

From: Bill Gates
Sent: Sunday, October 30, 2005 9:56 PM
To: Executive Staff and Direct Reports; Distinguished Engineers
Subject: Internet Software Services

Microsoft has always had to anticipate changes in the software business and seize the opportunity to lead. Ten years ago this December, I wrote a memo entitled The Internet Tidal Wave which described how the internet was going to forever change the landscape of computing. Our products could either prepare for the magnitude of what was to come or risk being swept away. We dedicated ourselves to innovating rapidly and lead the way much to the surprise of many industry pundits who questioned our ability to reinvent our approach of delivering software breakthroughs.

Five years ago we focused our strategy on .NET making a huge bet on XML and Web services. We were a leader in driving these standards and building them into our products and again this has been key to our success. Today, over 92% of the Fortune 100 are utilizing .Net and our current wave of products have XML and Web services at their core and are gaining share because of the bold bet we made back in the year 2000.

Today, the opportunity is to utilize the Internet to make software far more powerful by incorporating a services model which will simplify the work that IT departments and developers have to do while providing new capabilities. In many ways this is not completely new. All the way back in 1998 we had a company meeting where we outlined a vision in which software would become more of a service over time. We've been making investments since then for example, the Watson service we have built into Windows and Office allows us and our partners to understand where our users are running into problems and lets us improve their experience. Our On-line help work gives us constant feedback about what topics are helping our users and which we need to change.

Products from MSN like Messenger and Hotmail are updated with new features many times throughout the year, allowing them to deliver innovations rapidly. Our Mappoint service was a pioneer in letting corporations connect up to a web based API on a subscription basis. However, to lead we need to do far more. The broad and rich foundation of the internet will unleash a "services wave" of applications and experiences available instantly over the internet to millions of users.

Advertising has emerged as a powerful new means by which to directly and indirectly fund the creation and delivery of software and services along with subscriptions and license fees.

Services designed to scale to tens or hundreds of millions will dramatically change the nature and cost of solutions deliverable to enterprises or small businesses. We will build our strategies around Internet services and we will provide a broad set of service APIs and use them in all of our key applications. This coming "services wave" will be very disruptive.

We have competitors who will seize on these approaches and challenge us still, the opportunity for us to lead is very clear. More than any other company, we have the vision, assets, experience, and aspirations to deliver experiences and solutions across the

entire range of digital workstyle & digital lifestyle scenarios, and to do so at scale, reaching users, developers and businesses across all markets. But in order to execute on this opportunity, as we've done before we must act quickly and decisively.

This next generation of the internet is being shaped by its "grassroots" adoption and popularization model, and the cost-effective "seamless experiences" delivered through the intentional fusion of services, software and sometimes hardware. We must reflect upon what and for whom we are building, how best to deliver new functionality given the internet services model, what kind of a platform in this new context might enable partners to build great profitable businesses, and how our applications might be reshaped to create service-enabled experiences uniquely compelling to both users and businesses alike.

Steve and I recently expanded Ray Ozzie's role as CTO to include leading our services strategy across all three divisions. We did this because we believe our services challenges and opportunities will impact most everything we do. Ray has long demonstrated his passion for software, and through his work at Groove he also came to realize the transformative potential for combining software and services. I've attached a memo from Ray which I feel sure we will look back on as being as critical as The Internet Tidal Wave memo was when it came out. Ray outlines the great things we and our partners can do using the Internet Services approach.

The next sea change is upon us. We must recognize this change as an opportunity to take our offerings to the next level, compete in a manner commensurate with our industry responsibilities, and utilize our assets and our broad reach to reshape our business for the benefit of the users of our products, our customers, our partners and ourselves.

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