

Examination of the OEM Apps Strategy

PLAINTIFF'S
EXHIBIT
1342
Comes v. Microsoft

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Dale Christensen, June 4, 1992

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MS Apps Goals

Make revenue & profit channel independent

Make end user experience with our products channel independent

Minimize channel conflict

Don't lose business to competition

Break downward pricing spiral

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App. OEM Specific Goals

Block emerging Lotus/Borland threat in quickly emerging channel

Sell apps - When selling Windows

Capture OEM end user names. Upgrade and cross sell

Use existing OEM relationship as asset

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OEM Apps Scorecard

4115 office

	EBU	High End	Name Capture
Direct	Won - Gateway, DAK	Won - Gateway, NEC, DELL, ATT, DAK	MS reg card in box
	Lost	Lost - DEC, Zeos	
Mass Merch. Channel	Won - Tandy/Victor, Tandy, AST, Cumulus, V-Tech	Won - Acer/Acros	Acer from OEM
	Lost - Packard Bell, COMPAQ, Zenith	Lost - AST, Packard Bell, CompUSA	MS reg card in box

1985 systems, reg card, support cycle unit

To date most Lotus competition is on mass channel systems.

Existing strategy works in direct channel. MS wins most direct apps business but Lotus is increasing pressure.

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Standard OEM Apps Pricing

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High End - Excel

Per system royalty ~ 80 % of SRP \$90 @ 50K units w/ preload
+ COGS for mfg. + support ~ \$130 total

Per copy package ~ 46% of SRP

EBU - WinWorks

Per system royalty ~ 90% of SRP \$15 @ 5K units w/ preload
+ COGS for mfg. and support ~ \$35 total

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Lotus OEM

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High end where we lost

Dec \$ 35 / package for any win app. \$50 SmartSuite
Zeos \$ 72 both for 123W and AMI Pro pack. w/ support
AST \$ 35 for 123W or AMI Pro package w/ support
Smart Suite \$339 packaged direct from Lotus

2 minutes

Low end where we lost

Packard Bell \$ 2 royalty Lotus Works w/ Lotus support
COMPAQ \$ 6 Lotus Works package

Lotus: Buying an annuity. Capture names/sell upgrades/cross sell

What's the NPV of a name to MS? \$50 ?

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Strategy by Channel

	EBU	High End
Direct	We usually win when we If competitive situation escalate pricing.	sell product not price sell position then
Mass Merch. Channel	Sell premium product If price is the only issue, match price. Never lose on price. We walked on PB, COMPAQ, and Zenith because of price We should re-examine why we made this decision	Sell product not price Escalate / rebid price Get creative

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OEM Strategy

When necessary, meet Lotus price pressure in mass merch channel. Don't lose deals on price. Match competition when necessary to win business.

Improve infrastructure to get OEM deals done.

- * Fix PSS technical training bottleneck
- * Solve OEM OAK problems - setup, serial number, delivery times
- * Train OEM account managers to sell product strengths / not price. Focus Apps Mkt on OEM training, needs

Break competitive pricing paradigm. Find a way to compete on other than price.

Capture all end user names where possible, joint work with direct OEM's to upgrade and cross sell install base where not possible

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Breaking the Paradigm

OEM pre-load of Multiple apps (Kiosk)

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Multiple apps encrypted on hard drive

End user can full app. x times before app. locks

Call to 800 number to make purchase, receive unlock key, and get package fulfillment

End user name captured at 800 call

Fulfillment through existing distribution partner doing direct sales

Marketing funds used to create programs for resellers selling OEM hardware and bundled apps

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Name Capture, Upgrade, Cross Selling

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Mass channel

Provide financial incentive for POS capture of end user name.

Direct channel

Two tiered royalty pricing giving discount for passing name to MS. Providing name becomes standard T and C. No name must be negotiated.

Direct channel where OEM won't provide name

Set up third party agent to direct market upgrades, competitive upgrades, and cross sell to OEM's reg base.

- * Sales only to OEM install base
- * MS controls marketing message and programs
- * OEM controls name use
- * MS asks for names when sale occurs
- * Up to third party to build business

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Benefits & Conflicts

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Revenue and end user experience becomes channel independent for Kiosk sales and third party agent upgrades and cross sales

Channel conflict may increase or decrease depending on how the programs are structured and how distribution partners are involved in Kiosk and selling to reg names program

Bundling apps generates revenue and isn't an addition to OEM COGS. It becomes in the OEM's interest to maximize app. selling price.

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