PLAINTIFF'S EXHIBIT 3456 Comes v. Microsoft

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Blip —

Please read this! I explained
the program to Jeffrey & they
(European Headquarters) met &
formed this good response
- Charlott

Microsoft europe

To: Bernard Vergnes
From: Jeff Sanderson
Date: May 27, 1991
Subject: Volume/Penetration Pricing

Cc: Hans Apel, Robbie Bach, Peter Davies

This memo summarizes our discussions on volume pricing. We believe that the current proposal for penetration pricing being discussed in the US is too complicated to be utilized effectively in Europe and doesn't address several key issues we face. We want to recognize explicitly the need for creating two programs: one that the channel can offer without the involvement of an MS salesperson, and another one for those high-volume situations where we are involved with the account.

Goals and Objectives

These are the goals we established for such a program:

1. **Keep it simple!** If there is to be any complexity, it should be bourne by Microsoft, and not by the channel or by the customer. One of the problems with the US program is that it fails to do this. Even though it has now been reduced to two sets of "ratios" (one for Word, Excel or PowerPoint alone, and one for the Win Office), the program will be very complicated to explain. The internal accounting for the user will also be messy (which departments got the free copies, which paid for copies, etc.).

2. **Run it through the channel.** Microsoft LA reps talk with only a fraction of the potential business customers. We need to be able to rely on the channel to sell our products in volume without providing an additional burden on MS salespeople. At the same time, the set of cases that we need to plan for can be relatively limited. We need to recognize that we will be involved directly in the truly largest deals, and for this program don't need to build in all kinds of special conditions. One potential issue with the US proposal is that although it allows the channel to make their "normal" margin on a large sale that they've generated, they completely lose out on earning revenue for the remaining product units (in the case of Win Office, that's 50%!). This seems an apparent contradiction to me.

3. **Promote conversion to the Microsoft platform.** The US proposes two methods for doing this. The first, of course, is the Win Office itself. The US just reduced the SRP of the Win Office to $750. The second, is that the Win Office gets special treatment in their current proposal (a paid-to-free ratio of 1-1, rather than 2-1 for a single app). While laudable, it seems to me that this is overkill. The Win Office already has some pretty convincing economics behind it. At the same time, we have yet to introduce the Win Office in Europe. A good first step for us, then, would be to get the Win Office on the market at an attractive price and include it in our volume price proposal.

4. **Promote 100% penetration.** The US proposal does address penetration, while what we're proposing addresses volume. The US proposal creates two obstacles: 1) by

requiring 100% (really 90%) penetration we are placing a tough restriction on accounts that may be able to purchase in quantity, but cannot make a central 100% purchase decision, and 2) by limiting it to a purchasing site it makes it difficult for smaller, "satellite" sites to take advantage of the offer. If you liberalize the definition of a "site" to make obstacle #2 easier, you make obstacle #1 harder. We believe volume is more flexible, and in the end just as compelling. With a volume price schedule that provides greater discounts for higher order sizes, if you can start to get a company buying 100, 200, 500 copies of a product or of the Office, they *will* be building momentum inside to continue purchases of our software. Volume enables us to price the software for usage. In our experience, 100% implies that an account knows they will only use the software on some smaller percentage of their machines, but wants to be legally licensed for all of them and in exchange wants *extremely* low pricing.

European Proposal

The Basic Form

1. **Price Schedule.** We propose to provide a volume-purchase price schedule which our dealers can use in negotiating volume purchases with customers. The price schedule would include both the suggested retail price for that level of volume (essentially a discount off of the single-unit price), and the discount to the dealer for that business (we would want *much* narrowed margins for such deals). For example, the volume price schedule might look something like this:

Volume	100-499	500-999	1000-4999	>5000
Discount per Unit	35%	40%	45%	50%

2. **Form of the Product/Order Entry System.** In our minds, the numbers of orders to be processed under this program would not be tremendous. We estimate in Europe perhaps two such orders per day. We believe that the product delivered could be a specially-produced MLP (whether shipped to dealer or customer is a detail to be determined) with the licensing agreement specifying the number of copies purchased (thus it could say "237 Word for Windows") and we would get the account name. An order entry system would have to calculate the dealer cost of this item and generate the bill as well as the custom-generated MLP. This should not be hard to create.

Potential Additional Items

Other items may be worked into the program. However, any additional item would of necessity make it more complicated, and at this point we do not think that they would be needed:

1. **Additional products.** There are two issues here. The first is whether to provide an incentive for ordering large volumes of multiple products (say Word plus Project, or Excel plus Word). The second is whether an order that is made up of multiple product should be totaled to determine the volume discount. Thus, 75 copies of Win Word plus 75 copies of Win Excel would get the customer into the 100+ discount category.

2. **Multiple languages.** Resellers like Corporate Software have asked us to put together a volume purchasing program that would enable them to go to a multinational account and

offer them consistent pricing or discount across the company. By consolidating their order, we may be able to effect this.

Items not Included

There are some issues that would be advisable to address, but have not been addressed at this time:

1. **Software purchase monitoring.** It would be nice if along with the customer-generated MLP we included a counter disk set which monitored and tracked the number of copies of the software installed.

2. **Purchasing over time.** Corporate accounts generally set up a purchasing arrangement with their dealers that specify the discount they will receive regardless of quantity (presumably after some large initial order). We will need to address the issue of whether an account deserves to continue with a particular discount once they've made their initial volume purchase. For example, once they've bought 100 copies of Win Word at 35% off, and they get 25 new machines, what do they pay for those new copies?

MS-PCA 2599465

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