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Comes v. Microsoft

Microsoft Memo

TO: Peteh, Hankv, Richt, Josephk, Garygi, Rond
Cc: Tracys, Miker
Date: October 30.1990
FROM: Mikene
RE: Excel 3 Direct Marketing - History, Issues, Pricing, Programs

The objective of this memo is to respond to issues, pricing, and programs surrounding the Excel Direct Marketing Program(s). It is important to use historical data on what has happened at MS with past upgrades, provide reseller and Corporate account impacts, channel and direct pricing analysis at selected price points, and comments on recommended programs.

Situation

To obtain 40,000 units of purchases at \$99 will create impacts in channel and Corporate accounts as well as set price points that we do not want associated with high end Apps, yet we need market share quick and successful evals.

Reseller Channels

Internal Market Share - in CY '90 direct resellers accounted for 43% of the Excel sell through. From selected resellers we obtain Internal Mkt. Share data for Excel versus Lotus (all versions), Quattro (non-upgrade \$99 unit), and Supercalc. The selected IMS resellers are 31% of the total units. Excel full packaged products and MLPs are included for calculations of internal mkt share.

For the period of May through August the overall PC Spreadsheet category for direct resellers decreased in total units from 126,475 units in January through April to 108,069 units, a decrease of 14.5%.

Reseller Channel	Total Reseller Category Unit Sales	Total Competitive Unit Sales	Total PC Excel Unit Sales	MS Mkt Share %
Directs	108,069	87,108	20,961	19%

Based on qualitative research and quantitative sales out and profiling data we reviewed the Top 675 indirect hardware resellers Lotus 1-2-3 purchasing patterns and market share data. These resellers are 35.1% of the PC Excel purchasing units in CY '90 through August. The results for May through August are:

Reseller Channel	Total Reseller Lotus 1-2-3 Unit Sales	Total Competitive Unit Sales	Total PC Excel Unit Sales	MS Mkt Share %
Top 675 Hardware Indirects	119,808	105,431	14,377	12%

only if the figs are references & really

The opportunities are in hardware oriented indirects to increase market share. Our direct resellers have 58% greater market share than reported for Excel by Product Mgmt for the total market. By increasing these top indirects by six market share points we can grow our unit sales by 7,188 units in a four month period without any type of category growth.

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Produced using Microsoft Word for Windows 1.1
and the QMS Printer

Microsoft

The balance of the indirects including large mail order houses and 500 smaller indirects make up 22% of Excels overall unit sales.

Product Objectives - PC Excel 3.0 (Word's are unknown)

To create successful evaluations of Excel and sell 130,000 units by end of June '91.

Learn from History

Within 30 days after launch of WinWord we made available direct from MS and to resellers an Upgrade SKU presented "loosely" as a Word5 to WinWord Upgrade. The SRP was \$150 as was our direct selling price to end users. The upgrade was sold to distributors and resellers at non-standard discounts of 20% pre-rebate which post rebates nets 112.20. The numbers and comments below speak to the programs success and failures. Less than 20 resellers participated.

From January '90 through October '90 the number of Word5 to WinWord Upgrades sold direct and through channel are as follows:

Channel	% of Business	% Bus first 90 days	Word5 to WinWord Upgrades
Direct Sales	63%	76.4%	31,763
Reseller Sales	37%	46.3%	18,692
Total	100%		50,393

*No retail status page or disk
LVA - master registering
as - plate sales
REPORTING
should have put in reg card*

The total number of FPP WinWord sales compared to Upgrade units for total length of time available and first 90 days of availability are:

Product	% of Business	% Bus first 90 days	Total Units
Full Pkg Products	67.8%	23.9%	106,575
Upgrade Units	32.2%	48.2%	50,393 (1) (2)
Total	100%		

- (1) 66% of the Upgrade units in T-1 were reported on LVA as sold to Corporate Accounts
- (2) 1,900 units were added to total which may have transferred to sub, unclear at this point

The program was poorly administered, communicated, positioned, and no direct marketing occurred. Product Mktg funding the roll out with \$35 k and distribution channel marketing supplemented it with \$65 k.

Resellers and distributors were confused but as a result we have excellent feedback and suggestions for future programs. In addition, Inside Sales can add value to it as well.

Reseller Impacts of \$99 Price Point

Channel

1. reseller support for broadly and very loosely defined updates will cause them not to even offer a Win solution thus impacted other Win products.
2. distribution will not even maintain but decrease
- NO 3. outbound partnership program installation component will not apply
- NO 4. Reseller hard bundle program for high end Apps cannot be implemented
- NO 5. OEM hard bundle program on royalty and pkg products cannot be implemented

Corporate Accounts

Rond to speak to:

- Feedback from DM's says will impact all negotiations
- Winward didn't set a new price point

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Program Recommendation & Reseller Projections

By offering a higher priced (\$149 SRP) product, positioning it carefully, obtaining resellers support, and targeted direct mail efforts with the SKU is recommended.

Number of units projected at full revenues through reseller channel segments assuming a \$149 upgrade offer positioned and implemented appropriately.

Channel	Projected FPP Sep -Dec monthly sell through	Forecast % of Business - 91	Projected FPP Jan -June monthly sell	Projected Upgrade Jan-June monthly sell direct and resellers
Direct Resellers	6,500	33%	6,300 (1)	1,200 (2)
Senior Partners	2,700	15%	2,800	800 (2)
Top 675 Indirects	3,300	30%	5,700	-0-
Rest of Indirects	3,500	22%	4,200	-0-
MS Direct to E/U	-0-	-0-	-0-	5,000
Total	16,000 (3)	100%	19,000	7,000 (2)

- (1) there will be 5 less direct resellers that will move to Senior Partners
- (2) assumes up to 30 key large resellers participate
- (3) seasonality impact in T-3 versus T-2 is 1.186 times T-2 for high end Apps in sell through

The total sales for 6 months is 156,000 units of upgrades (42,000) and FPP (114,000). Of course competitive introductions in Q-4 could affect the business.

Through positioning, careful and complete implementation of the Upgrade we can assume from the WinWord Upgrade experience that the "street price" and abilities of indirects to sell and install Excel 3.0 will not be affected substantially.

applicable?

Pricing

Since Borland owns the \$99 price point lets own the \$149 price point because Lotus will if we do not. The upgrade at \$149 direct selling price and with appropriate channel discounts can give us a program that may work for all high end Apps when each product's time is right.

Programs

1. Strategic Corporate accounts seeding - Rond to present.
2. Discuss Outbound Partnership Program, internal use, technical proficiency, and installation incentive program - Mikene
3. Discuss top SP accounts and potential hard bundle program with special discounts that could be approved to implement by March in time to combat competitive Win Spreadsheets and Lotus Galileo - Mikene
4. In-store Win category display - Mikene
5. Corporate Account reseller evaluation program for non-named accounts - Miker and Nancybi.

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