

To: Scott Oki

Date: June 8, 1991

Fr: Paul Burden

Re: DoD Update/DT4

Cc: Richard Fade, Sam Jadallah, Rich MacIntosh

The Air Force formally released the Desktop IV procurement specifications on 6/7/91, several years ahead of schedule. The specs were put on a bulletin board in Word f/ Windows format. The contract is valued at between \$600 and \$800 million for up to 300,000 PCs. The document released is a draft for bidder comment. The Air Force expects to release a formal request for bids by June 25, with an award anticipated this fall. DT4 is designed to provide multiple sources of supply for desktop computers since Unisys can not fulfill demand via DT3. Unisys, due to the fact that they are losing money with each system shipped, is shipping only the obligatory 6,000 units per month, they are not meeting the actual order rate. DT4 is expected to run simultaneously with DT3 and could be awarded to multiple vendors.

The contract covers one year, with three option years. The Air Force wants to acquire four classes of machines, ranging from a basic PC designed for an office automation environment to a high-end machine capable of running Posix. Even the "low end" machine is expected to be a 386sx, possibly a 386.

Companies vying for this contract will range from traditional Defense Department suppliers, such as Zenith Data Systems, to non-traditional Pentagon vendors, such as Dell Computer Co. and Northgate Computer Systems. Resellers such as CompUSA will also compete for this business. Executives from the aforementioned companies have already gone on record stating their intentions to aggressively pursue DT4. I would like to see as much Microsoft executive involvement as possible dealing with their counterparts at these and other companies pursuing DT4. Strategy for teaming with these companies can be discussed at the business planning presentation on 6/14/91.

The Air Force said the 300,000 PCs it plans to buy for all DoD users on Desktop IV is in addition to the 250,000 PCs covered by the Desktop III contract awarded to Unisys Corp. in November 1989. "Efforts to manage diminishing resources with the aid of automation has increased demand for personal computers throughout...the Department of Defense," the service said in the statement. This demand "has far exceeded " the 6,000 units a month Unisys is required to produce under Desktop III.

Unisys has proposed an engineering change to the Air Force Standard System Center (SSC) for Desktop III. It is still under evaluation, there has been no response either positive or negative. This proposal basically calls for replacing the current shipping machine with one they can build at a profit. I met with Unisys on 6/7/91 to discuss status on this proposal, they expect to hear from the Air Force next week on the outcome. They were unable to forecast the likelihood of success on this. MS Office would be bundled on the majority of configurations Unisys is proposing to the Air Force. This is consistent with terms discussed at the meeting in Redmond in January '91 between Unisys and Microsoft execs.

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While some potential bidders view Desktop IV as a price-driven procurement, Lloyd Mosemann, deputy assistant secretary of the Air Force for communications, computers and logistics, said the Air Force intends to make an award based on "best value" rather than price alone. He indicated that a demonstrated ability to deliver would play a part in the evaluation process.

Schedule

This effort is planned as a very fast track procurement cycle. The current schedule is:

Contract Award: Sept 30, 1991

End of Contract: Sept 30, 1995

We believe a six month timeframe to be unrealistic, in our view the best case scenario is 9 to 12 months.

Quantities

The quantities are huge! 80% of all systems will be preinstalled with OA software. Additionally, DT4 will offer OA software for the installed base of PCs.

Total: 470,000 units of OA software during the contract life. (DT3 estimated 21,000 units of OA software)

<u>Product</u>	<u>Quantities:</u>
-Basic System with OA	48,000
-Basic system w/o OA	12,000
-Intermed System w/ OA	132,000
-Intermed system w/o OA	33,000
-Advanced system with OA	36,000
-Advanced system w/o OA	9,000
-CAE S/w Development System	2,084
-CAE s/w runtime system	27,916
-Office Automation Software	254,000
-Open Systems CAE OA software	27,916
-Impact printer	131,247
-Non-impact printer	27,083
-Med Capacity backup unit	75,936
-High capacity backup	7,812
-Removable media drive	16,500

Total OA w/ hardware: 216K + 254K (s/ware only)= 470K Units

Situation Analysis

As the incumbent, we have an advantage. The timing is unfortunate, however, as Lotus, WP, et al will offer their Windows applications. We have been working closely with all the major commands in the Air Force and have attained close to a 50% penetration rate on DT3 machines in the AF. The overall response has been extremely positive, despite the overall contract problems, the program manager of DT3 (and DT4) has publicly rated MS applications as "Top Notch" and a highlight of the DT3 contract.

The key executives in the Air Force are: Gen. Ludwig, Deputy Chief of Staff, C4, who recently met with Paulma and is scheduled to visit Microsoft for a VIP trip on July 12th. We should leverage that time with

MS executive attention. Lloyd Mosemann, Asst Sec of the AF for C4, is also key. MikeHal met with Mosemann several months ago and helped build a stronger relationship with Mosemann's office. Mosemann attended a local MS briefing and became very interested in our multimedia efforts. In addition, MaryEllen O'Brien has orchestrated a two day training on MS Office for technical evaluators of DT3 and DT4 and for the executive staff of Gunter AFB, the creator of DT4. This is a coup for Microsoft, and should remain company confidential. This information could be dangerous if it got out to anyone, even our OEM partners.

The DT4 spec is the AF's first attempt at a functionality specification vs. a feature specification. The entire description for OA requirements is one paragraph (by contrast DT3 had over 25 pages of required specs). This opens the game to everyone in town, both hardware and software. No instruction set is mandated (only ability to run DOS apps is required) so Apple and SUN could also play.

DT4 Highlights:

Simplicity. Instead of the 4,000 possible configurations, as was the case in DT3, there are 4 systems (Basic, Intermediate, Advanced and 'Open System CAE'), each fully configured and prepped. Two printers and backup units round out the list. A total of 15 items can be purchased from DT4. Each system can be ordered either with or without OA software. 80% should be ordered with OA, according to the specification.

OA includes: SS, WP, Database, Graphics, PIM, communications and documentation. We lack the database and PIM modules. As Precision Superbase has been sold to Software Publishing, we may be forced to seek alternatives here, Oracle has already approached us. The Open Systems CAE is a development environment with POSIX, C2, GOSIP, and OA. It appears the AF finally has a concept of when to spec POSIX...

The proposals are limited to 40 pages in length. This is compared to the 15+ VOLUMES submitted in DT3.

Challenges:

The challenge is to identify all the possible bidders in an extremely short period of time. We need to convince them to offer our solution, in what is sure to be an extremely price sensitive battle. The award will be made without discussion, meaning the first offer by the bidder could be the last. Award is based on "best value" which refers to the Management and Technical solution combined with the Cost/Price model. It appears to be a very subjective award. The AF is gambling they can dismiss the protests more quickly than doing a full 2 year RFP cycle.

The RFP requires free updates for the life of the contract. We will be submitting a number of comments back to the Air Force on their draft. Among our comments will be a request for a per-year system maintenance fee.

Strategies:

DT4 is the top priority for the DoD District. In order to demonstrate Best Value, we will propose every item:

- 1). Bundle OA with 100% of the systems, instead of 80% for the same, or lower, price.
- 2). Offer a per-year maintenance fee for updates and upgrades.

3). Bundle MultiMedia extensions on every system. (the winner would become an OEM, if not one already)

4). Offer lower pricing if the bidder offers only our OA suite. (Need legal advice here)

5). Charge a flat per-system price and allow the bidder to put any MS products on the system (including Project, Mail, LM clients, Prod. Pak).

6). Several bidders will probably offer multiple platforms (Apple, Intel and Sparc)

Miscellaneous Items:

- Microsoft OEM needs to be aware of the contract and involve the DoD District when OEM's call about DT4.

- We need to stock approx 60 units of Office (20 bidders, 3 copies per) for evals to bidders. An additional 2 units per bidder needs to be submitted with each proposal. Total estimated evals: 80 units of Office.

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