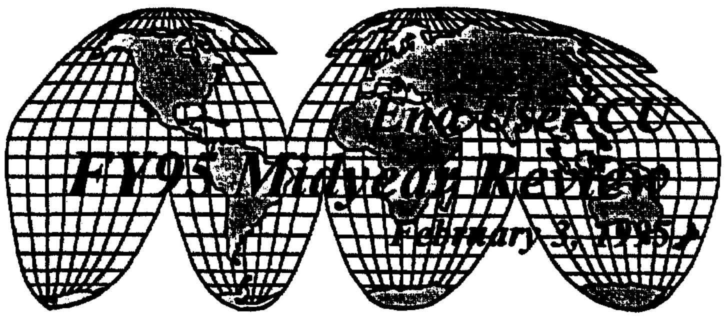

1

Agenda

- Highlights, Lowlights, Challenges, and Competitive Issues
- Key Channel Partners and the Allocation of MS Resources
- Policies and Operations
- Segment Strategies and Initiatives
- End User Marketing
- Summary

2

H1 Highlights

- Strong growth in all segments, particularly CES, Mass. Merch., Club Store, Direct Mktg Resellers
  - At Retail, #1 advertised product and #2 incremental display product
  - 41% of catalog space in Direct marketing resellers
  - Outbound/Aggs building infrastructure and momentum for BSD
- Greater Partner Share in many accounts (appendix X)
- Reorg strengthened national HQ relationships
- Channel Partner Summit, Reseller Exec. Summit, Channel Update represent strong improvements in channel communication
- Easy transition to No SRP

3

H1 Lowlights

- Transition to opportunity funding difficult
- Outlet coverage model weak
- Ali Baba/Exposition controversy painful
  - Role as part of revenue maximization to Microsoft and channel unclear
- Consumer product sales under plan at Holiday
- Program preplanning/execution still needs improvements
  - Late materials; too complex promos for retail
- Product launch framework, full Reseller Infobase not in place
- {Something on MS Plus?}

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Business Challenges & Problems

- {Something on getting data needed to run business}
- {Maintaining business momentum despite Win95 slip}
  - Achieving DAD goals
  - Avoid industry slowdown
- Accelerating Consumer success:
  - {Deliver hit products}
  - {Driving people into store}
  - {Informative packaging}
  - {Clarity in merchandising}
  - SKU explosion at holiday
- Building MS brand name to leverage MS's scale and position

5

Key Competitive Actions: Lotus

- Terms: {fill in detail}
- Continued success of Notes, with the perception of no competing product from MS
  - Pushing Notes as a standard for resellers to use as an information sharing and communications tool
  - Outbounds building service revenue from it
  - Strong Network Notes service from Egghead (though doesn't use Lotus front-end)
- SmartSuite
  - Promo in Nov/Dec hurt, filled channel, hit market share (ASAP example)
- Opportunistic moves
  - Lotus signed vendor managed inventory arrangement with CompUSA; forgave missed rebate target
  - Implemented a Kiosk End cap location with Computer City
  - Lotus is attempting to penetrate Tandy, Inc. at the IS level with their products.

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Key Competitive Actions: Novell/WordPerfect

- **Terms: {fill in detail}**
- **PerfectOffice**
  - ➢ **Generally good roll-outs**
  - ➢ **Despite recall current PerfectOffice launch has had some impact**
- **Novell**
  - ➢ **Novell still has broad mindshare**

7

Key Competitive Actions: Others

- **IBM's OS/2:**
  - ➢ **IBM OS/2 Warp better than expected (~800k)**
  - ➢ **Primarily a retail phenomenon, aggressive funds**
  - ➢ **High return rates seen in some accounts**
  - ➢ **Counter-measures: bundle Internet kit?**
- **Consumer:**
  - ➢ **{Table of terms: returns, direct accounts, etc.}**
  - ➢ **{Example of aggressive markdowns}**
  - ➢ **Disney Lion King rollout strong (POP, MAP)**
  - ➢ **Broderbund and Davidson have strong consumer franchises**

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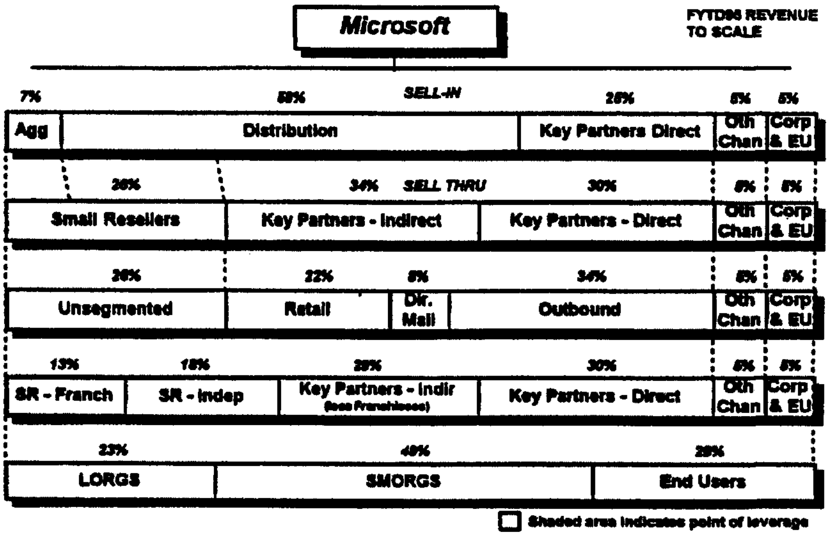
{Update with latest info} *Points of Leverage*



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PC and Software Map

- {Explain link to Point of Leverage slide}
- {Explain goals and methods for creating}
- {Implications and conclusions}
- {Next steps}

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PC and Software Map

- {show the data}

MS US EU Personnel Strategy--H1

- National Resellers handled in EUCU
  - Chuck, Neil, Andy groups (show data)
  - Channel Strategy
- Districts cover local outbound, retail outlets, regional key partners
- {Something about EU group}
- Telesales in Sales Ops
- Lessons learned: too many points of coordination,

MS US EU Personnel Strategy--H2

- ◆Align reseller accounts by segment
- ◆Integrate sales and marketing by segment and telesales
- ◆Move outbound segment responsibilities into SMORG and LORG groups both at HQ and in the districts
- ◆Regional key partners to be cover
- ◆Field EU teams to concentrate on Retail outlet coverage and EU marketing activities
- ◆{Point about allocation of EU to other groups}

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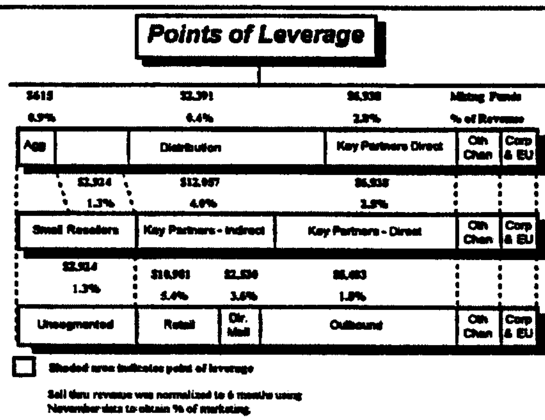
Reseller Marketing Funds



- •Doesn't work!
- •Need to do table showing revenue by segment and MDF by segment with ROI calculations
- •Also, should talk about $rev generated by $MDF invested
- •
- •
- •
- •
- •
- •

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Channel Policies

- **Elimination of SRP's - good PR and channel support**
- **Shift to opportunity funds**
  - **Better focus on ROI as trade-offs between accounts are forced**
- **Focus on top 25 LARs (down from 97+)**
  - **Elimination of LAR's painless - no drop in revenue, few customer complaints**
  - **Taking all LAR's direct created level playing field**
  - **Eliminated rebates gave WW price consistency, but will be revisited for FY96**
- **Better leverage of existing rebates**
  - **Breadth for key product s up 15% in 6 months**
  - **Assessing in-direct rebates with Avalanche/Holiday-promo**
  - **Shift some disti rebates to permanent rebates for key in-direct partners FY96**
- **Higher returns % for consumer, lower on the rest**
  - **Differential terms worked well - split out cust. sat returns for consumer as well 96?**

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Reporting & Operations

- **Reporting by resellers and distributors increases**
  - **MBS -**
  - **AMS -**
  - **EDI/Fasttrack -**
- **Major thrust toward reporting efficiency & effectiveness**
  - **S1: Performance Framework tool launched in US**
  - **S2: Eliminate redundant reporting and reduce delivery time by leveraging off weekly EDI reporting (US)**
  - **S2: Deliver more complete information by consolidating channel sales, inventory and share (Panama)**
- **Distribution becoming more customer focused**
  - **S1: Created east coast MFG and Disti to support consumer holiday plans**
  - **S1: Outsourced supplemental parts OE and fulfillment**
  - **S2: Launch Select 3.0 and fix Select reporting/transaction issues**
- **Major strides taken toward Supply Chain Management**
  - **S1: Completed conference room pilot and training for AFS**
  - **S1: Completed analysis and planning of M&D reengineering to support**

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Communications, Tools and Training

- **Streamline Communication to Field Sales Force and Channel Partners**
  - New Look Communiqué and Infobase - reduce email, focus on segment requirements
- **Build Partnerships with Channel**
  - Channel Partner Summit/Reseller Executive Summit
  - Summit Updates/Product Launch Bulletin/Reseller Infobase/On Line
  - Comdex and CES Sessions
- **Communication Tools -Wins!**

Tool	*Audience*	*Available*
Reseller Database	Field Sales/HQ	June 96
S3 Marketing Binder	Field Sales	NOW
Chanbase Server	Field Sales	February 95
Channel Guide	Product Groups	January 95
Channel Update	Channel (200K +)	NOW
Channel Resource Kit		
» Ad Kit/Desktop 95 CD/Infobase	Channel	May 95

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US Distributor Initiatives

- **Serving the retail accounts**
  - Distributors cannot find profitable business model to provide extra retail services
  - Inertia partly caused by fear MS will go direct with bigger retail accounts
  - We have only been able to incent short term services, no investments in infrastructure
  - GT consignment deal raise issues of how we budget and show true cost of special deals
- **Building Back-Office support**
  - Funding resources at licensing desks for BSD products
  - MS approved train the trainer for high end products
  - BSD spifs to raise client /server ratio - showed distis can do 1:many education
- **Breadth focus has worked for key products**
  - 15-20% increase in breadth for top selling SKU in each BU
  - Distis seek breadth for better margins - we need continue to leverage their efforts
- **MS focus leverage with aggregators through HW sales**
  - Aggregators losing marketshare as a distributor with their franchisees
  - Funding and activities to leverage pre-installation , system integration and tie SW to their HW marketing.

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Distributor/Aggregator Segment

Account	Intiative/Learning
Ingram	
Merisel	
IE	
Microage	Project One-Stop
Vanstar	
Inacom	
GT	Extended terms at Holiday; Special terms moving forward: will fund services?

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Outbound Segment

- **Build Effective Understanding and Adminstration to Successfully Sell and Support Select/MOLP**
  - License sales have grown from x% of FY94 total sales to y% in FY95
  - Sales goals achieved despite lower marketing funds, though painful
  - MOLP Fulfillment process through distribution needs improvement
- **Focus on Marketing off Select contracts**
  - Expand the Reach and Depth of Desktop Applications Through Outbound
- **Help Outbounds build Support and Service Businesses**
  - SMS and BackOffice Key
  - Build BackOffice Channel Infrastructure & Sales (Client SPIF)
- **Reach out to HWOBs/Aggregator Franchisees**
  - Aggressive "Venture Funding"
  - Just starting; need to finish Outbound Outlet Coverage
  - Issue: Training, Training, and More Training
  - Issue: Coordinating Outbound Activities with the OCU and the Districts

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Outbound Initiatives

Account	Initiative
Corporate Software	
Software Spectrum	
Softmart	
Egghead C, G & E	
CompuCom	
Entex	

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Retail Segment

- Explosive growth occuring in new sub-segments (appendix X)
- "Overinvestment" in segment worthwhile (appendix X)
- Space strategies mixed results; great first steps & learning
  - Store-in-Store {list number & key learning}
  - InfoCenter Kiosk {list number and learning}
  - Home Tower {list number nad learning}
- Retail Services will provide competitive advantage
  - Merchandising programs
  - Outlet services, Inventory management services
  - Measurement, funding, systems and manpower
- Execution is key

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◆ **Merchandising Services**

- ➤ **Objectives: Change the software shopping experience, Brand Microsoft, increase assortment breadth, Global Visual Consistency**
- ➤ **Hired Rebecca Kotch. Kicked off concept development with Retail Planning Associates in October. Concepts due March 1, 1995**
- ➤ **Three Levels of Merchandising--Custom is key**
  - » **Permanent - Catalog of hard fixturing and graphics**
  - » **Interactive - Continue the evolution of the "Info Center" kiosk to focus on experiential retailing.**
  - » **Temporary- pre-packs, point of purchase**

◆ **Outlet Services**

- ➤ **Objectives: Control shelf and mind share at the outlet, full program implementation.**
- ➤ **Three-tiered approach based on outlet authority, complexity, revenue**
  - » **Retail Activity Matrix/resource model developed**
- ➤ **System for execution and coordination is key**

◆ **Inventory Management**

- ➤ **Objectives: Participate in retail inventory management to insure maximum assortment and outlet productivity, vendor managed inventory.**
- ➤ **Progress - Tested manual inventory management at selected retailers during holiday. In-stock and assortment breadth improved at retailers where the account manager became fully engaged and was given authority. Highly valuable experience for account managers and company.**
- ➤ **Open Issues-**
  - » **Systems - No system currently under development will meet the needs of retail inventory management. requirement is weekly data at the outlet, sku level. Full EDI implementation.**
  - » **Test direct with large efficient retailers.High volume, minimum ship-to locations.**
  - » **Purchase and install planogramming system**
  - » **Develop focused retail operations group with NA Pipe**
  - » **Five month leadtimes for information**

Retail Initiatives

Account	Initiative
CompUSA	Olympics Ad; Word soft-bundle (soft doesn't work)
Egghead	
Wal-Mart	
Computer City	
Staples	
Office Depot	

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Direct Marketing Reseller Segment

- ◆Very strong growth in S1
  - ➢ However, Mac apps growth slowing
- ◆Dominate catalog space allocated to software
  - ➢ Funds are tight
  - ➢ 21% increase in cost of producing catalog for DMR
- ◆Leverage box shipped to end-user, equivalent of in-store POP
- ◆Increase cross-sell of MS products with computer sales
- ◆Leverage DMRs telemarketing systems, product support screens
- ◆Leverage MS regbase to obtain incremental revenue
  - ➢ Resellers eager to work with MS on RegBase programs
  - ➢ MS RegBase performs slightly better than most rented lists
  - ➢ DMR slow to provide test data for analysis
- ◆Inability to meet DMR deadlines for catalog production

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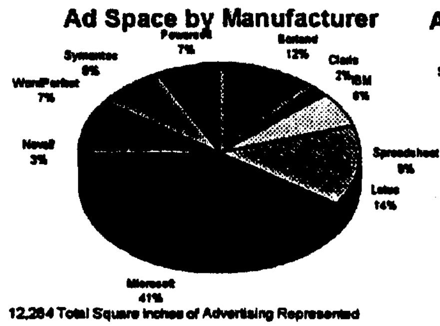
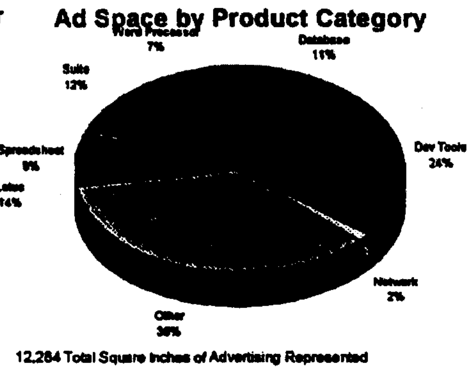
Direct Marketing Data





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Direct Marketing Initiatives

Account	Initiative/Result
Microwarehouse	
CDW	
Dell	
PC Connection	
Multiple Zones	

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Strategy for Egghead

- ◆Market/partner share is growing
  - ➢ Share of CGE business is at 43%, up 28%
  - ➢ Sales growing at 20% vs. LY, even though Egghead growing <10%
- ◆Standardizing on NT corporate-wide on desktop! Egghead is Novell's larges network reseller.
  - ➢ Plans to use Exchange for Electronic Commerce development to expand offerings bewyond Notes/ATT initiative
- ◆Doubled size of licensing group, with dedicated MS staff. Select will become more focused area
- ◆Egghead strength in last was gains in selling peripherals. This will be key element of their Business Source program.
- ◆Working together on interactive merchandising
  - ➢ In-store kiosk
  - ➢ Microsoft Network participation

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Emerging Segment

- ◆Launch the Book Channel with MS Press
  - ➢ 450 active outlets, 5 chains, $1.1 Mil. revenues via Ingram Book. 96 titles SKUd
  - ➢ IBC needs to be direct MS US for logistics & lost sales reasons.
- ◆Develop Key New Retail Partners & Expand Distribution
  - ➢ Blockbuster (50 store trial), Toys R Us (5 store), Columbia House (subscription)
  - ➢ Requires tweaks to "Standard" T's & C's
  - ➢ Need new distribution partners
- ◆Introduce New MS Distribution Technologies
  - ➢ MS Exposition (encryption) direction - an Optional program on Win 95 CD.
  - ➢ Need MS consensus on strategic role/ direction for encryption & direct selling mission.
  - ➢ MS Network channel model being outlined. Need MSN resources
- ◆Investigate New Distribution/ Selling Models
  - ➢ Evaluating a Rental business model for Consumer multimedia titles.
  - ➢ 3rd Party replication rights to Consumer backlist (an OEM type model)?

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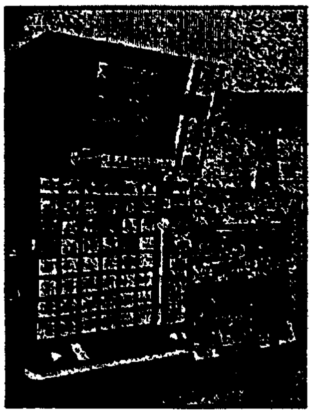
We're even in Supermarkets!



- Vending Intelligence, Inc.
- Vendor of CDs
  - 87 machines in CA & UT
- New CD-ROM version
  - Selling CD ROMs
  - Test in 1 supermarket
  - Daily replenishment
  - Started Jan. 19
  - 16 Microsoft titles

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Consumer: H1FY95

◆**Highlights**

- ➤ **Dramatic improvement in in shelf space in key retailers Sept. vs. Dec (Retail Audit Data, Appendix X)**
- ➤ **More advertising, dedicated shelf space than ever before (Appendix Q)**
- ➤ **Began involvement in key retailer distribution, logistics and replenishment**

◆**Lowlights**

- ➤ **RTM slips for key products Encarta, Bob, Flight Simulator 5.2**
- ➤ **Products/Programs were late to market preventing full execution in the channel**
- ➤ **No real hits in key hot categories i.e.. entertainment, no "hit marketing spending"**
- ➤ **Some people just don't want to sell software**

◆**Tried 50% returns, 2% bonus rebate**

- ➤ **Late in execution**
- ➤ **Mixed results: more attention, but if it doesn't sell, it doesn't sell**

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Looking Forward: Consumer

- **Outlook**
  - Continued explosive growth in key consumer channel i.e. consumer electronic and mass merchant
  - Release of new key products: Bob, Auto Map, Bookshelf 95, Baseball the Game, Flight Sim
- **Strategies**
  - Establish successful launch framework
  - Provide dominant store merchandising through new concepts, tests, and kiosks
  - Total involvement in distribution logistics and replenishment
  - Efficient and effective use of retailer marketing vehicles to gain visibility and frequency
  - Create true consumer product "hits"
  - Sustain momentum for Works, Publisher, and Encarta

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Looking forward: Desktop 95

- {Insert Timeline of S2 activity}
- {Some idea of initial order quantities}
- {Preview attach and ubiquity strategy, primarily discuss channel attach rebate}

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Direct Marketing in the US - Corporate

- **Maximize Name and Data Acquisition**
  - 1.12 million names thru Nov; on target for 2.4 million FY95
  - "Welcome Pkg" as data-capture source - 30% return rate
  - New methods - Win95 elec reg. and profiling
- **Develop Customer Database - angusc/richarp**
  - Established name acq allowable and value of DM
- **Increase customer satisfaction / retention**
  - Revised content and layout - doubled readership/recall
  - Content still needs work - harder tips and tricks-driven
  - Discontinued MS Plus - provide transition path for members
- **Increase selling capacity of MS customer database**
  - Completed pilots with MicroWhse and Dellware
  - MS names better than their rentals, not as good as their own names
  - Broaden co-op in second half, FY95

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Direct Marketing in the US - Corporate, cont.

- **Completed DM Review #4**
  - Corp.-wide learning about segmentation, offers, pricing, database
- **Completed Competitive DM Review**
  - Profiles on 10-15 leading competitors
  - Current key competiotors - Lotus, IBM
  - Confirms potential of long-term competitive advantage for MS
- **Completed Review of Database & End User Strategies**
  - Next steps in progress for both w/ steveb
- **Windows, Office, Home DM -**

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WPG Direct Marketing

- **Windows -**
  - ➢ Windows Preview Program - Early Eval. to Tech Evaluators, Key Customers and Enthusiasts (200k units)
  - ➢ Targeted programs to accelerate corp. adoption
- **Office -**
- **Home -**

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Customer Database Development in the US

- **Focus on Data Quality**
  - ➢ Eliminated 400,000 "inactive" customers
  - ➢ Elimated 300,000 "dead" customers
  - ➢ Eliminated 200,000 "prospects"
  - ➢ Net result - Database smaller today then it was six months ago, despite name acquistion activities
- **Enhanced Data Resources**
  - ➢ Appended Business Site, Business End User and Consumer Demographic data
  - ➢ Reduced costs (hygiene) and increased revenues (targeting)
  - ➢ Eliminated "disparate" prospecting system
- **Develop "Customer Database" Strategy**
  - ➢ Lessons from Epsilon Audit
  - ➢ Partner with ITG to build worldclass customer database
  - ➢ Continue to use outsourcing as appropriate

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End User Strategy - Going Forward

- **Charter** - ***Maximize revenue from the installed base of MS End Users and Drive new End User business by delivering integrated, cost-efficientm usage-driven sales and communication vehicles***
- **Def. of End User** -
  - **All individual software users who use s/w for very small business, home business, or personal computing needs**
- **Objectives** -
  - **Increase new customer acquisition and first-time reg'd revenues**
  - **Drive revenue from registered users, incl. cross-sell**
- **Strategies** -
  - **Create integrated, horizontal mktg models, i.e. products, info, support**
  - **Increase frequency, regularity of end user contacts**
  - **Create new selling models - Catalogs, MOR, Partnerhsips, On-line, etc**
  - **Leverage existing content and partners**

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International Direct Marketing

- **WW Training sessions on DM for all Regions - 70 people**
- **Reorg to move Intl DM heads to Regions - hired, in place**
- **MS Manager - leadership of development, esp. for customer database marketing functionality**
- **Regional Focus** -
  - **AIME - Increasing low reg. rates and Increased adoption of MS Mgr**
  - **APAC - Customer loyalty and database profiling; MS Mgr development and expertise in each sub.**
  - **LATAM - MS Mgr installed in all sub's, Upgrade campaign in Mexico; prep. for Upgrade 95**
  - **FE** -

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Direct Business Sales Strategies

- **MS Strategy - Use DM to generate demand across all channels (incl. Direct)**
- **Policy**
  - Pricing at 5-10% above street avg
  - No MS advantage on timing, offer
  - Consistent call-to-action
  - Keeping reseller partners informaed on use of testing
- **FY92/93/94 - $50-60 million MS Direct = 4-7% of US FG**
- **FY95 To-Date - $15 million MS Direct = 2% of US FG**
  - Our chanel partner-focused strategy is effective

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Telesales in the US

- **Two groups supporting EU activities: "HQ" and "District"**
- **Mission: Drive revenue with key partners and outlets through telephone and electronic "face'time"**
- **Resources: 8 reps supporting key partners and HQ, and 12 reps supporting the outlets and the districts**
- **Value adds:**
  - Drive support of product and program launches, such as NT Server pricing and Delta "Fly with US" promotion
  - Develop channel partner expertise in volume purchases agreements negotiations
  - First line escalation of complex or unusual agreements
  - Channel communication
  - Consultation and delivery of marketing materials

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End User Call Handling in the US

- **Microsoft Sales Information Center (MSIC): Inbound reps, covering each of the three customer segments**
- **Mission: Drive revenue through support and communication**
- **Resources: 120 reps**
- **Value adds:**
  - **Handle incoming calls from all customer segments**
  - **Provide "presales" information on MS products**
  - **Disseminate licensing information (such as, Select and MOLP)**
  - **Provide reseller and SP referrals**
  - **Add to database of registered MS users**
  - **Provide leads to MS telesales teams**
  - **Resolve customer service issues**

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Key Issues to Resolve

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Needed from Corporate

- "Czars"
  - Pricing
  - Information
  - Data
- Taskforce to Review and propose marketing streamline
- Taskforce on Distribution strategy

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Summary: Looking Foward

- $905M channel revenue despite Win95 slip
- Successful Business Source program to increase/solidify DAD share
  - Use to understand indirect rebate
- Continue drive on BackOffice in Outbound/Aggregator and Consumer in Retail
- Continue to refine and improve organization
  - Smooth transition to new org
- Start FY96 planning early--now!
- Prepare thoroughly for Win95/Office95 launch
- Progress on improving channel data

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