

To: List  
From: Bill Gates, Steve Ballmer, Mike Maples  
Date: March 8, 1994

## Re-engineering for Opportunity

### The Opportunity

Microsoft has a history of great success measured in every way – impact on the industry, market shares, revenue, and profit. We have grown extraordinarily quickly in every dimension: sales, people, products, geographic reach, and customers. In the future our sales will not grow at historic rates but they will grow at rates that are extremely rare for companies our size. With continued great work, we will be able to more than double our sales over the next 4 years. Needless to say our shareholders (including option holders) will see significant appreciation in value if we can deliver on this.

The three of us have spent a lot of time considering the best way to enable this success. We have gotten a lot of input during this process about what works well and what does not. Looking ahead we have decided that our current organization must change to serve our needs best.

The elements that have been our strength will not change. For example, our product development is world class. Our culture helps us build great software products. We need to maintain the character of our focused product teams, despite the customer requirement for integration and consistency. We will continue to create lots of great, high volume, high market share, profitable products.

Another element of our success has been our great sales, support and marketing groups all over the world. We have been the first to invest in most of the markets around the world. In the past the product marketing groups have primarily focused on the US market and subsidiaries have had to start from scratch in determining their marketing programs. In the future, we intend to create global marketing programs that can be efficiently deployed in local geographies.

Another element of our success is the quality of our people. This reorganization will not reduce our overall headcount, but it will allow us to grow without increasing our headcount as much as our current organization would require.

The business environment has changed a lot during the last 4 years. Our activities – types of transactions, number of transactions, and marketing programs are increasingly complex to manage. We are trying to reach new customers and partners. Competitors like Lotus, Novell, and Electronic Arts are more focused. To continue to be a leader we need to innovate not only in products but also in our sales, marketing and operations. We cannot just follow and react to what others are doing.

Here are the critical changes we need to make:

- We must integrate and share our core technology across products and divisions, to leverage our efforts and offer customers greater consistency and superior solutions. Integration across products is a key competitive advantage for us.
- We must simplify our messages to customers and partners. We are overloading the market with lots of complex messages rather than a few simple ones. This does not mean we need to have fewer products. We need to consolidate SKUs and develop clear themes that pull together what we have to say about our products. We will group our product activities into seven divisions to facilitate this.
- We need greater customer focus. In addition to simplifying our messages, we need to spend much more time with customers and key partners vs. internally. We must put ourselves in our customers' shoes and ensure the sum of our parts serves the entire spectrum of customer issues and needs. We will group our sales activities into three customer units to facilitate this.
- We need renewed competitor focus. We must understand not only competitors' products but also their sales strategies, marketing strategies, localization strategies, etc. We must be aggressive in trying to

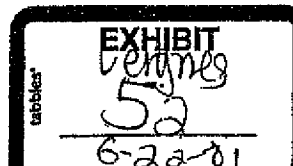
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gain market share and not be deterred by things outside our control from taking legitimate aggressive competitive actions.

- We need to be more efficient in marketing, sales and support In Redmond, we will gain efficiency not only through simplification but also through better role definition. We will make it clear which product group or sales group or US marketing group needs to think through and execute certain programs. Also, instead of reinventing strategies and market positioning around the world, we must share ideas and free up more time to communicate with customers and drive local demand. Basic customer needs and competitors are largely the same around the world. This will require the product divisions and customer units to think globally.
- We need stronger operations efficiency. We use the word "operations" to broadly describe all the business processes leading to the collection of the company's revenues. From order-taking, manufacturing and delivery, to billing and collecting for the products whatever form they are delivered in today. We need discipline, ownership and up front analysis of these processes from end to end for efficiency and sharing across products, services and geographies. We must create practices that are best of breed in terms of meeting customer expectations. These include product time to market, cost, customer service and partner leverage. We must reduce the time spent on tracking information like order status, and redirect it to helping our sales channels go after new business.
- We need to make decisions and execute faster. Our people must be clear that it is better to take action, make mistakes and be forgiven than to wait and ask for permission. We must make it obvious what quick feedback and reliable metrics we will use to define success. We need to develop expertise in all parts of our business and allow people to specialize so they have the confidence and ability to make decisions quickly. We will have a structure in which people can get direction both from general business managers as well as functional experts. Last but not least, fast decisions are decisions that involve fewer people. We need to have fewer layers of management involved in decisions. Clearer customer focus, simpler messages and strategies, and better role definition will also help.

## The Plan

There are three important new organizational elements -- the product division, the customer unit, and operations. Separately we also have PSS, an Image group and Corporate Groups.

This memo will describe the basic approach we are taking. Additional memos from managers of the respective groups (see final page) will go into more detail on organization and how we will streamline our processes.

## Product Divisions

There will be seven product divisions. Five of these are part of Mike Maples' Product group.

- Client Operating Systems (Windows), including Digital Office Systems
- Desktop Applications
- Consumer
- Server Software, including Workgroup Applications (WGA)
- Developer, including today's DDT and most of DRG.

Two of the product divisions are part of Nathan's Advanced Technology group.

- Advanced Consumer Technology
- On-Line Services.

Paul Maritz will have 2 responsibilities - direct management of Client Operating Systems and Server, and a company wide role to ensure sharing and integration of key technologies across divisions. Paul will have a small team working for him to help him with this second role. They will think through key user scenarios and help determine what architectures we need to develop and share.

Each product division will have three types of responsibilities -- product development, technology development and product marketing. The divisions are named for the products that they will market, within a product division there may be several product units. We will move our education activities (MES) and information activities (MSDN) into the appropriate product divisions. Some products will be developed in one division and marketed elsewhere like SQL Server (developed in Developer division and marketed in Server division). The Developer division will have the primary role of working with developers whether or not they are using tools created in the Developer division. Some groups will develop shared technology for multiple divisions (e.g. setup, database query technology, etc.). Each product division will have a central marketing group that lays out the messages, positioning and marketing strategy for all individual products in the division, but more importantly creates the unifying messages and themes for the division. Each central marketing group will also execute PR and advertising plans, and create technical content for briefings, field and partner training, and customer support. The corporate communications groups and PR group in Jeff Raikes' US organization will continue to provide support but they will not be as involved in specific activities so these product division marketing groups will take on more responsibility than in the past. There may still be some marketing in individual product units that collect feedback from the market and feed it into the product development process but overall decision making and marketing spending will be the responsibility of each product division's central marketing group. These groups will also provide guidance for product marketing on a worldwide basis. The product focused units inside the divisions will be called Product Units instead of Business Units to emphasize that their responsibility is the creation of great products.

Every product division, even our largest, has the potential for substantial growth. Our biggest sales and profit generators will continue to be the Desktop Applications Division which generates over 60% of our profit today and Client Operating Systems. Here is a breakout of today's revenue and an indication of the growth potential we see:

Revenue Growth by Product Division  
(FY94 data is H1 FY94 actual revenues x 2)

	FY 94 (\$MM)	FY 98 Growth potential
Desktop Applications	\$1,950	50%
Client OS	\$1,210	200%
Consumer	\$530	100%
Developer	\$310	100%
Server	\$270	400%
On-Line	\$0	Infinite
Advanced Consumer Technology	\$0	Infinite
<b>TOTAL</b>	<b>\$4,270</b>	<b>&gt;100%</b>

### Customer Units

The customer unit is a new concept. We will align all worldwide sales and marketing people with one of three customer types: End Users, Organizations or OEM. People within these customer units will live, eat and breathe with their customers, understand everything about them, sell to them and be their advocate. They will also manage all of the key selling channels and partners that serve those customers. They will integrate messages and communicate the business value of our products directly or through partners to customers. Aligning customers with similar purchasing, service and transaction requirements will also make it easier for us to design more efficient operations processes.

The End User Customer Unit will have responsibility for activities that target end users that make personal buying decisions for the PCs they use at work or home. This unit focuses on building long-term

profitable relationships with individuals. It will evolve the end user and reseller taxonomy. Customer satisfaction for end users is a key metric for this group. Retail Client Operating Systems, Consumer and Desktop Applications sales (other than Select) are the key indicators of this group's success. Outside the US, Consumer and Client Operating Systems product marketing will typically be in the End User unit. Field sales people that manage resellers and distributors will work directly or indirectly for this customer unit, depending on local and regional organizational structure. The End User unit will also be responsible for:

- Distributor and reseller relationships
- Reseller terms and conditions
- Channel marketing and promotions
- End user strategy and programs
- Direct selling and database marketing
- Support policy definition, with PSS, for end users/resellers
- Seminars, events and sales training for end users, resellers, and end user field sales people
- Customer Service

The Organization Customer Unit is responsible for activities that target groups of users in large, medium and small organizations. This unit focuses on integrating product messages, services, support, and relationships into business value for organizations. It will use business solutions to create demand in organizations and prove business value to analysts and the press. It will evolve the partner and organization taxonomy. It will help partners make money and get smarter on Microsoft products and services. It must create an army of Certified Systems Engineers and Solution Developers and a powerful training partner network to build and fulfill demand for technical certification. Server, Developer and Select sales are the key indicators of this group's success. It will depend on the End User unit for distributor and reseller account management. Outside the US, product marketing for the Developer and Server groups will typically be in the Organization customer unit. Field sales and MCS people that work with large, medium and small organizations or solution providers will work directly or indirectly for this customer unit, depending on local and regional organizational structure. The Organization unit will also be responsible for:

- Large, medium, small organization strategy and programs
- Consulting
- Vertical marketing
- Select and MOLP
- Solution provider program
- Training and certification channel
- Support policy definition, with PSS, for computer professionals and organizations
- Certified Professional program and database
- Seminars, events and sales training for organizations, SPs and organization field sales people
- Customer Service

OEM will be unchanged and includes our OEM sales force. They are responsible for the total customer experience for a company who includes our software as a key part of their machine definitions. They market and sell to those customers and with them. This has been and will remain our most profitable customer segment, but depends on our product divisions and other customer unit creating strong demand for our products.

In addition, there will be people in Redmond and in some subsidiaries that focus on broadening our image. They will focus on the enormous challenge and opportunity involved in educating the general populace on software and making Microsoft a household name, recognized as the leading software company in the world. PR, Advertising, and other marketing techniques will all be used. We will use our product messages to enhance the meaning of Microsoft and the name Microsoft will make our products a more valuable and obvious purchase. In addition, they will manage the Microsoft trademark, logo and corporate standards and provide centralized marketing training and approaches to marketing disciplines.

We have no plans to broadly restructure PSS. We are looking to globalize, especially in Europe, and Deborah Willingham will be following up on that. Our current PSS Support approach matches very well

with the customer units. Organizations will be interested in Developer, Advanced Systems and Premier support. End users will be interested in our standard and other support offerings.

Revenue Growth by Customer Units  
(FY94 data is H1 FY94 approx. revenues x 2)

	FY 94 (\$MM)	FY 98 growth potential
OEM	\$1,000	200%
End User	\$2,470	100%
Organizations	\$800	250%

## Operations

The role of operations is to deliver product when the customer wants it, and build a reputation of reliability and service to the sales organization and customers. Reporting to Worldwide operations will be an Operations planning group, located in Redmond, whose role will be participate up front in new business opportunities, that have company wide operational issues, interfacing with both product divisions and customer units. This group will develop operational strategies, policies, and processes that meet specific market needs but are scaleable to a worldwide common approach.

The second key part of operations, which processes services or transactions end to end (e.g. PRS, order entry, manufacturing, distribution, fulfillment, credit, billing and collections), will be organized into Operations Service Centers. Each geography (North America, Europe, Latin America, AIME, APAC, and the Far East) will be served by an operations service center or "pipe". These operations service centers will implement and execute a full set of functions defined centrally by the Operations Planning group to deliver finished goods, licenses, subscriptions, and fulfillment orders. The operations service centers will report to Worldwide operations and have dotted line responsibility to the manager of the geography that they serve. OEM will operate with one worldwide operation center.

This realignment of operations, around product divisions customer units and geographies, will result in shared goals, faster response time, improved efficiency and communications, and clear accountability.

## Corporate Groups

Corporate Groups include Finance, Human Resources, ITG, Legal, Corporate Affairs, Corporate Services, Real Estate and Facilities and MS Press. Within Finance, self-directed teams within financial operations (responsible for order management, accounts receivable and credit processing) will report through the Operations service centers. Controllers and management reporting, budget planning, tax, treasury, investor relations and corporate audit will remain corporate functions reporting centrally. Within ITG, some operational support will report directly through the operations service centers. Other groups will remain largely as they are today. However the managers in each of these groups are strongly encouraged to understand the nature of these changes and to assess their strategies in support of this improved organizational structure. In addition these groups are encouraged to apply creative thinking and meaningful metrics as they strive to improve internal efficiencies and overall effectiveness.

## Conclusion and Next Steps

The kickoff for FY95 planning is Steve's April 1 memo on goals with accompanying strategies from each customer unit and product division as well as operations, PSS, the Image group, and ITG. We want to get the details of this reorganization worked through by early April so that people can come to the Worldwide Sales and Marketing Managers meeting knowing what their jobs will be and understanding this new approach to our business.

We have a great future. If we increase our customer focus, simplify our messages to customers and improve our efficiency and speed of action, we can make our jobs more fun and seize the incredible opportunities in front of us.

## Owners

These people will issue memos by the end of this month, discussing implications of this new organization and laying out the specific plans for their group.

### Worldwide Product Group (Mike Maples; Paul Maritz)

Client Operating Systems	Brad Silverberg; Marketing, Brad Chase
Digital Office Systems	Karen Hargrove
Server Software	Jim Allchin; Marketing, Rich Tong
Workgroup Applications	Tom Evslin
Developers	Roger Heinen; Marketing, Cameron Myhrvold
Consumer	Patty Stonesifer; Marketing, Ruth Ann Lorentzen
Productivity Applications	Pete Higgins; Marketing, Hank Vigil

### Advanced Technology (Nathan Myhrvold)

Advanced Consumer Technology	Craig Mundie; Marketing, Open
On-Line	Russ Siegelman; Marketing, Bill Miller

### Customer Units, Support, Image (Steve Ballmer)

Key Large Accounts, MCS Bus Practices	Bob McDowell
Worldwide Strategy	Charles Stevens
OEM	Joachim Kempin
End User	Mike Appe; Europe, Michel Lacombe
Organizations	John Neilson; Europe, Rolf Skoglund
Image	Liz Welch
Support	Deborah Willingham
Europe	Bernard Vergnes
North America	Jeff Raikes
ICON	Chris Smith
Far East	Richard Fade

### Operations (Mike Brown, Ray Emery)

Business Management	Bob Gilb
Operations Planning Group	TBD
Procurement, Quality and Logistics	Brian Reynolds
Product release	Tricia Green
Sales Transactions	Open
North America	Rick Devenuti
Europe	Open
Latin America	Open
AIME	Open
APAC	Open
Far East	Open
OEM	Open