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Subj: Extended License Agreement for Microsoft Applications Program (XLA)

Please review carefully and be prepared to discuss at the XLA task force meeting.
Wednesday, 7/10/91, 4:00 - 5:30, Room 8/2333.

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CONFIDENTIAL

This document addresses specific issues and provides detailed examples for applying Extended License Agreement in your accounts:

- what do the XLA terms and conditions mean in terms of what accounts can and should buy?
- what is the impact of concurrent usage on XLA?
- what is the effective cost to an account of our product under XLA?

Each of the purchase examples below uses the same basic price data:

	Extended License Target Percentages					
			Pkg prod.		MLP	
	Target	SRP	Best quote	MLP	Best quote	Swap
Excel	60.0%	495	329	395	280	129
Word	60.0%	495	329	395	280	129
Office	60.0%	750	459	600	420	#N/A

In actual applications the account will obtain its own best quotes for packaged product and MLP from its choice of resellers.

Note that XLA licenses are not free licenses to us or to the account as a whole, even if some lucky department thinks of itself as receiving free licenses. All of the licenses acquired under the program cost 60% of the normal cost of a license. The 60% target is a significant purchase requirement for the account.

1. Purchasing Office with an installed base of Word and Excel.

a. An account may count Excel and Word already purchased toward the 60% target for Office. Each pair of Word and Excel counts as one Office.

b. If the account hits the 60% target for Office by counting Word and Excel towards the goal, the account still earns Office licenses for 100% of the machines, including Mail and PowerPoint. This is by design: it makes Office the most attractive part of the program. It means the account will likely find it attractive to buy Office for future machines.

c. If an account has more of Word or Excel installed than the other, then the obvious strategy is to buy the app it has less of to match the other—and buy Office to get to the 60% target.

Here are two example calculations with costs:

Purchasing Office with equal installed base of Word and Excel

Installed base information

CPUs:	1000	
Competitive SS base:	0	
Competitive WP base:	0	Current %
Excel Base:	200	20.0%
Word Base:	200	20.0%
Office Base:	0	20.0%

Product purchase data

Excel:		
Word:		
Office:	Y	
Desired MLP %:	0%	

*Additional purchases
required and effective
cost:*

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units							$329.00
cost							
Word—units							$329.00
cost							
Office—units		400		400	400		$229.50
cost		$183,600		$183,600		$229.50	$229.50
Total licenses		400		400	400		
Total Purchase cost		$183,600		$183,600		$229.50	$315.20

Final Position

	Base	Additional Purchases Swap	Full	MLP	XLA	Total
Excel	200					
Word	200					
Office			400		400	1,000

Notes: (these apply to all of the tables)
1. Purchase cost/cpu is the effective cost per cpu for the additional software the account buys to make the target including the granted licenses.
2. Installed base cost/cpu is the effective cost per cpu for all of the machines and all of the software including the Microsoft products the account had before they began the program.
3. To compare two scenarios in this document you should only compare the installed base cost/cpu in the last row.

**Purchasing Office with unequal installed base of
Word and Excel**
Installed base information

CPUs:	1000	
Competitive SS base:	0	
Competitive WP base:	0	Current %
Excel Base:	200	20.0%
Word Base:	400	40.0%
Office Base:	0	20.0%

Product purchase data

Excel:	
Word:	
Office:	Y
Desired MLP %:	0%

*Additional purchases
required and effective
cost:*

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units		200		200			
cost		$65,800		$65,800		$329.00	$329.00
Word—units							
cost							$329.00
Office—units		200		200	400		

cost	$91,800	$91,800		$153.00	$153.00
Total licenses	400	400	400		
Total Purchase cost	$157,600	$157,600		$262.67	$355.00

Final Position

	Base	Additional Purchases			XLA	Total
		Swap	Full	MLP		
Excel	200		200			
Word	400					
Office			200		400	1,000

Why is the total cost per cpu higher for this case than the preceding case? Because in this case the account has purchased more units of individual product (or you could say they started buying Office later in the game). It was still cheaper for this account to buy 200 Excel and then buy 200 Offices than to buy 400 Offices.

2. Purchasing competitive upgrades to meet the target.

a. An account may purchase competitive upgrades, up to the number of competing products it has, to move towards the target. If the account does not reach the target with competitive upgrades then it must buy full packaged product or MLP to reach the target.

b. An account may purchase competitive upgrades of both Excel and Word, up to the number of competing products it has, to move towards the target for Office. The account could buy any number of competitive upgrades in any case. When the account runs out of qualifying competitive products, Office becomes the most cost effective way to purchase licenses.

c. Using competitive swap to satisfy part of the purchase target makes the effective cost per system very low. You should use this as your technique to sell in lots of competitive upgrades during a time period when Lotus and WordPerfect will be aggressively pushing upgrades.

Purchasing Excel with competitive upgrades
Installed base information

CPUs:	1000		
Competitive SS base:	300		
Competitive WP base:	0	Current %	
Excel Base:	0	0.0%	
Word Base:	0	0.0%	
Office Base:	0	0.0%	

Product purchase data

Excel:	Y
Word:	
Office:	
Desired MLP %:	0%

Additional purchases required and effective cost:

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units	300	300		600	400		
cost	$38,700	$98,700		$137,400		$137.40	$137.40
Word—units							
cost							
Office—units							

MS-PCA 2599469

		SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
cost								
Total licenses		300	300		600	400		
Total Purchase cost			$98,700		$137,400		$137.40	$137.40

Final Position

	Base	Additional Purchases			XLA	Total
		Swap	Full	MLP		
Excel		300	300		400	1,000
Word						
Office						

Purchasing Office with Word/Excel competitive upgrades

Installed base information

CPUs:	1000	
Competitive SS base:	300	
Competitive WP base:	300	Current %
Excel Base:	0	0.0%
Word Base:	0	0.0%
Office Base:	0	0.0%

Product purchase data

Excel:	
Word:	
Office:	Y
Desired MLP %:	0%

Additional purchases required and effective cost:

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units	300			300			
cost	$38,700			$38,700		$129.00	$129.00
Word—units	300			300			
cost	$38,700			$38,700		$129.00	$129.00
Office—units		300		300	400		
cost		$137,700		$137,700		$196.71	$196.71
Total licenses	600	300		900	400		
Total Purchase cost		$137,700		$215,100		$215.10	$215.10

Final Position

	Base	Additional Purchases			XLA	Total
		Swap	Full	MLP		
Excel		300				
Word		300				
Office			300		400	1,000

3. **Mixing Macintoshes and Windows capable machines.**

a. An account may combine the Macs and Windows machines at a site to make the 500 cpu minimum. If an account does this, it must count all of both kinds of machines at the site.

b. The account may count both our Macintosh and Windows applications to move towards the target. It is possible that an account with a very high percentage of our Macintosh applications at a mixed site could be granted licenses for a portion of its Windows capable machines.

c. The granted licenses are specific to a given version of our product. A granted license can't be moved back and forth between environments. However, an account may request a specific mix of granted licenses. The number of granted licenses can't exceed the number of actual machines installed (either Mac or Windows). This is the principle that we don't grant licenses for machines that don't exist.

Combining Macs and PCs to buy Office for Windows

Installed base information

CPUs:	1000	500 Macs and 500 PCs
Competitive SS base:	0	
Competitive WP base:	0	Current %
Excel Base:	450	45.0% Assume this is all Mac software
Word Base:	450	45.0% Assume this is all Mac software
Office Base:	0	45.0%

Product purchase data

Excel:	
Word:	
Office:	Y
Desired MLP %:	0%

Additional purchases required and effective cost:

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units							
cost							$259.00
Word—units							
cost							$259.00
Office—units		150		150	400		
cost		$68,850		$68,850		$125.18	$125.18
Total licenses		150		150	400		
Total Purchase cost		$68,850		$68,850		$125.18	$301.95

Final Position

	Base	Additional Purchases Swap	Full	MLP	XLA	Total
Excel	450					
Word	450					
Office			150		400	1,000

Note: "Best quote" price for Mac Excel and Mac Word was assumed to be $259 in this example.

4. Concurrent Usage and XLA

a. *We do not restrict* an account from applying the concurrent usage provision of our license while they are participating in the XLA program. Purchased licenses and XLA licenses are identical in terms of concurrent usage. Why is this not a huge problem?

b. An account that has agreed to the program still has to meet the purchase target for the life of the agreement. Within the purchasing site, the account already has licenses for 100% of the machines so it doesn't need concurrent usage. The account made the decision that XLA is more attractive.

c. The account can't participate in XLA for one site and let another site access the software off the network. XLA is very simple on the point: the account can only use the licenses at the purchasing site. Another way of putting this is that if the account does allow another part of the company that was not originally part of the purchasing site to use the software, then the account is effectively expanding the site—and must count 100% of the machines and make the 60% target for all of the machines.

d. After the end of the agreement the account owns all of the licenses and may apply the concurrent usage provision of our license.

e. And now for the crux of the issue: why would an account choose XLA anyway, if it could "go concurrent" instead? Concurrent usage has several specific limitations:

- Most workstations need to be networked. True at Microsoft; true at some accounts, but not universal.
- If percentage of users is high, network performance will be affected.
- Frequent users may need their own licenses because load time may be objectionable. (Note: If a user keeps a copy on his own hard disk, he needs his own license. If he keeps the application iconized on his Windows desktop then he counts as a concurrent user even while the application is idle.)
- The account still needs to stay legal with a positive means of verifying that it has sufficient licenses for peak concurrent usage.

Concurrent usage is probably not a viable pricing mechanism for most accounts. It is a reasonable way to provide access to the software over the network for a group of infrequent users. The account would probably not have purchased software for most of these users in any case.

f. You don't really need to sell *against* concurrency—they have it anyway. You can sell for XLA:

- XLA provides an easy way to be legal.
- XLA covers both networked and stand-alone workstations.
- XLA can be applied across an organization and multiple physical sites.
- XLA does reduce the per system cost of the software.

5. Purchasing MLP to reach purchase target

a. An account may meet the purchase target using any combination of full packaged product, competitive upgrades, or MLP: whatever is most convenient or cost effective for the account. Note that the examples in this document calculate the minimum cost approach (for given percentage of MLPs the account will buy). It is probably not realistic that all accounts will reach the absolute minimum cost possible.

Purchasing Office MLP with installed base of Word and Excel

Installed base information

		Current %
CPUs:	1000	
Competitive SS base:	0	
Competitive WP base:	0	
Excel Base:	200	20.0%
Word Base:	200	20.0%
Office Base:	0	20.0%

Product purchase data

Excel:	
Word:	
Office:	Y

Desired MLP %: | 100% |

Additional purchases required and effective cost:

	SWAP	Full	MLP	Total	XLA Licenses	Purchase cost/cpu	Inst. Base cost/cpu
Excel—units							
cost							$280.00
Word—units							
cost							$280.00
Office—units			400	400	400		
cost			$168,000	$168,000		$210.00	$210.00
Total licenses			400	400	400		
Total Purchase cost			$168,000	$168,000		$210.00	$280.00

Final Position

	Base	Additional Purchases			XLA	Total
		Swap	Full	MLP		
Excel	200					
Word	200					
Office				400	400	1,000