From: Brad Chase
Sent: Tuesday, April 08, 1997 4:28 PM
To: Brad Silverberg; Paul Maritz; Steve Ballmer; Bill Gates
Cc: Michael Hebert; Yusuf Mehdi; John Ludwig; David Cole; John Ludwig; Bob Herbold; Jim Allchin (Exchange); Pete Higgins; Jeff Raikes; Rich Tong; Jon Reingold; Bob Muglia; Brad Chase's Direct Reports; Brad Chase
Subject: Collaboration and the browser - thoughts

some thinking i have been doing on key imperatives for marketing collaboration and the browser

collaboration and the browser ...

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Cc: mikeheb, yusufm, johnlu, davidcol, johnlu, bherbold, jimall, peteh, jeffr, richt;jonre;bobmu;bradcdir
Date: 4/8/1997
Subject: Browser and email share – Key focuses for FY98

At the executive retreat we spent alot of time on the key competitive threats to our platform. One of the areas we did not talk as much about is an ongoing threat to our platform and office leadership that many throughout the company have recognized for awhile, specifically the collaboration and browser areas. While clearly there is still a focus here, I want to raise some of these issues from the sales and marketing perspective to provide a forum for debate as we head into the WWSMM and determine our priorities for the next fiscal year.

30% share can't go to our heads
Last year, and before that, we went on a jihad as we saw the threat to our platform from Netscape Navigator. The development team cranked, building a better browser than Netscape, and I was chartered to build a marketing effort to match. Yusufm and his team have done a great job. I also got help from jeffr as he agreed that a browser share drive was a good idea since the field is not otherwise compensated for IE wins. WW teams kicked in too. We have made terrific progress. Our WW share is around 30% and perhaps higher. We have mindshare with developers. Most webmasters do not build a website or intranet application without factoring in Internet Explorer.

However, what worries me is that many people think we have already won the battle. For all the obvious reasons, such a notion is dangerous and untrue. Netscape share is still twice ours. It is easier for them to promote their APIs and for that matter their own or, assuming they align in key areas, sun's java APIs. For this reason alone we need to continue our jihad next year. Browser share needs to remain a key priority for our field and marketing efforts. Until we have alot more share it is very difficult to successfully get adoption of our new platform initiatives. It is also worth noting that while IE is cross platform, its strength, particularly with IE 4, lies with win32. A strong IE push will help build more excitement and value for Windows against NCs, Java and our other platform competitors.

Of course Netscape is not standing still. Their browser is improving with Communicator and though it is not a spectacular release it is better than IE 3 and could be available 3-6 months before we have IE 4. Moreover, Constellation, if done right, will be a further threat to our leadership of the desktop and extend Netscape's influence over UI and key APIs. Netscape will want to populate its new APIs in Communicator and Constellation and so I expect them to be aggressive, yet another reason that we keep our share drive and intensity on the browser at the same level we have this past year.

Browser morphs to mail
However, the browser battle in not confined to the browser. The new browser battle includes email. Email is becoming the creation and viewing of web pages – ad hoc web page distribution. I author email and will create forms in html; I send web pages, etc. Consequently, with email, we not only influence the standards for mail protocols (SMTP, POP3, and IMAP) but also standards for content formats, content distribution and application development.

In addition to the technical ties, email share will drive browser share and visa versa because the two are packaged together. Netscape can help its browser effort by getting people hooked on Netscape Mail and we can do the same with a focus on Outlook Express.

Not surprisingly, email is the fastest growing application category in both the business and consumer segments. A couple of key data points:

- In the LAN email segment (all LORG and MORG, and ½ of SORG) we forecast the number of active email clients to double by the end of FY2000, from approximately 76MM to 155M. Our installed base mail client share is approximately 15% today.
- Today Internet mail makes up 32% of the total email client market. This market is predominantly consumers and SORGs. In this segment, the number of email clients will more than triple, from approximately 50MM to 150MM in the same timeframe. Our share is approximately 9% today

Any Office suite in the near future will have mail as its core component. As email use becomes more pervasive in organizations, it will replace Word (and by extension Office) as the most critical end user app in organizations. That is already true at many places (like Microsoft). Outlook is a key part of the value proposition for Office 97, and this will only increase significantly in the future.

Netscape and Lotus are successfully driving a value shift in the minds of customers towards the notion of collaboration, and attacking the email space where we have low share, low awareness and no clearly articulated product, marketing and selling strategy today. Just like they are doing with our platform today, Netscape will try to use email and the browser as a Trojan horse into the productivity apps and workgroup space.

Of course, Netscape is also using its browser leadership and server products to try and drive revenue from the enterprise. In addition, Netscape has a big opportunity to turn their consumer browser share into a substantial revenue stream with Communicator. Convincing consumer users to pay $49 or so for a great internet mail application with the name Netscape on it will be a lot easier than convincing large enterprises to deploy the Netscape infrastructure widely. I expect Netscape to adapt their strategy to take advantage of this opportunity.

Lotus is leveraging their workgroup and email strength to bridge workgroup and web publishing. Both are attempting commoditize the OS and productivity app market and change the playing field from browsing/productivity to email/collaboration. This threatens more than Windows as I have discussed. The threat of continued low mail client share in organizations and with consumers is that our competitors gain a foothold on the desktop, where they can switch existing Office to their solution, stall upgrades, and probably most importantly drive server share with a cohesive client-server solution.

To be fair their position and strategy has many holes as well. Netscape Communicator has weaknesses versus IE 4 and if we do a good job customers will understand that Communicator is overall less capable internet/collaboration client than IE and that integrating the browser with the OS solves many user problems. In addition, today Netscape has no productivity story. We also need to communicate that Netscape is not even in the game in real collaboration where Office/Exchange and Notes/Domino compete.

Lotus has a confused email client strategy and we can try to position them as having no Internet client, inferior productivity apps, and a solution appropriate only for the high end of the workgroup spectrum, whereas Office + Exchange is a superior departmental collaboration solution.

Nonetheless, it's critical that we maintain our focus on gaining browser share and add new focus to gain a lead in email share before Netscape and Lotus can further improve their positions. By doing this we can thwart Netscape and Lotus and their threat to our platform and office leadership. Consequently we can, grow the Office installed base and drive adoption of strategic Microsoft standards.

What we need to do

There are some key sales and marketing efforts, many obvious, that I recommend:

- Browser share needs to be a top priority around the world. Marketing budgets, including mine, should be budgeted about equal to this year (we are doing a bottom's up IE budget now, last year including some drg type efforts I was around $69M).
- IE 4 should be at the center of our IEU focus for FY 98. It is our most exciting end user product this fiscal year and we can use it to also push Office and Outlook and even NT 5.

- Windows integration is an important win for our customers. We should emphasize it. Memphis will have IE 4 as its foundation and Outlook Express will be the default email client. We can also push the interest Windows users will have in improvements to Windows.
- We should do Internet share drive II with the field to keep mindshare on an area where they are not otherwise compensated for success.
- We need to articulate a coherent and compelling collaboration vision. and have a focused sales force armed with training, tools and evidence. Building on a paulma idea, I recommend an Intranet day II between June and September with a key goal being the articulation of our collaboration vision and directions. We have weaknesses versus Notes today. I assume we figure these out. We need to then articulate where we are going.
- Between Exchange and Office with Outlook, I believe we will already have an appropriate focus on enterprise email share. *However, we have no focus on consumer email share.* Lets do both and try to take advantage of a fragmented market before our competitors do. Specifically, I recommend we build an aggressive effort to gain email client share in the consumer segment. This will require marketing $$ and effort and focus with ISPs, and Internet influentials. Groups like the Internet Customer Unit will have to sign up to make this a key goal. Today we don't really push to get our partners shipping and promoting our mail solutions.

Summary

This memo argues that we need to continue to move aggressively to gain browser share and add a more intense effort, similar to the browser effort, to gain email client share. This is necessary to get platform adoption and protect and grow our client and server platform and applications businesses. I make some specific high level recommendations in that regard. Certainly an important part of this strategy is to drive purchase of revenue generating apps (primarily Office Upgrades, Exchange/BackOffice and SQL) though I spent no time on this since I have little worry about our focus here and many others are working on it.