

AUGUST 8, 2005

NEWS: ANALYSIS & COMMENTARY

Revenge Of The Nerds -- Again

Search engines Google and Yahoo! are hiring away hundreds of top engineers from high tech's best firms

Some call it the "giant sucking sound" emanating from Silicon Valley. For others, it's a migraine in the making. But whatever they're calling the hiring binge at Google Inc. ([GOOG](#)) and Yahoo! Inc. ([YHOO](#)), just about everyone is a bit astonished at the fearsome force that's swallowing up some of tech's best and brightest. "High-profile researchers are now flocking to the search engines," says Marti Hearst, associate professor at the University of California at Berkeley's school of information management and systems.

The migration of software-engineering talent to Google and Yahoo is a testament to how high these search companies have risen in the tech firmament. Coveted talent from academia, startups, and venerable tech companies that a decade ago would have flocked to Microsoft Corp. ([MSFT](#)) or Sun Microsystems Inc. ([SUNW](#)) are now more than willing to switch teams and join Google or Yahoo. In the second quarter alone, Google snapped up about 230 engineers. Recent additions include software superstars Louis Monier, director of eBay Inc.'s ([EBAY](#)) advanced technology research, and Kai-Fu Lee, a top-flight researcher at Microsoft -- which prompted the software giant to sue Google and Lee to keep him from going to work there right away. Yahoo, meanwhile, has recently hired dozens of top engineers, including Larry Tesler, former vice-president for shopping experience at Amazon.com Inc. ([AMZN](#)). And the company is expected to announce on July 28 that its new head of research is Prabhakar Raghavan, former chief technology officer at search-software outfit Verity Inc. and an authority on algorithms.

What's behind this talent raid? Another dot-com gold rush it's not. Eager investors already value these businesses at a combined \$130 billion, up from about \$63 billion last August when Google went public. That means the share prices reflect much of the companies' promise, suggesting stock options could be in for a slower climb from here.

"A WILLY WONKA EFFECT"

Of course, these top-level search engineers are still among the most well-compensated technonerds out there. But there's more than money at work here. These guys -- and they are truly mostly men -- are also attracted to the massive, unsolved technical challenges facing search companies, which affect hundreds of millions of people daily. In years past, PCs, operating

systems, and databases were viewed as core technologies where engineers could work on problems and change people's lives. Today, more techies view search on the Internet as among the most important services. "The Internet is touching everyone's lives," says Usama Fayyad, chief data officer and senior vice-president at Yahoo, who joined the company last December. "A new science is being defined in an area that will take over much of what we do commercially and socially."

Indeed, Google -- and, to a lesser degree, Yahoo -- has become what Microsoft used to be: a young, vibrant company working on the bleeding edge of the day's vexing technical issues. Before the Internet became the phenomenon it is now, Microsoft was a magnet for top talent interested in solving the toughest tech problem: making personal computing easy. Today, though, the gravitational force at the center of techdom is no longer the PC -- it's the Net. And while MSN holds its own with Google and Yahoo in terms of worldwide use, its engineers can't develop products that would undermine Microsoft's monopoly businesses, Windows and Office. Some researchers say privately that restricts creativity.

If Google and Yahoo are able to maintain their position on the crest of innovation, their current hiring push could lay the foundation for the next generation of corporate labs, following in the footsteps of companies such as Xerox ([XRX](#)), Hewlett-Packard ([HPQ](#)), IBM ([IBM](#)), and Microsoft. Sure, these members of the tech Establishment boast research and development budgets several times larger than those at Google and Yahoo. But the Internet companies are just starting to ramp up their research efforts, while some incumbents, such as HP, are downsizing their labs. "IBM and HP have some very interesting projects," says Yahoo's Raghavan. "But there's an undeniable sense of excitement here that other vendors can't match."

Once top talent starts to move, it can be a force unto itself. At Google, for instance, staffers marvel at passing in the hallways such luminaries as Rob Pike, one of the creators of the Unix operating system; Adam Bosworth, a pioneer of the XML programming language; or Monier, who helped create AltaVista, one of the Web's most popular search engines in the 1990s. The chance to work alongside tech gurus, who in some cases authored the textbooks that young employees studied in college, can be a powerful draw.

That's half the story. At Google, much of the magnetism is also generated by a zany culture perfectly synced to the geek lifestyle. Engineers are encouraged to spend the equivalent of one day per week on their own pet projects. When they're not staring into their computer monitors, Google employees will often gather for roller-hockey games in the underground garage or race remote-control blimps through their cavernous offices. Free perks range from gourmet meals at the company cafeteria to bathrooms equipped with digital toilets, where the seat temperature and bidet pressure can be controlled with a remote. "They have created a Willy Wonka effect," says James E. Pitkow, CEO of Moreover Technologies Inc., whose former company, Outride Inc., was purchased by Google in 2001. "Engineers want to work on the coolest problems with the smartest people."

Yahoo also carries substantial geek cred. Each day the company generates 10 terabytes of data -- equivalent to all the print collections in the Library of Congress. By sorting this unrivaled data pile, engineers quickly can begin to discern how products and features are used as well as how people behave online. Adjustments, then, can be made in a matter of minutes, with improvements quickly felt by the company's 400 million monthly users. "I saw an opportunity to take the user interface to a new level for a huge number of people," says Yahoo's Tesler, who joined in May to spearhead the company's Web design.

While the Internet leaders snatch up top tech talent, that creates headaches elsewhere. Some startups, for instance, say the talent drain has made their own hiring more difficult. Joe Kraus, a co-founder of early portal Excite Inc. and now the CEO of collaborative software startup JotSpot Inc., says Google has been especially tough to go up against. "If you're talking to someone great, they're invariably talking to Google, and they often have an offer."

It can be equally difficult for technology mainstays, including Microsoft. Not only has the software giant lost several top minds to Google in recent years, the Redmond (Wash.) company is also facing tougher competition for talent coming out of universities, even in its own backyard. Oren Etzioni, a professor of computer science at the University of Washington in Seattle, says Google has hired most of the top one-third of his search class in each of the past two years.

Microsoft is hardly standing still. With both boundless cash and massive industry influence, the software giant can pay what it needs to hire the leading lights of industry. But clearly, it's feeling stung. It has filed suit against Google and recently departed Kai-Fu Lee for allegedly breaching a noncompete clause in Lee's contract with Microsoft. Google has filed a countersuit against Microsoft. Neither company would comment on the legal battle.

Clearly, Microsoft's motives reach far beyond Lee. Although it is not the only company feeling the hiring pinch of its search competitors, it desperately needs to hire and retain top talent if it wants to gain ground on Google and Yahoo. The company's recently released search technology has been met with praise. But with only about 15% of the U.S. search market, Microsoft badly trails its rivals. It needs to come up with innovations to set itself apart from the pack. By going after Google and Lee, it may help deter other talented techies with similar ideas.

Such moves appear to be stopgap measures at best. With torrid growth and booming profits, Google and Yahoo clearly have the cachet to keep their hiring momentum going. Frustrated rivals shouldn't expect that sucking sound to abate anytime soon.

By Ben Elgin, with Robert D. Hof, in San Mateo, Calif., and Jay Greene in Seattle

BusinessWeek online



A Division of The McGraw-Hill Companies