From: Will Poole
Sent: Friday, April 24, 1998 2:56 PM
To: Paul Maritz; David Cole; Anthony Bay (Exchange); Eric Engstrom
Cc: Brad Chase; Jim Allchin (Exchange); Will Poole
Subject: Real and Top ICPs

After spending time w/ eric last night and reading the emails since then, I at least understand what is being proposed on the client side. I'm really concerned about how this will impact our ability to work with ICPs.

The announcement w/ Real next week will very likely meet Paul's #1 objective, reducing the possibility that Real owns proprietary technology layer on the client side. This is a very good thing for Msft. It will however have a few significant additional effects, at least the first of which I'm sure you're aware of:

1. Real will own a medium to long term proprietary UI layer on the streaming client, which will be driven by
- their existing market share (client share and upgrades thereto),
- consumer awareness and demand for their "plus" client, and
- Real's ability to get content providers to assicate their content with their free or plus player (b/c of significant marketing/distribution advantages they will give them).

There is still a risk of Real implementing some form of dual client strategy (example would be a small proprietary audio-only client, dshow based audio/video/animation; etc.). If they do this, we would be disadvantaged in the medium to long term as well. Real has plans for a Java client (marginal credibility, but an issue nonetheless) and currently have a Quicktime-based mac client. There is no proposed exclusivity to their use of our client architecture. We are buying parity; servicing RN's needs on Windows; and giving them license to innovate and own higher levels while we invest in the dshow layer. Finally, branding and other advantages on the client will also help them on the server over time (probably more than Nav helped Netscape sell their web servers, since the formats/protocols underneath are fundamentally owned by Real).

2. Our imperative for spending significant bizdev, cash, and web distribution resources on NetShow ICP design wins has been based on the understanding that:
- end users' adoption of new streaming clients will be driven by the content that plays in the client;
- if content has a proprietary Real format, then there will be proprietary real clients everywhere;
- proprietary real clients lock up content and lock up protocols, bad things for msft.

If the new deal w/ Real ensures that all meaningful content can be read by a msft client or a real client, there is no longer a strategic imperative (from the client side) to get the top ICP design wins, as Real formatted content will no longer require a proprietary real client for access. (Refererences to "client" mean player + easily downloadable and/or standard codecs.)

However, if real continues with client side UI and related advantages, they will continue to have advantages on server side and with tools, which are are a different matter. Real would still control the creation, encryption, serving. If we don't have iron clad guarantee that their codecs are free on Windows, regardless of client architecture (current proposed deal is just about codecs used through dshow), we run the risk of creating a Dolby.

3. There are very few reasons why top-50 ICPs should deploy Netshow servers in the next 12+ months, and there are many reasons for them not to do so. The following ICP evaluation matrix, updated with what we know about Real 6 and the new client deal, illustrates my point:

ICP Streaming Decision Matrix

Our sales pitch to ICPs has previously been based on the following three pillars:
- We will compete on client and win over time (we have best distribution). This means you want to invest now in encoding and streaming in a fomat that will play to the winning client. We've created lots of FUD about Real's ability to compete in this space over time.
- We will compete on server and win over time with best long term exection, best price/performance, best integration, etc. They kida maybe want to believe this, but its a tough sell.
- We have good distribution assets that ICPs need (access to eyeballs today; even more tomorrow)

The dshow deal changes our pitch as follows:
- The client argument is now moot unless we have a plan for significant added value on the client in the future;
- The distribution point is diminished by movement of Start/HMC to IMG and lack of timecast alternative or client side buttons;
- The server point has always been the hardest (most top ICPs are UNIX shops).

So we no longer have compelling reasons for top ICPs to adopt NetShow other than to access whatever superior server-side features it might have in the future and to get cash/promotion from Msft.

RECOMMENDATIONS & CONCERNS

1. Paul, the change in the client stratgy will impact our ability to close ICPs, potentially in a big way. Whatever we do in the dshow deal w/ Real, we are going to need to back it up with some very strong messages about Microsoft's long term commitment to win in this space. If ICPs don't believe in our strategy and see continued partnering w/ Real and lack of shipping product from us, they are just not going to want to invest in NT/Netshow except to get some $ from us here or there. In any situation, this client strategy will make it very difficult to get much more than parity from ICPs. And even that will be expensive in the near term. Maybe this is still the right thing to try to do, but I'm not feeling great about it.

2. I believe we must retain ability to differentiate our client, through significant added value UI above and beyond what Real is doing, through better codecs, proprietary hooks with the server, and more. We need tangible proof that we will be competitive in the client area soon.

3. We need to get an iron clad deal in place with Real. I'm very concerned about going forward without all the details in place and signed in blood. (We clearly have no choice in short term, but need to fix this asap).

Will

Top 50 ICP
Streaming Evaluation Matrix

KEY:

■■■ Real has significant advantage, heavily influencing ICP's selection criteria in area of top concern to ICP
■■ Real has notable advantage, influencing ICP decision in one or more important areas
■ Real has tactical advantage that helps their sales process
● Real has disadvantage that we can sell against effectively in some accounts
●● Real has disadvantage that helps Netshow/DirectShow in most accounts
●●● Real has structural disadvantage that heavily biases top ICPs to NetShow / DirectShow

Real 6 assessment based on next week's announcement of Real licensing / redistributing DirectShow, basing Real client on dshow technology, distributing Real codecs on microsoft.com/codecs, and continued Microsoft endorsement. Real 7 assessments are obviously speculative.

This does not include any features that are not largely applicable to ICP content (such as PowerPoint)

	AUDIO TODAY Real 3/4 v. NS 2	VIDEO TODAY Real 5 v. NS 2	VIDEO SOON Real 5 v. DS3/NS3 (9 month lead)	VIDEO SOON Real 6 v DS3/NS3 (3 month lead)	Next Version I Real 7 v DS/NS4 (mid CY99 ?)
Perceived or actual Leadership	■■■	■■■	■■	■■■	■■
Client installed base	■■■	■	■■	■	■■
Client distribution power	■■■	■■	■■	■	■
Client content compatibility	■■■	■■■	■■	■■■	Equal
Client download size	■	■	■	■	Equal?
Client upgradability	■■■	■■■	Equal	Equal	Equal
Client features (free/plus)	■	■■■	●	Equal	Equal
Client ICP branding	■ (Real 4)	■■	■	■	Equal
Cross platform clients (win, mac, unix, java?)	■■	■■	■	■■	?
Content access and promotion (Timecast etc.)	■■	■■■	■■■	■■■	■ at best
Server features	■	■■	Nearly equal	■	?
Content authoring tools	?	■■	■	■ (Vivo)	?
Server suite (commerce, personalization, etc.)	Equal	●	●●	●	?
Server OS Unix or NT	■■■	■■■	■■■	■■■	■■■
Stds support (ASF v2)	N/a	N/a	N/a	■■■ (when their ASF2 ships)	Equal
Codecs – Display on client	■, all formats incompatible	■■, NS incompatible w/ real player, but not vice versa	●, NS content is incompatible w/ real player	● video, equal on audio; NS content is incompatible w/ real player	Equal, all compatible
Codecs – encode and serve / stream	■	■■	● (NS can stream ASF and Real 3/4)	● (NS faster encoding) neither can stream other's content	?, neither can stream other's content