The Wainhouse Research Bulletin

ONLINE NEWS AND VIEWS ON VISUAL COLLABORATION AND RICH MEDIA

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Andrew W. Davis, *andrewwd@wainhouse.com*

Microsoft Unveils Windows Messenger for Windows XP

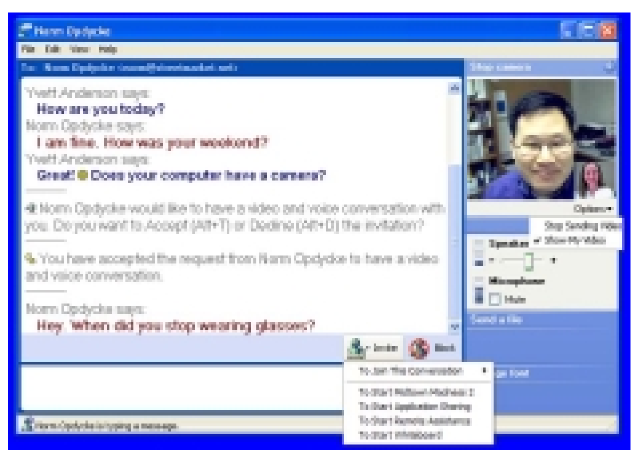
By Andy Nilssen, andyn@wainhouse.com

Microsoft released the first beta version of its brand new Windows Messenger to developers this week. Windows Messenger essentially combines what was NetMeeting with updated audio and video codecs, adds strong dose of MSN Messenger including presence detection, moves it all over to newly-minted SIP support, and then integrates it all as a standard feature of Windows XP Professional, which is due in October. The result is "an integrated user experience for real time communications that includes your personal contact list, presence, notification, voice calling, video calling, text-based instant messaging, application sharing, shared whiteboard, file transfer, and integration with Windows XP Remote Assistance." Whew.

If you like to listen to Bill Gates, he believes the result will "enable people to communicate and connect like never before" using seamlessly integrated text chat, voice and video communication, and data collaboration.

Here's a few more interesting notes:

- NetMeeting will also be included in Windows XP to support third party products that have been built on it, though Microsoft's development and promotional energies will move towards Windows Messenger. This is in part due to Microsoft's strong belief in SIP, which has been integrated into the Windows XP platform, as a way of enabling communications sessions for a wide variety of applications.
- Window Messenger includes new wideband audio and acoustic echo cancellation (AEC) based on PictureTel's SIREN audio technology, which Microsoft licensed in March 2001 (WRB V2 #14)
- Windows Messenger is built on SIP and both the MSN Messenger and Exchange Server Instant Messaging protocols so it can talk to both MSN Messenger's existing 32 million users and Exchange IM users. The back-end messaging service is just used for presence and rendezvous; the call sessions themselves are peer-to-peer - thus the full feature set becomes available between two Windows Messenger PCs.
- Windows Messenger can be used as a "launch pad" for DirectX8-based products, such as multiplayer games.
- Windows XP Home Edition users will not be left out, they just won't get the enterprise-oriented features such as Exchange IM support. Home users will need to register for a (free) .NET Passport account to use the .NET Messenger Service for presence.



For those concerned about interoperation with existing H.320/H.323 conferencing, we will have to stay tuned for SIP-compatible MCUs and gateways to the H.320/H.323 world; SIP to POTS audio gateways already exist..

Here's What Andy Thinks

It is said that once Microsoft targets a market space, it keeps moving forward relentlessly until it achieves. Consider Windows Messenger as Microsoft's next step after the NetMeeting and MSN Messenger learning experiences - only I think it could potentially be *the BIG* step forward for desktop conferencing.

Why?

Technology: Windows Messenger has a number of major technical advances, the largest of which I believe is its use of SIP. H.323 has just not caught on for LAN-based conferencing applications. Critics call H.323 too heavy, inflexible, and unfriendly to LANs, and issues such as H.323's (and thus NetMeeting's) dynamic ports requirement never got along with firewalls. SIP holds promise as a more lightweight, multi-purpose communication protocol - for example, IM and presence can run over SIP, but can't over H.323. SIP has been making inroads in the audio conferencing space, and RADVISION in particular has been offering SIP toolkits for some time now. Maybe SIP will finally be the breakthrough that gets real-time communication to the desktop masses.

Value Proposition: Adding real media conferencing to instant messaging is the right, natural progression for the desktop. So, will Windows Messenger provide a better conferencing complement to IM than the phone? Given adequate network QoS and CPU cycles, which are definitely getting there, I think so. The huge leap is merging IM's presence with conferencing. On the phone if someone isn't there, I end up leaving a message or trying again later - a waste of time. With Windows Messenger, I will know someone isn't there before I attempt to call them. There's more vs the phone: With SIREN, the audio should actually be better - and hands free. Data sharing and PowerPoint presentations can be easily brought in to any call. Finally video can be added, though I'll reserve judgement here until I get a look at the quality - though many of PictureTel's x-video research team have been at Microsoft for some time now.

Who do you call: Just like NetMeeting, some form of Windows Messenger will be included with every copy of Windows XP. Unlike NetMeeting, Windows Messenger is IM-based and will leverage 32 million existing MSN Messenger users. So the endpoint variable in Metcalf's law should be blown away (the value of any network is the square of the endpoints).

What's not to like: Standards and Microsoft paranoia. Windows Messenger sits squarely in the middle of the IM interoperability standards debates. Remember, AOL was forbidden to add real media conferencing to AOL IM as part of the Time-Warner merger unless they opened AIM up to others (WRB V2 #5). It was the right move, and I see nothing different here. Successful communication systems are based on open standards, and I look forward to Microsoft demonstrating they understand this with published APIs, proven interoperability with other vendors, etc (which gets very interesting as user registration gets into .NET's Passport, etc). I could write an entire paper on this topic alone, so I think I'll stop here.

But as far as rich media desktop conferencing is concerned, as they say, now it gets interesting.

⇆WR Forum: Will SIP open up LAN conferencing?
⇆WR Forum: Microsoft Windows Messenger

Motion Media Unveils POTS Surveillance System

Motion Media Technology, leveraging its C-Phone acquisition has announced the eyesite 110, a low cost, POTS analog -based video transmission device for remote surveillance. The $900 unit provides six audio and video camera inputs and uses the popular H.324 standard for videoconferencing. Of course you need an H.324-based conferencing system on the local side to view the remote images. Wainhouse Research believes the product was acquired when Motion Media bought the assets of C-Phone. POTS-based videoconferencing, while it hasn't taken off in a general sense, is still viable for some remote home health applications as well as security and surveillance where standard telephone lines reign supreme.

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TANDBERG Steps Up for INFOCOMM

As it turns out, this year's Infocomm show does not include a formal videoconferencing interest section as has past years shows. TANDBERG, however, has stepped in to fill the gap. Booth #12155, open to all Infocomm attendees, is the Video Integration Zone (VIZ) and it will feature three days (June 13 - 15) of seminars on videoconferencing and audio-visual integration. Over 25 sessions will span subjects such as remote presentations, the power of a control system, building an H.323 network, video networking, intelligent conference scheduling, etc. The presenters include experts from various companies including Altinex, C-Tech, CMS, Communication Design Group, Crestron, Extron, Global Scheduling Solutions, Inline, Kayye Consulting, Logical Transitions, Magicsoft, Panja, TANDBERG, and of course, Wainhouse Research.

The web link is too complex to type, so just click here …

jgouldin@tandbergusa.com (Julie Gouldin)

Master Japanese. Speak Teleconferencing.

The Wainhouse Research Bulletin is now available in Japanese. Check out http://www.teleconnews.net

IMCCA Notes

By Carol Zelkin, czelkin@optonline.net

The IMCCA website enables members of the collaborative communications industry to find information that's relevant to their work, their interests, and the future of our industry. One exciting aspect of the website is that the information on the website is entirely member managed. This means that the person, or company, that posts an article, press release, white paper, or case study has full control over how that content is made available to the online community – a significant benefit of membership. The fact that the IMCCA members control the website content helps keep the information both up-to-date and relevant.

The IMCCA website also includes an industry wide calendar allowing members to post information about upcoming events, trade shows, seminars, and training opportunities. Furthermore, the website offers high power marketing and public relations benefits to vendor members and other corporate sponsors.

Many additional website (www.imcca.org) features are scheduled to roll in the next few months.

Editors Note: Another web site well worth checking out is www.wainhouse.com.

Dollars & $ense

Wire One to Acquire GeoVideo Networks

Wire One has agreed to acquire the assets of GeoVideo Networks, Inc., a Lucent Technologies venture in order to integrate GeoVideo's proprietary technology into the Glowpoint network. The Glowpoint network utilizes a backbone provided by Exodus Communications and achieves last mile connectivity through a variety of solutions, including DSL and T1.

In exchange for the assets, Wire One will issue 815,000 shares of Wire One common stock, together with warrants to purchase approximately 500,000 additional shares of Wire One stock at $5.50 per share and 520,000 shares at $7.50 per share. At the $5.36 closing price on 31-May, the day of the announcement, the deal would be worth $4.37 million plus whatever the warrants are worth.

Chief among the assets of GeoVideo is cash of about $2.5 million. The other assets is GeoVideo's browser, a software tool based upon proprietary Bell Labs technology that allows up to six simultaneous, real-time, bi-directional high-bandwidth IP video sessions to be conducted with a standard PC.

Here's What I Think

This isn't on the same scale as the PictureTel acquisition by Polycom, but it is still very interesting. If you look a bit down the road and visualize enterprise desktops populated with powerful CPUs, and LAN/WAN connections providing broadband IP capabilities, then a software solution for conferencing and multipoint calls takes on new significance. Clearly this is the direction Wire One sees for the industry and for its Glowpoint developments. It is possible that the company will garner a leading technology position with this acquisition and its proprietary technology. It appears that Wall Street at least is buying this story since Wire One's shares rose sharply following the announcement.

But, I have to confess I've never seen the GeoVideo technology in action, so I can't comment on any of the details. And software codecs and software MCUs have been around for a while. In the end, it will be a story of audio-video quality (including latency) vs. bandwidth required vs. cost and there are certain to be several players.

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PSINet Files for Bankruptcy

No surprise. PSINet Inc. filed for Chapter 11 bankruptcy protection because of the sharp drop in demand for Internet services. The company said it will continue to provide service to customers. The bankruptcy filing included 24 of its operating subsidiaries in the United States. However, PSINet's operating subsidiaries in Asia, Europe, and Latin America and its Metamor consulting business were not involved in the bankruptcy filings.

First Virtual and CUseeMe Join in Cutting Jobs

In anticipation of the coming merger, First Virtual and CUseeMe both announced job cuts. First Virtual is laying off 24 employees and cutting five open reqs; CUseeMe is cutting 26 employees and 9 open reqs or 28% of the work force.

My Comments

Remember, this merger is what I would call an overcapacity deal. You can also think of it as an underdeveloped market deal. The idea is to eliminate overcapacity, gain market share, and become more efficient by cutting marketing, sales, R&D, and overhead expenses- bring costs in line with reduced, realistic revenue expectations. Success requires that the new company move quickly to implement the changes - doubly so when the companies are in weak financial condition, which is the case here.

Wheeling & Dealing

CUseeMe Networks has a joint development deal with View System Korea to release a new e-learning solution based on the CUseeMe communications client/server platform.

TANDBERG has provided videoconferencing equipment and onsite technical assistance for the 28th Annual Global Health Council Conference in Washington, D.C. This equipment enabled more than 1,500 health and development professionals from 11 countries to participate and discuss topics related to women's health issues.

People & Places

Spectel-Multilink, Louise Cashin (of PictureTel fame), General Manager of International Sales

Avaya, E. Dolores Johnson (also of PictureTel fame), VP of Hosted Solutions.

Motion Media Technology, Garey DeAngelis, CEO of the company's new US subsidiary, Motion Media Technology, Inc. He will be at the company's new headquarters in Wilmington, NC, the site of the former C-Phone.

Letters to the Editor

Andrew:

The article on Polycom Global Community in WRB V2 #25 misses the point. 'Antarctica was sadly unrepresented' maybe, and perhaps New Zealand was also, since the REAL 'first meeting of Polycom end users' happened in New Zealand over two wonderfully action-packed days hosted by the University of Waikato in Hamilton, North Island, way back in April. The two-day event, was also attended by over 100 users (this from a total population of 3.5 mil, by the way). Bob Hagerty and 18 loyal end users beamed in their wonderful stories to us. Way to go, NZUP!!! Pronounce this 'Ends Up!'

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Polycom-PictureTel Part II:
The Zero Sum Game and Other Challenges

It's been hard to get the Polycom-PictureTel acquisition far from my mind. For one thing, my phone has been ringing off the hook. I've had lots of interesting discussions with everyone from customers and resellers to hedge fund analysts. Here are some of my additional thoughts (see WRB V2 #24 for my original writeup).

It's obvious the first challenge facing the acquisition is a review by the US government body concerned with anti-trust issues. My opinion: this will pass through without an issue, but again, I'm not a specialist in anti-trust legislation, litigation, or anything else. I have my reasons, but I won't go into them here. But I must point out that Wall Street appears to have a different opinion. As of the close of business on 6-June-01, Polycom is trading at $28.03 per share making the value of PictureTel stock ($3.11 + 0.1177 shares of Polycom) equal to $6.41 if the merger were to take place today. But PictureTel closed at $5.66, a 12% discount from the tender offer, which seems pretty high, perhaps indicating that the Wall Street pros think it might not go through, or at least it will take a long time to get approval. Who knows?

On the more practical issues, I think Polycom management faces several post-acquisition issues.

i) They must integrate the two organizations and quickly realize the efficiency gains that such a merger of like companies promises. Efficiencies in sales, marketing, administration, etc. I have not a doubt at all that Polycom management is up to this task. And I think that the "culture clash" issues that so many outsiders are banking on are far overblown. Yes, it's true that for some period of time the Polycom management will be inward focused, making sure the organizations are coming together, rather than outward focused (sales, marketing, customers, etc.), but I don't think this is really a fatal blow.

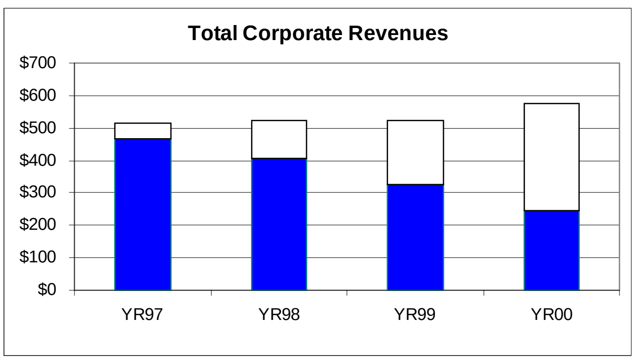
ii) They must integrate the technologies – audio, video, software, etc. Look to Craig Malloy and Mike Kenoyer to find and unlock every kernel of technical excellence that this new combination owns. I see no problem overcoming this challenge.

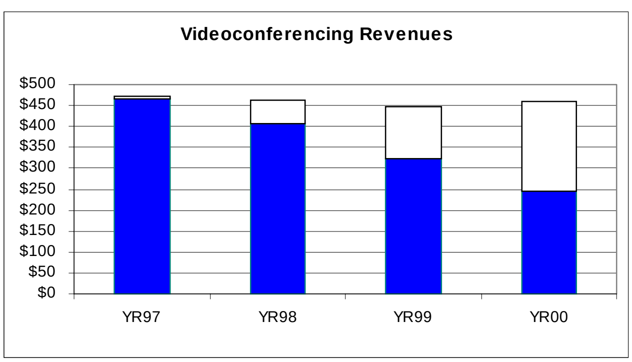
And I see new and improved products coming out of the development team.

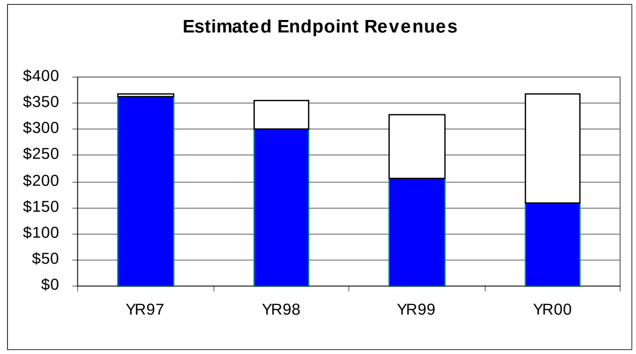
Here's a challenge for WRB readers, coming to me from one caller. Can you name a merger in which two companies with similar technologies, products, and markets came together and the surviving company was better off afterwards? And no, CLI+VTEL is not a good answer.

iii) They must rationalize and integrate the channels. Big problem here, because unlike the first two issues, I don't believe there are any tried-and-true methods, and there are no clear cut winning solutions. Channel management is one of the key issues in the videoconferencing and collaboration market, and this merger will highlight all the sales, support, and conflict complexities known to man.

iv) The new Polycom (post merger) may face a different outlook on Wall Street. Here are some historical views of PictureTel + Polycom. I did not label the two elements of the charts – it is a challenge to the reader to figure out which half is PictureTel and which half is Polycom.







As you can see from the diagrams above, reflecting my own analysis of the revenue streams reported for the years 1997-2000, Polycom has been on a tear. But for the two entities combined, it has pretty much been a zero sum game. What my figures indicate is that while Polycom was enjoying a >250% growth rate in its video business, PictureTel was shrinking, and given PictureTel's much larger size at the beginning of the analysis period, you can see that the combined entity was growing at only 4% in overall revenues, and at essentially 0% in video revenues. This is a far less glamorous picture to take to the Wall Street community than what Polycom has been able to portray in the past. Hence the challenge.

Growth Rate 1997-2000	PictureTel	Polycom	Combination
Total Revenues	-19.3%	92.2%	4.0%
Video Revenues	-19.3%	257.3%	-0.8%
Endpoint Revenues	-24.0%	253.3%	-0.1%

In fact, this challenge highlights what the entire industry faces – it has been pretty much a zero sum game for everyone. Yes units have grown appreciably, but overall revenues are pretty flat.

What's Your Take?

⇆WR Forum: Polycom Acquires PictureTel

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