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Subcommittee
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IE 4.0 Business Model

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Why We're Here

- Discussion of the work that we have done to provide a framework for the IE 4.0 Business Model
- This is a complex issue and touches different businesses within MS
- Incorporated feedback from many groups
 - such as IMD/MSN, OEM, PNS and external customers
- Want feedback on the direction we're taking
- We will set up subsequent meeting to review final decisions and to address technical implementations

IE4 Business Model Agenda

- Priorities and Business Model Objectives
- Terminology & Business Review
- Customers and Channels
- Key Decisions: Agreement on Objectives
 1. Level of 3rd party participation in IE4 desktop
 2. Two-tier or flat channel model
 3. Level of MS investment in new IE4 business areas
 4. Order of magnitude barter/\$ value of IE4 real estate
- Open Issues

Priorities (in order)

- Increase IE Market Share
 - The primary goal is to make IE and our overall Internet business successful
- Don't leave money on the table
- Provide leverage for the MS content business

Built objectives and model to address these priorities and minimize the conflicts

IE4 Business Model Objectives

- Optimize for participation of MS, and partners (ICPs, OEMs, etc.)
 - Formats for content are 100% open
 - Create worldwide stakeholders
- Drive adoption of tools/APIs/technologies
- Create flexible business model (and product configs) to adjust with market
- Create significant source of value for Microsoft
 - Inclusion of content (MS and others)
 - Increase market share for all MS technologies and properties
 - Barter and/or sell rights to bundle, promote and highlight 3rd party brands and content within IE 4

Terminology Review

(See following conceptual diagram; not marketing terminology)

- **IE4 Browser:**
 - Replacement for IE3 browser
- **Active Desktop (AD):**
 - Feature of IE4 that provides (passive) web viewing--cross platform
- **Active Windows (AW):**
 - Features of IE 4.0 that integrate web viewing with the Windows shell
 - Themes change screen background and icons (aka Plus!)
 - Web View uses live HTML/Active X to display the contents of directories on local disk and network.
- **Channel:**
 - Source of streaming content designed for passive viewing by user
- **Channel Areas:**
 - AD areas provided for viewing Channel streams. Selected Channels are time-sliced into: Channel Area, Ticker, Screen Saver

Terminology Review (2)

■ Channel Defaults:

- Pre-programmed channel content shipped in download, retail, or OEM configs
- Includes Channel logos/icons & URLs

■ Bundled Channels:

- Cached “Teaser” Channel content included in retail and OEM versions, replaced by updated content when connected to Web. Bundled content would highlight Active X and other MS initiatives.

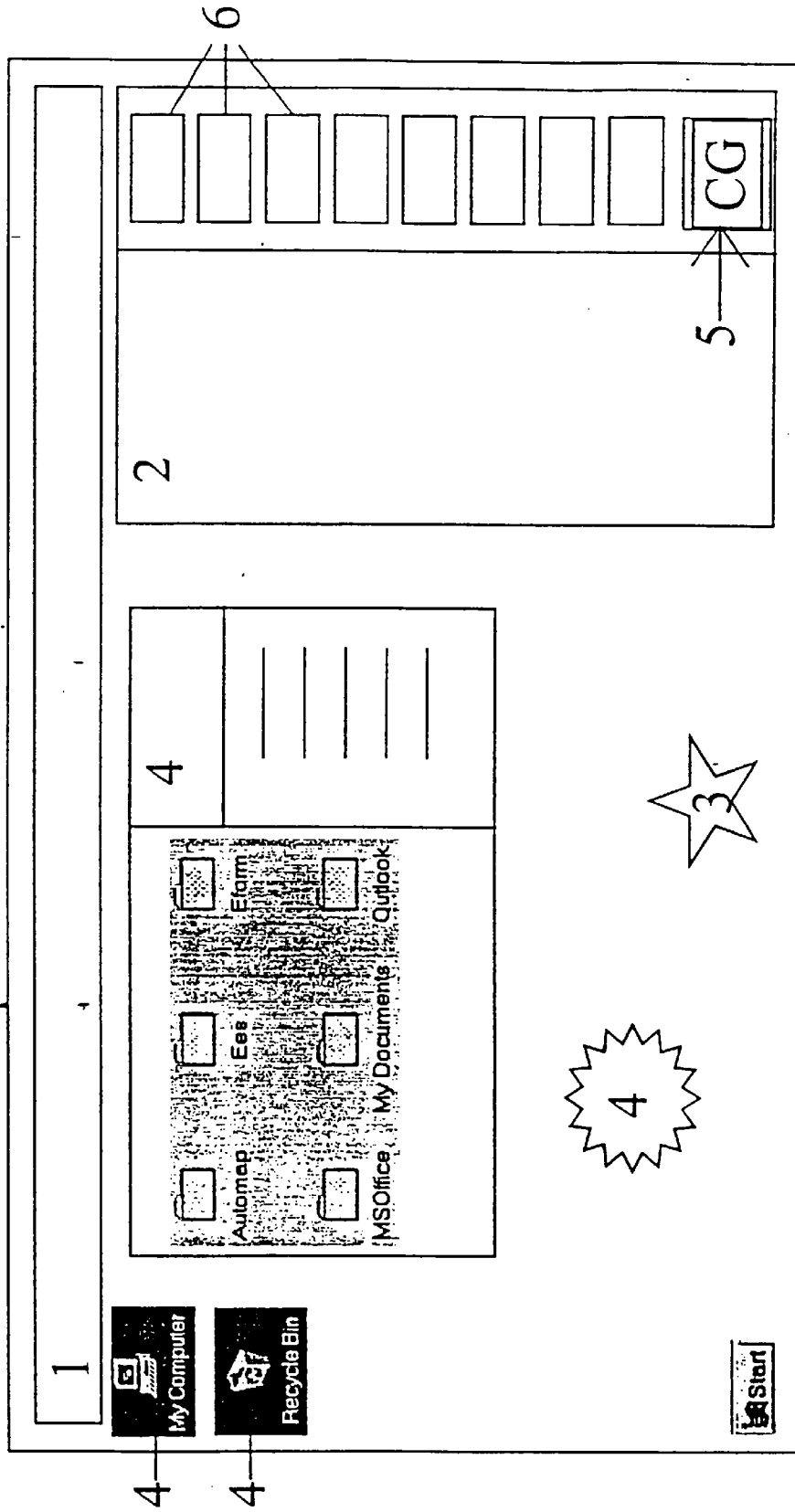
■ Channel Guide:

- Searchable directory of Channels; operated by MS and/or 3rd parties.

■ SuperChannel:

- Proposed two-tier UI & business model to support needs of MS, “Content Distributors”, OEMs, and ISPs. SuperChannels each have 5-10 (or more) Channels under them.

IE4 Active Desktop and Themes: Content Areas



- 1. Ticker
- 2. Channel Area
- 3. Screen Saver
- 4. Theme and Web View
- 5. Channel Guide
- 6. Channels (and Default Channels)

Expected IE4 Product Usage

- IE4 Browser (Pull)
 - Premiere tool for *exploring* the web/any web site
 - Used *actively* many hours per week
- IE4's Active Desktop (Push)
 - Viewer used to tune into content streams (“programs” or “channels”)
 - Primarily for *passive* viewing of packaged content
 - Works only with content authored for the Active Desktop
- When users see content in the Active Desktop and want to interact, they will use the IE4 Browser

Customer / Channel / Partner Considerations

- Accommodate wide range of customer, channel, & partner needs
 - All want to “own” the user
- Within categories (ICPs, ISPs), different grades of participation will be required
 - Premiere partners vs. generic customers
- Different participation models based on:
 - Distribution of IE bits
 - Support of our technology
- Configurability of IE (Default and Bundled Channels) must be managed closely
 - Via software and license agreement terms

Customers/Channels (2)

- End-User Customers
 - Consumer End Users, SOHO/SMORG End Users
 - Corporate and SMORG IS managers
- Value added content providers and value added distributors
 - ICPs:
 - ✦ Premiere (*MSNBC, ESPN*); Std. (*HotWired*)
 - ✦ Distributor (*TimeWarner*)
 - OLSs (provide Internet access plus distribution of content)
 - ✦ Traditional (*AOL, CIS, MSN*)
 - ✦ Cable Cos, RBOCs, TelCos (*SW Bell, @Home, PacTel*)
- Distributors (no significant content value provided/required)
 - OEMs (*Packard Bell, IBM*)
 - ISPs (*Seattle AccessOne, EarthWeb, Netcom*)

Key Decisions

1. Level of 3rd party participation in IE4 Active Desktop
2. Two-tier or flat channel model
3. Investment level in new IE4 activities
4. Direction on bartering/pricing value

1. Level of 3rd Party Content Participation in IE4 Desktop

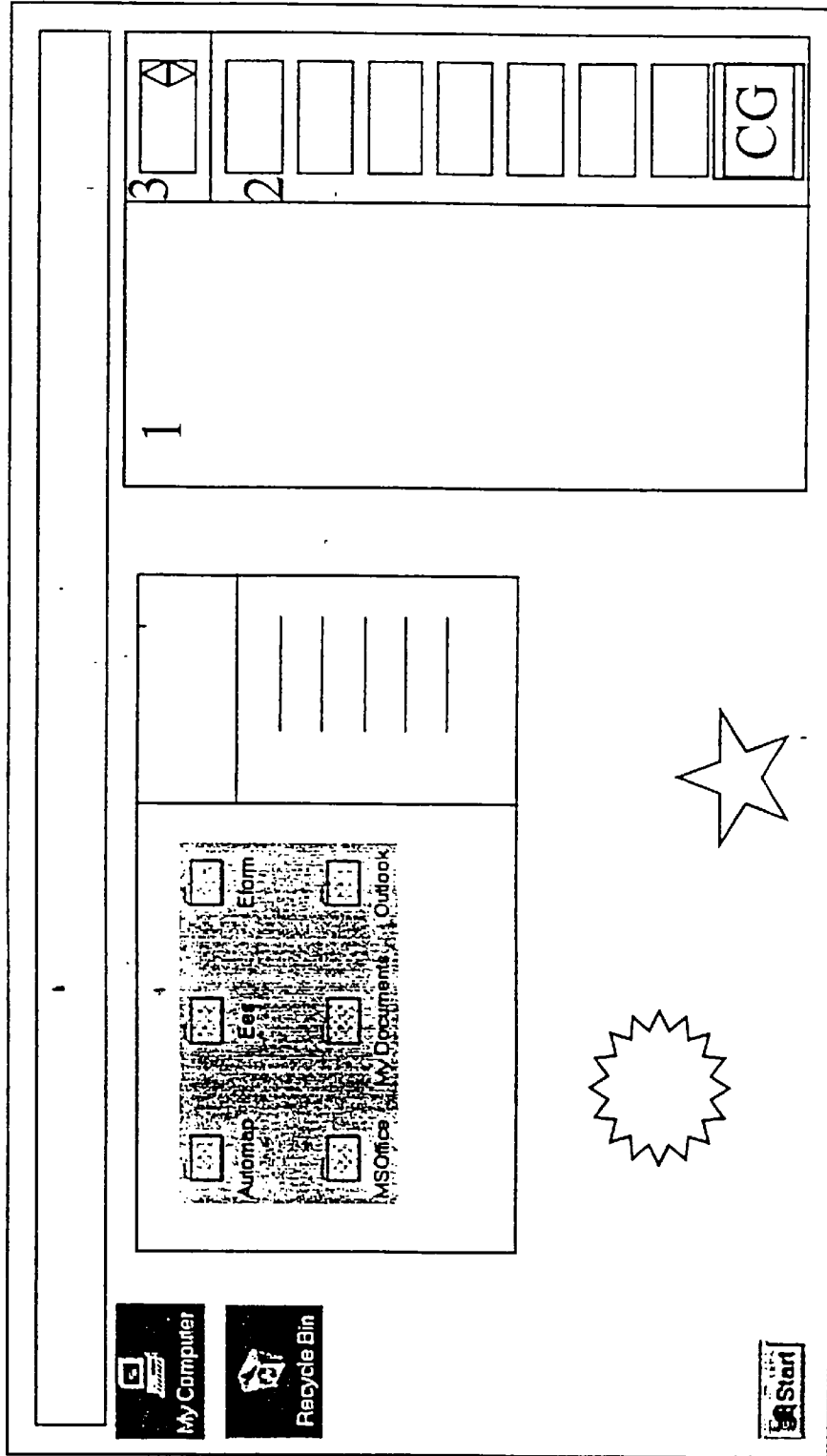
- ☆ **High level -- Partner Centric: partners equal to MS brands; partners aggressively pursued**
 - Pro: creates more stakeholders; delivers richer end-user experience; removes significant burdens from MS; significant long term revenue opportunity
 - Con: dilutes Windows brand (?); less MS control
- **Minimal -- MS Centric; highly selective & required strategic partnering only; not recommended.**
 - Pro: maximize Windows / MS brand differentiation / control
 - Con: loss of strategic leverage & revenue; asks for competitive response of a “more open” platform

2. Two-Tier (“SuperChannel”) or Flat Channel Model

- The Active Desktop UI can practically implement
 - A “Flat” list of Channels (approximately 10 on screen at once) OR
 - A two-tier model with *SuperChannels* (maybe 8), each with its own set of Channels.
- In the Flat model, user selects one or more channels to “watch” from a list of 12-24 total channels
- In the SuperChannel model, user selects a SuperChannel which provides a list of 12-24 channels, and then selects which to “watch”

☆ **We’ve chosen the SuperChannel model**

IE4 SuperChannel Concept



1. Channel Area
2. Channel buttons - same as flat but 1 less on screen
3. SuperChannel selector

Top 10 Examples for Bundled Channels

SuperChannels

Microsoft properties(MSN...)

AOL; CIS

Pointcast

Time Warner

Disney / ABC / ESPN

Cable Cos; @Home

OEM-specific; ISP-specific

Ziff; CMP

Channels

WSJ

ESPN

c|net

HotWired

Yahoo; Infoseek; etc.

NY Times; LA Times

CUC (shopping)

MTV; Tower Records; Virgin

Hearst; Condenet

National Geographic

Microsoft Products

Benefits of SuperChannel vs. Flat Model

- Providing brand hierarchy between “big” and std. Channels
 - Maximizes the branding opportunities for distributors/aggregators
- All large ICPs have *at least* a two-tier hierarchy of their significant content offerings -- standardization of top level UI should help overall experience
- Creates stakeholders for distribution of content
- Lessens the role of IPTD as programmers of content

Bundled & Default Channels / SCs

- Bundling
 - Bundling Channel and SC content will be limited by disk/download space and screen real estate
- ☆ **Recommendation for SuperChannels:**
 - Microsoft:
 - Content Channel (IMD)
 - Microsoft.com Channel
 - Preview Channel
 - 8-10 Third Party SCs
- Default Channel selection will be highly desired by all.

Default SuperChannel Selection

- ☆ **A. Default to no selected Channel(s) or SuperChannel**
 - ✧ Pro: maximize partner harmony
 - ✧ Con: less good for users, less value created for MS or partners
- **B. Set default to any MS IMD property**
 - ✧ Pro: maximize MS market share
 - ✧ Con: partner reaction; end user / market perception of openness
- **C. Default to OEM (or ISP distributor)'s SuperChannel**
 - ✧ Pro: Increases incentive to OEM / distribution partner
 - ✧ Con: Decreases # eyeballs we can guarantee to ICP partners
- **D. Default to Preview Channel**
 - ✧ Pro: Unbiased "ad" channel; less OEM/ISP conflict
 - ✧ Con: Less SuperChannel/MS advantages; user benefit less clear
- **E. Default to a Microsoft products (Office, etc.) channel**
 - ✧ Pro: not competitive with distribution partners; advantages MS
 - ✧ Con: minimal end-user appeal; no incentive to distribution partners

Comparison of SuperChannel to Flat Model

	<u>Capabilities</u>	<u>Flat</u>	<u>SuperChannel</u>
■	End User		
↳	Add SC or Channel*	Yes up to max	Yes up to max
↳	Delete Bundled Channel	Yes	Yes
↳	Change Default Channel	Yes	Yes
■	ICP, ISP/Distributor, OEM		
↳	Add SC	n/a	Yes, one
↳	Add Channel	Yes, 1-2	Yes, 10-12*
↳	Delete Bundled Channel	No	No
↳	Change Default Channel	\$ to MS	\$ to MS

* UI degenerates with too many SuperChannels or Channels

Preview Channel Opportunity

- Ad-based SuperChannel or Channel
- Promotes Microsoft, partner, and all-comers who want to advertise
- Could reserve an occasional “time slice” from <all> other channels to display a Preview channel Ad

3. Investment level in new IE4 activities

- Commit *soon* on operation of Channel Guide, Preview Channel, and staff to sell/barter Default and Bundled Channel space.

☆ A. Investment of 20-25 heads plus \$500k WW, FY97

- ✧ Pro: maximize market experience and opportunities for strategic bartering and future revenues; maintain maximum control
- ✧ Con: costs; focus

➤ B. Nominal investment 10 heads plus \$250k wwide, no Preview Channel, limited “programming” of Channel Guides

- ✧ Pro: closer to current activities; lower costs
- ✧ Con: lost opportunity

➤ C. Minimal investment no adtl HC, delegate opportunity to third parties to maximize user experience

- ✧ Pro: 3rd parties will love us; Con: lost opportunity and control

4. Value of Default and Bundled Channels

- We have not valued SuperChannel or Default Channel participation yet
- Possible pricing models
 - ☆ **A: For first 12 months, use for strategic barter 1st, revenue 2nd**
 - ☆ B: Price per user (or buyout for year) for OEMs / distributors to change Default Channel and/or SuperChannel
 - C: set \$ price of SuperChannel by sealed bid
 - D: set fixed or variable annual \$ price based on subscriber acquisition comparison
 - E: set fixed or variable price based on per-impression value

Content Provider Tools

- SuperChannel SDK
 - Provides profiling and hierarchy guidelines and Channel SDK
 - Addition/Deletion of channels within a SC is controlled by the provider
 - Require support for ActiveX technology
- Channel SDK
 - Info on creation of channels to fit into an existing SC
 - Requires an ActiveX control to install
 - Widely available, COGS only, available online
- Channel Guide SDK
 - Provides information and links to allow creation of a channel guide
 - Replaces MS guide, or in addition to MS guide (?)
 - Available for fee only, only available to SC providers

Expected Competitive & Partner Response

- What will Netscape do?
 - Duplicate features, try to preempt in market
 - Increase promo of Inbox Direct technology, automate
 - More use of NS Start page as alternative to Desktop
- What will a big media company who wants to be a SuperChannel do if we don't bundle them?
 - Run to our NS
 - Attain goals other ways: Web ads, s/w distribution
- What will Compaq, AOL, AT&T say?
 - Depends on product model and business terms

Meeting Business Model Objectives

- Participation of MS and partners
 - 100% open formats
 - SDKs for all IE4 components
 - MS distribution programs: Bundled & Default Channels, Channel Guide
- Adoption of tools/APIs/technologies
 - Use distribution programs as strong incentive
 - Active Desktop content will be best if built w/ MS SDKs
- Flexible business model
 - Barter & revenue mix adjustable over time
- Source of value for Microsoft
 - Increase market share b/c of more stakeholders
 - Move barter towards revenue as share grows

Open Issues

- Pricing
 - Bundled Channel “costs”, SDK T’s & C’s
- Channel Guide partnering terms
- Establish technical standards for ICP channel participation
- Operations
 - Need a worldwide plan
- Technology
 - Finalize UI
 - Build SDKs
 - Protect with certs