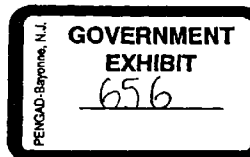


# IE 4.0 Business Model

October 16, 1996

Will Poole, Suzan Fine



MS6 6005636  
CONFIDENTIAL



# IE4 Business Model Agenda

- 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 Msft investment in new IE4 business areas
  4. Order of magnitude barter/\$ value of IE4 real estate
- Open Issues

# IE4 Business Model Objectives

*Make IE4 successful & share*

- Optimize for participation of MS and partners (ICPs, OEMs, etc.)
  - Formats for content are 100% open
  - Create worldwide stakeholders to help create new business opportunities & increase share
- Drive adoption of tools/APIs/technologies
- Create flexible business model (and product configs) to facilitate rapid change when required/allowed by market
- Create significant source of value for Microsoft by inclusion of Channel logos/icons & URLs
  - 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

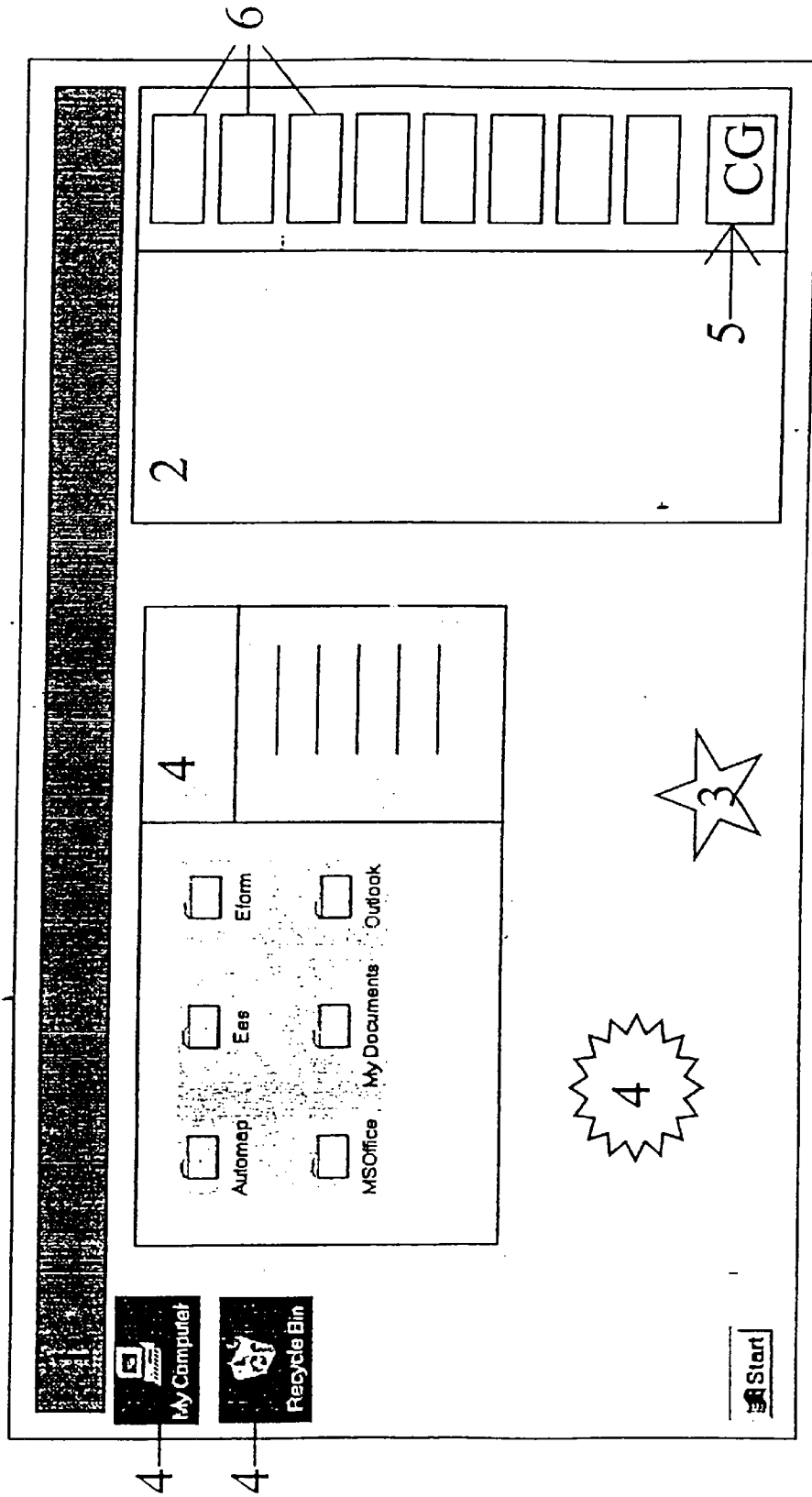
(See following conceptual diagram; not marketing terminology)

- **IE4 Browser:**
  - Replacement for IE3 browser
- **Active Desktop (AD):**
  - Feature of IE4 that integrates (passive) web viewing to the Windows shell
- **Channel:**
  - Single 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
- **Channel Defaults:** Pre-programmed channel content shipped in download, retail, or OEM configs
  - Includes Channel logos/icons & URLs

# Terminology Review (2)

- **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 Msft initiatives.
- **Channel Guide:**
  - Searchable directory of Channels; operated by Msft and/or 3rd parties.
- **SuperChannel:**
  - Proposed two-tier UI & business model to support needs of Msft, “Content Distributors”, OEMs, and ISPs. SuperChannels each have 5-10 (or more) Channels under them.
- **Themes and Web View:**
  - 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.

# IE4 Active Desktop and Themes: Content Areas



1. Ticker
2. Channel Area
3. Screen Saver
4. Background & icon Theme w/Web View
5. Channel Guide
6. Channel (and Default Channels)

# Expected IE4 Product Usage

- IE4 Browser
  - Premiere tool for *exploring* the web/any web site
  - Used *actively* many hours per week
- IE4's Active Desktop
  - 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

- Must 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 strength of distribution of IE bits, or 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 Today

- 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
- 5 Corporate Usage

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

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

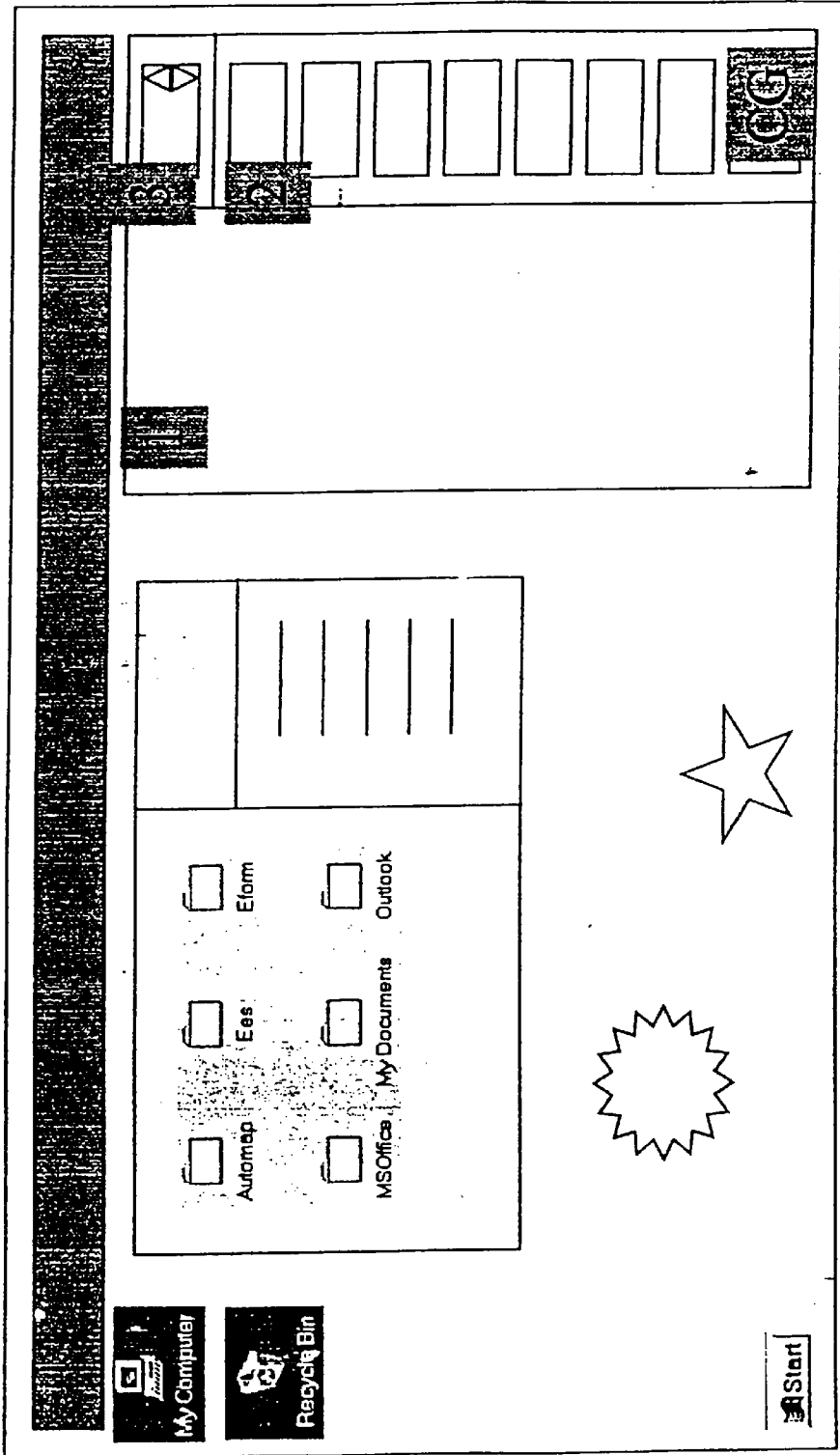
## 2. Two-Tier (“SuperChannel”) or Flat Channel Model

- ◆ 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”

# Key issues in SuperChannel vs. Flat Model

- ◆ Providing brand hierarchy between “big” and std. Channels
- ◆ Business requirements (of Msft) for selecting Default & Bundled Channels
- ◆ Schedule cost of implementing/testing new model(s)
- ◆ All serious ICPs have *at least* a two-tier hierarchy of their significant content offerings -- standardization of top level UI should help overall experience

# IE4 SuperChannel Concept



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

# 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 Msft	\$ to Msft

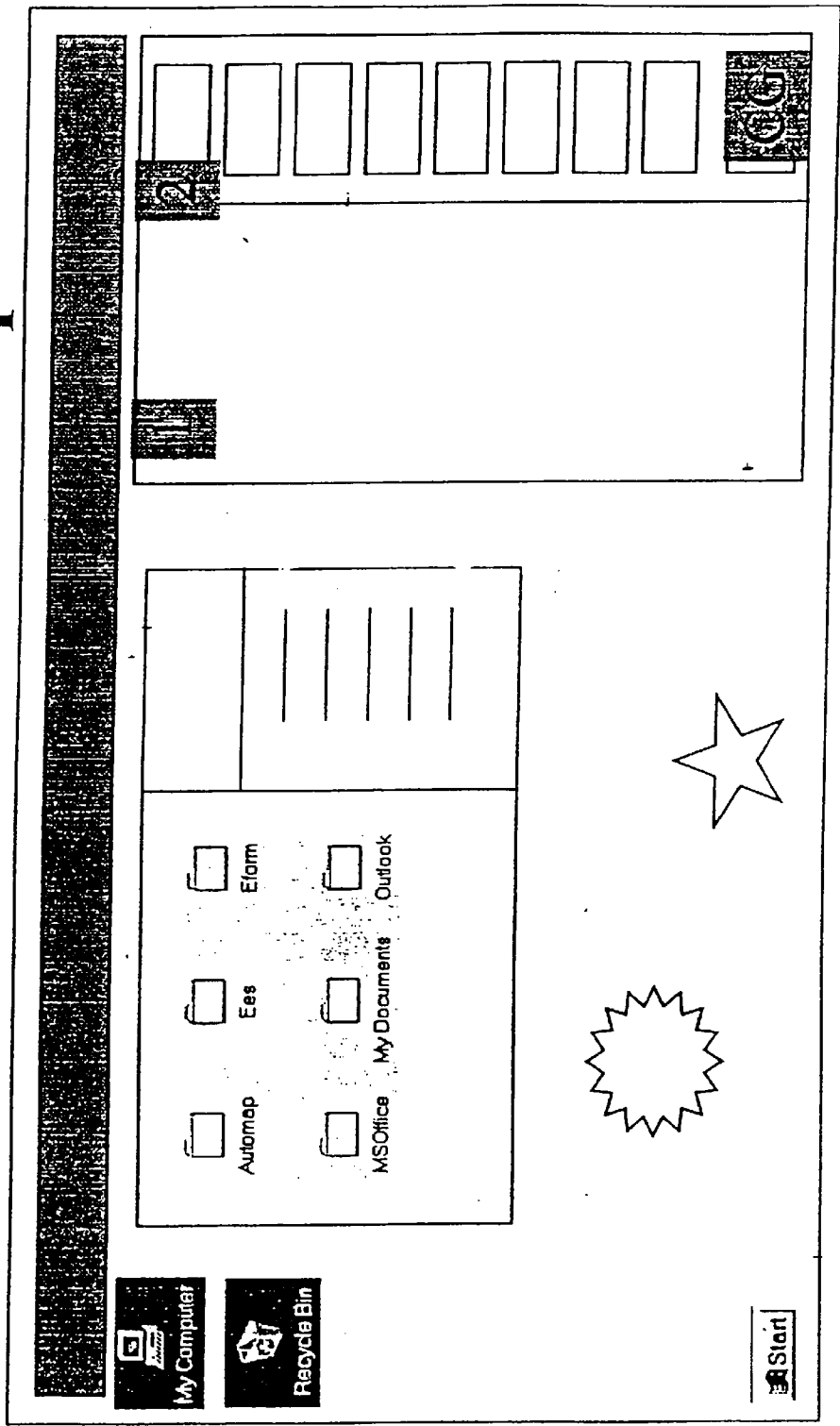
\* UI degenerates with too many SuperChannels or Channels

# Summary SC vs. Flat

	<u>SuperChannels</u>	<u>Flat Channels</u>
◆ Create Stakeholders	Yes	Some
◆ Microsoft as “programmer”	Less	More
◆ Support existing industry model	More	Less
◆ Maximize branding opportunities	Yes	No
◆ Equality for ICPs	No	Yes
◆ Maximize barter/\$ to MS	Yes	No



# IE 4 Flat Channel Concept



1. Channel Area
2. Channel buttons - 8-10 on screen, scrollable, practical limit of 20

# 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

# 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

## Decision 2: Flat vs. SuperChannel

- ◆ Flat Channels vs. 2-tier (w/ SuperChannel)
  - **Recommend** SuperChannel model to create differentiated stake-holders and support existing Distributors' model
  - **Recommend** user and market testing for 6 months; entering into contracts of no more than 12 months
  - *If no:* will lose differentiation between big ICPs / Distributors / small Channels; less opportunity for partners; difficult for Msft to implement flat model well world-wide
- ◆ Maximum number of Bundled Channels and/or SuperChannels
  - **Recommend** 8 partner SuperChannels + whatever we offer (MSN, My Channels, Preview Channel) *per geo/region*

## Decision 2, Hard Part: Bundled & Default Channels / SCs

- ◆ Bundling
  - Bundling Channel and SC content will be limited by disk/download space and screen real estate
  - Recommendation: include Msft (MSN, MSNBC, CityScape, Sports ?) + 8-10 partners (20-30 MB content on CDRROM)
- ◆ Default Channel selection will be highly desired by all.  
Options:
  - MSN
  - MSNBC
  - My Channels w/ set of Msft and/or 3rd party Channels pre-selected
  - My Channels *empty*, with UI to select Channels from CG
  - Preview Channel
  - OEM's / ISP distributor's SuperChannel
  - No default at all -- just content to tell you how to select one

# Default SuperChannel Selection (2)

- ◆ A. Set default to any Msft IMD property
  - ✦ Pro: maximize Msft market share
  - ✦ Con: partner reaction; end user / market perception of openness
- ◆ B. Set default to *My Channels* with pre-selected channels
  - ✦ Pro: More open, more 3rd party leverage
  - ✦ Con: Dilution of SuperChannel advantages
- ◆ C. Default to My Channel with nothing selected
  - ✦ Pro: 100% open & unbiased
  - ✦ Con: pushes focus of promotion/value to Channel Guide; less packaged out-of-box experience
- ◆ D. Default to OEM (or ISP distributor)'s SuperChannel
  - ✦ Pro: Increases incentive to OEM / distribution partner
  - ✦ Con: Decreases # eyeballs we can guarantee to ICP partners

# Default SuperChannel Selection (3)

- ◆ E. Default to Preview Channel
  - ✦ Pro: Unbiased “ad” channel; may be able to maintain through OEM and ISP channels
  - ✦ Con: Less SuperChannel and Msft advantages; user benefit less clear
- ◆ F. Default to no selected Channel(s) or SuperChannel
  - ✦ Pro: maximize partner harmony
  - ✦ Con: less good for users, no value created for Msft or partners
- ◆ G. Default to a Microsoft products (Office, etc.) channel
  - ✦ Pro: not competitive with distribution partners; advantages Msft; could maintain through all distribution agreements
  - ✦ Con: just advertising with minimal end-user appeal; no incentive to distribution partners

◆ **Recommend:** \_\_\_\_\_

### **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 world-wide, 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 worldwide, 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 everywhere possible to maximize user experience
    - ✦ Pro: 3rd parties will love us; Con: lost opportunity and control

◆ **Recommend investment level A**



## 4. Value of Default and Bundled Channels

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

## 5. Corporate Use Changes

- ◆ Adoption of IE4 into corporate markets is critical for overall acceptance
- ◆ IS will be concerned about Msft putting consumer content in front of their knowledge workers, soaking up productivity and network bandwidth
- ◆ We expect corporate customers to demand significant abilities to customize IE; add their own selections of unique content; and/or limit IE4 use
- ◆ Current product plans do not address these needs

## 5. Corporate Use Decision

- ◆ Create a server product (simulate to PointCast Iserver) that offers value to IS *and* costs \$ to corporate / SMORG customers
- OR
- ◆ Create means for IS to easily customize (i.e. delete mostly) Active Desktop Default Channels / SuperChannels on the client
  - ◆ Recommendation: create server product (part of Catapult?) *and* enable third parties to do same, maybe before we do

# Expected Competitive & Partner Response

- ◆ What will Nav4 do?
  - Increase push of Web Inbox technology
  - Declare the same capabilities available on all platforms
- ◆ What will a big media company who wants to be a superchannel do if they can't afford it or if we simply run out of space?
  - Run to our competitor
  - Attain goals other ways: Web ads, s/w distribution
- ◆ What will Compaq, AOL, AT&T say?
  - Depends on model we choose

# Legal Considerations

- ◆ MSNBC encumbrances: none expected based on current recommendations
- ◆ Will have complexities in OEM / distribution agreements to maintain Bundled Channels and Defaults as we want them
  - Baseline 12,000+ IEAK licensees
  - Exceptions
- ◆ Once we open, we may need to stay open
  - Implications regarding how we pitch as Windows platform vs. IE/application platform
- ◆ Is Active Desktop a separate product from IE or a component of IE
  - Implications to existing license agreements
  - Implications wrt Windows

# Meeting Business Model Objectives

- Optimize for participation of Msft and partners
  - 100% open formats
  - SDKs for all IE4 components
  - MS distribution programs: Bundled & Default Channels, Channel Guide
- Use IE4 to drive adoption of tools/APIs/technologies
  - Use distribution programs as strong incentive
  - Active Desktop content will be best if built w/ Msft SDKs
- Create flexible business model
  - Barter w/ some revenue, can adjust over time
- Create significant source of value for Microsoft
  - Increase market share b/c of more stakeholders
  - Move barter towards revenue as share grows

# Open Issues

- ◆ Online services folder
- ◆ Protecting capabilities in IEAK and on running desktops
- ◆ Channel Guide Developers' Kit, SuperChannel Developer's Kit (and licenses)
- ◆ Active Desktop Format standardization across Msft and partners (OEMs, Intl, etc.)
- ◆ Others?