

Microsoft Corporation  
16011 NE 36th Way  
Box 97017  
Redmond, WA 98073-9717

Tel 206 882 8080  
Telex 160520  
Fax 206 883 8101

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EXHIBIT

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Comes v. Microsoft

## Microsoft Memo

TO: Bill Gates, Scott Oki, Rich Macintosh, Mike Maples, Pete Higgins,  
David Vaskevitch, Phil Welt

FR: Jon Shirley *JS*

DATE: November 21, 1988

RE: Excel vs. Lotus

I am opposed to the price reduction plan for the following reasons:

1. I have said many times that Microsoft will not be the company that starts a price war in our industry. So my credibility is on the line.

2. I believe that were we to start such a war it would spread and we would lower the profitability of our entire industry. It is amazing but true that a large number of pc buyers are willing to purchase software with SRPs of \$400 to \$500. That makes this business uniquely profitable. We are not structured for a lower profit business, if a price war spread, and I can hear USSMD asking us to sell Omega for \$295, we would have to make massive changes to our structure. And we would probably find that several international subsidiaries were no longer profitable.

Word Perfect is trying to improve their pricing as the real costs of the business, and the 800 number, are recognized. And the low price leader, Borland, has only proven that its a very difficult way to make a profit.

To me, as a person who spent all their life doing price related marketing, the success of Power Point 2.0 proves that people will pay for the correct amount of utility. And I don't think that we would sell enough more at \$199 to make an equal contribution.

Remember it's not just COGS that are linear to unit sales. It's also product and consumer customer service and manufacturing overhead (distribution mostly).

3. I believe that we are naive to believe that Lotus would not fight back such a frontal assault on their business. Jim Manzi is a tough guy. He has already let his profits be hurt by the free upgrade and the Allways offer despite our obvious lack of aggression.

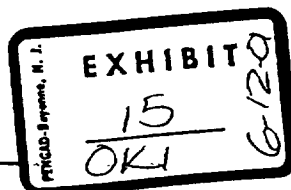
If we cut the price I believe that Jim would follow. If he cut his price to \$200 (cost to resellers), and he sold no more units at all (very unlikely) he would have a breakeven quarter and he would have stopped us. That assumes that he would not cut back marketing or other expenses.

If I were Jim, I would not only do that, but then I'd put nails in the coffin by reducing the SRP of V2.01 to \$350 after V3 ships.

4. But the major reason I am opposed is not the same as Bill, that it would cost too much, but because I just do not think it would work; where work is defined as getting 30% share by June 1990.

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High-end software is successful if the product is great and the marketing is very good. Great marketing and a bad product never make it. Our marketing has not yet done the job it needs to.

Excel is a great product--with a few warts that must be fixed. The platform is moving in our direction as more and more sales go to 386 systems, more Windows apps come out and we move to OS/2. What we have to do is convince the world that the value of GUI is not a Mac only phenomenon but the future of microcomputing.

I cannot see how a 3-4 month deep price cut gets us toward the 30% goal. What keeps the sales going after the price cut? How do we overcome the bad PR of the desperate move of a losing product (Javelin)? While it would get us additional sales, how does it help establish us at large buyers? To me its a classic sale, you sell a bunch on sale and then sales return to no more than before--or less because people want to wait for the next price cut. Plus every corporate buyer that we do get to will expect that price forever.

5. I am worried that the leaders of USSMD do not feel we can be effective in a product area with deep price cutting. Scott and Rich say Excel cannot make 30% without this cut. It seems to me that we are accepting defeat in all our productivity platforms if we don't believe that we can take a better product, and do a better marketing job than our competitors.

So my challenge back to the group is this--tell me how to get to 30% by 1990 without cutting price--even if you still spend as much money.

Looking at the results of the meeting, I think we should meet again and revisit the plan. I am not sure that we should not add even more field people, all we are doing is accelerating eventual hiring. I also think we should consider an alternate to price aggressive actions. For example, we could split Excel into 5 1/2 and 3.5" skn's and "bundle" them with Win 286 and Win 386. We could then offer to the installed Windows base a deal on Excel where they get a refund check from us. We will unbundle run time in the future anyway. I would make Win 286 with Excel free and Win 386 plus \$100 or perhaps somewhat less. I think this could be well received, and would help with Opus acceptance.

JAS/sfr

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