

Internet Browsers

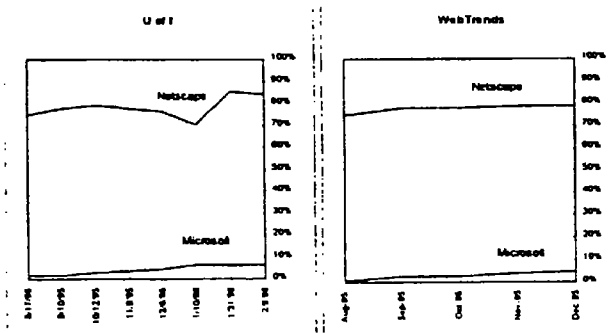
1. Netscape's actions

2. How to Win

Paul Maritz

Feb 22, 1996

The Problem: Browser Market Share



MS6 6006231
CONFIDENTIAL

GOVERNMENT
EXHIBIT
473

Why does it matter

- Pages become applications
- Netscape/Java is using the browser to create a “virtual operating system”
 - no longer a browser, now an environment
 - has end-user momentum (unlike Appware, etc.)
 - will redefine client/server computing
- Windows will become devalued, eventually replaceable?

Netscape Navigator History

- 1.0 Q4'CY94
 - Major release - rewrite of NCSA code
- 1.1 Q2'95
 - minor - tables
- 1.2 Q3'95
 - minor
- 2.0 Q1'96
 - major

Navigator

- Navigator 2.0 -- shipping today on Win3.x, Win95, WinNT, Mac, X.
 - Framesets
 - Javascript *code interacts w/ browser*
 - Java support (not on win3.x or Mac yet) *code interacts w/ Java runtime library*
 - Plugins *manage the screen*
 - Mail, News Client Built In
- Security (w/ Verisign) *can use in conjunction with their browser*
 - Client authentication, secure news/mail *to ID you as you.*
- Chat, Smartmarks, VRML (PaperSoft) Add-Ins *take over the screen?*
- 24 3rd party plugins (Director, Acrobat)

Authoring Tools

- Navigator Gold -- beta today on Win95 and WinNT
 - Easy HTML editing, bundled with browser
 - Posting to ISP
- LiveWire -- beta this quarter?
 - Site mgmt
 - Server based JavaScript
 - Server admin
- LiveWire Pro -- beta this quarter?
 - DB connectivity

Speculation:

- Navigator 3.0 -- Q3 96
 - User features:
 - 2D layout (BlackBird)
 - HTML/JavaScript/Java as send note
 - Integration of InSoft/VRML
 - Developer features:
 - common Java object model (with Sun?)

Speculation:

- Navigator 3.0 -- Q3 96
 - (Proprietary?) Security/Identity:
 - Private newsgroups (w/ AOL?)
 - Personalized communication
 - (Proprietary?) Commerce
 - information standards
 - payment standards
 - "Keep MS on treadmill":
 - Javascript object model tweaks (aka MS treadmill)
 - plug-in tweaks

Speculation:

- Navigator 4.0 -- Q4 96/Q1 97
 - Next generation streaming media
 - Integration with backend workgroup store (using Informix?)
 - Database-focused controls/plug-ins, local replication for mail/news

Netscape as a company

- Browser is their core competence:
 - browser- excellent work
 - tools, server - OK

Netscape as a company

- Able to scale up quickly:
 - Clark, Barksdale, Doer - know how to work "system"
 - Andreessen - giving good direction on browser
 - Hahn (Collabra) will drive good workgroup direction
 - Schell, Sha - good technical managers
- Able to react quickly (eg. Blackbird, IIS)

Netscape as a company

- Obsessed with MS
 - will not support MS initiatives (eg. DocObj)
 - using market cap to address our strategy
 - eg. Since Dec 7th, identified MM as their weakness:
 - Insoft, Papersoft, Critieron acquisitions
 - shades of Novell

Java

- Gaining as scripting language
 - Netscape
 - Lotus
 - Macromedia
 - Adobe, etc.
- Class Libraries define "API"
- Becoming the "brand" for software components

Sun & Java

- Licensing tied to the VM (interpreter)
- Trying to get innovations in API to flow back to Sun
- Working on JavaOS (an OS to sit under the runtimes)
 - diskless workstation, 5-10MB memory
 - ship by year-end?
 - selling to OEMs
- Core Java no longer at Sun?

*key factors
here left Sun.*

How to Win

Netscape strengths

- Browser
 - share
 - technology
- Market Position (Netscape=Internet)
- Good business people
 - exploiting position to build customers, partnerships (eg. Telco's, IBM, TCI)

Netscape Weaknesses

- Not dominant on the server
 - future innovations (eg. identity/security/workgroup) require server cooperation/infrastructure
- Tools not overwhelming
- Going for broke
 - willing to match MS across the board
- Will become more threatening as they grow (eg. to Sun)

MS weaknesses

- Late Win3.1, Mac offerings *forbids most 3rd party support*
- Behind on browser features
- Late on Servers (Proxy, Commerce)
- No control over Java
- Windows/Office not viewed as factors
 - Pages evolving into applications - not using Win API
 - Office95 limited relevance as tool

MS strengths

- Deep assets: desktop, server, apps, tools
- Broad LORG/SMORG/EU channel asset
- More \$'s even than Netscape
- Content (timely?)
- Access??

□ Localization. Capacity
of Support?

Product Strategy

- Catch Netscape 2.0, neutralize Java *with IE 3.0*
- Lead on extending pages to apps
- User features:
 - Integrated with Windows, Mail
 - conferencing
 - multimedia
- Tie back to Windows
 - UI
 - API's
 - H/W acceleration

Better Product

- IE3.0:
 - match Netscape 2.0 (framesets, plugins, etc.)
 - get control of Java with Java support/tools
 - Java can not be an advantage for Netscape
 - Extend platform for a richer experience
 - Viewing (Docobj)
 - Programmability and Client/Server (OCXs),
 - Multimedia & games (Active VRML)
 - Phone & Conferencing (Microsoft Conferencing, SDK)

- I need to understand exactly what we can do with this.

Better Product

- Make Windows the Intra/Internet browser (shellview)
 - Customer benefits from one place to view and work with all information (Webview)
 - Common paradigm for Intranet/Internet

Should play well to cooperation

Better Product

Need to be cross platform:

- NT with Shell Update Release (SUR)
 - Available when SUR is in beta
- Macintosh
 - In broad beta Q1 96 (on the web now)
- Win 3.1 (Internet Explorer 1.5)
 - Included with Gibraltar now
 - Broad distribution Q1 next year (on the web now)
 - Need stack and dialer
- UNIX (partner)

Better Product

- Get ahead as pages evolve to applications
 - forms, data-binding, client/server behavior, multimedia
- Get control of, then leverage the programming model
 - extend HTML to leverage MS tools (and vice versa)
 - Use COM/OLE objects:
 - as way to add behavior client/server
 - provide needed x-platform support (Mac client, UNIX server)
 - neutralize Java
 - easy to extend the browser
 - superset plug-ins
 - safety
- Build identity ("Active") for these services

*buying a company w/a
product to
use
Access to create
an application,
then transition
to HTML pages*

Better Product

- End-user features
 - Conferencing
 - Phone
- Mail
 - HTML support
 - Browser integration
- Workgroup
 - HTML forms
 - Exchange Store integration with IIS

Better Product: Servers & Tools

- Tools
 - easy to scale up from HTML
 - forms
 - data binding
 - objects
 - complete management solution
- Servers
 - fast, scalable
 - complement programming, databinding model

MS Products Timeline

- IE2.0, IIS now, Frontpage *Win 3.1 + MAC versions*
- Apr: Frontpage 1.1 *Intl. English* *Shell view or page view*
- June/July: IE3.0 *on 95/NT*
- July: Office97
- Aug: Frontpage 1.2 *MAC*
- Sep/Oct: Inet Add-on (Integrated Explorer, Oprah, Athena) *Shell view or page view*
- H2'96 ?
 - HTML Forms
 - Inet Studio
 - IIS 2.0
 - Merchant Server

Marketing/Sales

- End-user share build
 - broad retail reach
 - promotion
 - access partnerships
- Business
 - Intranet
 - Client-server apps
 - Commerce
- Evangelism/Partners:
 - Web-masters
 - ICP's, ISV's, OEMs, Netop's, etc.
- Microsoft
 - Web Sites
 - internal business
 - Content
- Radical?

End Users

- Share in “post NS2.0 gap” (next 6-9mons) is job#1:
 - Massive seeding of IE
 - Magazines, tradeshows, via partners, high-profile events etc
 - IE being free is a key advantage to push
 - Big push with Internet Starter Kit and Plus 2.0
 - Pay for premium merchandising positions
 - Bounties for resellers from MSN?

End Users

- Share in “post NS2.0 gap” (next 6-9mons) is job#1:
 - Leverage access partners *ISP: and Telcos*
 - Broad advertising on the web & with traditional media?
 - MS Content?, “MSN” Services? (free email, personalization?)

Business

- Own the Intranet:
 - Marketing/Sales: speak to corps on how to use the Intranet
 - Make Summer/Fall Product set the "Intranet" solution:
 - Office/FP '97
 - IE3.0/Inet Add-on
 - NT/IIS
 - stress browser/server being free

*need demo materials
could use train
to build our own
scenarios*

*massive campaign
branching
- deal w/ legacy data
- integrate w/ windows
+ w/ server
strategies*

Intranet Tool?

Business

- Commerce/Merchant Server
 - show how to exploit POC
- Show how to build "Web-based" client-server apps
- Exchange/Workgroup integration
- Show ^{how} ~~why~~ to use the Internet as your "WAN"

Microsoft itself

- MS usage of the Web
 - All of our web sites needs to be the top IE 3 sites
 - We need a plan to convert the company
 - The web needs to be our primary communication tool
- Browser share needs to be a top priority for our sales teams and the customer units
 - Account plans
 - Building channel infrastructure
 - Training

propaganda site

Webmasters

- Need to identify and build relationships
 - PDC, Tech ed and other programs to reach them en mass.
 - Probably need some new vehicles to reach them
- Make site mgt easier for them
 - Free front page and internet studio
 - Utilities to help them manage their site
- Build an authorized webmaster program and advertise broadly to end users and businesses

*MS design experience
+ help*

ICPs

- Build 'first wave' like programs to provide value to ICPs that build on our platform and use our logo:
 - Create web sampler CD, add key partners web pages to it and bundle with Windows 95
 - Being in the pre-populated favorites list
 - Doing an internet theme
 - Being a part of special events CD
 - Link presence on our homepage
 - Link presence in an automated favorites update.
 - etc etc
- Special marketing pool of \$30M to build co-marketing opportunities with the key sites

ISPs

- Allow ISPs to be in Windows and the Internet Starter Kit
 - Type in your area code and get a list of ISPs to choose from
 - Issue: MSN being in the access business creates a challenge and materially limits the number of ISP partnerships we can build.
 - There are limits to the number of MSN resale or MSN Access Partners we can have.
- Provide customization opportunities so ISPs can brand their offering and add specific features
- Co-marketing funds to encourage ISP partners to promote our browser and get new customers for them
- Cross platform is key key to this group

Public Netops

- Let them sell access
- Incent them to push our clients, servers
- Give them capability to offer additional services:
 - content
 - mail
 - commerce
 - identity, etc.

Traditional ISVs

- Allow them to distribute our browsers for free
- Develop first wave programs that:
 - Encourage them to build on our extensions and use our logo for their own sites
 - Take advantage of appropriate extensions in their products (docobj)

OEMs

- Encouraging them to ship Windows with all their systems since IE is a part of it
- MDA terms that provide co-marketing support for:
 - Enhancing their own site to be built on IE 3 and using our logo
 - Shipping our web sampler CD, with their own and our partners web pages on it (might not be separate CD)
 - Quickly pre-installing our product updates

Resellers

- Co-marketing and merchandising dollars for:
 - Premium display of the Internet Starter Kit and Plus 2.0.
 - Enhancing their own site to be built on IE 3 and using our logo
 - Advertising

1996 Evangelism

- Need series of boot-strap events/seminars
 - cross MS divisions
 - focussed on broad “non-end user” community:
 - business
 - ICP's
 - Webmasters
 - corp developers

Issues:

- Who are our partners?
 - We need to build many alliances to help promote our platform
 - Some may require a larger amount of “sacrifice” than we are used to:
 - Examples:
 - AOL, CompuServe
 - Macromedia
 - Oracle
 - Apple
 - Sun
 - RealAudio

Issues:

- Access *What role should MS play? - US sole source provider*
 - is it a help or hindrance? *- outside US, multiple providers*
- Identity *Windows passport*
 - who gets the names?
- Windows "box"
 - who do we ^{use} the asset? *phone #'s of ISP's in box?*

Radical

- Use \$'s:
 - "buy" coolest sites (ESPN?,?) now
 - give away content?
- Partner with Intel to fund first nationwide QoS network:
 - tie to Windows client/MMX
 - give away voice calls (for a while)

Quality of Service

BACKUP

2/22/96

Microsoft Confidential

45

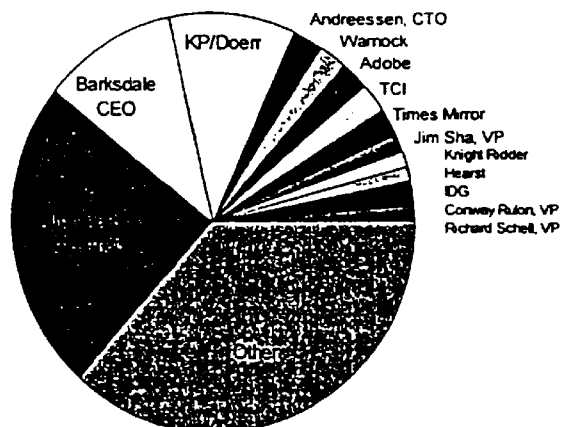
Netscape Mission

“Premier provider of open software that enables people and companies to exchange information and conduct commerce over the Internet and other global networks”

History

- Founded April 94 by Clark and Andreessen
- \$8M original funding – \$4M Clark, \$4M VC
- Barksdale joined 95?
- Navigator 1.0 shipped 12/94
- IPO 8/95
- Collabra acquired 11/95
- Insoft acquisition 2/96
- Paper acquisition 2/96
- Currently ~700 employees (200 new in January)

Ownership



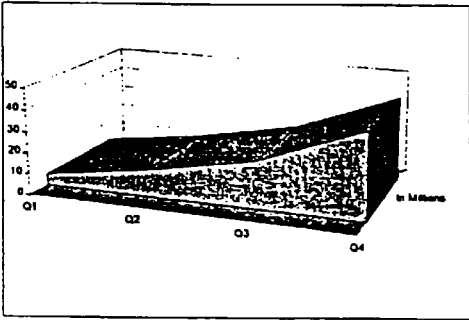
Key People

Jim Clark (50)	Chairman, Founder	SGI - Chairman, Founder
Jim Barksdale (52)	President, CEO	ATT Wireless - CEO McClaw - President/COO Federal Express - VP, COO
Marc Andreessen (24)	VP, Technology	Udell, NCSA
Eric Bina, Rob McCool, Jon Mittelhauser, Aleks Tobic, Chris Houck, Lou Montulli	SDEs	NCSA, Lynx
Peter Curie (38)	CFD	McClaw - EVP, CFO Morgan Stanley - Principal
Roberta Katz	General Counsel Secretary	McClaw - SVP, General Counsel Heller, Ehrman, White & McAuliffe
Todd Rulon-Miller	VP, Sales and Support	Software Alliance - President, CEO Next - VP
Mike Homer (37)	VP Mktg	ED - VP Engineering GO - VP Marketing Apple
Rick Schell (45)	VP Eng	Central Point - VP/CM Borland - V Sun, Intel
Jim Sha (45)	VP/CM, Int Apps	Oracle - VP Unix Wyse - VP/CM
Kandis Maley	VP, HR	SGI - Director HR ISI

Organizational Characteristics

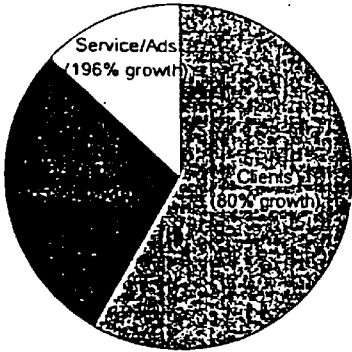
- Fast Response -- shared mindset, quick decision processes, delegation
- Expansive -- broad view of platform and business
- Focus -- no sacred cows to protect
- High Risk -- initiatives announced with little followthru thinking
- Anti-Microsoft -- reactive to MS strategy

Revenues



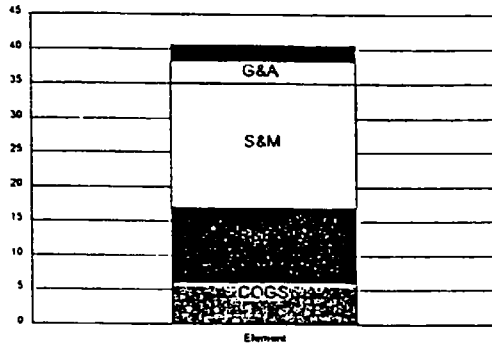
85% growth in latest quarter

Q4 Revenue Mix -- Products



- Service details:
- 10x increase in ad revenue
 - Maintenance contracts
 - Fees for consulting/support on WSJ, Intuit, other home pages

Cost Structure



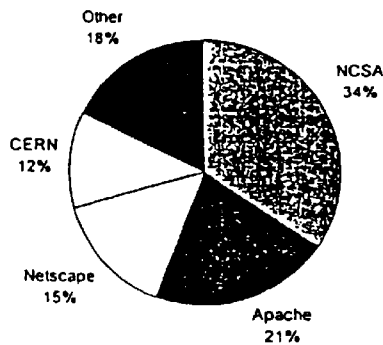
Core Technologies

- Navigator -- HTML, JavaScript, Java
- HTTP/Commerce Server
- Navigator Gold, LiveWire -- Authoring and Site Mgmt
- Groupware -- Collabra Acquisition
- Conferencing/streaming a/v -- Insoft Acquisition
- 3D -- PaperSoft Acquisition

Collaboration Products

- Mail, News -- shipping today in 2.0
- Collabra Share -- shipping today on Win3.x, Win95, WinNT, Mac
 - Threaded discussions/newsgroups
 - Replication between Collabra products, to/from Notes, to/from Internet
- News Server (Unix), Mail Server (Post.Office, Unix/NT)
- Insoft -- not shipping
 - Audio and video conferencing/streaming

Server Market Share



75 work relative
34% .com

Servers

- Communications Server -- shipping today on Unix, NT
 - Similar to MSFT IIS
- Commerce Server -- shipping today on Unix, NT
 - Communications Server plus security
- Proxy Server -- shipping today on Unix
- Mail/News Servers -- shipping today on Unix, NT (mail only)
- NSAPI - strategic API, unlikely to be adopted by others

Solutions

- Merchant System -- shipping today on Unix (SGI/Sparc)
 - Staging Server, Merchant Server, Transaction Server, templates and scripts
- Publishing System -- shipping today on Unix
 - Commerce server, Membership mgmt, Search (Verity), Billing, CC Processing
- Community System -- shipping today on Unix
 - Commerce server, Chat, Newsgroups, Membership mgmt, Search (Verity)
- IStore -- shipping today on Unix
 - Commerce server, Catalog manager, CC/order processings

Future Directions - Server

- Database integration (Informix partnership)
- Strong merchant push
 - Verifone
- Site/Content mgmt
 - Likely using Informix databases
- Java/JavaScript as programming solution
 - Long term replacement to NSAPI
 - Work with Sun on DB access

Other Points

- 2.0 product delayed for perf
- Likely need to migrate to NT
- 2 revs away on Solutions products
 - Picked 1-2 key sites to work with, learning w/ customers, building great sites, using knowledge to deliver shrink wrapped product
 - Custom solutions will hurt us -- they are way ahead in learning curve, customer understanding, penetration, marquee sites

PR/Marketing

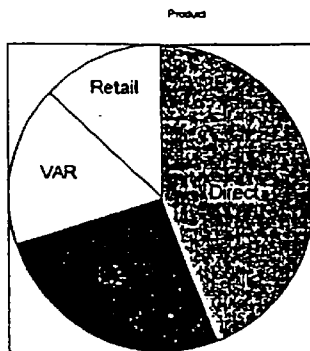
- Huge leverage with partnerships
 - Sun, Adobe, Silicon graphics
- Perceived as leader
 - BlackBird, security, 3D
- Reactive to Microsoft announcements
 - BlackBird, 3D, InSoft
- Wired -- Mastered Internet PR

Web Site Share

Web Site

- Primary Vehicle for External Communication
 - Home – Announcements, download, menu
 - Net exploration launch point
 - Online Netscape store, 3rd party products
 - Netscape discussion groups
 - Company, Product, and Partner Info
 - Net and Product Help
 - News, Press releases
- Usage Helps Them Learn
 - Eat their own Web dogfood

Q4 Revenue Mix -- Channels



- Retail up 5 points over previous quarter
- Direct (telemarketing, online, field) down 4 points from previous quarter

Developer Relations

- 12,000 developers enrolled in programs
- 24 addins to extend Navigator 2.0, 41 partners
- 28 companies endorsing Java
- 1st major conference in March 1 week prior to MSFT PDC

Enterprise Penetration

- 70% of F100 use products
- Cisco, Wells Fargo, Intel, SGI, Sandia, Nat Semi, Mobil, McDonnell Douglas, Eli Lilly, Allen-Bradley, ATT, Electronic Arts, Fidelity, Siemens ROLM, Chemical Bank
- Sell Direct and OEM

Value Added Channel

- Goal - Highly leveraged model
- Heavy recruiting - VAR's 250 (Jun 95); 600 (Sep 95); 1,000 (Nov 95); 1500 (12/95)
- Today: Partners slotted in following programs:
 - VAD > Reseller
 - Developer (>12,000; ICP, Web master focused)
 - ISP (>100)
- Tomorrow: Program tailoring
 - Certification, training, sales incentives

Source: Navigator
2/22/96

Microsoft Confidential

SBD Group

67

Retail Channel

- Product hit stores in June 95
- Use two tiered structure: Access, Ingram, Ventana
- Browser - #1 9 weeks running in Comm category
- High retail presence US; minimal abroad
- Retailers pushing Navigator 2.0
- Prominent in Communication/Internet section

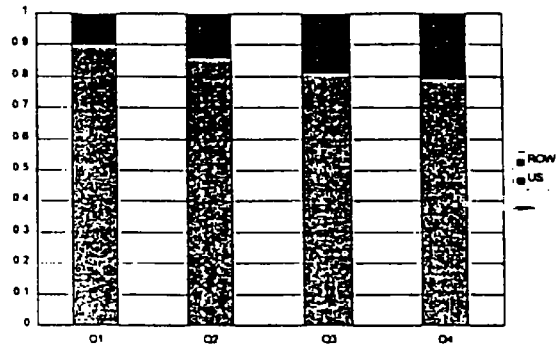
2/22/96

Microsoft Confidential

SBD Group

68

Revenue Mix -- Geography



International Status

- Subs located in:
 - Australia
 - France
 - Germany
 - Japan
 - UK
- New Subs opening in 1996
 - Canada; Hong Kong; Italy, Scandinavia, Singapore
- 38 distributors representing 29 countries

Source: MS Int'l field survey, Dubai Benchmark, VPI European Sales, Netscape

2/22/96

Microsoft Confidential

SBD Group

70

Threats

- Growing in "traditional" channels
 - 70% Fortune 500 penetration
 - Growing retail share
- Moving beyond HTML to "Platform for Communicating PC's"
 - Programmability, database, multi-media
 - Personalization, client authentication
 - Cross platform, PC and other devices
- Acquisitions/Partnerships
 - AOL, Lotus/IBM, Sun
 - Borland, MacroMedia, Adobe, VeriSign
- Wired, wired, wired!

Opportunities

- Arrogance/Partnerships
 - Growing/threatening partners (W3C, developers)
- Reactive to Microsoft
 - Always try to out-announce Microsoft
- Cross Platform/Anti-Microsoft
 - Force them to play the platform game or lose
- Migration
 - Existing Win32/VB/Office users and corporations
- Mission Critical
 - Stability/reliability an issue
- Growth outside of browser
 - Tools, etc. could get beyond core competency