Licensing Update

BLT – June 2, 2000

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Microsoft Server Product Issues

<u>Cross-product Issues</u>
- Business PC growth slowing
- EA Renewal at risk
- Declining Growth of New EAs
- Licensing across MSFT is confusing to our customers
- Low maintenance penetration
- Incomplete MORG licensing story
- Demand for ASP Pricing

Product Specific Analysis	
W2K Server	• Low run-rate of Adv/ EE • Not going to achieve goals w/ 4+ CPU machines (<1% of x86) • Customers/sales reps see 4X increase in price, but see few features
Exchange	• Server consolidation risks revenue • Opportunity to promote EE with feature differentiation • Under priced vs Notes
SQL	• Priced too low at high-end • Priced too high at low end • Need to develop viable model for the web • Upside currently capped with the BackOffice CAL

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Proposal

Coordinated cross-product licensing scheme
- Per CPU or Per Device
- Maintenance offering replaces Upgrades
- New Support offerings
- Eliminate Internet Connectors

Timeline

August 00
- Introduce ASP Program

September 00
- Launch SQL, Exchange, Windows Server Per CPU
- Eliminate Internet Connectors

May 01
- Complete licensing roll-out at Whistler/Office 10 launch ₃

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September 00: Server Pricing

- Exchange 2000: Increase Prices
  - Server Prices 47% inc on Standard, 161% on EE
  - CAL Price. 24% increase, charge for VUP
  - FY01 Stand Alone growth 5% (14% decrease without price increase)
  - Remain cheaper than Lotus in all cases
- SQL 2000 Re-invent Concurrency/ Raise High End Prices
  - Replace Per Server CAL and Internet Connector
    - **Introduce "Processor Licenses"**
      - License purchased for each server CPU
      - Allows access to server software on that CPU from any device
      - Access allowed from either inside or outside firewall
    - **Increases price for users of per server CALs and ICs**
  - Server Prices 10% decrease on std, 50% increase on EE
  - CAL Price 20% increase
  - FY01 Stand Alone growth 48%, approx half from pricing/licensing changes
  - Remain cheaper than Oracle on high-end, close the gap on low end
- Windows DNA Servers launch with Per Processor
- Windows 2000 investigating addition of Per Processor
- Investigating "LOB EA": Windows, SQL, Windows DNA per processor offering, including maintenance

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May 01 Product Strawman

September 01 Situation	Issue	May 01 Strawman Solution
Product Feature Differentiation between Standard and Advanced/EE	Not enough differentiation to drive Windows Advanced sales	Change Feature set in Whistler to drive Advanced sales
Charge for both per seat CALs and Servers	– Confusing to customers and field – Upside on Advanced/ EE only captured in the server sales – Creates two step sale – often only one or none put on maintenance	Integrate price of servers in CALs and create both Standard and Advanced/ EE CALs
BackOffice CAL is our main annuity offering and encourages overbuy	– Leave SQL upside on the table – Depending on allocation to the BO CAL from the desktop EA, may not be capturing sufficient value	Re-evaluate the BackOffice CAL and separate the desktop products from the LOB products
We have a single price for the Desktop OS PUP and maintenance in the EA	Customers with Window 9x machines and customers with NT 4 0 Workstation machines pay same price for EA	Unbundle PUP and Windows 2000 maintenance 5

May 01: Program Strawman

Today: Three Maintenance Offerings (EA, UPG, UA)	Tomorrow: One Maintenance Offering (% of Standard License)
EA·	"Get Current"
-- Get current and stay current inseparable	-- Std license only
-- Not available to SME	-- No upgrade, UA
-- Enterprise wide required	"Stay Current"
-- No incentive for re-purch.	-- Separate payment stream @ 25% of Get Current per year
Upgrades and UA	-- Incentive to stay current
-- Get current/ stay current separate	-- Premier and QFE available
-- Available to all size custs	-- No Point releases
-- No enterprise wide commit	-- Continuity required
-- No incentive for continuity	-- Discount for enterprise-wide compliance
-Can be cheaper than EA	Subscription
	-- Discount off of perpetual
	-- Flexibility in rapidly changing environment

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Work Back Plan

Category	Activity	Participants	Delivery

Finalize business plan	**Model Revenue Impact of Changes**
	– Changes to Product Line
	– Eliminating Upgrades and UA
	– Moving to a new type of maintenance stream
	– Integration of services
	– Easing Enterprise wide commitment
	– Consider unintended affects (elimination of VUPs in retail/WW Pricing)
	
	– Non-perpetual licensing
	
	– Move to per processor license
	– Move to device license
	
	– Move from BackOffice CAL to Desktop/ LOB split
	
	Model Customer Impact
	– For the average Depth Breadth SME customer
	– Distribution of affect on customers
	  – ID Groups that will get biggest price increase
	  – ID Groups that will get price decrease
	
	Model Competitive Impact
	
	Create Transition Plan
	– Timing of old/ new program co-existence
	– Exceptions granted as standards (through channel)
	– Exceptions granted through field empowerment
		Licensing Group
		Jeff Finance
		Product Groups
		Product Group Finance
		Field/ Subs
			July & Aug

Finalize roll out plan	PR/ Analyst Plan	MichMath Group	October
	Operations/ Systems Plan	Chast Group	
	Field Communication and Training Plan	Field/ Subs	
	Channel/ Partner Communication Plan	Product Groups	
	Pricing Tools	Licensing Group	
	Customer Education/ Notification	Operations/ IT	
Launch	Announce changes 6 months prior to change	All Groups	November/ December

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Appendix

August 00: ASP Strategy

- Provide programmatic solution for ASPs that addresses market requirements, yet is neutral vs other licensing programs
  - FY01 - Single price level roughly equivalent to Open and allow customers to outsource EA/Select/Open licenses to ASPs
  - FY02 - Implement full waterfall via ASPs
  - Allocate revenue to field based on customer geographic data provided by ASP
- Licensing model
  - Anticipate future server model
  - Accommodate ASP business model w monthly subscription licensing
    Address shared server aggregation risk w 50% uplift on CPU prices
  - No aggregate vol discounts for ASPs
  - Introduce Exchange tiers to address opportunities, threats in hosted messaging
- License distribution
  - All agreements direct with Microsoft
  - In the future give OEMs, NEPs, ISVs others the right to embed but licensing obtained through separate ASP agreement

- Tentative price list

	Per month Per user	Per CPU
Office SB	$ 10 63	n/a
Office Std	$ 10 63	n/a
Office Pro	$ 12 53	n/a
Exchange Commercial Basic	$ 0 22	n/a
Exchange Commercial Basic +	$ 0 40	n/a
Exchange Commercial Pro	$ 2 80	n/a
Exchange Commercial Premium	$ 3 85	n/a
Exchange Corporate Basic	$ 1 30	n/a
Exchange Knowledge Worker Std	$ 4 64	n/a
SQL Enterprise	$ 10 27	$ 750 00
Commerce Server	n/a	$ 386 00
Host Integration Server	n/a	$ 113 00
App Center Server	n/a	$ 146 00
Windows Terminal Server	$ 6 67	n/a
Windows Std Server	$ 2 75	$ 164 00
Windows Adv Server	$ 5 34	$ 360 00

- Status
  - FY00 Pilot program w/90 ASPs participating concludes in June
  - Announce formal program at Fusion/MGS
  - Availability in August
- Open Issues
    Windows Licensing and Pricing
  - Price Rationalization/ Sanity Check with EAs
  - August is aggressive

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Exchange 2000 Pricing

Exchange 2000 Comparative Entirly Level Pricing[1]					
Component	5 5	2000	% Change	Lotus Price	Exchange % of Lotus
Exchange CAL	$54	$67	24%	$74	91%
Exchange CAL VUP	$0	$34	na	Maintenance Only	na
Exchange Server	$477	$699	47%	$1 795	39%
Exchange Server VUP	$265	$349	32%	Maintenance Only	na
Exchange Enterpnse Server	$1 534	$3 999	161%	$4 995	80%
Exchange Enterpnse Server VUP	$676	$1 999	196%	Maintenance Only	na
Exchange Conferencing Server	$0	$3 999	na	$4 600	87%
Exchange Conferencing CAL	$0	$0	na	$20	na

[1] Open B

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Pricing impact to Revenues

Baseline Forecast	FY01	FY02	FY03
Std Server	56,429	65 492	74,413
Ent. Server	27,157	27 543	28,748
CAL	191,179	169 202	157,893
Total Standalone Exchange	274,765	262 237	261,055
Revenues from Price Increase	60,909	81 376	104,636
% increase	22%	31%	40%

No impact from Suite Allocation
Business Planning Forecast

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SQL 2000 Pricing

Component	7	2000	% Change
SQL CAL			
Open	$123	$146	19%
Select D	$91	$111	22%
SQL Server			
Open	$735	$665	-10%
Select D	$538	$508	-6%
SQL Enterprise			
Open	$3,729	$5,549	49%
Select D	$2,736	$4,238	55%
SQL Standard Per Processor			
Open	nm	$4,271	nm
Select D	nm	$3,263	nm
SQL EE Per Processor			
Open	nm	$12,859	nm
Select D	nm	$9,822	nm

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SQL Server 2000 Scenarios

Customer Scenarios Affected			PL Pricing % Change % of Oracle *Power Units*	Per-Seat Pricing % Change % of *Oracle Named Users*
Corp. Deployment Per seat CALs and Servers Today	4 EE Servers 16 CPUs, 550 Mhz 1500 Devices	$159K	$173K + 9% 28% of Oracle	$203K + 28% 32% of Oracle
Corp Deployment Concurrent CALs and Servers Today	1 EE Server, 2 CPUs 50 Concurrent CALs 1 Std Server, 1 CPUs 20 Concurrent CALs	$13K	$30K +128% 32% of Oracle	$28K +115% 72% of Oracle
Internet	4 EE Servers, 8 CPUs 4 Std Servers, 4 CPUs	$49K	$118K +142% 33% of Oracle	NM
Small Business	2 Std Servers, 2 CPUs 500 Mhz 15 Devices	$3.4K	$10K + 194% 70% of Oracle	$3.7K + 10% 156% of Oracle

EE Server CPUs assumed to be 550 Mhz, Std Server CPUs 500 Mhz, Published Oracle discounts applied
SQL Server Standard compared to Oracle 8I Standard, SQL Server EE compared with Oracle 8I Enterprise

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In this chart, you'll see some of the new pricing in a SQL Server 2000 scenario where they're selling on a per-processor basis. There are some assumptions built into this chart. First of all, the current pricing includes servers and CALs. The Oracle pricing is for Power Units, assuming 550 Mhz for EE and 500 Mhz for standard servers, applying published discounts, pricing out the core database only, and not even including options. If we were including options such as the data warehousing tools, SQL Server would be even less expensive than it is now.

Be sure and note that, although some of these increases look huge, it is important to remember that the customer has the CHOICE between the two columns. For example, people may be shocked by the 194% increase in price over today's cost for the SME customer, but they must realize that this is comparing today's Server+CALs to tomorrows PL. No SME would choose this option inside the firewall when they can still buy Servers+CALs for a mere $400 more than they pay today

SQL Server 2000
Processor License Breakeven

of Seats after which Processor Licenses are less expensive than Servers + CALs

	# of CPUs per Server			
	1	2	4	8
Per Standard Server	24	53	112	229
Per Enterprise Server	50	138	314	666

Example: Three 2-way servers (Standard edition)
Breakeven: 3x53 = 159 Seats
If customer has more than 159 Seats: buy PLs [14]

Proposed ranges (FPP only)

Developed by looking at competitors and in relation to the current cost of SQL Server in Internet scenarios, and also need to be looked at vs the pricing of the Server and CALs, such that one option does not represent an obvious price advantage over the other for a majority of our customers

In comparison to our current Standard prices

•at FPP of a one CPU SQL Server Internet server is $4,398 ($1399 Server+5 CAL bundle + $2999 Internet Connector)

•the "Conservative" $4999 represents a 14% increase over that, of course the current price includes 5 unneeded CALs

•At Open B, the current price is $3,350 The Open B price under the Conservative option on this slide would be about $4,270, a 27% increase

•At Open B. for a dual CPU server. the increase would be 43%, and for a 4 proc box it would be 53%

In comparison to our current Enterprise prices

•at FPP of a one CPU SQL Server Internet server is $10,998 ($7,999 EE Server+25 CAL bundle + $2999 Internet Connector)

•the "Conservative" $11,999 represents only a 9% increase over that, of course the current price includes 25 unneeded CALs

•At Open B, the current price is $6.344 The Open B price under the Conservative option on this slide would be about $10,287. a 62% increase

•At Open B, for a dual CPU server, the increase would be 130%, and for a 4 proc box it would be 190%

•Even with those seemingly large % increases, the price for a SQL Server 4 proc 550 Mhz box would be only 62% of Oracle's price, even after a 70% price discount on 8i¹¹

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Windows DNA License Prices

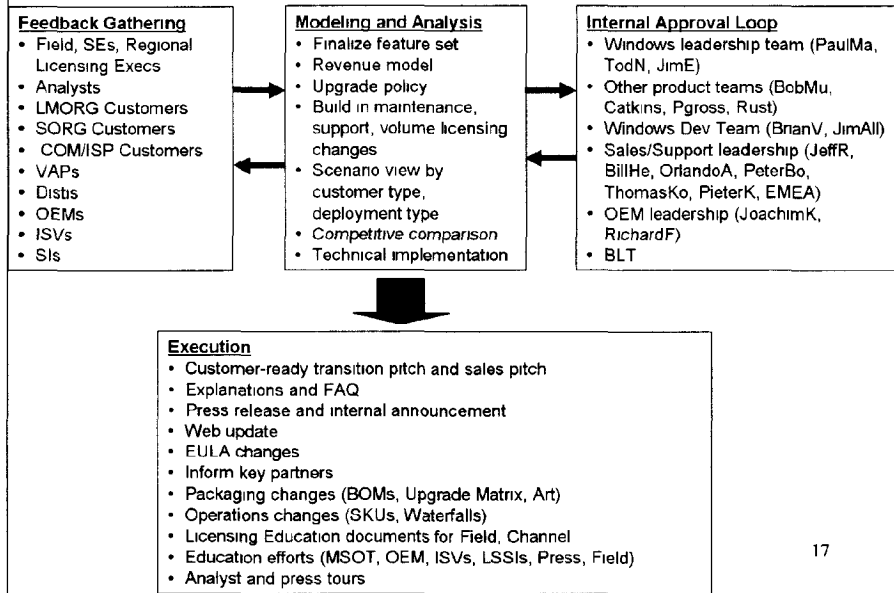| US$ ERP per Processor	FPP	Open B	Select D
Application Center	$2,999	$2,591	$1,980
Commerce Server *w SQL Server Standard*	$12,999	$11,231	$8,579
Commerce Server add'l Processor License	$8,499	$7,343	$5,609
Host Integration Server	$2,499	$2,159	$1,650
ISA Server	$1,499	$1,295	$990

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Products for all these prodyucts followed our absic goals;

Allow a reasonable entry point for smaller users

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Proposal: *Whistler Licensing Model*

Products:	Win2xxx Server	Win2xxx Advanced	Win2xxx Datacenter
Customer	Departmental, Small Business	Enterprise IT	
Usage	File/Print/Collab	LOB/Ecommerce	LOB/Ecommerce

Features	• Termserver Admin only
	• Firewall
	• S B simplified setup
	• Base level Tahoe library/collab
	
	Remove
	• Multi-domain server
	• Certificate server
	• Some Intellimirror features
	• Full terminal services
	• Remote storage/HSM
		• Metadirectory (MMS)
		• Multi-Domain Servers
		• Enhanced Auditing
		• 64-bit
		• Certificate server
		• Intellimirror
		• Full terminal services
		• Remote storage/HSM
		• 4-node Clustering
		• NLBS
		• Enterprise Event Log
		• WinSock Direct
		• Process Control snap in
			All features from Advanced, plus
			• Quality subset for reliability
			• Datacenter HCL
			• Datacenter kernel
			  –Partitionability
			   NUMA
			• Machine check architecture
			• Hot Swap PCI, Memory, CPU

Max CPU	4 CPU	8 CPU	32 CPU
RAM	4 GB	16 GB	64 GB
Licensing	Per Seat or Per CPU		
Price	$65 per user $3500 per CPU	$110 per user $5000 per CPU	$6000 per CPU
Add-ons:	•Change/Config Server add-on •Ops Mgmt add-on •Apps center (potentially with NLBS)		16

Windows Licensing Change Roadmap

Feedback Gathering
- Field, SEs, Regional Licensing Execs
- Analysts
- LMORG Customers
- SORG Customers
- COM/ISP Customers
- VAPs
- Distis
- OEMs
- ISVs
- SIs

Modeling and Analysis
- Finalize feature set
- Revenue model
- Upgrade policy
- Build in maintenance, support, volume licensing changes
- Scenario view by customer type, deployment type
- Competitive comparison
- Technical implementation

Internal Approval Loop
- Windows leadership team (PaulMa, TodN, JimE)
- Other product teams (BobMu, Catkins, Pgross, Rust)
- Windows Dev Team (BrianV, JimAll)
- Sales/Support leadership (JeffR, BillHe, OrlandoA, PeterBo, ThomasKo, PieterK, EMEA)
- OEM leadership (JoachimK, RichardF)
- BLT

Execution
- Customer-ready transition pitch and sales pitch
- Explanations and FAQ
- Press release and internal announcement
- Web update
- EULA changes
- Inform key partners
- Packaging changes (BOMs, Upgrade Matrix, Art)
- Operations changes (SKUs, Waterfalls)
- Licensing Education documents for Field, Channel
- Education efforts (MSOT, OEM, ISVs, LSSIs, Press, Field)
- Analyst and press tours

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Financial Analysis

- Modeling work to date
  - Historical views of CALs/Server, both total and per customer
  - Hypothetical waterfalls created for "Device Licenses" and "Processor Licenses"
  - Preliminary waterfalls compared with competitor pricing
  - Pricing discussed with 20-30 field reps in the context of customer decisions and scenarios
  - Simulation modeling begun to determine overall effect
  - Feature set definition by SKU begun

- Preliminary Findings
  - Net result is revenue positive for most existing and new customers
    - Additional effects from increase in Advanced run rate, maintenance attach rate, and compliance
  - Some customers will save money from changes
    - Processor licenses that reduce the number of required CALs
      - E.g Exchange installation moving off per seat
    - Customers with high CAL/Server ratios may save money on CPUs
    - Customers with low CAL/Server ratios may save money on user fees
  - Additional work needed on some key scenarios
    - Internet and App scenarios

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Packaging Approval Roadmap

- Kickoff
- Product Feature Definition
- Revenue model
- Develop maintenance and support offer
- Upgrade policy
- Talk to 5-10 field reps, SEs Licensing Execs
- Talk to VAPs
- Talk to OEMs
- Talk to LMORG customers
- Talk to SORG customers
- Talk to COM/ISP customers
- Talk to ISVs
- Talk to SIs
- Rework revenue model
- Create scenario view by customer type deployment type
- Competitive comparison
- Review with TodN
- Review with BrianV and directs
- Review with PaulMa
- Review with JimAll
- Review with Rust, BobMu, PGross
- Review with CAtkins

- Review with BillHe
- Review with ThomasKo
- Review with PeterBo
- Review with OrlandoA
- Review with PieterK
- Review with EMEA
- Review with JeffR
- Review with JoachimK, RichardF
- Review with BLT
- Technical implementation
- Customer-ready transition pitch and sales pitch
- PR explanations and FAQ
- Press release and internal announcement
- Web site changes
- EULA changes
- Inform key partners
- Packaging changes (BOMs, Upgrade matrix, Art
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- Licensing education documents for filed, channel
- Education efforts (MSOT, OEM, ISVs, SIs, Press, Field)
- Analyst and press tours
- Launch

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