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Search Mission

Google's business model of internet-search-driven advertising has become so dominant that competitors Microsoft and Yahoo can hardly compete. But will C.E.O. Eric Schmidt be able to keep Google true to its roots?

by Russ Mitchell

When Google founders

Sergey Brin and Larry Page wanted a C.E.O. for their rapidly growing company in 2001, they turned to a technology executive, Eric Schmidt, who had previously worked at Sun Microsystems and Novell. Coincidentally, Yahoo co-founders Jerry Yang and David Filo were also looking for a C.E.O. that year, and they picked a Hollywood insider: Terry Semel, who had run Warner Bros.

Hollywood failed; technology prevailed.

Since signing on with Google, Schmidt, 52, has channeled the founders' strategic vision and the company's technological assets to create a Web-search and online-advertising Goliath, with \$5.7 billion in profits in 2007. Yahoo, meanwhile, has fallen behind Google technologically and is now fighting a hostile takeover by Microsoft. For his part, Semel quit last year.

Along the way, Schmidt has become a billionaire several times over, rich enough to buy a Gulfstream G-550 and to fund philanthropic projects like the New America Foundation, a nonpartisan think tank that recently named him chairman of its board. In 2006, he was appointed to Apple's board of directors. But at Google, he faces challenges that didn't exist when he started. Already, growth in search-driven advertising is slowing, and Google's recently announced plan to run ads on mobile phones might not be a hit with consumers. The company's proposed buyout of online-ad firm DoubleClick has yet to be approved by the European Commission. (A ruling is expected this month.) And a combined Microsoft-Yahoo would pose a more formidable threat than either company alone—which is why Google has offered to help Yahoo fend off the takeover bid.

Schmidt sat down with *Condé Nast Portfolio* senior writer Russ Mitchell to talk about his plans for Google.

Why does a merged Microsoft-Yahoo pose such a threat to Google?

It's an unstable situation. But the theoretical issue is the concentration of Microsoft's resources and its history, combined with the very large share that

it would have in certain applications—like instant messaging and email—that could be used essentially to break the internet and diminish choice.

Break the internet?

All internet-based systems today are highly interoperable, open systems. The whole antitrust trial that Microsoft went through was really about it breaking that.

In favor of establishing its own proprietary standards. But what are you going to do about the deal? We've indicated that we don't think it's a good idea. All options are open. I don't want to rule out or rule in anything.

Google's become so big and so successful that many would see your concerns about Microsoft's size as ironic.

We had a debate about this a while ago, and it had nothing to do with Yahoo. The question was how to prevent what happened at Microsoft from happening at Google. Consumers have had more choice on the internet. And we have a set of policies that we follow—entrenched inside the culture—the most important of which is that we won't trap user data in proprietary systems. So we have a rule: You have to make it possible for people who don't like your service to get out. If I don't like Google, I can switch to Yahoo, Microsoft, or whatever. This has another impact that's not as obvious. It serves as a check and balance on poor-quality teams. They can't prevent users from fleeing bad products. It also helps us with this question of becoming too big and powerful.

But you already dominate the market for Web search and online advertising, and now you're trying to buy DoubleClick, which is huge in display advertising.

I don't think that DoubleClick has much to do with that argument. We decided that we wanted to work in this new



UNCONVENTIONAL OFFICE *Sergey Brin and Larry Page at Google's headquarters.*

space called display advertising, where we are not the leader—the leader is Yahoo. That's not the same thing as text ads, which is our primary business.

The other issue that the DoubleClick deal has raised is privacy. And what we've done there—in response to U.S. and European governmental concerns—is make a series of commitments about privacy, which is very reasonable and which we should have done anyway.

So you're saying that the concern about the DoubleClick deal was a good thing.

To some degree. When you're inside a company, you have your own belief system. It's always good to get a look at how your company is perceived versus what your self-perception is.

Google recently registered slower earnings growth. If the economy continues to worsen, how might that affect your business?

Well, we don't know. There's evidence that more-measurable advertising does better than unmeasurable advertising during a slowdown. People only want to spend money on stuff that they can prove is effective. Ours is the most

measurable of all the advertising systems in the world. We did well in 2001, 2002, in that recession, because people wanted measurability.

You've gone through tremendous expansion, and the company is still growing. Does a slowing economy put any of your employees at risk?

I think that's unlikely. The company had been hiring on the order of 100 people a week. That's a ballpark number. We hire people right out of college, so there's a bubble in the spring, which is amortized over the year. We expanded so fast internationally that we have a lot of countries in which the oldest person by tenure has been there a year.

The *New York Times* is under pressure to sell. Blogs are abuzz with the idea that Google ought to buy it, because it's in your interest to keep the quality of journalism high.

I'm not aware of a proposal for us to buy the *New York Times*, but I'd never rule anything out. So far, we've stayed away from buying content. One of the general rules we've had is "Don't own the content; partner with your content company." First,

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it’s not our area of expertise. But the more strategic answer is that we’d be picking winners. We’d be disenfranchising a potential new entrant. Our principle is providing all the world’s information.

Is there anything about Sergey and Larry that drives you nuts, together or as individuals?

They’re clever in a way that’s disruptive. Here I am, I’ve got it all figured out, and all of a sudden they have some idea. It disrupts this brilliant notion I just had, but they come in with a better idea. It’s maddening, but that’s an important part of innovation.

You were brought onboard in 2001 almost as a grownup to guide the kids.

Larry and Sergey are now perfectly capable of doing the things I brought to the company then. I don’t come to the party today with unique knowledge that they don’t have. I had a lot of management experience, but they’ve developed it.

So what do they need you for now?

We each have our own specialties. They spend time on products strategy and technology. They’re heavily involved in new wireless technologies, climate-change stuff, making things faster, the expansion of search, how to make the advertising system even better from a technology perspective. My job is to run the management team on a daily basis. There are many problems that all three of us are dealing with, like the scaling of the company. I’m extremely interested in the international nature of the company because I think the future is outside the U.S., so obviously that requires a lot of travel.

It was recently reported that the three of you signed a long-term agreement to stick together. Is that true?



G-MEN *Left: Schmidt and Page on the day of Google’s I.P.O. Right: Sun Microsystems chairman and co-founder Scott McNealy and Schmidt at a news conference in 2005.*

We made an informal agreement to work together for 20 years after Google went public, so I hope to be here for a long time.

You’re introducing Android, a mobile operating system for cell phones, later this year. Why does the world need another one?

Most of the older mobile operating systems were not really designed for modern Web use. They don’t run the internet applications right. Many companies are looking for an inexpensive, Web-based operating system for their upcoming mobile devices that’s based on open systems—Linux, in this case.

What might it do differently from what you can do on current wireless phones?

Well, it has a full browser, it has Java support, and it’s being marketed to the software developers to build new applications. We don’t know what a lot of those are going to be, but the most interesting ones will probably combine social activity and location. I saw a freaky demo of an application in which you and I have phones with maps, and our phones find each other and tell us where to meet.

When you bid on the new cell-phone spectrum back in January,

you insisted that the winner open its network to new products—hardware and software—from competitors. Verizon, another bidder, said that it would open up not just the new spectrum but its existing network as well. Are you skeptical?

I was initially, but actions speak louder than words. And I think Verizon has shown a commitment to open access. It concluded that it was good for Verizon’s customers. The senior leadership of Verizon actually visited Google to talk to us about this and make sure they got it right. And I think it’s great. I wish everybody else would open up their networks.

You own a Gulfstream G-550 for your personal use. Is that what you take when you travel overseas?

Well, it’s very important to say that I fly with a professional crew, with a professional pilot, and I’m licensed as a crew member.

Sounds like fun. How often do you take the controls?

A lot. It’s my hobby.®

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