

To: Brad Chase  
From: Sergio A. Pinoda  
Date: 09 December 1991  
Subject: European OEM Trip Report  
cc: Brad Silverberg

The week of 02 December I travelled to our Microsoft office in Stockholm to meet with our European OEM AMs who handle both our royalty and package product business. My objectives for the visit to Sweden included the following:

- Provide OEM AMs with information on how to position MS-DOS strategically
- Update OEM AMs with the latest information on DR-DOS 6 and prepare them on how to respond to DRI's claims of superiority

**AM Feedback**

The AMs were starving for this information. Many approached me after class and mentioned that they thought the material was immensely valuable. This type of information is information that any PC OEM will find useful whether the customer is a royalty customer or simply a package product customer.

The information I delivered to our AMs is intended to get them to discuss MS-DOS more strategically and to demonstrate to the customer with specific examples how Microsoft is really driving technology. This together with the extensive information on DR-DOS 6.0 serves as a strong foundation to enable our AMs to present Microsoft and DRI as two very distinct system software vendors.

**Competitive Environment**

For the most part I learned that DRI is very aggressive in two areas: UK and Germany. However, their presence is being felt in all the other subs as well. DRI competes primarily on price and delivery. For example, in the UK they guarantee next day delivery to PC OEMs. The best we can offer is a 3 day turnaround in the UK. For the rest of Europe our delivery varies widely. To counter DRI's delivery our AMs work with the PC OEM to forecast product demand so that the customer will avoid stocking out of MS-DOS.

Our PC OEMs are concerned with selling as much hardware as possible and since the vast majority of PC OEMs in Europe ship in small quantities our ability to compete on price and delivery are key factors of their purchasing criteria. From a price perspective, we are about \$20-25 higher than DR-DOS. Despite the premium for MS-DOS, I found that PC OEMs are committed to MS-DOS and not flocking to DR-DOS.

I also learned that while PC OEMs aren't necessarily flocking to DR-DOS 6, we will probably see a different competitive environment with the next release of DR-DOS. Our AMs tell me that Novell has the lion's share of the networking business in Europe. And by glancing at IDC's analysis of the networking market, growth is expected to mushroom in Europe in the next 2-3 years. Therefore, DR-DOS has an instant foothold in the European market. This is somewhat concerning since most of our European PC OEMs do not have royalty agreements with us. Rather, we sell package product MS-DOS to many of our European OEMs.

**OEM Issues**

There is one issue we need to deal with. Our AMs are not motivated to sign royalty deals with PC OEMs because the revenue is not recognized at the sub but rather here in Redmond. Therefore AMs push package MS-DOS aggressively because revenue for package product is recognized at the sub. The risk with this is that there is no loyalty with our package product customers. Their cost to switch to DR-DOS is minimal since they have no long term financial commitment with Microsoft.

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As part of our effort to keep these customers loyal to Microsoft, we need to be very aggressive about providing our AMs with more information about DRI. Therefore, I strongly recommend that the MS-DOS product team visit with these PC OEMs periodically and communicate directly to them our areas of strength and leadership. For example, in the Spring of 1992 there will be a European OEM briefing. This will be an excellent opportunity to update customers on MS-DOS but more importantly to meet with them individually and develop a stronger relationship with them. Maintaining these strong ties can only help us in the long term.

**Recommendations**

- Work with Jeff Lum to develop a plan for getting European package product PC OEMs to convert to royalty agreements
- Ensure MS-DOS is discussed at the European OEM Briefing in April
- Meet with key European PC OEMs at least once a year to discuss MS-DOS plans in more detail
- Update our European AMs with MS-DOS plans and continue coaching them on how to discuss MS-DOS with the customer

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