

From: Jim Allchin
Sent: Monday, January 08, 2001 2:45 PM
To: Bob Muglia; Joe Peterson; David Cole; Yusuf Mehdi; Brian MacDonald; Bill Gates; Rick Belluzzo; Steve Ballmer; Brad Chase; Kai-Fu Lee; Chris Jones; John Frederiksen; Brian Valentine; S. Somasegar
Cc: John Gray; Eugene Ho (Exchange); Will Poole; Dick Brass; Blake Irving; Ted Kummert; Sukvinder Singh Gill; Joe Belfiore; Craig Unger; Ed Fries; Brian Arbogast; Steven Guggenheimer; Iain McDonald; Bruce Burns; PSD Strategy Council; Senior Leadership Team; David Heiner (LCA); Deborah Willingham; Denise White; Valerie Ditore; Andrea Gordon
Subject: RE: Personal Subscription Service

I am confused about the netdocs comment. Without a discussion of Office I am super confused about this.

jim

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

From: Bob Muglia
Sent: Monday, January 08, 2001 7:21 AM
To: Jim Allchin; Joe Peterson; David Cole; Yusuf Mehdi; Brian MacDonald; Bill Gates; Rick Belluzzo; Steve Ballmer; Jim Allchin; Brad Chase; Kai-Fu Lee; Chris Jones; John Frederiksen; Brian Valentine; S. Somasegar
Cc: John Gray; Eugene Ho (Exchange); Will Poole; Dick Brass; Blake Irving; Ted Kummert; Sukvinder Singh Gill; Joe Belfiore; Craig Unger; Ed Fries; Brian Arbogast; Steven Guggenheimer; Iain McDonald; Bruce Burns; PSD Strategy Council; Senior Leadership Team; David Heiner (LCA); Deborah Willingham; Denise White; Valerie Ditore; Andrea Gordon
Subject: Personal Subscription Service

Microsoft Confidential. Please do not forward this mail.

On Friday, we had a meeting to discuss how we should move forward on our personal services. This mail summarizes the decisions and action items coming from that meeting. If you feel I've mischaracterized any decision or missed something important, please let me know.

As background, we all agree that all software is evolving to include a significant service component. This is true even for traditional PC products like Windows and Office. We also agree that our current approach to developing personal services isn't working as well as we'd like - we are not serving consumers as well as we should, we are duplicating investments, and we are missing revenue opportunities.

We agreed that the services we are discussing should be thought of as broadly "personal" - benefiting people both at home and within business.

We will build these services as integrated features of Windows. Every release of the service will be integrated into our Windows product. This is critical because it will simplify and improve the customer experience, thus helping to grow the PC industry overall while providing great opportunities for 3rd party developers. Over time, as our services improve, the form of that integration will evolve. Our focus throughout all of this is to provide the best possible experience for customers.

Our teams will work together to build these personal services. We will run this as one business with one P & L. The teams will work with common objectives and priorities.

That P & L will include revenue from OEM Windows licenses, end-user subscriptions, and advertising.

We discussed our approach to advertising in-depth and agreed that it is important and something we will pursue across our personal services. Advertising (which includes providing links to 3rd parties) provides important opportunities for developers. Creating these opportunities for developers is a critical goal for this service. We also agreed that we would approach advertising in an appropriate fashion - balancing revenue goals with customer experience.

The effort expended on building advertising-funded features relative to end-user subscription features will be based on the revenue potential (while always focusing on opportunities for 3rd party developers). We see advertising as a substantial business that we will continue to invest in but at the same time we recognize that end-user funded

subscriptions are a larger business opportunity. Given that today we are investing more in advertising than end-user subscription, overall our development efforts will shift towards subscription services.

We will use service offerings as a component of differentiation between Windows and Windows Pro. This includes additional configuration flexibility within Windows Pro. As an example, businesses running Windows Pro will have the configuration option to use a corporate IM server, thus bypassing our Internet service and any ads that might be associated with that.

There will be multiple levels of service offerings within Windows. Our base Windows product will include support for critical bug fixes through Windows update, search with client-side augmentation, and the .NET Foundation services that provide single logon, roaming profile, instant messaging and buddylist. All of these are broad services that are focused on providing the best possible experience for customers. Microsoft will run these services but where appropriate, we will seek interoperability with others (for example, although AOL has locked out interoperability for IM and buddylist, we would like to see our IM interoperate with them and are actively pursuing this with Yahoo). Of course, 3rd parties are free to build their own applications and services that duplicate this functionality. Significant innovation is required to enable consistent Internet support for single logon and roaming profiles so these features will connect to our services through proprietary protocols.

These Foundation services will support an array of peer-to-peer capabilities, beginning with communications features in Whistler: video and voice, whiteboarding and app sharing, and remote console.

Customers who choose to participate in our services network will get the benefit of a basic email and calendar, as well as many other useful services - news, shopping, etc. These services are completely merchant funded. The goal of the services network is to provide these benefits through very broad reach to as many customers as possible. We will continue to focus on the profitability of this network.

Much of our collective focus will shift to providing new, end-user funded subscription services. The goal here is to drive as much innovation and end-user value as possible to achieve both broad customer adoption and revenue upside. Beyond the Foundation services (which are required for all .NET and Windows services), the subscription service is the top priority for our Windows service offerings. Improved reliability for both the PC and the service is key to our subscription offering. Over time, that subscription service will provide capabilities that include: rich email and calendaring (including gmail) real-time collab across devices, information agent, cloud storage and backup, creativity and publishing, personal domain name, and more. We will look at providing software updates to Windows, possibly including Windows upgrades as a part of our subscription offering.

Eventually, the Windows subscription services will provide a foundation for our other service offerings, including bCentral, Office, and consumer offerings such as music and games. Communications are at the center of this and the subscription service will largely supersede Outlook functionality (although some features that are appropriate for large businesses will only be provided within Office).

We all agreed that coincident with Whistler is the right time to launch these service offerings. However, we are rapidly approaching our planned shipment date so there isn't much time. Bob agreed to drive a discussion about what can be done within Whistler and understand what impact, if any, this would have to its ship date. We all agreed that whatever we do, it should provide a great customer experience that is well integrated into Windows.

In terms of branding, no final decisions were made but we know that creating a common branding approach is valuable and the Windows brand will be an important part of this. Therefore, we should look at ways to build on the Windows brand for these services.

Although over time there will be organizational implications to these decisions, we cannot implement a large set of organizational changes and achieve our goals for Whistler. So we will focus on working together as a virtual team. Bob is on-point to drive the decisions needed to achieve our objectives.

Attached are slides that reflect the decisions made in the meeting:

<< File: Personal Services.ppt >>

Action Items:

- Bob will work with Jim and a broad team of folks to drive an understanding of what we can get done within Whistler.
- Yusuf will work with John Fredrickson and others to drive our branding decisions.
- Bob will drive an understanding of how the Netdocs client will be used within the subscription service, as well

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as work with David and Brian on our backend strategy for email, billing, etc.

Key points of alignment:

- **Whistler and Mars/Netdocs alignment: Kal-fu/Brian and Chrisjo - how do we build one integrated experience?**
- Biz dev and marketing: Yusufm and John Fredrickson - How do we build one business effort?
- Senior management - Steveb, Rickbe, Jimall, Bobmu - How do we manage P&L and teams?

bob