

Erik Stevenson

From: Paul Maritz
To: Brad Chase; Brad Silverberg; Steve Ballmer
Cc: Mike Maples; Richard Freedman
Subject: RE: Key MS-DOS 6 Marketing Issues
Date: Wednesday, September 02, 1992 5:42PM

I agree with your recommendation on both pricing (hence discount, MS-DOS upgrade is important enough to warrant this) and on not selling direct (we need the sustained business).

From: Brad Chase
To: Brad Silverberg; Paul Maritz; Steve Ballmer
Cc: Brad Chase; Mike Maples; Richard Freedman
Subject: Key MS-DOS 6 Marketing Issues
Date: Wednesday, September 02, 1992 3:42PM

There are two key issues we need to resolve in order to move forward with our marketing plans for the MS-DOS 6 Upgrade. The objective of this mail is to brief you on these issues and see if there is a consensus we can arrive out. Then with the basic framework in place we could brainstorm on the rest

The Key Issues

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1. The SRP for the Upgrade
 - * Recommend \$99.95 with a special discount structure that leads to a \$79 street price at aggressive resellers.
2. Do we sell direct?
 - * Recommend: no.

Please read the detail below and reply with your comments on these two issues. Other issues for consideration are summarized as well but pls do respond with your thoughts on #1 and #2.

SRP

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The MS-DOS team strongly recommends increasing our revenue per unit from \$54 (b4 rebates) to around \$67. The powerful features in the product justify the increase. Plus PSS costs and COGs of version 6 will be much higher than 5. The exact number (\$67, \$68, etc.) would be determined with mikene with the goal being to hit a street price of \$79 at aggressive resellers and to always be under \$100.

To hit a low street price of \$79, we must either:

- * Raise SRP to \$129 and use the standard 46% MS discount, or
- * Leave the SRP at \$99.95 and lower the discount to a non-standard 31%

We prefer the latter as did mikene originally. However steve, mike just told us that you want to keep discount structures uniform for our resellers.

Raising the SRP to \$129 has some clear disadvantages:

- * Puts our price over \$100 in all articles that mention SRP
- * Precludes us from using SRP as a marketing tool in our ads, etc.
- * Forfeits a possible advantage or puts us at a disadvantage vs. Novell. It's likely that the SRP of the "Netware Desktop for DOS" (DR DOS 7) will be \$99 or \$129. If our SRP is \$129 we're at parity at best.

We're not in a position to judge the customer service implications of a non-standard discount. However, a \$99.95 SRP is best for our business.

Do we sell the Upgrade direct?

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Recommendation: No

We analyzed the Win 3.1 Upgrade numbers, talked to mikene, and have drawn two conclusions:

Direct sales seem to hurt distribution and subsequent staying power

- * Although Win Upgrade 120-day sell-through (including direct) exceeds MS-DOS Upgrade 120-day sell-through, we expect 12-month sell-through to be far less. Win Upgrade distribution breadth is 60% of what ours was; direct pre-selling may have hurt their distribution and their staying power.
- * Mikene said that our initial orders will be 30% lower if we tell resellers we're going direct.

The big profits are from upselling

- * After making some reasonable assumptions, we determined that Windows made about \$6M in incremental profit by going direct, \$4M of which was from Font Packs and Resource Kits.
- * Windows only sold 1/4 of their 120-day Upgrade volume direct, and, like us, missed the opportunity to upsell in the channel. A well-executed channel upsell could DWARF direct upselling.

Summary

- * There are many benefits of selling direct - it closes the sale, gives us more revenue per unit than going through the channel etc. However:
- * The MS-DOS 5 Upgrade was and still is a huge seller without any direct sales: why mess with success?
- * It's unlikely we could come close to Windows' direct success anyway since we will neither pre-sell direct nor sell direct at low street price.
- * At what price do you sell direct? An \$89 direct offer at launch is neither fish nor fowl: it hurts our channel effort, may upset loyal customers (who could buy through the channel for \$79) and yet will not generate huge direct sales. A \$79 direct offer will get more sales but also will lessen channel enthusiasm and support.

If everyone agrees on the pricing and distribution strategy proposed here then we need to get together to brainstorm on some big ideas.

Some key issues to think about are summarized below

If we do not sell direct what is the offer in Focus and other mailings?

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We want to come up with something innovative that will drive people to resellers in droves and help lead to an explosion at launch.

- * If we give our registered users something for going to the store and buying Astro we gain customer goodwill and help drive people to the stores. However, we give away profits b/c these early buyers tend to be price insensitive.
- * We could provide a registered user an incentive on the Upsell. For example on the MS-DOS 6 Upgrade 3 pak. In this case we more than cover the cost of the incentive in the upsell.

Incentive ideas we have tossed around: frequent flyer miles, wall st journal or time subscription for some period of time, ms-dos books etc. We would brainstorm on this too. Something like buy the 3-pak and get 1000 frequent flier miles or some other prize could be appealing.

Tie-ins to other products

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We want to hook box-cars (upsells) to the locomotive (MS-DOS 6 Upgrade). A profitable boxcar meets these criteria:

- * It's related to the locomotive
- * It's cheap enough to be an impulse purchase
- * It has broad appeal

The Font Pack and Resource Kit were perfect not only because they met all three criteria, but also because they were new products. Everyone was a potential customer because no one owned them.

If the goal is to make money, what should we upsell?

- We should probably upsell as few products as possible to keep it simple and also because success hinges on the reseller stocking the upsells, which won't happen if there are too many. The many Windows upsells - Entertainment Packs, Font Pack, Jumbo, etc. - all have limited appeal since (1) many people already own them, and (2) they're no good for our 40%-50% non-Windows customers.

Our original strategy - upselling people to MS-DOS 6 Upgrade 3-paks, meets all the criteria above although it is pricey for an upsell. Our current thinking is that the 3-paks have broader appeal than any Windows product - this would be a good topic for brainstorming - the potential is high and opinions vary

How about upselling for "strategic" reasons?

We could upsell a strategic product - Windows, Sparta or Access for example - in order to boost its distribution. However, no strategic product we considered seems to make a good upsell based on the above criteria. They're either too expensive or lacking in broad appeal.