* Turn off
Subchannels

* Mail & Appts

IE 4.0 Business Model

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Start

Why We're Here

- Discussion of the work that we have done to provide a framework for the IE 4.0 Business Model
- This is a complex issue and touches different businesses within MS
- Incorporated feedback from many groups
  - such as IMD/MSN, OEM, PNS and external customers
- Want feedback on the direction we're taking
- We will set up subsequent meeting to review final decisions and to address technical implementations

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IE4 Business Model
Agenda

- Priorities and 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 MS investment in new IE4 business areas
  4. Order of magnitude barter/$ value of IE4 real estate
- Open Issues

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Priorities (in order)

- Increase IE Market Share
  - The primary goal is to make IE and our overall Internet business successful
- Don't leave money on the table
- Provide leverage for the MS content business

Built objectives and model to address these priorities and minimize the conflicts

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IE4 Business Model Objectives

- Optimize for participation of MS and partners (ICPs, OEMs, etc.)
  - Formats for content are 100% open
  - Create worldwide stakeholders
- Drive adoption of tools/APIs/technologies
- Create flexible business model (and product configs) to adjust with market
- Create significant source of value for Microsoft
  - Inclusion of content (MS and others)
  - 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 provides (passive) web viewing--cross platform
- **Active Windows (AW):**
  - Features of IE 4.0 that integrate web viewing with the Windows shell
  - 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.
- **Channel:**
  - 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

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Terminology Review (2)

- **Channel Defaults:**
  - Pre-programmed channel content shipped in download, retail, or OEM configs
  - Includes Channel logos/icons & URLs
- **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 MS initiatives.
- **Channel Guide:**
  - Searchable directory of Channels; operated by MS and/or 3rd parties.
- **SuperChannel:**
  - Proposed two-tier UI & business model to support needs of MS, "Content Distributors", OEMs, and ISPs. SuperChannels each have 5-10 (or more) Channels under them.

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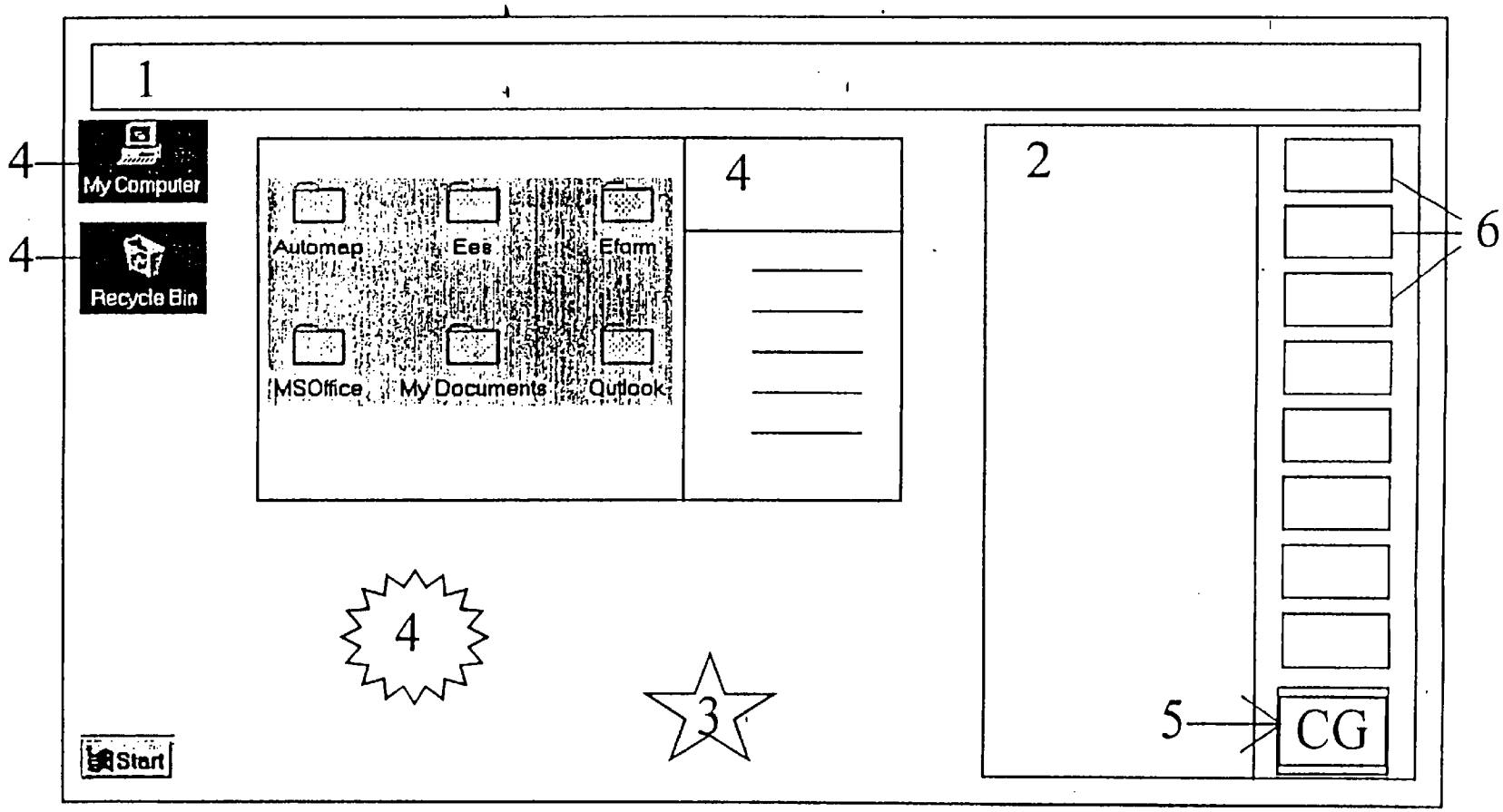
IE4 Active Desktop and Themes: Content Areas



1. Ticker
2. Channel Area
3. Screen Saver
4. Theme and Web View
5. Channel Guide
6. Channels (and Default Channels)

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Expected IE4 Product Usage

- IE4 Browser (Pull)
  - Premiere tool for *exploring* the web/any web site
  - Used *actively* many hours per week
- IE4's Active Desktop (Push)
  - 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

- 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:
  - Distribution of IE bits
  - 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

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

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1. Level of 3rd Party Content Participation in IE4 Desktop

- ☆ **High level -- Partner Centric: partners equal to MS brands; partners aggressively pursued**
  - Pro: creates more stakeholders; delivers richer end-user experience; removes significant burdens from MS; significant long term revenue opportunity
  - Con: dilutes Windows brand (?); less MS control
- Minimal -- MS Centric; highly selective & required strategic partnering only; not recommended.
  - Pro: maximize Windows / MS 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"

☆ **We've chosen the SuperChannel model**

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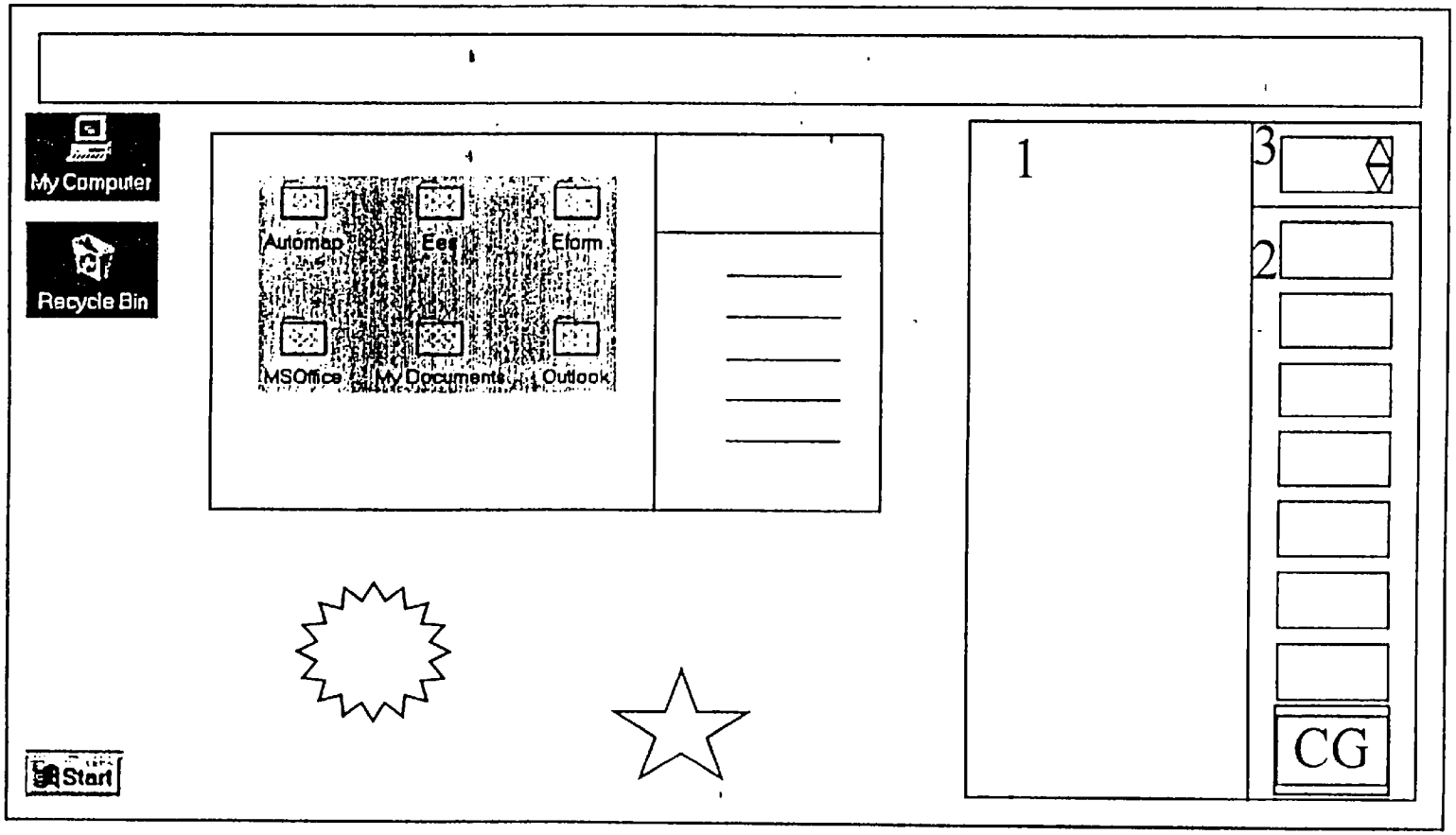
IE4 SuperChannel Concept



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

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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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Benefits of SuperChannel vs. Flat Model

- Providing brand hierarchy between "big" and std. Channels
  - Maximizes the branding opportunities for distributors/aggregators
- All large ICPs have *at least* a two-tier hierarchy of their significant content offerings -- standardization of top level UI should help overall experience
- Creates stakeholders for distribution of content
- Lessens the role of IPTD as programmers of content

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Bundled & Default Channels / SCs

- Bundling
  - Bundling Channel and SC content will be limited by disk/download space and screen real estate
  - ☆ **Recommendation for SuperChannels:**
    - Microsoft:
      - Content Channel (IMD)
      - Microsoft.com Channel
      - Preview Channel
    - 8-10 Third Party SCs
- Default Channel selection will be <u>highly desired</u> by all.

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Default SuperChannel Selection

- ☆ **A. Default to no selected Channel(s) or SuperChannel**
  - Pro: maximize partner harmony
  - Con: less good for users, less value created for MS or partners
- B. Set default to any MS IMD property
  - Pro: maximize MS market share
  - Con: partner reaction; end user / market perception of openness
- C. Default to OEM (or ISP distributor)'s SuperChannel
  - Pro: Increases incentive to OEM / distribution partner
  - Con: Decreases # eyeballs we can guarantee to ICP partners
- D. Default to Preview Channel
  - Pro: Unbiased "ad" channel; less OEM/ISP conflict
  - Con: Less SuperChannel/MS advantages; user benefit less clear
- E. Default to a Microsoft products (Office, etc.) channel
  - Pro: not competitive with distribution partners; advantages MS
  - Con: minimal end-user appeal; no incentive to distribution partners

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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 MS	$ to MS

* UI degenerates with too many SuperChannels or Channels

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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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3. Investment level in new IE4 activities

- Commit *soon* on operation of Channel Guide, Preview Channel, and staff to sell/barter Default and Bundled Channel space.
  - ☆ **A. Investment of 20-25 heads plus $500k WW, 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 to maximize user experience
    - Pro: 3rd parties will love us; Con: lost opportunity and control

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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: For first 12 months, use for strategic barter 1st, revenue 2nd**
  - ☆ B: Price per user (or buyout for year) for OEMs / distributors to change Default Channel and/or SuperChannel
  - ➢ C: set $ price of SuperChannel by sealed bid
  - ➢ D: set fixed or variable annual $ price based on subscriber acquisition comparison
  - ➢ E: set fixed or variable price based on per-impression value

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Content Provider Tools

- SuperChannel SDK
  - Provides profiling and hierarchy guidelines and Channel SDK
    - Addition/Deletion of channels within a SC is controlled by the provider
  - Require support for ActiveX technology
- Channel SDK
  - Info on creation of channels to fit into an existing SC
    - Requires an ActiveX control to install
  - Widely available, COGS only, available online
- Channel Guide SDK
  - Provides information and links to allow creation of a channel guide
  - Replaces MS guide, or in addition to MS guide (?)
  - Available for fee only, only available to SC providers

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Expected Competitive & Partner Response

- What will Netscape do?
  - Duplicate feaures, try to preempt in market
  - Increase promo of Inbox Direct technology, automate
  - More use of NS Start page as alternative to Desktop
- What will a big media company who wants to be a SuperChannel do if we don't bundle them?
  - Run to our NS
  - Attain goals other ways: Web ads, s/w distribution
- What will Compaq, AOL, AT&T say?
  - Depends on product model and business terms

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Meeting Business Model Objectives

- Participation of MS **and** partners
  - 100% open formats
  - SDKs for all IE4 components
  - MS distribution programs: Bundled & Default Channels, Channel Guide
- Adoption of tools/APIs/technologies
  - Use distribution programs as strong incentive
  - Active Desktop content will be best if built w/ MS SDKs
- Flexible business model
  - Barter & revenue mix adjustable over time
- 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

- Pricing
  - Bundled Channel "costs", SDK T's & C's
- Channel Guide partnering terms
- Establish technical standards for ICP channel participation
- Operations
  - Need a worldwide plan
- Technology
  - Finalize UI
  - Build SDKs
  - Protect with certs

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