
From: Steve Ballmer
Sent: Thursday, April 05, 2001 7:19 AM
To: Microsoft; All FTE; WebTV Wnifolk
Subject: Transforming Microsoft into a Software Services Company

Two years ago, we committed to a vision for the future in which consumers and businesses will increasingly access the benefits of software through services, any time, any place, on any device. Since then, we have been working hard to build the foundation that will enable us to make software services an integral part of Microsoft's business. Through our efforts on MSN and .NET, and groundbreaking work on projects like NetDocs, we have developed a tremendous set of assets: great momentum with users through the delivery of best-of-breed services, strong expertise in operations, programming and revenue models, and strong relationships with industry partners. We have also made significant advances in building the infrastructure to support services for our core products, culminating with the forthcoming releases of Office XP and Windows XP.

These efforts position Microsoft well for future growth and revenue opportunities. But as the Web evolves from a model of individual sites to an integrated set of services, we need to evolve our business model as well by aligning all the great work we have done in recent years on services with our long-term innovation of Windows and Office. This is important not only to provide customers, developers and partners with the next generation of technology tools, but also for Microsoft to stay competitive in a highly competitive, fast-changing industry.

We face plenty of competitors in this new world - not just Sun, Oracle, IBM and Linux, but perhaps our greatest competitive challenge is America Online. AOL makes no secret of their goals - they want to become the place where users live on the Internet - they want to provide so much content and services that consumers never want to leave AOL's "walled garden." We are competing with AOL, and I believe we have a vision that will be more attractive to consumers. Our plan is to create a far more open approach - to build a services platform that will enable Microsoft and thousands of other companies to create an incredible array of rich content and great services that interoperate with one another, and to give consumers more choice and control.

At the heart of our vision for delivering great products and services are three business objectives that I want to talk about today:

- Ensuring that we continue to improve and innovate in our flagship desktop products - Windows and Office - on behalf of customers;
- Building a software services platform that Microsoft and third-party developers can use to create compelling end-to-end experiences for users;
- Delivering profitable value-added software services for individuals and advertisers built on this new platform.

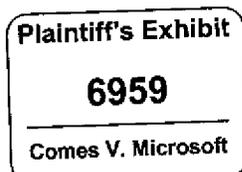
No less important is our continuing work in the Enterprise, with developers and with smaller businesses. There is huge upside opportunity in the server business and we will continue to pursue this opportunity aggressively, as well as our efforts to provide great tools and opportunities for developers, and business applications for smaller businesses. Our Great Plains acquisition, which was successfully concluded today, underscores our strong commitment in this last area. These are key businesses for us that remain unchanged based on today's announcements outlined in the rest of this mail.

Our Strategy

More PCs will be sold this year than ever before. Anyone who says the PC is dead either isn't paying attention or is engaged in some competitive wishful thinking. Microsoft and the rest of the technology industry have a remarkable opportunity to continue to add value to this remarkable device as well as a host of other devices that are building on PC technologies. As the popularity of the personal computer continues to grow, consumers and knowledge workers will expect more from their computers and their office productivity software, including greater functionality and ease of use. So we will continue to advance our flagship Windows and Office products, building even better versions that will enable consumers to benefit from a host of related services. Increasingly, consumers expect their computers to easily provide access to a host of audio, video, email, calendar, ecommerce and other activities. And knowledge workers increasingly expect their software to interact seamlessly with networks and data stores and information on the Internet, to help bring new insights and efficiency to their work.

To deliver on these customer needs, we will focus on five core areas:

- We will continue to invest in Windows. That means continuing to listen to our customers and adding great new



features that will enable consumers and developers to get the most out of the computing experience. In the months and years ahead, we will increase the value of Windows to customers and developers with a well-integrated set of communications and content services. These services will include things like Passport, a single sign-in service that will make it easy for consumers to access their email, calendar, real-time communications, and programmed content - from any device, any time, anywhere. We will make it easy for any independent software developer to create great services that tap into and benefit from the convenience and opportunities of Passport. In addition, Microsoft will develop some services offerings of our own to continuously improve and advance the consumer experience. Our goal is to make Windows a great services platform, and to enable a seamless user experience between applications and services from Microsoft and from third parties.

We will continue to invest in Office. Once again, that means listening to our customers and responding to their input. Our upcoming Office XP release is a great example of how we are working to make productivity simple, enable collaboration and extend Office beyond the desktop. Moving forward, we will continue to evolve Office to keep pace with the rapid evolution of business needs. Knowledge workers of the future are going to expect their software to do more, so we will evolve Office into a services-based business - currently code-named Office.NET - which will offer unprecedented corporate-level communications services, extensibility, ease of use and mobility. This rich communications client will also be the basis for our Personal.NET subscription service, outlined below. We also will continue to develop service-based versions of our other Office productivity tools.

As service-based experiences become a greater part of everyday life, we need to do even more to help consumers get the most out of entertainment and communications. We will be creating a premium consumer subscription productivity service, currently code-named Personal.NET. Designed for home users, Personal.NET will combine some of the great communications services created by the Office group with premium MSN services and current consumer software offerings such as Encarta, Money, Picture It! and others.

To make all of this possible - and to make it easy and convenient for consumers and independent software developers alike - we are developing a single services platform that will provide the underlying infrastructure for MSN, for Office.NET and Personal.NET, and for the rich, interoperable services developed by third parties. At the heart of these services is the new Hailstorm platform that will enable people to connect Internet applications, devices, and services together into a "personal network". We will continue to grow the user and revenue momentum we have achieved with MSN by building best of breed services, rich programming and key partnerships that will provide the most compelling user experience - any time, any place - across a wide range of devices.

Setting Clear Organizational Goals and Working Together

To continue to deliver great products today, while simultaneously moving toward a services-oriented future for our customers, we are taking several steps to realign and fine-tune parts of our organization. Given the need to create dynamic and easy-to-use platforms and services for consumers and our developer partners, it will be more critical than ever for all of us to work together - in a spirit of collaboration - toward our goal of making services an integral part of all our businesses.

In addition, we are using this opportunity to help balance the workload amongst our senior executives. Seven weeks ago, we named Rick Belluzzo as President and Chief Operating Officer. In order to enable Rick to more clearly focus on his broad challenge, and allow greater coordination of our service development efforts, Bob Muglia and his team will now be reporting to me. In addition, we are making some other adjustments to support the strategies outlined above.

Personal Services Group: Group Vice President Bob Muglia will have responsibility for the unified services platform, the Personal.NET effort, Paul Gross' existing Mobility Group, and Kai-Fu Lee's teams focused on search, natural language and speech work. In support of the unified services platform, David Cole's Services Platform Division will have responsibility for building and operating all of our .NET services, the consistent services infrastructure for Windows, MSN, Personal.NET, and Office.NET, as well as the billing system for the company's services. Craig Unger and his Hosting Platform team will move to David's organization to help with this effort. The creation of a single services infrastructure group will provide developers with a single and consistent set of back-end services and tools that provide interoperability across Web sites and services. This, in turn, will help ensure that consumers have a consistent experience when moving between products and services, regardless of whether they are provided by Microsoft or by partners. Ted Kummert's team will continue to be responsible for providing competitive offerings in both dial-up and broadband access. Kai-Fu Lee and his team will focus on natural interactive services, including speech, natural language and search, in support of our services efforts. As a part of this change, Bill Bliss and the MSN Search team will be moving to report into Kai-Fu. Paul Gross's Mobility Group will join the .NET Services team to ensure that our mobile devices and associated server-based infrastructure are aligned with our services efforts.

We also will be centralizing our Personal NET efforts under one team reporting into Bob. In addition to its work supporting MSN, this team will focus on the evolution of our packaged consumer products - such as kids' software, personal finance, Works, Encarta and Picture It! - into subscription service offerings. The VP for this team will be named

in the future, with Bob serving as acting manager for the current time. This team will include Jeff Camp's MSN Music Service from Lindsay Sparks' E-Services Group, Lisa Brummel's Home Products Division, and Rich Bray's Financial Products Group.

MSN & Personal Services Businesses Group: To continue the great momentum we have with MSN, and to advance the benefits of our consumer web services across company efforts, I am pleased to announce that Yusuf Mehdi will step up to run network programming, business development, and worldwide sales and marketing for MSN and our other services efforts. Yusuf will report to Rick Belluzzo and will partner with other teams across the company to help drive the MSN business, optimize our services efforts for Windows, and grow the Personal.NET subscription business. Yusuf will also manage key components of the MSN service, including MSN eShop, MSN Carpoint, MSN HomeAdvisor, the MSNBC relationship, Slate and MSNTV.

Platforms Product Group: We want to make the PC the premier "connected" device for the Internet by making services a natural extension of the Windows experience. In the same way that networking and connecting to the Internet are natural extensions of what people do on the PC today, we want to make services from Microsoft and others, such as storage, communications, notification, sharing of photos and listening to music, easily accessible to customers directly from within the Windows experience. Group VP Jim Allchin will continue to manage the Platforms Product Group, which has primary responsibility for continuing to evolve the Windows platform. In addition, Jim will share responsibility with Bob Muglia's .NET Services Group for evangelizing the benefits of our products to developers. To continue to advance the Windows user experience and implement a consistent user interface framework across Windows, MSN, Personal.NET and Office.NET, Joe Peterson's user experience team (.NET User Experience, Mars, and Home-page) will join Chris Jones' Windows User Experience group. In addition, this team will be responsible for developing the communications services client for Windows and MSN, as well as supplying a more consistent services experience for earlier versions of Windows.

Productivity and Business Services: Jeff Raikes will continue to drive our broad productivity vision and lead the effort to evolve a service-based product that builds on the rich functionality and capabilities of Office today and grows seamlessly with customer needs in the future. Delivering on the rich communication experience that will be the basis for our Office.NET and Personal.NET services, as well as broadening the role of Office, will be the mission of the Office team. NetDocs will be joining the Office team in support of this mission. Together, the teams will be working out plans that will deliver a great customer experience by building on the Office.NET plans and NetDocs technology. The addition of NetDocs technology will also greatly enhance our ability to deliver software as a service for our total complement of productivity offerings, including Business Tools Division, SharePoint Portal Server, and Emerging Technologies

Acknowledging Two Leaders

Finally, I want to acknowledge two people who have been very important to Microsoft's success.

Senior Vice President Brian McDonald is taking a temporary personal leave to spend time with his family. Brian is a very important contributor at Microsoft and we look forward to his return. In the meantime, much of his core work - including the work on the development of NetDocs technology - will remain crucial as we transition Office to the software services model. Brian has played a key role since he joined in 1989 when Microsoft purchased his company, which created the software later named Microsoft Project. Prior to running the Subscription Services Division, Brian was vice president of Knowledge Worker Services, and before that he started and led the group that created Microsoft Outlook.

Senior Vice President Brad Chase has decided that he wants to pursue some new challenges. Brad has been a key player in Microsoft's success. Before leading the effort that has made MSN the most popular destination on the Web, Brad managed the Windows Marketing and Developer Relations Group where he was responsible for shaping the Windows 2000 business strategy and our evangelism to developers. In addition, he worked on the first five versions of Internet Explorer technology and was central to the remarkable growth in popularity of IE. Brad also led the highly successful marketing strategy, execution and worldwide launch of Windows 95. Brad and I will be working together to define a transition.

This is a challenging and exciting time - not just for Microsoft, but for the entire high tech industry. I am excited and optimistic about the future of this company. Our customers are expecting great things from us, and we have the vision and the ability to deliver on their expectations. In the months and years ahead, we have the opportunity to build on our strong tradition of building great software - and to take our game to an even higher level by delivering exciting new services and a rich services platform for developers around the world.

I look forward to working with all of you to make these plans and visions a reality.

Steve