



From: Joachim Kempin
Sent: Sunday, January 11, 1998 5:17 PM
To: OEM Personnel Sales Communication, OEM Personnel Sales Communication - Intl.
Subject: OEM OS pricing in the light of the <1k PC segment- more input and good thoughts from Carl

-----Original Message-----

From: Carl Gullette
Sent: Wednesday, January 07, 1998 10:51 AM
To: Joachim Kempin
Subject: RE: OEM OS pricing in the light of the <1k PC segment.

Windows is one product - We don't offer a junior version of Windows. Our unified product model benefits everyone by instilling developer and consumer confidence. ISV's can be certain that their apps will run - users can buy applications with confidence.

The value of Windows is independent of PC price points. Windows offers the same level of capability and value on inexpensive PCs as it does on expensive high performance PCs.

Windows Scales - in other words, users that buy inexpensive low configuration PCs are not stuck there. In fact many will invest over time to enhance their PC's performance and/or capability. Windows of course improves in performance with the hardware and in capability when these upgrades are made. This is a tremendous consumer benefit. Imagine the level of consumer dissatisfaction we'd create if we put governor in the product to contain performance for specific price points.

MS continues to invest in Windows to add incremental value in each release. This value often opens new markets, enables new peripheral capabilities, increases productivity, reduces support costs, etc. MS continues to invest heavily in the PC platform via PC9x and evolves the Windows family of operating systems to support this innovation.

Summary: Users want full functionality from Windows and the ability to upgrade their PCs. It is misguided thinking that asserts that people who pay less for a PC want less from Windows. Our response continues to be to provide a single feature-complete Windows product for the consumer market place. Developers and consumers alike enjoy the confidence this approach. Given that our product is full featured and its performance scales with the HW we believe that our pricing continues to be very reasonably priced for both low and high end desktop PC configurations. Not to mention the fact that the one size fits all offering creates efficiencies in reporting and management of OEM licenses. OEMs that want to develop systems with a subset of Windows functionality and no backward compatibility should consider developing around Windows CE.

-----Original Message-----

From: Joachim Kempin
Sent: Tuesday, January 06, 1998 10:00 AM
To: OEM Personnel Sales Communication, OEM Personnel Sales Communication - Intl.
Subject: OEM OS pricing in the light of the <1k PC segment.

"I need an OS price between \$20-25 to meet these new price points" So drop your prices MS to accommodate us and "grow" the market. This is what I have been hearing from OEMs for some time. So don't feel bad- I am hearing it as well.

My answer has been and will be the following. We provide value in our software which is key to running most PCs and we see no need to change our pricing for now. Regardless of the price for a PC we provide the same value. We have tried in the past to base our prices on OEM pricing and we all learned that this means a total mess- what price is the question, their selling price, their cost etc. AND most important what is it based on- the total system with monitor without monitor, with floppy or without etc. etc. Another way would be to price our OS on processors- we did that once as well, but there were only 3 around compared to probably 25-30 today and their prices are dropping faster than ever. Again whatever we do there we could not follow and we could not do it right.

At the end we would like to get the same amount of money from the OEMs and would they be willing to pay \$100 for win 95 for Pentium 2 300MHZ PCs to get \$25 for Pentium 166 MHz PCs? This is totally unrealistic in particular if more and more components get stripped off the base PC and sold as add-ons and might even be kept when systems get replaced. Think about what the USB technology might allow for one day.

I firmly believe OEMs have the ability to price PCs with our current OS prices properly and sell them below 1k\$ without us having to lower prices. Intel gets more than we do and they just deliver some software on silicon- and not a lot of it. We are not in the way to achieve new price points and/or stall markets- do not feel bad about resisting this. We are less than 10% of the total system price - just remember that. And by the way, CE is not a solution for this- because it is not compatible.

Any other thoughts, just send me mail.

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