Strategy for pricing for OEM sales of applications needs to be split into different strategies for high end and EBU applications. Now that an entry level package is standard on mass channel systems, OEMs are asking to bundle Excel and Office more often then they ask for Works. The problem is they want high end applications at the rock bottom terms being proposed by Lotus. Lotus pricing drove entry level application pricing into the ground. The challange is to find a way to find a way to win high end business without high end price erosion.

Entry level applications

Current status: OEM has license commitments for more than 1.2M units of Works and .8M units of WEP, Money, and Publish. MS has won all but the most price sensitive deals, i.e. Packard Bell, and COMPAQ. To compete and win on these low end deals OEM mgt. needs the same pricing flexiblity on EBU apps that they have on DOS and Windows.

Objective: Maintain existing penetration. Win back deals lost to Lotus and Spinnaker.

Tactics: Make it a policy to never lose Works business on price. Give Kempin the same right to set price for Works that he has on DOS and Win. Maintain standard price sheet pricing for non-competitive deals. Capture end user names. Make revenue on upgrade business.

1) Don't ever lose on price.

In competitive situations give OEM mgt. the authority to set price on WinWork royalties. MS can win allor most competitve deals with royalties in the $2-$7 per system range.

- On super low royalty deals require the OEM to give MS their reg base. Aggressively sell upgrades.

- MS offers the OEM two end user support options.

a. The OEM support the end user. MS changes the OEM license to clearly explain the OEM's support obligations.

b. MS provides support and charges the OEM $5.00 per EBU license and $10 per high end license.

2) Reduce CUI Works royalty to $.50-$2.00 for per systems deals. Target palmtops with ROM Works/DOS priced in <$5.00 combined royalty.

- Require OEM to a) give MS their reg base. Aggressively sell upgrades
- MS offers 900 support as a third support option.

High end applications

Current Status: To date only two Lotus OEM deals, Zeos and DEC. MS successful at higher margins and min. commits with Gateway and NEC. We should expect Lotus and Borland to aggressivlly compete for OEM business with low package and royalty offers.

Lotus package pricing has been in the $40 per product range. We need to be ready with a defensive response.

Objective: Prevent Lotus and Borland from competing on price, winning market share and eroding selling price of high end apps. Do a better job with our current business model and explore ways to give OEMs more flexible alternatives.

Tactic: Make it easy for the OEM to do business with MS.
1) Continue existing high end royalty applications business model targeting big OEM wins - NEC, Gateway, Acer, but remove OEM pain factor.

Changes to existing business model to make it easier to do business with MS.

- Define OEM support training plan w/ PSS.
- Staff OEM apps technical support ➡
- Understand and match Lotus terms. Don't lose on price for equivalent deals.
- Design applications setup with OEM requirement in mind.
- Get OEM mfg. into the golden master business. Stop custom builds for every deal.

2) Define new sales model for OEMs willing to preload an MS application suite.

Allow OEMs to sell royalty based applications into their install base on a per copy basis.
- Limit sales only to the OEMs registered owners.
- Build unilateral termination at MS choice into contract.
- Price at per system royalty + x%.

3) New sales model - MS rents shelf space on OEM hard drives.
- OEM pre-loads wide range of apps in encrypted form
- End user can try each application x times before it locks and asks the EU to call an 800 number with a Visa number. EU makes purchase of application at street price. EU receives unlock code on phone. EU receives full package in mail.

Two models:

MS fulfills & rebates OEM
- MS responsible for answering 800 call. Unlocks code. Takes and fulfills order.
- MS sends rebate to OEM or reduces DOS royalty based on application penetration.

or,

- Distribution - IMD/Egghead answers 800 call and unlocks code, fulfills and sends order.
- MS sells package product to distributor at standard 46% + spiffs. OEM buys at ~ 42%.
- OEM receives discount on DOS royalty based on application penetration.

MS advantages
MS captures end user names at time of unlock
MS makes retail level profits on OEM business.
OEM end users get better quality product and better support.

MS disadvantages
Direct sale irritates distribution channel

End user advantages

End user gets full application and receives upgrade mailings.
End user gets MS support.

OEM advantages
No min. commits
Little or no money invested by OEM
OEM receives ~ $50 net profit for no work for each application sale.
Summary:

Low end
Drop CUI and WinWorks royalties to level where we will never lose on price.
Get names, sell upgrades. Use 3rd party fulfillment if necessary.

High end
Continue with current pricing and terms for standard OEM deals. Target big deals.
Match Lotus OEM terms when necessary to win competitive business. Get names, sell
upgrades.

Define business case for OEMs kiosking software on hard drives.

① How make channel happy? How funnel calls

② How differentiate from Lotus?
     ① early entry
     ② best apps
     ③ leverage systems products

③ How differentiate to OEM?
     ④ other value-added?

④ How make sure we get names?

<u>kiosk</u>
- # of trials
- 3 vendors - all DOS-based
   AZTECH - 7 ????
   $2 —> $.25 /sale
     All media
      WWH?-based
      Focused on CD-ROMs

- OEM mkting

- FRONT-END FOR END-USER
   Customizable

- Start w/ key OEMs
   . ????
   . # off DOS/???
   . mkting funds for OEM