From: Dan Rosen
Sent: Monday, May 15, 1995 12:48 AM
To: abay; bens; bernarda; jallard; johnlu; petern; russs; thomasre
Cc: jimall; nathanm; pattys; paulma
Subject: Internet Direction

<Sender composed mail containing characters not in the US-ASCII set.>
<These characters have been transformed into a printable form.>

Attached is a draft memo I've written about our Internet direction. =

I'd appreciate your comments. To decide if you want to read the whole =

thing, below is the summary.

Dan

=3D=3D=3D=3D=3D=3D=3D=3D=3D=3D=3D=3D=3D
Summary
Microsoft has the potential to achieve market leadership in the =

Internet, both in product and services. The Internet also has the =

potential to disrupt Microsoft=92s current product strategies, if net use =

becomes a prevalent way for individuals and corporations to extend =

their computing platforms. The only effective way to turn the threat =

into an opportunity is to aggressively pursue a strategy to "embrace =

and extend" the Internet.

Microsoft=92s efforts are currently fragmented, specific offerings =

designed and run by different groups, with limited ability to create =

end-to-end offers or decided appropriate product tradeoffs. This =

allows our competition to gain footholds in the areas where we are weak =

and to recruit the best Internet talent to implement a focused effort. =

There are also gaps in our products and, in general, not enough =

understanding of what customers want in Internet products and services.

There are many fractal changes contemplated that make timing critical. =

As Nathan has suggested, communications to the end user is likely to =

begin to follow a path similar to the microprocessor, a sort-of Moore=92s =

Law pattern, where delivered bandwidth will double every X months. =

This will have enormous impact on the kinds of products and services =

that customers demand. The Internet (the worldwide web in particular) =

PENGAD-Bayonne, N.J.
GOVERNMENT EXHIBIT
331

MS98 0103666
CONFIDENTIAL

has become the harbinger of this pending revolution.

This memo is a readout of the gaps and overlaps in our plans, with =

suggestions for remedies to put us on a course to market leadership.

=3D=3D=3D=3D=3D=3D=3D=3D=3D

DR_INSTR.DOC

DRAFT – for comments only

Microsoft's Potential for Leadership in the Internet

Summary

Microsoft has the potential to achieve market leadership in the Internet, both in product and services. The Internet also has the potential to disrupt Microsoft's current product strategies, if net use becomes a prevalent way for individuals and corporations to extend their computing platforms. The only effective way to turn the threat into an opportunity is to aggressively pursue a strategy to "embrace and extend" the Internet.

Microsoft's efforts are currently fragmented, specific offerings designed and run by different groups, with limited ability to create end-to-end offers or decided appropriate product tradeoffs. This allows our competition to gain footholds in the areas where we are weak and to recruit the best Internet talent to implement a focused effort. There are also gaps in our products and, in general, not enough understanding of what customers want in Internet products and services.

There are many fractal changes contemplated that make timing critical. As Nathan has suggested, communications to the end user is likely to begin to follow a path similar to the microprocessor, a sort-of Moore's Law pattern, where delivered bandwidth will double every X months. This will have enormous impact on the kinds of products and services that customers demand. The Internet (the worldwide web in particular) has become the harbinger of this pending revolution.

This memo is a readout of the gaps and overlaps in our plans, with suggestions for remedies to put us on a course to market leadership.

Introduction

The ideas in this memo have been greatly enhanced by discussions and ideas of Ben Slivka, John Ludwig, Thomas Reardon, J Allard, Anthony Bay, Peter Neupert, Russ Siegelman, Nathan Myhrvold, Paul Maritz, Jim Allchin and many others. BenS has just authored a more in-depth report on his suggestions for the product direction.

Microsoft's Offer

Microsoft has considerable Internet-related activities. They are outlined below. Each group's plan is optimized for that group's mission and their customer targets. At a working level, the groups coordinate to the degree they can, consistent with their mission.

Clients

MS98 0103668
CONFIDENTIAL

DRAFT – for comments only

As communication via the Internet becomes a standard feature of all interfaces, it is likely that all of Microsoft's products will require Internet connectivity and services.

- **O'Hare.** O'Hare (now known as Plus!) is Microsoft's primary Internet client. It contains a Mosaic browser (licensed from Spyglass and modified), TCP/IP stack, and strong integration with Windows 95.
- **MSN Client.** MSN's next client (Rome) will integrate with O'Hare.
- **Cityscape.** Cityscape will require broad Internet access to be successful. It has a information-centric front end and should integrate well with Internet paradigms.
- **Bob.** As a social interface, it is clear that Bob's direction represents the same philosophical direction as the Internet.
- **Other consumer.** Products like Basketball, and many (maybe most) others will require Internet-like services.

Servers

- **BSD.** BSD is doing most of the server work. Their main product, code-named Gibraltar, is scheduled for release on 2/16/96. This product will have full DNS, WWW, gofer, and FTP capabilities, and will integrate with SQL server. It will be positioned as a platform for third parties. It will not have SMTP mail or NNTP news; they will be supported by Exchange.
- **MSN.** MSN has build its own mail and news backends.

Services

- **MSN.** MSN will provide the Microsoft-branded consumer offer to Microsoft customers.

Authoring Tools

- **BlackBird.** BlackBird is being positioned as the high-end authoring tool for Microsoft to sell to publishers and authors.
- **Word assistant.** They HTML Word assistant

Security

- **STT.** STT is a payment server technology that could be applied more generally to Internet-related technologies.

Issues/Problems

In the list below, I've outlined the key issues in priority order. This is a "straw dog" list, and some of the issues might not be as significant as they appear to

MS98 0103669
CONFIDENTIAL

DRAFT – for comments only

me. I look forward to the feedback.

Threat of another company evolving the client and server using non-Microsoft protocols

Microsoft currently controls the base and the evolution of the desktop platform. The threat of another company (Netscape has been mentioned by many) to use their Internet WWW browser as an evolution base could threaten a considerable portion of Microsoft's future revenue. At all costs, we must ensure that we do not allow another company to control the client evolution, even if it means a less aggressive position in other segments (e.g. servers). Our strategy to do this is currently a matter of some dispute.

Lack of integrated plan and direction

Microsoft's Internet plans are not directed toward an overall strategic end. This has led to uncertainty about our ability to continue our separate product offers without being "superseted" by the Internet protocols and technologies.

External and customer image

There is no single spokesperson (short of Bill or Nathan) that currently defines Microsoft's strategy and direction for the Internet. Many of our competitors (especially smaller ones) seem to be covering the landscape and get lots of press. The press itself is not a goal, but customers and analysts are influenced by this. Microsoft is one of the few companies that customers (or potential customers) should think of as "the company that brings you the Internet".

Inability to make appropriate tradeoffs between product and services decisions

We don't have the strategic framework to make inter-product tradeoffs. For example, should we give away O'Hare for use with any service or give only to MSN customers? Or, should we license every tool we have to other Internet services companies, or reserve some for MSN?

Difficulty in constructing "offers" for specific customer segments

MSN has defined a horizontal offer for consumers. Our distribution is via Windows95. On the business side, we have limited understanding of which segments are the most attractive or what offers will be most successful in succeeding. This is especially true where we need to bundle products and services.

Inability to recruit top-flight Internet talent because of lack of focus

When candidates interested in working on Internet interviews with Microsoft, they will typically see four to six separate groups, and will find that Internet is a portion of their job. On the other hand, when they interview with one of our competitors, they will be offered a focused job with broad prospects for Internet

MS98 0103670
CONFIDENTIAL

DRAFT – for comments only

jobs.

Limited knowledge of customer needs or willingness to pay

We have limited knowledge of customer needs for Internet services or products. We have no Internet-focused marketing program. We have extrapolated our MOS data to Internet, as a first approximation, but this is an extremely dynamic market. (Netscape in only one year old.)

Another example is in our server products. Our current focus is on firewall and connectivity (DNS, WWW, etc.). This is an important product, but will not compete with either the current hot-selling Sun offer, that also integrates a mail (SMTP) and new (NNTP) server.

Lateness of certain products to market

Several of our server products will be considerably later to market than most would like, primarily due to resource allocation. It is not clear that if Internet resources were allocated on a broader view, that the resources would be allocated in the same way. There is some duplication of effort that stems from inability to trust that another group will complete its portion of a project, so both groups do the work. An example here is DNS.

Incomplete and inconsistent authoring strategy

BlackBird is targeted at the high-end, and, until now, at MSN publishers only. Media View is mostly directed at CD-ROM publishing. MOS View is MSN specific. Word Assistant is targeted at the low end. We have no mainstream product in the middle for rich Worldwide Web content development.

Recommendations

Below are my top-line recommendations. These clearly need to be refined, but should provide a good basis for discussion.

Form an integrated Internet marketing and product planning capability in Microsoft.

We need a coordinated Internet marketing effort to understand what our consumer, business, and publisher/author segments want of our Internet offerings. Our pricing and promotions of these offers need to be coordinated and we need to get better interlock of our product plans.

On the consumer offer side, we need to decide how to evolve the WWW client (e.g. is it an extension of Windows, or a content tool, or some combination) and how we price and promote (e.g. should we continue to give our browser away or charge and give a cross promotion like an equivalent value MSN gift certificate).

On the business side, things are much less clear. I believe that Microsoft must compete with Sun for a small and medium-size business solution that is "Internet

MS98 0103671
CONFIDENTIAL

DRAFT – for comments only

in a Box" with hooks into Back Office and (potentially) other applications.

Take a more aggressive and public posture of support for the Internet.
We need to ensure that the message we deliver is consistent and deliverable.

Aggressively acquire rights Internet content.
I believe we should aggressively acquire rights (if needed) or have a plan to mirror or cache the most popular Internet content. As we gain experience, we should find way to incent these content providers to use our authoring tools to make this content richer for Microsoft's Internet customers.

Define a coherent tools/platform strategy.
We should reach agreement on the underlying tools and platforms for Internet (primarily Web) development. We should drive toward a single WWW viewer that incorporates technologies from across the company. Where possible, we should build common tools.

Determine where the Microsoft authoring tools will be developed and define the better of a good-better-best set.
We need to have a consistent authoring strategy for WWW content. Where gaps exist, one group needs to sign up for the gap.

The "superset".
We need to begin to understand what technologies we will push to be the Microsoft proprietary extensions to the base Internet protocols and technologies. I believe STT should be one of the first, for both secure payments and secure message transmission. If so, we should adopt a strategy commensurate with that direction, licensing it to everyone to ensure it is broadly adopted. This should be a conscious effort.

Our client and viewer should be another key differentiator. But we should license any client viewer innovations to ensure their broad market deployment and so that others are incented to follow *our* client evolution path.

Netscape
We should try to strike a close relationship with Netscape. In this relationship our goal should be to wrest leadership of the client evolution from them. We should try to win them to a position where they are a "solution provider" of Internet merchant services on NT and Back Office. We should license them STT, authoring tools, and other platform technologies to align them with our direction. We should also contemplate an investment if that helps bring about alignment.

Distribution

MS98 0103672
CONFIDENTIAL