IE 4.0 Business Model

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GOVERNMENT EXHIBIT
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Start

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

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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

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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

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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 WebView:**
  - 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.

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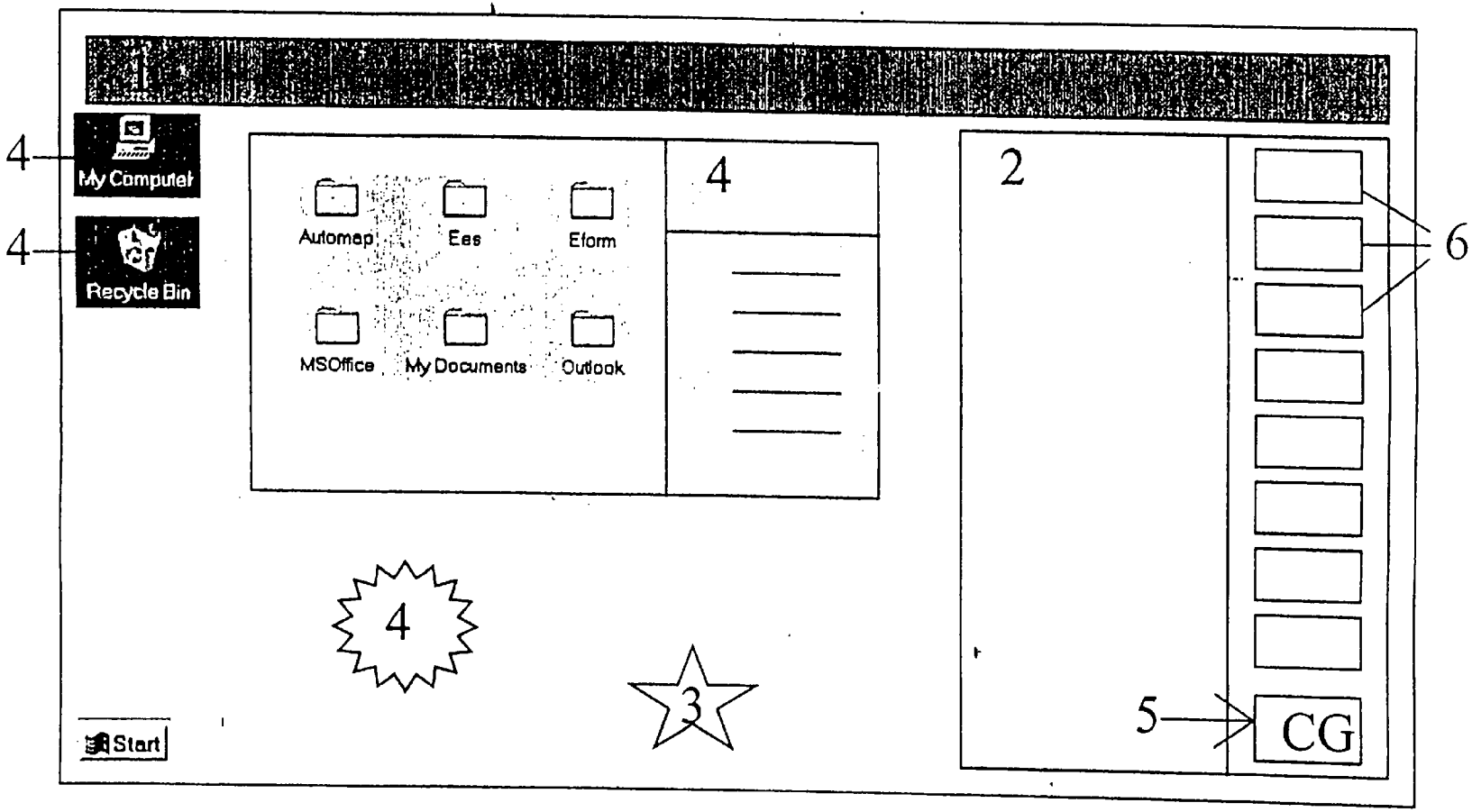
IE4 Active Desktop and Themes: Content Areas



1. Ticker
3. Screen Saver
5. Channel Guide

2. Channel Area
4. Background & icon Theme w/Web View
6. Channel (and Default Channels)

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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

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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

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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)*

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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

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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

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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"

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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

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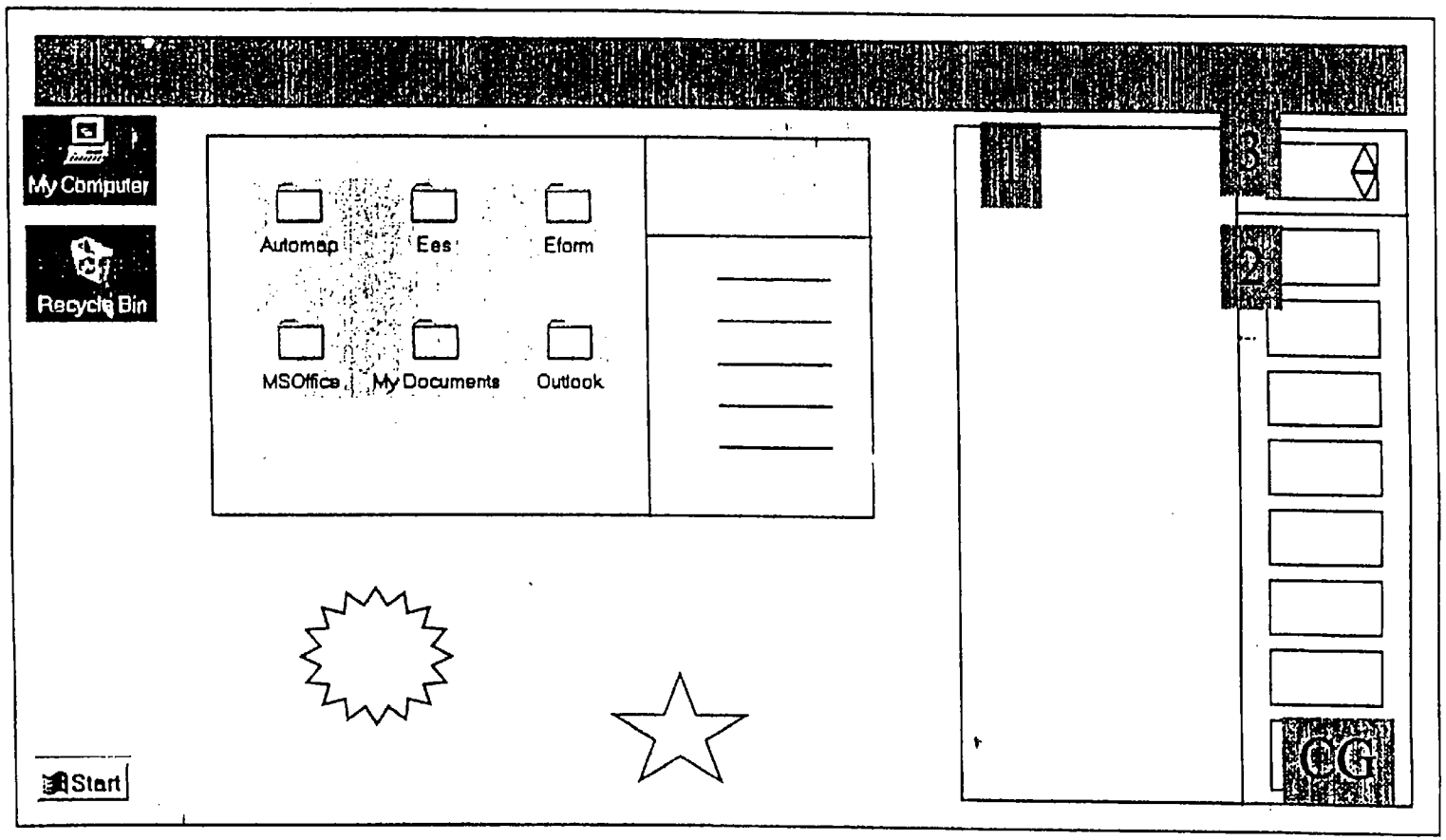
IE4 SuperChannel Concept



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

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Comparison of SuperChannel to Flat Model

Capabilities	Flat	SuperChannel
◆ 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

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Summary SC vs. Flat

	SuperChannels	Flat Channels
◆ 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

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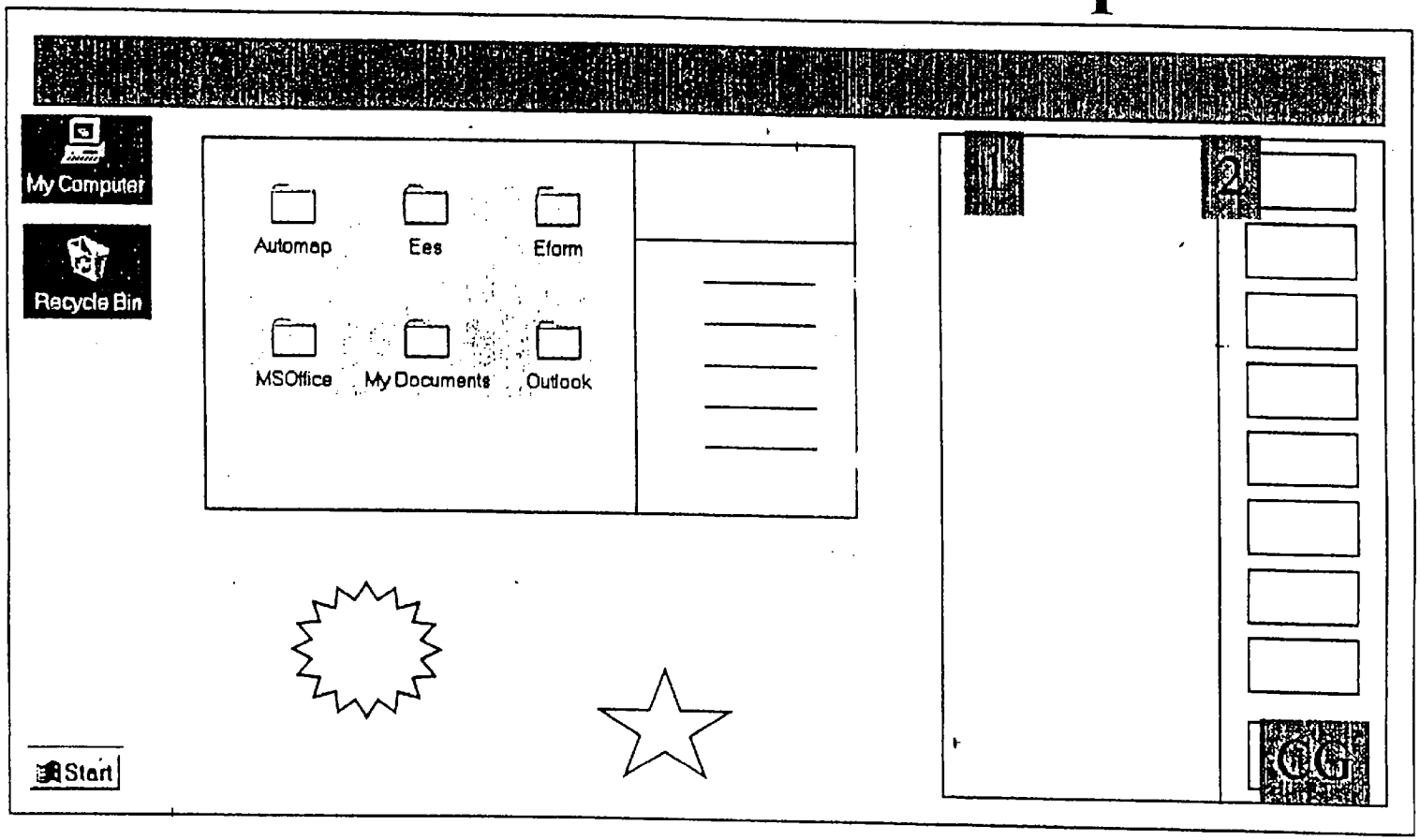
IE 4 Flat Channel Concept



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

Top 10 Examples for Bundled Channels

SuperChannels	Channels
– Microsoft properties(MSN…)	WSJ
– AOL; CIS	ESPN
– Pointcast	c|net
– Time Warner	HotWired
– Disney / ABC / ESPN	Yahoo; Infoseek; etc.
– Cable Cos; @Home	NY Times; LA Times
– OEM-specific; ISP-specific	CUC (shopping)
– Ziff; CMP	MTV; Tower Records; Virgin
–	Hearst; Condenet
–	National Geographic
–	Microsoft Products

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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

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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*

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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 CDROM)
- Default Channel selection will be <u>highly desired</u> 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

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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

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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: ___**

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3. Investment level in new IE4 activities

- Commit *soon* on oper tion 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 wwide, 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**

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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**

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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

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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

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Expected Competitive & Partner Response

- What will Nav 4 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

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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

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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

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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?

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