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TECHNOLOGY SPECIAL REPORT: AN ORAL HISTORY

How Netscape Lost Its Way

Netscape's Navigator brought the web to the masses, but the company fixated on a browser war with Microsoft, letting Yahoo, Google, and other Net companies capture new markets.

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By Adam Lashinsky

On Wednesday, Aug. 9, 1995, a 16-month-old Silicon Valley startup called Netscape went public and ushered in the dot-com era. Netscape didn't just mesmerize investors, it also captured America's imagination. More than any other company, it set the technological, social, and financial tone of the Internet age. Yet, the startup lasted as an independent company barely more than three years after its IPO.

In the end, some say, Microsoft didn't defeat Netscape in the browser war as much as Netscape undermined itself. It didn't recognize the opportunities that the browsers created. Netscape hosted Yahoo in its early days, but never saw the growth potential of portals—or search engines for that matter. Even if Netscape didn't survive as a tech company, no one disagrees that it brought the web to the masses, opening up the Internet for e-tailing, online dating, blogs, interactive games, online auctions, music downloads, and so much more. As Jim Barksdale, Netscape's former CEO, says: "We made the Internet useable by mere mortals."

In the following pages, FORTUNE captures the voices of people who witnessed Netscape's birth, its bitter battle with Microsoft, and its decline.

A Multitude of Sins

Barksdale, a former FedEx executive and president of McCaw Communications, joins Netscape in January 1995, shortly after the company releases its browser for commercial use. Heading a company working at Internet speed is a new experience for him.

Jim Barksdale (Netscape's ex-CEO): I remember telling people we'd just put something out, and if it works we'll call that a product, and if it doesn't we'll call it market research. I'd never heard of using your customers this way to do market research. I'd always been involved with focus groups and careful market research, and this was totally different. (Today Barksdale is mostly retired, though he continues to serve on corporate boards, including that of Time Warner, FORTUNE's parent.)

Eric Hahn (Netscape's ex-chief technology officer. He joined in 1995, after Netscape bought his startup, Collabra): I remember walking in on my first day on the job, and there were pallets—I kid you not—pallets of brand-new laser printers, and a sign on them that said, "Take one." At Collabra, if you wanted to buy a laser printer, you were probably in my office justifying it to me because it was a few thousand dollars at the time. The sense of scale there was just mind-boggling. The hypergrowth also was covering a multitude of sins, some of which later came back to bite us bad. But no one really cared about stuff that typical businesses care about, like exactly what are we doing and why are we doing it. What mattered was that we were doing it, and we were doing ten other things just like it. It was just go, go, go. The stock price was soaring, the headcount was soaring, the downloads of the browser were soaring. It was that way for the first year. (Hahn is now a Silicon Valley venture capitalist.)

Danny Shader (joined Netscape from Collabra): There was a duck that lived in the fountain outside Netscape's offices that ended up having babies. And so here I come to an environment where people are sleeping on the floor, working all the time, going crazy. But somehow, and we watched this every day, people collectively started to adopt the ducks. People made a ramp for the ducks. I remember thinking, wow, "How do people find time for these ducks?" I like to think that it was people trying to maintain some sort of sanity in the midst of all of this insanity. (Shader is now CEO of Good Technology, a wireless messaging company.)

Danny Rimer (then a junior analyst at the investment firm Hambrecht & Quist): The phone was ringing off the hook with companies that were going through unbelievable growth and that could not get an audience with Netscape. So I kept on pestering Mike Homer [Netscape's then head of marketing], Quincy Smith [then head of investors' relations], and Peter Currie [the CFO], saying, "Guys, you just have to dedicate a day to the likes of CNET and Yahoo and Excite and give them an audience." Remember that Netscape hosted Yahoo on servers at the Netscape headquarters and basically put the Yahoo search button on the Netscape home page for free for quite a while before they decided to monetize it. (Rimer later joined a venture capital firm—since disbanded—with Barksdale, Currie, and Smith. Rimer today is a venture capitalist in London. Smith is an investment banker at Allen & Co. Currie was until recently a partner with General Atlantic Partners, a VC firm.)

NEXT:

Andreessen Thumbs His Nose at Microsoft

Netscape has known from its very beginning that Microsoft will be a competitor. At first, however, Microsoft barely appreciates the Internet. That changes, especially when it sees how successful Netscape is becoming—and when Netscape boasts that Microsoft is its target.

Sam Jadallah (a former aide to Steve Ballmer, Microsoft's current CEO): Microsoft woke up the day that Marc Andreessen said that he was going to show Windows for what it was, a set of poorly debugged device drivers. It got posted on a lot of walls around the halls. It mobilized the ground troops. (Today Jadallah is a venture capitalist with Mohr Davidow. Andreessen notes that the expression "poorly debugged

device drivers" appeared in Bob Metcalf's column in InfoWorld without quotation, though it was widely attributed to him.)

Jim Clark (Netscape's co-founder): We were all consumed by Microsoft. Jim Barksdale aged ten years in three. Marc Andreessen is not one to hold his tongue. It's part of his charm, I guess. He did thumb his nose at Microsoft pretty much continuously. And I did too. I would give speeches, and when I would pound Microsoft a little bit I would always get a rise from the audience. If we had kept the visibility lower and said nothing about Microsoft, it probably would have given us another year. Ram Shriram, who was at Netscape and later at Microsoft, has since told me that Bill Gates and everyone there said we were like the matador waving the red flag. The more we waved, the more it helped him unify the troops to kill us.

So it was a bad thing to do in retrospect. But once it got started, we almost couldn't stop, because the press would egg you on and Marc was the David to the big Goliath. He liked that role. But it was actually misplaced—there was no way the browser was going to replace the operating system. (Clark lives primarily in Florida now, where he invests in real estate. He also continues to dabble in Silicon Valley startups.)

Jeff Treuhaft (one of Netscape's first employees): We could have been a lot more careful and not propose that we were going to compete with Microsoft, because we were pretty young in the company's life when Marc went out and started explaining what we were doing in terms of a platform that could run applications. That was pretty threatening to that ecosystem up in Redmond, and they responded with their full force. That created a lot of issues and problems for us, because we ended up competing with Microsoft instead of focusing on customers. (Today Treuhaft works at Verisign, which occupies the very same building that Netscape did a decade ago.)

Lou Montulli (one of Netscape's first engineers): Well, the engineers hung out with other engineers, and at the time I didn't take much interest in matters other than engineering. I look back on that with some regret. Just looking at the engineering problems wasn't terribly good for the company, because the engineers did have a very good understanding of what the space was, and we didn't communicate that well with some of the other areas of the company. As a result, we made tactical errors. We made some reactionary moves at a high level with regard to Microsoft's incursions into our space, that in retrospect were just terrible moves. And the engineering team didn't understand. We were like, "No, we don't want to do that, we want to do this, this makes sense." Those would have been the right decisions. But as an engineering team, you're thinking, well, these guys know what they're doing, they're high-powered business professionals. But it turns out people are pretty much making it up as they go along. (Montulli recently joined Shutterfly, an online photo service, after the Jim Clark-funded startup bought Montulli's company.)

NEXT: The Browser War Begins

The Browser War Begins

Microsoft's Internet Explorer 3.0 launches in late 1996. It is equal to Netscape's browser—and it comes bundled with Windows. By the third quarter of 1997, Netscape's golden years are over.

Mike Homer (Netscape's former head of marketing): It got tough for us pretty fast. It got psychologically tough, because we're doing great, and then Microsoft does their big, "We're doing the Internet and we're going to crush you guys" speech. So, that becomes the psychological torture. And then the next thing that happened was Internet Explorer 3.0. When smart product people we knew got copies of it, they said, "This is pretty good." That really started putting the serious pressure on, and that's when it was really hard. Hard in the sense that we were working hard, and everybody was fine with that, and loved that, and was used to it, and happy about it, because we were doing the greatest thing on the planet in our minds. But also hard in the sense that we were fighting hard, but they were really fighting back hard. That just wears on people. (Homer today runs Kontiki, a company that makes technology for fast video broadcasts over the Internet. He and Andreessen have started the Open Media Network, a nonprofit project to promote legal video downloads. He's also a Palo Alto restaurant and bar investor.)

Peter Currie (Netscape's ex-chief financial officer): Every large shareholder would call and say, "We just had Microsoft in here and they said you're dead. Now explain to us how you're going to deal with X and Y and Z."

Brett Bullington (a former senior executive at Excite, later Excite@Home): Early on at Excite [which paid 'rent' for a search button on Netscape's home page], we knew that eyeballs were king. The idea was how do you get traffic to your website. When Netscape was emerging as the dominant source of where people went, if you could get thrown-off traffic from Netscape, that was important. So we decided that we needed to have a close relationship with Netscape and find a way to get Excite as part of the search and directory component of the Netscape search, because a lot of people would click on that search. I don't think Netscape knew what they had with all the traffic going through their browser. (Today Bullington advises startups in Silicon Valley.)

Danny Shader: My dime-store analysis of Netscape is that we were trying to be Lotus when we should have tried to be Yahoo. There's a huge lesson in this generally: When you enter one of these new technologies, you have to try really, really hard to not use business metaphors or paradigms based on the world you're coming from. So when the Internet came along and it could enable a bunch of different stuff, Netscape basically chose to be a software company. That put us in competition with the biggest software company in the world, which had a knob it could turn to make everything free. Yahoo, Google, and others took the same technology and said, "We're going a totally different direction in which Microsoft can't compete." In hindsight, obviously, if we had all those browsers pointed back at our home page, we should have built the offering right. But we had all come from software companies. So we were a software provider.

NEXT: [Barksdale: 'We Could Have Become Google'](#)

Barksdale: 'We Could Have Become Google'

Roger McNamee (Watched the Netscape story unfold from his office at the investment firm Integral Capital Partners, which was in the same building as the offices of Kleiner Perkins, Netscape's

primary VC.): No sooner had Netscape changed the world and changed Silicon Valley forever than it fell victim to two of the cardinal sins of management. The first was they talked too much. The second was that they didn't listen enough. There are many great companies that let their actions speak for them. (Today McNamee, a musician in his spare time, works at Elevation Partners, a private-equity firm.)

Jim Barksdale: We could have become a Google or a Yahoo, but there was no way we could have done that starting from where we were. Those are the ruminations that will drive you crazy. I don't do it. With perfect hindsight, sure, we could have done it differently, but that's true of any business on the planet.

Eric Hahn: We had products that were hugely popular like Netscape Navigator, whose code was just getting really buggy and really expensive to develop for. Each of the 50 new engineers would pile on and build 50 new things on top of it, but the foundations didn't support it. That hurt us in the browser war almost as much as the Microsoft free browser did.

Roger McNamee: The tendency was to blame Microsoft for Netscape's demise, and that that is just not correct. Microsoft defeated Netscape in the marketplace decisively. It was only able to do so because Netscape abandoned market opportunities in which Microsoft was largely powerless and which came to be dominated by others, in favor of markets in which Microsoft was exceptionally powerful. Microsoft clearly beat Netscape at its own game in browsers but that, in my opinion, is not why Netscape failed. Netscape's inability or unwillingness to commit itself to the new opportunities enabled by browsers: things like portals, which created Yahoo, like search, which created Google and Overture, like application servers, which created BEA. Netscape's unwillingness or inability to commit itself to a strategy that revolved around these new categories was the real reason it failed.

NEXT: Netscape's Legacy: Bringing the Web to 'Mere Mortals'

Netscape's Legacy: Bringing the Web to 'Mere Mortals'

It's no exaggeration to say that Netscape allows every dot-com that follows to exist. It literally hosts computers for Yahoo in its early days. Amazon, eBay, even Webvan, can never have succeeded without the existence of a widely available and easy-to-use web browser.

Danny Rimer: You were really betting on an industry rather than betting on a company when you invested in Netscape and that's partly why it was so damn important.

Eric Bina: (Co-author of Navigator's forerunner, Mosaic): Everyone likes to talk about the web as this big new thing, and I harp on this a lot: Nothing we did was new. Putting it all together in the particular way we did and presenting it the way we did was new. But the web already existed before we started Mosaic. It just was hard to use and difficult to get started. We lowered that hurdle or opened that door. Other than that, we didn't invent new technology, Tim Berners-Lee did. (Today Bina is a self-described stay-at-home-dad in Champaign, Ill., as well as a sometimes breeder of roses.)

Greg Sands (Netscape's first employee with an MBA): Netscape's

IPO clearly was a watershed moment in Silicon Valley—it was the opening valve for the bubble. And, as a result, it probably affected entrepreneurship in ways that are long-term. The second thing is that at that time it was not at all clear where the value was. It was an incredibly opportunity-rich environment. But as a result, picking the things that you're not going to do, where you're going to partner, and where you're going to invest was hard to do, because there was no data. The only intelligent conversations you could have were conceptual. So because of Netscape and what happened, people came to believe that everybody ought to start a company; that capital is free; that all you need to do is build users or hits or reach; and that good things would happen, regardless of whether you had any sense of how you were going to make any money. And those things were ultimately negative. (Sands is a Silicon Valley venture capitalist today.)

Eric Hahn: I think Netscape is responsible for the Internet reaching society as a whole. Not solely responsible. But you've got to pick somebody, and I think it's Netscape. And in so doing, it created the Internet bubble. But it also made possible all the wonderful things about the Internet which we love today. I don't think there was another company set to do it. Spyglass, the other browser manufacturer, was not set to do it. The Road Ahead [Bill Gate's book in late 1995] had just come out without any mention of the word Internet in it. There was nobody else thinking about it other than Jim Clark and Marc Andreessen and many bright people around them who get no credit. Netscape being the commercialization of that, I think, is responsible for the Net.

Jim Barksdale: We made the Internet useable by mere mortals.

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How Netscape Lost Its Way. Netscape's Navigator brought the web to the masses, but the company fixated on a browser war with Microsoft, letting Yahoo, Google, and other Net companies capture new markets. FORTUNE Thursday, July 14, 2005 By Adam Lashinsky. On Wednesday, Aug. 9, 1995, a 16-month-old Silicon Valley startup called Netscape went public and ushered in the dot-com era. Netscape didn't just mesmerize investors, it also captured America's imagination. More than any other company, it set the technological, social, and financial tone of the Internet age. Yet, the startup lasted as an inde... Netscape Rising. That approach sounds smart, even noble. It didn't work. Despite their attempts not to run afoul of the university, Illinois sued the startup for intellectual property infringement. A December 1994 settlement forced Clark and Andreessen to pay millions and change the company name. They settled on "Netscape." "They tried to inhibit [us] instead of enabling us," Clark says. "You should generate goodwill with students who start companies. Netscape.com Loses Its Identity 148. Posted by Zonk on Friday June 16, 2006 @05:33PM from the rebranding-a-rebrand dept. wh0pper writes "Digital Trends has a great opinion piece about how Netscape has lost its identity again in regards to their wanna-be Digg portal. One interesting fact I was not aware of is that Jason Calacanis is the person behind the new beta Netscape portal. A choice quote: 'If this business model sees the light-day and it looks like it will, Netscape readers will change from the baby-boomers of yester-year to a younger audience more interested in Jessica Alba's Bikini or Britney Spears than real intellectual news.' I've tried using the new beta Netscape site, and personally hate it. The browser lost its popularity over the years, but why was Netscape so popular, and is it still available? A good web browser is one of the best ways to keep your PC safe, and to learn more about it, check our other Security articles. If you're interested in web browsers, then you must visit our Browsers Hub for more articles. Struling with your current browser? Netscape lost most of its market share in 2002 to Internet Explorer, and in March 2008 it was officially discontinued. 2. What were the features of the early Netscape browser? Netscape was available free of charge for non-commercial use which was unusual at the time, and it's one of the main reasons why Netscape gained such popularity.