# Microsoft Memo

**DATE:**    November 7, 1988

**TO:**      Pete Higgins

**FROM:**    Bill Gates

**Cc:**      Jon Shirley, Mike Maples, Phil Welt, Chris Peters, Ralf Hartneck,
             Scott Oki, Marty Taucher, Jon Lazarus, Jeff Raikes

**RE:**      Excel/Lotus

Between now and the shipment of V3, Lotus is very vulnerable. The large sales
force they have doesn't help much, because they have lost credibility and they
don't have much to show. Once V3 ships, if it supports a reasonable amount of
memory, they will be able to talk about the benefits of 3d, database connection
and a wide range of platforms (/M and others that should ship soon after V3).
Even concepts like LEAF and NOTES will help them once they get V3 shipped.

Our industry is driven by "common sense". Very few people in the industry can
analyze products and trends at the real technical level. 99% of the people in
the industry rely on what they hear and they want to stay in line with what
everyone else is doing. In the first 6 months after 1-2-3 shipped, Visicalc
continued to outsell it dramatically. It was only after the insiders had had their
six months that 1-2-3 became accepted. One year after 1-2-3 shipped, it was
common sense that it was dumb to buy Visicalc, and despite doing the
extended edition and running lots of ads and promoting the Vision concept,
Visicorp never changed it - Lotus got all the momentum. Lotus at the time had
almost no sales force. The money they spent was focused on creating an
impression - for example, the $1m ad blitz that was short lived did make its
mark.

I believe that graphics interface and common interface will become industry
common sense. However, the time it takes for this to happen could make a lot
of difference for our relative share of the application business. It is too bad
Excel is bearing a lot of the burden of proving this by itself. Our brand message
sort of talks about this common sense, but it is a complicated message.

Excel is not viewed as a mainstream product. It is not viewed as gaining share. Lotus's move in bundling ALWAYS should have been a coup for us since it acknowledges a key benefit of our product. The promotion is short lived and V3 doesn't have the features of ALWAYS. It is unlikely ALWAYS will be able to run on top of V3 because of size problems (likewise HAL). However, Excel didn't get much benefit. We have not been able to announce 2-3 corporations every month that are switching to Excel. We have not gotten any articles that have people talking about how Excel let them do new things. Given the enthusiasm our Mac base has for the product, I am amazed by this. We have not gotten industry insiders to endorse the proposition that graphics interface and common interface will be standard and the sooner people move to them the better. If a reporter knew Compaq used Excel internally and asked Compaq about it I doubt Comaq would deny it. If a reporter called the right person at GM or Ford and asked about standards, I assume we could get an answer that would be good for us. If the specialists are doing well, each one should be able to generate one publicly mentionable referral with a nice story per month. We don't have enough of the truly inside people pushing the product. Lots of companies in the industry still don't use Excel. Let's announce which VADs use it internally and get them to write it up in their newsletters. We have to create an impression every month that the world is moving in the direction of Excel.

Another very important factor that we need to get working in our favor is the financial elements. First, lets remember the basic economics of a software company. If Manzi sees sales fall by 10% on 1-2-3 this will cut his profit in half. This is because he is running essentially a fixed cost operation. His COGS are less than 20% and that is all he saves when sales go down - the rest comes out of profit and he is already at about 12% after tax profit. We have succeeded in getting him to bundle some products (Learn, Speedup, Always, v3 upgrade) and hurt his COGS. We have not cut his sales or gotten him to be more aggressive on price. We may have gotten him to spend marketing money. The effect of cutting Lotus's profit in half would be significant. First of all, Manzi would hesitate to hire new people, he would hesitate to be aggressive on spending. He is very very profit oriented and would feel the need to cut. He might not cut employees at first, since that really creates a negative spiral. Second, the financial community would take immediate notice. This would generate lots and lots of PR. This profit drop combined with even minor symptoms that Excel is responsible would lead to articles highlighting Excel. I think Lotus's financial results are a key roadblock to recognition of Excel. The opinion of the financial community has an incredibly strong effect on how a company is viewed by buyers. I think it is strange but it is VERY true in our industry.

Everyone has heard we are open to creative ideas that can really make a difference even if they cost money. Here's a wild one that is only partially thought through. Take Excel and make it run under COW putting some documentation on line - leave out charting. Make sure it has the same interface and runs well on 8088 machines. Pay PC Magazine to insert the diskette of this product in every issue. Tell people its "shareware" and if they like it and use it to send us $95 which we will take 100% of and send to our dealers to help them market the full blown product. We encourage people to copy it. This would cost something like $1m - 3.5" disks we would fulfill or we could do the whole thing by fulfillment, just spending the $1m to put in an 8 page Excel thing. Perhaps the disk would be a "step through" demo thing and the actual product would be fulfilled. We tell people that this has the standard interface now and it runs on all machines and there is an easy upgrade path to the real thing. The novelty of the plan gives it high visibility. We might be the 10% revenue effect even if people aren't thinking of the real Excel as a follow on. The negative of this are: 1) Can we execute it quickly?, 2) It's a little strange to Works, but not really, 3) It doesn't promote graphics interface as much as we would like, 4) Someone might think it's rude. I like the immediacy of it. I like the power to the people aspect. I like the boldness of it. Phillipe would have to take notice if nobody else did, since it impacts his segment a lot. It would have to be sold to retailers.

Other ideas I have heard that are interesting are: a) referral program. If it could be made to work it would be great. We did it with Mac to PC Excel, but that was very early and a little strange, so I don't think we should view that as definitive. We could do a low cost referral program as part of our overall approach. b) Free copies for certain people if they say they will use it, or Trial copies. c) We pay for people to come in and help people convert. d) We pay for classes to train people.

Another area has to do with "eliminating negatives" like providing free speedup or memory cards for purchasers. I can't think how to make these work.

I keep thinking there is something I am missing in the area of "the industry will move to graphics and common interface". Excel really does represent the future. We haven't got that message out at all. We have "partners" who are willing to help us with this message, if we package it right.

My general feeling is that Lotus is really handing this one to us and we haven't been creative enough or aggressive enough. I am very keen on doing something that people will take notice of and give us credit for creativity on between now and the time V3 ships.

/ao