

From: Steven Sinofsky
Sent: Monday, May 15, 2000 12:30 AM
To: Michele Maynard; Sean Pickton; Steve Shaffer (HR); Russell Stockdale; Akio Fujii; Andy Schuler; Antoine Leblond; Grant George; Heikki Kanerva; Jeanne Sheldon; Jeff Olund; Joseph Krawczak; Kurt DelBene; Ralf Harteneck; Richard McAniff
Cc: Steven Sinofsky
Subject: Office FY01 Development Plan -- DRAFT FOR REVIEW

Message Flag: Follow up
Due By: Monday, May 15, 2000 1:00 PM
Flag Status: Flagged



Office FY01
(stevesi).ppt

The following slides should be deleted—they are a draft!

Do not forward!

Enclosed is a draft of the Office 3 year development/business plan. This will be presented Tuesday at 2pm as per the invitation you received.

I welcome any comments, suggestions, omissions or other issues worth raising. But the catch is that because of all the press stuff going on Monday, these comments need to be in by mid-day. I've checked read receipts, so once you've opened this I will assume your sign-off (isn't that sneaky).

Only one slide has been added (a last minute template change) and that is "NGWS". Any thoughts/additions would be welcome.

Please note the "Leadership" slide is meant to just have a sampling of the senior members of the team—space does not permit a complete list of everyone (steveb asked for about 50 people, we have 2x that).

The only additional pages will be the Office10 Values handout.

Thanks to Michele, Sean, and SteveSh for a great deal of number crunching and statistics.

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Office

Office, Word, Excel, PowerPoint, Access, Outlook, FrontPage

FY 01 Business Plan Review

Date: May 16, 2000

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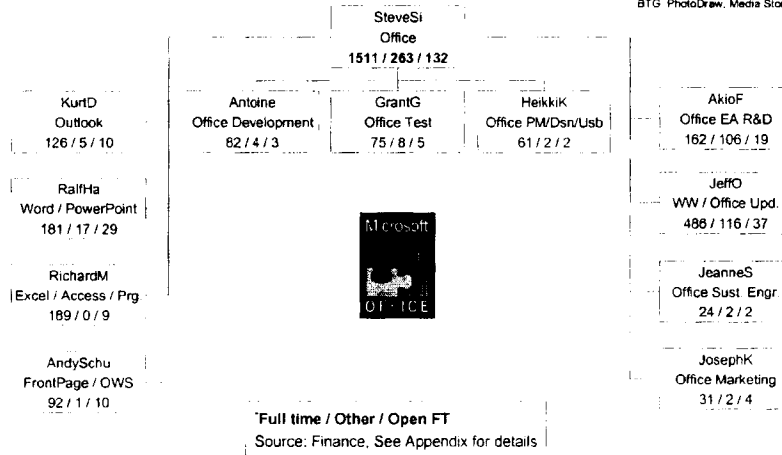
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GROUP ORGANIZATION CHART

Finance SeanP MMaynard
 HR SteveSh
 bCentral Publisher SBT
 NLG Proofing Speech
 BTG PhotoDraw Media Store



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KEY LEARNINGS FROM LAST 12 MONTHS

- Product
 - Intranets supplanted by email
 - Product does not elicit positive emotional appeal
 - Developer platform eroding (VBA development, server-side needs)
 - New features go unnoticed or unappreciated
 - Small changes annoy more than help
 - Sensitivity to security and privacy clouds Outlook, VBA, and extensibility in general
 - Office Online: awesome technology, lame business, no customers
 - OfficeUpdate getting ~3M unique visitors/month, generating partner interest (stamps.com, driveway), some revenue (not the goal, but \$12M booked FY00)
- Marketing
 - Living with Office is 'oldware'
 - Identifying issues around end-user excitement
 - Communicating breadth of features impossible
 - Dealing with perception that 'Office is expensive' yet price erosion continues unabated
 - Combating piracy is hard and risky PR
 - Achieving broad PR has been difficult, desire for old v. new articles
 - Office Premium SKU interesting only for first 4 months after launch, cannibalism of Publisher, FrontPage significant
 - Differentiating single product for LORGs are end-users complicated by LORG-focused launch and PR efforts
- Competition
 - StarOffice / StarPortal and free
 - Lotus Notes client
 - Vast number of suite-like web products—"old v. new"
 - Adobe Acrobat
- PSS
 - Crashes
 - Office Sustaining Engineering improving, but challenging to keep up with demand/expectations
- Sales / MYR
 - Knowledge Management confused Office sell
 - Digital Dashboard sold Notes, set high expectations that we were not in a position to meet
 - Many assume Office on the desktop, but not enough "value" to drive upgrades
 - Numerous customer "cnisis" situations around very specific product features, though no broadly visible themes other than the fact that LORGs push Office in incredible ways and are very demanding about how things should work



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DG SCORECARD – FY01

Thought Leadership

- Innovations in Office10 show that we're not "done"
- Exchange 2000 + Office10+ Tahoe for collaborative computing in LORGs
- Office10's Fundamentals surprise and impress
- OfficeUpdate and OfficeOnline

Shared Bets

- Outlook10 / Programmability and Exchange 2000
- Tahoe, Rosebud
- Excel10 / Access10 and SQL, JET, MDAC
- Internet Explorer 5.5
- Office Web Server10 and Windows 2000 Server
- Natural Language for grammar, spelling, speech
- Windows 2000 system files
- MSN Communities / Passport, MSN operations
- Operations and RegWiz

Key Product Deliverables

- June: Office10 Beta I (depth)
- Sept: Office10 Beta II (breadth)
- March '00: Office10 RTM US
- Summer: NGO planning begins
- Spring '00: Killer Office10 Launch

Customer Goals

- Provide Office roadmap for LORG customers
- Support KW initiative
- Provide more partner opportunities
- Executive sponsor enrollment

Business Goals

	FY00	FY01	FY03
Market Share			
•Legal penetration	30%	31	33
Deployment			
•%LORG on current release	30%	70	70, O10
Support (99%)			
•Resolve Sev A QFE	5 days	5 days	5 days
•Accept/ Reject QFE	2 days	2 days	2 days
Expenses			
•Direct Oper. Exp.	\$220M	\$267M	\$345M
•Year-end FT Heads	1,529	1,729	1,729
•\$/Head (Regular)	\$120,597	\$ 125,815	\$138,942

Organizational Goals

- Organize team around delivering NGO (March)
- Maintain current relative OHI (working across teams will continue to be an issue)
- Dramatically improve campus recruiting situation

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DREAMS: WHAT THIS BUSINESS CAN BE

- Office10
 - Product: See Office10 Values in Appendix (see http://office10/overview/Office10_Values.htm)
 - Business
 - Registration wizard, time interval purchase, return SKUs to Office "classic", do something about price erosion
 - Investigating other changes to upgrade pricing policies
- Next Generation Office (NGO) (see <http://office10/overview/ngo.htm>)
 - Product
 - Revolutionizing the experience (50% of our effort). Rapidly and deliberately transition Office to the "Next Generation" combination of product, services, and servers to provide the Internet User Experience. The key to NGO will be defining an experience that people just "have to have" and making it indispensable to getting work done in the internet age
 - Integrating feedback (30% of our effort). Routinely get more use from our best work, sooner, by building an ongoing business relationship with leading edge customers. We want to provide customers with an ongoing and ever-improving Office experience. We can do this by having a regular, amiable relationship with them and by constantly tuning the product to meet the needs of the market.
 - Guarding the core (20% of our effort). Appropriately sustain the absolutely essential core of our Office suite so that we can continue to encourage our existing Enterprise Agreement model which will provide the bulk of revenues for the foreseeable future. We must measure our investments in architectural features that will take multiple milestones.
 - Key NGWS technologies: extending passport, calendaring, hard drive in the sky, presence, instant messaging
 - Business
 - Maintain volume licensing
 - Transition percentage of customer base to monthly model. Our dream: the retail Office CD is free but useless w/o service
 - Challenges
 - Growing skills needed to develop server-side software, run an operations-focused business, shorter product cycles
 - Avoiding product development "momentum" and doing Office 200x. Releasing in 12 months
 - All the while maintaining Office for LORGs
- Our Industry Position
 - Current Perceptions
 - General: Office as old world software, infection passed it up
 - Customer: "Required" on the desktop, but viewed as a utility where nothing new and interesting happens
 - Press: No innovation in Office since the spreadsheet (which Microsoft didn't even invent!)
 - Quality reputation is improving, but base assumption continues to be "buggy/bloated"
 - Competitors: Bogus perception that there are none because the category is done. Who are the competitors to worry about?
 - Office10 Goals
 - Improves the perception that Office is not innovative by showing end-user productivity enhancements
 - Reduces view that Office is for "big customers" by enhancing collaboration in plain email
 - Home run on improving product quality (no more corrupt documents, crash recovery)
 - End users (when we can get the word out) think Office10 is a big improvement!
 - NGO Goals
 - Radically change the perception of what it means to use Office
 - Significantly broaden the scope of Office in the mind of customers
 - Alter the landscape for "Windows" applications in the marketplace

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FY01-04 GROUP PRODUCT ROADMAP

- Office10—March 2, 2001 (US Pro RTM)
 - Vision Areas
 - Office and Exchange for corporate groupware
 - Universal web documents and web sites
 - Collaborative document creation
 - Unlocking data with Office tools
 - Nailing the fundamentals
 - Everyday tasks made easier through innovation
 - Shared Bets / Major Dependencies
 - Support Protected System Files (dependent on rest of company following this)
 - Internet Explorer 5.5, Exchange 2000, Local Information Store
 - Windows 2000 Server, SQL Server (MDAC)
 - Tracking Whistler visual changes
 - Risks and Controversies
 - Performance on 64MB Windows 2000 machine, performance of LIS
 - Long poles: Local store integration w/Outlook; Designer and VS7; bug counts for some teams
 - Requiring Exchange 2000 SP1 and even Mercury
 - Great Office10 launch
- Other Releases
 - OfficeUpdate ongoing
 - Office Template Service—6/00
 - Office 2000 SP as needed, 12/00 (Office 2000 SR1 released 3/21, SP -December 2000)
 - Office10 world-wide release schedule and costs roughly the same as Office 2000
- NGO—No date yet. Trying to plan a 12 month schedule.
 - Focus of planning
 - Extending the productivity experience to include features office.microsoft.com that integrate with Office
 - Roaming, mobility and communication scenarios that benefit from the having an identity and storage on office.microsoft.com
 - New businesses that extend Office to help you get your work done more efficiently than ever before
 - Enhancing our core code in ways that build on the first three areas

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COMPETITIVE STRATEGIES

- Challenge: Which competitors really matter? Which are disruptive? Which are just cool? Which are junk?
- Sun StarOffice
 - MAJOR competitor w/ major investment from Sun
 - StarPortal perceived as "internet" when Office is not
 - Nearly a world-class product
 - Incredible price pressure—How do you compete with free?
- Lotus SmartSuite
 - Continues to be a wiki card
 - Is IBM disinvesting or not? (e.g. Approach just updated)
- Corel WordPerfect
 - WordPerfect still world-class
 - Focus is on building a complete Linux Suite (e.g. bought Fractal Design)
 - Will also be free, supported by advertising
- AOL
 - At risk to license web-based productivity, distribute on AOL CD or via broadband
 - Relationship with Sun and possible distribution of StarOffice

Type of Competitor	Examples
Traditional Suite / App	Office 97, Office 2000, StarOffice, Lotus SmartSuite, WordPerfect Office, Lotus Notes, DreamWeaver, FileMaker
Web-based productivity	StarPortal (hosted traditional suite), HalfBrain, myWebOS, iAmaze, FlashBase, AnyDay, TeamOn, Desktop.com, free mailboxes w/web clients
Adjuncts to productivity	Lotus QuickPlace, eRoom.net, HotOffice, WebEx, Visto, Lotus Notes, PlaceWare, NetPodium, FireDrop Zapplets, Evite, Mambo, SeeUThere, jFax, MSHOW
Office-related content	SmartOffice
New suite applications	ThinkFree
Synchronize with Office	Palm Pilot, Yahoo mobile
Services	GuruNet, FlySwat, Octopus, Yodlee, eStamps, hard drives in the sky

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HOW NGWS MIGHT AFFECT OUR STRATEGY

- Potential Dependencies
 - Passport
 - Logon and authentication of services (need APIs and client-side code)
 - "Registry"
 - Additional meta-data storage (templates, "blobs", etc.)
 - Easy switching of identity without "logging off"
 - Personality variant for an individual ("Home", "Work")
 - Connection to product registration
 - MSN
 - Site statistics
 - HotMail and access through Outlook
 - Calendaring and Contacts
 - Communities
 - Hard drive in the sky
 - BPG
 - Billing and sign up infrastructure
 - API
 - What APIs will exist that span client and server?
- Potential Issues
 - Complexity!
 - Major investments in "traditional Win32" that cause Office10 to look/behave "old"
 - Need to re-plumb existing features Where is our programmability investment heading?
 - Development efforts that take more than a milestone for NGO
 - Relationship with/to NetDocs

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HEADCOUNT SUMMARY

HEADCOUNT SUMMARY for Dev & End to End

	FY00 Current (1)						FY01 (6/30/01)				Change			
	Regular			Other			Total		Regular		Other		Total	
	Filed	Open	Rev. App.	6/30		June 30		Rev	6/30	App	Pos'ns	June 30	Y1/Y0	%
Development	386	29	415	13	13	399	428	424	5	433	5	1%		
Test	501	34	535	128	128	627	661	566	95	674	13	2%		
Localization	78	17	195	54	54	232	249	207	50	257	8	3%		
User Assistance	103	11	114	31	31	134	145	123	20	143	-2	-1%		
Program Management	253	33	286	10	10	263	296	287	10	297	1	0%		
Mktg (Biz Dev)	25	4	35	0	0	35	39	43	0	43	4	10%		
Sales & Support & Ops	1	0	1	0	0	1	1	1	0	1	0	0%		
Management/Administrative	54	4	58	29	110	83	168	58	61	119	-49	-29%		
Web Content & Publishing	0	0	0	0	0	0	0	0	0	0	0			
Stevens Office	1511	132	1643	263	344	1774	1967	1729	238	1967	-20	-1%		

(1) as of 4/30

(2) Employees on board accepted offers

*Note: June FY00 is currently 20 over NTE due to East Asia CS... NTE for FY00 and FY01 is 1967. The -49 change in Mgmt/Admin reflects the redeployment of Open CS from a buffer to actual job functions.

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FY00 AND FY01 CONTROLLABLE EXPENSES

Controllable Cost Statement

	FY00		FY01		%	
<i>Regular Staff Expense</i>	126,887	131,281	3%	150,882	21,995	19%
<i>Other Staff Expense</i>	17,966	28,557	38%	17,216	-750	-4%
<i>Infrastructure Expense</i>	10,516	10,689	2%	10,516	-	0%
<i>Lab Spending</i>	2,097	2,779	25%	2,097	-	0%
<i>Product Development</i>	28,887	33,160	13%	33,887	5,000	17%
<i>Bus Acquisition</i>						
<i>External Localization</i>	12,000	21,368	44%	44,383	32,383	270%
<i>Marketing</i>	22,639	22,639	0%	8,000	-14,639	-65%
<i>Other</i>						
Direct Controllable Operating Expenses	220,991	250,902	12%	266,982	45,991	21%
<i>Internal Cost Pool</i>	49,823	58,944	15%	51,877	2,054	4%
Backward Charge/Share Exp.	270,815	309,847	13%	318,859	48,043	18%
People						
<i>Regular</i>	1,483	1,516	3%	1,639	156	11%
<i>Contract</i>	95,799	95,880	0%	102,191	6,493	7%
<i>New</i>	318	473	33%	280	-38	-12%
<i>Contract</i>	58,175	63,205	5%	63,205	5,030	9%
Infrastructure						
<i>Travel</i>	1,800	2,008	10%	1,915	-118	-7%
<i>Contract</i>	24,938	26,296	5%	23,624	-2,264	-9%

Regular staff expense growth can be attributed to a plan to hire 141 new hires and 59 WFP hires in FY01 (a YOY growth of 112 hires) combined with an increase in salaries of 8%. No new heads, just filling existing openings.

Lab expenditures: In FY00, we invested in the consolidation of labs across the organization. Currently we have one test automation lab for all applications and shared feature test teams and one consolidated build lab, both mirror the "office pipe" process and tool changes for Office 10. There were upgrades made in these labs in an effort to increase throughput and expand a more efficient performance benchmarking lab.

Product Development: growth is attributed to the re-licensing effort of localized Proofing tools for Office 10. \$23.5m of the total PD spend in FY00 and planned for FY01 is for Intellectual Property Payments.

External Localization growth is attributed to the Office 10 launch year. The costs cycle every two fiscal years in general, and we are anticipating a Product over Product growth of approximately 18% while increasing both the # of applications localized (46 or 26%) as well as the total number of words (Software growth 200k words and UA growth 1.2m words).

Marketing decline represents the movement of execution to the US Subsidiary. Need for launch event!

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CRITICAL TALENT AND PEOPLE STRATEGIES

OHI Score

OHI-S Score 73 (MS=88, Office FY99=71)	MS	
☺ Clear understanding where my Division fits	94%	84%
☺ I work towards clear goals	88%	81%
☺ Appropriately involved in decisions	88%	75%
☺ Good coordination between workgroups	42%	36%
☺ I am satisfied with work-life balance	43%	38%
☺ Clearly see opportunities for career growth	53%	56%

Retention (Attrition: FY99 10.5%, FY00 9.3%)

Movement	INBOUND		OUTBOUND	
	Hires	Xfer In	Terms	Xfer Out
FY99 (+16)	168	63	122	93
FY00 YTD (+48)	202	61	109	106

Departures (21 at level 63+)

- Retire: andersk (d), paulwi (t), luann (d), wesc (d), davebar (t), chucko (t), bartleyh (t), kirstye (m), laurabur (t)
- Startup: ebbea (pum), pelewu (p), jkatzman (p), alanra (p), georgeme (m), anilm (t)

Recruiting (as of 5/1/00)

- 78 campus (21 SDE, 33 STE, 22 PM, 2 MBA) (☺)
- 132 (44 SDE) interns across Office (☺, something fishy...)
- 1 Level 63 SDE hire (Text Services)

FY01 Organization/People Goals

- More involvement in planning across the board for NGO
- Broad push for campus recruiting, incl. GM/VP/Directors
- Everyone must have a succession plan
- Less turnover at high levels during NGO than Office10

Access	PJHough, MitchY, DrewWa, AndrewM
Complex Scripts	AlexMo, AndyAb, BenE, MNassiri, ChauV, AymanA, Mrashid
Drawing	RobPa, HowardCo, BakufP
End-User Prod.	RandallB, JeffJo, JeffreyK, JulieLar
Excel	JayMa, Carl, AndyLee, TerrendH
FrontPage	TCrowley, BenCan, CNParker
Fundamentals	RossS, EricLev, BevS
Marketing	KenMy, BobOb, JohnVa
Office Update	JZanni, FuYaut, LuannV, TayCo
Outlook	RobP, KayW, MartinSt, WillK, SWells, DanielK, PaulGar, DavidHan, JayAb
Prod Plan / Design / Usability	BradWe, DebbieCa, MTilburg, MikeAng, CTurner, CKonrad, RozHo, JoleneC
Programmability	Zeke, AnandaG, DonnyL, LaurenA
PowerPoint	HannesR, EuniceY, BrendanB
Release and Deployment	GregHar, DarinH, ArthurDh, MikeKell, JohnJend, SusanHa, LaurB
Sustain. Engr	KAnder, PatM, RobH
Text Services	JimO, Elk
Web Compts.	AmitD, MikeCoul, DuaneC, JCahill
Web Server	AnilB, RohitW, RussellW, TaraRo, MarkPete, NickMill
Web Documents	MikeLuce, MarcO, DaveBu, MandiraV
Word	MarkWal, NickBo, ChrisPr, EricFox, SteveRa
Worldwide (Loc / UA / EA)	JDouglas, MarchN, IseN, DianeMal, PatricMa, DerekMc, AleM, Gwen, JeanEG, Kazuk, HankDu, OsamuA, SeanZ, StevenCh, ThomasP

Shared Feature Teams

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APPENDIX

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ISSUES FROM FY 00 BUSINESS PLAN REVIEW

- Issues Raised
 - Should Office Web Components be free? (No)
 - Improve our story on annotations! (Interlineations in Word / PowerPoint)
 - Make more efficient use of our development time! (Improved B-T-R)
 - Integration with NetDocs? (open issue(s))
 - Should PhotoDraw be in SBE and general issues with SKU strategy? (No)
 - Improve the relationship between Access and the Designer? (Uncertain)
 - Issues around Adobe Acrobat? (Planned on XMF, change of plan 4/00)
- Some Scorecard Issues
 - Tom Austin metric still to be seen, strategy works, but timing and performance remain to be seen
 - Walt Mossberg metric looks achievable based on 5/4 meeting
 - Corporate reporting metric on the upswing, working with SAP
 - Fundamentals metric looks very good, performance work remains
 - OS Redistributables still on track (lots of work!)
 - Did not create customer-ready compelling futures presentation, though created NGO memo and protosketch
 - Improving external partners through OfficeUpdate partners
 - Out of the box solutions looking good though still need access to corporate data to full realize benefits (i.e. digital dashboard)

HEADCOUNT: DIVISION BY STEVESI DIRECT REPORT

Function/Dept	Job Function	Regular		Revised	Other		Total		Regular	Other	Total	F04	%
		F04	Other		F04	Other	F04	Other					
Client Services	Development	77	2	81	0	0	77	2	81	0	0	0	0%
	Test	78	0	78	0	0	78	0	78	0	0	0	0%
	Program Management	32	5	37	0	0	32	5	37	0	0	0	0%
	Management Admin	3	0	3	0	0	3	0	3	0	0	0	0%
Client Services Total		189	7	196	0	0	189	7	196	0	0	0	0%
Development	Development	42	2	44	0	0	42	2	44	0	0	0	0%
	Test	28	2	30	0	0	28	2	30	0	0	0	0%
	Program Management	13	1	14	0	0	13	1	14	0	0	0	0%
	Management Admin	2	0	2	1	0	3	0	3	1	0	0	0%
Development Total		85	5	90	1	0	85	5	90	1	0	0	0%
Engineering/CRD	Development	92	10	102	1	0	93	11	104	1	0	0	0%
	Test	31	0	31	0	0	31	0	31	0	0	0	0%
	Program Management	1	0	1	0	0	1	0	1	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	0	0%
Engineering/CRD Total		125	10	135	1	0	125	11	136	1	0	0	0%
Office Development	Development	11	0	11	0	0	11	0	11	0	0	0	0%
	Test	1	0	1	0	0	1	0	1	0	0	0	0%
	Program Management	1	0	1	0	0	1	0	1	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	0	0%
Office Dev Total		4	0	4	0	0	4	0	4	0	0	0	0%
Office Support	Development	2	0	2	0	0	2	0	2	0	0	0	0%
	Test	2	0	2	0	0	2	0	2	0	0	0	0%
	Program Management	4	0	4	0	0	4	0	4	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	0	0%
Office Support Total		9	0	9	0	0	9	0	9	0	0	0	0%
System Engineering	Development	4	1	5	0	0	4	1	5	0	0	0	0%
	Test	1	0	1	0	0	1	0	1	0	0	0	0%
	Program Management	1	0	1	0	0	1	0	1	0	0	0	0%
System Engineering Total		6	1	7	0	0	6	1	7	0	0	0	0%
Software Engineering	Development	14	1	15	0	0	14	1	15	0	0	0	0%
	Test	1	0	1	0	0	1	0	1	0	0	0	0%
	Program Management	1	0	1	0	0	1	0	1	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	0	0%
Software Engineering Total		17	1	18	0	0	17	1	18	0	0	0	0%
Office Test	Development	1	0	1	0	0	1	0	1	0	0	0	0%
	Test	1	0	1	0	0	1	0	1	0	0	0	0%
	Program Management	1	0	1	0	0	1	0	1	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	0	0%
Office Test Total		4	0	4	0	0	4	0	4	0	0	0	0%
Office Support for BU	Development	28	2	30	18	2	46	2	48	15	2	17	3%
	Test	48	2	50	54	54	102	4	106	52	34	106	0%
	Program Management	15	2	17	15	15	30	2	32	16	15	31	0%
	Management Admin	2	0	2	3	3	6	0	6	2	3	5	0%
	Operations	58	7	65	9	4	74	7	81	45	6	71	0%
	Management Admin	0	0	0	0	0	0	0	0	0	0	0	0%
Office Support for BU Total		112	11	123	39	24	162	15	177	82	15	197	3%
Office Location	Development	42	4	46	2	0	44	4	48	4	2	46	0%
	Test	125	7	132	80	54	173	7	180	143	18	161	0%
	Location	181	14	195	29	28	200	14	214	167	25	192	0%
	Law Assistance	88	9	97	23	23	111	9	120	106	14	70	0%
	Program Management	40	2	42	2	2	44	2	46	2	2	44	0%
	Marketing	5	0	5	0	0	5	0	5	0	0	5	0%
	Operations	1	0	1	0	0	1	0	1	0	0	1	0%
	Management Admin	13	0	13	0	0	13	0	13	0	0	13	0%
Office Location Total		438	27	465	114	83	602	23	625	322	23	625	0%
Marketing	Law Assistance	3	0	3	0	0	3	0	3	0	0	3	0%
	Marketing	30	4	34	0	0	30	4	34	0	0	34	0%
	Operations	0	0	0	0	0	0	0	0	0	0	0	0%
	Management Admin	1	0	1	0	0	1	0	1	0	0	1	0%
Marketing Total		34	4	38	0	0	34	4	38	0	0	38	0%
Outlook	Development	45	5	50	1	0	46	5	51	10	2	53	0%
	Test	93	4	97	2	2	99	4	103	12	2	84	0%
	Location	4	0	4	0	0	4	0	4	0	0	4	0%
	Program Management	21	1	22	0	0	21	1	22	0	0	22	0%
	Management Admin	2	0	2	0	0	2	0	2	0	0	2	0%
Outlook Total		167	10	177	3	2	173	10	183	22	2	183	0%
Word PowerPoint	Development	89	1	90	0	0	89	1	90	1	1	88	0%
	Test	22	1	23	1	1	24	1	25	1	1	23	0%
	Law Assistance	0	1	1	0	0	0	1	1	0	0	1	0%
	Program Management	23	0	23	0	0	23	0	23	0	0	23	0%
	Management Admin	2	0	2	0	0	2	0	2	0	0	2	0%
Word PowerPoint Total		136	3	139	1	1	136	3	139	2	2	137	0%

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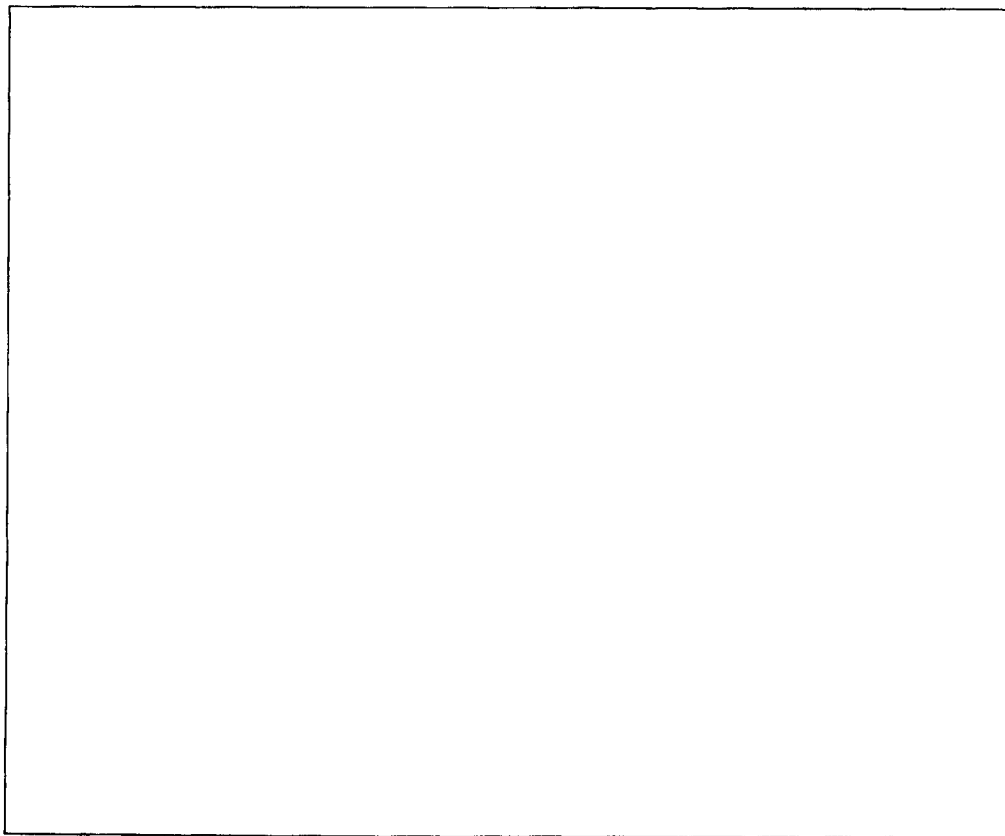
HEADCOUNT: WFP SUMMARY / DIVISION BY FCN/LEVEL

WFP SUMMARY AS OF 4-30-00						
Product Unit	Manager	Original	Adjusted	New Approved	Hired as of 4-30	Remaining
Office Marketing	Krawczak, Joseph M.	5			5	1
Excel/Access	McAniff, Richard J.	3			3	0
Office	George, Grant N.W.	6			6	1
	Kwatnetz, Andrew L.	1			1	0
	Leblond, Antoine J.	4			4	0
Office Localization	Sheldon, Elizabeth Jeanne	2			2	0
	Olund, Jeffrey K.	69	15		84	39
	Olund, Jeffrey K.	72	-11		61	35
Outlook	DelBene, Kurt D.	12			12	7
Word/PowerPoint	Harteneck, Ralf	16			16	4
Frontpage	Schulert, Andy	1			1	0
Grand Total		191	4		195	90

Job Function Summary	Total Office Division			Total Reg HC
	>64	64-67	<67	
Development	304	69	13	386
Test	490	8	3	501
Localization	178	0	0	178
User Assistance	103	0	0	103
Program Management	223	26	4	253
Marketing	30	4	1	35
Operations	1	0	0	1
Management/Administrative	37	10	7	54
Grand Total	1,366	117	28	1,511

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NOTES: CONTROLLABLE EXPENSES

- Total Forecast spend for FY00 = \$270m, Full Year plan \$310m, savings of \$40m or 13%.
- Total Forecast spend for FY01 = \$319m
- YOY growth = \$48m or 18%; Major YOY Drivers:
 - External Localization increases \$32m, represents 52% of the total growth (after backing out mktg. decline)
 - Payroll increases \$22m, represents 35% of the total growth (after backing out mktg. decline)
 - Product Development increases \$5m, represents 8% of total growth (after backing out mktg. decline)
 - Marketing \$15m decrease due to movement of US execution marketing dollars.
- CPH FY01 Growth: Regular 6,483 or 7% (increase in payroll & payroll tax)
- CPH FY01 Growth: Other 5,030 or 9% (increase in rates – total dollars decrease by 4% as CS decrease overall due to WFP).
- External localization increase can be attributed to Office launch... see next slide for details.
- Payroll increase can be attributed to the 8% salary increase for BD's and an increase in regular heads as we grow towards our NTE (total forecasted hires for FY01 is 200 versus FY00 hires of 88).
- The increase in Product Development can be mainly attributed to Proofing tools contracts (\$5m) that have expired, and Office must renew to include in next localized version.
- Product Dev expenses for FY00 = Inprise (Borland) \$20m; Lernout & Hauspie Speech \$3.5m; Datavitz \$1.8m; Proofing Tools \$700k; and Office Update Content \$500k; Other \$2.3m.

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NOTES: EXTERNAL LOCALIZATION

Office 9 to 10 comments:

28% growth in localized apps
 Office 9: 175 applications loc'd
 Office 10: 221 applications loc'd (+46 loc'd apps) = 28%
 In addition, applications are growing in size:
 Software 700,000 to 900,000 words that need translated/loc'd (mostly auto translated)
 UA 4.3m words to 5.5m words

Office Update comments:

FY1999 11 langs localization of shell and limited content
 FY2000 10 langs localization of shell and limited content
 7 langs localization of shells, content (articles & downloads (applettes))
 FY2001 12 langs localization of shell and limited content
 16 langs localization of shells, content (articles & downloads (applettes))

**Previous loc'd content still have growth in the following year due to richer content acquired.
 ***Need to maintain localized content to increase overall traffic...PD is for purchase of local content

External vendor spend YOY comparisons						
	fy99	fy00	fy01	fy02	Office Growth w/out Essie	%
MediaStore	466,776	117,410	1,591,020			
Office	26,969,474	1,166,404	28,323,300	4,789,970	4,977,591	18%
Office SR	171,154	1,086,786	500,000			
Office Update (intl)	519,107	2,138,190	5,163,255			
Patches (all apps)	(not tracked)	18,100	18,100			
Project	2,568	2,117,685	934,591	2,354,089		
MacOffice	1,044,523	265,562	1,465,835			
MAPI work	(not tracked)	150,000	418,125			
Project 9 SR1	(not tracked)		330,000			
Office Passport Pack		15,200				
Outlook Team Folders Kit		248,677				
PhotoDraw 2		1,031,909				
East Asia prod dev (Office 97, Windows)	68,583					
Outlook 98	732,144					
East Asia Request			5,639,159			
Totals	29,974,329	8,355,924	44,383,384	7,144,058		

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OFFICE10 SKU COMPONENT / ALIGNMENT

License Type	Proposed App / Site Alignment	ERP	Retail	OEM	Excel	Word	Outlook	PowerPoint	Access	FrontPage	Publisher	SB Tools*	PhotoDraw	Bookshelf	HW Device 1	HW Device 2	ESL	Full Version	UUP	
Small Business	\$249.00	X	X	X	X	X	X	X			X	X						Y	Y	Y
Standard	\$249.00	X	X	X	X	X	X	X			X	X						Y	Y	Y
Professional	\$349.00	X	X	X	X	X	X	X			X	X						Y	Y	Y
Manufacturing Bundle																				
Premium*	\$499.00	X			X	X	X	X	X	X	X	?	?	?	?	?	?	?	?	Y

* Launch plus 120 days only / Final pricing TBD
 ** FPP media not to be used for client installs with an Open License purchase
 *** SB Tools for Pro customers - On-Line delivery

Volume Licensing**	Proposed App / Site Alignment	Excel	Word	Outlook	PowerPoint	Access	FrontPage	Publisher	SB Tools	ESL***	Select
Small Business		X	X	X	X			X			
Standard		X	X	X	X			X		Y	Y
Professional		X	X	X	X			X		Y	Y
Professional +		X	X	X	X	X	X			Y	Y

**** Separate media for each sku

OFFICE10 ENTERPRISE/RETAIL FEATURE SPLIT

Feature	Retail	Entrp.
Presentation Broadcasting	Y	Y
CC-Mail & EFD	Y	Y
Office Designer		Y
MS Query	Y	Y
OLAP	Y	Y
ORK Support (Tools)		Y
DWC	Y	Y
Office Watson Redirect		Y
Setup /g		Y
Setup /a		Y
Pluggable UI		Y
CIW / CMW		Y

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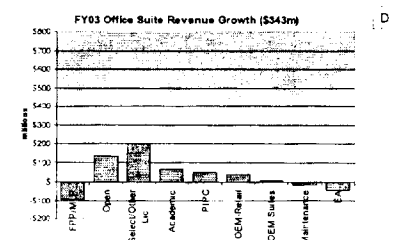
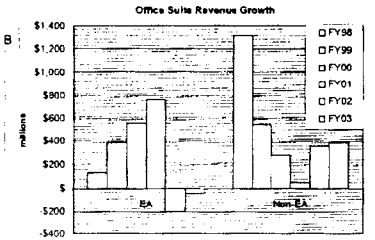
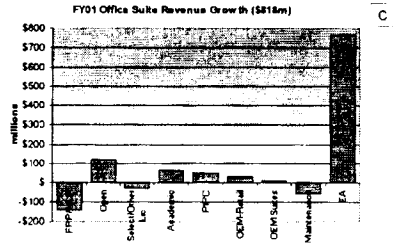
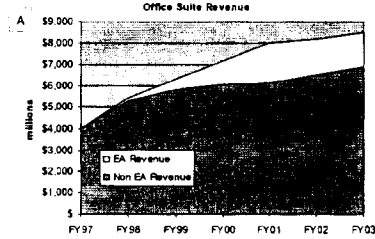
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OFFICE REVENUE – Status Quo

	Revenue					Growth				Office Suite Revenue Growth				
	FY97	FY98	FY99	FY00	FY01	FY98	FY99	FY00	FY01	FY98	FY99	FY00	FY01	
Office Suites	\$6,351	\$7,189	\$8,007	\$8,169	\$8,512	13%	11%	2%	4%	EA Revenue	\$553	\$765	-\$198	-\$44
Other	398	369	355	369	402	-7%	-4%	-4%	9%	Non EA Revenue	\$285	\$53	\$359	\$387
Total	\$6,749	\$7,558	\$8,382	\$8,538	\$8,914	12%	11%	2%	4%	Total	\$838	\$818	\$162	\$343



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OFFICE REVENUE – Price Level

Sell Through Summary

Suites							
FPP/MLP	1,127	892					-15%
Open	1,169	1,287					22%
Select/Other Lic	1,884	1,847					12%
Academic	347	389					11%
PIPC	362	542					78%
OEM-Retail	196	320					150%
OEM Suites	428	545					5%
Other	11	16					-32%
Non-Annuity Suites	\$5,525	\$5,638					11%
Maintenance	293	238					-1%
EA	529	1,083					283%
Academic	4	30					2823%
Annuity Total	\$826	\$1,351					91%
Total Suites	\$6,351	\$7,189					17%
Standalone/Other	398	383					-10%
Online	0	8					nm
Total Office	\$6,749	\$7,558					15%

- FPP decline offset by Office 10 launch in FY02
- Open revenue continues at current growth rate as we continue to make ground in penetrating the SME space
- Select / Other driven by (run rate licenses / (PCIB-EA Coverage))
 - FY00 18.5%, FY01 17.7%, FY02 17.4%, FY03 18.5%
- PIPC growth maps directly to Japanese PC shipment growth less price erosion (5% annually)
- OEM revenue stagnates with continued pressure from cheaper alternatives
- No ESL/ASP revenue included

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21