

PLAINTIFF'S
EXHIBIT
3075
Comes v. Microsoft

From: John Krass
Sent: Thursday, July 22, 1999 9:09 AM
To: Kurt Kolb; Steven Roseta
Subject: RE: add on plan, need some input



add-on plan v0.13.doc

try this.

—Original Message—

From: Kurt Kolb
Sent: Thursday, July 22, 1999 8:08 AM
To: John Krass; Steven Roseta
Subject: RE: add on plan, need some input

I can't open this file for some reason?

—Original Message—

From: John Krass
Sent: Wednesday, July 21, 1999 3:59 PM
To: Kurt Kolb; Steven Roseta
Subject: add on plan, need some input

kurt, attached is the add-on plan in development. we can discuss when we meet at lunch tomorrow. also can you send to me the pgl's for the products on page 4.

steve, can you also send me the street and erp prices for the products on page 4.

thanks. jjk. << File: add-on plan v0.13 >>

PENGAD-Bayonne, N. J.
DEPOSITION
EXHIBIT
25
Kolb
5/31/01

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Add-on/Up-sell Plan
Draft 7/16/99

There is a need and an opportunity to partner with our OEMs to create stronger business relationships, increase our preinstall business and also make more revenue selling software for MS and the OEM. We have some things in place already that we can expand now and realize some business this FY. There are also other opportunities where we can build over time.

To be successful, this will be an effort that will span different divisions, specifically HRD and OEM. This plan will focus on:

- Expanding what works in add-ons/up-sells at point of sale with Directs (e.g. Gateway like offerings)
- Turn our OEMs into retailers – e.g. and OEM version of shop.
- And ideally getting more aggressive on the types of products and bundles we can offer to be the most competitive

This plan is for US/Canada and France/Germany/UK in Europe. Other countries will be added in later phases.

Prerequisites for OEMs to participate in the program(s) - need to ship at least the core on 100% of consumer systems. The core is defined as following

- US/Canada – Money, Work, Encarta Encyclopedia or Office SB plus Money and Encarta (if they ship personal finance or reference categories)
- France/Germany/UK – Money, Works and Encarta World Atlas (if they ship reference category)

- PC price/margin erosion drives price/socket pressure for our software.
- New “free PC” models make it even harder for status quo – cheaper PCs with smaller BOMs
- OEMs looking for (and asking about) new revenue sources.
 - ISP, financing, software up-sell
- OEMs realize their distribution “goldmine” – we have more and more competition from other sources (e.g. aggregators, retailers like Beyond.com, Amazon, and distributors).
- Implementing “attach” programs at retail has been successful in the past – too many barriers.

Gateway up-sell/add-on bundles summary

- Gateway has been offering add-on/upsell bundles for two years.
- Gateway offers 4 Microsoft bundles, 2 from the Games category, 1 from Kids and 1 Reference/Productivity.
- These are available to customers who buy a consumer system with Works Suite.
- Gateway is charged royalty on tiered royalty terms from \$42 down to \$35 depending of attach rates. They sell the bundles for \$99 thus generating a very lucrative 130-150% gross margin (note: OEM covers support and COGs).
- This incremental margin generating model has worked very well for Gateway who are now achieving a 20% attach rate for the Microsoft add-ons up from less than 15% 12 months previously. If other ISV bundles are included Gateway are achieving as high as 50% attach rates today. It has also been a substantial win for MS with add-on revenues budgeted at 40% of Gateways revenue to HRD in FY00.
- Beyond this MS add-ons have also represented a significant competitive advantage as they are available on the basis of the pre-installed minimum core consumer bundle (i.e. Works Suite). As an extension of this condition the add-ons are not available should any consumer PCs ship with competitive preinstalled products in place of Works Suite, thus making such alternatives a less attractive economic proposition.

**Add-on/Up-sell Plan
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- Retain (and ideally grow) pre-installed s/w on consumer PC lines.
- Drive additional MS software/hardware revenue for MS and our OEM partners.

<<Will add dollar figures for increased preinstall and add-on rev once plan and map are done>>

- Create add-on/up-sell opportunities for the OEMs where they essentially become a reseller for MS products – giving them real value for shipping the core MS
 - At/Near PC transaction *and* to their installed bases
 - With Direct and Indirect OEMs
 - For MNA and larger Named OEMs
- Develop promotional product/bundle derivatives to keep programs competitive, interesting and unique.

The map below demonstrates target accounts, both that currently carry the MS core products and those who do not, yet (those in **bold** already ship core apps). In parentheses is an estimated yearly home volume. < need to confirm based on oppt map>

	US/Canada		AW, Europe	
	Direct	Indirect	Direct	Indirect
Medium	Fountain (300k) Micron (200k) Systemax/MWM (150k) LAN Plus (100k)	Proteva (125k) MEI (150k) Compusa (50k) Toshiba (40k)		Medion Acer CiBox Evesham AAE Actebis Viglen
Large	Gateway (1.8M) Dell (500k)	Compaq* (2M) HP* (1.5M) IBM* (800k) E-machines (1.6M) PB/NEC (1.5M) Sony (500k)	Gateway Dell TINY Granville	Vobis SNI Fujitsu PB/NEC Dixon Store Compaq HP IBM

*Denotes OEMs who also ship Direct. For those OEMs, they will also be able to participate in the programs designed for the Directs (for that part of their business).

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Bundles/Products

- Expand the "gateway like" bundles to all medium and large OEMs who sell direct to end-users (and can put something in the box). Up-sell/add-on will be at time of PC order.
 - Include Indirect OEMs who sell direct on the web
- Create different levels of offerings potentially (will need to confirm with LCA)
 - Bundles – ongoing (currently like what is offered with GW)
 - Investigate - Bundles – promotional (rotate 60 days to keep fresh)
 - Investigate - Product specials (rotate 60 days to keep fresh)
- Large margin opportunity for OEM. They set the pricing for end users.
- Investigate allowing the Directs to offer this beyond the point of sale. Review the Gateway Country Store test.
- Timing: Can begin to rollout Q1 FY00 (this is the most immediate program that can be implemented).

ADD-ON Bundles - North America (example) : <<<steve, what about product specials for the month. smaller bundles that will go for 49.99 to end user as well?

We would work with an OEM and help define a few bundles for them based on the overall menu. The goal would to allow the OEM customization.

Add-on bundle: Definition

- Select titles from A, B1, and B2 lists.
- Maximum 9 points worth of titles in bundle; \$46.50 royalty (minimum volume of 15k bundles a year). Probable price to end-user will be in the \$79-99 range depending on the margin the OEM wants to realize.
- Extra points can be added by the OEM; additional \$6 per point

Prerequisites

- 100% of consumer PCs ship with core as described earlier
- MS can add new titles to the A, B1, and B2 lists

Mechanics

- OEM buys product from AR
- OEM handles COGs and support for the titles
- Keep simple – do not have sliding scale of attach due to tracking implementation issues
- Products in menu is revised quarterly

<<<Steve – to do for Europe as well>>>

**Add-on/Up-sell Plan
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A LIST (4 points each)	B1 LIST (2 points each)	B2 LIST (1 point each)
Combat Flight Simulator	Pandora's Box	Puzzle Collection
Flight Simulator 98	Midtown Madness	Close Combat
Age of Empires	Motocross Madness	Close Combat: A Bridge Too Far
Money Personal and Business Edition	Close Combat: The Russian Front	Urban Assault
Encarta Deluxe DVD	Picture It!	Best of Entertainment Pack
Mappoint	Golf	Gex
Home Publishing DVD	Pinball Arcade	Fine Artist
Photodraw	Monster Truck Madness 2	Magic School Bus: Animals
Links DVD	Encarta World Atlas	Magic School Bus: Rainforest
Publisher 2000	Return of Arcade	Magic School Bus: Human Body
Outlook 2000	Revenge of Arcade	Magic School Bus: Oceans
	Encarta Africana	Magic School Bus: Solar
	Baseball	3D Movie Maker
	Bookshelf	Creative Writer 2
	VizAct 2000	
	Greetings	
	My Personal Tutor 1,2 + Creative Writer - DVD	
	MS Press: Works 2000 Starts Here	
	MS Press: Windows 98 Starts Here	
	Magic School Bus: Animals	
	Magic School Bus: Rainforest	

North American Example Bundle Creations

Games - Family	Points	Games - Enthusiast	Points	Games - Action	Points
Flight Simulator	4	Age of Empires	4	Combat Flight Simulator	4
Golf	2	Close Combat: The Russian Front	2	Midtown Madness	2
Pinball Arcade	2	Pandora's Box	2	Baseball	2
Revenge of Arcade	2	Puzzle Collection	1	Urban Assault	1
	10		9		9

DVD Pack	Points	Kids	Points
My Personal Tutor 1,2 + Creative Writer - DVD	2	My Personal Tutor 1,2 + Creative Writer - DVD	2
Encarta Deluxe DVD	4	Fine Artist	1
Links DVD	4	Magic School Bus: Animals	2
	10	Magic School Bus: Rainforest	2
		Magic School Bus: Human Body	1
		Magic School Bus: Solar	1
			9

Add-on/Up-sell Plan
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CHOICE card

- Testing this summer with Sony in the US and CPQ in Germany.
- Will keep as an offering to non-US partners who will not have the ability for shop. for some time.
Utilize only on a tactical account-by-account basis.
- Leverage same bundles as above. Also look at current Compaq and Sony test for individual products.
- Commission to OEM is 17.5% of net. Net is the total \$ collected minus COGs, support 1% MSLI administration fee, and a 1.5% credit card processing fee.
- Timing: Sony will launch with their next rev of products, around August. Compaq will likely launch in late September. Other programs could begin Q2 FY00.
- Issue – need to have owner in Europe to implement otherwise this program cannot exist. Also, these programs look to have high implementation costs.

OEM version of shop.Microsoft.com

- Summary
 - OEM becomes retailer of MS software and hardware
 - Turnkey store for OEM
 - OEM works with approved Dist; and OEM determines price to end user
- Two levels of offerings planned:
 - Generic store – smaller OEMs – get them started to sell
 - Normal shop.com with their branding and checkout
 - Customizable store –larger OEMs
 - Special bundle/product offerings (like bundles above)
 - Incentives for users to visit/buy, etc
- Phases
 - 1. Store linked off of OEM portal, moving to desktop links asap (at OEM build dates). Bundles for large OEMs may be at phase 2.
 - 2. Incentives/promos for end users for shopping and buying.
- Timing: Begin Q3 FY00 phase 1 in US. FY01 in UK.
- Issues:
 - Resources to build, manage, sell program internally
 - Ability to remain competitive vs disti and other online retailers (we sell depth not breadth) – need to have aggressive offers; time to market

Other up-sell/add-on efforts – Driven by Dave Barrows team << dave or parri, pls fill in>>

- Sampler CD will have buy buttons on all products that will take the user to the normal shop. Distributed via direct mail, conference handouts, etc. <parri any more details, quant?>
- Investigate other methods
 - New PC resource. Merge of shop. content and the CD sampler
 - Need to figure out business model for how to use this content for accounts that do not use the OEM version of shop.
 - Shop. store within store
 - DVD unlocking – initial test with PB (?)

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	US/Canada		Western Europe	
	Direct	Indirect	Direct	Indirect
Medium	<ul style="list-style-type: none"> Bundles/products Generic shop. 	<ul style="list-style-type: none"> Generic shop. 	<ul style="list-style-type: none"> Bundles/products 	<ul style="list-style-type: none"> CHOICE
Large	<ul style="list-style-type: none"> Bundles/products Custom shop. 	<ul style="list-style-type: none"> Custom shop. 	<ul style="list-style-type: none"> Bundles/products Shop. in UK in 2000 	<ul style="list-style-type: none"> CHOICE Shop. in UK in 2000

<<insert account by account by account action plans and oppt once map is complete....>>

Bundles/product

- Finalize menu of offerings, create sales tools August (HRD and OEM)
- Train AMs, Aug/Sept
- Sell in, Sep/Oct (HRD, AMs)
- Create and BOMs for programs and establish mechanics of program (HRD)
- Create materials to highlight products for the OEMs website, literature, sales training (HRD)

CHOICE

- No owner – needs owner in Europe

OEM version of shop.

- Finalize resources, July (OEM and HRD)
- Pitch to large accounts first – August (OEM, HRD)
- Store development, business relationships (HRD)

Other programs <<need more information here – dave or parr>>

Q1 FY00	Q2 FY00	Q3 FY00	Q4 FY00	Q1 FY01
Rollout Bundles (late in quarter)				
CHOICE test with Sony and Compaq	Rollout other CHOICE in Europe			
		Begin shop. – US		Begin shop. - UK

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