From: Peter Neupert [petern]
Sent: Monday, April 17, 1995 10:31 PM
To: Dan Rosen; Nathan Myhrvold; Paul Maritz; Russell Siegelman
Subject: RE: Netscape as a merchant channel

We need a strategy for how we want to turn the Internet to our advantage rather than always playing catch up. once we figure this out, then we will know how best to deal with Netscape.
however, we can decide what to do re: STT prior to figuring this all out. we want STT to be everywhere and we are advantaged in the short run and probably in the long run, to have MS implementations of STT everywhere (vs. plain vanilla STTwhich will be public as part of our deal with VISA) and on other platforms. all vendors will be able to create STT -- the only distinction is enhanced STT (MS' implementation). with Netscape supporting and distributing this, it increases the value of our payment servers and may increase the volume of transactions coming through VISA for which we get paid.

at a minimum, i know we want STT to be the payment industry standard vs. alternatives like SSL, SHTTP or somethign proposed by ATT or AOL. getting Netscape (for a fee per unit) to incorporate STT into their merchant servers is good for us. we will have to have other means to differentiate.

From: Dan Rosen
To: Nathan Myhrvold; Paul Maritz; Russell Siegelman
Cc: Peter Neupert
Subject: RE: Netscape as a merchant channel
Date: Monday, April 17, 1995 3:40PM

I agree that we have a lot of choices in front of us in the next few months. The acceleration of Internet related activities makes it critical that we begin to make these choices ASAP, or they will be made for us. I believe that our technology base will allow us to move in either direction. It seems to me to be a question of resource availability and allocation. And leadership.

We should strive for market leadership in the electronic commerce area. As a market leader, we don't have to control all of the aspects of the market, but we should control the rules of engagement.

We can choose to go it alone completely. Clearly, success on that path will have the greatest reward, but is also the most risky. I do not believe that we have the assets assigned to Internet stuff to be successful on this path. Furthermore, our assets are spread across several organizations, and have different objectives.

If we choose to partner, we should get something back that is significant. For example, with UUNET, we maintained account control -- the customer sees a Microsoft offer with the MS brand. One of the difficulties is that we aren't sure what we want, short of everything.

With Netscape, we face a small, aggressive, FOCUSED competitor or ally. Their focus is both good news and bad. They can be successful, simultaneous with our success, if we can decide what we want. They want to gain market share of the server software, and are willing to promote NT and some of our technology (e.g. STT). They won't have an network (for now), nor an EDI offering. Will they adopt our tools? Will they cede the client and its standards to us? We can quickly get answers, but let's not start until we have a good idea of where we are going.

If we aggressively fight Netscape, I believe we will achieve two things. (1) We will fractionate the market. Netscape has a lot of momentum and significant partners, so they will likely win, as will others. We might too. But each of us is likely to wind up with a smaller victory. (2) We will force Netscape into an alliance with someone we don't like. This could be Lotus/AT&T. Or someone else. In either case, I fear that the terms of engagement will be set by someone other than us. This is not a path to easy victory.

In any case, we need to chart a course. This would be easier if we could organizationally align the Internet assets within Microsoft. If not, we will need to have strategic alignment on a direction. I don't believe we do today.

Dan

From: Russell Siegelman
To: Dan Rosen; Nathan Myhrvold; Paul Maritz
Cc: Peter Neupert
Subject: RE: Netscape as a merchant channel
Date: Monday, April 17, 1995 8:27AM

I purposely did not forward this to everyone since I do not think it is

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necessary to have a wide email discussion of this topic. I think we need to think carefully about what we do with Netscape. There is a growing feeling that we need to compete with Netscape and that we may do this by unbundling pieces of our technology (PSD, MOS, BSD, ACT) and directly compete with Netscape. If so we may not want to license them technology or otherwise support their merchant strategy. In particular if we unbundle pieces of Blackbird, STT and "MOS merchant toolkit" work and "put them in a box" to compete with Netscape merchant server, we may not want them having STT. On the other hand it may help our strategy if STT is supported everywhere.
This is one of those decisions that are hard to make: is the technology so key and value add that you want to keep it yourself? Is it such that there will be enough momentum for alternative solutions that you don't think that you can keep it to yourself as your proprietary solutions? Before we do anything we should think carefully about the situation and need to think it through as if we want to sell a complete mechant kit and server that will compete with Netscape. We may not want to do this, but we should understand the implications in case we do.

RussS

From: Dan Rosen
To: bradsi; craigmu; nathanm; paulma
Cc: abay; bens; bfox; jallard; petern; russs; thomasre; tomj; warrend
Subject: Netscape as a merchant channel
Date: Friday, April 14, 1995 2:20PM

BenS, ThomasRe, and I talked this AM about the potential structure of a MS relationship with Netscape and reached the following conclusions, that are broadly in line with the discussions that Barb, Peter, Warren, Tom and I have been having.

Microsoft will include STT into the O'Hare client, along with SSL in order to support electronic commerce transactions. We (Warren) will aggressively market this to the acquirers as a part of our relationship with Visa. This missing link is in the middle -- the merchants, where our plans are still evolving. In this area we are well behind the market and the pace is being set by Netscape.

Microsoft should actively pursue a relationship with Netscape to incorporate STT into their server products and adopt our affidavit formats, viewing them as either an important or primary channel to merchants for our server technology (including STT). We will directly license the NT version of this product to Spyglass and others, and work with Netscape to do the many varieties of UNIX versions.

We all agreed that speed to market is very important right now and even better technology might not prevail if enough momentum is achieved by our competitors, who were defined as IBM, AT&T, MCI, AOL, and others.

Thoughts?

Dan

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