

## **Microsoft CEO Steve Ballmer**

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Q: Steve, thanks for joining us. Now, we've got twenty-five minutes where I'm going to get you to explain the economic problems of the world and how we can solve them.

A: That only takes three minutes.

Q: The IT challenges of the world and how we can cash in on it and make a lot of money out of the whole thing, and also we're going to get to know you, so let's start off with you. Steve Ballmer, this is your life. Born March 24, 1956. I was born March 27, 1954, but the similarities don't end there.

A: No, they don't.

Q: No. Hey! He's stolen my punch line. You're tall, I am tall, and I also have a kind of hairline that I admire. You have that as well. So we're bound to get on or else we'll be so competitive, we'll kill each other/

A: There you go.

Q: All right. Now, many great business performers, people who I've interviewed here like Jack Welch and I'm sure you'd know, often become well-known for quotes that they've made, and they're often short ones, and Jack's most famous one to me, 'if you haven't got a competitive advantage, don't compete', and Buffet of course is 'when everyone's brave I'm cheerful. When everyone's fearful, I'm brave'. Homer Simpson is 'd'oh', of course. But I've looked into your quotes, Steve, and they're really long ones, so you might not become famous. That's the first thing. But I love this quote, and I'd love you to explain it, particularly in terms of cloud computing, which I know is something that you really care about. 'The number one benefit of information technology is that it empowers people to do what they want to do. It lets people be creative. It lets people be productive. It lets people learn things they didn't think they could learn before. In some sense, it's all about potential.' Can you explain that in terms of what cloud computing is going to actually offer everyone in this room?

A: Yeah. When we talk about cloud computing, what we're really talking about is the next wave of sort of the plumbing almost of how computing works. The plumbing's interesting to the plumbers, and I'll spend a lot of time talking about it, because plumbers in some senses need to build the future, but the way we'll build the future essentially will allow people to get more access to more applications, more quickly, and at lower costs than ever before, and behind that is the notion that software and systems are going to run out in the internet; that's

what we call the cloud, in addition to running in corporate data centres and on PC's and phones, and you could say 'hey, isn't that just the internet?' Well, the truth of the matter is the internet's been, so far, mostly a delivery vehicle for information or a social interaction vehicle. It hasn't been a place where mainstream computing has moved, and that's what's happening now. The plumbing's changing, but more applications, more quickly, to more people, at lower costs. That's what it's about.

Q: Could you help us by maybe giving us an example of a business and how it operates now and compare how it will when cloud computing becomes something that everyone embraces?

A: How many of your businesses have a data centre? Nobody will put their hand up in ten years. Well, I mean, <over talk> find in fifteen years and maybe two people still put their hands up, but/

Q: Half the people didn't know what a data centre <over talk>.

A: Yeah, I knew that. I figured that out after I asked, but you know, at the end of the day, what we're trying to do is take the cost and the complexities out of information technology. Here's a statistic. If you look in the US, probably same would be true in Australia, most developed countries, IT is the number one or number two kind of job classification in the country. In the US, it's auto worker and somebody who somehow is building, deploying, managing software, and yet there's so many things that still aren't getting done, not just in businesses, but also in people's personal lives. And so the question is how does our industry continue to deliver great new innovations? Answer: we've got to make things simpler, and the best way to make things simpler is to let people stop doing some of the stuff they're doing today, move it on out to the internet, push that to guys like Microsoft and then let people really focus in on what makes sense to them.

Q: So, in a sense, you're creating an IT solution to an area of weakness so that people can work in their strength zone, in a sense?

A: That's right. To basically take things – today, we give you a disc, whatever you are, IT manager, we give you a disc and say 'how about it?' Tomorrow, we say 'here, just type in a name and password. We're going to do more for you, and we'll copy what you need down on the PC. We'll just run it all for you instead of having you do that all for yourself', and that takes out the complexity, the cost, and kind of allows you to simply get access to more applications to help you realise your potential.

Q: Okay. I'm sure you might have heard that Rupert Murdoch delivered a speech <over talk>.

A: I did.

Q: And he made the pretty subtle observation that Microsoft dominance is going to be, you know, is over. So what's your reaction to that, Stevie? I know you're a bit of a shrinking violet when you hear criticism of that kind. Or observations of that kind.

A: Well, I don't know if it's criticism or not. I mean, given the level of interaction I have with Rupert, it was criticism. I'm going to <inaudible> back at him the next time we get together. You know, at the end of the day, we're a successful company. If we drive hard, if we innovate, we're going to be a super-successful company, a long, long time into the future. At the end of the day, in our business, as long as you keep pushing, pushing forward, you have great opportunities, and at the end of the day, most of what's going to happen in the next ten years hasn't been invented yet anyway, and what we're trying to do is kind of three things. Number one, we're trying to reinvent the areas where we're strong and there's a lot of those. We're trying to create innovations that dislocate the leaders in some markets where we're not strong, dot dot dot search dot dot dot. And just in case – just in case. And number three, we're trying to invent brand new things that nobody has really conceived of yet, and are we going to have competitors that are trying to do some combination of those things? Sure, of course we are, and yet, I think in our industry, the companies that get successful and then fade – they fade because they're not pushing forward hard enough. They get too narrow. They try too much to preserve the status quo. Why are we embracing cloud computing?

Q: No, we do that in this country, that's all right.

A: Yeah. I thought I was back in Japan there for a minute, but you know, if somebody's going to change the model of the way we do things, it's going to be us. Let's get at it, let's get after it, and so I think the opportunities for us to continue to lead is incredibly strong. Now, what Rupert is really saying is 'hey, let somebody else', say Google, 'have all the anti-trust problems', and I say 'hey, hey, I'm with you, Rupert. Let's go'.

Q: I'm really glad you mentioned the G word. So you guys, in particular, were worried about the anti-competitive nature of Google and Yahoo getting together, and the outcome has actually gone the way, I presume, you wanted. You wouldn't have liked to have seen Google and Yahoo get together. What's your next play? Are you going to show interest in Yahoo at half the price again?

A: No.

Q: No?

A: No. Look, we made an offer, and we made another offer. It was clear that Yahoo didn't want to sell the business to us, and we moved on. We tried at one point to do a partnership around search, not an acquisition, and that didn't work either, and we moved on, and they moved on, and I don't think we'll – I don't think – we will, we are not interested in going back and re-looking at an acquisition. I don't know why they would be either, frankly. They turned us down at thirty-three dollars a share. Move on. Let's go ahead and we're in the game. I'm sure there's still opportunities for some kind of partnership around search, but I think acquisition is a thing of the past.

Q: One thing Rupert talked about was Google's current domination, particularly as a gatekeeper. We all seem to go through Google first. How are you going to respond to that? That's something obviously that you're not going to ignore, and you're going to come up with something better, I presume?

A: At the end of the day, in order to compete in search, there's probably about three or four different things we have to do. Number one, we've got to do the kinds of things, the basics that the other guy does, at least as well, if not better, and that means when you go to look for something, we've got to give you as relevant information as anybody on the planet. Now, that's not going to change the game, but that's kind of what I might call the opening stakes. Number two; we reinvent the whole darn thing. If anybody thinks that the future of search is going to look like the present of search, that's crazy. The usual interface on search hasn't changed for six years. You still get the same dull boring ten blue links, for God's sake. Can't we do any better than that? And it's even worse. The average search in English is 2.2 words, because everybody on the planet has figured out the search engines are so dumb that if you tell them more, they actually do a worse job. You know, if I had an administrative assistant that was as bad as a search engine, I'd really be in trouble. I'd like to tell her more and she gives me more. There's opportunity for innovation, but nothing has changed in so long. And so the question, how do we reinvent the business model? How do you reinvent the business model? Because at the end of the day, is it somehow about commerce that funds the whole thing, so the business model, the user experience, the relevant – even what you're trying to do. When you go search, are you really usually looking for a set of websites? No, you're usually looking to get something done. You're trying to buy some flowers. You're not trying to find ten links to a place to go buy flowers. There's no task orientation in the way we look at search today. So the opportunity to innovate is high, and one of two things will happen. Either we will be successful, or the market will stagnate, because as we know, I certainly know, everybody needs a good competitor, and we just want the other guys in this business to have a good competitor that they have to think about every day.

Q: Okay. So imagine, you've got, is it you have two children?

A: Three.

Q: Three? And one of them comes to you later in life and says 'Dad', no, 'Steve, I want to open a business'. What advice would you give them, in terms of creating business that becomes the next Microsoft? Or even something, not quite <overtalk>.

A: I doubt, if their goal is to create a business that becomes the next Microsoft, they ought to keep thinking. Because you can't, it's a mistake you can make is to set out to build a business that's got some arbitrary kind of scale or financial measure associated with it. If that had been what we had done at Microsoft, I don't think we'd be as successful as we are today, because it gets you to spend too much, to do too much, to anticipate too much. I still remember the day Andy Grove who was running Intel said 'some day there'll be a hundred million microprocessors sold a year'. a hundred million PC's, and Bill and I both laughed and said 'ha ha ha. Andy's really lost his mind this time.' And then this year there'll be three hundred million, so you don't want to – what you want, what I would tell my kids to do is take something that you really understand, where you have some unique insight, where you think you can contribute some unique value, and make something happen, and bring all the passion and enthusiasm and energy you can to it, but bring a unique insight, and if you have no unique insight, keep busy with something else until you have one at the end of the day. That's just like something Buffett likes to say. Buffet says 'look, I don't have to be right most of the time. I'm going to make two or three or four big bets over the course of the entire

career, and so I don't have to bet well every day. I just got to make a few big bets successfully', and I tell anybody trying to start a business. It's not about just trying to do something willy-nilly. Get your unique insight and then go after it.

Q: On the subject of unique insights, *Fortune* magazine in December of last year, had a fantastic headline and it featured four of the CEO's from the leading financial institutions on Wall Street, and the heading, which I really wish I'd used, was 'What Were They Smoking?', and when I saw you do your dance monkey boy dance, I thought to myself as a CEO, what are you thinking or what were you smoking when you decided to do that? Because it was a great innovation. I love this <inaudible> I showed my twenty-eight year old son, who's our general manager in our operation, and when he saw it he was just over the moon, but what were you thinking, and why did you do that?

A: Yeah, I just for a second, in case somebody hasn't seen this wacky dance, yeah, I get excited before I go in front of our employees to talk. I don't know what it's like for the rest of you but actually the people who care most about what you have to say are your employees. I'm grateful that you're all here today and you're interested and you might be a little amused or not amused, but the employees, the Microsoft in the audience, they care, because their future is tied up in our future. So before I get on stage to talk to big groups of our employees, and we do it twice a year. I get fifteen thousand in one top and I get about twenty-seven thousand people in another top. You know, I'm thinking 'what do I want to say? What's the tone? How do I want to communicate?' but then when I get on stage, I'm kind of a, you know, I'm an emotional kind of enthusiastic guy, so somebody posted on YouTube me being a little enthusiastic <overtalk> about my love of a company, or it could be another one of the wacky ones in front of customers, my love of software developers. You know, those plumbers who – I love those plumbers. And I wasn't thinking anything particularly. I was living in the moment.

Q: Yeah. Well, it kind of created, in a sense, your own unique dance, and we have quite a famous politician who once was the lead singer of Midnight Oil, who created daggy – was it daggy dancing, did we call it, back in those days when Peter Garrett sang a song? But we appreciate people who dance stupidly, and we make them Ministers of the Crown, so you're really in very good company here.

A: I now know what my dancing looks like, thank you very much.

Q: Well, you joined Microsoft when you, when they had around twenty-four employees and you took a small salary of fifty k, and then you – I have to ask you this question – what were you thinking when you decided to take seven percent of this company? Was this a courageous decision at the time?

A: Actually, it's sort of a funny story. I was trying to decide what to do for a summer job in business school. Bill called and he tries to get me to drop out, and it actually was forty k, and <overtalk> someplace between five and ten percent based upon, it was, the deal he actually offered me was forty thousand dollars a year plus ten percent of all of the increase in profits in the company. It wasn't even a corporation, it was a partnership, and I did get ten percent of the increase, and we never had a bit of discussion about the ten percent, and he wrangled with them though for two days, and I said 'look, most business school graduates can make

fifty grand, and I think this could be a really bad deal for me'. but we worked it through. It was okay.

Q: So you met Bill at Harvard? Did you instantly become mates, or was it something that developed over time and you had a certain <overtalk>?

A: No, it was pretty quickly. We lived sort of down the hall each other our sophomore year in university, and one of our mutual friends said 'you two guys are both kind of weird guys, but you'd like each other, even though you're opposite weird. Steve is social and weird. Bill is anti-social and weird, but you two would really like each other'. And he was right – we did.

Q: Now, did you do accountancy? I know you're a maths major, but did you do accountancy as well, because you are regarded as the person who's important for the financial foundations of Microsoft.

A: No. I took one accounting course my first year of business school. That's all I know actually at all about accounting.

Q: When I taught at the University of New South Wales, my colleague was then a guy called Dr John Hewson, who went on to become Opposition leader of the country, and he once said that an economist, which he is and which I am, is nothing more than an accountant with a personality. Which is a hard call, given his personality. But you seem to, even though the important role of leadership in a company like yours is a big personality, was it something that you've worked on? Were you a natural leader, I guess, that's the bottom – or have you said 'this is my personality, and I will create my own kind of leadership'?

A: Well, I'm not sure I ever really thought about it quite that way. Most of what I sort of think of as my, what should I say, development experiences and leadership were actually at university. When I was in university, I was the football team manager, which meant the organiser, and getting up in front of people and speaking was part of the drill, and I ran advertising sales for the school newspaper and those were kind of formative, really more formative for me than anything else, and everything else I just kind of developed my own style, if you will, on the job at Microsoft and it's worked for me.

Q: In terms of where you see your industry going and how we should be preparing for it, what are the main developments out there that are going to become substantial and will affect the way we do business and the way we even think about business?

A: I mean I try to, try to get you to prepare for it, but let me give you the fundamental big ideas. At the end of the day, we talk about our mission as a company, enable people and businesses throughout the world to realise their full potential. That was kind of where you were, you're building, and at the end of the day, the most important advances are the advances that give people more access to the machine, to the information and to other people. How do we improve access, make it simpler to find things? Make it simpler to communicate with people? Make it simpler to control and master the machine? Enabling access, because if we can give access to somebody who can write an application for education or health or scientific modelling or whatever the case may be, so the core innovations that we focus in are sort of these access improvements, and if you go out ten

years, things are going to be fantastically different. Ten years from now, this is not – this is a digital screen, and I'll say 'hey, look, let me just show you', and I'll click and I'll bring up and I'll point out some things, and everybody will say 'will we be able to see them?' and of course, because you'll have a digital screen that is this thin and light, and attached to the internet as a piece of paper, and can we improve access to the – sure. And instead of saying File - Open, I'll just say to the computer, 'hey, bring up the demo that shows the natural language', and it'll recognise what I meant. I won't have to learn the language of the computer. When we talk about enabling better access to people, where's the video – see how, there's the video guy. There's a video guy at a lot of speeches I give. There are very few people I've ever met who've watched a speech. They've watched the little YouTube clip. They don't watch the speech. Why? It's too dull to sit there and watch speeches, but if Tracey Fellows who runs our business in Australia, she's marking those, 'boy, Steve was out of line here' and people would just get the note quick and it would index automatically into the video, because I know the people who work for us in Seattle are kind of dying to know what I'm saying <overtalk> here today. Boom, instead of people sitting there, real time going through these things, we really think about video conferencing not as a crazy add-on, but virtual meetings and video is fundamental. Improved access to people, and I already talked about search. Finding what you want and getting something done, whether it's in your personal life or your professional life, you talk to most CEO's, and you ask them what's their number one frustration with IT? You know, the CEO's usually think 'oh, they think we're too expensive. We think this, we think that'. What most CEO's tell me is 'I can never seem to get an answer to the one question I really have. I can't find it,' and yet the computers have the information. People just want to say 'hey, what is our claims experience for automobile insurance in Queensland?' I mean, to be able to just say that and it just fans out, gets the information, brings it back, and let's me play with it in some way and visualise it. That was a technical term. So access to people, access to information and access to the devices, things are going to change a lot in the next several years.

Q: Okay. Let's – before we go to the audience, a couple of quick questions. The US economy, how long do you think it'll be in recession? Do you have those kind of indicators coming through to you that make you think this is going to be a six-monther, a one-year recession? And we want it to be right – don't guess.

A: I have no idea.

Q: Okay, right. Okay.

A: I really – I mean, I know we have issues, and it's not just the US economy. We've seen the same thing in Europe. You know, my number one leading edge indicator is how many PC's are getting sold, and we saw a drop-off in PC sales not only in the US, we've seen drop-off also in Western Europe. How long will this continue? I think it depends on a lot of things, not the least of which is we've got to get out of a sense of pessimism and back into a sense of optimism. There are real problems, there's real problems in our housing sector, in the financial markets, etcetera, but as long as we're still in the downward spiral where people don't see the light at the end of the tunnel, you're going to get job cuts, unemployment, and hopefully with the elections behind us, maybe it's the time for psychology to start changing, although you couldn't tell that by the financial markets the last couple of <overtalk>.

Q: No. Obama, do you think he'll be good for a positive attitude?

A: I think the country's ready for a new leader. People clearly spoke during our election, and I think now's the time for people to rally behind, the President's got a tough job, and President Obama has a tough job not only on all of the foreign affairs matters of the past, but on these economic matters.

Q: One last one – China. China's very important to your business going forward. What's your sense? Is it slowing down faster than what people think or, and I know it's a hard question, but once again, we need you to be right on this.

A: Well, then let me make sure I make sure you're right. China's not really very important to our business. I'd like it to be, but because of the high rate of piracy of intellectual property in China. You know, China's the second largest consumption – not production – but consumption market for PC's, yet there will be forty-eight million PC's bought in China this year, and that compares to say four and a half million in Australia, but we need some intellectual property reform in China for it to be important to our financial result. That's all upside for us, for those of you who care about our stock, but in terms of the Chinese economy, we have not seen big negative indicators in terms of PC sales, and yet things have, you know, an eight percent growth rate versus a twelve percent growth rate really is a big deal, and probably has a big impact on kind of what exports will look like into the Chinese market, but you know, I'm not the guy to make that work.

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