Internet Customer Unit

Microsoft Europe - EHQ

".. Standalone browser sales were especially hard hit in Europe .."

Jim Barksdale - CEO Netscape

FY'98 Business Goals (June 1997)

- Win the distribution battle against Netscape
  - *75% of ISPs distributing Internet Explorer/Outlook Express as preferred browser/mail client*
- All top ICPs in each geography authoring channels for IE4
- Recruit and develop Depth partners from each part of the Internet value chain for NTS, SiteServer and MCIS
  - *Web hosting by ISPs*
  - *Web development services for IE4, ASP, SSEE and MCIS*
- Business network services (outsourcing, VPNs) on MS s/w
- Engage depth partners through co-marketing and Structured Sales Cycle

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- Small Business Server
- Broadband projects (xDSL, CableModem)
- WebTV/ASTB
- NT into Telco OSS & infrastructure
- Commercial BO

Key S1 Results

- **ISP/OLS coverage of more than 78% of new Internet dial-up subscribers (4000+ IEAK licenses)**
  - ***41 of top 50, 85 of top 100 ISP/OLS ship IE as preferred or exclusive browser***
  - ***dial-up market share now 55%, will grow to 60% even w/o upgrades***
  - ***focussed upgrade campaigns occurring everywhere (some $$$s needed)***
  - ***6 markets at 65% already, all markets (bar Germany) are projecting 65% by June***
- **230+ Platinum IE channels at launch**
  - ***in process of reviewing business value of channels effort***
- **Strong gains in NT/IIS hosting, despite limited sub focus and lack of quantitative goals**
  - ***29% of new hosted sites Dec'97 (up from 17% in Jun'97)***
  - ***NT hosting design wins (100% IIS) in several markets (Belgium, Denmark etc.), Demon close to completion in the UK (40,000 sites)***
  - ***13 MCIS sales, several more in negotiation***
- **All Telcos engaged, to varying levels**
  - ***Telcos are #1/#2 ISP/OLS in all markets except UK***
  - ***All Telcos are shipping IE, preferred or exclusive in all markets except Germany, Switzerland (parity)***
  - ***MCIS, CBO gains in UK, NL, IT - slow elsewhere***

Domestic Market At a Glance

Dial-up Access Market

	Demographics			Internet Market					IE Share		
	Population	Households	Home PC Installed Base	MY98 Subcribers	MY97-MY97 Growth	Penetration - Population	Penetration Households	Penetration Home PC I'Base	ISP Share	ISP Coverage	Projected ISP Share (without upgrades)
United Kingdom	55,055,000	24,600,000	6,409,285	1,633,000	108%	3%	7%	25%	66%	69%	66%
France	56,670,000	23,370,000	3,659,000	650,000	21%	1%	3%	18%	66%	93%	72%
Germany	80,300,000	37,386,109	7,630,802	3,813,000	193%	5%	10%	50%	40%	71%	47%
Switzerland	6,950,000	3,150,000	1,274,204	209,500	117%	3%	7%	18%	60%	73%	62%
Austria	8,070,000	3,322,500	684,400	130,000	20%	2%	4%	19%	56%	83%	65%
Alps	15,020,000	6,472,500	1,958,604	339,500	68%	2%	5%	17%	58%		
Sweden	8,640,000	4,000,000	1,278,000	595,000	98%	7%	15%	47%	62%	86%	70%
Norway	3,950,000	2,003,000	678,000	303,000	95%	8%	15%	45%	61%	94%	71%
Denmark	5,350,000	2,331,500	805,000	290,000	45%	5%	12%	36%	56%	84%	73%
Finland	4,995,000	2,100,000	493,000	200,000	8%	4%	10%	41%	47%	97%	57%
Nordic	22,935,000	10,434,500	3,254,000	1,388,000	85%	6%	13%	43%	58%		
Netherlands	15,800,800	6,500,000	1,776,669	550,000	120%	3%	8%	31%	49%	61%	50%
Belgium	10,350,000	4,000,000	743,089	132,000	136%	1%	3%	18%	66%	100%	74%
Benelux	26,150,800	10,500,000	2,519,758	682,000	123%	3%	6%	27%	52%		
Italy	57,585,000	20,855,000	2,000,683	554,000	229%	1%	3%	28%	61%	80%	66%
Spain	37,608,810	11,409,443	1,187,845	600,000	100%	2%	5%	51%	64%	66%	71%
Portugal	9,253,720	3,298,604	283,224	93,500	87%	1%	3%	33%	82%	92%	82%
Southern Europe	104,427,530	35,563,047	3,471,752	1,247,500	141%	1%	4%	36%	64%		
Czech Republic	9,940,000	2,800,000	150,000	267,500	78%	3%	10%	178%	56%	72%	56%
Slovakia	5,400,000	1,480,000	16,764	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Russia	200,265,611	45,413,656	1,358,610	130,000	160%	0%	0%	10%	61%	91%	64%
Poland	30,400,000	12,300,000	190,000	914,000	#####	3%	7%	481%	70%	95%	71%
Hungary	8,220,000	3,300,000	60,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovenia	13,930,000	3,600,000	150,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Croatia	11,900,000	N/A	30,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Romania	26,000,000	N/A	20,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
East Europe Other	69,000,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
East Europe	375,055,611	68,893,656	1,975,374	1,311,500	324%	0%	2%	66%	66%		
TOTAL EUROPE	735,613,941	217,219,612	30,878,675	11,084,500	130%	2%	6%	36%	56%	78%	80%
Index % US								57%		159%	
US	255,023,000	103,788,330	43,105,289	30,305,000	8%	12%	29%	70%	37%	49%	N/A

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Corporate Market at a Glance

	Corporate Access Market							Web Server Market								
	Demographics			Internet Access			IE Share	Web Sites		IIS Share		Apache Share		Netscape Share		
	Employees	Companies	Business PC Installed Base	Employees with Internet Access	Penetration - Employees	Penetration Business PC I'Base	MY98 IE Share	MY98 Subcribers	MY87-MY87 Growth	MY98 IIS Share	MY87-MY87 Change	MY98 Apache Share	MY87-MY87 Change	MY98 Netscape Share	MY87-MY87 Change
United Kingdom	11,776,784	2,798,861	2,239,004	1,413,215	12%	63%	50%	107,334	192%	9%	5%	40%	-24%	8%	1%
France	21,550,419	2,163,668	7,811,000	1,293,025	6%	17%	46%	15,544	154%	23%	14%	42%	7%	13%	0%
Germany	34,349,353	2,996,285	12,109,420	3,091,442	9%	26%	53%	54,944	180%	17%	11%	52%	11%	8%	-2%
Switzerland	3,669,745	319,671	1,381,530	330,277	9%	24%	48%	19,459	186%	30%	15%	30%	8%	13%	-1%
Austria	3,526,840	272,545	921,100	317,416	9%	34%	28%	10,805	193%	26%	16%	30%	7%	18%	3%
Alps	7,196,585	592,216	2,302,630	647,693	9%	28%	40%	30,264	189%	28%	15%				
Sweden	3,656,863	200,338	1,834,900	987,353	27%	54%	32%	25,325	197%	19%	10%	45%	-3%	6%	-2%
Norway	2,075,300	173,073	838,000	560,331	27%	67%	46%	6,728	139%	20%	10%	48%	11%	14%	-6%
Denmark	2,857,549	304,137	1,037,000	771,538	27%	74%	67%	18,573	393%	29%	13%	53%	19%	6%	8%
Finland	2,164,375	135,503	716,700	584,381	27%	82%	38%	6,637	126%	13%	7%	52%	17%	16%	-3%
Nordic	10,754,087	813,051	4,426,600	2,903,603	27%	66%	44%	57,263	217%	13%	2%				
Netherlands	6,670,200	581,348	3,445,950	1,267,338	19%	37%	51%	20,995	263%	17%	10%	45%	9%	10%	-7%
Belgium	3,658,949	356,754	1,601,994	987,916	27%	62%	66%	5,898	115%	28%	16%	32%	18%	10%	-1%
Benelux	10,329,149	938,102	5,047,944	2,255,254	22%	45%	58%	26,893	15%	20%	11%				
Italy	21,031,408	3,781,963	4,285,236	1,261,884	6%	29%	65%	21,318	185%	31%	19%	41%	8%	7%	-2%
Spain	12,616,795	973,700	2,840,255	757,008	6%	27%	63%	9,197	211%	24%	13%	39%	6%	19%	2%
Portugal	3,125,824	237,116	723,615	187,549	6%	26%	83%	4,364	304%	9%	1%	75%	20%	2%	-4%
Southern Europe	36,774,025	4,992,779	7,849,106	2,206,442	6%	28%	68%	34,879	203%	28%	17%				
Czech Republic	5,329,110	59,599	819,781	N/A	N/A	N/A	N/A	4,639	257%	28%	11%	60%	5%	7%	-2%
Slovakia	2,955,450	19,336	168,541	N/A	N/A	N/A	N/A	1,768	366%	28%	16%	52%	16%	7%	-3%
Russia	57,000,000	937,162	4,548,390	N/A	N/A	N/A	N/A	5,528	231%	19%	10%	69%	9%	4%	-1%
Poland	14,310,000	376,110	1,250,000	N/A	N/A	N/A	N/A	5,478	352%	21%	13%	56%	6%	14%	7%
Hungary	3,924,000	241,932	605,000	N/A	N/A	N/A	N/A	2,368	219%	19%	6%	59%	20%	5%	-2%
Slovenia	3,295,700	56,031	591,000	N/A	N/A	N/A	N/A	1,499	142%	41%	25%	30%	0%	10%	-2%
Croatia	3,200,000	31,021	327,000	N/A	N/A	N/A	N/A	841	187%	16%	12%	35%	25%	16%	11%
Romania	4,700,000	45,046	292,000	N/A	N/A	N/A	N/A	707	263%	19%	10%	57%	16%	10%	6%
East Europe Other	0	27,060	599,500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	51%	8%	6%	-2%
East Europe	94,714,260	1,793,297	9,201,212	0	N/A	N/A	N/A	22,828	256%	24%	12%				
TOTAL EUROPE	227,444,672	17,086,259	50,986,916	13,810,874	6%	27%	43%	352,896	198%	18%	10%	44%	-1%	9%	-1%
Index % US						42%									
US	122,400,667	7,754,463	62,757,333	40,392,220	33%	64%	N/A								

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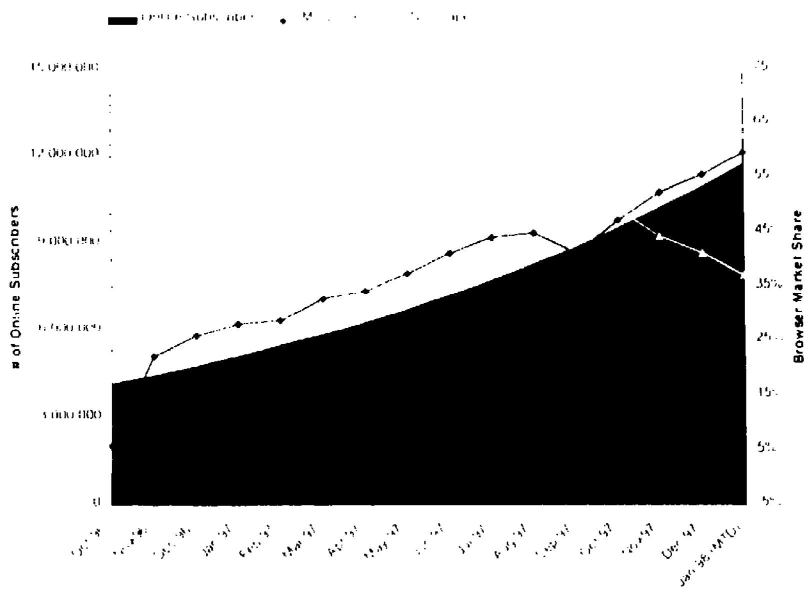
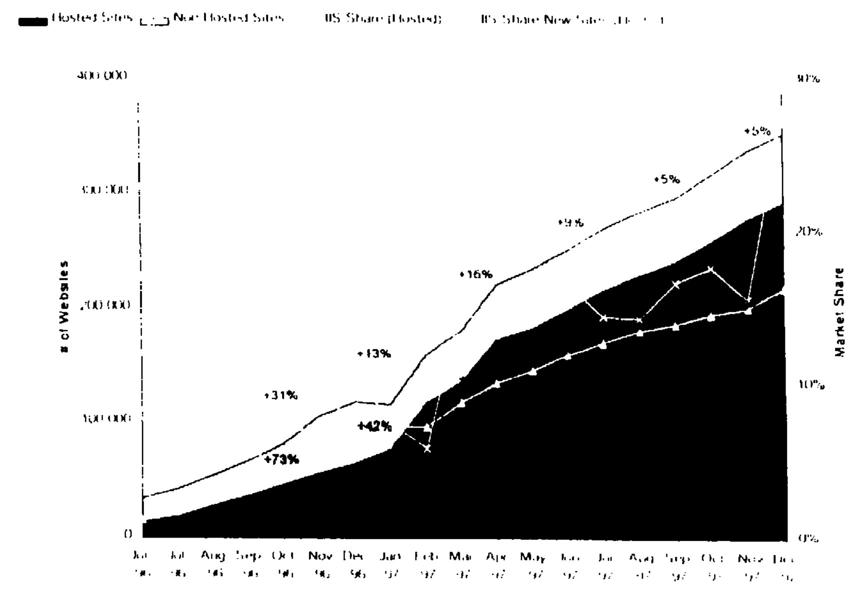
Key Results - IE and IIS





- IE share in excess of 55%
- Projected share (without upgrades) over 60% in June 1998
- Historic share growth fueled by strong growth and broad ISP coverage
- Online subscriber growth still strong, but declining in North Europe

- IIS share grown from 14% to 18% in the hosted market since June
- IIS captures >28% new hosted sites
- Overall Apache share stable 44-45% for 18 months
- Netscape down 1% to 9% overall

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Other Achievements

- **Creating committed MCIS partnerships**
  - *Digital still the major partner*
  - *SNI, ATOS, CAP, Finsiel & Andersen trained and bidding with MCIS*
- **Building foundations for NTS in Telco Enhanced Services & Infrastructure**
  - *Siemens announcement at Telecom Interactive*
  - *European follow up on US engagement with HP OpenCall, Digital SS7, Ericsson*
  - *SI partnerships under discussion with Digital, SNI, Sema, Lucent, ICL*
- **EHQ lead on "Imagine" EU Project**
  - *High-profile project in 4 cities with SNI, Finsiel, Philips, FT et al*
  - *Digital City platform on MCIS & BackOffice, springboard for ADCU*
  - *Positive PR opportunity (Empowerment 2001, CeBIT) and strong political leverage with EU, governments.*
- **2 xDSL trials (Spain, Belgium)**
- **Driving WebTV/ASTB into Digital STB market**
  - *EHQ & Subs trained and motivated to penetrate leading markets*
  - *High demand among Telcos, Cable Cos, Broadcasters*
  - *UK trial engagement by WebTV & sub, MOU with DT*
- **ETSI Membership driven by EHQ**

Where Europe needs to do Better

- **OE adoption lagging IE4**
  - ***MS mail clients #3 (with 14%), behind Eudora, Communicator***
  - ***Difficult to measure directly, new share measurement tool coming***
  - ***Need to drive competitive upgrade activity***
- **NT/IIS hosting below potential**
  - ***Overall market share in hosted segment only 16.6%***
  - ***No impact on Apache/Unix (share stable),Apache on NT highly desirable***
  - ***Need direct engagement and programs (MSP) for ISPs (NT skills a major issue)***
- **SBS needs relaunch**
  - ***Product delays and EU concerns have hit referral ISP engagement***
  - ***Technical problems on sign-up code, now resolved***
  - ***Only 4-5 ISPs targeted for referral (in lead markets only)***
  - ***Breadth ISP channel untouched***
- **Subs not well connected on MCIS**
  - ***Pricing and biz model unstable***
  - ***No sales tools***
  - ***No resale model (not in SI catalogs)***
- **Telco/Cableco engagement not up to scale of opportunity**
  - ***Sub skills & resources not always appropriate for Telco requirements***
  - ***Few subs driving necessary depth or frequency of contact***
  - ***No impact on the Unix competition***
  - ***Perceived by subs as low priority to date***
- **Weak ICP engagement**
  - ***IE channels only - unclear whether ICPs happy with ROI***
  - ***Ownership of ICPs for platform evangelism unclear in subs***
  - ***Missed opportunity for SSEE sales***
- **Web/TV**
  - ***Managed customer expectations badly***
  - ***Business model still not resolved***

Other Issues

- We need IPMs, stronger advocates inside product groups at Corp
  - *ICCD excellent; ISBU, CSD, BSD poor*
  - *Limited information flows on new product vision, technical escalation*
  - *No field support programs (Sales Tools etc.)*
- Subsidiaries not investing enough in Telco opportunity
  - *GMs need to set quantitative objectives, invest in sub technical resources*
  - *EHQ viewed by some GMs as a technical stopgap - we cannot fulfill*
- No leveragable programs for ISPs (especially Breadth)
  - *Poor expectation management around ISN*
  - *US program delivery assumes same OCU integration model as US*
  - *MSP/VAP programs in Europe not structured for Internet opportunity*
- Shortage of skills in subs and in the market
  - *ICU have to provide stopgap for PSS, SE and MCS*
  - *Need technical consulting resource mobilized in the field*
  - *NTS skills shortage in market place slowing ISP adoption of IIS*
- WebTV/ASTB huge opportunity, but with strong political contingencies
  - *Business model and licensing strategy unstable*
  - *Serious Java, NCI, OpenTV, MHEG5 threat in our accounts*
  - *Need "Insight" style program to care/feed partners up to 1999*

EHQ H2 Goals

- **Refocus sub objectives around the Server and Telco opportunities**
  - *Set concrete server license and share goals (% new sites = BSD sell-in?)*
  - *Set concrete MCIS, Broadband and Enhanced Services engagement goals (1 h/s access trial per market, 5 VPN services & 2 Telecom Dashboard trials in Europe)*
- **Reengage around the Small Business Server opportunity**
  - *Organize training event for ISPs, subs in Feb time-frame*
  - *Engage support resource for referral server testing - use Corp resources*
  - *Leverage VAP recruitment effort and Direct Access events (with OCU)*
- **Increase skill levels internally and in the market place**
  - *SE and sales training, product knowledge for MS personnel*
  - *IEAK, SBS, MCIS 2.0 training for channel, apply OCU training/certification*
- **Extend online market tracking and research**
  - *Extend online tracking of browser, mail, servers and Telco/ISP profiles*
  - *Undertake Competition, Supplier analysis*
- **Create conditions for success with WebTV/WinCE in the ASTB market**
  - *Drive/influence creation of "Springboard" program*
  - *Define and promote a technology licensing model (à la TCI)*
  - *Qualify and engage European partners (broadcasters, cablecos, OEMs, SIs)*
  - *Fill open EHQ headcount? (2 SEs)*

Time to refocus the organisation?

- **ICU addresses three target audiences with very different requirements:**
  - *Netops/Partners:*
    - » long-lead product information required
    - » access to technical specialists essential
    - » broad/deep customer coverage and influence
    - » maintain momentum throughout long sales cycles
  - *ISPs (Internet Hosters):*
    - » NTS evangelism and skills transfer
    - » business partnership via normal engagement processes (MSP/Direct Access)
  - *ICPs/SiteBuilders:*
    - » complex and complete platform sale (client and server)
    - » mix of focused account management and breadth care/feeding
- **Present organisation does not exploit all potential synergies**
  - ***Insufficient linkage with US product groups***
  - ***Inadequate utilization of core MCS competence***
  - ***Minimal influence over, and poor implementation of, OCU programs***
  - ***Poor linkage with ADCU developer programs for ICP accounts***
- **Results**
  - ***Sales within depth accounts not up to potential (Telcos, Cablecos)***
  - ***No breadth coverage***

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Recommendations

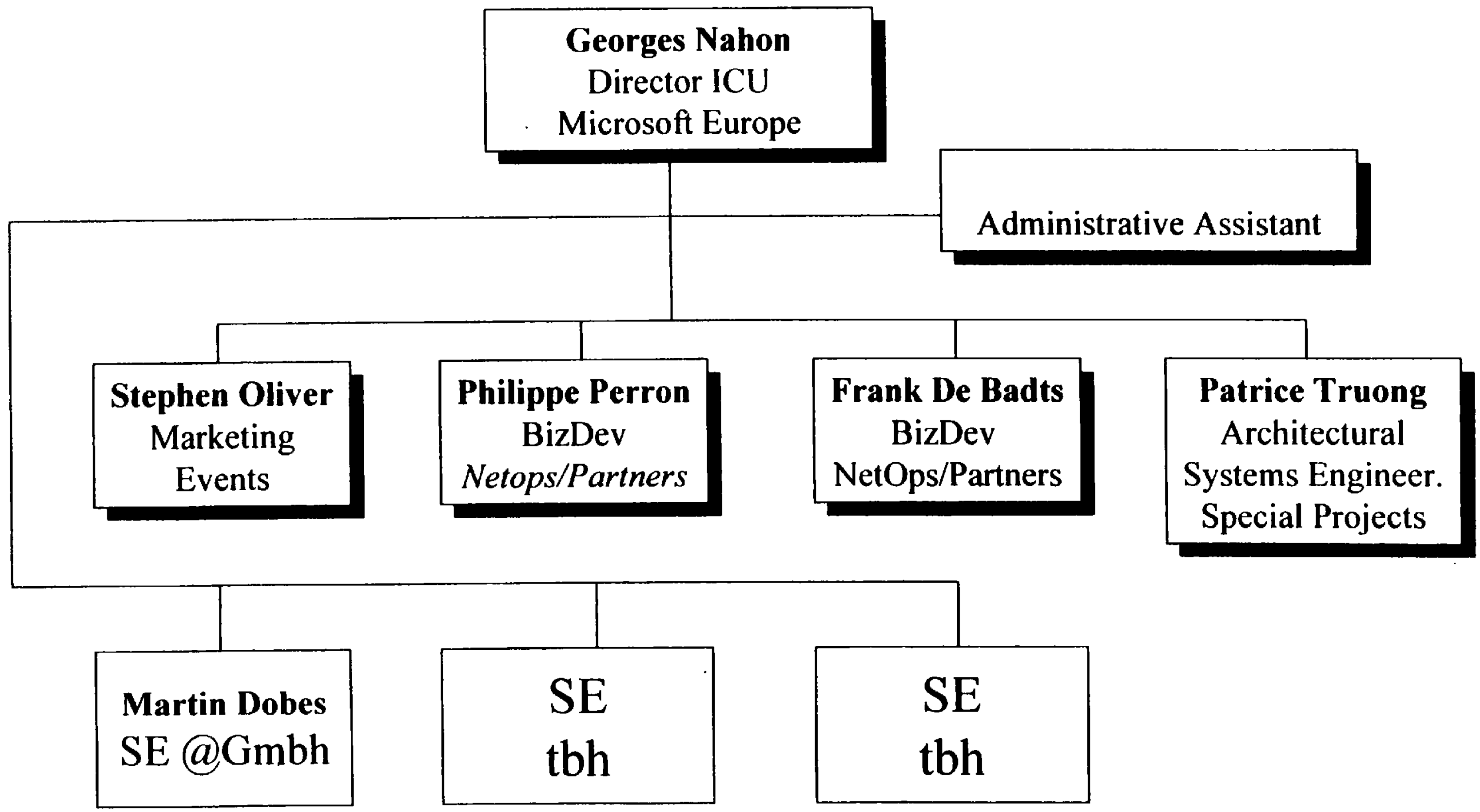
- **Create focus on Telecommunications - "TCU"**
  - ***Build on existing high-level ICU/Telco expertise, reinforce where necessary***
  - ***Focus on building long term relationships with Netops, Infrastructure Providers***
  - ***Shed ISP Breadth (and Depth?), IE marketing (in progress), E-Commerce***
  - ***Create direct interface with US product groups via IPMs (à la ICCD)***
- **Create MCS European Telco Practice**
  - ***Build competence in Unix migration, high speed access***
  - ***Support ICU sales and facilitate EPM presence in accounts***
- **Shift responsibility for Hosting ISPs (Breadth/Depth) to OCU**
  - ***Leverage existing engagement and partnership programs (MSP, VAP)***
- **Build ICP coverage within ADCU**
  - ***Manage ICPs and large Web Developers as a vertical market (no h/c budgeted)***
  - ***Account management of strategic web developers, key accounts (also ECU)***
  - ***Leverage SiteBuilder program in breadth ICPs (web shops, internal developers)***
- **More proactive stance with Netops and telco industry initiatives**
  - ***Regular GM involvement in meetings with key Netop executives***
  - ***Engage proactively in new Netop technology projects and standards bodies***
  - ***Create and apply MS partner programs for Netops and their suppliers***

Headcount Situation MY'98

- **No additional head request for ICU EHQ (2 tbh)**
- **11 Heads requested by the subs**
  - ***1 SE Nordic***
  - ***10 Depth BDM***
- **Note: some ICUs are also doing e-Commerce, ICPs and/or ADCU**

MYR98	requests	actual	approved	tbh
UK/Ireland	0	8	8	0
France	2	4	6	2
Germany	1	8	9	1
Switzerland	1	1	1	0
Austria	0	1	1	0
Sweden	0	4	5	1
Norway	0	1	1	0
Finland	0	1	1	0
Denmark	1	1	1	0
Netherlands	1	3	3	0
Belgium	1	2	2	0
Italy	1	6	8	2
Spain	0	4	4	0
Portugal	0	1	1	0
EE	3	6	7	1
EHQ	0	7	9	2
Total	11	58	67	9

EHQ ICU Jan 1998



9 heads: 2 tbh