Teresa Jennings

From: Brad Chase
To: bradsi; jonro
Cc: bradc; johnlu; richt
Subject: FW: Systems Revenue Goals and sources
Date: Thursday, June 10, 1993 12:19PM

there already are too many people involved in the snowball packaging
decision but this morning i thought of the following idea that may get
you out of this predicament.

- No win 3.2
- no win 3.1 +
  wfw 3.11 maybe

introduce the speed kit for win 3.1 say for $49. sep sku. offer to
current win3.1 owners cheap. offer to oems cheap. offer through the
channel and then as a promo bundle it with win 3.1 packaged product and
wfw to boost sales. buy win 3.1 or wfw and get the speed kit for free.

you avoid the difficulties of an operating system rev change, the
potential confusion of 3.1 + and if you market it right you get the
incremental revenue you are seeking

brad

From: Steve Ballmer
To: Brad Silverberg
Cc: Bill Gates; Brad Chase; Jeff Raikes; Joachim Kempin; Jonathan
Roberts; Paul Maritz; Richard Tong
Subject: Systems Revenue Goals and sources
Date: Thursday, June 10, 1993 2:24AM

Here are my thoughts on where the sytems business goes longer term as a
business and how I see us getting there though chicago and snowball
what do others think?? I referred to this yesterday to richt and jonro
as their $2Billion a year quota but it si food for thought   thx

< <File Attachment: SNOWBALL.DOC> >

I want to give my thoughts on how I would like to see the Systems business shape up from a revenue basis and use that as a foundation for a discussion of Snowball strategy and Chicago packaging. My basic thesis is that the Systems business should over time have four revenue streams. I ignore here for the moment Windows NT because I see t mostly in specialty applications or on servers for the time being. It does though fir into the general model i think quite well.

The four revenue streams can best be characterized as follows:

1. Per system royalties that come primarily from hardware system vendors selling PC's and paying us in ways similar to the ways people pay us today— royalty licensing. MED, and SVED options
My hope is that we can in the Chicago time frame get OEM's to pay us an average of $40/ system through these programs. Compaq will be certainly less. IBM is a wild card and MED SVED and lower volume shippers are higher royalties. The market will be 30MM machines per year. Between CUP and machines licensed for other systems I hope we can get 90% of those licensed. that would mean 27MM * $40 = $1.08Billion This revenue stream is the natural successor of the old MS-DOS royalty stream of the 80's.

2. The second revenue stream will come from a high volume systems retail offering. I use the word retail here to mean primarily offered on a packaged basis per copy although some of our OEM's may sell it. (Some OEM's may even license it per system but that will be the exception not the rule). I view this revenue stream as the successor to the Windows retail revenue stream of the late 80's and early 90's. In its prime Windows was selling 400M copies a month at a disti price of $75 in the US . The product that we sell to capture this revenue stream should be those parts of what we think of us Chicago plus fonts, daily views, sound software, video software and the like that we do not need to bundle in the OEM royalty product. We must cleverly decide what to put in each bag of bits to make these two revenue streams a reality. Post Chicago, I am sure pieces of this product will move from this revenue stream product into the revenue stream 1 product and we will need to renew this product with more code. This product probably differs from the original Windows product in that it more likely delivers end user value to the owner or the revenue stream 1 product than it delivers new API's not contained in that product. This product is important strategically as well as revenue wise since it lets us keep an important retail systems product in the market to drive forward things OEM's do not want to pay for or call attention to or otherwise make available. It is also a way to make more money on those Compaq machines for which we have a fixed royalty for a number of years to come. I think Billg highlighted the importance at one time of a retail systems product earlier in the snowball discussion but I did not really understand him then.
This product should outsell as a metric the most popular Windows or DOS utility packages combined. 5-6MM units/year *$75 = $400-500MM

3. Revenue stream 3 is the upgrade product to the revenue stream 1 product. I think we need a $99 price point for the first Chicago upgrade since it is transition product until we can get revenue stream 4 in place and because I think whatever is in Chicago product 1 will be exciting enough to command the $99 street price. This product is the heir apparent to the MS-DOS upgrade revenue stream. We must try to AVERAGE at least 3 million units a year of this product with surges obviously on product introductions. We have upside to continuously increase the units through clever annuity offerings and other ideas. This stream needs to get us at least then $80 (decreasing probably for later releases to 40) * 3MM (increasing to 6MM) = $250MM a year.

4. The fourth revenue stream is the upgrade to revenue stream 2. It is a $40 retail offering with lower units than revenue stream 3 product. Say 1-2 million units a year. This makes it a $100 MM a year business.

If we could package all our systems bits into two offerings with two upgrade like this and do the units and prices I show our base systems business not including servers could be a 1.8-1.9 billion a year business or more. I write this because it is very very important that we focus on how to increase profits

out of the systems business while maintaining high volumes and low prices. We have often talked about the opportunity to "raise the price of Windows(Chicago) over time. This is my view of where we are driving. I do not think we can get much higher per system royalties in the near term than I show so we really need all the revenue elements to make this happen and we need exciting products with good unit volumes. The Chicago packaging plan must enable us to move these revenue stream forward.

Today I think our product line maps to these revenue streams as follows

1. MS-DOS 6 and Windows 3.1
2. Windows for Workgroups add on
3. MS-DOS 6 upgrade and the Windows 3.1 upgrade(not clear whether to think of that here or below
4. Nothing or the win 3.1 upgrade

The snowball plan should not eliminate any of these revenue streams short term. I know people think that WFW is a low volume hard to sell option as the revenue stream 2 option but that is what we have until Chicago. I do agree there will be better names and packaging options for stream 2 in the future. (Given that stream 2 content will evolve I think the name of that product in the Chicago timeframe should not describe its content!! WFW obviously is a version of windows and describes its content making it less than a perfect choice for stream 2. However, I do not want to do anything in the snowball time frame that is different than what we want to do for Chicago OR looks like a strategy change from where we are today unless it represents a huge revenue opportunity.

There are as I understand it today two proposals for Snowball and the Windows guys make be working on others.

Proposal 1:
Revenue Stream 1: Take all the bits in Snowball plus fonts and perhaps some others and get $2 plus more or so form OEM's per system than the $30 or so we get today

Revenue Stream 2; get rid of it no product in this stream

Revenue Stream 3: Continues as MS-DOS 6 and now the upgrade to revenue stream 1 product as a hot $49 street price intro. offer product

Revenue Stream 4: None

This proposal says that there is very low value in WFW in general and in the snowball upgrade specifically so lets throw all the bits we have into a few buckets and try to get all we can.
I find this strategy bad for three reasons. It eliminates concepts that we want to and need to reinstate for Chicago but we may lose momentum in our people's focus on the Systems retail business (non upgrade). Second, this strategy will look like a big change to the market since we will kill wfw and we will do a new Windows release before Chicago which the market is not expecting. Customers will complain about two upgrades in a short time especially since many people will not see this new "win 3.2" release as major. Third, no one argues that this new win 3.2 release is exciting enough to generate huge revenue in the 6-9 months between Snowball and Chicago. We might sell as many as 10MM OEM units in the period and capture the incremental $2 (and I think we could do an OEM add on pack with off the shelf bits and get some of that 10MM *$2) plus we might sell 500M or so upgrade for the $40 or another $20 MM. Of course all wfw revenue would disappear so the net incremental in my judgment might be $20MM not small potatoes but not big enough to take the hit in the market and distract our people in the fall when we need to really focus on Office and building NT momentum at the server.

The second proposal which is mine says we should do snowball as a small wfw release to show commitment, make it easier to sell and make technical progress on where we need to go any way. This

plan changes nothing and will likely not increase sales of wfw much in this timeframe. I could certainly accept Brad scaling back the snowball content in this scenario.

This is not definitive thinking on this entire topic but I do think having a common view of the long term revenue framework is important. Thoughts??