Sujet traité : Les revenus de Google, la réorganisation de Google et la vraie opportunité maitre de Google / Google Earnings, Google's Re-Org, Google's True Moonshot

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Good morning,

On yesterday's episode of Sharp Tech we covered all of the recent Meta news, from Horizon OS to last week's earnings, in the context of explaining Professor Christensen's theories of disruption.

On to the Update:

Google Earnings

From the Wall Street Journal:

> Google's parent said quarterly profit jumped by more than half and announced its first cash dividend, sending its stock soaring following months of scrutiny over an expensive push in artificial intelligence. Parent company Alphabet on Thursday also reported revenue in the three months through March rose 15% from a year earlier to $80.5 billion. That marked an uptick from the 13.5% rise in the previous quarter. The company highlighted cost controls that helped improve profit margins in the latest quarter.
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> Big tech companies such as Google and Microsoft — which also reported Thursday better-than-expected quarterly sales growth — are pouring money into building new data centers and chips for artificial intelligence. Alphabet recorded $12 billion in capital expenditures during the first quarter, a 91% increase from the same period last year. Chief Financial Officer Ruth Porat said investors can expect quarterly capital spending to be "roughly at or above this level."

I thought that CEO Sundar Pichai was pretty feisty on this earnings call, and I absolutely mean that as a compliment. Some highlights:

> Pichai highlighted both the size and broad-based nature of Google's growth over the last six years:

> It took Google more than 15 years to reach $100 billion in annual revenue. In just the last six years, we've gone from $100 billion to more than $300 billion in annual revenue. Of course, Search continues to power that, as you see in our Q1 results. But in addition, we expect YouTube overall and Cloud to exit 2024 at a combined annual run rate of over $100 billion. This shows our track record of investing in and building successful new growing businesses.

The ever-shrinking Networks business doesn't even merit a mention anymore, but that's just as well: its revenue (and antitrust problems) are ultimately derived from Search's power in the marketplace. Meanwhile, the rise of YouTube and the Cloud is a notable accomplishment: yes, they are lower margin, but to me that's a good thing; there will probably never be a business as good as Search ever again, so it's good for Google to see it has investor permission to build lower margin businesses that leverage Google's advantages.

Pichai highlighted the advantages Google had in AI:

> Let's look at how well we are positioned for the next wave of AI innovation and the opportunity ahead. There are six points to make. One, research leadership. Two, infrastructure leadership. Three, innovation and search. Four, our global product footprint. Five, velocity in execution. Six, monetization paths.

This is actually a really thoughtful ordering of the list, as it flows from most believable to most questionable (I'll get to the questionable points further down in the Update). I personally would put Google's infrastructure advantage first, but there is a good case to be made for Google's research leadership, which doesn't just include AI models but also how to productize them and how to design said infrastructure to leverage them.

Pichai's remarks about innovation and search, meanwhile, were primarily about bringing the Search Generative Experience (SGE) to search more broadly: the Google CEO said that inference costs are down 80% since the company launched the feature in beta, and that Google is seeing an increase in search usage amongst SGE users. I will say for my part that I have seen a pretty significant improvement in speed and usefulness of SGE over the past few months (and a corresponding decrease in desire to use ChatGPT, particularly on mobile), so this tracks.

With regard to Google's product footprint, Pichai said in response to an analyst question:

> I think for the first time, we can work on AI in a horizontal way and it impacts the entire breadth of the company, be it Search, be it YouTube, be it Cloud, be it Waymo, and so on, and we see rapid pace of innovation in that underlying. So it's a very leveraged way to do it, and I see that as a real opportunity ahead.

CFO Ruth Porat added in response to a question about Google's increase in capex:

> So, the increase in CapEx, as Sundar said and I said, really reflects the opportunity we continue to see across the company. It starts with all that we're doing in support of the foundation, all the Gemini foundation model, but then also, clearly, the work across Cloud, on behalf of Cloud customers and the growth that we're seeing with GCP and the infrastructure work there, and then, of course, as both Sundar and Philip talked about, the application across Search, YouTube, and more broadly the services that we're able to offer. So it's the growing application and our focus on ensuring that we have the compute capacity to deliver in support of the services and opportunities we see across Alphabet. And it really goes to the second part of your question, which is that as we're investing in CapEx and applying it across our various businesses, it opens up more service and products which bring revenue opportunities, and we're very focused on the monetization opportunity. It does underlie everything that we're doing in Google Services and Google Cloud. And as Sundar noted, we're at the same time very focused on the efficiency of all elements of delivering that compute capacity from hardware, software, and beyond.

This gets at the argument I was making yesterday: Google has a lot places to leverage its AI investment; I think, though, the importance of Google Cloud in terms of "permission" can't be overstated. That noted, Google Cloud isn't necessarily showing the impact yet. Here is the table I have been posting the last several quarters of Google Cloud's revenue, growth, profit, and margin:

Google Cloud	Revenue	Growth	Loss	Margin
Q4 2019	$2,614		$(1,194)	-46%
Q1 2020	$2,777		$(1,730)	-62%
Q2 2020	$3,007		$(1,426)	-47%
Q3 2020	$3,444		$(1,208)	-35%
Q4 2020	$3,831	47%	$(1,243)	-32%
Q1 2021	$4,047	46%	$(974)	-24%
Q2 2021	$4,628	54%	$(591)	-13%
Q3 2021	$4,990	45%	$(644)	-13%
Q4 2021	$5,541	45%	$(890)	-16%
Q1 2022	$5,821	44%	$(931)	-16%
Q2 2022	$6,276	36%	$(858)	-14%

Google Cloud	Revenue	Growth	Loss	Margin
Q3 2022	$6,868	38%	$(699)	-10%
Q4 2022	$7,315	32%	$(186)	-3%
Q1 2023	$7,454	28%	$191	3%
Q2 2023	$8,031	28%	$395	5%
Q3 2023	$8,411	22%	$266	3%
Q4 2023	$9,192	26%	$864	9%
Q1 2024	$9,574	28%	$900	9%

Porat said that some of that growth was attributable to AI, but once again a big portion was due to the Google Workspace price increases I noted last quarter. Still, the fact that margin didn't increase suggests that AI was indeed a driver; it will be interesting to see if Google is able to continue driving margin expansion given the importance of AI to the Google Cloud story.

The other thing to point out about Google's product footprint — and this starts to get into the monetization questions — is how successful the company has been at building up a subscription business: the company doesn't just have 100 million YouTube Music and Premium subscribers, but also 100 million Google One subscribers. Some of those Google One subscribers are paying more for access to more advanced versions of Gemini, and while I doubt this is a huge number currently, it's notable that while Meta CEO Mark Zuckerberg made vague comments about offering subscriptions for more advanced AI capabilities, Google already has the infrastructure (and credit cards) in place to do just that.

Google, like Meta, noted that AI helps a lot with making its current monetization better. Chief Business Officer Philipp Schindler said:

> First, it bears repeating that AI innovation across our ads ecosystem is core to every aspect of our product portfolio, from targeting, bidding, creative, measurement, and across campaign types. We've talked about how solutions like smart bidding use AI to predict future ad conversions and their value in helping businesses stay agile and responsive to rapid shifts in demand, and how products like Broad Match leverage LLMs to match ads to relevant searches and help advertisers respond to what millions of people are searching for. This is foundational. As advances accelerate in our underlying AI models, our ability to help businesses find users at speed and scale and drive ROI just keeps getting better. We're especially excited about the doors Gen AI's opening for creative capabilities, helping deliver on the premise of getting the right ad to the right user in the right moment.

This really is a big deal, for both Google and Meta, even if it is mostly beneath the surface or only visible to advertisers; it is also an advantage that will separate both companies from their digital advertising rivals.

> The real monetization question, though, is about search, and Pichai argued that Google deserved the benefit of the doubt that the company would figure it out:

> Well, the first question on Search, not much more to add to what I said but what we have seen, and remember we've been in live experiments just for a few weeks in the U .S. and U.K. and on a slice of our queries where, and all indications are positive that it improves user satisfaction. We see an increase in engagement, but I see this as something which will play out over time.
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> But if you were to step back this moment there were a lot of questions last year, and we always felt confident and comfortable that we would be able to improve the user experience. People question whether these things would be costly to serve, and we are very, very confident. We can manage the cost of how to serve these queries. People worried about latency. I think we are, when I look at the progress we have made in latency and efficiency, we feel comfortable. There are questions about monetization, and based on our testing so far, I am comfortable and confident that we'll be able to manage the monetization transition here well as well. It will play out over time, but I feel we are well positioned, and more importantly, when I look at the innovation that's ahead and the way the teams are working hard on it, I am very excited about the future ahead.

It is harder to trust Google than Meta, in part because the latter is founder-led and the former is not. I think, though, that Pichai makes a fair argument: Google is bringing its advantages to bear in a much more tangible way, and is laying the groundwork for more.

Google's Re-Org

The point I skipped in Pichai's list was "velocity in execution". Here was Pichai's argument:

> We've been really focused on simplifying our structures to help us move faster. In addition to bringing together our model building teams under Google DeepMind, we recently unified our ML infrastructure and ML developer teams to enable faster decisions, smarter compute allocation, and a better customer experience. Earlier this year, we brought our Search teams together under one leader. And last week, we took another step bringing together our platforms and devices teams. The new combined team will focus on delivering high quality products and experiences, bolstering the Android and Chrome ecosystems, and bringing our best innovations to partners faster. We also remain focused on long-term efforts to durably re-engineer our cost base. You can see the impact of this work reflected in our operating market. We continue to manage our headcount growth and align teams with our highest priority areas.

"Last week" was a reference to a pretty significant re-organization that Pichai announced on Google's blog. There are three notable points about the announcement.

First, while Google's initial response to ChatGPT was to combine Google Brain and DeepMind into one organization, this re-organization brings in Google Research and the Responsible AI teams to the same organization. It's pretty amazing, and speaks to Google's internal dysfunction, that all of these teams were broadly speaking doing the same thing in multiple different organizations, but that is why competition is important! What is particularly notable, though, is the inclusion of Responsible AI. I suspect this is a response to the Gemini roll-out disaster that saw a very capable model made to look ridiculous by Google's safety teams; now those teams report to the same boss as the model makers.

Second (and to skip to the end for a moment) it's notable that the announcement included a paragraph on Google being mission first:

> One final note: All of the changes referenced above will help us work with greater focus and clarity towards our mission. However, we also need to be more focused in how we work, collaborate, discuss and even disagree. We have a culture of vibrant, open discussion that enables us to create amazing products and turn great ideas into action. That's important to preserve. But ultimately we are a workplace and our policies and expectations are clear: this is a business, and not a place to act in a way that disrupts coworkers or makes them feel unsafe, to attempt to use the company as a personal platform, or to fight over disruptive issues or debate politics. This is too important a moment as a company for us to be distracted.

This at first glance seems like a clear reference to the Google employees who were protesting in Google's offices, and were subsequently (and rightly) fired. There was one more paragraph, though:

> We have a duty to be an objective and trusted provider of information that serves all of our users globally. When we come to work, our goal is to organize the world's information and make it universally accessible and useful. That supersedes everything else and I expect us to act with a focus that reflects that.

I think this is about more than that one incident, or, to put it another way, if it's about one incident it too is about the Gemini brouhaha. As I've noted, I think it was extremely bad for Google that its culture ever got to the point that Gemini shipped as it was; Pichai apparently agrees (and probably hopes no one remembers who was ultimately responsible for that).

Google's True Moonshot

Finally, all of Google's consumer platforms, including Android and Chrome, are being brought into the same organization under the leadership of Rick Osterloh, the current head of Pixel. This seems like a very big deal! Google has long sought to assure its Android hardware partners that its Pixel division doesn't get any special advantages when it comes to Android; it's going to be hard to say that with a straight face going forward.

I also think it's the right move. Pichai said in the announcement, "To truly drive computing forward, we need to do it at the intersection of hardware, software and AI", and I completely agree. Indeed, if you think about it, that is exactly what Google is doing everywhere else: it's ability to leverage AI in its products is interconnected with its hardware advantage in infrastructure; to do the same thing in phones in the most effective way possible means actually making the phone.

This raises the most interesting question of all: is Google going for it's true moonshot — actually taking Apple on in smartphones, not with a hardware ecosystem, but rather its own devices? I wrote last year:

> Google's collection of moonshots — from Waymo to Google Fiber to Nest to Project Wing to Verily to Project Loon (and the list goes on) — have mostly been science projects that have, for the most part, served to divert profits from Google Search away from shareholders. Waymo is probably the most interesting, but even if it succeeds, it is ultimately a car service rather far afield from Google's mission statement "to organize the world's information and make it universally accessible and useful."
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> What, though, if the mission statement were the moonshot all along? What if "I'm Feeling Lucky" were not a whimsical button on a spartan home page, but the default way of interacting with all of the world's information? What if an AI Assistant were so good, and so natural, that anyone with seamless access to it simply used it all the time, without thought?
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> That, needless to say, is probably the only thing that truly scares Apple. Yes, Android has its advantages to iOS, but they aren't particularly meaningful to most people, and even for those that care — like me — they are not large enough to give up on iOS's overall superior user experience. The only thing that drives meaningful shifts in platform marketshare are paradigm shifts, and while I doubt the v1 version of Pixie [Google's rumored Pixel-only AI assistant] would be good enough to drive switching from iPhone users, there is at least a path to where it does exactly that.
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> Of course Pixel would need to win in the Android space first, and that would mean massively more investment by Google in go-to-market activities in particular, from opening stores to subsidizing carriers to ramping up production capacity. It would not be cheap, which is why it's no surprise that Google hasn't truly invested to make Pixel a meaningful player in the smartphone space.
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> The potential payoff, though, is astronomical: a world with Pixie everywhere means a world where Google makes real money from selling hardware, in addition to services for enterprises and schools, and cloud services that leverage Google's infrastructure to provide the same capabilities to businesses. Moreover, it's a world where Google is truly integrated: the company already makes the chips, in both its phones and its data centers, it makes the models, and it does it all with the largest collection of data in the world.

Google has a very long ways to go to make this a reality, or, frankly, to even make it a corporate goal. It will cost a lot of money, risk partnerships, and lower margins. It is, though, a massive opportunity — the maximal application of AI to Google's business prospects — and it strikes me as a pretty big deal that, at least when it comes to the org chart, the Pixel has been elevated above Android.

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