Operator

Good day, and welcome, everyone, to the Google Inc. First Quarter 2011 Earnings Conference Call. [Operator Instructions] At this time, I would like to turn the call over to Jane Penner, Head of Investor Relations. Please go ahead, ma'am.

Jane Penner

Good afternoon, everyone, and welcome to today's First Quarter 2011 Earnings Conference Call. With us are Patrick Pichette, Senior Vice President and Chief Financial Officer; Susan Wojcicki, Senior Vice President, Advertising; Jeff Huber, Senior Vice President, Commerce and Local; Nikesh Arora, Senior Vice President and Chief Business Officer.

First, Patrick, Susan and Jeff will provide us with their thoughts on the quarter, after which Nikesh will join the group to answer your questions. Also, as you know, we now distribute our earnings release through our Investor Relations website located at investor.google.com. So please refer to our IR website for our earnings release, as well as supplementary slides that accompany the call. This call is also being webcast from investor.google.com. A replay of the call will be available on our website in a few hours.

Now let me quickly cover the Safe Harbor. Some of the statements we make today may be considered forward looking, including statements regarding Google's future and investments in our long-term growth and innovation, the expected performance of our business and our expected level of capital expenditures. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that these forward-looking statements reflect our opinions only as of the date of this presentation, and we undertake no obligation to revise or publicly release results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our SEC filings for a more detailed description of the risk factors that may affect our results.

Please note that certain financial measures which we use on this call, such as operating income and operating margin, are all also expressed on a non-GAAP basis and have been adjusted to exclude charges relating to stock-based compensation. We have also adjusted our net cash provided by operating activities to remove capital expenditures, which we refer to as free cash flow. Our GAAP results and reconciliations of non-GAAP to GAAP measures can be found in our earnings press release.

With that, I will now turn the call over to Patrick.

Patrick Pichette

Thank you, Jane. Good afternoon, everybody. We just happen to have a surprise visit. Larry is joining us for a few minutes at the beginning of the call and wanted to make a few comments. So before we start officially our call, I just want to welcome Larry. Welcome, Larry.

Larry Page

Thank you, Patrick. It's great to take just a few minutes with all of you. We've had a tremendous quarter, 27% year-over-year revenue growth in Q1. And we're really excited about that, and I think it shows the strength of our business and our continuing -- and the continuing growth really in the tech industry. And it's really still at the beginning from a user perspective. There's tremendous improvements to be had in our core products and our core business, and we're really excited about that.

I also wanted to mention a little bit about the management changes. Everything we told you last quarter has happened as we expected. It's all working very well, exactly as we planned. I'll just reiterate that quickly. I'm managing the day-to-day operations of Google as the CEO, working very closely with my team, and I'm really excited about the progress we've had there. I think we really hit the ground running. And Eric, of course, is focused externally, on the government partnerships, government relations and partnership outreaches. And last quarter alone, he was in Germany and Brazil, Argentina and Spain and has been just doing tremendous things for the company. Sergey, as we mentioned, is working very intensively on a few emerging projects for us. As I said, this was all exactly as we planned, and I'm very, very excited about those changes. I'd also mention we've made a number of changes to just simplify our organ, improve our velocity and execution and basically, simplify our reporting structures and such.

Now I'm very excited about Google and our momentum and very, very optimistic about our future. I also just wanted to mention we have Jonathan Rosenberg, who's usually done this call, is transitioning out of the company as was announced a while ago. And I really wanted to thank him for all of his insights and hard work and fine communication with all of you. And so we'll clearly miss him, and we really wanted to thank him from the bottom of our hearts.

So those are the main things I wanted to say. I'm tremendously excited about all of the things that lay before us as a company. And I also want to say you're in very good hands with the team here, and Patrick who now should take the call away.

Patrick Pichette

Great. Thank you, Larry. Thank you for taking a few minutes in the schedule to just drop in. So what we'll do now is we are back. So we found a phone for the last 30 seconds, and we're going to be back now with the rest of the team to go back to our regular call.

So as an overview, I'll be giving you the regular speech. Susan and Jeff will give you color comments as well in the product area, as well as the monetization side. And Nikesh is with us so that when we go through Q&A, he'll be answer to give you a lot more color commentary in some areas.

Look, we're nothing but very, very excited about our reporting 27% year-over-year revenue growth in Q1. This 27% proves really the logic behind our strategy, not only to invest heavily in our core Search business and Ads but also in our new emerging businesses like Display, like Mobile, like Enterprise. From an investment perspective, our Q1 results don't only show our continued commitment to invest in hiring, in marketing and in the other areas, but they also -- as you can see through our expenses, they reflect, for the first time, the full impact of the compensation changes we announced in Q4, the 10% salary increase. Google is clearly benefiting from and is also fueling the unrelenting pace of the digital economy that's around us. And it's growth that we believe will benefit both Google but in fact, the entire ecosystem for a long time to come.

So let's turn to the specifics of our performance for the quarter. Gross revenue, as we mentioned already, 27% to $8.6 billion and interestingly, 2% quarter-over-quarter. To put this in context, this is quite remarkable if you think that Q4 was an amazingly strong quarter. And in fact, it adds also the impact of the Nexus One from Q1 of last year and to a lesser extent, the events that have occurred in Japan.

So Google website's revenue was up 32% year-over-year, $5.9 billion, with strength across all major geographies and verticals. The Google Network revenue was up 19% year-over-year to $2.4 billion. That Network revenue was negatively impacted by two things, the loss of a Search distribution partnership deal and also, what has been broadly communicated, by Search quality improvement made during the quarter. Regarding the Search quality improvement, remember that we regularly make such trade-offs. We really believe that the quality improvements that benefit the user always serves us well both in the short term and in the mid term in terms of revenue. So Jeff will cover that in more detail in the coming minutes. Other revenue was down 10% year-over-year to $269 million. And note that in Q1 of 2010 was the first quarter that we'd booked Nexus One revenues, and this is what drives the year-over-year decline.

Global aggregate paid click gross -- that's my tongue twister for every quarter. It was very strong again, up 18% year-over-year, interestingly, 4% up also quarter-over-quarter and again, reflecting the accelerated shift of off-line to online. Aggregate cost-per-click growth was also quite healthy, up 8% and only 1% down quarter-over-quarter. And you should all know that the FX had a pretty neutral effect on CPC growth year-over-year and quarter-over-quarter. Remember too that that's an aggregate number and includes both google.com and our AdSense properties.

So now turning to our geographic performance, the U.S. and the rest of world are both growing at a very healthy pace, and our results reflect that. The U.K. continues to lag a bit because of its global economic recovery, the pace of its -- the recovery. Revenue from the U.S. was up 25% year-over-year to $4 billion. In our earnings slides you can find on our Investor Relations website, you will see that we have broken down our revenue by U.S., U.K. and rest of world to show the impact of FX and the benefit of our hedging program. So please refer to those slides for the exact calculations.

International revenue accounted for 53% of our total revenue or $4.6 billion, and it was up 28% year-over-year. It includes a $14 million benefit from our hedging program, and that compares to a $10 million benefit of Q1 of last year. If we use a fixed exchange rate, our international revenue would have been roughly $23 million lower year-over-year. Also, it's worth noting that the tragedy in Japan somewhat negatively impacted our international revenue in Q1. And as I mentioned earlier, the U.K. was up 15% year-over-year to $969 million as the country continues to experience struggling economy. But even that 15% is really 17% in FX adjusted basis.

Let me turn to expenses. Traffic acquisition costs were $2.0 billion or 25% of total advertising revenue. Our other cost of revenue, $897 million, including stock-based compensation of $49 million. And finally, all operating expenses totaled $2.8 billion, including approximately $383 million in stock-based compensation. The increase year-over-year in OpEx, primarily due to payroll, increased advertising and promotional spend and some other professional services. So a result of all these expenses, our non-GAAP operating profit, which excludes the stock-based compensation, was $3.2 billion in Q1 of this year, resulting in a non-GAAP operating margin of 37.6%. Headcount was up approximately 1,900 people from Q4, ending the quarter with 26,316 full-time employees. Our effective tax rate was 21% roughly. The exact number is 20.5%.

Let we now turn to cash management. Our other income and expenses was $96 million for Q1, in fact, a very solid performance from our portfolio management. And unfortunately, just masked by the impact of our higher hedging expenses associated with our SFAS 133, the accounting of which we know is quite volatile from quarter to quarter. So for more details on OI&E, please again refer to the slides that accompany our call on our IR site.

Operating cash flow, very strong, $3.2 billion. CapEx for the quarter, $890 million, significantly below last quarter of $2.5 billion. And remember that last quarter, that increase was largely due to our purchase of the New York City office. Majority of CapEx spend in Q1 was related to facilities, expenses and data center operations. In the facility space, we spent -- was really driven by the purchase of two buildings, one in Dublin and one in Paris. Just as a reminder, we continue to make significant CapEx investments, and we've shown those to be lumpy from quarter to quarter depending on when we're able to make such investments. Obviously, we're pleased with our free cash flow, which was $2.3 billion for the quarter.

As I said earlier, our accelerating growth trajectory, it really shows our confidence to expand across products and geographies. Roughly 18 months ago, we began communicating how we were really optimistic about our opportunities, and we had the business confidence to invest heavily in the next phase of innovation and revenue generation. Well, our product innovation over the last 18 months has been nothing short but extraordinary. Let's take a look at this.

We have built from scratch the world's most popular smartphone operating system. We've built also from scratch the world's fastest growing browser. And in some countries like India, one in four people are now accessing the web via Chrome. We've reinvented display advertising, creating not only a business but an entire ecosystem with a $2.5 billion annual run rate as of Q3 of last year. We've pushed the frontier of mobile search, creating a whole new search segment that is adding to our overall search volume and brand new monetization opportunities. We've seen YouTube develop into a platform, a win-win platform in fact, where partners can generate significant revenue from their content and users watch 2 billion views a day.

And our revenue growth clearly shows the wisdom of those decisions to fuel our growth ahead of the curve. So the facts speak [ph] from the sales really. The second half of 2010, we grew roughly 25% year-over-year. But even more telling, this quarter, growth rate of 27% compared to a comp of 23% just a year ago. We are building multibillion dollar businesses, and we're confident that now is the time to invest. It's with this optimism that we'll continue to do so aggressively but with discipline, with strong focus on fueling the winning products. From an expense point of view, we're taking some bold steps but always with good strategic rationale in mind and discipline in mind.

So as our Q1 results continue to reflect some marketing -- you've heard of our marketing going up. It's a very deliberate choice as an example. We have laid, made very specific focus on Chrome, customer and advertiser acquisition in the U.S. and international markets. And in both cases, we're seeing the fruits of these investments. The same is true for our labor strategy. And finally, we continue to invest in our long-term infrastructure.

So now let me turn it over to Jeff and Susan to provide you more details on the products that are the engine of both our growth and our optimism. They'll also provide you more details on where we're deploying some of these additional resources as they're coming on board. So with that, I'll turn it over to Jeff.

Jeffrey Huber

Thanks, Patrick, and hi, everyone. In his comments, Patrick mentioned our ambitious hiring this quarter, which was by design. We announced in January, with a blog post to help energize recruiting, that 2011 will be the biggest hiring year in our history, topping the 6,000 people we hired in 2007. And we ended up hiring 1,900 people this quarter. We're very happy about this, because we feel this is a very good time to invest. We look at the factors like our revenue growth and how well our core and growing businesses are doing and say to ourselves, "Who wouldn't want to invest in this business?" So that's what we're doing, hiring great people to invest in the future. In fact, over half the Newglers who joined this quarter are going to be working in high potential and revenue growth areas like YouTube, Mobile, Chrome, commerce and local and Enterprise.

So that's what Susan and I are going to talk about today. We'll give you an update on our core business of Search and Ads, as well as these businesses where we're investing. Susan will cover our Ads products, Search Ads, Mobile Ads, local Ads, Display Ads and YouTube, and I'll talk about Search, Android, Chrome and Enterprise.

So let's jump in with Search. Search is the most important thing people do online, and there's loads of opportunities to make Search more intelligent and more personal. Intelligent, as in better quality. Our primary focus is to always create the best user experience. So this quarter, we launched over 90 different quality improvements. Most notably, we made an important change to our ranking algorithms to promote higher-quality sites. This noticeably impacted about 12% of our -- of all queries, and it's done a good job. We found it addressed over 80% of the sites that users reported as a poor experience via a Chrome feature we introduced a while ago. This change did have an adverse impact on revenues for some sites in our Display Network, but we've continually found improving Search results and our users' experience is always the best thing to do in the long run and for long-term value.

Personal, as in building around people. We improved social search this quarter, making it easier to find information and recommendations from the people that matter to you, whether they're publishing on YouTube or Flickr or their own blog or website. We also launched the +1 button, which makes it easy to share recommendations with the world via Google Search results. And this is just the beginning. We've got lots more useful and relevant social search features coming soon.

A lot more of our searches are coming from mobile devices. This traffic has gone up more than 500% in the last two years. Android is obviously a big driver of this. We're activating over 350,000 Android devices every day. Android market is taking off too, over 3 billion apps have been installed, up 50% in just the last quarter. You can now access the market online. Try it at market.android.com so you can shop and browse for apps from your computer, click the purchase, and they just magically show up in your device. We also recently launched In-app Billing, which has been very enthusiastically received and which gives developers more ways to make money from their hard work.

Another product and it's doing very well is Chrome. Chrome users are very valuable to Google. And as we've said in past quarters, we're investing in Chrome marketing. The payoff is worth it. We have over 120 million daily users, over 40% of whom we added in the past year as a result of our marketing efforts. The Chrome OS program is also going well, and we look forward to launching devices with our partners later this year.

Our Enterprise business is growing across both businesses and schools. As example, this quarter, we deployed Google Apps at InterContinental Hotel Groups and RR Donnelley; signed a reseller agreement with Optus, which is the largest -- second largest telco in Australia; and signed up the University of Texas and Boston University. We were pleased that our deal with ITA Software was approved by the DOJ last week and closed this week. Travel searches in the area with lots of potential for innovation, both for end users and as a platform for the industry. We're looking forward to bringing the ITA team on board and doing great things together.

That wraps up my remarks. But before I turn it over to Susan, I just want to take a moment to thank Jonathan Rosenberg, who has been a regular on these calls, for all he's done for Google. Jonathan and I have been friends and colleagues for over 15 years. And on behalf of myself and Susan, who also worked closely with Jonathan for the last nine years, I can assure all of you that he will be missed. Over to you, Susan.

Susan Wojcicki

Thank you, Jeff. Hi, everyone. So there are a lot of things to be excited about in our Ads business, and I'd like to share a few updates from the quarter in Search, Display and Mobile Ads.

Search is still our core business. And even though it's a really large business, we see a significant opportunity for growth, as Larry mentioned. One of the things that we've been focusing on is thinking about how we can serve the most perfect ad for every query. A query for a product will require a very different kind of ad than a query about a movie. And in order to do this, we are enabling new creative types and new ways for advertisers to set up their campaigns.

One example of this is Product Listing Ads, which we released to U.S. advertisers in Q4. If you're a retailer and have hundreds of thousands of SKUs, it's hard to set up the separate creative for each one of those. So product listing ads automatically creates ads from product feeds rather than from keywords. Then a retailer can run a unique ad for every product without doing any extra work. We're seeing great advertiser adoption, and about half of the largest retailers in the U.S. are now running these ads.

If you do a search for soccer cleats, something I'm thinking about buying for my daughter, you can see some of these on the right-hand side. The ads include pictures and prices. That's something you'd want to see if you're going to buy something. The ads are really effective too. They're about twice the click-through of standard text ads in the same location.

This quarter, we also launched a much richer ad format for more brand-focused advertisers, and we're calling this format Media Ads, because we're starting with the movie and entertainment advertisers, but we think this format will work for all types of brand advertisers on Search as well. These creatives can include images or videos, and in the case of the movie studios, it will include a movie trailer. Again, there are no keywords, and Google figures out the right queries to serve the ad. To see one of these ads, try searching for the movie Water for Elephants. If you are searching for a movie and the movie -- and you wind up seeing the movie trailer in the ad, we're getting you a lot closer to seeing the perfect ad. So as you can see, there's a lot of opportunity for more innovation within Search Ads.

I'd like to move on to Display right now. I'm very proud of how well our Display business has been growing. We bought DoubleClick three years ago. We've done a lot of integration together. And as a result, we've seen a lot of progress. Our Google Display Network is up 5x since acquisition, and we've been doubling annually in several of our key markets, like the U.K., Brazil and Japan.

Now most Display advertisers can be bucketed in one of two categories. They can think about themselves as being performance oriented, where they value conversions and clicks or more brand oriented, where they're focused on raising awareness. Last quarter, we started to develop some features for brand advertisers. We had launched Google Display Network reserve, which gives advertisers ability to buy premium inventory on a guaranteed basis, which is how brand advertisers are telling us they want to buy the inventory. We are also giving advertisers tools that help them measure the impact of their campaigns on things like brand lift rather than just clicks and conversions.

Our Ad Exchange, which we've been focused on building a unified buying platform so that advertisers and agencies can buy the exact audiences they want across the Internet. The transaction volume on the Ad Exchange has tripled in the past year, and 2/3 of that inventory is being bought via real-time bidding, which is a new technology to enable much more programmatic and scientific ad buying. It also results in better ads for users and gets us closer again to serving the more perfect ad.

YouTube is another part of our Display strategy. Revenue is doubling year-over-year, and we share that revenue with over 20,000 content partners. We're starting to see a virtuous cycle. The more money we make for our content partners, the more engaging content they upload. So as you can see, there's been a lot of nice progress in Display due to the results of a lot of people at Google.

Moving on to Mobile, we're seeing growth this year really taking off. AdMob, the display network that we acquired last year, has over 150 million iOS and Android devices making requests per month. That's up 50% in the past four months, which gives you an idea of how fast Mobile Display advertising is growing.

Many of our advertisers are starting to run mobile-only campaigns as opposed to bundling it with their desktop campaigns. It enables advertisers to move to much more customized mobile experiences. They'll have mobile landing pages and campaigns that can incorporate location. For example, how far away is the advertiser from where you are standing right now? These custom-made stations, again, get us to the perfect ad on Mobile, since users also want to have location, or they want to have phone number. We're also seeing Click-to-Call taking off with more than half a million advertisers using these features. As a result, the mobile-only campaigns are seeing an increase of 11.5% when they run a mobile-only campaign as opposed to a bundled mobile-desktop.

So these are just a few of the examples and the opportunity that we see in Mobile. And this overview is just a few and a small set of the many, many projects that we are investing in across that. Now back to Patrick.

Patrick Pichette

Thank you, Susan. Thank you, Susan and Jeff for this comprehensive look at what's going on our core -- across our core products. What I suggest we do now is we turn it back to Jay to give us the instructions on how to get to the Q&A and just jump in right into the Q&A, if you don't mind.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to Spencer Wang with Crédit Suisse.

Spencer Wang - Crédit Suisse AG

So question on spending for Patrick. I think OpEx, excluding tax, was up something like 45% year-over-year. So is this the type of spending that you think will be required to sustain a high-20% revenue growth going forward? Or is this more reflective of near-term investment to support some of the growth initiative you've talked about and spending tapers off at some point in the future?

Patrick Pichette

But there is clearly the effect of the one-time salary change for this quarter that is flowing through. And in fact, in the increase in salaries, what you have is a triple effect this quarter specifically, right? Everybody at Google got a 10% salary increase. In addition to that, because it's the beginning of the year, the salary increases flow through to many of the benefits, like the 401(k)s and the vacation accruals. So many of the resets that are done in the first quarter are disproportionate in additional kind of flow-through costs. And then finally, we have new Googlers. And the Newglers, I think Jeff made a really good compelling case to explain why we're hiring them and then how we distribute them. So on the labor side, you clearly have a one-time step change, but after that, we're going to continue to be in our regular momentum. In other areas, if I take marketing, for example, marketing has increased through last year, because we see the great returns. And so for marketing, specifically, we continue to -- we don't expect to slow down our marketing, because it is proving such a kind of attractive set of returns both for customer acquisition and for key, key products, like Chrome. So for those, we're actually going to continue our momentum on them. In many areas of the company, we continue to be -- in like most areas, continue to be incredibly disciplined. People have to show up every 90 days to complete a OCQ process, where we do quarterly reviews to get your next chance [ph] for funding. I mean, the discipline of the company has not changed. We're just really bullish on our prospects.

Operator

We'll go next to James Mitchell with Goldman Sachs.

James Mitchell - Goldman Sachs Group Inc.

If I could follow-up with a couple of questions around expenses. And I'll say, we're having some issues downloading the presentation slides, so it'd be great if you could repost them at some point. But first of all, Patrick, you mentioned in your discussion of OpEx there were some other professional expenses in the first quarter. Was that a reference to legal costs or other things? And then secondly, when we look at the substantial marketing spending around Chrome, is that like a short-term campaign or more of a forever wall? And could you talk about what are the strategic benefits to Google of consumers adopting the Chrome browser?

Patrick Pichette

Okay. So let me start with just the professional services and then I'll let Nikesh give you a context of Chrome as well. So for OpEx, it's a number of areas. We're pushing -- right now, we're pushing hard on a few areas including the GEO product, where we're doing a lot of the mapping worldwide. So at the beginning of the year, we just kind of ramped up a number in there. We also have a couple of other areas. We do have slightly more legal expense as well. But also, real estate is the third component, where because of the Googlers coming on board, we just need more services to support those Googlers. So that's the highest level answer for professional services. And for Chrome, if -- let me give you just a 10-second umbrella and then I'll let Nikesh give you more color commentary. There's really a two story on Chrome. And there's a tactical question, and there's a strategic question. Chrome is really pushing the web, and it has a fantastic opportunity that when people have adopted Chrome, right, they basically -- instead of looking for Google and looking for Search, the Omnibox gives them immediate access to Google Searches. So from a strategic perspective, it has that in Chrome OS. And a tactical basis, right, everybody that uses Chrome, right, is a guaranteed locked in user for us in terms of having access to Google. So maybe, Nikesh, if you have more additional comments on the performance of the marketing.

Nikesh Arora

Thanks, Patrick. Just to add to that, I think as Jeff mentioned we have over 120 million daily users, and 40% of them were added in the past year as a result of our marketing efforts. So we've seen the 30% growth quarter-over-quarter in our Chrome usage. So I think from all perspectives, the Chrome strategy is working. And the way we distribute Chrome is people get it organically. Or they get it based on our marketing efforts. Or they see our marketing, and they choose to download it. Or we work with partners who help us promote Chrome to our users and to other users. So in that context, we found that marketing very often ends up with an equivalent or better ROI than us having to go do partnership deals. Sometimes you'll see that our tax and our marketing around Chrome is fungible, where we spend money in marketing we take away from tax as it relates to Chrome. So you can expect us to continue to drive Chrome strategically, because it has not just a Chrome-specific benefit for us, but it also impacts many of our other products that work as part of Chrome. So the lifetime value of a Chrome user is phenomenal.

Operator

We'll go next to Ben Schachter with Macquarie.

Benjamin Schachter - Macquarie Research

I was wondering if you could give us, from a high level, the view of how Larry views this company differently today, or how we should view it differently given Larry's position. Is it going to change in any meaningful way?

Patrick Pichette

In short, look, I think that the company's position has not changed. Google is a technology company focused on users and looking for products that can affect billions of people. So the very first lens that you have to think through when you think of Google is are we developing computer science helping finding answers to problems where billions of people can be served. If you think that way, right, Chrome makes sense. Android makes sense. Search makes sense. All these things are the fundamentals of the company. From there, there's very clear that -- again, to paraphrase an old saying of ours, right, the 70/20/10 is very much alive and well. Search is the next billion-dollar business. Never forget it. Every quarter you've heard this time, right? 90% kind of improvement on one side 40% on the other. And like, that's one a day, right? That's a lot of engineering work to keep ahead of the -- but these are the next billion-dollar businesses. It's in its infancy and so are two or three other of our key products, which include Mobile, Display, Enterprise. So -- and then the 10%, well, it's commerce, right? It's local that we all know is nascent. It's social that we know also is nascent. And so the strategy the company is continuing to be in the same core lenses, building same products that serve billions of people and to make multibillion-dollar businesses in the waist up.

Benjamin Schachter - Macquarie Research

Sure. If I could just follow-up briefly. I was really trying to get more at the financial model of the company, if there's any meaningful difference now that Larry is in this different position. Do you and does he think about the financial model in a different way than we had previously?

Patrick Pichette

No. Build great products and then same financial discipline.

Operator

We'll go next to Ross Sandler with RBC Capital Markets.

Ross Sandler - RBC Capital Markets, LLC

Yes. I hate to beat the dead horse on the operating expense, but just one more follow-up question on that. You guys have stated that a lot of the operating expense uptick has been related to customer acquisition in Chrome, and I know there's some salespeople that have been added to the platform. But if you were making these investments, do you feel that your high-20% year-on-year growth rate would be achievable? Or do you think these OpEx additions are going to be additive in future periods kind of four, six, eight quarters down the road?

Patrick Pichette

I think that you have to look at the strategy. You have to take a look at the strategy in the context of the last four or five quarters, right? Have increased in OpEx, but when you look at our trajectory of revenue growth, right, going from 23% to 24% to 25% to 27% this quarter, we are really funding and accelerating with discipline our revenue growth. That is the fundamental. If we don't see a great ROI, you won't see us spending the money. We just happen to have great opportunities to fuel. Why not carpe diem now? It's there to take. That's really the mindset we put at it.

Ross Sandler - RBC Capital Markets, LLC

And just one other follow-up on that. So the IV came out and said that the display marketplace in the U.S. is around $10 billion. So if we double that and say global display is $20 billion, you guys would be a little bit north of 10% on a run rate basis of the global display. How big can that business be? And can you talk about as Display becomes a bigger percentage of total revenue, what that has -- what impact that has on your overall operating margin just from that mix shift basis?

Patrick Pichette

Okay, so let me start with the latter and then I'll let Nikesh talk about the former. Clearly, Search is a unique product that has very, very high margin, right? Because Display is more complex -- there's more paperwork involved even today with Display. It's a somewhat lower margin. It's still a great margin product, and it's a product that because of the -- it's still a very good margin product. And so all those dollars I want from an operating margin point of view. So there is no way we would let that -- and there's a great symbiotic relationship between Display. As take Susan's example, right? What was a pure Display Ad before is now embedded in Search. So the symbiotic relationship is very important as well. As to the total size of the market, I'll let Nikesh give you some color commentary.

Nikesh Arora

Thanks, Patrick. I think it's important to look at the advertising market for Display in the context of the overall advertising market, which is a $600 billion to $700 billion market globally. And you can go back and say five years ago that Display was sort of stalled around $15 billion to $16 billion as the market, because we didn't have video in the mix. Now with video, everything changes. We have been recently doing some campaign in the U.K., where we tried to do some efficiency, YouTube versus television. And we found YouTube helps people reach 20% to 24% more consumers in a target segment. And you can do that in a dispersed manner. You don't have to buy one ad, which 20 million people look at. You can do that on a literally user by user basis. So you are seeing the efficiency of the web applied to video, which is going to change the way the entire display market functions. And all of our efforts in the last two or three years have been towards targeting that market, whether it's all our acquisition in the technology side, whether it's all of our efforts in trying to create a multiproduct sales force across 50 different countries around the world. We are getting ourselves to be able to sell Display with special emphasis on rich media and video, which is going to help us sort of make that a relevant space in Google. As far as --

Patrick answered the margin question. But from my perspective, I'm told that every profitable dollar or revenue is good.

Operator

We'll go next to Justin Post with Bank of America Merrill Lynch.

Justin Post - BofA Merrill Lynch

Could we talk about Google's access to social data? Obviously, you're not running a major social network in some geographies. What's your experience there? And do you think having access to social data is going to be important for having the best query results on the web when you look out three to five years?

Jeffrey Huber

This is Jeff. We do see social as very important. Google uses well over 200 signals in terms of how we think about ranking today. And when we think about identity and relationships, those are our key signals that can and should be integrated in the experience. So it is important, but it's one of the many that we use. In terms of assets that apply to that, we do have a very, very large number of users coming to our door every day. A considerable percentage of them are logged-in users that are using multiple of our products. So there is a large variety of signals that we'll be able to use with user support and users seeing value from it to make the overall experience better.

Patrick Pichette

I think it's worth -- just in closing, you've all heard of the launch of +1 a couple of days ago or a couple of weeks ago. And it's, again, a commitment from us to get every signal we can to give the best answer for the users. So you should expect continued focus on social as one of the 200 signals and just get this rich as possible of an answer across the board.

Justin Post - BofA Merrill Lynch

Patrick, if I could do a follow-up. Does Chrome give you any signals that you can use and integrate into your Search results?

Patrick Pichette

Maybe Jeff would know the better answer of that, if Chrome gives us additional signals on social or other types of signals.

Jeffrey Huber

So Chrome we think will be part of the story over time. Chrome does have features where it is personalized today. And for example, the Chrome experience, you can essentially sign into Chrome, and it will synchronize all of your information across different instances across different computers. So that is information that, again, with user engagement and users seeing value from it, that could be useful.

Operator

We'll go next to Mark Mahaney with Citi.

Mark Mahaney - Citigroup Inc

Two questions. First, Patrick, you talked about taking bold steps to address expenses. It's just not obvious in the P&L results. So can you give us any examples of what those bold steps are? And then secondly, I know you're talking about social being one of several hundred signals, but is there any way to indicate that -- evidence you've seen so far that indicates that it's materially greater than those other variables or just as important but no more important than the other variables?

Patrick Pichette

Okay. So one -- on the issue of expenses, what you see is the ramp-up on one side, but I can guarantee you, because we have gone through the planning process for this year, that everybody that has a cost center has to demonstrate productivity. So in the case of data centers, there's productivity requirements that are actually incredibly steep. In the case of the sales force, Nikesh could give you kind of a great set of examples that his productivity, right? Is kind of -- think of it as, in his case, cost per revenue dollar. In the case of [indiscernible] (43:00), it's cost per bps and cost of storage. In the case of all staff functions, whether it be in legal, whether it be in real estate, whether it be in cost of food, whether it be cost of transportation, every one of them are expected to have a productivity curve. So in this fast-growing business -- like Google is growing, like, from a base of revenue of roughly $8 billion, 25% year-over-year. That's $2 billion of revenue. And so from that perspective, you have a tide coming with it. But under that tide, I can tell you every element of the company is scrubbed and scrutinized. So I would -- I just want to give comfort to our shareholders that there is these quarterly review processes. And these annual unit cost continue to kind of haunt many of my managers that when they come to my office. On the signaling portion of it, Jeff probably can give more color commentary about social versus others.

Jeffrey Huber

So as mentioned, it is one of the signals among many that we have. We are very optimistic that we'll be able to do great things with better social signals over time. At this point, it's a little early to tell, but we regularly measure and tune. So we'll be looking forward to that as the experiments continue.

Patrick Pichette

I know that for our shareholders and many analysts on the call, it is top of mind for people, when we grow our expenses in the way we have, to ask that question. So Mark, I just want to thank you, because it lays -- it gave me the opportunity to lay the ground clear on these issues.

Operator

Our next question comes from Brian Pitz with UBS.

Brian Pitz - UBS Investment Bank

Could you provide any color on the impacts to the user experience from the recent Panda changes? Has it impacted click-throughs or CPCs on the paid ad side? And then in terms of the overall online display industry, would you differentiate between drivers? Do you think more impactful ad units are driving growth? Or is it more complex data and algorithms and more granular targeting?

Jeffrey Huber

I'll start with the experience of the changes that we've made to improve overall quality and promote high-quality sites. I had mentioned in my comments that on the order of 12% of queries, we're positively affected in our view. And that's in terms of our changes that is a pretty significant change that has that scope. And we felt very good or confident in it, because we were able to measure against the feedback loop that we had of user-reported sites that they found that weren't as great of an experience. Just to confirm, it was web search only, not ads. It didn't have any material measurable impact in search ads in either CPC or CTR. We did mention that there was some effect on the display network of sites that were essentially the receivers of some of those clicks previously, but our focus is, again, overall on the user experience, the best possible user experience and long-term value. I'll turn it over to Susan on the balance of the questions around the Display Network.

Patrick Pichette

Can you, Brian, give us -- repeat the question for the second piece?

Brian Pitz - UBS Investment Bank

Yes. The second piece was in terms of overall online display industry, would you guys differentiate between -- do you think more impactful ad units will be driving growth? Or is it more complex data, more complex algorithms and more granular targeting?

Susan Wojcicki

Sure. So this is Susan. I'm happy to answer that one. I think in Display -- I mean, what I see happening right now with Display is that we're really at a point where there's ability to buy audiences and to do much more specific targeting than there ever was in the past. We also have much better tools in order to do that and better formats. So I think the combination of all of these things over time will enable us to have better ads and have them much more targeted at the right users. So that's really a combination across all of them. It is important to note that really -- like one thing that distinguishes our Display strategy is that we are focused on building an end-to-end platform to enable buying across the Internet for all advertisers and for all publishers. And we believe that if we do that and if we do that efficiently, that there will be a lot more dollars that will move over, as Nikesh mentioned, from off-line to online, which is where the users are moving. And so we just need to make sure that the systems and the technology can support that.

Patrick Pichette

Just to reemphasize, just that last point from Susan, there are properties that are going to be kind of tuned to Display, right? It's true for YouTube. It's true -- but the ecosystem itself of the entire web is so much more powerful, and that's why we have the strategy we have.

Operator

We'll go next to Scott Devitt with Morgan Stanley.

Scott Devitt - Morgan Stanley

Two questions, please. The first one, was just wondering if tablet operating share is important to Google as smartphone share. And given Apple's different lower margin pricing strategy on tablets, how Google plans to influence market share in that category. And then just one follow up.

Patrick Pichette

Sure. Jeff, comments on tablet versus smartphones versus PCs.

Jeffrey Huber

Yes. This is Jeff. Tablets are doing very well. There's certainly been a lot of growth in that segment. And in terms of its dynamics, there are some interesting properties where it's really a hybrid between a mobile device and a desktop when you look at user behavior and the kind of things that they're doing with it. So it sort of falls between the two of those. We are very optimistic. Android has some great products coming along. We have the Honeycomb operating system that is developed specifically for tablet application. The Motorola XOOM is the first device that's come along, runs on Motorola now. It was the product of the show at the Consumer Electronics Show in January. I think you'll see a lot of other products coming along and a lot of innovation in the market around tablets and that format. We have also introduced, just jumping into Ads for a little bit, recently, a feature where we can enable advertisers to specifically target tablet devices, which we think will also help that segment.

Scott Devitt - Morgan Stanley

And then secondly, just to the extent that employee bonuses may be partially tied to your social efforts, just wondering if you could define success in that area.

Patrick Pichette

I think what we're going to do is because this is an internal matter -- I mean, the key message that I'd like to leave with everybody is, right, we focus, as we said, across the strategy and across many platforms. We wanted to signal to the employees that social is clearly a signal that is worth investing in, and that's why we've made the decision. But we wouldn't comment further on that.

Operator

Our next question comes from Jeetil Patel with Deutsche Bank Securities.

Jeetil Patel - Deutsche Bank AG

Two questions. When we talk to a lot of your shareholders, I think the general view is that Search is such a great business and a phenomenal asset. However, it seems like at the same time, there seems to be kind of a growing concern that engagement seems to be a bigger theme that seems to be winning out of this industry, whether it be from smaller companies that have unique products or just different approaches in the marketplace. I'm curious, have you guys looked at the 70/20/10 approach to the business and rethought maybe the allocation should be shifted a bit towards building greater engagement in the business, try to maybe kind of look at how other products and services can be integrated in? I guess, that's question number one. I have a quick follow up.

Patrick Pichette

Let me give you a mega answer related to that, which is if you think of the web in general and how the platforms are growing, right, we would argue that where we're focusing our investment is in areas where -- yes, engagement matters. But if you think of where we're putting emphasis in local, for example or in Mobile, for example or for YouTube, for example, right, all of these areas are all about engagement and their engagement between advertisers and small, medium businesses and their customers that are walking down the street and then adding more signals to the quality of their restaurant experience they had or otherwise. It's true for YouTube, with so much more different kind of either lean back, with kind of chatting and giving kind of ratings. And every one of our products has just naturally evolved. And then with -- again, with Mobile and same thing with Chrome, we see many of these areas. Engagement is another element of the strategy that's kind of pervasive across, but the technology themselves also fuel that. So it's kind of a symbiotic relationship between the two. So at the highest level, Search itself is so much more engaged today than it was three years ago and will be even more engaged in the coming three years. So it's absolutely part of the fabric of the strategy we have.

Jeetil Patel - Deutsche Bank AG

It sounds like we may be missing it in that it's engagement through frequency of services utilized through everyday life as a consumer as of the, say, engagement through just a share of time over one continuous spectrum.

Patrick Pichette

Well, you have it across -- like, when you're in YouTube, right, the question is are you spending more minutes of your day actually on YouTube, and that's opportunities for engagement. When you're with your Android phone and you're actually living down the street, and you're now in town, your engagement opportunities, both in terms of the product that you use and the engagement of the additional signals that you get with sharing with your friends or otherwise, right, continue to fuel it. But absolutely, the core platforms that we have in place will have that as a core element.

Jeetil Patel - Deutsche Bank AG

So this Chrome -- just a quick question on Chrome. But do you -- does that give you the potential to create unique products inside of Chrome, such as obviously, folding in apps from Google, as well as creating digital content services within the Chrome environment?

Jeffrey Huber

Yes. This is Jeff. There is great opportunity in Chrome. You start to see the beginnings of that, in that we launched a capability a while ago called the Chrome Web Store, which is bringing the same kind of model that we have with Android Market to that platform. And there's a tremendous amount of innovation that is happening on the web as a platform that we think Chrome will be able to take advantage of and be the best on ramp for.

Operator

Our next question comes from Jason Maynard with Wells Fargo.

Jason Maynard - Wells Fargo Securities, LLC

I have two questions. First, on the Mobile opportunity. What do you think a Mobile user is approximately worth today on an annual basis? And where do you think that can trend as you bring in more local and commerce capabilities? And then real quick, second for Patrick, how should investors think about the financial parameters around potentially larger acquisitions? I'm not talking about the little tech-in type of deals, but if you -- as Google maybe contemplates some bigger type of company purchases, if you will.

Patrick Pichette

Great. Who wants to tackle Mobile? Jeff?

Jeffrey Huber

Yes. So in terms of the specifically quantifying the value of a Mobile user today, that's not something that I can comment on specifically as of how we're valuing them. That said, if you look at the kind of investment which we're making, if you look at the focus of the organization, it is something that we're very, very excited about. And I think that there is great potential there. And if you look at some of just the monetization side of it, there's things that we've done around Click-to-Call ads, if you think about very locally targeted ads that is a capability of our platform. The ability to engage users where they're at with commercial opportunities, it's tremendous overall. So we think that's great. In terms of where it trends over time, increasingly the smartphone is becoming an extension of the person. It becomes how they do everything, how they communicate, how they're entertained, how they're informed. So we think that there will be convergence over time between the phone or mobile device and other behavior that people are historically familiar with.

Jason Maynard - Wells Fargo Securities, LLC

Is there an order of -- if I can maybe follow up on that. Is there an order of magnitude that you think can take place from today versus, say, three years from now without maybe giving specific numbers?

Susan Wojcicki

Hi, this is Susan. I'm going to answer that one. I mean, I -- one way I would think about that, if I think we're still very, very early on in what Mobile can do. But I do think that Mobile will bring completely new ways that we will be interacting with merchants, with advertisers, with our friends over time, and the value of those transactions can be very valuable. But I think what it will actually do is it will grow the overall opportunity, the overall pie and enables us to interact in new ways. So it's hard at this point to really estimate how that will change over time other than we think it's going to grow a lot and that there will be new models that we don't have today.

Patrick Pichette

Yes. So you -- to summarize these two thoughts together, without like really any radical effort -- let me take the case for Android. That is the platform that enabled so much of it. We already announced at the end of Q3 that this was $1 billion run rate business, and we tripped into it with people kind of adapting what was desktop onto Mobile that was clunky. And it's growing at an amazing, blazingly pace in terms of usage. So what you do know is the combination of -- if you think of the areas of Search, of local, of commerce, of entertainment and just on Mobile, just -- we tripped into $1 billion. It just gives you the sense of momentum for the opportunities ahead of us, and that's why we have the focus areas that we have. So that's why we're so optimistic about Mobile. Now Jason, if I circle back to your financial parameters for larger acquisitions, we're quite disciplined, and we've made that comment many times about acquisitions in general at Google. And we have a quadrant in which we operate, where you're looking for the perfect mix between intellectual properties of great code, a great team and great products at a price that we can afford that we think makes strategic sense. So many of -- like, you hear of all the stories of the acquisitions we make. What you don't hear is all the acquisitions that we actually refuse, because they just don't pass our bar. In the case of large transformative ones, we look at them all the time, right? If we had one that actually made sense to finally accelerate a big piece of our agenda, we would do it. We just have not found one yet. And so we'll continue to look at it. We have the position to be able to jump and make big acquisitions. We just want to make sure that we don't have distractions. We have a very focused agenda, and you have to have a really good fit, because big acquisitions can be a massive distraction for Google. Google has a specific culture. It's quite a unique culture. And in that context, we want to make sure that if we were ever to make a large acquisition, it would have to pass a double bar of not only strategic, financial sense, but in addition to that, that it wouldn't become a distraction to the company but in fact, accelerate it. That's a pretty high bar to pass.

Operator

Our next question comes from Jason Helfstein from Oppenheimer.

Jason Helfstein - Oppenheimer & Co. Inc.

Two questions. One for Susan and then kind of a bigger picture question. So when we think about the company's ability to grow into local, how important is a local sales force? And are we starting to see the impact of adding local sales people on the expenses? And then secondly, the reorganization, as far as under Larry, based on kind of product would make sense, particularly where we all believe the Internet's going, when we think about, however, like if I look on your Google products page, right? There are just still an enormous amount of products the company offers, albeit revenue is generally concentrated in a few of those products, do you think we'll see a streamlining of products available under the new kind of reorganization?

Patrick Pichette

So I'll let Nikesh talk about the local area, where on the sales side, he's been kind of spearheading activities. And then I'll give you a conversation about the org issues.

Nikesh Arora

Hi. I guess it's important to understand that with millions of advertisers who we service through our various advertising products, we are constantly in touch with small, medium, large business across the board. And most recently we've turned on phone support and on-boarding and soft landing for all of our small advertisers. We do interact with small business. As we have products that work more and more with local advertisers, we anticipate having a team that works with those advertisers. Now how we do it is still something we are constantly debating. In some cases, it works really well with our existing call centers or our existing teams, which work from around the world. It sometimes requires people on feet on the street, which we also have in over 40 countries around the world. So we are going to use a sort of combination of existing sales teams and sales methods and other sales teams and sales methods that might be required to drive some of our products whether they're in the commerce area, the local area or in the area of providing offers to our customers. But more on that as we continue to drive those products to our sales.

Patrick Pichette

For the issue of broad organization, let me make two comments. The first one is we are -- the realignment that Larry talked about earlier on this call has been really about an organization model that we had, where there was a end person and a product person for every core of our product and then often also a salesperson. And so if you think of having to have two or three products to work together, how you end up with sometimes six or nine decision makers having to align themselves. Larry made a very specific call to say for every one of those core product areas -- and we have one here in the room, in fact two, in the room which is Jeff for Commerce and Local. Jeff is now the final arbiter and decision maker -- and that's to drive velocity. And by the way, take comfort also that these are -- the reorg has been on all of the core pillars of the company. So the real core issue that we wanted to make sure, that Larry wanted to have in place when he kind of launched into as CEO is clear decision makers for velocity, and everybody takes comfort about that. And for the rest of the smaller ones, right, too early to tell. We're just not there yet. We're really focused on the big areas for now and then when the time comes, we'll cover the smaller areas. That's the way we approached it, and we're really thrilled to see the momentum already.

Operator

Our next question comes from Youssef Squali with Jefferies & Company.

Youssef Squali - Jefferies & Company, Inc.

Two quick questions, please. First, starting with Susan. I know you guys won't break out absolute dollar numbers, but if we just look at the non-search, non-CPC business, I mean with CPM and CPA, can you just help us understand or kind of quantify what kind of revenue growth did you see either on a year-on-year basis or on a sequential basis, just to kind of see the magnitude of your success there? And then I guess maybe for Jeff, Google has been pretty quiet about its video strategy out of YouTube's -- outside of YouTube's user-generated content. Does Google have a video strategy for non-UGC that you can speak to us about?

Patrick Pichette

On the first -- let me talk about the latter one first and then let Susan talk about the first one. On the non-UGC content, we have made a number of addition to the YouTube team that have very specific expertise in that area. So you should kind of consider that we have a focus on it, but we have nothing specific to announce. Jeff may have additional comments on that.

Jeffrey Huber

Yes, the -- with YouTube, YouTube's roots obviously start with user-generated content. There's a tremendous both size and activity in the user base there. So there's a great asset that we begin with. We are interested in long-form premium content in the longer-term role of YouTube. Another area that we're very excited about and we announced an acquisition this quarter, a company called Next New Networks, which is signaling intent for developing content that is kind of up volume for this new medium that's being created. So I think you'll see a lot more of that as well.

Patrick Pichette

Susan, on the first question of non-CPC revenues and models?

Susan Wojcicki

Sure. Actually, one thing I do want to kind of step back for is that we are thinking about the best way for our advertisers to be bidding and to be paying for ads across Search and Display. And so we -- with Search, for example, we are enabling our advertisers to bid, for example, with a CPA target. Then Google will figure out the CPCs and the backgrounds. So that's one way that was found, for example, has really grown advertisers' spend on Search. The Product Listing Ads that I talked about in the script actually works with the CPA model. So in Display, we have advertisers who bid on a CPC basis, and when they bought they also bid on a CPM basis. Right now -- and we see advertisers participating in both. A lot of times it has to do with the objective of the advertiser in terms of whether they're more performance driven or more brand driven. As we release more brand features, like I mentioned, like the reserve, that will be a CPM feature. And so really, what we see is that the bidding is very important, that we want to give advertisers a lot of flexibility and how they actually buy it and how they're able to optimize depending upon their objective. And there's no one right way. There's just -- there's a series of things that we will offer to make sure that we have the right product for the advertiser.

Operator

Our next question comes from Jordan Rohan with Stifel, Nicolaus.

Jordan Rohan - Stifel, Nicolaus & Co., Inc.

Sure. A couple of smaller questions. Can you be a bit more specific about the magnitude of the disruption in the Japanese search market that you saw in the quarter? And second, Android, you mentioned 350,000 devices activated per day. Can you give us some understanding of how that breaks down by smartphone versus tablet and U.S. versus international?

Patrick Pichette

So on Japan, let me make two comments. One is the events really shocked us as well at Google. And I just want to kind of let the investors know that our first and first response to all the events were really to actually help the Japanese community. So it was about people finding people and all the tools that we have for disaster recovery. We spent a lot of time at Google to actually focus on the community rather than trying to optimize anything that had to do with revenue. Clearly, the month of March has seen some impact from revenue, because all of the community in Japan was focused on the events themselves. Tons of searches, by the way, but not monetizable sort of searches. Japan is a great market for us, and it was and continues to be a very good performing market. So from that perspective when we look ahead into Q2 and Q3, the one thing we do know is we've actually asked -- we made a quick search. We asked Hal Varian, our Chief Economist, to look at other events that would have occurred in Japan of say kind of that type of magnitude to see the resiliency of Japan. And he looked, for example, at the economic recovery after the Kobe disaster of '95. And Japan is actually a first-world country with a very good infrastructure. So they bounce back fast. So although we don't -- we can't predict how the Japanese economy is going to rebound on advertising and -- what is very clear is they are a first-world economy that will recover. So from right now, all we can do is say it's already a strong economy for us and a strong market, right? It has had an impact in Q1. We expect some impact in Q2 as they try to recover, but it will continue to be a strong market for us. So that's on the first -- on the second question. On the first question, why don't I turn it over to Jeff?

Jeffrey Huber

Yes. So on Android, as mentioned, over 350,000 devices a day are being activated, which is just tremendous growth. In terms of breaking out share by device or by market, we don't break out share by device. If you just look though at where the distribution relationships and partnerships are, obviously, we've got a great presence in the U.S., strong partners in Europe, Japan, Korea. So international is really growing as a component of the overall pie. In terms of phones versus tablets, Android is relatively early on with tablets. So we have the Honeycomb operating system now, which is developed specifically for the devices. We've got some great initial devices like the Motorola XOOM. But as I mentioned earlier in one of the questions, we're seeing just a tremendous amount of innovation in the markets, but I think you're going to see a lot more great Android tablet devices soon.

Patrick Pichette

Okay, we have time -- we're over time already, so we'll take one last question. I just -- before we take the last question, can I just say that for those on the call that may be having trouble accessing our financial slides, we're working on this issue right now. And it should have been fixed for most of the users and will be done very, very shortly. So just to let you know. So Jay, let's take our last question, please.

Operator

Our final question comes from Heath Terry with Canaccord.

Heath Terry - Canaccord Genuity

Nikesh, you mentioned that video is changing everything in Display. Much of the video inventory at YouTube is still going unmonetized. What's limiting that, since clearly, the demand from advertisers is there? And is there a roadmap you can talk about or a level that you're thinking of in terms of getting YouTube to what you would consider full monetization?

Nikesh Arora

I think it's important to understand we monetize video not just on YouTube but also rich media across the Google Display Network. So our intent and our hope is to try and monetize video as a format across the various publisher partners that we have. So that's our point number one. In terms of being able to monetize and continue to grow that, you have to understand there is a value chain that goes through this. We have to make sure that we have the right advertisers, who are excited about this as a medium. I have to make sure that the creative agencies adapt their creatives to work with sort of multiple users. They don't -- you can't just create one ad, which is going to be used on YouTube with 10 million views. You actually have the ability to personalize and target them a bit more. So the creative industry needs to get involved a little bit more in trying to find creative ways, no pun intended, to be able to target all the users that the advertisers would like to target. But having said that, it is a process of selling. We have the sales teams in force. We have the technology in place. We have it integrated across the technology chain in terms of through our exchanges, through our ad serving platforms, et cetera. So we are going down the path [ph] now. We're working with the creative agencies and the most important, the analysis agencies, who actually can prove that there is value in shifting some of the dollars in television towards mediums like YouTube and other video sites around the world. So we're very happy with the progress we're making. We think also that the ducks are in a row. And we hope as we continue to see this trend, this trend is going to shift lots and lots more dollars away from what is now traditionally television towards what I call IP-based video delivery.

Patrick Pichette

Thank you, Nikesh. So with that, let me just take two last comments. The first one is, as usual, thank our Googlers. I mean, Jeff and Susan and Nikesh and I kind of look good here giving you these great results with 27% year-over-year growth and so many innovations in so many areas of the company. It is really the result of our fantastic Googlers working all the time on all of these areas. So I would just want to thank them.

And also, my last closing notes on Jonathan. Everybody commented on Jonathan. He couldn't be here today, because it was already planned that he had a vacation with his family. So we're glad to have Susan and Jeff with us. Clearly, Jonathan's passion for our product is legendary at Google. I don't think that the word is too strongly stated. He loved the tension between the combination of Search and Search monetization. And just to quote him, from one of his last times, he said as Search gets better, it actually creates another huge challenge for us, which is the ads need to keep pace to get better too. Otherwise, what would happen is people will click on fewer ads and well that -- to quote him, well, that would be bad. So as a Jonathan-ism to close the call, it's very obvious that we keep -- we just are immensely thankful for Jonathan's contribution and leadership, and we'll keep focused. I know that he's going to be overlooking on us to make sure that we keep that balance between Search and Ads and all the other innovations.

With that, Jay, I will let you close the call. And thank you, everybody, for taking the time this afternoon to listen to the story of Q1. We'll talk to you in Q2.