

Background

- Search advertising is one of the world's greatest business models ever created - maybe Windows is on that same level as Christian and I discussed at dinner & there are certainly illicit businesses (cigarettes or drugs) that could rival these economics, but we are fortunate to have an amazing business
- Part of what has been so amazing about that is that we've essentially been able to ignore one of the fundamental laws of economics - businesses need to worry about supply and demand
- When talking about revenue, we could mostly ignore the demand side of the equation (users and queries) and only focus on supply side of advertisers, ad formats, and sales
- Sure, we had to build the best product, made smart marketing/distribution investments to get our product everywhere, but we could essentially tear the economics textbook in half
- We had a few jolts across time, such as
 - iOS 7 when Apple moved the search access point in Safari
 - Mozilla moving search default to Yahoo where we lost some users
- But these were mostly exceptions that reminded us how lucky we were
- Nothing can defy the economics foundations forever and the law large numbers catches up with everyone - even Google - such that user and queries are becoming an important input into revenue

Situation

- So we're entering a new world - with a lot of uncertainty around how to adjust our incentives and targets to care about both sides of the equation
- I think we need to acknowledge that there's a lot of emotion and fear wrapped up in where we go next - how do we keep evolving without destroying the secret sauce that has made Search so wonderful
- **Ads/Revenue:** When I talk to folks in ads and revenue, I hear fear and frustration that they are held to revenue targets where they only control half of the picture - the old model of things getting thrown over the wall to them has outlived its usefulness
 - There's talk of suggesting that the Search team consider new goals around query quotas, focusing on monetizable queries, returning towards focusing Search experience on high revenue countries
- **Search:** When I talk to my search friends, I hear similar fear around not focusing on the next generation of search users (even if lower monetizing today), avoiding any metrics or targets that could lead to unnatural search experiences to chase revenue, and DAU (not queries) is the one metric that matters

Ex. No.

UPX0038

1:20-cv-03010-APM

Proposal:

- I believe both sides have a valid point and any solutions need to proceed slowly and carefully
- So here's my proposal for experimenting this year: leave the Search team along to focus on the search experience that they do best and focus on growing DAUs around the world
- Let us worry about the laws of economics and monitor their DAU trends and targets and query/DAU translations to make sure the Ads team have the underlying demand for their revenue quotas