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Netcom Business Class Email

A business case for deployment

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I. Executive Summary

Business Class Email (BCE) is an advanced email and messaging project that Netcom is working on deploying. Based on Netscape Messaging server version 4.0 with Netcom-specific enhancements, it provides many advanced features that are not yet widely available to large numbers of customers using Internet email. BCE gives Netcom the ability to have a differentiated offering in the marketplace and to potentially launch several new services based on its capabilities that could allow Netcom to capture significant amount of new revenue.

The target market for BCE is VSOs (10 employees or fewer), small businesses (10-100 employees), and in some cases medium-sized (100-200 employees) businesses. The largest opportunity in terms of sheer numbers of businesses is in the VSO and low end of the small business segment, with over 90% of the 7.4M small businesses in the United States having less than 10 employees and the majority of these having fewer than five. Additionally, the businesses with 20-200 employees represent a significant opportunity due to their need to reduce costs and their potential desire to outsource email as a result of small or non-existent IT staffs.

BCE can be offered in two ways from Netcom. The first is as an outsourced email service where Netcom manages all mail service for the company. Similar to web hosting, email outsourcing eliminates the need for the customer to have their own email server onsite that they must purchase, install, and manage. Outsourced email is predicted to grow to be a \$300M+ business over the next four years, with most of the customers being small and medium businesses. With only a few competitors Netcom has the chance to capture a significant percentage of market share in this rapidly growing area.

The second way that Netcom can offer BCE is by bundling it as part of a total solution –the NCO (NetComplete Office) – targeted at the vast number of small businesses with <20 employees and primarily aimed at those with fewer than five employees. This segment has huge upside potential for Netcom, but it will take a highly differentiated product combined with aggressive marketing for Netcom to capture a significant share of this rapidly growing market. NCO would be a new line of business with a clear and compelling value proposition for small businesses. It would include access bundled with a coordinated set of services that are presented to the user with a unified, consistent interface, all at a price that makes it the de-facto standard choice for small businesses getting on the Internet. Acting as a virtual outsourced IT department, NCO would give customers many of the features only previously available to larger companies.

The corresponding profit and loss analysis shows that Netcom can make \$764k and \$654k in revenues in 1999 from BCE and NCO respectively, with near breakeven NIBT of \$35k and -\$47k. In 2000 this increases to \$4.2M and \$9.1M in revenues from BCE and NCO, with NIBT of \$2.7M and \$5.0M. Breakeven for the entire hardware and software investment required for the project, including costs for transitioning all dialup customers to the new mail system if Netcom decides to do so, will occur at the end of Q2 2000. Additionally, there are many strategic benefits, including industry visibility and significant marketing funding from Netscape.

It is recommended that Netcom move quickly to launch BCE in April, 1999 and NCO in July 1999 with aggressive associated launch and marketing activities. By doing so Netcom will take full advantage of its time to market lead with this technology, will have a chance to capture a significant number of new small business customers and corresponding revenue, and will be positioned as an early leader in the outsourced email business.

II. Purpose of this document

This document provides an analysis of the market and business opportunity that Netcom has with its BCE (Business Class Email) project. It gives a description of the product and its features and benefits, analyzes the potential target market segments, provides a financial analysis showing the implications of implementing business class email, and discusses the strategic benefits that Netcom will gain from BCE. Following that is a recommendation for how Netcom should proceed.

III. Business Class Email: A high-level description

Business Class Email (BCE) is an advanced email and messaging project that Netcom is working on deploying. Based on Netscape Messaging server version 4.0 with Netcom-specific enhancements, it provides many of the advanced features that are not yet widely available to large numbers of customers using Internet email. At its core it provides reliable, high-performance, standards-based POP email capabilities similar to what is available from virtually all ISPs today. In addition it also offers the following features and benefits that provide competitive differentiation in the marketplace for Netcom:

Feature	Benefit
IMAP 4 server-based mail storing	<ul style="list-style-type: none">- Access to a coordinated mailbox with a single consistent view of email from multiple machines or email clients- Delete unwanted mail messages and attachments without having to first download them
Web-based mail management	<ul style="list-style-type: none">- Easily add and delete new user accounts without having to contact your ISP or wait for accounts to become active- Manage email for all users from any machine on your network or remotely (with proper firewall permissions)
Mail backup & retrieval	<ul style="list-style-type: none">- Restore critical files if accidentally deleted.- Ensure mission critical data is never lost
Company directory and address book	<ul style="list-style-type: none">- Find email addresses and other information about employees in your company quickly and easily.- Use with Communicator, Outlook Express, or Eudora address books
“All” mailing list for everyone at your company	<ul style="list-style-type: none">- Quickly send email to all employees at your company without having to type in email addresses separately
Webmail and email client support: access to email via browsers and/or the most popular email clients	<ul style="list-style-type: none">- Access your email from remote locations using any computer with a browser and an Internet connection- Use Communicator, Outlook Express, or Eudora to manage email- Allow employees to access email from “kiosks” rather than having to purchase a dedicated PC for each user
Spam controls	<ul style="list-style-type: none">- Minimize junk mail at your site (TBD whether in first release)
Email aliases	<ul style="list-style-type: none">- Have more than one email address per user so that incorrectly addressed email will be forwarded to the right person
Vacation and autoreply messages as well as mail forwarding	<ul style="list-style-type: none">- Automate responses and mail routing to reduce miscommunication

BCE positioning in the marketplace

BCE can be positioned as an outsourced, cost-effective, standards-based email solution that allows employees to access their email with a consistent and coordinated view of their mailbox from anywhere in the world. The unique selling proposition that BCE provides versus an onsite email server or multiple POP mailboxes includes the following:

- Reduced costs associated with outsourcing email efforts (less staff and equipment required for email servers, backup systems, etc.). note: LAN Times claims that for in-house systems, industry analysts' estimates of how much companies spend per person per year on E-mail service and administration vary widely from the low end ranging from only \$300 to \$750, to the high end at \$3,000 to \$4,000.
- Allows employees to access a coordinated view of their email via a web browser or standard email client from any machine anywhere in the world (without the need for RAS servers or VPN solutions)
- Flexibility to add and delete users without having to coordinate activities with ISP and/or incur delays while accounts are being set up

IV. Potential target market segments

The segments likely to get the most immediate and compelling benefits are small (2-100 employees) and medium(100-1000 employees) businesses. Large businesses (1000+ employees) and individual consumers and families may also get some benefits from BCE, but for the purposes of this document and the business case analysis we will focus on the former.

A. The Small Business Market Segment

The sheer number of small businesses makes them an attractive target to sell Internet access and services to. The small business market can be broken down into VSOs (10 or less employees) and small businesses (10-100 employees). The level of technical expertise and needs from an email solution tend to increase with the size of the company: smaller companies can rely on a solution that provides just the basics, while those with more employees have greater needs and expectations.

Small Business: Size Of The Market

In 1998 there are 7.4M small businesses in the United States, growing to 7.7M by the year 2000. Growth of both the overall number of businesses and the number with access will be strong through the year 2000 with over 300k new small businesses overall and over 1.5M purchasing Internet access. The 1.5M purchasing access are an excellent target for BCE as they do not already have existing email solutions that would have to be displaced.

VSOs (<10 employees) and small businesses with 10-19 employees account for approximately 90% (6.6M of the 7.4M) of small businesses in 1998 and 88% (6.8M of the 7.7M) in the year 2000 (source: IDC US Small Business Forecast 1997-2000), with the majority of these being businesses with fewer than five employees, and with VSOs outpacing all other groups in terms of growth.

	1996	1997	1998	1999	2000	CAGR (%)
Total # companies	7,065,000	7,221,000	7,379,000	7,542,000	7,709,000	2.2%
% with access	20%	26%	34%	43%	52%	27.6%
# with access	1,391,000	1,909,000	2,529,000	3,219,000	4,028,000	30.4%

Source: IDC Internet Service Provider Report 1996-2000

Small Business: Channels Of Distribution

Small businesses purchase IT, networking, and Internet goods and services across a wide variety of channels, including direct from the manufacturer, through VARS, and through retail/mail order. For PC hardware they purchase 60% through computer and other retail, 28% direct from the manufacturer, and 23% through VARS (IDC US Small Business Survey 1997). For networking and Internet related products they tend to rely on VARS more due to an in-house lack of expertise in these areas. It is likely that for BCE the channels of distribution will be the same for small business as they are for access and web hosting – direct sales, VARS, and possibly some retail and mail order.

Small Business: IT Infrastructure

VSOs and small businesses with less than 20 employees are far less sophisticated than those with greater than 20 employees. Oftentimes these companies will delegate IT tasks to someone such as the office manager as a part-time or secondary set of responsibilities, or they will hire a part time consultant or VAR. The larger the company becomes the higher the likelihood of having dedicated IT personnel or dedicated VARS that service the account. In general small businesses are very cost-conscious, and look for inexpensive incremental solutions that build off of what they have. Many small businesses, particularly the VSOs and ones with <20 employees, use multiple POP email accounts or AOL as their email solution (Inc. magazine, 1997 - 38% of small businesses use AOL for email). More recently some have chosen to implement other solutions such as the Whistle InterJet, Microsoft Exchange, or other server-based solutions used in conjunction with a router or a modem to open a connection for mail transport.

Small business: Email Needs

- Reliable and robust email
- A cost-effective solution that provides adequate performance
- The ability to add and delete new user accounts quickly and easily (for new and departing employees, consultants, temps, and extended team members)
- Remote access to email for offsite workers and when travelling
- Access to email using multiple computers and/or email clients
- Simple directory services (for VSOs and <20)
- Enough security to feel comfortable about using the solution (equivalent to what POP mail offers today or better)

BCE meets the needs of the VSO and small business segment well. It eliminates the need for dedicated personnel to install and maintain an onsite email server, and it provides other advantages over using multiple POP email accounts such as basic company directory services and a coordinated mailbox view from multiple locations.

Small Business: Challenges For Netcom

- Breaking through the noise in the marketplace to get the message out about what BCE offers over and above what customers are using today (POP mail or their own server) will require significant focus, spending, and effort
- Small businesses are cost-conscious: the benefits of IMAP, web-based mail management, and outsourcing must be clearly shown to them in order for them to pay a premium

B. The medium-sized business market segment

Medium-Sized Businesses: Size Of The Market

IDC defines medium-sized businesses as having 100-1000 employees, and claims that in 1998 there are 164k medium sized businesses in the United States, growing to 168k by the year 2000. Growth of both the overall number of businesses and the number with access will be moderate with 4k new companies being added and 18k purchasing Internet access.

	1996	1997	1998	1999	2000	CAGR (%)
Total # companies	161,600	163,216	164,848	166,497	168,162	1.0%
% with access	42%	47%	50%	57%	60%	9.3%
# with access	67,872	76,712	82,424	94,903	100,897	10.4%

Source: IDC Internet Service Provider Report 1996-2000

Medium-sized businesses with fewer employees (100-200) act much like small businesses in terms of channels of distribution, needs, pre and post-sales support expectations, etc., and represent the majority of the total numbers listed above. As the number of employees grows beyond 200, the sales cycle and product requirements change to more closely resemble those of a large business.

Medium-Sized Businesses: Channels Of Distribution

Medium-sized businesses purchase IT, networking, and Internet products and services through primarily direct channels and higher-end VARS that service them. Those with fewer employees (<200) tend to have shorter evaluation and sales cycles and not require as much dedicated pre and post sales attention. As the number of employees increases they to purchase and act like larger businesses, with long sales cycles, lengthy evaluation processes, and pricing and feature negotiations.

Medium-Sized Businesses: IT Infrastructure

Once a company reaches the size of a medium business and beyond (100-1000 users) they have a dedicated IT staff with multiple full time employees whose job it is to keep the computers, networking, email, Intranet, and other services

functioning correctly. The majority of companies this size already have an email system that they have invested significant amounts of money in, such as Lotus Notes, cc:mail or Microsoft Exchange. If they have an Internet connection this email system is connected to Internet mail via an SMTP gateway. Those with more employees have a higher likelihood of having already made large investments in solutions and thus a lower propensity and incentive to switch.

Medium-Sized Business: Email Needs

Medium-sized businesses rely on email for mission critical business activities. As such their IT departments are very demanding with respect to their needs. If their email system goes down, even for half an hour, the IT department will be flooded with calls from users demanding it be fixed. Some of the most important needs include:

- Cost effective solutions that provide adequate performance
- Reliable, robust, bulletproof email solutions
- 24X7 guaranteed availability and support if there are problems
- Automated backup and disaster recovery
- Centralized as well as delegated email administration. In some cases this will need to be coordinated with Netware or NT directory and security services to avoid duplication of effort creating 2 separate directories.
- Secure remote access to email for users on the road (usually provided via RAS servers and/or VPN solutions)
- Security to ensure critical corporate data is not accessed or leaked

For those medium-sized businesses with 100-200 employees BCE will meet their needs fairly well. It gives them a cost-effective, standards based solution that provides remote email retrieval and basic directory capabilities. However, there may be some resistance to the product based on sensitivity around security issues and/or coordination with existing infrastructure. Without additional research it is not clear how well the first implementation of BCE meets the needs of those medium-sized businesses with more than 200 employees – they may require significantly enhanced functionality in order for the product to be widely accepted.

Medium-Sized Business: Challenges for Netcom

- Netcom does not have the sales staff and channels to support an intensive focused effort to target medium-sized businesses with >200 employees who act like larger corporate customers. As a result any efforts to market and sell BCE will need to be aimed at medium-sized businesses that represent “low-hanging fruit” opportunities – those with <200 employees that are similar to smaller businesses and can be sold to and serviced easily and/or those that can be landed via marketing partnerships with companies such as Netscape.
- Many medium-sized businesses that already have access are likely to already have an Internet email solution – if their solution is working today they may be hesitant or unwilling to consider other options. Of the remaining 4000 new medium business between now and the year 2000 many will also already have internal email solutions and

may look for ways to modify what they have already rather than implementing something completely new to avoid the costs of training and moving archived email as well as the risk of switching the user over.

C. The large business market segment

Large businesses (1000+ employees) are a tempting target market due to the fact that they represent high revenue, high margin dollars that can be targeted more easily than going after a broader markets. They increase the status and reputation of the vendor that lands them. To win the business is a difficult and time-consuming process. However, once established in the account the vendor often is not easily displaced – other vendors will face time-consuming and extensive evaluation and review cycles in order to get in the door.

Large Businesses: Size Of The Market

In 1998 there are 10.3k large businesses in the United States, growing to 10.5k by the year 2000. Growth of both the overall number of companies and number with access is relatively low, with only 200 new companies being added and 1200 purchasing Internet access.

	1996	1997	1998	1999	2000	CAGR (%)
Total # companies	10,100	10,201	10,303	10,406	10,510	1.0%
% with access	70%	75%	85%	90%	95%	7.9%
# with access	7,070	7,651	8,758	9,365	9,985	9.0%

Source: IDC Internet Service Provider Report 1996-2000

Large Businesses: Channels Of Distribution

Large businesses purchase IT, networking, and Internet products and services through primarily direct channels and high-end VARS that service them. They demand personalized attention during and after the sales process. Sales cycles are long, typically 9-12 months, due to lengthy and thorough evaluation processes, extensive back and forth interaction between the vendor and the customer, and often negotiations on pricing as well as custom features that are expected to be implemented in the initial product or shortly thereafter. After the sale these customers need dedicated and personalized support and an ongoing relationship with their sales reps as well as the corporate management and marketing groups to ensure they understand the vision of the product strategies and to provide feedback to steer the development initiatives.

Large Businesses: IT infrastructure

Once a company reaches the size of a large business (1000+) they have a dedicated IT staff whose job it is to keep the computers, networking, email, Intranet, and other services functioning correctly. The majority of companies this size already have an email system (or several) that they have invested significant amounts of time, training, and money in, such as Lotus Notes, cc:mail or Microsoft Exchange. If they have an Internet connection this email system is connected to Internet mail via an SMTP gateway. Many companies, even those that are technology-intensive, will continue to use non-standards

based email systems because they were using internal email such as this prior to the need for Internet email and because there are some features such as return receipts that are not available yet via Internet email standards.

Large Businesses: Email Needs

Large businesses have thousands of users that rely on email for mission critical business activities. As such the IT departments are extremely demanding with respect to their needs. If the email system goes down, even for half an hour, the IT department will be flooded with calls from users demanding it be fixed. Some of the most important needs include:

- Reliable, robust, bulletproof email solutions
- 24X7 guaranteed availability and support if there are problems
- Automated backup and disaster recovery
- Fast performance, particularly for LAN to LAN file transfers
- Security to ensure critical corporate data is not accessed or leaked
- Centralized as well as delegated email administration, coordinated with existing infrastructure such as Netware or NT directory and security services to avoid duplication of effort creating multiple separate directories.
- Secure remote access to email for users on the road (usually provided via RAS servers and/or VPN solutions)

It is not clear that the first implementation of BCE meets the needs of large business customers. Security may be a big issue, as these companies may not be comfortable having all of their email reside outside of their own secure firewall and infrastructure. Additionally there is likely to be a need for higher-end features that are required for one or a few administrators to manage large numbers of users at a time. There may be additional challenges: according to the Gartner group, email outsourcing inhibitors for large businesses include:

- Control and security of information
- Trust (How can enterprises be assured that their data is not being perused by staff at the outsourcing company?)
- Viability of service provider
- Requirements for more than E-mail (i.e., calendaring, groupware)
- Lack of success stories
- Relationship management (escalation policies, recourse in case of disagreements and service failures)

Large Businesses: Challenges For Netcom:

- Most large businesses already have an investment in an email system - convincing them to throw out their previous investment will be difficult. IT staff will have to justify why the wrong investments were made in the past. IT staff may also be scared off by the perception that outsourcing email reduces the need for their skills –

since they will be the ones doing the product evaluations it may be difficult to convince them to change their minds.

- Netcom does not have the sales staff and channels to support an intensive focused effort to target these customers. Additionally Netcom does not have the one to one intensive customer support and technical hand-holding infrastructure that is necessary to keep these customers happy once they have bought into the solution.
- Netcom's brand is biased more towards consumer and small business. Netcom has not historically sold to these customers. Even in the dedicated line business, over 70% of Netcom's customers have less than 100 employees. (source: K.Chin 2.98)
- It is unclear whether large businesses will risk outsourcing email due to security concerns
- Microsoft has an army of VARS and direct sales folks pushing Exchange as a corporate email solution in conjunction with SMTP gateway mail forwarding.

V. How BCE can be packaged and sold

Initially BCE can be packaged and sold to customers in two ways:

- As an "outsourced" email service targeted toward customers with 20-200 employees, replacing the need for a customer to have an onsite email server. Analogous to selling web hosting, this service can be sold with or without access to both new customers and the Netcom installed base.
- As part of a bundled solution for VSOs and small businesses – the NetComplete office – targeted at the vast number of small businesses with <20 employees, with the primary target being the majority of these that have fewer than five employees.

BCE will also be offered at a later date to the wider base of dialup NetComplete customers. This will give Netcom a significant competitive advantage, since NetComplete customers will gain the added benefits of web-based email retrieval as well as a consistent and coordinated view of their mailbox from multiple computers and email clients. These benefits will help increase retention rates (as mentioned in the 1999 operating plan), offsetting the corresponding additional costs.

A.) BCE sold as an outsourced email service

Customer benefits of outsourcing email

The benefits of email outsourcing include the following:

- Little or no capital investment /upgrade costs
- Predictable per user costs
- Faster implementation/integration than using in-house resources

- Potentially improved reliability
- Reduced administration and support, freeing up IT resources
- Reduced costs (\$60-\$120/mailbox per year versus \$300 and up via other methods)

Outsourced Email Market Growth Rates

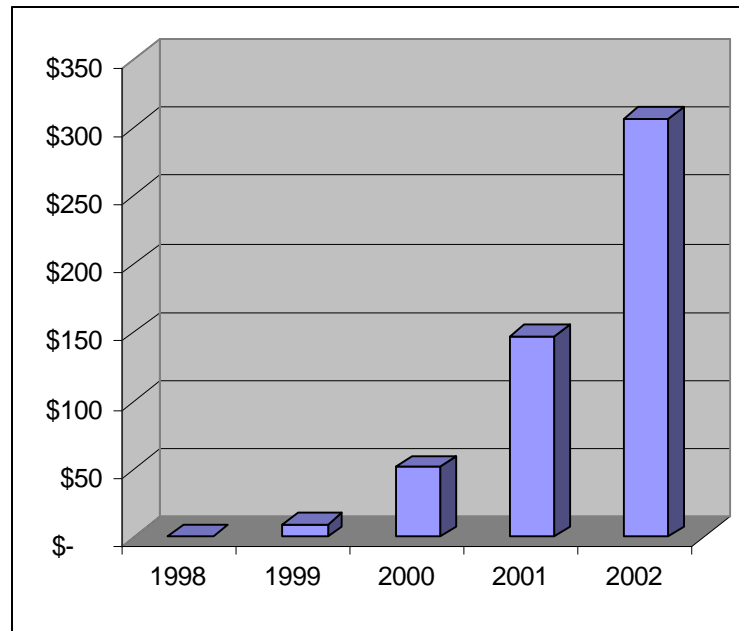
The outsourced email market is expected to grow rapidly over the next four years, from approximately \$1M this year to over \$307M in the year 2002.

Outsourced email market revenues, annualized December run rate (M)

	1998	1999	2000	2001	2002
small	\$ 0	\$ 1	\$ 10	\$ 32	\$ 73
medium	\$ 0	\$ 4	\$ 26	\$ 76	\$ 154
Large	\$ 1	\$ 5	\$ 15	\$ 39	\$ 80
<i>total</i>	<i>\$ 1</i>	<i>\$ 10</i>	<i>\$ 51</i>	<i>\$ 147</i>	<i>\$ 307</i>

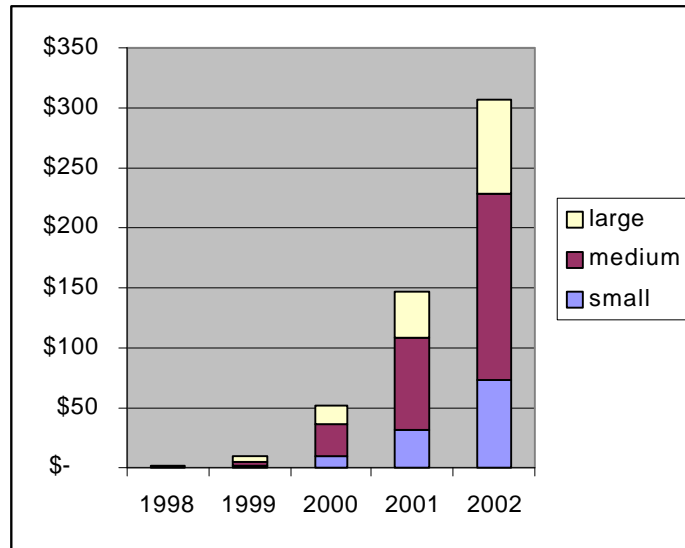
Source: Forrester research

Note: This does not include what Forrester calls “tiny” small businesses and assumes pricing of \$5/month per users.



Revenue Growth of outsourced email service business

Forrester predicts that the majority of the revenues from outsourced email will come from the small and medium business segments.



Revenue by market segment of outsourced email business

Netcom BCE: Product Description

Netcom BCE would be an outsourced, cost-effective, standards-based email solution that allows employees to access their email with a consistent and coordinated view of their mailbox from anywhere in the world. It would eliminate the need for a company to install and maintain their own email server, reducing costs while at the same time providing the ability to access email remotely through any internet connection. The BCE service would include the following:

- Outsourced email service for your entire company
- As many business-class mailboxes as you need, purchased in groups of five, priced at \$6.95 per mailbox
- No setup fee
- 24X7 technical support
- 10MB disk space quota per email account
- Domain name registration and sign up (additional fees apply)
- Easy setup and administration of accounts through a web browser interface (add and delete accounts without having to contact Netcom)
- IMAP 4 server-based mail storing (POP3 can also be used)
- Access to email from any computer connected to the Internet using a Webmail interface in a browser
- Support for the most popular email clients (Netscape, Outlook Express, Eudora)
- Company directory and address books
- Mail backup & retrieval
- "All" mailing list for everyone at your company
- Spam controls
- Email aliases
- Vacation and autoreply messages
- Mail forwarding

Note: other options may be offered at a later date (premium support, permanent mail archiving, additional storage, etc.)

Note: Some of the larger customers (100-200 employees) in the target market may have legacy email systems. Most likely these will be older cc:mail systems that are just now being replaced (customers who have more recently invested in Notes or put in Exchange won't be looking to switch to something else - they will likely add an SMTP gateway instead). To ease the transition there needs to be a document for customers that describes possible transition strategies. Depending on what early

customers tell us we may also decide there is a need for a utility to help with the conversion. Additionally we will need to have client installers that provide the right IMAP settings for customers in order to minimize technical support and configuration/re-configuration issues.

Competition in the email outsourcing business

There are a number of competitors in the outsourced email service business, including:

- Fabrik: claims to have 600,000 email accounts across 700 corporate customers through their Fabrik Remote (remote and mobile e-mail hosting), Fabrik Connect (gateway connectivity to the Internet and X.400), and Fabrik Partner Network (secure e-mail for business partners) services. Fabrik remote service has been available since June, priced at \$6.95 per mailbox. Roaming is available for \$3.20 per hour via a partnership with ipass. In September they announced they will be using Netscape messaging server 4.0 for Fabrik remote. Fabrik is also close to shipping Fabrik Mail Source, a new IMAP-based service similar to Netcom BCE (see Appendix A for more details).
- Critical Path: does email outsourcing for ISPs, branded email providers, and corporations. Operating two data centers, one located in Palo Alto, Calif., and the other in Laurel, Md. they claim to currently handle 1 million user mailboxes that use 75,000 different domain names. Critical path uses their own custom-developed email server software to run their operations. Standard email service features include a "brandable" web mail interface, secure web-based account provisioning, spam blocking, gmt time stamping, and LDAP directory services. Premium email features include unified messaging services (Jfax and email), virus protection, permanent archiving, certified delivery, IMAP, calendaring, and mailing list management. Industry alliances/partnerships include e*trade for secure email, Network solutions (dot com mail), and planet direct.
- USA.net: provides outsourcing of email services to businesses and ISPs and has partnered with Netscape to provide Netscape Webmail. PostOffice.Net is targeted at small and medium businesses. Positioning is "PostOffice.Net combines proven, proprietary technology with premium customer and technical support to provide businesses with customized email, secure infrastructure and enhanced email capabilities." (see Appendix A for more product details)

B.) BCE as part of the NCO (NetComplete Office)

To reach the "sweet spot" of the small business market— those with <20 employees that represent 90% of the 7.4M small businesses in the US, BCE must also be offered as part of a bundled solution – the NCO (NetComplete office). This segment, particularly the overwhelming majority with fewer than five employees, has huge upside potential for Netcom, but it will take a compelling and highly differentiated product combined with aggressive marketing for Netcom to capture a significant share of this rapidly growing market.

NCO would be a new line of business for Netcom, providing an all-in-one comprehensive solution with a clear and compelling value proposition for businesses with less than 20 users, and primarily targeted at those with five or fewer employees. NCO would include access bundled with a compelling set of services that are presented to the user with a unified, consistent interface, all at a price that makes it the de-facto standard choice for small businesses getting on the Internet. Acting as a virtual outsourced IT department, NCO would give customers many of the features and functionality only previously available to larger companies with dedicated IT staffs who were willing to make significant up front investments. Note: over time NCO can be further expanded to form an entire suite of outsourced IT services.

The first version of NCO would include the following:

Business Class Email...

- Outsourced business class email service for your entire company
- Use up to 5 mailboxes – web-based mail management interface to add or delete users without having to contact Netcom. Add'l mailboxes available at \$6.95 per mailbox.
- 10MB disk space quota per email account
- Access email from any computer connected to the Internet (in house or remote) using Webmail in a browser
- Use the most popular email clients (Netscape, Outlook Express, Eudora)
- IMAP 4 server-based mail storing
- Company directory and address books
- Mail backup & retrieval
- “All” mailing list for everyone at your company
- Spam controls
- Email aliases
- Vacation and autoreply messages
- Mail forwarding

Web Hosting...

- Your company's own website to market your products and communicate to customers
- 10 MB Disk Storage
- 1 GB Monthly Data Transfer
- Netcom Web Site Builder
- Microsoft® FrontPage® 98 Server Extensions
- Open Market's ShopSite™ Manager Lite
- CGI (Common Gateway Interface)
- Log Files
- 14-Day Trial of Virtual WebTrends™

Collaboration tools...**

- Drag and drop file sharing with a virtual file server
- Access control, security, version control, and change notifications
- Multi-threaded, multi-topic discussions.
- Shared project and task lists

**will require Netcom to partner with eroom, hotoffice, or equivalent and provide a consistent, coordinated web-based management interface across web hosting, business class email, and collaboration.

Low Fees, Access, and more...

- No setup fee
- \$45 per month
- 24X7 technical support

- Domain name registration and sign up (additional fees apply)
- NetComplete Internet Access Account
- PersonalNews and PersonalFinance Services
- FTP (File Transfer Protocol) Access
- On-line Account Maintenance
- Additional email hard drive space (pricing tbd) & additional mailboxes (\$6.95/month) available

VI. Financial Analysis

Profit & Loss Analysis

The attached profit and loss analysis (Appendix B) shows that Netcom will make a substantial profit if the project is implemented and the products are launched and marketed with the corresponding budgets. A top-level summary is as follows:

BCE Revenue & NIBT (Net Income Before Taxes)

	Forecast revenues	Estimated NIBT
BCE 1999	\$764,674	\$35,460
BCE 2000	\$4,248,788	\$2,790,224

NCO Revenue & NIBT (Net Income Before Taxes)

	Forecast revenues	Estimated NIBT
NCO 1999	\$654,750	\$(47,750)
NCO 2000	\$9,168,047	\$5,040,628

Total Combined Revenue & NIBT (Net Income Before Taxes)

	1999	2000	TOTAL
Revenue from both products	\$1,419,424	\$13,416,835	\$14,836,259
NIBT from both products	\$ (12,290)	\$7,830,852	\$ 7,818,562

Breakeven Analysis

A rough breakeven analysis (Appendix B) shows that the breakeven point occurs at the end of Q2 2000 for the investment for all hardware and software (including what is necessary to run all IX customers on the same software).

VII. Strategic benefits for Netcom

There are many strategic benefits that deploying BCE will provide to Netcom:

- First mover and time to market advantage with an IMAP solution versus competitors, making Netcom's products differentiated as well as positioning Netcom as a technology leader
- Ability to exploit Netcom's web-based administration as a competitive advantage versus other companies that begin shipping the standard version of Netscape's Messaging server 4.0
- Lowering customer attrition by offering customers a differentiated offering not available elsewhere
- Providing a more responsive customer experience that decreases the need to contact Netcom to manage or change email services

- Targeting new potential segments in the future, such as families
- Allowing for a single consolidated email solution across all Netcom customer mail systems
- Additional industry exposure and leadership perception due to Netscape partnership and joint announcement/marketing activities. Over \$129,000 in free marketing programs from Netscape.

VIII. Recommendation for proceeding

It is recommended that Netcom do the following:

- 1.) Launch BCE as an outsourced email service as quickly as possible, targeted at businesses with 20-200 employees, making full use of Netcom's time-to-market advantage
- 2.) Define and launch the NetComplete office as soon as possible, targeting VSOs and small businesses with <20 employees with the primary target being businesses with five or fewer employees. *Note: because of the huge distinct upside associated with this segment, having a highly-differentiated product and a very significant corresponding marketing push is absolutely critical for overall success.*

IX. Proposed Launch timeline & activities

Engineering rollout of product

From an engineering point of view BCE will be rolled out in three phases:

Phase I: host outsourced email (as a standalone service in April 1999 and as part of NetComplete office in July 1999) for new customers and customers who upgrade to the new service

Phase II: Migrate the hosting customers in Dallas over to using the software (with the same POP mail capabilities they have today unless they have purchased the upgraded service)

Phase II: Migrate all IX customers to using the software (again with the same POP mail capabilities they have today unless they have purchased the upgraded service)

Launch Dates

From a marketing point of view, the target launch date for BCE as an outsourced email service will be April 1. This will allow for enough time to prepare internally at Netcom for the launch (training sales & customer support) and to plan and execute the corresponding marketing activities (PR/Press tour, marketing programs, VAR & channel notifications)

The target launch date for NetComplete office will be July, allowing for enough time to coordinate the same activities listed above as well as finalizing details in terms of necessary third party relationships and product modifications.

Marketing, infrastructure, and launch activities

Recommended activities (to be further developed and agreed upon with corporate communications) and supporting tasks associated with launching BCE are outlined below. Note: these represent a minimal list based only on launching BCE in April, with basic spending for overall BCE marketing of \$569k (NCO requires an additional \$477k of spending in order to achieve the projected forecast). A full marketing and launch plan for both BCE and NCO should be developed and funded prior to proceeding. Recommended activities include:

Customer beta seeding/success stories

- Seed 8-10 sites with software for use in end of November/December

Press tour (finalize details of plan by end of November):

- Develop tour materials (presentation, demo, FAQ, 3 success stories and customer quotes from beta sites)
- Brief top 3 email industry analysts in February under NDA
- Brief monthlies in early March under NDA
- Brief top 15-20 publications targeted towards the overall industry and VSOs/small businesses last week of March
- Press release over the wire first week of April, concurrent with product ship

Marketing activities for BCE launch:

- Direct mail to installed base using targeted mailings with tailored messages to: 1.) all customers with unique domain names 2.) customers with >3 POP mail accounts) and 3.) customers with dedicated access (\$50k estimated cost)
- Advertising campaign targeting VSOs and small businesses with print and radio (ongoing for entire year – focused on top 3-5 major metropolitan areas) (\$100k/quarter Q2, Q3, Q4 1999)
- Email to Netcom installed base announcing service
- Online advertising campaign (banner ads) (\$150k estimated cost)

Netscape Comarketing. Netscape is contractually committed to the following activities (\$129,000+ value):

- Banner ad on Netscape home page to reach 5M impressions (\$50,000 value)
- Banner ad on Net search page to reach 2.5M impressions (\$37,500 value)
- Flash item on Netscape News page
- Executive column on Netscape home page
- Creation of "business access" category in ISP select with prominent Netcom placement
- Premier listing on Computers & Internet guide by Yahoo for 3-6 months
- Advertising in Netcenter News to approximately 2.1M people (\$42,000 value)

Additionally, Netscape has indicated they will do the following:

- Define a process to send qualified customer referrals from Netscape's sales force to Netcom
- Assist Netcom with finding some seed sites for success stories

- Do a joint press and analyst tour
- Do comarketing using the Netcenter small business channel and customer list
- Give Netcom access to and leverage with Netscape VARS

Infrastructure/readiness

- Train sales force on product (mid March)
- Announcement to VARS (last week of March)
- Customer support training (end of March)
- VAR channel program (\$100k estimated cost)

X. Open issues

- BCE interface needs customer feedback and testing
- Customer sites must be up and running by mid-November to meet the above proposed launch schedule
- NCO feature set must be finalized/agreed upon and implemented with third party involvement if applicable
- Comarketing plans with Netscape need to be firmed up and commitments solidified
- Sales will need reps who learn the product thoroughly and are incented to go after hot prospects

Appendix A: BCE Competitive Comparison

	Netcom	PostOffice.net	Fabrik Mail Source (new service just about to ship)	Critical Path
Pricing	\$6.95/mailbox POP: N/A IMAP: \$139 for 20 users/month	- \$35 setup fee special promotion – includes domain name registration - \$27/mon for 5 mailboxes + \$5.50/add'l mailbox POP: \$109.50 for 20 users/month IMAP: in beta	- No setup fee - \$60/mon + \$6.95 /mailbox - 30 day free trial POP: N/A IMAP: \$199 for 20 users/month	- No setup fee - \$5/mailbox/month for POP service - \$15/mailbox/month for IMAP POP: \$100 for 20 users/month IMAP: \$300 for 20 users/month
Support	- 24X7 tech support - Not toll free - Support for admin & end users	- 8am-7pm M-F, 8am-6pm S/S - Toll free for admin only - Dedicated account coordinator to get accounts set up and answer questions	- 24X7 tech support - Toll free number	- 24X7 support for admin - Toll free number
IMAP 4 support?	Yes	POP only IMAP in beta testing now	Yes	Yes – optional for additional \$10/month fee
Delegated Admin?	Yes	Yes – must contact to add new accounts though	Yes – add new accounts without contacting	Yes – add new accounts without contacting
Storage/acct	10MB/mailbox	5MB/mailbox	20MB/mailbox	POP 10MB/mailbox IMAP 20MB/mailbox
Web-based email?	Yes	Yes	Yes	Yes
Corporate directory	Yes – via LDAP	No	Yes – via LDAP	Yes – via LDAP
Aliases	Yes	Yes	Yes	Yes
Mail forwarding	Yes	Yes	Yes	Yes
Vacation messages	Yes	Yes	Yes	Yes
Junk mail blocking	Yes	Yes	Yes	Yes
“All” mailing list for everyone at your company	Yes	Yes	Yes	Yes
Additional options	TBD. Some possibilities: - Universal mailbox - Virus scanning - Permanent archiving - Add'l mailbox space - Calendaring - Mail list management	- Additional storage - Anti-Virus* - Greeting Cards* - Forward to Pager* - Forward to Fax* - Language Translation* *advertised but not yet available	- Anti-virus (available at a later date for additional charge)	- Add'l storage \$2.50/5MB/month - Spam blocking - Jfax universal - Virus protection - Permanent archiving - Calendaring - Mail list management - Certified delivery

Appendix B: P&L analysis

See attached Enhanced Email P&L spreadsheet