From: Steven Sinofsky
Sent: Tuesday, December 30, 1997 3:20 PM
To: Jon DeVaan
Subject: RE: SKU and Pricing recommendation

Oy.

——Original Message——
From: Jon DeVaan
Sent: Tuesday, December 30, 1997 12:38 PM
To: Steven Sinofsky
Subject: FW: SKU and Pricing recommendation

I'm going to ask for a meeting first thing next week to go over this.

——Original Message——
From: Leland Rockoff
Sent: Monday, December 29, 1997 9:30 AM
To: Dennis Tevlin
Cc: DAD SKU, Licensing and Pricing Team; Jon DeVaan; Jon Reingold; Jean Cho; Joseph Krawczak; John Zagula; Anders Nilsson; Kirstin Larson (Office); Jon Magill
Subject: RE: SKU and Pricing recommendation

Dennis,

You raise some excellent points. Frankly, in our numerous iterations we covered the same issues that you've raised, and in early December proposed a very similar SKU strategy. Fundamentally, creating a unique EE SKU at this late date in the development process is problematic, so if we want to significantly raise revenues we need to effectively raise our Select pricing. While we've never done this before, it is worth consideration if we honestly believe that corporate customers will legitimately value all of the new features that we've built into Office 9..

However, when a I proposed a SKU strategy similar to what you suggest (attached below), JonRe and JosephK were quite unenthusiastic. And their concerns would apply to your proposal as well. They believed that there would be substantial customer backlash by effectively raising the price of current Office (Word, XL, Outlook and Ppt) -- and in your proposal the price of current Pro (i.e., a suite with Access) goes up as well. Adding additional applications to the mix, such as Publisher and Deco, were seen to have little incremental value to corporate customers. As a result, Joe and Jon thought that the SKU strategy would be interpreted as a transparent price increase. They also felt that in the current environment, it would be a very bad move for Microsoft to be seen as raising prices in market in which we have a dominant share.

http://officepu/rejected proposal.ppt to see the old presentation.

We should briefly revisit this proposal as we rapidly approach our frim 1/15 deadline. Now that we've been through the majority of the feasible permutations of the SKU and pricing alternatives, we have a good handle on the issues and trade-offs. The bottom-line question in this case is whether or not we think that time is right, both with the product that we're building and in the market, to raise prices.

——Original Message——
From: Evamarie Zamperin
Sent: Friday, December 26, 1997 8:28 AM
To: Jon DeVaan; Jon Reingold; Jean Cho; Joseph Krawczak; John Zagula; Anders Nilsson; Kirstin Larson (Office); Jon Magill; Leland Rockoff
Subject: FW: SKU and Pricing recommendation
Importance: High

I have spent more time pondering the SKU dilemma and the recommendations that have been put forth and have come to the conclusion that I am not in favor of any of the options currently on the table. Time is obviously of the essence so I would therefore like to propose an alternative solution that I think will be easier to achieve and which will accomplish many of the goals we originally laid out. This is a hard problem and the process has not been easy, but I actually believe the successive iterations of the plan have moved us farther away from our original goals. Having been the original proponent of an Enterprise edition, I feel somewhat to blame for our current dilemma. That being said, I think there is a relatively straightforward option available to us. I will briefly outline my new proposal below but before doing so, I will describe why I don't like the current proposal on the table:

Why I don't like the current proposal:.
1. Option 1: "Status Quo" - the combination of SBE, Std and Pro is confusing. The lineup doesn't follow a consistent naming convention and Std and SBE are at overlapping price points. We can do better than this.
2. Option 2: "Add Enterprise Edition with unique capability" - I don't think there's enough real differentiation for the

Enterprise Edition in this plan. More importantly, however, I think using the nomenclature of "Enterprise" creates more problems than it potentially solves. I think it potentially adds confusion in much the same way that SBE has and doesn't help simplifying the buying experience. More on this below....

3. Option 3: "Market Office 9 as Enterprise only, continue selling Office 97" - Continuing to actively sell and market Office 97 at the same time we introduce Office 9 will be very confusing for many reasons. I don't think it's worth the potential pain. We risk angering customers. There's less opportunity to build a new product buzz and hence raise awareness. For example, a new "Enterprise only" edition will not make the cover of PC Magazine no matter what we do to market it. I think it also gives competitors a new opening. We lose the cache of a new product with resellers. While we estimate that a launch spike at retail is only worth about $40M, there are a lot external effects that help long term. Launch promos do a lot to build awareness and momentum.

Dennis' alternative proposal:
· Offer 3 editions of Office - Std, Pro and a new one called "Premier" (placeholder name, but one which I like)
· Price them at $199, $299 and $399 (upgrade street price after rebate)
· Standard includes: Word, XL, Outlook and Publisher
· Pro includes: all of the above plus PPT and Deco (assuming Deco is ready...)
· Premier includes: all of the above plus Access and FrontPage

Why I prefer the above proposal:
1. Goes back to the idea of good, better, best, simplifying the buying experience for everyone.
2. A higher-priced option for corporations in the form of a "Premier" edition offers us a real chance to increase our ASP in LORGs. Similarly, the easy trade up strategy should work to improve the overall ASP in other segments.
3. Uses a consistent naming scheme rather than a mix of customer and capability-based segmentation. Provides a natural incentive for anyone to trade up. We don't constrain SORGs or Home users to buy at the lower end of the line. We reserve Access and FrontPage for the Premier Edition, thus providing a good reason for corps to move up. These products represent our most legitimate "solutions" tools and provide a natural way to establish this edition's value to corporations. Similarly, Pro, under this proposal, is differentiated from Std by the addition of graphics. So "graphics" and "solutions" become simple ways to describe the added functionality in each edition.
4. We retain the use of "Std" and "Pro" which both have equity.
5. We introduce less change and thus less potential for confusion.
6. We retain the synergy of a marketing a new version across all editions and market segments.

Other thoughts and caveats:
· I explicitly do not address the "Home Edition" of Office in this proposal. There is some confusion about this product in the re-org so I left it alone.
· I would rather be more aggressive with our anti-piracy efforts in the Office 9 timeframe than introduce subscription-based pricing or choosing to OEM office more aggressively. While I think this proposal leaves room for more pro-active OEM selling of Std., I think the anti-piracy stuff is less risky and has as much or more upside with SORG and home penetration. We've researched the anti-piracy work more thoroughly already and we have a more solid financial model built. Plus, the code's already in the product. I'm reminded of Steveb's comments - if it's just money, we should take our time to do things right. We should give the piracy effort a chance to work before introducing another unknown practice. Additionally, we have no hard data to back up either of these newer ideas at this time. We should develop these ideas further with the hope of better understanding the consequences before putting them into the current marketing plan.
· We will still want to OEM Office Std to Dell, Gateway, Micron, etc. This proposal does as good a job as we do currently with SBE in making the OEM product less attractive to corporations. One idea I would be interested to investigate is to try and upsell an OEM "Premier Pack" to get additional $s from the OEM customer. This could be done through Office Update or through the OEMs directly.
· While I want to grow our business as much as anyone, I think we are ignoring our current success in our rush to improve penetration in the home and SORG segments. Office 97 is selling at 2x the rate of any previous version. Let's not throw out what has proven to be a highly successful marketing model.
· Thatcher's SORG bits can be included in all SKUs in a special SORG Value Pack folder. This proposal intentionally does away with SBE.
· All SKUs should have integrated setup (maybe a challenge to stevesi)
· We could still be a little crafty and provide an enterprise license option for Select and Customer Agreements. This gets back to the idea of a single setup shell with each SKU as a setup option. Depending on the feasibility and value of this idea, we could sell this license at a weighted average price of the 3 SKUs, weighted in our favor of course.

These are my basic thoughts. I will be available for the conference call with Jonre on the 29th to discuss further.
<< File: Office SKU and Pricing recommendation.doc >>

Dennis