

# MICROSOFT MEMO

TO: Pete Higgins, Bill Gates  
FROM: Jeff Raikes *Jeff Raikes*  
DATE: 11/17/88  
RE: Achieving Critical Mass for Excel

CC: Jon Shirley, Mike Maples, Phil Welt, Chris Peters, Ralf Harteneck, Scott Oki, Marty Taucher, Jon Lazarus, Jeff Sanderson

I appreciated being copied on BillG's memo regarding Excel and Lotus. It helps me to think about my problems in the word processing business. Let me also throw in some ideas for consideration.

## Achieving Critical Mass

We want Excel to be the leader of a new/re-defined category – graphical spreadsheets (or spreadsheets for the new systems platform). BillG points out that Excel is not viewed as a mainstream product. I would say that Excel has not achieved the critical mass necessary to establish leadership. (And we are probably saying the same thing....)

I think the critical mass comes from:

- user momentum – the word-of-mouth that says this is the product to buy, the hot-product
- minimizing the perceived barriers to entry, in particular the switching costs
- getting customers to re-think their commitment to Lotus.

The rest of the memo discusses my ideas for achieving critical mass. While unique ideas are an opportunity, much of what is discussed below may be viewed as "blocking & tackling". I strongly believe that is how the critical mass will be built. I think the most highly leveraged items are product strategy and development, as opposed to throwing huge amounts of money at advertising or merchandising ideas.

## Building User Momentum

I consider user satisfaction to be the most important factor. We want every Excel customer to love the product and Microsoft – and to tell all their friends.

- Significantly improve product usability. If Windows and PC Excel was as easy to use as the Mac and Mac Excel, we would be in great shape. But they're not, and I think we need to be more aggressive at addressing the problems. I'm no expert, but I will pass on some things I've seen or heard:
  - installation – you have many steps to go through, disks to swap, choices to make, system issues to know about (do I have 256K or 64K on my video card?), etc. It scares people off.
  - system configuration – memory usage is a mystery. I couldn't boot Excel on my 4MB machine, because an old network driver was being loaded into the system. I had a guy from the Social Security administration emphatically complaining to me about how it

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was impossible to set up his system for expanded memory, which he said was necessary to use the 8514 driver and the CBT. He called product support and they could not help him.

- o completeness of the environment – the same guy bitterly complained to me about the lack of the 8514A driver. "How could you release a graphical product without supporting this??" I'm sure they are similar problems with other video and printer drivers.
- o speed – I was surprised at the sluggishness of the Microsoft compensation review spreadsheets. The Mac Excel version seemed to be much faster.

To win evaluations and keep our initial customers happy, we need to have a great product strategy story. They need to know that by buying into Excel, they won't be left behind.

- Emphasize our unique features. Exxon asked us what features will be in Excel that aren't in Release 3 – and we need to have a clear, crisp answer. Similarly, we need that answer for 1-2-3 G, along with good responses for the features we may be missing.
- Emphasize consistent, graphical, SAA interface today. I don't think we've done this enough, but maybe we can't do it without invoking the wrath of IBM. Another point is to get people to see that 1-2-3 G can't be consistent with the old interface and be the new interface – Lotus is still able to get people to believe this. The similarity of G to Excel should help this alot.
- Quantify the benefits of switching. We need to counter the "costs of switching" argument with a very strong "benefits of switching" story.
- Arm all sales people with the strategy story. I am including senior management and all product marketing when I say sales people.

I consider PR to be an extension of user satisfaction, and the next most important factor. Bill emphasized this in his memo, focusing on exploiting product positioning (Allways bundle) and sales force support of publicizing large account design wins. I think we continue to be too focused on introductory PR (events for new products or versions) as opposed to on-going PR. An additional comment:

- Win all spreadsheet comparisons. We have to make sure that we influence the reviewers so that the spreadsheet category criteria and benchmarks includes the key advantages of Excel, thus helping Excel to win all comparisons. This is especially important as we begin to see reviews of Excel vs Release 3 and 1-2-3 G. (The Software Digest loss is a real disappointment – notice how much Lotus is promoting it. PhilW and PR tried very hard to influence them and hopefully they will be more open to our ideas in the future. A meeting that PhilW and I had them with at Comdex indicates that they will be more open to our feedback.)

Excel desperately needs Windows Word – a mainstream, professional word processor. You can't really push Windows and Excel into several corporations, without a Windows word processor. I've heard this over and over again in customer meetings. The project is still not moving rapidly toward release, and probably won't until after Mac Word is released. We are short one or two

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more great Windows developers.<sup>1</sup> At this time I don't expect Win Word to be released before April/May. A suggestion that helps me and I believe also Excel:

- Loan Win Word some development resources. Maybe from Excel, maybe from Windows (I mentioned this to RussW), maybe from some other project.

Since Excel is the only Windows spreadsheet, more Windows momentum would help Excel a great deal. We are surprised by the higher than expected Windows sales – and we probably should be surprised given that our Windows positioning is pretty weak. I had several discussions with people at Comdex (eg. Frankston of Lotus) and sat through a few panels (eg. Dyson's Software Horizons) where Windows was described as an ineffective, tactical product. I have heard it described as only useful for people who want to run 1 graphical application<sup>2</sup>, or for people who want to play around with PM apps before they are available. Specific objections:

- Positioning it as a lower memory, and thus, lower cost solution is ridiculous given that the cost differential for 1-2MB will be so small by the time PM apps are available<sup>3</sup>.
- Every important app will be on presentation manager, but only some of them will have Windows versions. Thus, users will not really be able to have coexistence of the applications between the two environments.<sup>4</sup>
- Because of the environment differences, a Windows version of an app will be different (eg. different user interface) or have less functionality than the PM version.
- Because of the limitations of Windows and its development tools, you have to do more work than developing PM apps, with less features/benefits in the Win apps.<sup>5</sup> This is true for the corporate developer as well as the ISV.
- "It's just a tactical product." This is worth saying a second time, because I think it gives a lot of important decision-makers second thoughts about buying into our Win apps strategy.

Until we address these issues, many customers (the majority) will have reservations about buying into Windows. I don't know if there is a way to address these issues without creating a fundamental conflict with our OS/2 goals. But somehow, I think we must:

- Significantly strengthen the positioning of Windows.

Some of your most valuable customers are the buyers of Microsoft Windows. Obviously they had an interest in the benefits of the new platform, they probably have the hardware horsepower to run

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<sup>1</sup> Quote from Bill about two months ago.

<sup>2</sup> SteveB's positioning of Windows.

<sup>3</sup> Paraphrase of Fred Gibbons comment on the Dyson panel.

<sup>4</sup> Frankston's response to my comment that Windows will be the graphical environment for lower-end systems.

<sup>5</sup> This is another Frankston comment – and perhaps not that important to our strategy. Maybe the issue isn't more Windows apps, but getting users to feel comfortable buying what's there. I think Omega would help the corporate developers a great deal.

Excel, and they are a large group to leverage (about 15K per month in the US??). (I don't think there is a huge overlap yet with Excel customers, but this needs to be checked.) Let's be aggressive about getting them to use Excel.

- Excel in every Windows package. At a minimum, let's have a demo version of Excel in every windows package. If we could figure out a way to sell software like Frame Technology, you would include Excel in every package with a 30 day time-out. Customers who want to continue to use the package call in and receive a code that unlocks the software.
- An aggressive rebate on Excel. At what price do you dramatically increase the conversion to Excel for Windows purchasers? This could be done for the installed base of Windows in the context of thanking them for their early commitment to Windows. We have had a huge positive response to our mailing of a gift to the Mac Word installed base.

Sales and marketing (including product marketing) needs to be more focused on account wins and management. I am pushing Sanderson to do more of this on Word.

- Implement a Marketing Account Management Program. While USSMD is probably doing some of this, it is invisible to me. I think we should know:
  - o Our volume and ranking in every direct account and our strategy for becoming the #1 product in that account.
  - o The top 50 corp accounts, the potential volume, and the keys to winning in that account. Product marketing should get personally involved in winning the top 5 accounts.

I think resolving the product and strategy issues are the most highly leveraged, by a wide margin. But there are no doubt opportunities for more marketing impact. In both areas, outside perspective could help us a great deal.

- Hire Vern Raburn as a consultant. Vern has a lot to offer, and he would be a tremendous help on ideas to build user momentum, as well as other elements of building critical mass.

## **Removing the Barriers to Entry**

My points about product usability and strategy, and the need for Windows Word are barriers to entry as well as items to build user momentum.

- Enlist an army of trainers and macro-converters. Bill mentioned this in his memo. I think it is pretty important to have a list of people we can refer customers to, and in some cases hire ourselves. Susanna Foels mentioned that Harvard Business might be willing to switch but they would need help converting macros. If this opportunity is real, it is might be worth us paying for the macro conversions.

## **Re-thinking the Commitment to Lotus**

Bill points out the damaging effects to Lotus of a decline in sales. In the long-term, this may result in weaker products if they lose key people. But the short-term opportunity for Microsoft is getting customers to re-think their commitment to Lotus. I think this has happened a little because of the publicized defections, but if the financial community opinion soured, the effect would accelerate.

- Encourage the used 1-2-3 business<sup>1</sup>. If 75% of the people buying Excel are switching from 1-2-3, they are probably 5-10K "used" copies of 1-2-3 available per month, or 4-8% of their sales. If these copies can replace purchases of new 1-2-3 units, we are dipping into their sales in a significant way. There are two ways to encourage this. First, companies continue to buy 1-2-3, even when they are buying Excel. Let's figure out a way to encourage their purchasing departments to collect and redistribute those copies. Second, let's find a partner that will set up a business buying and reselling used 1-2-3 copies. Sun Computers in Utah has done this for hardware, maybe they'll consider doing it for software. (The new corp com manager working for Val used to do their advertising). I think this is possible within the license agreement since it .

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<sup>1</sup> BillG deserves credit for this idea, as he explained how Sloan of GM stuck it to Ford Motor in the 30's using this strategy.

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