

Google CEO: New operating system changes the game

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Google co-founder Larry Page, left, and Google Chairman and CEO Eric Schmidt, speak to reporters at the annual Allen & Co.'s media summit in Sun Valley, Idaho, Thursday, July 9, 2009. (AP Photo/Nati Harnik)

(AP) -- Google Inc. Chief Executive Eric Schmidt can't wait for the Internet search leader's free operating system to debut next year.

But he admits his excitement is a relatively recent phenomenon, having spent his first six years as Google's CEO trying to convince company co-founders [Larry Page](#) and [Sergey Brin](#) that developing an [operating system](#) to compete against Microsoft Corp.'s dominant Windows franchise would be a terrible idea.

Schmidt didn't think the timing was right and, worse, he didn't want

Google to get into a potentially bruising battle with the world's largest software maker. His change of heart shows how far Google has come since Page and Brin started the Mountain View, Calif.-based company in a [Silicon Valley](#) garage nearly 11 years ago.

Schmidt now believes Google can withstand whatever counter punches Microsoft might throw as the company sets out to make computers cheaper to buy and more enjoyable to use with an operating system tied to Google's 9-month-old browser, Chrome.

"They are game changers," Schmidt during a 75-minute interview Thursday with a group of reporters at an exclusive media conference in the Idaho mountains.

The operating system, due out in the second half of 2010, threatens to chip away at Microsoft's market share in the low end of the PC market - the less expensive and less powerful laptops known as "netbooks" which are becoming increasingly popular among consumers primarily interested in surfing the Web.

Both Schmidt and Page, who accompanied the CEO during the interview, sought to downplay Google's showdown with Microsoft. It's also something Microsoft Chairman [Bill Gates](#) didn't want to discuss when he was approached at the same conference by The Associated Press earlier Thursday.

But Page couldn't resist taking some veiled shots at Windows. Without mentioning Windows, he suggested Microsoft's operating system is becoming archaic as people spend more and more of their computer time in a Web browser.

"The way we are think about it is if you are living your life online, maybe you don't want everything (on computers) that came from Eric's

generation," Page, 36, said as he smiled at the 54-year-old Schmidt.

Page said he will consider the operating system a resounding success if people don't realize what's controlling their computers.

"You want the computer to get out of the way and just let you get your work done," he said.

Most industry observers believe it will take years before the Chrome operating system develops into a serious challenger to Microsoft's Windows, which runs on more than 1 billion PCs, according to Collins Stewart analyst Sandeep Aggarwal.

But the Chrome operating system also could put Google into direct competition with Apple Inc., a computer maker whose board of directors includes Schmidt and another Google director, Arthur Levinson. The Federal Trade Commission already is taking a look at whether Schmidt's and Levinson's overlapping with Google and Apple threaten to diminish competition.

But Schmidt doesn't see a conflict. He said he doesn't intend to recuse himself from Apple board discussions about computer operating systems like he does when the directors talk about Apple's iPhone. Google also makes a mobile operating system called Android.

Some computer makers already are considering using Android as an operating system in netbooks, but both Page and Schmidt said they think Android is better suited for handheld devices. They also think elements of the Android and Chrome systems could eventually merge.

Schmidt and Page did discuss other topics besides Chrome, including the rapidly growing online messaging service Twitter Inc. and Facebook Inc., the leading online hangout for socializing.

As long as the Internet market is still expanding, Schmidt said he doesn't view either as serious threats now because Google's internal studies show those who sign up for Twitter and Facebook tend to use the company's search engine even more. He also said Google has held discussions with Twitter on a lot of different issues, including getting better access to Twitter's posts so they will show up more quickly in Google's search results.

But the Chrome operating system dominated the interview, which has become an annual rite for Schmidt at a conference where most of the top executives in attendance try to elude reporters.

Although Google won't charge for the [Chrome](#) operating system, Schmidt said it could easily pay off by driving down the cost of computers so people can afford to buy more machines and surf the Web more often. Google wants people to spend more time online because it is the biggest seller of Internet ads - the main source of its more than \$20 billion in annual revenue.

Most of Google's income flows from short text-based ads appearing alongside search results and other online content. Schmidt predicted display ads - video and online billboards - will be Google's next billion-dollar business, although he didn't forecast when the threshold would be broken.

The DoubleClick ad-serving division that delivers most of Google's display ads will generate about \$275 million in revenue this year, estimated Collins Stewart's Aggarwal. Google bought DoubleClick for \$3.2 billion in March 2008.

Google's overall growth has been slowing in the past year as the U.S. economy has slipped deeper into its worst recession since World War II. Schmidt believes the worst part of the collapse is over, but warned it

may be years before the U.S. economy is booming again. He said sluggish growth and consumer frugality could be the "new normal."

But he suggested those conditions won't stop [Google](#) from becoming even more powerful.

"People are addicted to the Internet in a good way," Schmidt said. "They are not going to give up their Internet no matter what."

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