

Speaker: I am so delighted that we're ready for round two this morning. And round two this morning is really thanks to David Eun. He came last year and I said, "David, do you think it'll be...", he said, "Let me ask." And fortunately, this morning's keynote, Dr. Eric Schmidt is going to share with us. Because in my view, and this is perhaps is a personal view, is that there's a margin of freedom -- in some ways digital space, the internet and all that whole world represents, is perhaps a level playing field, one we, as people of color, have not seen since reconstruction. So I'm interested in that how -- for sure. Think about it. Think about it. So to talk about something as weighty as that, we needed the killer moderator. But fortunately we have one in sight, Omar Wasow. So with that, I give the floor to Mr. Wasow.

Omar: So I'm actually just going to jump off the stage in a moment, but wanted to begin by thanking Warrington and Henry and Olivia and Gabrielle for the privilege. This is a great thrill for me. I am sort of a Google groupie and if you can be a nerd groupie, this is kind of getting to tour with the rock star.

Dr. Eric Schmidt, for those of you who don't know, is the Chairman and Chief Executive Officer of Google. I think Google needs no introduction, but just so you have a sense, he came in -- it's now five years ago? And really helped grow the company from when it was 200 people to now I think over 30,000? Some gosh, some large number, nontrivial number. Prior to Google he was the Chairman and Chief Executive Officer at Novell, which was a networking company of some note, but that had -- was really in a turnaround stage and did a lot of impressive work there, making it a growing franchise. And before that, was 15 years at Sun where he helped -- he was a Chief Technology Officer and had a number of corporate roles and among the things that people here might have heard of, played a critical role in helping to develop the Java programming language and platform, which shows up in mobile devices and in websites. Dr. Schmidt is going to give some opening remarks and then we're going to do a -- I'll do some Q&A and then we'll go to the floor. So without further ado, please join me in welcoming Dr. Eric Schmidt.

Eric: When David told me what you all were up to, I figured I had to come and figure out where is the excitement in this industry? I think it's, frankly, right here in the room. I wanted to talk a little bit about -- actually, I came up with three ideas, basically, choice, globalization, and creativity. And I think all of them are now present, all of them are now possible with the technologies and the ideas that we jointly have to build together. And it's interesting that you used the metaphor of the reconstruction. I use a different metaphor which is the shift from centralized to decentralized, from disempowered to empowered, from narrow to broad participation. And I like your metaphor. I think they're all of the same thought, that the creativity, that the power, that the initiative of all of the people in the

world, and not just Americans, can really be brought up by this amazing set of things that are going on.

I was trying to figure out some statistics to give you to sort of – and the one that was most alarming is that six hours of YouTube is uploaded every minute into YouTube, and increasing dramatically. In other words, you'll never watch it all. Just give up. There's no way to do it. You're always going to be behind. But in a world where – let's think about it as an underlying case, everybody has a DVR, a TiVo, they use Netflix, those kinds of things. They have portable video cameras, they have recording devices. This is permanent now. This was not true 20 years ago or 30 years ago. You all know that these technologies have been invented over 10 or 15 years – digital camera in 1990, cell phone in the early '80s, recording devices for video in the early '70s. These are now part of our everyday life. And it's a fundamental shift in the production of entertainment, of news, of empowerment.

There are many, many examples of this. The ones that I like the most are the ones, which I'm not really going to talk about here, which have to do with politics. And over and over again, people are capturing what really goes on in the world and they're using it to affect political change. And to me, that's amazingly empowering. It's amazingly powerful concept. And it's one which I think bodes very, very well for the world going forward.

So in a world where everybody gets to publish a video, we have both the problem and the opportunity. The problem is how do we figure out who the good ones are, because frankly, most of them are not very good. I mean let's be honest. The fact that everyone can record a musical score doesn't mean that you want to listen to it.

So what happens is that there's an opportunity, I think, with this technology, to really build a new art form. And if there's one thing I'm not, it's an artist. You all are the artists here. And we understand that our role at Google is as a technology facilitator. We are an infrastructure. We're making the platform that makes it possible for you to do this.

I keep thinking, now where people are building applications, they're called mash-ups and they take a piece of software and they put it on top of another piece of software. It's phenomenal stuff. You take a map and you can add functionality which tells you where are the free apartments, or – we did a whole thing on the genocide in Darfur and the Sudan and so forth. And you could really see it and feel it and it seems to have really affected people in a way that actually caused them to get mobilized. Is that the new art form? Where is the new art form on the web? The computer scientists are not going to invent it. It's going to come from

your ideas, your initiatives. And if there's one thing I'm really, really sure of, in the creativity component of my comments, it's not done yet. We haven't seen it yet.

When you look at television, and many of you have worked in television and in movies, those are mature art forms. They're very well understood. The creative people that preceded you all really figured out the pacing and the timing and the look and the so forth and so on. We haven't done that in the case of the web.

Now why is this important? Well, the internet is run very quickly. The statistics – I think you're probably familiar with these – 3 years to reach 50 million internet users in North America, took 37 years for radio to get to the same thing. There are more than 1.3 billion internet users in the world today, growing, several hundreds of millions a year. Looks like most the growth is outside the United States. The U.S. is pretty well saturated, although there's more to come.

Now what's funny is I travel all the time and when I travel, what is the sound that I hear? It's the sound of mobile phones ringing. And in fact, the mobile phone revolution is even more profound than the internet revolution. The current best estimate of the number of total mobile phones in the world is 3.1 billion. Most of those are not capable of doing the kinds of stuff that we're talking about, but somewhere between 400 and 500 million of those phones are capable of doing it, depending on what you're trying to do, watching video, doing internet and that kind of stuff; another opportunity for an art form.

I was at our Ann Arbor office giving a talk and these are Google employees. And I said, "By the way, it just occurred to me, how many of you don't have a home phone?" Every one raised their hands. And I said, "Oh, God, I'm so old." I mean don't you think you should have a home phone for like emergencies or something? I mean I bet you most of you have home phones, right? Good, I feel better. I mean I feel more comfortable with this, in this group. But if you're 23 or 24, just getting out of college, frankly, why have a home phone? I eventually measured it so I could make sure I knew the statistic, 9% had home phones, 80, the 91% did not. And these are the smartest people in the world, because we hired them.

My point here is that this is going to continue. Moore's Law, which is the thing that's driven us, built our careers, made this all possible – it's not slowing down. There's another law which is absolutely bizarre, called Kryder's Law, which says that storage power is increasing by a factor of a thousand every 10 years. One of the more interesting statistics is that in 2019, you'll have a device the size of an iPod that will be able to record and contain 85 years worth of video, so you'll never watch it before you die. And it's in your pocket. Time to give up. We just

lost. Technology has won. You'll never make it. What are you going to do with that 85 years of video? By the way, from a Google perspective, we're happy with what you're going to be searching. This is what we do. So it's a good model for Google, right? But it's pretty interesting. Now is it your content that's going to be on that device? I hope so and I hope so in a really, really significant way.

I mean kids are now learning movie making at the same time they learn to read and write. Are they going to be tremendous producers 20 or 30 years from now? I think so. And they'll have the capacity and the infrastructure to really do it.

All sorts of people are exploiting this. There's a fellow named William Sledd who was working at a Gap Store who started a – it's called *Ask A Gay Man* series. 78,000 subscribers, 2.8 million views, got a contract with Bravo to do a new TV show. Came up through an alternative mechanism, had a clever idea, smart guy. Looks like it's going to be pretty successful.

A lady, Esmee Denters, posted songs in her bedroom in the Netherlands. I guess she was cold or something. And 87,000 subscribers, 5 million views, just signed a big record contract. So the talent is there and you can reach it now. Pretty interesting. For those of you that are in the producing and the agency businesses, this is a new source of great talent for you.

Now the size of this is mind-boggling. I'm always struck by that at Google. More than 70 million blogs exist, 100,000 being created per day. A lot of people, a lot of people doing stuff. 76% of U.S. internet users over the age of 15 initiated the video stream. That will soon be, I think, 100%. When we did the CNN YouTube Democratic debate, there were 3,000 pretty high quality, we thought, questions submitted, out of which they – the editorial team selected on the order of 40 to show. People want to be there. They want to produce it, they want to ask the right questions.

So the problem here is that you're in the same _____ you're also dealing with change. And so if you look, the incumbent business models are always threatened by these things. And we all see this now. Radio companies didn't do that well with television, print did not translate that well, at least so far, to the web, although we're certainly working on it. And a lot of people were blindsided by the success of YouTube. And this is not a new problem. I mean it's not just media companies and other companies. I mean if you look back in history in 1905, only one company that was in the Dow in 1905, it's in the Dow in 2005, General Electric, by the way. So the rest of them sort of went caput for one reason or another.

So technologies fundamentally disrupt business models. And the problem is that if you're in the old technology and the old business model, there's this natural need to hang on. And the creative people figure out a way to achieve the current business objective, but also invest in the new ones. And that's the difference between the winners and the losers in these transitions. And it's hard. It's very hard. I don't want to minimize this at all. These are very real problems. But unless we talk about them, unless we encourage people to think creatively, it's not going to happen.

iTunes, and as a bit of disclosure, I'm on the Board of Apple, iTunes is more than just a product, it's really a business model. And that business model had some pretty negative impact. For example, on the CD distribution chain, Tower Records is no more. Well, it always bothered me that Tower Records didn't have any records in it. Well, now Tower Records doesn't bother me, Tower Records no longer exists. It went from records to CDs to the null set. Why? Because this new model happened. And businesses adjust. Theaters make their money on concessions, it seems. So they adjusted their economic model as the movie distribution business changed.

So who is going to be making all the popcorn, that makes all the profits in this new model? I honestly don't know yet. I actually just don't know. But what I do know is it's a new forum, there will be people, hopefully people in this room, who will figure it out, and it will be big. Because that's the history of technology. It's the history of business. And you're sitting right in the middle of one. So take advantage of it. Have some fun with it.

The original idea of mergers, was you'd put all these big companies together, you'd get vertical economies of scale. I don't think you have to do it any more. I think you can merge without merging. We can take your best idea and your best idea and your best idea and we can mash them together and put them together, get them distributed and everybody can win. And it's a more creative model as well. It allows you to pursue what you care about a lot.

Now in the film industry, we've been working on a concept. Everybody talks about the long tail and the head and the tail and the most of the profits are in the head and that's where all the big companies are and so forth, and there's this long tail of interesting creative which is sort of poorly distributed. We've been working on a concept which is called the torso, sort of between the head and the tail. Sorry. And what's interesting about this tail, the tail is this user-generated, not very professional. Of course, the head is very professional and beautifully done, so forth and so on. The torso is high production quality with a relatively niche audience. And it looks to us like that's a very rich area. We've got deals signed with people in this room who are targeting this. Reasonably specialized audience,

it's not everybody in the world, who will in fact, appreciate the quality that you are doing and they'll pay for it. They'll pay for it in terms of advertising dollars, subscription dollars, DVD sales, and so forth and so on.

An example is that there's a feature film called *Four Eyed Monsters* which was released on YouTube, 900,000 views. Spout.com pays filmmakers a \$1 for each viewer who registers on their site. So somebody is paying people who watch that movie to drive traffic to their site. Different way of getting paid for some pretty creative stuff.

Marketing. We do this funny thing, Gmail is a product of Google and we had people put together a 2.5 minute to Gmail involving sending a virtual email and sort of a funny little skit. It's had 5 million viewers, didn't cost us anything. Over and over again, if you could figure out a way to tap into this viral audience, you can make a big difference.

We can look now and we can watch search traffic and we can see the search traffic head of the movie and it's almost predictable how successful the model would be. You can know now by looking at anticipation at what people are saying, how successful your media will be.

It seems to me -- and I want to finish, because I think Omar is probably much more interesting than me just sort of talking here -- the opportunity around bridging these industries is never bigger. We did an interesting deal with CBS, cause it's CBS channel on YouTube, 3,000 clips, hopefully more coming. In the first month -- the *Late Show with David Letterman*, which is obviously a very well respected and traditional television show, added 200,000 new viewers in one month and we think a lot of that came from the viral nature and the anticipation and us saying, "What's David up to?" The *Late Show with Craig Ferguson* is up 100,000 viewers, 7%, same kind of thing, anticipating, driving traffic, getting people excited.

So even if you can't yet solve the whole problem, and I'm not suggesting that I know how to completely solve it, we know that you can use this enormous audience space to generate excitement and they'll find it. And if you do something of high quality and you start talking about it, the people who care about quality and care about your message, they're going to be there and they're going to be primed. Then when you're finally done and you're ready, they're going to be your first viewers. They're going to be excited and they're going to do that word-of-mouth phenomena that's going to drive great success for the audiences that you care about.

Our case at Google, what is our role? Building the infrastructure, trying to build the advertising, and trying to make sure that we enable each and every one of you, and all of the other people who are not able to be here today. To me this is a calling, it's a mission, it's something that I care a lot about. We all care a lot about. It's important to the world from our perspective.

On the economic perspective, we – last year we spent more than 3, we shifted more than \$3 billion from Google to advertising partners. That's real money and the numbers start to add up. People are getting jobs in part of the ecosystem and they're able to then pursue the passion and the things that they really care about.

When I go back to sort of my themes, change, globalization, creativity, the change is constant, globalization, which I've not talked about, is as much as an important – is as much a component of this as any because in the right model, most of your viewers should be outside of the U.S. Most of the world is outside the United States. Our technology and your capability, you're playing at a global audience on day one with us. You don't have to fly to Paris and have a big deal and so forth and so on, it just happens automatically. Think globally because that's where the people are.

And then the final point, of course, is the creativity.

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