From: Steven Sinofsky
Sent: Thursday, July 27, 2000 12:17 AM
To: Lon Moore Ross
Subject: RE Warranty Support Policy Changes

Yikes, no need to be bitter. Frustrated a little :-(

The reason that this is different for the US is that in the US, our team is ultimately responsible for the PR of the product so this will hit us. In the local markets, the PR is handled there and they can make the call. Based on my experience, I am saying this is going to be very negative in the US. We lived through this when we removed concurrency and it was incredibly nasty--much of the negatives you see around the price of Office are erroneously based on that ill-will generating moment

The legal advice is a real problem. Erich is very in touch with the larger issues around our product so we realy need to heed some of that. I'll tell you more next time I see you. These are very real issues.

Ultimately, we do have a decision making conflict. Everyday steveb tells me to "own the office business" yet there is very little I own in terms of the business (I essentially get to pick the features of the product). So I just try to offer the view of the team when it is something we will ultimately have to deal with.

In the end, because of that in a sense Steveb has to decide or just let Orlando and/or Jeff decide. I know it is frustrating but you would be surprised how much ends up like that. For example, what is the name of Office10? Not sure who gets to decide that, but it isn't me

Hang in there

-----Original Message-----
From: Lon Moore Ross
Sent: Wednesday, July 26, 2000 9:35 PM
To: Steven Sinofsky; Steve Ballmer; Bill Gates
Cc: Bob Muglia; Jeff Raikes; Orlando Ayala; Kevin Johnson
Subject: RE. Warranty Support Policy Changes

Okay, we need to end the email exchange and reach a decision. I will attempt to net out the issues and recommend how we should proceed. I would like Orlando/Kevin/Jeffr to weigh in on this as all of these costs hit your P&L in addition to my own and all of you supported and pushed for this change. Jeffr was very clear in the budget scrubs that the we should own and implement the decision. Hmmm. why does Europe get to change their Office policy to 2 incidents without input from BDs, yet Steve wants to control the US decision?

Orlando/Kevin/Steveb/Jeffr: Since all of you were engaged in the decision to change policy based on cost/expense issues, it would be good to know if you have an opinion on this matter and are willing to reverse the decision

Fact
- The decision to change the policy was based on cost
- During the budget scrubs to find $$s, Jeffr/Orlando/Kevinjo supported the decision to change Office policy, among others.
- We save approx $4 8M on the US P&L by making this change
- There is no real way to mitigate the PR impact of going from infinity to two; Customers will complain
- One email from Woody's Office Watch and we have a problem

Public Opinion
- Billg hates the idea
- Stevesi hates the idea
- Steveb is silent on the issue. Orlando & Jeffr are on vacation, hence no response yet.

Office 10
- If we delay to Office 10, we will have a subscription model to talk about & other possible mitigating pieces of good news to talk about
- If we delay to Office 10, we can work with Office to fix the personal / professional two bucket issue to solve our systems

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and tracking issues

<u>Savings</u>
- It's only $4.8 Million in savings, but if we include grace calls into the equation, that will conservatively drop the number to $4M

<u>Legal</u>

Privilege Material
Redacted

<u>Conclusion</u>
- The last thing anyone wants is to have a major PR issue on our hands
- Ignoring costs for a moment, the right thing to do is to tie this with an Office 10 release. If we do this, we incur more costs in a year when we are trying to reduce costs. Again, that was the major drive in making this change
- Kevin/Orlando. If we reverse this decision, it will add $4-5M of costs to the US P&L. I can sure work to find an additional $4M in PSS. (and will) but we cut our budgets to the bone and unless we see major drops in call volumes, it is unlikely that we will be able to make up the entire difference
- The Office Update/Content team and PSS Support Online teams should work aggressively between now and then to make the web experience a value add and positive experience for Office customers. We have talked about this before with the Office team but I don't see us coming together to really make things happen; Stevesi: I need your commitment and support that our teams will work together on this. We should be partnering on this stuff anyway
- It would sure be nice to have clarity around who owns decisions for policy changes. Jeffr was clear that we owned the decision and if we are going to have to negotiate with the BDs moving forward on this, then let's be clear about that upfront so that we don't waste time spinning after the fact

<u>Recommendation</u>
- Delay and tie this policy change with Office 10;
- Impact: Additional costs assumed in US/PSS P&L; Cusotmer PR risk mitigated.

Lori

I'm still not feeling like we are doing the right thing for customers. I certainly see the cost side of the equation, but I am trying to look beyond that. As far as I can tell, there is no customer reason we are changing things--it is only for our own cost structure. This is important, but given the current marketplace I don't know if this is the best way to spend the money. It is hard for me since I don't really have a tradeoff to offer--I don't have any way to offer to compensate you for the "feature" in office of support

It seems like for Office this change will result in a savings of something less than $10MM (248MM * 27% * 14%, total budget * office percentage * percentage of repeat callers, which assumes the maximal savings which clearly isn't the case). Just on pr costs alone, we can end up spending this much just to keep up with the media and customers. Ultimately, we might end up scrapping inventory to implement this which would cost even more.

It is interesting that Office is 27% of support--that certainly says it has a far less than its fair share of support burden. It seems like we should consider that when we make these changes

I do not see the online support in the same light. Some of the data makes total sense but points to our own shortcomings. For example, I can see why page views are up--it takes dozens of page views to do searches and even start to get close to a possible answer. Again, anecodotaly I have not heard of customers telling us they can find the answers they need. We certainly have a huge issue with the way that the support.ms.com site has all of the office content for all releases (what is the difference between searching for microsoft office, office 97, microsoft office 2000, word 97, microsoft word, etc.) and across the ms.com/office, officeupdate.ms.com, and support.ms.com (and msdn). I just don't see this as a viable substitute for someone that would call us on the phone. I know it is not a viable alternative for me in my own use of the

support site I don't have the same sense of accomplishment regarding the integrated site. They are all very different to me--you still can't get to the FAQ easily (we even confuse people from the ms.com/office site with a faq related to pre-sales questions which is not the support FAQ).

The fact that 85% of customers call two times or less leads me to conclude we should not bother changing the policy Our fears of potential abuse are not being realized. So we don't need to worry about this So for those 14% that call more than twice we are going to take a huge hit in the perception of our product. I don't think that is worth the risk.

I certainly understand that there are challenges with outside vendors. Again, this is not something we will be able to explain to customers They just assume we have enough money we can fix this problem. I know that isn't the answer, but certainly any customer will not see it is as sign of warmth and goodness if we change the policy.

My suggestion is that if we want to change the policy we need to do so in a way that is part of improving the product and a clear advantage (and also timed with a release of the product). I don't think we are there on technology--the web site is just too hard to use In my last meeting with Mossberg, he talked about this very issue with Intuit--they don't offer phone support for quicken anymore and it is one of the contributing reasons to favoring Money He also went to great lengths to describe their painful web site, which I think is still easier than ours (for example, you can type in error codes into the search engine).

We all lived through the concurrency changes which were costly in many ways.

Any comments on this mail?

Here is a summary of my responses to the questions/concerns raised by Bill and Steve. I have also provided more detailed responses to the questions Steve raised in his original email below. After you read the summary, let me know if you still disagree with the decision.

Why we made the decision and who supported it?
Our costs for free support have been increasing dramatically over the last few years We need to bring cost growth in line with our revenue growth Free support costs were growing at 35%YOY Windows was a big part of this growth but Office is also a contributor to the cost growth Free support doesn't necessarily equal customer satisfaction During our budgeting process, we made every attempt to make smart decisions re: where we could reduce expense from our business in a way that would not adversely impact customer satisfaction and loyalty These decisions were not made lightly. With re: to Office, we evaluated the decision EMEA made to move to a 2 incident policy over a year ago and the results have been very positive. We did not see any significant customer backlash or negative PR. We also looked at the growth of Online content, number of visitors to the site, Office Update activity & progress, and recognized that customers today have more choices for support than they did even three years ago for free support. Jeffr & Orlando supported and approved of these decisions during our budget meeting and Steveb was made aware of them during the WW Budget Meeting a few weeks ago Steve questioned a few of the decisions but we did not debate Office.

Some facts about Office Support
1. Office support accounts for the second largest percentage of free support minutes at 27% (Windows is first at 59%). Any effort to bring cost under control in FY01 can not ignore this portion of the business.
2 Supported units as a % of total is declining for Office, and incidents per supported unit are flat YOY. However. labor needed to support these units is costing us more -- MPI is increasing and outsourced labor costs are creeping up MPI is increasing because customers are calling to get "how to" information vs. the traditional support calls were mainly about set up and install. IN addition, when they do call with critical

problems, our engineers have to go through very manual and time consuming processes to troubleshoot issues because our products don't have service/support features integrated into the product that make it easy to diagnose a problem. Good steps are being made with Office10 to address this issue. Outsourcing costs are in fact increasing. Technical labor costs more today than it did 2,3, & 4 years ago. You have to pay more to Outsource vendors to do phone support vs. providing support via the web. That is reality which is why we won't to move to a model where customers could go online and find what they need. This experience has to be positive one and there is much work required to make support/service an integral part of the user experience with the product or service.

3. 86% of office customers have called 2X or less. This policy change will impact 14% of Office customers.

Online Statistics:
I believe that the stats are compelling and in fact we have made good progress with the online efforts. Here is a summary but see my responses to steve's email below for more detail.

1. Office Online support satisfaction rose from 41.5% in august last year to 64.6% in June
2. Office Online Success (defined as customers got an answer from the kb) rose from 32.3% to 58.1% in Jun 00
3. We also integrated the support problem resolution content and service directly with the office site on http://www.microsoft.com/office/ at http://www.microsoft.com/office/support.htm . We saw the number on page views to our office support content by 5 million hits a week after we launched this integrated site

PR Issues
We absolutely recognize that there may be PR issues and we are working closely with Corp PR and the Office marketing team to proactively build messages around the announcement (assuming you don't want to reverse the decision after reading this email)

Summary
Office.net gives us a great opportunity to integrate support/service as a feature of the offering. We have been working with the Office marketing team to share our thinking on what the support related services should include based on what customers have told us and what our collective experience has been. We want to move to a support/service model where customers subscribe to services (some of which should be free, some we charge for) on an annual basis, based on who they are and how they are using the product. We should have a menu of service/support choices based on customer segment/scenarios. This will help us target the right type and level of support to customers and ultimately make them more satisfied and loyal customers. Our goal is not to take something away from customers but rather provide more choices and options for customers via the web that will enable to get the most value out of their experience with the product/service.

Regards

Lori

-----Original Message-----
From: Bill Gates
Sent: Wednesday, July 19, 2000 12.02 PM
To: Steven Sinofsky; Lori Moore Ross
Cc: Steve Ballmer; Bob Muglia
Subject: RE: Warranty Support Policy Changes

I have always objected to changing our support policies for OFFICE

OFFICE is a very profitable business under attack from free software

I don't remember being in any meeting where someone said we were going to do this to OFFICE users

I think it is aa big mistake when we ate going to be integrating support services into the Office Net offerings.

I think it is a big mistake to do this when SUN is opening up Star Office

I understand cutting back on free IE support but not on Office.

-----Original Message-----
From: Steven Sinofsky
Sent: Wednesday, July 12, 2000 9:37 PM
To: Lori Moore Ross

There are lots of things about this that are unclear to me. Overall, it seems that we are doing this because of the cost side of the equation which means that we are running the risk that we lose any remaining good will we might have with customers. *[Lori Moore Ross]* The last thing we want to do is upset customers. See data below re how many times Office customers call.

Office is faced with a perception (one completely without merit, but a perception nonetheless) that our prices have gone up. We are now going to add to this the reality that our support for the product is going down. I do not see how we will communicate this to people without just admitting that we're cutting back and that our product is now an even worse value. Clearly the timing of this isn't coincident with any product change that makes our products better or more friendly. I think this will be a big negative, especially as we go to communicate a new release. It will certainly make alternative products, ones without support, seem like more viable alternatives. *[Lori Moore Ross]* Steve, we are not cutting back on support. With what we provide online, a customers have more options and choices. In fact, one could easily explain how support has evolved over the last few years and how we are providing much more free support via the web and thus, people don't have to call us as much. I think our job is to position this in a positive way. We have lots more we are offering free online today than three years ago We provide more choices for support, etc.

In terms of costs, I am not sure how the support costs for Office are rising out of proportion for revenue. If anything the call volume (min/incident, incidents/unit) metrics are going down. Are we becoming more expensive at providing that support? *[Lori Moore Ross]* Minutes per incident continue to go up. This drives up costs For Office that would seem hard only because so much of this is outsourced to begin with. *[Lori Moore Ross]* Costs to do phone support for our vendors is increasing. Finding technical talent in the market place costs more money today than it did 2,3,4 years ago. That is the reality of doing phone based support which is why we won't to move people online It is much less expensive to provide support as an integrated feature of the product where customers have the ability to submit a question/incident/access content from a link in the product We would be able to reduce calls/costs and quite frankly, customers would prefer to just find an answer as part of the experience they are having with the product via online content, etc vs. picking up the phone and calling Microsoft. Are we balancing out increased support costs for Windows (upgraders, not OEM) on the backs of Office customers? Is my understanding of our support costs just incorrect? *[Lori Moore Ross]* See

I am frustrated that we are going to push our customers online for support. We have not made much progress at making things easier to use. *[Lori   Moore Ross]* We have in fact made significant progress in helping customers find answers to their question in online support. Some statistics in the office   product line to back that up.
1. Office Online support satisfaction rose from 41.5% in august last year to 64 6% in June.
2. Office Online Success (defined as customers got an answer from the kb) rose from 32.3% to 58 1% in Jun 00! Here is the historical trend from last   year.
<< OLE Object: Microsoft Excel Chart >>

Again, if this was coincident with some change in support.ms.com where somehow things got much more straight forward then we could at least say we have an alternative. But right now, any customer attempting to find answers to common questions for Office will spend hours failing. The number of times I am unable to locate articles that I know are there far exceeds the number of times I can find something. Even from our premier IT professionals we do not get positive feedback on their ability to locate answers to their questions. *Lori Moore Ross]* We know from our feedback that a single online support model doesn't fit all customers. Novice users, expect different things from on online help

session than an expert user expect. That's why we've customize online support based on key MS target audiences. VAPs. developers. ITPros etc. You mention ITPro's, we've tightly integrated the support content with the TechNet site. We also integrated the support problem resolution content and service directly with the office site on http://www.microsoft.com/office/ at http://www.microsoft.com/office/support.htm. We saw the number on page views to our office support content by 5 million hits a week after we launched this integrated site. The point of all this is that we have made significant, measurable improvements in helping office customers find answers to their questions online, and we've worked hard to provide access to the support content from where office customer go first, which is to the main office site on www.microsoft.com not to support.microsoft.com.

I realize that I am just standing in front of a moving train on this one, but it seems to me that we are losing a competitive advantage we have.

-----Original Message-----
From: Lori Moore Ross
Sent: Wednesday, July 12, 2000 9:16 PM
To: Jim Allchin's Direct Reports; Office Senior Managers
Cc: Orlando Ayala; Kevin Johnson; Jeff Raikes; Bob Muglia; Jim Allchin; Lori Moore's Direct Report Plus
Subject: Warranty Support Policy Changes

The purpose of this email is to introduce several important support policy changes that will be implemented in the US on September 1. These changes were approved during the FY01 budget reviews and will align support cost growth more closely with finished goods revenue growth. A summary of the policy changes is provided below along with supporting information regarding decision drivers and next steps.

Primary Decision Drivers

- *Cost Containment* - Our FY01 support costs were forecasted to grow well in excess of the finished goods net revenue growth forecast of 14%. Several opportunities for cost containment were evaluated and free support was targeted because it represents the largest portion of total support costs by far. In addition, the 36% YOY growth forecast in free support cost exceeded the growth rate for every other PSS cost component. The policy changes limit cost growth to 23%, and while this figure still exceeds the 14% finished goods net revenue growth, they are an important step toward aggressive cost management. The FY01 budget for free support is now set at $248M

- *Customer Experience* - Our customers will continue to have access to support via two free support incidents in the product box, and customers downloading product at no charge will have a number of alternatives to select from before they must pay for support. A wealth of online support content is also available at support.microsoft.com. Additionally, customers can use one of their windows or office support incidents to meet their support needs. Western Europe implemented similar policy changes in FY99 and overall customer reactions were favorable. We will work closely with our public relations team to manage the impact of these changes

- *Global and Competitive Alignment* - The US subsidiary will become more consistent with rest of world by implementing these policy changes. After September 1, we will continue to seek opportunities to drive global consistency in our support policies. One additional note - the existing US subsidiary support policies are more liberal than our competitors, and these changes will not create a competitive disadvantage for us.

Next Steps
Matt Fingerhut, Director of Support Offerings, is leading this project to implement the policy changes. Current activities range from systems/tools modifications to customer service rep training. We are already coordinating with members of your organizations on communications and PR efforts. To ensure we have appropriate coverage, please email Christine Laney (v-acchla) with names to add to the extended project team. This extended team (alias = policyet) will also receive

MS/CR 0064415

weekly emails of project status.

Thank you for your support.

Lori