

## Amy Johnstone

From: To: Subject: Date:

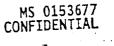
Paul Maritz Brad Chase Fw: SYSTEMS DIVISION FY'94 BACKGROUND & OBJECTIVES Wednesday, April 14, 1993 6:16PM

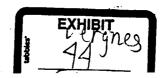
.----From: Paul Maritz

To: Mike Appe; Jeff Raikes; Christopher (VP ITL) Smith; Richard Fade; Gary Gigot; John Nielsen; Bernard Vergnes; Joachim Kempin; Cameron Myhrvold; Dwayne Walker; Richard Tong; Brad Silverberg; Jim Allchin; Rick Thompson; Karen Hargrove Cc: Steve Ballmer; Mike Maples Subject: SYSTEMS DIVISION FY'94 BACKGROUND & OBJECTIVES Date: Wednesday, April 14, 1933 6:13PM

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# SYSTEMS DIVISION: FY94 BACKGROUND

#### From: Paul Maritz

This is a summary of overall background and objectives to guide FY planning. See the detailed marketing plans for each product and also the customer segment plans for additional information.

#### Key Assumptions

FY'94 will be an "event-less" year for Systems - i.e. we will be coming off the MS-DOS 6.0, NT, Mouse 2.0 launches, and building to the Chicago launch at the end of the FY. This will mean that we do not have a large "new" retail opportunity staring at us, and we will have to be creative to find ways of increasing retail revenue.

Windows 3.1 will, for new machines, be almost 100% an OEM business. Thus any way that we can effectively "raise the OEM price" of Windows by licensing additional software to OEMs is very important.

We will not be trying to artificially boost Windows NT volume, instead we will be focusing on building infrastructure (developing sales partners, training, and support channels - generically "solution providers"). We will be trying to focus NT on new opportunities where Windows 3.x is not sufficient - the server business, particularly application servers, and the high-end desktop - hence the positioning of "client-server".

We will be starting to introduce customers to Chicago and to Cairo, mainly to respond to customer requests for information - but we should assume that neither of these products ship in FY'94. We should thus make information available carefully, without causing disruption to existing sales, and above all preserving the concept of a "Windows Family". An element of this will be to "FUD" our competitors (OS/2 and UNIX) all of whom will be claiming various levels of Windows compatibility - i.e. we need to point out that OS/2, UNIX-Windows clones are fundamentally on a "Windows" treadmill.

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# OBJECTIVES/CHALLENGES

1. Make Windows for Workgroups successful and earn more revenue.

It represents a major revenue upside in both OEM and retail channels. It is also strategically important as every secured WfW customer is a great prospect for Windows NT servers, and for Chicago down the line.

We need to not lose focus or heart on Windows for Workgroups. We should "quietly" (i.e. no arrogance, avoid implication of failure of WfW 3.1) relaunch with WfW 3.11 (or "Snowball") and continue the VAR/small reseller push. At the same time we should try to get every OEM we can to offer WfW. The WfW team needs to prepare a good FY'94 plan outline and ensure we have buy in from sales entities (OEM and Subs).

We will be explicitly trying to get as many OEMs as possible to license Snowball - for a few \$'s more. This is key to growing our revenue now that we are approaching high penetrations rates of Windows in the OEM channel. We may be doing some packaging/positioning moves to increase the likelihood of getting additional OEM revenue.

Forecasting guidelines: forecast conservatively but not too much so. Snowball will be a good product - the inclusion of the FAX software, RAS client software, etc. starts to put this product into the "plain good value" category - particularly for OEMs.

Competition/Challenges: Novell Personal Netware, Lantastic, OS/2 2.0,

## 2. MS-DOS 6.0 - get all we can.

Recent sales have shown that there is a huge demand for MS-DOS 6.0. While we should forecast conservatively, we should be considering ways to get every possible MS-DOS 6.0 sale - i.e. we should not shift focus prematurely, and we should try some creative experiments to find out where the end of the demand really is.

## 3. Decrease CUP - counterfeiting, unbundling, piracy.

Again, now that we are approaching saturation in terms of legitimate, traditional OEM business, we need to be going after non-traditional customers and illegitimate business. We should be targetting to increase Windows and MS-DOS unit numbers by 10% by focusing on CUP programs.

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#### 4. Build Infrastructure for and with Windows NT.

With Windows NT, we have to walk the path between not over-promoting the product as "Turbo Windows", but promoting it sufficiently to ensure that channel invests in training and support, and that the appropriate customers evaluate and design in Windows NT. I.e. the real metrics we use should be: training & certification goals, design wins for client &server, server unit sales. It is not a goal to achieve artificially high client sales (e.g. large per system OEM deals etc.). We need to ensure that our internal and external communications accurately reflect the above.

We should be explicitly working wherever possible with "solution partners", encouraging them to invest, and to see Windows NT as an opportunity. We should be involving Windows NT sympathetic Systems Integrator CEMs on very large, support intensive bids. In order of Windows NT sympathy, these OEMs are: DEC, ICL, Siemens, Olivetti, The Subs should establish good working relationships with these companies.

Forecasting Guidelines: Forecast conservatively. The goal for WindowsNT is not units per se, but infrastructure and design wins that will set us up for increased volume in FY'95 and beyond.

Competition: UNIX, Netware (particularly as Novell tries to reposition it as an application server), IBM & OS/2 2.0

Key Challenges: Unrealistically high expectations in the market. Growing the infrastructure and channel expertise.

## 5. NT Related Products:

Hermes - this is a hot product with customers, and we can open doors with it. However we should not expect it to ship until end of CY94, and we should be careful not to get carried too far with the product. Customers want it to solve all their systems management problems - we should be clear what it does not do. We are working to ensure that the SI OEMs integrate Hermes into their solution, so we can involve these entities when the customer wants an all encompassing solution.

SNA Server - this is a means towards an end - i.e. we need the product to complete Windows NT connectivity (which it does very well, so we should not hide it), but it is not a revenue opportunity in its own right. We will push distribution through certified resellers only - preferably the large SI's or specialists.

SQL Server - this is both a lever to sell NT and a revenue opportunity. We will try to ensure that NT is viewed as an open platform that the likes of Oracle can play on, but SQL Server is a great product that we and our solution partners can sell.

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## 6. Mouse Business:

We should remember that the mouse is approx. 20% of systems revenue and approx. 25% of systems profits! We have taken an explicit decision to have a two part strategy with the introduction of new mice: (i) Go for overall profit (even at the expense of share) in the retail mouse business. We will be the "cool" mouse. (ii) Get share in the OEM channel using lower cost mice, leveraging low cost mouse technology that we are acquiring.

We thus need not to lose focus on Mouse in the retail business. This is going to be a challenge in the new "sales" model. We need to educate the GMs and DMs as to how much of the revenue and profit comes from the Mouse - to ensure that Mouse gets the appropriate mind-share and \$-share of promotional funds.

We should be "getting the business" in the OEM Channel.

Forecast Guidelines: Forecast appropriately given above two part strategy (profit in retail, volume in OEM).

Competition: Logitek in retail, Logitek and "no-name" guys in OEM.

#### 7. Other Hardware Business:

We will continue to invest in the sound card business with a dual charter: retail revenue, and spinning off designs and software that we can license to OEMs - this represents another way that we can in effect raise the OEM price of Windows by enducing OEMs to license add-on software.

#### 8. Digital Office:

We are starting on a new venture to build new business in "non-PC" office equipment. Almost all of the revenue will be OEM derived.

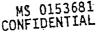
(i) Printer Software to enhance UI, speed, and quality of Windows Printing. WPS remains the retail product, but during FY'94 we will be working to turn this into a broader OEM opportunity. The is a potential for FY'94 revenue.

(ii) Handheld Device ("Winpad") - Compaq will be our lead OEM, and the goal will be to widen this out to include 5-6 others. Little FY'94 revenue potential.

(iii) Intelligent Windows FAX Machines - this does represent FY'94 OEM revenue opportunity.

(iv) Telephone and other office device software - in development, no FY'94 revenue.

We will be starting however to do market positioning in FY'94, and need to budget accordingly. This will be to position MS as having the "practical, business-like, office-oriented" approach to these new non-PC computing devices (vs. Apples "gee whiz" positioning).



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## 9. ISV's:

Our challenges for the ISV community in FY'94 are summed up in "Win32 and OLE2".

Broad ISV's: We need to get the message out to iSVs that to succeed they need to have Win32/OLE2 enabled apps by end of FY'94 - or they will not be competitive. We have to build the training necessary to make it reasonable to develop an OLE 2 app. These ISVs should be targeting. Win32c (Chicago subset of Win32), but starting now on NT.

High-end ISV's: Windows NT is here, go for it. We need to continue to court the UNIX/AS400 community, and the verticals as part of the infrastructure building for Windows NT.

## 10. General Competition:

General desktop competition:

OS/2 is NOT dead. IBM continues to spend heavily and we have to assume that this will not change. We need to keep our OS/2 messages focused on:

- OS/2 is not a "better Windows" - have to do this carefully, but we have to focus once again on the reviews that will be done for OS/2 2.1.

- IBM is on a Windows treadmill, ISVs are not writing to PM, and Windows is evolving and IBM will be stretched to keep up.

High-end Competition:

The broader IBM message which is based on DCE and OMG, and which promises "top to bottom" client-server computing in an "open, cross platform" way.

Notes - enough said. We have to continue to sell the Windows platform, MS Mail, MS Apps and Tools as workflow building blocks, and path to Cairo.

Novell - getting more insidious all the time. They will be making strong cross-platform API push, as well as pushing enterprise solutions based on NW4.0. We should not sell directly against Netware when it is in a customer environment, but seek to integrate with it, and ensure that the applications (client or server) get run on Windows - either Windows 3.1 or Windows NT.

#### Non-PC Competition:

Competition here is clearly Apple. We have to start positioning ourselves as outlined above in the Digital Office section.

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## 11. Windows in Japan:

This the market where we can dramatically increase share. We need to be working carefully with the Japanese sub to capitalize on this. We should have explicit goals for this market. Win3.1 will have been launched, but we need plans for WfW (Snowball) and for Win NT. We need to think very carefully how to position / market Windows NT in Japan, given the immaturity of non-NEC infrastructure there.

# 12. Derive more revenue per PC in future years:

We need to ensure that we have a business plan and product plan in place to derive incremental revenue in FY'95 from the installed base - i.e. have an explicit program to supplement our base OEM revenue by selling additional software and services into the installed base. Rogers Weed in Richt's area will be owning this for Systems.

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