Microsoft OFFICE

Draft: Microsoft Office plus Database Marketing Plan

To: Hank Vigil
From: Kathleen Schoenfelder, Mary Engstrom
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Re: Microsoft Office plus Database Marketing Plan
cc: Mark Kroese, Robbie Bach, Laura Jennings, Melinda French, Tod Nielsen, Ruthann Lorentzen, Darrell Boyle, Liz Welch, Pete Higgins, Mike Fulton, Mike Negrin; Chris Graham; Philippe Goetschel; Gaby Adams; Dave Meltzer; John Lack; Dave Malcolm; Marlee Anderson; Bridget Bakken; CJ Liu

Overview

The Microsoft Office has become the primary way in which people acquire Microsoft ap FY94, the goal is to have the Office represent 60 percent of Excel's and Word's tota Office has succeeded in growing the category of presentation graphics and maintainin leadership position. Its acceptance has been based not only on price, but also on t of quality, applications that work together, the ease of purchasing everything at on of the brand Microsoft.

Next year, the competition in the software sets category will increase. Smart Suite still only captures 15 percent of the total market. We anticipate that a new releas make their offering more attractive. In order to counter it, we must continue to pr Office. This will come in two forms: increasing the integration of the products, a the package. We plan to introduce Office with Access in June 1993.

Marketing Objectives

- Capitalize on Microsoft's database advantage
- Accelerate the adoption of Microsoft Windows applications
- Increase cross-penetration of Microsoft applications

Market Potential

Market Demand for Office with Access

Both Microsoft Office and Lotus Smart Suite have established the standard suit as consisting of word processing, spreadsheet, presentation graphics and email database market is the third largest software category, roughly equal to that graphics (see exhibit 1). Cross-application ownership is high for database u off rapidly from the mainstream applications of word processing and spreadshe approximately 30% of computer users have a database in addition to another mai business application (both flat file and relational). In recent surveys of O frequently suggested addition to the Office is a database (followed closely by or PIM).

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Plaintiff's Exhibit
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Comes V. Microsoft

There is a significant difference in market demand for Office between the pri
$995. After the price of Office was decreased to $750, sales of the Office t
of the following 12 months. This is not surprising since most users purchase
and Excel; at a price point of $750, the standard Office becomes the logical
buying both products. We have no existing data to test what the price elasti
another product to Office.

FY94 plan for Office is 825k new licenses (both FPP and Competitive Upgrade)
Version Updates. If all existing users who are in the market for a Windows d
Office plus Access, we can anticipate that 25% of these sales would go to the
Actual market demand could be significantly higher and even eclipse that of s
Due to competitive circumstances and price sensitivity in large accounts, thi
Current Office plus Access forNewsLicenses 206k
Version Upgrades 56k
This represents approximately 50% of Access' total sales.

Target Market

The average Microsoft Office customer is significantly different from those wi
individual application or upgrades. Fifty-three percent of Microsoft Office
work in companies with over 1000 employees. This compares to 37% of WinWord
34% of Excel's. Office users tend to make their purchase based on a major ch
computing, either the purchase of a new machine or buying Windows. Word of m
reseller recommendation are key factors in the purchase decision. While the
why people purchase Office are product-related, price is becoming more of a f
also is associated with highly satisfied users. Ninety-seven percent are sat
purchase.

The market for Microsoft Office with Access with vary slightly. It is likely
will recognize the need for a database and be willing to pay additional for i
corporations that are price sensitive will purchase a mix of the standard Off
Access to meet their end user needs. However, since the price of the SKU wil
that of the combined price of Word and Excel, the product will still attract
customers who are primarily word processing and spreadsheet users but are int
complete Windows solution.

Primary: Corporate accounts with two standard DOS applications, moving to
within six months.

Secondary: Users who are moving to Windows and need a complete set of Window
applications.

Microsoft Office in SELECT

In June, the Microsoft Office with Access will be included as part of Select
discount levels. During the FY94 Year of the Office push, Select will be a p
for the Office. There will be several offerings that provide our customers f
their Microsoft Office solution: Office Standard, Office DB, an Upgrade from
DB, and future plans for a version and competitive SKU for Office DB.

Pricing: base SRP $949.

Competition

Microsoft Office has only one direct competitor, the Lotus Smart Suite. Smar
minimal initial success and has served to grow the market and awareness for O

Additional competition comes from traditional integrated products such as Cla
Microsoft Works. Ultimately, the major competitive threat to Microsoft Offic
applications and existing software standards, Lotus 1-2-3 and WordPerfect.

Lotus

The company has re-defined its strategic direction to focus on "Working Toget
combination of product compatibility and groupware emphasis. Lotus Smart Sui
direct competitor to Microsoft Office. Since its introduction in April 1992,
aggressively marketed through pricing promotions and awareness advertising/di
However, it has not yet gained a signficant share of the market except within
that have a strong commitment to Lotus.

Lotus Strengths	Lotus Weaknesses
• groupware/technology lea • industry alliances--Nove Apple • large DOS installed base • broad product line • strong name recognition applications	• lack of strong presence on • incomplete line (no databa • fragmented product line (m spreadsheet versions, emai

Threats:

- Lotus has made overtures to acquire a database, Approach. Approach is a u database with good product integration. We can anticipate that an announc Microsoft to add Access to Office will ensure that Lotus will respond.
- A SmartSuite with a new and improved Lotus 1-2-3W 2.0 will help reposition "best of breed." Lotus needs to regain technical leadership in the next 1
- Lotus will establish groupware as the logical "middleware" level on the de the leadership they have with Notes. Lotus has begun to tie its sales of success of Notes, supporting a stronger workgroup story than MS Office.
- Lotus has announced their intension to have a Mac version of Smart Suite i
- Lotus will continue to push on their "working together" message and attemp 1-2-3 users to the entire suite. The SmartSuite applications could potent common macro language and parts of OLE 2.0 before The Microsoft Office doe Smart Suite contents: Lotus Smart Suite contains Lotus 1-2-3, Ami Pro, Fr a cc:Mail client, and The Organizer (a recently acquired PIM that is being group use).

Share: In CY 92, SmartSuite sales were $40mm worldwide, approximately 12% of
Office. Lotus managed to maintain 40% of the Windows spreadsheet market desp
reviews for 123/W, corporate defections to Excel and weak sales of SmartSuite
remains constant at ~12% of the Windows wordprocessing units.

Borland

Borland has always been an aggressive software marketer, especially in direct
However, they have become increasingly desperate as they overextend themselve
financially and with product promises. They have recently announced their co
The Data Company. Their products directly compete with Microsoft in the area
management. Most notably, the company's financial stability is directly dep
in databases and spreadsheets. They are technically strong and are well-regar
industry and by customers.

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Borland Strengths	Borland Weaknesses

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• high customer satisfaction • frequent product updates/t leadership • installed base of ~5mm xba • perceived experts in langu development tools • direct marketing expertise/aggressive	• domestic channel resistanc • lack of complete applicati no WP • weak international presenc • unclear database product differentiation/confusion acquisition

Threats:

- Borland will leverage their database position to continue their thrust into April, Borland announced the Borland Office, which includes Borland's Quatt Paradox and WordPerfect. The product will be marketed by Borland for $595 Borland QPro/Pdox bundle combined with WP threatens the success of Office w
- The company will band together in strategic alliances in order to combat Mi Lotus. For some time, Borland and WordPerfect have been exchanging custome
- Borland will continue to attempt to gain technical leadership through produ technical vision. Borland has released high-quality products that have bee "best of breed" in the spreadsheet market, particularly among IEUs and anal conjunction with their Object Oriented Programming model and success with 1 they will attempt to gain acceptance with corporate accounts.

Share: Quattro Pro has approximately 22%, which it appears to have gained equa and Lotus.

Naming

The name for Microsoft Office with Access needs to meet three objectives: 1) existing Office brand; 2) distinguishes itself significantly that it is "highe and recognizable in all major languages. Potentially, this SKU could become t Office product.

While focus groups and customer phone surveys showed various permutations of " Database" worked well with database people that we tested the concept on, it w received among traditional WP/SS users despite the fact that many were interes More importantly, however, over the course of the next year Office as a brand signify the line of business apps from MS or whether it means specifically "Wo and Mail". This is consistent with the Consumer group's new "Microsoft at Ho strategy.

This approach would mean that we should avoid any product-specific naming exte Office (such as Office plus Database). Instead, we should attempt to name it situation or market for which it is targeted. However, in initial name search most extensions to "Office" to be already trademarked (Office Plus, Office Pro etc.)

With this in mind, the recommended names for the Office SKUs are:

Office
Office DB

The products would be differentiated by distinct artwork and a placement of th word "Office". This naming strategy also allow us the freedom to come out wit of Office, including the complete MS desktop for Select (Office Complete?).

Postioning

A. Key Insights

- The Office's breadth of product line is unmatched by any competitor; datab: key opportunity
- The similarity between Microsoft's applications and how well they work tog: primary focus of our next product releases
- Microsoft has consistently delivered applications that have been product c. although competitors have narrowed the gap
- Microsoft has a development process that results in products that work mor: do
- The Office is the dominant way in which users purchase Windows application:

B. Positioning Statement

Microsoft Office is a complete line of applications designed to work together so you can focus on your work, not the software.

C. Key Support Points

1) Development philosophy:

The Microsoft line of applications allow you to focus on your work.

- Microsoft has a unique customer-driven development process
- Microsoft has the greatest experience in addressing customer needs and lar: knowledge
- Focus on top 10% of activities results in products that increase productivi
- Microsoft has lead product design innovation: direct manipulation, intelli common interface
- Feature Results: Toolbars, one-step commands, Wizards, cue cards, etc.
- Reduced learning, support costs

2) Product Synergy:

The products in Office were designed to work together.

- Easy to share text, data and graphics (OLE support, integrated product fea - Allows you to focus on the information, not the tool
- Microsoft has a broad line of applications, shared technology and expertis:
- The applications have a similar look, using the same commands, menu bars, etc.
- Product share functions and tools (unified spell checking, OLE automation,
- Easy to use together, easier to learn once you've learned one (Usability f: customer case studies, etc.)
- Cross-app features are built right in (import outline, mail merge, etc.)
- Core set of functionality (IV data)
- Modular, shared toolsets and extensions

3) No compromise on individual functionality:

The Microsoft Office/line consists of leading applications across categories.

- Word, Excel, PPT, Proj, Access have the highest product shipments and reve: Mac/Win platforms
- Word, Excel, PPT, Proj, Access are award-winning
- Customer driven development that is used to create Word, Excel, PPT, Proj, in products that are easier to learn and use (ABP, Usability, IV, etc.)
- Office is the most popular desktop solution (Reseller hot lists, etc.)

4) A Complete Solution:

Together, they add up to one complete, safe solution

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- Most complete line of applications; key business applications, all the tool
- Multiple applications address the need for working with diverse information software usage patterns, etc.)
- The applications can be used as components to specialized solutions: progr workgroup, data access
- Microsoft is a trusted vendor relationship; safe, longterm decision and vis
- Support and customer satisfaction

Marketing Programs

Advertising

Office DB advertising will be in the enthusiast press in June weeklies and Jul focus will be on Microsoft as the complete solution for your Windows desktop.

Announcement

The announcement of Office DB will be made as part of the keynote speech by Bi Expo on May 4. Due to the increasing attention on product sets, we determined critical for Microsoft to set an agenda early. Office will be in the Channel

PR

Press release will be put on the wire on May 4. Simultaneously, we will have editors and analysts to discuss the product and its strategic significance.

Reseller Channel

Information packets will be sent to all major resellers to update them on Offi

Logistics

Pricing

The recommended SRP for the product is $949; this price represents the current plus $149 for Access (compared to a $495 SRP for Access alone). This is a 50% allowing the average end user to get four applications for the price of two.

Pricing would need to be developed for Office DB Upgrade SKUs (see appendix).

Upgrades/Maintenance

Customers can "upgrade" to Office DB from the existing Office by purchasing an Upgrade at $149 SRP. This upgrade will be available for a limited time only.

With a new version of Office, it further complicates the issue of upgrading th Office. Either separate SKUs for Office plus Database will need to be develop an Office "add on" that is simply the database component.

There is a larger issue surrounding the creation of a single maintenance prici with Database. Given the existing pricepoint set for Office maintenance ($112 roll out Office plus Database maintenance as the sum of Office plus a regular $74 = $186 per year).

Packaging
Our recommendation is to offer this product in a single box (hard bundle) with a uni
Proposed SKU's:

- Full packaged product, 3.5" only.
- MLP
- CD ROM (released in July, dependent on some Access product work)
- MMLP, MVLP

Open issues for packaging/skus:

- Version/Competitive Upgrades
- International versions: all major languages

ISSUES

Office/FoxPro

We believe that Access represents a better fit with the Office purchaser. However, customers who will want Office plus a database, but will want FoxPro instead of Acc purchasing a licensed version of Office DB (MLP, MMLP, MVLP, MELP), they will have between Access or FoxPro.

Some considerations in making this decision:

- Operation Harvest. FoxPro will be launching a major campaign coined Harvest" in January, which will focus on upgrading the dBASE user to This is where the majority of the FoxPro marketing/PR/promotion effo Office/FoxPro bundle would not be a high priority in terms of promoti
- Focused Target: Government. Most of the requests for an Office/FoxPr have come from our government customers. This makes the target for relatively focused.

Product Development Issues

CD ROM.

CD ROM will be an obvious media choice for this "extended" offering. Ti move the docs to CD ROM is fairly extensive. Estimated ship date for CT plus Database is mid-July.

Documentation.

We would need to modify the existing Office "getting started" manual to mention of Access. Particularly, the Working Together section would ne Access integration such as Word/Access mail merge, or using Access for In addition, an install card will be included until the unified setup i

Setup.

Office today offers an integrated setup. Given the short lead time and development resource, it is not possible to modify the integrated setu Access. Integrated setup will incorporate Access V2.0.

Legal Considerations

There are several legal issues surrounding the inclusion of one of the database pro Office. It is difficult to provide a legal analysis today since the answer to this sensitive. However, it appears there isn't a significant risk in including a datab due to the current market shares of Excel, Word and Access, our pricing versus cost pricing versus the individual SRPs of the Office products.

APPENDIX I:
SKUS AND PRICES

	Office DB	Office	Office CompUpgr	Office VersionUpg
Office	$149			
2 Apps				$299
1 App				$299
Comp			$349	
New	$949	$750		

APPENDIX II:
ALLOCATION MODEL

	Office Allocation	% Purchase Intent
Word	43%	44%
Excel	42%	39%
PPT	12%	13%
Mail	3%	4%

Standard Allocation Model		
	% of Office	$Office
Word	43%	$150
Excel	42%	$146
PPT	12%	$42
Mail	3%	$10

Proposed Addition of Database (DB = incremental)		
	% of Office	$Office
Word	33%	$150
Excel	31%	$146
PPT	10%	$42
Mail	2%	$10
Database	24%	$107

APPENDIX III:

MULTIPLE APPLICATION USE

Most frequent combination	
WP only	12%
WP/SS	10%
WP/SS/DB	7%
WP/SS/DB/PG	7%
WP/SS/DB/PG/INT	7%
WP/SS/PG	6%
WP/DB	5%
WP/PG	5%
DB Only	4%
WP/SS/DB/INT	3%

Source: PC Watch, November 1992

APPLICATION USAGE

Category Size	% who us((n=2501) software
Word Processor	74%
Spreadsheet	49%
Database	40%
Presentation graphics	35%
Integrated	19%

Source: PC Watch

CROSS-APPLICATION USAGE

	% who use... Word Processor	Spreadsheet	Database	Presenatation graphics	Integrated
Who also use...	(n=1840)	(n=1228)	(n=1002	(n=867)	(n=463)
Word processor	NA	90%	84%	87%	75%
Spreadsheet	60%	NA	66%	68%	63%
Database	45%	54%	NA	52%	55%
Presentation Graphics	41%	48%	45%	NA	53%
Integrated	19%	24%	25%	28%	NA

Source: PC Watch

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Appendix III: Allocation Model

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