

From: Jim Durkin (Exchange)
Sent: Friday, April 24, 1998 1:41 PM
To: Steven Levi (ISBU) (Exchange); Mike Beckerman (Exchange)
Subject: FW: Real and the Media Player

Importance: High

-----Original Message-----

From: Will Poole
Sent: Friday, April 24, 1998 11 57 AM
To: Jim Durkin (Exchange)
Subject: FW: Real and the Media Player
Importance: High

pls send any comments to me by 3

-----Original Message-----

From: Will Poole
Sent: Friday, April 24, 1998 11 42 AM
To: Anthony Bay (Exchange)
Cc: Will Poole
Subject: RE: Real and the Media Player

DRAFT - DO NOT FORWARD

After spending time w/ eric last night and reading the thread below I at least understand what we are doing now.

The license w/ rob next week will very likely meet Paul's #1 objective, neutralizing the possibility that Real owns proprietary technology layer on the client side. This is a very good thing for Msft. It will however have a few significant additional effects, at least the first of which I'm sure you're aware of:

1. Real will own a medium to long term proprietary UI layer on the streaming client, which will be driven by their existing market share (client share and upgrades thereto), consumer awareness and demand for their "plus" client, and Real's ability to get content providers to associate their content with their free or plus player (b/c of various marketing/distribution advantages they will give them). There is still a risk of Real implementing some form of dual client strategy (example would be a small proprietary audio-only client, dshow based audio/video/animation) that would disadvantage us in the medium to long term as well. Client branding and other advantages here will help them on the server over time.

2. Our imperative for spending significant bizdev and cash and webdistribution resources on NetShow ICP design wins has been based on the understanding that:

- end users' adoption of new streaming clients will be driven by the content that plays in the client;
- if content has a proprietary Real format, then there will be proprietary real clients everywhere;
- proprietary real clients lock up content and lock up protocols, bad things for msft.

If the new deal w/ Real ensures that all meaningful content can be read by a msft client or a real client, there is no longer a strategic imperative (from the client side) to get the top ICP design wins, as Real formatted content will no longer require a proprietary real client for access. (References to "client" mean player + easily downloadable and/or standard codecs.)

3. There are very few reasons why any top-50 ICP should deploy Netshow servers in the next 12+ months, and there are many reasons for them not to do so. The following ICP evaluation matrix illustrates my point:



ICP Streaming
Decision Matrix....

Our sales pitch to ICPs has been based on the following:

1

Plaintiff's Exhibit

6378

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- We will compete on client and win over time (we have best distribution). This means you want to invest now in encoding and streaming in a format that will play to the winning client.
- We will compete on server and win over time (best long term execution, best price/performance, best integration).
- We have good distribution assets that you need (enuf eyeballs today; even more tomorrow)

The client argument is now moot, and the distribution point is diminished by movement of Start/HMC to IMG. The server point has always been the hardest (most are UNIX shops). So we no longer have any compelling reason for top ICPs to adopt NetShow other than to access whatever superior server-side features it might have in the future.

4. Unless I am missing big points, I think we should seriously reconsider expenditures of \$ and resources to get top ICPs in the next 6-12 months. Going for sponsorships to get the foot in the door here and there and to place NT+Netshow+SiteServer probably makes sense, but spending mega-\$ and mega-effort does not, as I do not think we will win in most accounts since there is no strategic reason for them to use netshow servers.

Suggestions?

-----Original Message-----

From: David Cole
Sent: Thursday, April 23, 1998 10:25 PM
To: Brad Chase; Anthony Bay (Exchange); Paul Maritz; Jim Allchin (Exchange); Eric Engstrom
Cc: Will Poole
Subject: RE: Real and the Media Player

we have no winning plan on the server. let's focus on the client. we will cooperate on the player AND the encoding so there is no content we are locked out of. we should not compete on encoding, we need this to be open for us and not force rob to do something proprietary. the server strategy should look more like a tools strategy that what you are thinking about below. it should provide the easiest ways to create, store, manage, and serve up content.

Eric's team is in the process of designing a compelling client, one that users will prefer to run. it will have branding buttons and whatever other goo we need to get people to use it.

-----Original Message-----

From: Brad Chase
Sent: Thursday, April 23, 1998 7:23 PM
To: Anthony Bay (Exchange), Paul Maritz; David Cole; Jim Allchin (Exchange); Eric Engstrom
Cc: Will Poole
Subject: RE: Real and the Media Player

why are we so sure that users will want to install this Real super client? why are we so sure it will be better? it has to be more than version 5 support.

i have a number of thoughts here but email is not the right place for them. we should discuss

-----Original Message-----

From: Anthony Bay (Exchange)
Sent: Thursday, April 23, 1998 6:51 PM
To: Paul Maritz; David Cole; Jim Allchin (Exchange); Brad Chase; Eric Engstrom
Cc: Will Poole
Subject: RE: Real and the Media Player

sorry if i was unclear. the question i am asking is the same question will raises below.

if Rob's client is always a superset of our client (all our functionality plus his), if rob's client takes over the UI of the universal player (which would logically happen on path we are on), then how are we really better off long term? yes dshow is the MM layer and that is a win, but it isn't clear to me that is sufficient. if i were an ICP, why target the microsoft client (vs real superset client - the free one)? if i am a user, why run the microsoft client (vs the real free superset client). the underlying mm layer isn't relevant to many ICPs or end users. why will they prefer to encode and stream content with a microsoft solution vs RN?

the primary product differentiation i can see in this scenario will come from netshow team; server features matched with unique client extensions that are not given to RN (different buttons that prefer our content partners for example. filters for codecs RN doesn't have. content security that RN doesn't have). potentially tools is an area where we could differentiate but we are not invested to do that. we all agreed in the meeting a few weeks ago that client parity wasn't sufficient; winning content providers to encode into formats & codecs unique to microsoft is the long term win.

this strategy is ok with me, but will mean that eric's team provides the MM layer but the netshow team still needs to do meaningful client work on top of that layer as does RN. it would make no sense to give all our differentiators away to Rob.

-----Original Message-----

From: Paul Mantz
Sent: Thursday, April 23, 1998 6:19 PM
To: Anthony Bay (Exchange), David Cole; Jim Allchin (Exchange); Brad Chase, Eric Engstrom
Cc: Will Poole
Subject: RE: Real and the Media Player

I am not sure what you (Abay) are recommending here?

My highest priority has been to make sure that DirectShow becomes the layer by which MM gets played on Windows, and to ensure that Robg does not end up owning a complete proprietary layer. Are you recommending that we pull the PN client right away? I am not sure that that fundamentally changes the issues below.

Our basic issue is that we need to convince ourselves that we can ultimately develop a product that is in some material way good enough to beat Real. We need to put our heads down and do this, and in the interim we are going to have to spend money.

-----Original Message-----

From: Anthony Bay (Exchange)
Sent: Thursday, April 23, 1998 3:54 PM
To: Paul Mantz; David Cole; Jim Allchin (Exchange); Brad Chase; Eric Engstrom
Cc: Will Poole
Subject: FW: Real and the Media Player
Importance: High

if we are not very careful with exactly how we implement our client relationship with RN we may just screw ourselves even further in the objective of winning content providers and server business.

if we successfully execute a strategy with RN where they wrap themselves around our player, add more value, and therefore provide a better client experience than we do by ourselves (which would be the net of current course & speed i believe) we will just help them and add momentum to them why not use the Real player rather than our player minus them?

i liken this in a way to IE and Lotus Notes. they may use IE in Notes client, but we don't get any server benefit and just help them be a better windows client.

can someone please help me understand where will and i are wrong on this.

-----Original Message-----

From: Will Poole
Sent: Thursday, April 23, 1998 3:12 PM
To: Gary Schare; Anthony Bay (Exchange); Jim Durkin (Exchange)
Cc: Will Poole
Subject: RE: Real and the Media Player
Importance: High

Somehow i'm getting more and more confused as to what i'm to tell ICPs about why they should bother encoding in our format (other than simply because we give them \$).

Here's what I net from the email below:

1. real has universal player that is more universal than ours (b/c it will play all of our content plus real 5/6 which we will not play)
2. real has consumer market share lead (xx million clients, all easily upgradable to this new universal client) that we will not match anytime soon, given that our player does not ship on its own till june and not even in a volume vehicle until october or november (ie5)
3. real's player is sexier to users and to ICPs today (channel buttons etc. -- we have no plans for

these); in future it will presumably get better as they build on top of our base technology.

4. real can continue to say that we collaborate, cooperate, and partner -- this alone does as much to make sales difficult as any of the product issues.

could someone please give me a little advice on my sales pitch? what product advantages do i have vs real 6? what is the rude Q&A for the 25 calls me team will get on this next week? why is this news to us, 2 days before their devcon?

-----Original Message-----

From: Gary Schare
Sent: Thursday, April 23, 1998 2:41 PM
To: Anthony Bay (Exchange), Jim Durkin (Exchange), John Maffei, David Britton, Will Poole, Tanya van Dam, Mike Nash
Subject: Real and the Media Player
Importance: High

I talked with Eric Engstrom today. Here's what I found out:

- Real is announcing next week that they're using DirectShow as the underlying architecture of their new RealPlayer 6.0. They have demonstrated this to Eric already and showed it playing ASF 1.0 content. Eric is not sure if they will ship with something that plays ASF but he believes they will. He's also not sure exactly when this is being announced.
- Real is also licensing the Microsoft Media Player for redistribution. They get the Media Player in its entirety (all codecs and filters) and they will likely add their Real 5 filter. This will give them a superset of our Media Player functionality. Eric does not believe they have the capability to rebrand this or change the UI, but he's not 100% sure. In the future Eric plans to give them this capability.
- Real has told the press (specifically business week) that our two companies collaborate on the client and compete on the server. This is consistent with what we've been saying, though we don't know how specific he was about RealPlayer's ability to playback NetShow content.

We should assume that Real will ship both players and both will be able to playback NetShow and RealSystem content. We should position this as good for customers since they can play back all content regardless of the player they choose and good for NetShow since Real will be distributing players that play NetShow content.

In the long run, the goal is to get to one client architecture and playback mechanism where ISVs (like Real) can add value by adding on some bells and whistles (e.g., buttons that point to specific ICPs). Real's license of the Media Player and use of DirectShow is a step in that direction.

Eric has handed off the marketing of this announcement to Leslie Evans from platform marketing but I have yet to speak with her about it. Eric believes that either he or David Cole will be the spokesperson on the client side. I will be the spokesperson on the server side if we get any calls.

Let me know if there are any questions.

Gary Schare
Lead Product Manager
NetShow Streaming Multimedia Services
<http://netshow>

Top 50 ICP Streaming Evaluation Matrix

KEY:

- Real has significant advantage, heavily influencing ICP's selection criteria in area of top concern to ICP
- Real has notable advantage, influencing ICP decision in one or more important areas
- Real has tactical advantage that helps their sales process
- ↓ Real has disadvantage that we can sell against effectively in some accounts
- ↓↓ Real has disadvantage that helps Netshow/DirectShow in most accounts
- ↓↓↓ Real has structural disadvantage that heavily biases top ICPs to NetShow / DirectShow

Real 6 assessment based on next week's announcement of Real licensing / redistributing DirectShow, basing Real client on dshow technology, distributing Real codecs on microsoft.com/codecs, and continued Microsoft endorsement. Real 7 assessments are obviously speculative.

This does not include any features that are not largely applicable to ICP content (such as PowerPoint)

| | AUDIO TODAY Real 3/4 v. NS 2 | VIDEO TODAY Real 5 v. NS 2 | VIDEO SOON Real 5 v. DS3/NS3 (9 month lead) | VIDEO SOON Real 6 v DS3/NS3 (3 month lead) | Next Version I Real 7 v DS/NS4 (mid CY99 ?) |
|--|---------------------------------|--|---|--|---|
| Perceived or actual Leadership | ■■■ | ■■■ | ■■ | ■■■ | ■■ |
| Client installed base | ■■■ | ■ | ■■ | ■ | ■■ |
| Client distribution power | ■■■ | ■■ | ■■ | ■ | ■ |
| Client content compatibility | ■■■ | ■■■ | ■■ | ■■■ | Equal |
| Client download size | ■ | ■ | ■ | ■ | Equal? |
| Client upgradability | ■■■ | ■■■ | Equal | Equal | Equal |
| Client features (free/plus) | ■ | ■■■ | ↓ | Equal | Equal |
| Client ICP branding | ■ (Real 4) | ■■ | ■ | ■ | Equal |
| Cross platform clients (win, mac, unix, java?) | ■■ | ■■ | ■ | ■■ | ? |
| Content access and promotion (Timecast etc.) | ■■ | ■■■ | ■■■ | ■■■ | ■ at best |
| Server features | ■ | ■■ | Nearly equal | ■ | ? |
| Content authoring tools | ? | ■■ | ■ | ■ (Vivo) | ? |
| Server suite (commerce, personalization, etc.) | Equal | ↓ | ↓↓ | ↓ | ? |
| Server OS Unix or NT | ■■■ | ■■■ | ■■■ | ■■■ | ■■■ |
| Sids support (ASF v2) | N/a | N/a | N/a | ■■■ (when their ASF2 ships) | Equal |
| Codecs - Display on client | ■, all formats incompatible | ■■, NS incompatible w/ real player, but not vice versa | ↓, NS content is incompatible w/ real player | ↓ video, equal on audio, NS content is incompatible w/ real player | Equal, all compatible |
| Codecs - encode and serve / stream | ■ | ■■ | ↓ (NS can stream ASF and Real 3/4) | ↓ (NS faster encoding) neither can stream other's content | ?, neither can stream other's content |