

Judy: I'm Judy Woodruff here at the Google campus in Mountain View, California. If there's one company that's changed the face of the Internet, it's Google. It inspires its employees with free gourmet meals and laundry services. It allows workers to play games and bring their dogs to work. In 2001, Eric Schmidt became the CEO of Google. He was recruited by the founders for his 20-plus years of experience at tech companies Novell and Sun Microsystems. Schmidt took a good idea and turned Google into a hugely profitable company. Last year sales topped \$10.5 billion. Since he became CEO, Google has grown from 200 employees to over 10,000 worldwide.

I sat down with Eric Schmidt and I asked him about his vision for the next few years.

Eric: Well, there's so much information that's not available on Google that we want to add -- books and recordings and things in libraries and manuscripts. So much information is being produced, it's hard to get to; we want you to be able to get to all of it. And furthermore, we want you to get it not just on your personal computer or your Macintosh, but on your mobile phone and all of the new devices that are coming along. So think of it as more information, better delivered, on whatever device and wherever you are.

Judy: But what are the obstacles that could prevent you from doing what you want to do, and what are the opportunities that are going to get you there faster?

Eric: Well, there are many, many obstacles. The hardest thing, of course, is getting the actual content. In many cases, this content is not in the same format as we need it to be, so we have to transfer it or we have to license it and so forth. And there are also people who don't necessarily want us to have the content, so we have to work with them and respect their copyrights.

Judy: So if those are some of the obstacles, what about competitors? Are the competitors the big companies, the Microsofts and Yahoo's, or down the road are they the little companies we maybe haven't even heard about?

Eric: In high tech, you always face the question of the next Google, the next small company with a brilliant new idea, and hopefully we would license from them or maybe even acquire that company as part of our growth and our strategy, and we'll see. Of course, we also face competition, as you mentioned, large companies who are investing heavily and are very well run. We don't focus on competitors, we focus on consumers.

Judy: So at this point, are there little up-start companies that you're looking at acquiring? You've been all about acquiring.

Eric: We acquire small companies every few days, but they're usually a very small company -- three, four, five engineers -- and it's really in lieu of hiring them, so we'll do that forever. We recently concluded the acquisition of YouTube, which is by far the largest acquisition we've done, and we're not going to do very many of those. We'll do them periodically as they arise. YouTube, of course, we acquired because it was so strategic, because video became so important as part of our mission, and they were, of course, the leader.

[Video or audio clip]

Judy: Well, speaking of YouTube, did you underestimate the complications that would come along with that? You had Viacom and others saying, wait a minute, you're now using our content, you've got to take it off. Did you anticipate all that?

Eric: We anticipated it, although it's more complicated than we anticipated. It's been more difficult to navigate through the very complicated business structures that the media companies have erected. We believe that ultimately the growth of YouTube, the growth of online, is so fundamental that these companies are going to be forced to work in--with them in the Internet in some form, and we think we're a good opportunity for that.

Judy: Of course, we were talking about Viacom making news. It insisted you take its content off. They've now announced recently that they're going to give their content to a potential competitor, juiced.com. Is this something that could be a threat to Google?

Eric: It could be. A more likely scenario is that content from Viacom and others will eventually be available on all the video sites. YouTube is by far the biggest, but it's by no means exclusive. And if you were a content provider, you would like your content to be seen as broadly as possible, so you wouldn't make it available on just one player. So it makes sense to us that eventually all of the copyrighted content will be available on virtually all of the sites.

Judy: Google has grown at a monstrous rate over the life of its existence -- what, 80 percent just last year? You've practically doubled the workforce. How do you remain innovative and grow at such a huge rate?

Eric: Google has pretty much every problem of a growing company, we just have them quicker because we're growing so quickly. So we've made a list of those issues, and they are all the things that you could imagine -- how do we bring in people, how do we motivate them, how do we retain the top talent, how do we compensate them, how do we maintain a global culture? -- all the things that come from being a large company. Anticipating that, we built a culture based on some principles, and the principles turn out to be important. One of the principles

is that the technology folks in the company, the employees and people working in those areas, are encouraged to spend 20 percent of their time working on things of their own interests. Now, they work very hard, so we get a full day as well in the 80 percent, I'm sure, but much of the innovation does not come from the leadership, it comes from the 20 percent time of an individual engineer or a technical person who says, hey, maybe here's a new idea, here's a new proposal. Our news product, our Gmail product, are examples of this, and there are many others in the pipeline. We encourage that. Eventually systems in human organizations run out of steam, they hit limits. We have not yet seen the limit of the 20 percent time, the small teams. The way we sort of in a disorganized way run the company, we've not found that limit yet.

Judy: Can Google get too big?

Eric: It could be. It could become too big, although we defined our mission as all the world's information for everyone on every device, and by doing so, we've given ourselves a very broad mission, and there's so much information. One of the things that I learned was that the information business -- and Bloomberg, of course, knows this because Bloomberg is in the information business -- the information business is so much larger than the computer business. The information business spans almost everything we do every day, so there are many, many projects. And as long as this model will allow us to create and innovate new solutions, we should be able to scale.

Judy: Do you think the industry you're in fully appreciates the implications of the need to protect privacy, and does Google fully understand that?

Eric: We're learning what that is, but understand that the definition of privacy depends on the beholder. Does privacy include the right for a terrorist not to be found? I would say not. So where is the line between personal behavior that might not be approved by society and personal behavior that's clearly not appropriate for society -- terrible acts, and so forth and so on? The problem is that society does not have a completely accurate definition of privacy and where the boundaries are, and we are subject to all of those rules and we are trying to find our way through that.

Judy: Well, as part of this question and part of the battle against terrorism, the U.S. government, as we know, has already gotten extraordinary information through-- from private citizens, from wire taps, from financial records and so on. Has the federal government made similar requests to Google?

Eric: Well, we, of course, are subject to U.S. law, and so we follow the appropriate judicial subpoenas and so forth. We don't just cooperate. We actually follow all of the appropriate governmental procedures, which are, again, very robust and good

and, we think, very well done in the United States. My personal concern is that we don't know where the boundary is. We have to find the balance between privacy in the digital age and the appropriate and legal use of investigative power, police action, and so forth, to produce a more--a safer and better society.

Judy: So in some instances, you have given the government information?

Eric: Under court order, absolutely.

Judy: Mm-hmm.

Eric: We are subject to all of the appropriate laws that have been so controversial.

Judy: Intellectual property protection. You're in the process of digitizing entire libraries at some of the great universities in the United States. Publishers are saying, in so many words, you don't have any right to do this. Are you thinking about how to limit what you put out?

Eric: We would prefer not to. Many of these negotiations are ending up in lawsuits because lawsuits are part of the negotiation strategy of the other side. We disagree with some of the interpretations of copyright law and we believe that the law is on our side for making temporary use copies to produce indices. It's important to know that if you have a book, for example, in a library, we're not taking that book and making a copy and then allowing people to print it and sell it and make money on it. We are very much respecting the rights of publishers. We're simply making a broad card catalog, if you will -- a digital index -- available. We feel very strongly that that is protected by copyright law. We also believe that the benefit of getting all of the world's books indexable so people can know that they're in a library will have a huge impact on research and on science and on access to information that has never been possible before.

Judy: But don't authors have a right to compensation?

Eric: They absolutely do. And again, as I said, as a result of our book scanning prospects, books that are in copyright will not be printable or distributable. In fact, you'll still have to purchase them from the publishers.

Judy: Related issue -- a few weeks ago a court in Belgium came down against Google in a lawsuit filed by some Belgian newspapers, said that you could no longer list some copyrighted sites on the Google news site. What are the implications of this case, especially for you in Europe?

Eric: We actually disagree with the court case and the court's finding. We've appealed. The particular issue has to do with whether the author of the content has to tell us

ahead of time to take the information off or not. We disagree with the court's ruling. The mechanism is relatively easy. We simply omit that amount of information. We ultimately believe that copyright holders will prefer to make the information available on Google because they're better off having a larger market, having more reach, and that if they don't, then other copyright holders will choose to give us the information, and eventually people will prefer the people who have a broader distribution strategy.

Judy: You're familiar, I know, with this whole net neutrality fight. A lot of people aren't familiar with the term. But essentially it's pitting you and others like Amazon and Yahoo! against the telephone and the cable companies over who's going to control the content on those phone and those cable lines. You were, in effect, clobbered on the issue last year. You've added some people in Washington. Do you think you're going to be in better shape this year?

Eric: It looks like we will. The particular issue, called net neutrality, is really about what the regulatory climate is for the telecommunications operators. Now, first and right up front, we depend on the telecommunications operators, because that's how our consumers get access to Google. They would like to be able to offer split services -- a slow Internet and a fast Internet -- and by doing so, they can extract fees out of some of the sites. The curious thing about net neutrality is if there's any fee--if there's any site that could afford it, it would be Google. And furthermore, if we did it, it would freeze out some of the new competitors. So it's in our economic interest to encourage this. But we believe that it is a violation of a fundamental assumption of the Internet that every piece of the Internet is reachable. It's called the end-to-end principle. And we believe that net neutrality, if it's given up, that new competitors, new entrants, new ideas, become much more difficult. So far we have been able to hold back the forces. It looks like we'll have a good year or two.

Judy: A couple of questions about China. You have said, I think, that it's arrogant for a company to go into a country and to try to dictate policies. But in acquiescing to China's rule, some people say what Google did was they put--you put profit ahead of principle.

Eric: The one thing we did not put in front of principle is profit, because we don't make profits out of China. We're still emerging--the business is still emerging, so that argument is not correct. We looked...

Judy: But down the road?

Eric: Perhaps. We will see how the market develops. China has a very strong local competitor and the government has a policy that all players, which the local competitor is subject to as well, have to omit a small number of search results--

information about politically-sensitive subjects. We had a huge debate here at Google -- as you can imagine, probably the biggest debate and hardest decision made in the company -- and we ultimately decided to bet on the Chinese citizen. We decided that engagement was better than estrangement. It was more important to get the vast majority of information that's in Google to the Chinese citizens, and that that access to information will ultimately help develop China in to a modern country. We also believe that the principles of transparency and free speech and all of the things that we are so happy to have here in the United States and in Western Europe will ultimately be necessary for the development of a modern and safe and peaceful China, and we think that by engaging with China, by making this information available, we can do this. We did one other thing that's important to note. If we omit a result, we say the result was omitted, and by doing so, a Chinese citizen goes -- and the Chinese are very smart -- they go, hmm, perhaps there's some information that I'd like to go get. And I can assure you, the Chinese are smart enough to go get it through some other unpublished means.

Judy: So if you're a citizen of China, you type into the search line Tiananmen Square or Falun Gong or Tibet, what do you see?

Eric: You'll actually see in Chinese a statement that this information was suppressed, and that's code for the Google user to go find that information elsewhere.

Judy: Is the U.S., you think, pushing hard enough -- the government, I mean -- on this issue?

Eric: The U.S. government's pushed very hard, as part of the World Trade Organization, opening up China and so forth. What we have discovered, as many other American companies operating in China, is that there are many barriers to entry in China that are cultural or perhaps governmental. And we're working hard to operate within their laws, but it's a struggle. And it's important to understand that more pressure from the U.S. government to open up the Chinese market is beneficial to the world and to American companies, so we certainly welcome it.

Judy: A couple of questions about the media. You, time and again, describe Google as a technology company, not a media company, and yet 99 percent of your revenue is from advertising, so you know the media market. Are newspapers and television networks, as we know them today, going to cease to exist in another decade or so?

Eric: They will not cease to exist. They may be very different in ten years. It's hard to know even a few years ahead. The example I would use is newspapers, speaking as a loyal newspaper reader for many, many years. Many people are now consuming the information but they're consuming it not on printed form, so literally not on dead trees. So the newspapers do not have a demand problem, they

have a mechanism problem. People want the information but they want it in a different way, and they want to be able to pay for it in a different way. The problem the newspapers have is the traditional sources of revenue, which are advertising on printed paper plus classifieds, are not growing very quickly, and the online world has not produced as much money. We at Google are trying hard, with a series of partnerships with newspaper publishers, to provide targeted advertising and other sources of revenues because we're so dependent, again, on that content. Google, as a technology company, we don't write the content. We want that content because we want people to be able to get access to it.

Judy: You've spoken about being--I think you used the term ruthless about metrics, measuring things. What--give us an example of something you've measured here.

Eric: My first day at Google, I walked in and I was shown a set of metrics which were down to the second of the number of queries, the number of ads we're showing, and how much money we were making. Our engineer who lived in the office next door could tell me to the dollar how much money we were going to make in this particular quarter because they could predict, using a simple, straightforward statistical model, how many queries and how much advertising we were going to get. So unlike a traditional business, we tend to know at the beginning of the quarter how we're going to do at the end of the quarter. It's a very different business and very metrics-driven.

Judy: You are--you came in--you were hired by the founders, Larry Page and Sergey Brin. Has your relationship with them changed?

Eric: It's always been the same. Larry and Sergey are brilliant and charismatic and very clever, and they always have a new idea, they're always impatient. My job is, to some degree, just to listen to that and find ways to extend their vision as part of the company. We work as a partnership. The three of us have a lot of control over the company and how it's running and it's worked very well, and I suspect we'll be partners for many years to come.

Judy: Google's gotten so big in just a short time that there--people talk about the, quote/unquote, arrogance that comes with being so big, and it was the kind of thing that Microsoft was criticized for, is still criticized for. It's what others would say. I saw, for example, the director of a nonprofit media group recently charged. He said, quote, Google has this imperial digital ambition that frightens me. What do you say to him?

Eric: First, we understand that. We understand that Google can now, in an unintended way, actually have a real impact on people's businesses, especially if we make an algorithmic change or if our computers change the way that they're ranking and so forth. It can really affect people materially. We, however, believe that the world is

better served by these automatic systems with the kind of reach and information that we have. So I do understand the comment. Arrogance comes with success, and we try as hard as we can to focus people on the mission as opposed to their own success. Google is very much a team play. It's very much a group success, not an individual success. You mentioned Microsoft. When we think about being big, it's important that we have a set of rules which Larry calls how to be big without being evil, and so we have a bunch of rules that we've written down. An example would be that we've made a commitment that we won't trap your user data. If you have stored personal information in Google, we will allow you to take that personal information out and go to a competitor if you decide you just don't like us one day. So it's important to have a set of business principles that give end users choice. As long as you're on the side of end user choice, as long as you're solving a real end user problem, and as long as you're doing it in a way that is consistent with the values that they care about, you'll have a successful business.

Judy: Finally, I want to bring it back to government, in a sense. Presidential election 2008 already underway. Are there any of the candidates who you've been able to have a serious, substantive discussion about technology, about any of the issues that you care about, that you would--could relate to us?

Eric: Each of the candidates has now scheduled a visit, and so we'll have an opportunity to talk with them over the next year as part of the campaign. It's great that they come by Google and talk to our employees and so forth. All of them have interesting digital ideas. However, compared to the other issues facing the government -- things like Iraq and so forth -- I don't know that they're top of mind.

Judy: Anything you want to share about any one of them and anything they've--your conversation?

Eric: Each of them has expressed great interest in what we're doing and the opportunity before us. They have different biases. But all of them, I think, understand that the power of this is much more than a political thing. It's much more about empowerment. If you're a Republican, you see the Google story is empowering small business and individual freedom. If you're a Democrat, you see it as empowering global understanding and a better and safer world. These visions are all in the limelight.

Judy: And that's our interview with Eric Schmidt of Google. Thanks for watching. We'll see you next time.

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