Microsoft Memo

To:	MSUS Sales
Subject:	Thoughts on FY94
From.	Mike Appe and Jeff Raikes
Date.	July 22, 1993
cc:	MSUS Staff, MCS, US Marketing, Solutions Marketing

Background

FY94 will be a year of great change for Microsoft. Each of you has recently become either directly or indirectly affected by these changes, and it's been suggested that Microsoft executives communicate the strategic decisions behind these changes.

The purpose of this memo is two-fold:

- Discuss upcoming changes and make sure people understand the reasons behind and value of the changes
- Describe how the field should view the transition to the new "way"

Trifurcation

Our business has now split into three distinct, but related, businesses: desktop productivity, solutions platform, and consumer.

- Desktop - MS-DOS/Windows and Desktop productivity applications make up the core of our revenue. Our primary business objective in this market is to grow, protect and leverage Office and Windows market share
- Solutions Platform - Our primary objective in this market is to drive sales of server and desktop products by driving the development of business solutions that include them. To accomplish this, we will implement programs to build a solutions business around Microsoft products, and recruit and mobilize a strong community of "value-added" Solution Providers.
- Consumer - We are now developing our thinking for this market. Our broad strategy is to popularize Windows and sell key applications in the home market

The MSU mission is shifting to focus on creating the courseware necessary to encourage a broader number of training organizations to teach the skills while competing with them less For example, while MSU and partners are teaching about **30,000** people per year, Novell and partners are teaching **200,000+.**

We strongly encourage each of you to read the February 27th issue of The Economist, *Survey of the Computer Industry*. It is one of the most clearly articulated and comprehensive pictures of the evolution of the industry, and represents how our plan moving forward fits into their view of the future.

MCS

The new role of MCS will be as follows·

- ✓ maintain an ongoing relationship with 125 or so of top 300 large accounts
- ✓ maintain an ongoing relationship with 60 or so SPs
- ✓ perform joint planning with sales force to identify these 185 accounts
- ✓ focus on IT/IS re-engineering (adopt the framework) and arch/design service (use the framework)
- ✓ assist with business development for SPs, in particular for implementation
- ✓ minimize amount of implementation they participate in --- primarily to be done for prototyping
- ✓ target 75 or more Microsoft Certified Professional Developers to be "produced" annually by each MCS consultant

MCS will be billable for 90% of their hours The remaining 10% will be dedicated to joint planning with the sales force for the following activities :

- ✓ train the trainers (Microsoft Certified Instructors) on MS framework, seminars, other evangelism activities
- ✓ some training of MCPDs until training orgs get up to speed
- ✓ after start-up phase on evangelism activities, some hours available for entry strategy -- getting into target accounts for developing billable relationships

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MSU

The MSU engine will now drive our certification program, i.e. create courseware that teaches skills necessary to become a MCP (Integrator, Developer, Instructor). Their key task will be to deliver certification, testing and courses, and to train the trainers

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Marketing Spend

Marketing spend is being reduced. We consciously made this decision because our marketing spending has been too high as a percentage of net revenues In order for us to maintain our same level of profitability, year after year, these expenses needed to be re-evaluated. While spend has been reduced, keep in mind that our overall marketing spend is **significantly higher than that of any of our major competitors.**

The goal, now, is greater efficiency. By placing more dollars in the field and closer to the customer, we believe we will see significant gains in FY94.

Field Empowerment and Marketing

There is some confusion about how field empowerment leads to more marketing dollars The field will now have responsibility for *directing more of the marketing mix*. Through this effort, the field should be able to "create" more discretionary dollars by having the ability --- the decision-making authority --- to cut back on non-revenue-generating activities.

Many of you are concerned that the dollars and budget direction shifted out to the field. but the headcount did not Remember that with empowerment comes responsibility. We would suggest that you carefully review your organizations and activities, and identify more efficient ways to run your business. Take a hard look at where most of your revenue is likely to come from, focus your efforts in these areas, and eliminate activities that aren't likely to impact revenue or develop new business. Some of the extra "time" or resources you need may surface as a result of this analysis.

Expectations of RGMs/DMs

The new orientation of the DM and RGM is that of "Business Manager", versus a pure sales management role. They are responsible for driving the revenue in their geographic areas in a way that makes most sense, given the unique requirements in each area of the country. DMs and RGMs need to become CIO "credible": that is, they need to be able to clearly articulate the Microsoft strategy and vision at CIO levels in our top accounts As Business Managers, they will have additional responsibilities along with the freedom that empowerment brings, such as preparing and presenting Business Plans and Mid-year reviews. This sets a new standard against which they shall be measured.

Large Accounts

We will continue to sell one-to-one to our largest accounts worldwide, while making the transition to a more leveraged selling approach for those falling outside of this definition With this change will come a greater reliance on our channel and Solution Providers to provide the support and services that accompany the Microsoft solution in our Large Accounts We understand that this is not something that will happen overnight.... our partners require more training, and we need more time for planning our Large Account strategy. In the meantime, keep the panic down, and focus on the business at hand. The move toward a leveraged selling model is to take place during FY94; we do *NOT* expect this all to be in place in July.

Volume Channel

Our product volume through the channel continues to grow, now at 87%! We will continue to focus on our channel partners, and strengthen our relationships with them in both field and HQ locations You should begin to bring strategic resellers into large account planning cycles, and make use of them in pricing negotiations, software acquisition through Select, and as a primary source of support With the advent of our growing Consumer products, we will be exploring new channels of distribution to assist us in these markets. This will be an exciting new opportunity for Microsoft in FY94 and the years to come.

Education

We are disturbed that there is confusion about the importance of the education business. Success in the education market is very important to us --- more important than the revenue #'s imply Many of our competitors recognize the importance of this market and are willing to almost *give away* software to be a player in this market They are using a "reach" metric for evaluating success rather than a revenue metric

One of the most difficult things we face is figuring out the way to resource this effort and measure our success. If we use revenue as the only metric, and the pricing drops by 50% (which it may do in FY94) are we less effective, is the market no longer important? Absolutely not!! On the resource side, people should not look at the integration of education focus into our channel, SP and large account teams as a statement against education In many ways, we think the "separatism" in pursuing the education business may not have been the most efficient way In any case, we will continue to measure the education business in fiscal year plans and mid-year reviews.

Own the Fall with Office

This is the most strategic, most critical area of focus for Microsoft US this Fall. We must capture this market NOW, before the technology and momentum of our competition catches up to us. Significant effort should be directed toward Office this Fall:

- ✓ Reseller marketing funds should be directed toward Office marketing efforts
- ✓ Local seminars, events, trade shows should highlight Office
- ✓ Comdex will have an Office emphasis
- ✓ Gains in Office mind share with channel and Solution Providers should be targeted

We will use the strategy in FY94 of fewer, bigger programs to drive our business This Fall, it will be the Fall Office Campaign, and attention from HQ and the field should keep this focus

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NT

With the introduction this fiscal year of Windows NT and the related family of client server products that accompany it, we have a tremendous opportunity to provide a great new client-server platform for our existing customers and to reach a broad audience of technical and business customers that we may not have known in the past. To do this effectively we'll need to leverage a broad spectrum of partners - from OEM's to Solution Providers. Windows, Windows for Workgroups and Windows NT all provide the opportunity for us to target a broad range of customers and their specific business needs with the appropriate Windows family solution On the server we have a great product to compete with Novell (and Unix) and on the client a clear contender for moving customers looking at or working with OS/2, Sun or Unix today With the appropriate attention and support Windows NT offers a great upside opportunity for us in FY94.

Financials

Our goal is to achieve upside in revenues and BOI through the following measures

1) Reduce Expenses
- Careful expense management by department managers
- Close management of COGs
- Shifts to licensed products
- Lower PSS costs

2) Increase Revenues
- Drive sales of Windows NT through aggressive training and certification of 7,500 influential SP developers and integrators
- Increase penetration of Windows from 65% in FY93 to 70% in FY94
- Conduct 200 National, 300+ District Office Seminars targeting "switchers" and owners of either competitive products or single licenses of Microsoft Excel/Word
- Sell $200M Windows NT, Office, database and development tools through SPs
- Use Select to drive Office share > 60%, 30% of all agreements MELP and 50% of all agreements to include maintenance.
- Grow percentage of users upgrading from 24% to 33%, with significant numbers going to Office

Microsoft Assets

As a company, Microsoft needs to build its assets for a unique advantage against our competition **One of our key assets is our sales force** Our name and our size can get us into accounts where we currently don't have a presence. Other assets include our position in the industry, which awards us opportunities to "lock in" strategic ad space in trade magazines, and to obtain prime "real estate" on trade show floors There are many, many more. These are distinct advantages in terms of preventing competitive encroachment and in driving early achievement of market share. We need to continually develop our assets. They have and continue to provide us with opportunities to realize greater gains than those achieved by our competitors. We are looking to each of you to help us identify new ways to capitalize on our key assets as we drive ahead into FY94.

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