introduced by Nest last year that link up its smart thermostats with utility companies themselves. As described over at [Fast Company](#), the government requires energy companies to figure out ways to save power and make themselves more efficient.

Nest allows its users who are customers of a handful of partner utilities to save money on their energy bills by opting in to a program that, via their thermostats, curbs their power consumption during peak hours.



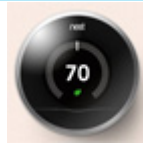
but it can sell big companies on its ideas. Not only that, but by stepping in between energy providers and users, Nest has shown an ability to negotiate one of the most fraught regulatory environments around.

Google has made its own sorties into that territory, as well. But for Google, Nest becomes a module the bigger company can jack into its hivemind for instant intelligence about a complex system that until now has kept Google largely on the outside.

More on Nest



Nest Gives the Lowly Smoke Detector a Brain — And a Voice



Nest’s Plan to Stop Brownouts Before They Start What Nest (and Tony Fadell) Get From Google

As CEO of a growing company with global aspirations, Fadell says he’s been forced to contend with a lot of stuff that has little to do with Nest products themselves. From new offices to websites and servers to tax codes, he says all the moving parts of making a business work meant less time for taking part in pushing ahead what Nest actually makes.

Now, with Google set to get behind him (the deal has not officially closed), Fadell gets to be that most coveted of Silicon Valley executives: the product CEO. Like Steve Jobs himself, who was intimately involved in product design, Fadell is now free to bury his hands back into what he loves and has shown he does best.

“I was spending so much time in my days just worrying about infrastructure and not worrying about product,” Fadell says. With Google, which Fadell describes



differentiates us," he says.

Despite the transformative success of the iPod, Fadell eventually left Apple. According to Kahney's book, he was forced out in a power struggle with Ive. Whatever the circumstances, siding with Google in what promises to be the next great contest in consumer hardware sends a clear signal that the race is on. By infusing Google with his Apple DNA, Fadell is at the center of a potentially amazing hybrid creation that could finally bring the internet of things to life for all of us.

With additional reporting by Kyle VanHemert.

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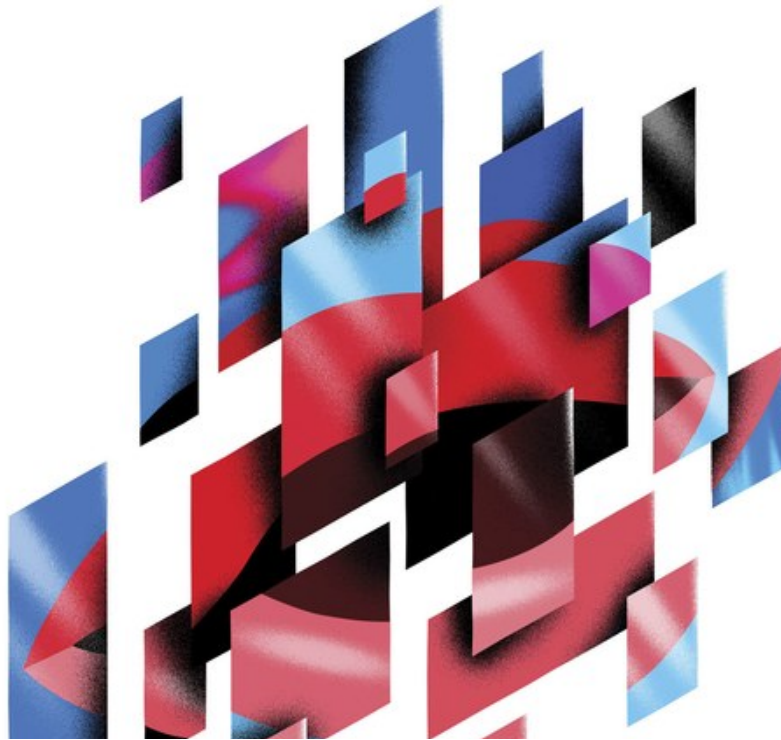
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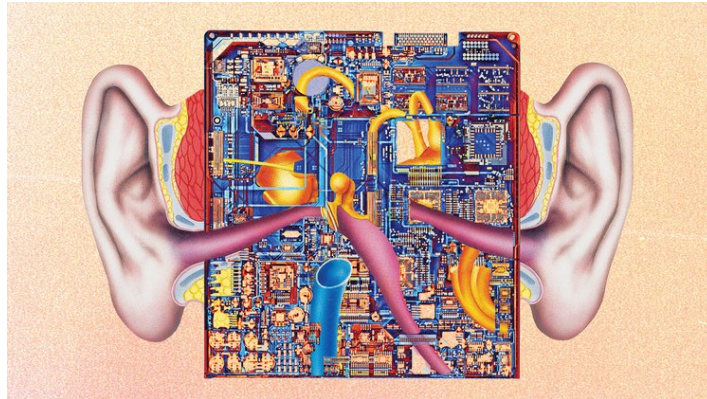




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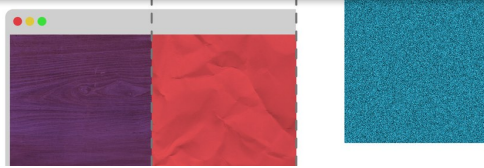
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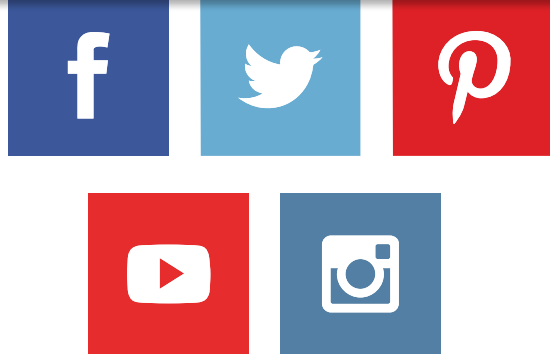
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