



REMARKS OF
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Thank you. I didn't expect the plug for Larry Ellison, but I'm sure he'll be pleased.

Thank you for having me. I've been spending my time in the last couple of months going around through Asia and Europe giving as many talks as I can trying to get us some publicity and trying to find out what is on our customer's minds. The only problem with doing so is number one you don't see your family very much and all of these talks seem to get basically the same.

People always ask you about the same things. It reminded me when I was at Solomon Brothers years ago we had a partner, Henry Kaufman, who was at that time arguably the world's greatest, or certainly the world's most known, economist who went every day and gave talk after talk after talk. And basically all his talks were exactly the same thing and one day supposedly his driver said to him "Dr. Kaufman I have heard your talk so many times I think I could give it myself. Well, Henry, who was noted for his wit, said "Oh yeah, tell you what. We're going to another talk this afternoon, Why don't you give it." So before they went in Henry took the driver's cap and the driver's limosine pin, put it on. Henry sat down on the side and the driver stood up and gave, in all fairness, what was a very creditable talk. And afterwards everybody stood up and applauded and it was very well received. There was one minor problem that nobody had really thought about. Some guy in the back stood up and asked a question and it was some question about the flat tax and gold standard and monetary policy and it was a very convoluted complex kind of thing and Henry down front here just had this panicked look on his face. The driver thought for a second, looked at the guy in the back and said "You know sir, that is the stupidest question I have ever heard. Even my driver could answer that." I don't know if it happened but it's a good story.

Anyway thank you for having me. Gary asked me to tell you what the future is going to be and I'm not so sure that I can do that any better or any worse than anybody else. My great contribution is that I am a consumer. I am a 55 year old consumer and I have a few problems. Number one is I cannot see and all of you people keep producing devices where the letters and numbers are much too small for me to read and the buttons are too small for my big fingers. And I think that one of the great challenges we have is how do we solve those kinds of problems, how do we build products that are really a little more practical.

There is a great danger when you are building something and it is certainly true in my business as well as yours that you get carried away with your own brilliance. The world is littered, the graveyards are littered with products that reflected the designer's brilliance but weren't really practical for the average person and we have got to go and say what is in our customer's interest. If you think about it, our customers -- and that's true of almost any industry that we are in -- do not care what we have to sell. They only care what we have that they want and I keep telling my sales force again and again and again go in and don't demonstrate our product. The person on the other side of the desk doesn't care. They have families to feed, they have insecurities they've got to worry about. Those people only care how we can help them. People are lazy. People are selfish and that's just the real world. We are just as much as they are. So when you go in, do your research before, figure out what we have that that man or woman wants. And the same thing is true in a store with a consumer product. When a customer walks in the question is what do you have that the customer wants to buy. The customer doesn't care what you want to sell. And we live in a very difficult world, a very competitive world.

But it is a crazy world if you think about it. This past year there were 1 1/2 million citizens band radios sold in the United States. I think most people would have assumed there were zero citizens band radios sold in the United States. There really is a market out there for something that most people wouldn't have assumed existed. I just came back with my kids from Vale. One of the hottest selling things in Vale, Colorado on the ski slopes is bottled water. How can you sell bottled water when you are surrounded by all this white stuff? And yet that is exactly what happens, none of us really would have predicted, but the fact of the matter is there is something about bottled water, whether it is in the packaging or the convenience or there is an implied health thing that people really want to buy. There is a demand pull there. Nobody stood up and said I think skiers are going to want to buy bottled water.

We live in a world, remember, where 250 million people watch Baywatch. Baywatch is a television sitcom, for those of you who are not familiar with it, where there are half a dozen nubile young ladies in bikinis and half a dozen very muscular young men in thong bathing suits. And

they save somebody drowning in the Pacific Ocean, and they do this every single week. So maybe the most amazing thing is that somebody can come up with a script every week to do that.

Although I am not so sure there is a script, nobody would know whether there was or wasn't.

The dialogue isn't exactly what brings you to this television show.

But there is a demand out there. What people want is not necessarily what we the rest of the world think they want. They are going to tell us and if there is one thing that I keep worrying about in my organization is that we're going to think that we are smarter than these other people. We are not smarter than they are. These people out there want certain products that make no sense whatsoever but they are running the marketplace. And what we have got to do is go out there, understand that and say "OK let's give them what they really want". Let me give you some examples: One of the real problems with radio is that we have not improved it in any meaningful sense in years. If I want Country and Western music I still have to go and try to figure out where it is on the dial. There is no way to stick in CW and get Country and Western music and if I do find Country and Western music on my radio, when I drive through the tunnel the radio does not work any more. And when I drive a hundred miles the station fades out. So what we have got to do is figure out some way and whether it is satellite delivered or whether it is derivation of the cellular phone or any one of a variety of ways, we have got to figure out how to make the radio more friendly.

The same thing is true with the newspaper. If you think about a newspaper, a newspaper is the way that we still get most of our news. I know we spent trillions of dollars on electronic delivery of information over the airwaves and over cable and from satellites and microwaves and over the telephone but the fact of the matter is most people in this room today will get most of their news from newspapers. And in fact when you're getting your news from radio and television the news agenda for the radio and television stations has been set by the local newspapers. The question is: What is it about newspapers that keeps them out there? We have had them since Guttenburg days. Shakespeare times people read newspapers. Today, Beavis and Butthead times, we are still reading newspapers. We are not using all this electronic equipment that we have. Why? Well, newspapers have a handful of characteristics that the public really finds valuable. Number one,

newspapers are random access devices. I said before we are all lazy. If I want the sports, I do not want to sit and listen to the international news. I do not want to sit and listen to the local news, then a commercial, then the weather guy, then a commercial, then a lifestyle piece and then get to my sports. I want to go straight to the sports. Newspapers let you do that. And if radio and television is really going to compete with newspapers, they have to find a way to convert from being a sequential access device to being a random access device, like a newspaper.

And in fact that's where all the monies are spent. DVD and all of the digital delivery over computers of radio and television are really trying to make those two devices more like a newspaper or more like have this characteristic of a newspaper that is so useful. Newspapers do something else. Newspapers provide you with the information that you need but weren't smart enough to ask for. Now I know everybody says "God, wouldn't it be great if we could have a way where we could only get the news that is of importance to us." There's a minor problem with that. How do you know in advance what information is going to be important to you. Or, I don't want war stories. There's another Bosnia story every day and I can't figure out who the good guys and the bad guys are, so in my computer when I select what kind of news I am going to get, I do not put a check mark next to war. Of course if World War III breaks out I am in big trouble because I did not know about it.

Or Susan Smith, I do not how many of you remember who Susan Smith was. Susan Smith was this very sick woman who put her two children in the back of her car and drove it into a lake. I do not think any of us would of thought that we could of lasted at the water cooler without knowing about Susan Smith. The problem is with the Susan Smiths of the world is that many, many times in the course of a year a parent kills two or more of their own children in this country. And so if I said well I want the Susan Smith story I am going to be inundated with them and the fact of the matter is most of them are not newsworthy, unfortunately, but there is just so many of them. What made the Susan Smith story so germain and all of the other tragedies not of any interest—luck, no other news in the newspaper that day, what ever it was.

But somehow or other if in advance I try to specify whether the Susan Smith story is going to be of interest or whether the war story is going to be of interest. It is a lot more difficult to do and I am probably not going to be able to do it myself. So what I do, what you do, is you hire somebody to make those decisions, you hire a human being. And that human being gets a title of front page editor, if you will, or news director. And that person makes the judgements for us.

Now let's go back to the newspaper. I wanted to go directly to the sports. But one of the great attributes that newspapers have, and that radio and television is going to have to pick up if they want to compete with newspapers, is they are going to have to figure out a way to tell you what you need to know even when you did not ask for it when that human being decided it was in your interest. In the newspapers you do it by big headlines. So when I am turning to the sports section if World War III broke out I could not help but see the headline. Catches my eye, maybe I read the story, worst case I just remember the headline. But newspapers have this great characteristic of keeping you informed when you are too lazy to ask and to do all the work.

And if we are going to build consumer products, if our businesses are going to grow and let electronic devices replace newspapers they are going to have to provide the same functionality. Now another answer to the problem would be don't let radio and television become the substitute for newspapers. But find some way to make newspapers more valuable, more economic. And if you think about it, it is a very easy thing to do. Right now we go and we chop down an awful lot of trees in Canada, we haul them to the mill, we grind them up into paper, we put ink on it, we deliver it to the corner newspaper stand or the newspaper boy or girl throws it on your doorstep. You read it once and you throw it away. It is a phenomenally inefficient thing screaming for a technological solution. And, in fact, people are working on this. It may be two or three years or five years from now, but the newspaper of the future is an electronic device. You cannot continue to transmit information by truck. You have to do that in this day and age digitally over the air or over cable or over your phone line. But the presentation is not going to be on paper, it is just too inefficient. The newspaper of a few years from now is made of cloth with transistors hidden in it and essentially a cellular phone on a chip with a tiny battery hidden there as well. And so over the air comes the information. But the display device still looks like a newspaper. Why? Because the

characteristics that we said a newspaper had that made it so valuable, namely random access, your eye can go to really instantly where it wants to, and also the ability to see things that you didn't ask for at the same times and absorb information peripherally.

Those things require a large display device. Now, once you get this going, is it a newspaper? Is it characteristic of a newspaper the broad sheet display or the fact that you had to chop down trees? I would argue it is certainly the former and not the latter. Now, what happens to people that work in newspapers? Well you still need reporters, you still need editors, you still need photographers, you still need advertising salesmen. The creative people in newspapers are still going to keep their jobs. And interestingly enough from a technological point of view, they are going to have better jobs and they are going to be more in demand. Why? Because the electronic newspaper is a demonstratively better product.

When I am here in Las Vegas, if I want my home town newspaper, I just squeeze the top hand right corner of my cloth page and it lists every newspaper in the world that I subscribe to, all of which are sent down electronically and only come to my device if I have paid the freight and there I can get my home town newspaper. I can even get it better than I used to when I was back at home. Because when the reporter writes the story it's available instantly. I do not have to wait for that cycle of it being set, typed up and type set and printed and delivered. So the electronic delivery of this information will make newspapers more valuable, which means that people working in the newspaper industry will have more jobs, more valuable jobs, will get paid better, will have more satisfaction than they did before.

And this is just a model I think for a lot of the kinds of things that we are all working on. You have got to sit back and say "Look there is nothing magical about radio or television, what does the consumer want?" The consumer wants something that they can pick up and fold and carry around. The consumer wants something in which they can see multiple things at same time. The consumer wants something that is much cheaper and electronic delivery of one time information when you have to buy one delivery device rather than buying that delivery device made of paper

everyday clearly would be much cheaper. If we can do that with newspapers we can do that with a lot of products.

The second product that clearly this is going to happen with is television. No matter how many times people tell you that broadcast is here to stay, the fact of the matter is it is not here to stay. It is so compelling to be able to get what you want, when you want it, independent of everybody else that we are going to give you video on demand no matter what it costs and no matter who's axe gets gored and people will try to protect their industries. They will try to protect their jobs, but the fact of the matter is, if you look at the public, the public has the interest in getting a movie they go to Blockbuster, they want to see it when they want to see it. The public even goes to the corner movie theater to see it when they want to see it. The public wants to be able to jump over commercials, which is going to be a very big problem. Who is going to pay for all of this? The public wants to be able to stop that football game for two minutes when the phone rings or when the diaper needs changing. And we are going to have to deliver those kinds of products, those facilities, those attributes for television.

How is it going to work? It is going to be digital, the model is out there with the Internet, It is not going to come over the Internet. It will come over single purpose intranets. The argument of is it going to be television or is it going to be PC is a semantic argument that we will look back on and laugh how could we be so stupid to ever even talk about that in 1997. Two years from now nobody's going to know the difference.

Now this doesn't mean that Intel and Microsoft are going to be out of business or that Larry Ellison is going to own the world. The fact of the matter is there are different businesses out there, different needs and we have got to produce products to two different kinds of markets that we all seem to confuse here.

One is the business market or the serious person who needs spreadsheets and word processing packages, database packages, e-mail and that sort of stuff. There are a lot of those people and it's a great business building products for them and you can constantly make those products better

and even maybe charge more money. If you think about it, the cost of PCs really has not come down, we just keep adding functionality. At some point in time the public is not going to recognize the extra functionality and we are going to get in real trouble and that is when the price of PCs will plummet. But fundamentally there is this professional market.

Most of the people, however, watch Baywatch. That 250 million people I talked about in the world that watch Baywatch every week, incidentally Beverly Hills 90210 is second with 125 million, those people come home from work they're tired, they have an argument with their spouse, hate the kid, don't like dinner, they want to put their feet up and there is only one kind of information that they want to manipulate. They do not want to go get some data on ancient Mesopotamia and write a term paper. They do not want to sit down and pay their bills electronically. I mean everybody I know wants to pay them slower not faster. What these people want to do is take some information, sort it, manipulate it and select something from it and then do something with the data. But the information that they want to manipulate is TV listings. That is the only data most people want to use at night.

I am not saying there is not this market for fancy PCs for people that want to get on the net, that want to have chat lines, that want to look up facts and write papers and create their own television programs and their own radio. There is that market.

But the big consumer market is for the killer application is video on demand so that people can find Baywatch and watch Baywatch. And that is where the TV appliances, the PC appliances, the Internet appliances, no matter what terminology you want to use, that is what those people are going to buy. And you can not stop it, because the demand is there. These people, no matter what we tell them, want something that is simple to use.

We can no longer give them five different remote controls like I have at home. I have one for the stereo, one for the cable, one for the satellite, one for the television and one for the VCR. And in most of my rooms I have bought a very expensive device that combines it all, except that the light is not good enough and the buttons are too small for me to actually use the damn thing. Got to

do something about that. There is a consumer interest out there and in my business just as in your business the real challenge that we face is to try to find what does the consumer want and satisfy that and not get confused with what we would like the consumer to want. Just because it is easy for us to manufacture something, just because we already have on our shelves a certain kind of product, all the wishing in the world is not going to make the customer want to buy that. You have got to sit down and really be honest and it is a very difficult thing to do. If you do not, you're just going to get chewed up.

The other thought I would like to leave you with is the following: I said technology in newspapers is going to make newspapers better and create more jobs and make the people working in newspapers have more value, and I think that is true for all of us. If you make better products you will have a better life. You will keep your job, your company will do better, more people will want you. If you are a good salesman you are going to be more in demand in the future, not less. Technology has a history of creation as opposed to destruction. And we have got to be very careful that we do not think of technology as something that is out there and that's on it's own and that deserves it's own homage. Because that is not the real case.

We are making a terrible mistake in our school systems of trying to teach our kids about technology at the expense of teaching them how to read, how to write, how to get along with other people, how to work hard. We have got to be very careful that we do not get carried away.

All of that is the height that comes out of what we want to sell as opposed to sitting back and seeing what the consumer wants or in the case of our kids what our kids need. Unfortunately, in the school systems there is a certain amount of money, that is not going to grow, If anything, the political process at the moment tries to reduce that amount of money.

So we have two choices, we can have better and more teachers or we can have some photo opportunities for politicians hooking that classroom up to the net.

And what you are going to do as manufacturers is increase the internal complexity of all of your products so that the rest of us who are consumers see something, you are going to make the internal more complex so that we who look at the external part of your products see something simpler. And with time your products will get easier for us to use, we will have to have less specialized knowledge to use them, they will provide more functionality for us and we will be better customers of yours.

So thank you very much for having me.