COMPETING ON INTERNET TIME

Lessons from Netscape and Its Battle with Microsoft

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than gaining 30 percent of the browser market, as fast as possible.[32] The emphasis on winning anything less than 50 percent might seem puzzling. Gates, however, clearly grasped the dynamics of the browser wars. He understood that the key to Microsoft's success lay in preventing Web masters from committing en masse to customize their sites for Netscape's Navigator. In the initial stage of the war, Microsoft only needed to gain enough market credibility to convince Web masters that they should wait for a clear winner to emerge before committing irreversibly to either browser. Once Microsoft achieved that goal with the 30 percent threshold, Gates believed that victory would be just a matter of time.

Flexibility at Microsoft: Sacrifice One Child to Protect Another

Perhaps Microsoft's most startling demonstration of flexibility was its willingness to change course on Microsoft Network (MSN) only months after launching the service. As late as the summer of 1995, the prevailing view at Netscape (and indeed, most of the world) was that Microsoft was deeply committed to MSN as *the* alternative to the Internet. Microsoft had designed MSN to compete with AOL and CompuServe as a proprietary platform on which independent content providers would add value. By the time Windows 95 launched, Microsoft was repositioning MSN to be more complementary to the Internet. In fact, Steve Ballmer recalled that Gates was already having second thoughts about MSN: "In 1995, Bill was already thinking maybe we shouldn't even launch MSN; maybe it's off strategy—it's really not right—it's not Internet-based. By 1996, I think he was pretty sure there were other aspects of it [that weren't right]. . . . But sometimes you let things slip—come to market anyway—for whatever the set of reasons. They made sense at the time." Despite Gates's doubts, Microsoft had already sunk several hundred million dollars into MSN and announced that it would commit hundreds of millions more. Ballmer said publicly that Microsoft anticipated MSN and related content investments would lose more than $1 billion during its first three years of operations.[33]

Gates's decision in December 1995 to embrace and extend the Internet had immediate consequences for MSN, including reassigning MSN's technology chief Anthony Bay and his core technology group to the Internet software organization. But MSN still had one huge advantage over the competition: It was the only online service that came bundled with Windows 95 and shipped with 90 percent of the new personal computers sold in the world. AOL and CompuServe had to spend $40 to $80 to acquire

each new customer. It was very expensive to offer bounties and ship free disks around the world. In the meantime, MSN could acquire new customers virtually for free.[34]

In March 1996, Bill Gates decided that promoting Internet Explorer was simply more important than protecting MSN's biggest competitive advantage. Gates was willing to sacrifice one child (MSN) to promote a more important one (Internet Explorer). To entice Steve Case, the CEO of AOL, to make Internet Explorer AOL's preferred browser, Gates offered to put an AOL icon on the Windows 95 desktop, perhaps the most expensive real estate in the world. In exchange for promoting Internet Explorer as its default browser, AOL would have almost equal prominence with MSN on future versions of Windows. In announcing this deal on March 12, 1996, Microsoft dealt Netscape a crushing blow. Just one day earlier, Netscape had announced a licensing deal with AOL, which was expected to move the service's roughly 6 million users into the Navigator camp.

Gates later extended his offer to the other online services and the largest Internet service providers, guaranteeing a huge percentage of the home market for Internet Explorer and tough times for MSN. In a conversation about MSN in the spring of 1996, Gates commented:

> We have had three options for how to use the "Windows Box": First, we can use it for the browser battle, recognizing that our core assets are at risk. Second, we could monetize the box, and sell the real estate to the highest bidder. Or third, we could use the box to sell and promote internally content assets. I recognize that, by choosing to do the first, we have leveled the playing field and reduced our opportunities for competitive advantage with MSN.[35]

Russ Siegelman, the original Microsoft champion of MSN and MSN's first general manager, resigned in the wake of these decisions. Siegelman did not doubt Gates, but giving away MSN's last significant advantage was the straw that broke the camel's back. Siegelman did not see any merit in running a business that would continually clash with Gates's desire to win the browser wars.

Tactical Flexibility at Netscape

Flexibility was also a core value at Netscape. From the very beginning, the company had demonstrated the capability to make quick tactical adjustments. Jim Clark set the example for the rest of the company when he founded Netscape. He said at the time, "We don't know how in the hell