From: Richard Freedman [richf]
Sent: Thursday, December 30, 1993 6:31 PM
To: bradc; bradsi
Cc: paulma
Subject: RE: Chicago Product Strategy

since bill's goal is to generate $500M incremental profit, we should
agree on exactly what that means at the boop meeting. using historical
numbers from davidbr and cpu estimates from joachimk, i 've run an
analysis that indicate:

1. in FY94, PSG is on course to generate almost exactly $1B in profit
(FY93 profits: $965M)
2. in the 12 months after Chicago launches (assume for simplicity this
is FY95), PSG's baseline, ongoing profit will increase to $1.2B if we
do nothing different than today

therefore, our goal with Premium should be to generate another $300M in
ongoing profit. Bill may disagree with this interpretation; once he
hears we're getting $200M "for free" his goal may become $700M.

i've run a sensitivity analysis varying retail and OEM penetrations,
and uncovered an important insight. assuming a retail profit of
$60/unit, licensing even one unit of Premium to OEMs begins
decreasing our overall profit once retail penetration exceeds a
certain breakeven %:

OEM royalty	Retail penetration breakeven
$15	25%
$20	33%
$25	42%

in other words, the better we think we're going to do at retail - i.e.
the stronger the product - the more we have to charge OEMs to avoid
cannibalizing retail. it also speaks to the danger of $5-$10 OEM home
& mobile paks. At $5, if only 1 out of every 12 people who gets the
home pak decides not to buy Premium because they already got what they
wanted, we've blown it. i think the home&mobile paks should be bare
bones - just basic hardware-tied stuff like CDFS, PCMCIA support and Efax.

bradc - i've attached the analysis. this or something like it is what
i want to bring to boop, so take a look. thanks

From: Brad Silverberg

BOOP.XLS
To Brad Chase; Richard Freedman
Cc: Paul Maritz
Subject: RE: Chicago Product Strategy
Date: Thursday, December 30, 1993 10:44AM

We need to build proposals for the "A" plan and a "B" plan. "A" is the plan
with a less restrictive base. "B" is the Billg restrictive base plan. List
all that's in (not in) the respective plan. In addition, for each plan
there will be some items on the cusp that should be listed as "under
consideration" along with reasons to (not to) include. For example, in the
A plan probably won't have Capone, Winpad applets, or MOS in it. But should
we ship MAPI in base A? There are reasons to do it (api arguments so isv's

will write mapi apps) and reasons not to (no apps in base use it).

In addition, the proposal should have pro/con arguments for both A and B.

The more we can help frame the thinking, the less it will go off in random directions.

|From: bradc
|To: bradsi; richf
|Cc: paulma
|Subject: Chicago Product Strategy
|Date: Thursday, December 30, 1993 9:18AM
|
|
|I am sending this on my day off b/c rich i want you to think about this.
|As we discussed the other day the best way to keep Bill from implementing
|his naming and product strategy that we do not think is optimal is to
|have some strong alternatives/recommendations of our own.
|
|One area where we can start and perhaps help crystalize the whole product
|strategy is naming. I have some ideas:
|
|Base Name   Premium Name
|----------   ------------
|Windows '95 Sampler   Windows '95
|Windows '95 New PC Sampler   Windows '95 Complete
|Windows '95 Introduction   Windows '95 Essential
|Windows '95 Stand-alone   Windows '95 Information Highway
|Windows '95 Start-up   Windows '95 Standard
|
|Obviously you can mix and match these and this is just a start to get the
|juices flowing. Some names such as "sampler" are more appropriate for the
|hard core billg case and others for the paulma/joachimk position.
|
|I actually like all of these. The sampler name intruiges me if we go for
it
|with a conservative feature set.
|
|You can still deal with the Compaq case easily bu choosing a Base name and
|adding something to it "Windows '95 Sampler with special mobile features"
|or whatever. My preference of course is to try and keep everything clean.
|
|I like these a lot better than bill's "MS-Win" b/c it builds the brand name
|gives each a more clear positioning, is less confusing etc.
|
|Brad
|
|

Sensitivy analysis

Constants	
Retail Premium profit per unit	$60.00
FY95 royalty-paying, non-IBM CPUs	24,960

OEM Premium royalty	$25.00

Retail Premium penetration	OEM Premium penetration								
	0%	5%	10%	15%	20%	25%	30%	40%	50%
0%	$0	$31,200	$62,400	$93,600	$124,800	$156,000	$187,200	$249,600	$312,000
5%	$74,880	$102,336	$129,792	$157,248	$184,704	$212,160	$239,616	$294,528	$349,440
10%	$149,760	$173,472	$197,184	$220,896	$244,608	$268,320	$292,032	$339,456	$386,880
15%	$224,640	$244,608	$264,576	$284,544	$304,512	$324,480	$344,448	$384,384	$424,320
20%	$299,520	$315,744	$331,968	$348,192	$364,416	$380,640	$396,864	$429,312	$461,760
25%	$374,400	$386,880	$399,360	$411,840	$424,320	$436,800	$449,280	$474,240	$499,200
30%	$449,280	$458,016	$466,752	$475,488	$484,224	$492,960	$501,696	$519,168	$536,640
35%	$524,160	$529,152	$534,144	$539,136	$544,128	$549,120	$554,112	$564,096	$574,080
40%	$599,040	$600,288	$601,536	$602,784	$604,032	$605,280	$606,528	$609,024	$611,520
45%	$673,920	$671,424	$668,928	$666,432	$663,936	$661,440	$658,944	$653,952	$648,960
50%	$748,800	$742,560	$736,320	$730,080	$723,840	$717,600	$711,360	$698,880	$686,400

Retail penetration breakevens
At $15 OEM royalty: 25%
At $20 OEM royalty: 33%
At $25 OEM royalty: 42%

Financials

	FY91	FY92	FY93	FY94 (proj.)	FY95 (Do nothing)		
					Non-IBM	IBM	Total
Total CPU's	25,500	30,000	34,000	38,000	39,000	5,000	44,000
Revenue Streams							
OEM (MS-DOS + Win)	$304,564	$410,813	$536,559	$758,167	$873,350	$48,000	$921,350
Retail (Windows only)	$141,993	$231,937	$246,605	$173,554	$0	$0	$0
Upgrade (MS-DOS + Win)	$79,074	$234,946	$324,044	$145,000	$400,000		$400,000
Total Revenue	$525,630	$877,695	$1,107,208	$1,076,720	$1,273,350	$48,000	$1,321,350
Total Profit	$470,364	$760,975	$964,545	$997,082	$1,173,350	$48,000	$1,221,350
Avg. Combined Royalty	$41.44	$40.73	$35.28	$34.99	$34.99	$12.00	
Non-IBM MS-DOS Penetration	59%	56%	58%	64%	64%	80%	

Penetration percentages factor out the effect of IBM not paying any MS-DOS royalties in FY91 and 92, and paying PS/1 royalties in part of FY93 and all of FY94

"Profit" assumes margins of 100% on OEM revenues and 75% on retail revenues

Assumes ongoing, annual Upgrade business of $400M (10M Upgrades @ $80 every other year)

Retail
$332,500

4,156

$80.00

#DIV/0!