

## ***Insurance Times:*** MSN, AOL continue battle over Internet

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SEATTLE (AP) — Even Microsoft Corp., at times, can play the role of David to someone else's Goliath.

With 9 million subscribers to its MSN Internet service, Microsoft places a distant second to America Online and its 35 million subscribers worldwide. It is battling a company that, for many, is almost synonymous with the Internet, from its ubiquitous distribution of free trial compact discs to popularizing the phrase, "You've got mail."

Still, Microsoft's got a pretty big slingshot. And the Redmond software giant is loading it with its biggest stone yet — MSN 8. The new redesign of its browsing and Internet access service will launch nine days after America Online rolls out AOL 8.0 on this week, as the two industry powerhouses ratchet up a big-bucks battle to attract new customers — or steal them away from competitors.

For Microsoft, it's not necessarily about making money — at least not yet. The company's seven-year old service has yet to make a profit, and the Redmond software giant clearly is not shy about spending money — it spent \$500 million on developing the new version and plans to spend \$300 million in a massive advertising campaign, including everything from TV ads to a launch party in New York featuring singer Lenny Kravitz, said Bob Visse, MSN marketing director.

Rather, Microsoft sees a future for MSN that will someday justify the billions of dollars in development and marketing spent on the service over the years.

"We believe that this is going to be a very very big business, a business the size of Windows or the size of Office in the future," he added, referring to Microsoft's two largest revenue-earning products, the Windows operating system and Office suite of business software. "It's something that consumers will come to rely on in their everyday lifestyle."

AOL's challenge is reconnecting with customers, analysts said.

Company officials are optimistic that members will take to the redesign.

"It's clearly our best effort at delivering real value, real features and functionality and experiences that connect people with the other people in their lives," said David Gang, AOL's executive vice president for product marketing. "This is the biggest step forward."

Although the big two are drawing most of the attention, there are many other competitors hoping to snare customers as well, from No. 3 provider Earthlink to Yahoo!'s new high-speed Internet access service, offered through a partnership with SBC Communications.

Microsoft's newest version focuses on improving filtering of "spam," or junk e-mail and beefs up its e-mail program, one of Microsoft's advantages over AOL, analysts said. The company also honed in on an AOL strength — parental controls that allow adult supervision of where and with whom children interact on the Internet.

Microsoft also has made the new browser more customizable, and is throwing in exclusive content from the network's Money and other sites to further entice paying subscribers.

AOL similarly focused on letting users include more customization, such as adding animated buddy icons to its instant-messaging program. It greatly enhanced its e-mail program, which still trails Microsoft's but represents a big improvement, said David Card, a senior analyst with Jupiter Research.

Card said he doubts whether either company's latest version will significantly change the competitive landscape, but others say AOL is vulnerable and Microsoft, with more consumer-focused how-to content and services, can make some inroads.

"It's almost as if MSN is for grown-ups and AOL is for kids," said Mark Anderson, founder of Friday Harbor-based Strategic News Service, a technology newsletter. "MSN is for more mature economic transactions while AOL is more for media content" such as pictures of pop star Britney Spears.

The question remains, whether MSN can keep customers at a better rate than some have estimated.

According to a June report by Forrester Research, MSN has had far more difficulty keeping subscribers than AOL, with a 43 percent retention of subscribers from 2000 to 2001 compared to AOL's 79 percent of members keeping the service in the same time frame.

MSN disputes some of Forrester's methodology, but says it is looking ahead to MSN 8 and how it may help Microsoft improve its customer retention and convince AOL users to switch.

"MSN 8 is the first time where we feel that we have a product that is a step ahead of any of our competition," Visse said.

Pricing remains a key attraction, analysts said, which has historically been one of Microsoft's greatest lures over the years — and into this next round. "We're going to beat AOL in pricing in every category," Visse said.

MSN subscribers will pay monthly fees of \$9.95 for "bring your own access" subscription; \$21.95 for a dial-up connection; and between \$39.95 and \$49.95 for broadband connections, depending on territory.

AOL subscribers will pay monthly fees of \$14.95 for bring your own access, \$23.90 for dial-up and \$54.95 for broadband. AOL spokesman Andrew Weinstein defended the company's pricing, saying that AOL's higher prices have not stopped it from outpacing MSN's subscriber growth in recent years.

But with only about 15 million broadband users, both companies should consider how they can better appeal to users with high-speed access for their future growth, said Mark Kersey, broadband and cable industry analyst for La Jolla, Calif.-based ARS Inc. Currently, "I don't think there's a tremendous amount of content out there that really demands that people have broadband," he said.