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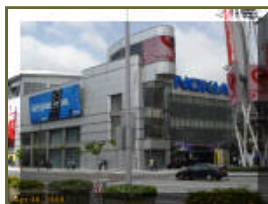
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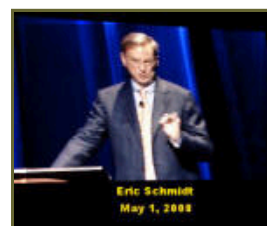
"Two of the World's Most Powerful CEO's" talk about their relationship, future of the Internet, IT world

LOS ANGELES, May 2 – One is old, the other is new. One is fat, the other is skinny. One is in the enterprise market, the other in the internet/consumer space... and so on. "So how could they work together?" the IBM chairman and CEO, Sam Palmisano (right), asked a rhetorical question as he was introducing his Google counterpart at the IBM Business Partner Leadership conference in Los Angeles on May 1 (below).



Well, as it turns out, not only are IBM and Google working together, but they are thriving together on Cloud Nine. And looking to deepen their relationship even more in the future. If you listen to the "two most powerful CEOs in the (IT) world," according to one IBM executive, you get the impression that you are attending a meeting of the mutual admiration society. And it all started back in December of 2006 with a phone call from Palmisano to Google's CEO, Dr. Eric Schmidt (right).

"Eric was kind enough to see me back then," Palmisano said deferentially. "IBM is an extremely well-led organization," Schmidt said after he took the podium.



But there are several things IBM and Google have in common. One is the love of innovation. "All innovation is bottoms-up," Schmidt said. As are all real trends, according to John Naisbitt, author of the book "Megatrends," a national bestseller over 25 years ago, updated in 2000 for the 21st century.

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One result of the love of innovation is that the developers in both companies gained a lot of respect for each other as they worked to solve the problems of the Internet's explosion in the future, Schmidt said. And the problems were nothing short of daunting.

Daunting Growth Challenges

There are about 1.3 billion Internet users today, growing at about 200 million of new users each year, Schmidt said. They upload about 70 million photos to Google's Picasso every day, and about 10 hours of video recordings per minute to YouTube. All this information is flowing across over 500 million networks, and over 500 million servers that comprise the Internet infrastructure today.



These are numbers of monstrous proportions that would have choked up any traditional approaches to handling of such masses of data. Enter IBM's "cloud computing" concept. When the technology was first announced a year ago, some in the industry referred to it as Big Blue's "secret sauce." Well, the secret is out.

In October of last year, IBM and Google decided to release the cloud technology to universities around the world. The response by innovative students around the world was phenomenal. One 19-year old, for example, wrote a model that simulates the [Big Bang](#) theory (expansion of the universe, supposedly some 14 billion years ago).

The cloud computing technology spawned such a flood of new ideas that Google and IBM could not keep up even with the refereeing role, trying to decide what concepts would fly and what ideas did not have much of a chance of success. So they turned that function over to the National Science Council, Schmidt said.

"This (cloud) platform will literally change the world," the Google CEO summed it up. "IBM has a culture of innovation that is quite compatible with Google's," he added.

Just to show you how much collegiality there seems to be between Palmisano and Schmidt, when the two spoke again in a panel discussion later on, the IBM chairman credited Google with the idea to release the Cloud technology to the universities, while Schmidt thought the Academic Initiative programs came from IBM. "Eric is very modest," Palmisano replied.

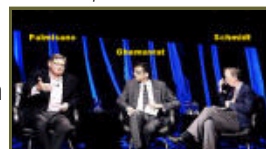
It was interesting to hear Schmidt described the "chaotic" style of Google meetings. "Nobody looks at each other," He says. "We all look at computer screens and discuss the ideas that are being presented and tested dynamically, as we speak." (also see ["Googling to Top of IT World,"](#) Oct 2007).

To which Palmisano replied. "Oh, our developers do look at each other and yell face-to-face," as he described the passionate debates that take place in IBM's research labs.

Convergence of Enterprise and Consumer Markets?

Former Harvard professor, Pankaj Ghemawat, who moderated a discussion between the IBM and Google CEOs that followed their opening remarks, asked if they saw a convergence between the enterprise and consumer markets in the future.

The IBM CEO pointed out that the new Blue Business Platform, the company's new play in the low end of the market that he had just announced minutes earlier, "was fundamentally based on Cloud technology."



"Small companies want the same things as the large ones only in smaller quantities and cheaper," Palmisano said. And simpler, if

we may add, since they typically don't have the IT staff to deal with technical issues.

Schmidt opined that the only difference between the enterprise and consumer markets was that the large companies are willing to pay for better security and higher quality whereas consumers are not. Otherwise, he agreed both sets of customers want the same things.



The Internet, for example, started at the universities and then proliferated through consumer markets. Corporations were slow to embrace it at first. But eventually they did. "IBM put \$1 billion behind the Internet to move it from consumer to the enterprise space," Palmisano said.

And now, IBM, along with Google, is one of the leaders of the Internet world toward the Web 2.0 "space odyssey" (future of computing).

Summary

Well, there is at least one more thing that IBM and Google have in common besides the



compatibility of their research people. Both companies are about the same size when it comes to market cap (see "[IBM "Places" By a Nose over Google](#)", Apr 2008 and the charts). And the change in their stock market valuations since a year ago has also been about the same (up 18% each).



Which is a stock market version of the 'theory of relativity.' IBM is a company with revenues of \$101 billion and net profit of \$10.9 billion, while Google packs an \$18 billion top line and \$4.5 billion bottom line punch. But the stock market is all about perceptions and the future, not the present day sizes.

Based on what we have seen and heard from the IBM and Google CEOs, that future is increasingly going to be shaped by BOTH of these IT industry leaders. Which means that sooner or later the 96-year old and the 10-year old may merge their parallel tracks as well as the P/E ratios.

Which in plain English means, stand by for the IBM stock to rise some more in the long run.

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Happy bargain hunting!

Bob Djurdjevic

P.S. For a personal blog on an interesting debate with top IBM scientists on what "[Life in 2050](#)" may look like, held at the USC School of Cinematography on Apr 30, [click here](#).

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