

From natham Sat Jan 25 00:39:53 1992
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This mail is really in response to two things, neither one of which is recent - Sculley's speech, and a memo that Raleigh sent a while back on some of the challenges we face in the consumer electronics market. As such it is mainly philosophical.

Apple is clearly our key competitor in this area, and we are going to have to work hard and SMART to overcome the lead that they have built in this area. For a long time they were constrained by their own proprietary vision, but this is very clearly going to change.

The other key competition in consumer markets isn't a single entity - it is simply the challenge in addressing a new market with different dynamics, customers and practices. The thing which beats our plans may well be a random collection of incompatible proprietary systems from various consumer electronics companies which prevents anybody from getting enough market share to bootstrap the application software business for these new machines.

There are several approaches that I think are going to be important to our success:

Cover parameter space

The point here is that we cannot count on any one horse to win this race - we are going to need to adopt high leverage activities which let us cover more than one market opportunity at a time. We are NOT going to be able to say "project X is our key consumer project" because things are just too uncertain. My previous memo on "Philosophy and Principles" for digital information distribution covers this idea to some degree.

One example of how to out flank Apple is the very notion of what "consumer electronics" really is. A gizmo like the Sharp Wizard classifies as CE, but it that is hardly in the mainstream. When Apple says that they are going into CE, it will be interesting to see to what degree they mean things that are basically computers, but which they will sell through consumer channels (like the Sharp Wizard) versus hitting directly at the mainstream CE market (such as having Windows in every cable TV box).

The ideal situation is if we manage to bracket their strategy. One example would be to hit the mainstream CE market with something which is more relevant in the near term than what they have, while at the same time covering the totally new devices with something bolder than what they have. As another example, our argument would be that if you want something that is very computer-ish and near term, then Pen Windows/MM Windows etc is more practical and more usable than say Newton (or Go...) because we have more of a connection to PC applications, and can draw on that momentum. If you want something cool, wild and new, then our longer term projects are cooler, wilder and cover a greater scope.

Present indications are that we can do this - they have built systems which are different than the Mac and also from each other (but may have some Mac derivatives??), but they are nearer term than our really cool stuff (Wallet PC, Video PC...).

Exploit strategic beachheads

One of the really important things is for us to pick our shots very carefully and move into areas which are more strategic, but perhaps are neglected.

In this sense, EFAX could be our answer to General Magic. EFAX seeks to set new standards in digital communication by tying up the FAX industry which is the current hotbed of digital comm. So far we appear to have no competition in this area, and have attracted the key companies. If we are successful, we will own the area of smart FAX standards. An obvious follow on is to put the EFAX software in handheld machines and suddenly you have "personal communicators".

General Magic is going the other direction. If we play our cards right this is going to be hard because the GM machine is new, unfamiliar, and will have to win consumer acceptance. FAX machines already are understood, and making them smarter is not as large a step. In theory at least we should be able to leverage EFAX to move to a handheld much easier than they could do the opposite. This doesn't mean that we are totally covered by EFAX, and it also

doesn't mean that we shouldn't still pursue GM directly. In practice timing will be crucial, and there are many other factors, but the FAX market is still very intriguing strategic bet.

The idea of moving Windows into cable TV controllers could be another very good strategic move and I believe that we can find others which Apple is not addressing. I don't think we should run from them - some direct competition is inevitable, but if we choose carefully we can get the most important territory.

Software changes everything

One of the most important aspects of our vision is that we want to use some of the unique characteristics of software and the PC market to our advantage.

The first of these is the power of soft functionality. Consumer devices today are generally special purpose gadgets which do a single function, whereas PCs are typically general purpose devices whose utility to the end user is utterly dominated by the software you run. This concept will be foreign to the CE market, but it is incredibly powerful once you unleash it. There may still be special purpose machines, but the more we can create a common, general platform the better. One can argue that a stereo can play any music, or a VCR play any tape, but this is far more narrow range of customization than is possible in software.

The second is the power of ISVs. The ability to harness lots of third parties which are actively creating new uses for a machine by writing software for it is another very powerful concept.

The third is the power of bottom up. All new PC products that are successful won in a bottom up manner - top down sales only come into play once you have already percolated from the bottom up to the top. The primary lesson here is that a solution which starts out as a moderately expensive "niche" but which attracts ISVs and builds a bottom up following can be more important than a cheap high volume but more constrained machine.

There are two points here. The first is that I believe that these factors change some of the issues that Raleigh's memo discussed. There is no direct analog of most of the points above in the CE industry today (I do NOT count record companies or TV networks as "ISVs"), and I think that we can use these to our advantage.

Apple could too, but I am hoping that they will fall into the trap of accepting too much of the current CE market as dogma, and missing the value in the stuff above. The degree of incompatibility which they appear to have in their various software strategies for CE machines certainly would be an odd thing to do if you really believed in the points above.

Vision

Probably the most important issue is going to be having a strong vision. At one level this applies to coherence between projects. Our "secret weapon" will be the ability to get synergy from many disparate efforts which magically "converge" over time as the digital revolution continues. Why should a hand held machine be related to an HDTV? There are a lot of reasons to try deal with these separately today, but over time there will be a lot of synergy in having the mesh smoothly.

Vision is also important within a project. A lot of what the industry calls "multimedia" is poorly motivated set of features which lacks a cohesive vision. In particular, there is no common understanding of what a successful multimedia app/title should be. We are going to have to spend a lot of time filling in the vision for our products.

Our ability to create the apps/titles/content is very valuable here - it is going to be a key feature of showing people what these new machines are for as well as being a good business in its own right.

Again, Apple could also do this, but I think we have the edge and can continue to keep it. Of course, complacency is never a good way to keep an edge, so we shouldn't fall into this trap!

Dig In

The final point is that this is not likely to be over soon, so we have to hunker down for a long, protracted engagement. The CE market will not be won overnight - mainly because it isn't a single entity - it is a fragmented and diverse market today. Digital technology is going to cause a tremendous amount of unification from this diversity, and we will ride on this general

trend. However, in the formative years this means that there will be a lot of confusion, delicate politics and mixed results. The chaos created as the disparate industries merge in the "digital shake out" is our opportunity, but it will be quite turbulent.

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