MICROSOFT INTER-OFFICE MEMO

To: Steve Ballmer, Bill Gates, Mike Hallman, Jon Lazarus, Paul Maritz, Brad Silverberg
From: Rob Glaser
Date: May 16, 1991
Re: Life During Wartime

Cc: Min Yee

In a conversation with Bill a few weeks ago, a few ideas came up regarding what to do in light of the increasingly unambiguous bellicosity between Microsoft and IBM. Attached is an elaboration on some of the ideas discussed, as well as a few additional thoughts. I'm a few weeks out of date on the details of where things stand between MS Systems and IBM ESD, and many of the ideas discussed in here are already probably being worked on to a degree already. Nonetheless, the following may be of interest. I'm happy to spend more time on this if anyone wants to discuss further.

Background – The Doomsday Scenario

As background, let's first consider how bad things could get with IBM.

It's June 1992. IBM has indeed begun shipping OS/2 2.0 in volume. Beginning in March, all new 386-based IBM PS/2s come with OS/2 2.0 pre-installed/bundled. Since all PS/2 are now 386-based, this means 100% of IBM's new PS/2s come with OS/2 2.0. The product itself is a little bit better than we expected, but it still doesn't run Windows binaries without Windows also being present. Nonetheless, IBM is still 100% committed to making OS/2 successful. In addition to the OS/2 bundle they also include coupons that gives customers the right to buy up to five native PM applications for $100 each – apps such as 1-2-3/G 2.0, WordPerfect for PM, native 32bit AutoCAD for PM, PageMaker for PM and a MicroGrafix product. All of these products are shipping and at least as good as their Windows counterparts. (IBM used a combination of moral suasion, hatred of Microsoft, and promises of promotional support to make this happen).

Meanwhile, IBM has just announced their plans to switch from MS-DOS to a jointly developed new DOS based on DR-DOS 5.0. The main point of this announcement is to reinforce IBM's position as the dominant supplier of all PC systems software. A few months earlier IBM also began to bundle all its PS/1 machines with GeoDOS (the planned Windows bundle that had been scheduled for 9/91 was cancelled by Cannavino at the last minute even though this hurts PS/1 sales for Xmas '91). Armed with this support, GeoDOS has also garnered statements of support from Wordperfect and Lotus. Neither company is shipping a GeoDOS version of its product but Lotus is privately demo-ing a version of 1-2-3 2.X under GeoDOS.

On the development tools front, Patriot Partners has held a very successful series of seminars for its development tools and is about to enter Beta Test. Their first implementation is for OS/2 2.0 only. Their public posture is that they'll support any other 32 bit environment that seems popular, but they hint that the only other one they think they'll support before the end of 1994 is OSF/1 with the PM layer under development by IBM and MicroGrafix. At their biggest seminar in February, Patriot is joined on stage by Borland who announce that OS/2 2.0 is their main strategic development environment. [Note: all references to Borland in this memo were written *before* the IBM/Borland announcement on May 16th. We may be closer to 'doomsday then we realize...]

My point is not that all of these things will happen, but simply that we should realize that things really could get a lot worse between Microsoft and IBM, and plan accordingly.

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What Is To Be Done?

In addition to product improvements and innovations, there are a number of things we can do to both strengthen our competitive position and to minimize the chances of the above scenario coming to pass. My suggestions fall into 4 categories, each associated with the main constituencies whose actions will largely determine what happens. [Obviously a fifth and most important constituency is IBM itself, but for the purpose of this memo I assume IBM's behavior is exogenous. I do have some thoughts in that area but it's mostly obvious stuff (e.g. be super nice to organizations like Tony Santelli's that are not under the thumb of ESD/Boca). Since you guys understand the nuances of the IBM/MS relationship far better than I do, there's little point in my making suggestions anyway.]

OEMs

A number of programs can turn OEMs from basically neutral parties into co-combatants. I actually think this may be the area of greatest leverage, since this is the one constituency who naturally revile IBM and, even though they may resent Microsoft on occasion, generally are happy to ally with us against IBM. Main programs include:

- Truly integrated OEM bundle deals with IBM's #1 competitor in each major geographic area and market segment. Specifically this means Compaq in U.S. business, Compaq and/or Toshiba in Laptops, Dell in direct/mail order, Tandy in home and K-12, Zenith in higher ed, Olivetti in Europe, etc. Note that while we do have bundle deals with a number of these companies already, what I'm talking about goes way beyond the status quo which is just basically we sign a deal (either per copy or per system), give OEMs our retail bits, and hope things go well from there. In order to make the bundles integrated we should:
  1. Make sure that ALL of the systems utilities that ship with the product are Windows based;
  2. Work with the OEMs to tune their video and other drivers;
  3. Have the system boot into Windows as its default option, show only Windows-based screen shots in all of their packaging and advertisements;
  4. Work with manufactures on integrated Windows-based product lines (e.g. marketing a TrueType printer with their Windows PC)

  In order to really do this right I think there needs to be a group dedicated to working with strategic OEMs in this area. None of these ideas are particularly new but in practice we've done very little of this. Although it's somewhat self-serving to say this, I do think that the way my group has worked with Tandy may at least partially provide a reference model for how big a resource hit it is to do all of these things right.

- Joint merchandizing/seminars/promotions with OEMs. For OEMs who use horizontal channels and who are bundling Windows this is fairly straightforward – joint ads, joint seminars, shared spiffs for Windows applications sold with their Windows-based machines, etc. We do this a little but it's been a very small part of our Win3 marketing to date relative to what could be done, especially in support of OEMs who were pushing Windows hard.

- Create an integrated support program with OEMs. If done right this can actually save Microsoft money and make customers happier. Right now we do OEM deals that are very naive about support – in most high volume Windows bundle cases today, OEMs are responsible for support but in practice do a mediocre job at best of supporting the systems software. As a result the customer calls us, and we either bear the cost of doing this support (the status quo today) or are forced to turn customers who get windows with their computer into second class citizens. Instead we should honestly confront OEMs with information about the costs associated with doing support right and offer to charge them, at cost, for us doing the support. The underlying implementation could be transparent to the customer (e.g. a tie-line into us that they get when

the call the manufacturer). While some OEMs might balk at paying this cost, it would definitely be reasonable for any big-time OEM who was serious about getting behind Windows. If necessary we could do things to improve accountability, such as creating a unique ID for each OEM that is printed in their manual and comes up in the About box.

- For OEMs who DON'T want to ship Windows 3, we should create a concept called "Windows Ready." This would mean that the system had Windows completely pre-installed on the hard disk, only it was rendered inert. In order to enable it the user would have to buy the retail Windows product, but the installer would sense this and simply "unlock" Windows. The implementation of this could be trivial (just copy one missing file over) or more involved (e.g. some code that used the Ethernet ID of the system) depending on one's degree of paranoia about piracy. The idea behind this is that we would make it very low cost for people to ship "Windows ready" hardware — ideally we'd give people the code for free. The only reason I can see not to do this is if we thought it would cause major OEMs who were otherwise planning to do a true integrated Windows machine to back off and just go the "Windows ready" route.

ISVs

Clearly, ISVs are the main vote casters who will drive end user operating system decisions. In addition to all of the things that are being done, the only additional point I can suggest is that we work super closely with the outside systems software/tools companies that IBM is embracing, specifically: Patriot Partners, Novell, and MicroGrafix. I would add Borland to this list given their strength in languages. I know we talk to these guys a lot but specifically I would assign one senior person. who is perceived by the company as an "Honest Abe," non-salesman, to each of these companies. Brad, Paulma, and MikeHal could certainly play such a role. This person would talk to their CEO/Chief Technical Officer very regularly (weekly?) and be as open kimono with them as we have ever been with anybody including IBM.

Even though these companies compete (or in the case of Patriot will compete) with other Microsoft projects I think that none of them are adversarial to our base operating systems work. Of course MicroGrafix now probably think that their PM deal makes them a competitor (plus there are still very bad feelings over the Mirrors stuff) but even so I think it's important that we reach out to these guys.

There are two main benefits to doing this. The first is that these companies are positioned to be key technology suppliers in the MS/IBM war, especially the upcoming 32 bit battle. It's very important that we get them all to view our 32Bit strategy as dominant/most important. The second is that these companies will be key "opinion leaders" in the eyes of other ISVs. They are all technically respected and viewed to be sufficiently independent of IBM that they will give honest appraisals of what's really going on.

Informally I've already had a few discussions with Dave Liddle in this regard, simply because I know him pretty well and have run into him recently (at a UCLA forum and again at Demo '91). Because Dave is such a smooth guy it's not always 100% clear what he's thinking, but I believe I have raised significant doubts in his mind about the technical viability of IBM's plan to run Windows apps, which he believes to be a key element of how they will bootstrap OS/2 2.0. Dave doesn't believe our NT schedule, which was not a point that I could speak to cogently. Dave talks to IBM guys every day of every week, and also has a significant stake in OS/2 2.0 being decent, so there's a lot of follow-up needed to get him to really understand what's going to happen. I bet the same is true for Philippe, the Greyson boys, and Novell's key decision makers (a mix of the SuperSet guys and Uncle Ray I would guess).

Corporate Customers

The biggest thing I can think of doing to accelerate acceptance of Windows with corporate customers is to offer much better "top down" versions/configurations of Windows that allow a site to easily migrate to and standardize on Windows (setting up configs centrally, etc). In order to make this really have an impact it would have to be accompanied by appropriate volume purchase agreements/penetration pricing. I don't know how actively this is being pursued but I think that the project John Ludwig's working on (a license server) and the stuff that Nathan's discussed from time to time could be key levers. Also if Novell has a scheme planned that should be part of this program.

Press

The main thing I can suggest here is that we really get all of the mainstream publications -- PC Mag, PC World, PC Computing, etc -- to become 100% Windows offices. I know a few of them are doing this in part but I really think a concerted program is in order. Based on my recent press tour I think that many of them are ripe for this but nobody seems to be taking the lead to make this happen.