To: FY97 WWSMM Attendees
From: Brad Chase
Date: April 4, 1996
Re: FY97 Planning Memo - Winning the Internet platform battle

- This document is a summary of our key goals and strategies. Appendices available in another document include details to help you prepare marketing plans (product localization schedules, recommended marketing plan...).

1. EXECUTIVE SUMMARY

The Internet is changing our industry as radically as the move from MS-DOS to Windows did, but faster. Software companies who cannot adapt fast enough will fail. We must ride this wave to maintain the leadership Windows gave us. The problem is that Netscape is deeply entrenched in the market. They are also ahead of us in many countries outside of the US as well and we have almost lost the leadership.

We now have a real platform (Internet Explorer with ActiveX), supported by clients, servers, development and authoring tools. We will make this platform part of our operating systems with Sweeper on the Windows clients[1] and IIS on the server. However, this is not sufficient to achieve success. We did similar things with Mail, the Novell redirector, MSN and we still had a lot of hard work to make a dent in the market. Netscape is also smarter, faster and less predictable that Lotus or Novell.

This is "make or break" time: the next 6 months are critical. If the industry does not see signs of success of our Internet Explorer and ActiveX platform and technologies, we will loose our best chance to regain leadership.

2. GOALS AND STRATEGY

We have won platforms battles before. To make history happen again, we must make the industry embrace Internet Explorer and ActiveX :

- establish a significant installed base of users (browser share is starting point),
- sell the benefits of our platforms to the content developers[2],
- convince the influential webmasters[3] to switch to our standards and promote them, reach the producers,
- help the traditional developers (ISVs and corporate developers) write to the ActiveX platform, so they develop the rich base of Web applications and controls that establishes the value of the platform,
- "activate" our partners to create a supportive environment of partners - able to sell, integrate and support our solutions and 3rd party ActiveX technology.

The approach is the same for the Internet and the Intranet.

1. FY 96 - FY 97 Goals

1. Browser share : 35% market share in the US. Other countries should have higher goals. Countries where Netscape is not active yet should aim for 80% share.
2. Exclusive licensing of Internet Explorer to top 5 Access providers in country (those who make up at least 50% of the Internet access in your market).
3. Logo'd web sites : 15 of the top 30 public web sites in each country should recommend Internet Explorer for best viewing and be branded IE web sites.
4. Developers trained on ActiveX equals to 50% of your MSDN subscribers
5. 30 % of your existing Solution Providers have at least one Internet MCP
6. IIS deployement vs NTS

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[1] we will also make it available on the Mac with help from Macromedia.

[2] content developer means anyone who owns a Web site, whether Internet or Intranet

[3] we use here the wide definition for webmaster, i.e. anyone who actually creates and maintain a web site

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GOVERNMENT EXHIBIT 39

Strategies

1. **Go for maximum browser share**

Why should you care?

This is a no revenue product, but you should worry about your browser share, as much as BillG because :

- we will loose the Internet platform battle if we do not have a significant user installed base. The industry would simply ignore our standards. Few would write Windows apps without the Windows user base.
- at your level, if you let your customers deploy Netscape Navigator, you loose the leadership on the desktop. This is similar to letting your customer adopt Lotus Notes.

How to establish browser share

- switch users of competitive browsers to Internet Explorer, and
- bring new users to the Internet with Internet Explorer and keep them on it.

We know that it is very hard and expensive to make people switch. We will focus tge greater part of our efforts on new users since we expect the total ww user base of the Internet/Intranet to double in one year - but we cannot ignore the existing users who are the influentials today.

License Internet Explorer to all Internet Access Providers[4].

This is the best and fastest way to build share with new users. This gives us thousands of new users at once. Netscape has been very successful at licensing Navigator all over the world. Despite of our superiority in terms of languages (23 vs 4 for them today), we have not been able to compete because we lacked a browser for Win 3.x and the Mac. We will have them in May-June[5]. Netscape will soon catch up with us on languages, so we must make our move to get the most of our advantage very very soon.

You should go out to all the significant ISPs and on-line services in your country in May and close licensing agreements. You should also be able to break most of Netscape licensing deals and return them to our advantage because our browsers are free. In most countries, this is the responsibility of your local PNS people.

With IE 3.0, this summer, we will offer a customization kit that enables ISPs to use their own brand and logo, this is something Netscape does in the US today.

In June, the OPK2 will include Internet Explorer and direct sign-up with ISPs other than MSN in all countries. This means that all new users of OEM Windows 95 will have Internet Explorer 3.0, ... therefore even more compelling reasons for ISPs to adopt Internet Explorer as their exclusive or preferred browser. Policies for "going in the box" are still being defined and will probably include a fee for the ISP.

Own Corporate browser licensing.

This is one of the biggest potential revenue opportunities for Netscape. As soon as we have Win 3.1 and Mac clients, we should have absolute dominant browser share in the corporate space. Many of our customers already have a license for Internet Explorer but don't know it. Large accounts who have a MOLP or Select license for Win 95 have it. This will be true for all NT SUR customers as well. Internet Explorer for Win 3.x and the Mac will be free too. ECU and OCU sales must make it very clear that it does not make any sense for them to buy Netscape Navigator.

On top of that, corporations will also be able to use the customization kit.

Own the Internet section in the retail channel

With the launch of Internet Starter Kit 1.0 and 2.0 , Plus 2.0 (ex-Nashville), FrontPage.

Broad reach PR

We want people to think "Internet = Microsoft", everywhere. This is very different from the PR we traditionally do with trade press and analysts. We must do very broad PR, be everywhere on TV in shows that demonstrate the benefits of the Net to various audiences : kids, parents, professionals...

We need awareness for Internet Explorer. Today, we are low. We want customers to ask for it. We will put some effort into creating demand.

Maximize physical distribution of Internet Explorer

[4] sometimes called ISPs, Access Providers can be major Telcos, On-line services or local access providers

[5] both will include TCP stack, dialer and mail. See appendices for localization plans.

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We will continue to pursue all possibilities, such as bundles with magazines, modems, licensing to ISVs...

Activate the OEMs.
All OEMs who bundle Win 95 have Internet Explorer, yet some of them seem to have forgotten it and even license Navigator. There is an opportunity to do better co-marketing, as some countries like Sweden did with joint ads, seminars, road-shows and training.

Switchers
In the US, we will continue experiments to go after the switchers, mainly with on-line advertising. Our investments in switcher campaigns so far have not produced significant results, but we have higher expectations with IE 3.0. The gains we made were realized against "second-class" browsers (various flavors of Mosaic).

If there are local players in your markets who are promoting their own browsers (such as VOL in Italy), you may want to get them to license our browser before Netscape does. They will not be able to sustain the level of investments required to offer satisfactory performance and functionality as users become more demanding.

Finally, the best way to make people switch browser is make sure that they have to, in order to get the best content.

2. Great content, best viewed with Internet Explorer

Content drives systems. Windows won the desktop OS battle because it had more applications earlier than any other platforms. We must make sure that the best Web applications and content become available for IE users first.

We must reach out to a new type of partner, the webmasters. They are the ones who actually create web sites. (see Customer needs section in appendix for more detailed description of this segment). We need to understand how to reach the producer (the real decision maker), the designer (the influential today) and convince them to make two steps. The first and easier step is to embrace the HTML standards that we support (scrolling text, background sound, video...). The second step is to embrace the ActiveX platform and use ActiveX controls in their web pages, with the help of developers. We will rely on the Internet evangelists and DRG worldwide to identify them and establish a relationship with them and drive this process.

IE logo everywhere
Netscape has very successfully disseminated their logo all over the Web. Obviously, if a new user sees "Best viewed with Netscape" on 8 out of his 10 favorites sites, he will feel compelled to switch. We don't want to invest in bringing new users to the Web and let them become Netscape customers.
Luckily enough, Netscape's logo program has not been as effective outside of the US as in the US. We must re-launch our logo program everywhere in the world. This is not difficult, but we must act very fast (May) before Netscape's local subsidiaries and partners do. Our existing Web sites with local language content are a big advantage for us.

Make the coolest sites Active sites
The webmasters will need the help of the developers to embrace the ActiveX platform. We must make it easy for these communities to understand how to work together.
Our platform is superior to what Netscape, Sun or Apple can offer. However we will fail if we do not help the market realize its potential. We have a short window of opportunity before the competition will strike back and try to confuse the market, making our great news old stories.
ActiveX must be the hottest thing through the next year and generate as much coverage and interest as Java did. To do that we need to build evidence with showcase Active Web sites all over the world, asap. These sites must be the coolest, most innovative and widely publicized. We need both Internet and Intranet show cases.
Once we have created the impetus, we must continue to facilitate a rapid and broad deployment of ActiveX controls on the Web and we will do that through 1:many programs including training, support and incentives.

3. Engage the developers

There are 6 million developers worldwide who use Microsoft development tools and technology. This is one of our key assets against Netscape. We must help them (ISVs and corporate developers) write to the ActiveX platform, so they develop the rich base of Web applications and controls that establishes the value of the platform.

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We will invest in building a top-level training machine. We will make sure that our training materials are available worldwide, simultaneously with each major release of any of our Internet products. The best delivery vehicles are obviously our websites.

It is critical that subsidiaries leverage these materials locally through an efficient train the trainer mechanism. Our Developer marketing people worldwide will initiate 1:many "evangelization" programs. They will also launch key tools supporting ActiveX : Jakarta and VB 5.0 (June and September).

4. Activate our Solution Providers

Netscape has established an impressive web of partnerships (Sun, SGI, Novell, IBM, AT&T, Sony, HP...). probably the most worrisome part of this is they are going to leverage their partners corporate sales force and channels against us. They also launched their 1:many Affiliate and Affiliate Plus programs targeted at VARs, resellers and small integrators.

We need to put our Solution Providers asset to work, very soon, worldwide, before Netscape builds a bigger and better one than ours. We must quickly bring them up to speed to be able to sell, integrate and support our solutions and 3rd party ActiveX technology. Our support is a key asset for us.
We will rely on the OCU worldwide to roll out communication and training to the Solution Providers channel outside of the US as well.

3. CUSTOMER SCENARIOS

The essence of a platform is to serve the needs of a whole industry. The unique selling proposition of the ActiveX platform is "one world". There will not be a PC world and an Internet world. ActiveX brings them together.

What does this mean for the customer ? It means you can keep your existing hardware and software - you can use your existing skills and knowledge.... And reap all the benefits of the Net with only minor incremental efforts while protecting your existing investments. This is true whether you are an end-user, MIS manager, business decision maker or developer, whether you want to create a commercial or non-commercial Web site, or an Intranet...

Netscape/Sun require a blank sheet, start it all over again approach.

In the section below, we discuss briefly the benefits of the ActiveX platform and its components in regard of each of SteveB's customer scenarios. For more detailed drill down on customer profiles, needs and benefits, see Customer needs in Appendix.

1. Personal work productivity.

Use your PC, use the Net, it is the same thing. One world. The integration of the browser into the Windows shell (Sweeper) makes it very easy for users to use the Net. Users don't need to learn 2 different ways for navigating though and searching information. They don't need to think about whether the information they look for in is a file or HMTL page. All this is transparent. By bringing together hyperlink navigation, file tree structures, and universal search, the "Internet-enabled-Windows" offers the most efficient way to retrieve information from virtually unlimited resources worldwide. Starting this summer, the only thing any user has to do to get there, is buy Nashville (Plus 2.0).
On top of that, ActiveX allows applications to be containers (i.e., act like browsers) and access directly sources of information, so you don't need to switch back and forth between your browser and your application and copy and paste from one to the other. ActiveX also enables applications to create hot documents which behave like Web pages. They can contain ActiveX controls, be searched and surfed through. This opens up the market for a whole new breed of exciting applications. This is not easy to describe in writing, you've got to see the demos. We should see the first applications by ISVs reach the market this fall.

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Information sharing and communication at work (Intranet).

Nashville (Plus 2.0, shipping this fall) offers many features enabling interesting scenarios, such as :

- Data conferencing and application sharing : 2 users work on the same Word document one after another and talk to each other simultaneously through the same connection, all they need for that are DSVD modems.
- White board : several users can work on the same application at the same time, any change appears instantaneously on all users' screen. Note that applications needs to be upgraded and written to these APIs to offer this functionality.
- Personal Web server : any Win 95 user can turn his own PC into a peer HTTP server and publish his own web pages without needing access to a server.

3. Small Business automation.

As the browser becomes the standard form viewer, many forms based applications can benefit from this simpler, unified container. In fact many forms will be HTML pages (in the US, for instance, the IRS made their forms available on the web).

ActiveX controls can be easily recycled from one application to another. There will be a wide market for sophisticated controls (this is pretty much the same thing as OLE Controls). As a consequence, Small developers and VARs will be able to can create customized solutions (such as a Web-based product catalog, order entry forms and mail) faster and for a cheaper cost.

4. Line of Business applications.

The benefits for the universal form viewer apply equally here.

Database publishing and interaction through the web will be big. The specific strength of ActiveX is DCOM, which makes easy to develop distributed client-server applications. Everything is here today to make it easy to distribute widely customized clients and query tools to existing databases, without marginal incremental investments.

5. Management and customizability.

This is where the "recycling" abilities of ActiveX really stand out. With the integration of VBS as scripting tool, the choice of languages (VB, VC, Java) and cheaper server programmability thanks to the ActiveX controls market, we should be able to convince customers that the development and maintenance of Intranet-based applications will be much cheaper than starting from scratch with Netscape and Sun's Java.

Same reasoning applies to cost of training of their helpdesk.

6. Internet Authoring.

As corporations open up a window on the Internet, they will want to show an attractive figure, while conducting business efficiently, maximizing their potential reach and keeping costs low. To them, we offer ActiveX (more bang for the buck), authoring tools, and (hopefully) soon the largest user base they can dream of.

To make the user experience richer and differentiate their sites vs the competition, webmasters (whether internal or external) will need to introduce sophisticated code into their pages, as opposed to just sophisticated graphics and visuals. This is the next wave, from today's almost static Web world to tomorrow's active web world, and of course, this is the promise of ActiveX.

ActiveX is not limited by the "sandbox" architecture in which Sun has locked Java. ActiveX controls offer much richer functionality than Netscape Java applets and Java script can offer. Netscape's plug-ins may offer similar levels in functionality, but they will not run in other applications than a browser. As a consequence, and because ActiveX controls are nothing else than OLE controls that have been enabled, many more ActiveX components will be available on the market at a cheap price. This takes care of the concern about costs.

We also have authoring tools. FrontPage will be the higher volume product, while Internet Studio (Q4 CY96) targets the professionals and will be positioned as a developer tool for handling the overall integration of ActiveX controls and professional graphics created in other tools.

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Last but not the least, once the browser is in Windows and virtually any application acts like browser thanks to ActiveX, it is likely that the wider user[6] base will not use a separate browser. While the browser base has been a problem untill now (if you want reach, without the cost of maintaining several tree structures, you choose to optimize for Netscape). From now on corporations who start developing web sites now should target the larger base (ActiveX), all the more so that ActiveX controls will be also run on Netscape 2.0, with the Ncompass plug-in.

7. Leisure Usage.

Nashville will ship with :

- An Internet game,
- Desktop themes (such as Kids, Personal Finance, Sports), with animations on the desktop and links to the Web.

4. COMPETITION - NETSCAPE

1. Current situation

Netscape is already entrenched in our markets all over the world.

- The situation today is scary. We have not taken the lead over Netscape in any market yet. Netscape has subsidiaries in Germany, Japan, France, UK, Canada and maybe more places. They have distributors in many other markets (Korea, India, Thailand, Mexico, Poland...), who localize their browser in the local languages.
- Netscape and its subsidiaries have changed their focus area. After having successfully signed licensing agreements with the major telcos and access providers almost everywhere, they are clearly trying to build their other channels.
- Outbound : they launched their Affiliate, Affiliate Plus and Commercial Applications programs (targeted at resellers, VARs and integrators) worldwide.
- OEM : Compaq, Digital have signed distribution agreements for Netscape server products.
- ISVs : Novell, Artisoft are also bundling Netscape products.
- Retail : Netscape has been in the retail channel in Japan since several months and recently launched in Hong Kong and Sweden. We expect them to launch a retail product in all other main countries any time now. For sure all of Western Europe.
- Now that their distribution channels are in place, they are rolling out their Intranet "business solutions" push.
- They won several bigs accounts in the US and are beginning to win some significant accounts outside of the US as well, such as Olivetti. They launched series of seminars outside of the US and in Europe in partnership with SGI and Sun.
- Finally, they are expanding their PR activity outside of the US. They had significant press activity at Cebit, and even claimed that 50% of their ww revenues come from Europe.

2. Next moves

This is what we expect them to do :

1. Products

- Launch Atlas (Netscape Navigator 3.0) in May, and a newer version every 3 months, ship many more new languages (all Western European languages, Hangueul, Chinese, Polish...).
- Port their server apps on all flavors of Unix,
- Focus resources on making Java the platform, be the Java company,
- Improve their Internet server, make a better turn key solution for small business,
- Build a range of horizontal and vertical server apps, including accounting solutions,
- Acquisitions to complete their tools portfolio,

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[6] This is true for the Win 32 user base. Win 3.x and Mac users will still use a separate browser.

2. **Partnerships**

- Solidify alliance with Sun,
- Look for partnerships to use as virtual corporate sales force : IBM, DEC
- Expand partnerships with all NT adversaries, HP, IBM, use them as OEM channel
- Expand partnerships with top consulting firms to sell commercial server apps and systems integration,
- Partner with Adobe, Apple and Macromedia to extend multimedia appeal of their platform, through exclusive deals for media runtimes in Netscape's Java classes,
- Partner with Apple to evangelize and own the designers,
- Partner with SQL Server competitors to develop Database connectivity.

3. **Marketing**

- Roll out Netscape web sites worldwide,
- Do more PR outside of the US, use showcases similar to Apple/BMW,
- Launch a new version of their logo program with Atlas,
- Downplay ActiveX and IE 3
- Continue to widen distribution channels : Novell VAR channel, retail, launch add-on products
- Push Intranet and corporate subscription programs for clients and servers
- Grow client HW/OEM deals

5. CONCLUSION

- This is "make or break". We know what we have to do. Speed of execution through the next 6 months is the key success factor.
- When planning for your Internet activities and organization, you need to keep in mind that the product planning cycle in the Internet world is 3/4 months, not 18/36 months. Much of what we know today may be obsolete this summer.
- We all need to learn how to work within these much shorter cycles and create the maximum impact in the shortest possible time frame.
- This is why we are including a recommended subsidiary marketing plan and suggest that your Internet team focuses very hard on making an impact through the rest of this FY first, even before thinking of FY 97.

- Note : the information below is available in a separate document as appendices to this memo.

APPENDICES

Recommended Short term Tactical Marketing Plan
Products
- Overview
- Localization plans
- What is the ActiveX platform ?
- Overview - developer products

Market data
Customer needs and benefits - drill down

Shortcut to Internet Planning Memo - Appendices.lnk

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