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Microsoft Memo

To : List
From : Karen Abel, Liz Welch, Nancy Bick, Janel Bersanti-Madrazo, Mary Hanke, T1 Task Force
Date : August 10, 1989
Re : T1 '1990 Situation Analysis

Attached is the T1 '1990 Situation Analysis, which also serves as a review of the T1 Task Force Situation Analysis meeting on August 8th. This document represents the first phase of a four phase process in planning the T1 programs. The memo has been reviewed by the T1 Task Force and outlines product and USSMD issues and considerations for the T1 timeframe. It also reviews the promotional implications of the Situation Analysis which were discussed and agreed upon at the August 8th meeting. This memo will be followed by a Concept memo in approximately two weeks. If you have any additional questions or comments please contact karenab.

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SITUATION ANALYSIS --- T1 '90

I. INTRODUCTION

The following is the Situation Analysis and Promotional Implications for the T1 '90 Trimester. This document contains information gathered from conversations with the various product and USSMD groups about the situation facing Microsoft next Winter and Spring. It also contains information about our competitors and a discussion on the role of promotion in high tech marketing and in launching new products.

II. T1 PLANNING SCHEDULE AND TIMEFRAME

Planning for the T1 programs will take place August to October 15 and falls into 4 stages: Situation Analysis (July), Concept (August), Strategy (September) and Tactics (October). Trimester kick off meetings are planned for October 30 and 31 in Dallas. The Trimester begins on January 1, 1990, but actual programs will start at least one month later given that the T3 campaign runs over into January. The Trimester official ends on April 30, but this date will not be considered an absolute end date for all the programs in the T1 Campaign.

Senior Partner and Direct headquarter level sell-in takes place November through December '89. ASRs generally sell in to outlets in February. A more complete schedule will be communicated at the Concept and Tactics planning stages.

III. EXECUTIVE SUMMARY

A. SITUATION ANALYSIS

The Applications division has two major challenges for T1: 1) launching its new Windows applications well; and 2) preserving leadership positions for its Mac line of applications in the face of new and serious competitors.

The Systems division has four retail focuses: 1) launching Windows 3.0 - the most significant update in the product's history; 2) launching Microsoft's first retail DOS product - MS DOS 4.01 Upgrade; 3) promoting new C6.0 with Programmers WorkBench; and 4) building off the Fall '89 launch of the new 400 ppi Mouse.

Key issues for USSMD include prioritizing ASR responsibilities; Corporate Account salesforce targeting; new product training; leveraging New Product Rollout plans; scheduling of major field activities; building on the pilot programs for MRSS, Permanent Seminar, and RSP training/incentive; continuing to leverage reseller participation in programs designed to fit their selling practice; and developing an understanding of the outbound sales process. T1 will mean both new annual Terms and Condition agreements for our Direct resellers and trimester agreements.

Still, the single theme that dominates T1 is the possibility that key new products and product versions will be shipping by January 1 and the planning challenges brought about by the uncertainties that always surround shipment of new products. On one extreme, Word, Project and PowerPoint for Windows, PM Excel, Windows 3.0, DOS Upgrade and C6 could ship prior to January 1. [Product managers have varying degrees of confidence about their shipment dates; Word for Windows looks strong for a November ship, PowerPoint is further out because it requires Windows 3.0 and is not yet code complete, Windows 3.0 just entered Beta and Project for Windows is still schedule for a September release to manufacturing.] On the other extreme it is possible that T1 will be like T3 '89, with no new Microsoft releases but facing stiff competition instead. Excel will be facing an aggressive 1-2-3 v.3.0 this fall and a possible 1-2-3/G launch during T1. Each of the shipping Mac products (except the Office) is facing a significant competitive threat, in some cases for the first time. Word 5 (as well as Word for Windows) could face a serious threat from WordPerfect 5.1 and WordPerfect/PM (rumored to ship in the T1/T2 timeframe).

Whatever Microsoft's new product and version situation, T1 will follow a very active fall/holiday promotional period which will likely see aggressive and creative programs from our competitors. This high level of noise

and activity may fall over into the post-holiday season. The release of Windows and PM applications simultaneously may confuse consumers and resellers as they try to work through Windows and OS/2 issues.

Finally, even with the launch of strategic new applications and products, we can not abandoned our key revenue generating products during this timeframe. Those include Word 5.0, PC Excel, the Mouse and other entry products such as Works and Quick Languages.

Despite these challenges, T1 offers some truly exciting opportunities. One of these is that many of the products have target markets, priorities and opportunities in common, making powerful cross-product programs possible:

- The Mac apps were nearly unanimous in rating RSP recommendation as their highest priority for inbound selling strategy. Word, PowerPoint, Excel, Mail all focus on Large Business and Fortune 500 as their first two target markets, followed by medium business. Primary target audiences for these products are PC coordinators.
- Every PC Line, DOS, Mouse and Windows product manager rated Fortune 500, Large Business, and Medium Business their top 3 priorities in that order.
- Trial, awareness and consideration were considered key stages in the end user purchase process for the new Windows apps and Windows 3.0. Distribution, awareness and RSP training are key requirements when launching these new products.
- All Windows apps and Windows 3.0 require presence on the demo stations, and RSP recommendation for in-store selling. The clearly preferred Windows apps strategy for outbound is the Working Model.
- For both Works products, the product focus is on home business and small business, with the target audience primarily novice and intermediate users in those groups. Both products, as well as DOS, Mouse and Windows, consider RSP recommendation and retail merchandising the most important selling inbound strategies.

Another opportunity involves the synergy and marketing integration possible by factoring Corporate Seminars, Road Show, pilot RSP incentive and training programs into the trimester planning process. And finally, the launch of Windows 3.0, a family of Windows products and the addition of Mail to the Mac Line opens opportunities for an integrated office story and promotional opportunities not possible before.

B. PROMOTIONAL IMPLICATIONS

The promotional implications of all this are many. A change in shipment plans or competitive environment might change how we approach the trimester. A program which introduces a line of Windows apps would look different than one which aggressively promotes current releases against strong competitors. Works, Mouse, DOS Upgrade, languages and other products may have distinctly different marketing imperatives than Windows apps - or each other. Competitors imitating Microsoft promotions mean we must continue to seek new, proprietary approaches.

The T1 Task Force has identified four key promotional implications which will influence T1 program planning:

1. Segmenting

Different products and US Marketing Groups have very different objectives, marketing imperatives and selling strategies, all of which are important. Narrowing the focus of the Trimester Campaign to only a few products or broadening the focus to all products (a group event) were not considered good solutions. Instead we recommend segmenting: The products can be segmented by product group and marketing objectives (Mac applications, Entry level applications, Languages, Windows and Windows applications etc.) and the Trimester Campaign can be segmented by component (demo/trial, retail merchandising, direct mail, seminars, RSP training and incentives) and by what that component can deliver (awareness, purchase, trial etc.). By matching product groups and their objectives to the appropriate promotional segments, we can meet these varied objectives and create programs which take on the tough competition the individual products are facing. Another positive reason for segmenting the products and programs during T1, is that it gives us the flexibility to "turn up the volume" on specific programs if our product situation changes. For example, a delay in Windows apps releases may mean we should run an Entry Line merchandising program earlier and put more emphasis on it than we would have otherwise.

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From the field's perspective it is easier to sell in discrete, specific programs (i.e. Language direct mail) than it is to sell-in and explain umbrella campaigns that are too broad. However, we must ensure we are not running too many programs with the same resellers at the same time or offer two different promotional incentives on a single product at the same time. By recognizing these trouble spots and by carefully segmenting by product, selling practice, target reseller and time, this can be avoided. Two promotions through any one reseller at the same time was considered maximum. Segmenting also calls for keeping our programs simple.

2. Product Launch Promotions - Distribution, Awareness, Education, Excitement, Evaluation

T1 is very possibly the trimester of key new products - Windows Word, Project and PowerPoint, Windows 3.0, C 6.0 with Programmers WorkBench and DOS Upgrade. The shipment of Windows Word alone will allow us to start communicating a Windows line story. The promotional implication of this is that promotional efforts during these products' introductory phase should be more trade-focused than customer-focused. Once key trade objectives have been accomplished, and general awareness of the products has been established (through advertising/public relations), broad-based customer-directed promotional efforts can begin. New products and Windows applications will need to: 1) Gain awareness/excitement from both the sales force and trade; 2) Gain rapid and broad distribution; 3) Educate and establish an understanding of product positioning and features with the trade and sales force; 4) Achieve demo station installation; and 5) Gain feature/display.

Consumer promotion at the launch stage should impact the evaluation phase by incenting product demo for instance, or incenting the positively pre-disposed customers to purchase. (as with upgrades). The later phase of introduction, once most of the sales force/trade objectives have been met, is the appropriate time for initial broad-based customer-directed promotional efforts. This would likely be the T2 and T3 timeframe.

These promotional implications only relate to the new releases. Our established and shipping product (such as Mac apps) will need promotions that work against entirely different objectives. Again, therein lies the power of segmenting the products and selling strategies during T1.

3. Contingency Planning

Ship dates are always uncertain, yet it would be a mistake to plan a major trimester campaign around "safe" shipping products and ignore the opportunities made possible by new releases and new Windows apps. Segmenting the trimester by product and selling strategy helps us manage the unknowns of product ship dates (i.e. Entry line products allow us to confidently plan a retail merchandising promotion). The other solution to these uncertainties is contingency planning. We will establish a of couple product scenarios (Windows apps vs PC Excel and Word 5.0), develop programs for each, establish go/no go dates and monitor the shipping situation carefully. We will also set expectations with our field and our accounts that some changes in program content could occur if key products ship.

4. Flexible Start/Stop Dates

In addition to segmenting products and promotions, we will also establish separate start/stop dates for each. In some cases that stop date may run beyond the April 30 trimester end date. This allows us to separate the programs in the consumer's and reseller's mind as well as meet important objectives which may take several months to accomplish (i.e. RSP training on Windows apps). If trimester components are planned to run significantly into T2, we will consider them now, as part of T2 planning. This is a tactical, rather than a strategic issue, but it is worth noting as a promotional implication.

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IV. APPLICATIONS

The Applications division has two major challenges for T1: launching its new Windows applications well; and preserving leadership positions for its Mac line of applications in the face of new and serious competitors (the former goal is of course complicated by the uncertainty of the ship dates of the Windows products). Below is a brief description of the situations facing the Mac line (including the Microsoft Office); the PC line; and the Entry line (PC and Mac Works) drawn from the product input forms. More detail on specific competitors, current ship dates, and selling strategy preferences are included in the Appendix.

A. MACINTOSH LINE (WORD, EXCEL, MAIL, POWERPOINT, OFFICE)

Competition: Each of the shipping Mac products (except the Office) is facing a significant competitive threat, in some cases for the first time. Specifically, WingZ from Informix has launched an aggressive campaign against Excel and is succeeding in syphoning off some of Excel's dominant share. They are aggressively spiffing dealers and are currently offering a free flight jacket to the WingZ purchaser. Claris's new version of MacWrite is being positioned in the press and retail outlets directly against Word ("After 10 minutes with us, you won't be able to keep your Word"). Aldus is putting tremendous resources behind Persuasion and is eroding PowerPoint's market position; and in addition, Mail 2.0 will be newly arrived on the market. What the products have in common is that they may each require separate promotional emphasis -- independent of the Office -- because each is facing a unique competitor or situation.

Markets: Word, PowerPoint, Excel, Mail (and by definition Office) all focus on Large Business and Fortune 500 as their first two target markets, followed by medium business.¹ Primary target audiences for these products are PC coordinators who make standards and purchase decisions for organizations. However, each product also needs to be recommended by influential or expert end users from specific departments -- Word, for instance, needs to be recommended by editing and graphics departments; PowerPoint needs to be recommended by graphic artists, etc. Because word processing and spreadsheet categories are fully mature, Word and Excel are most concerned with purchase and with becoming a corporate standard. Alternatively, since the mail, desktop presentations, and integrated office categories are still relatively undeveloped, Mail, PowerPoint, and the Microsoft Office (both floppy and CD) -- are particularly concerned with generating awareness and consideration.

Selling Strategies: The Mac apps were nearly unanimous in rating RSP recommendation as their highest priority for inbound selling strategy. The exception is Mail, where owning the demo stations is most important to communicating the benefits of the category. For outbound selling, again RSP recommendation was considered the most important to most products, followed by seminars to large business, and product demonstrations.² Product managers for Mail and the MS Office felt that seminars would benefit those products most. In corporate accounts, the Mac product managers again were nearly unanimous in recommending feature/benefit presentations, product demos, and in-depth seminars as the best corporate selling vehicles.

B. PC LINE (PC WORD, WORD FOR WINDOWS; EXCEL FOR WINDOWS; EXCEL FOR OS/2; POWERPOINT FOR WINDOWS; PROJECT FOR WINDOWS; WINDOWS OFFICE BUNDLE)

The biggest question about the Windows apps is, obviously, whether they will be shipping in this trimester. Project and Excel for OS/2 are scheduled for October; Word for Windows for November; PowerPoint for December. Product managers have varying degrees of confidence about these dates: they are also aware of the need to keep everyone informed about any changes in the schedules. The Windows line bundle will follow the shipment of Windows PowerPoint by at least 6 weeks.

1 Mail has a larger interest in reaching mid-sized businesses as a growing area of the market.
2 A notable exception is PowerPoint's (and to some degree Mail's) preference for the working model distribution.

Competition: It is critical to launch our new applications well. Although many of the apps will be new, all will face stiff competition from the market leaders in the character-based world -- especially Lotus and WordPerfect -- who will almost certainly be releasing new versions during this period. Between our new releases and theirs, it promises to be a fairly crowded marketplace by early 1990. Specifically, WordPerfect 5.1 is expected to ship this fall with a new interface (drop-down menus), mouse support, and spreadsheet link which will significantly erode PC Word 5.0's current feature advantages. At this point WordPerfect may be shipping as much as 70K units a month and is the leading competitor for all our word processing products; an OS/2 PM version of PC WordPerfect is also expected for first quarter of 1990, and a Windows version is expected possibly by mid-year. In addition, Word for Windows will face Ami Professional -- a souped up version of their original entry-level product -- which is expected also during this same period.

Excel will continue to fight Lotus's update releases 1-2-3 v.2.2 and 1-2-3 v.3.0; but in addition Lotus's PM product, 1-2-3/G, may also be released by early 1990. We know of no plans for Lotus to release a Windows version of 1-2-3. Excel for OS/2 will also be confronting WingZ for PM, which will probably be a very graphical and exciting version of their Mac product. Among desktop presentations, Lotus Freelance and Harvard Graphics (both character-based applications) are firmly entrenched (according to GBU, Harvard Graphics sells about 10-12,000 units/month), and Win PowerPoint's initial task will be to convince people to consider a graphics-based product. In addition, Aldus may have announced or shipped its Windows version of Persuasion by then.

Markets: Every product manager rated Fortune 500, Large Business, and Medium Business their top 3 priorities in that order.³ Since these are primarily new products, trial, awareness, and consideration were considered key stages in the end user purchase process. The exceptions are PC Word and Win Excel, which stress consideration, evaluation, and purchase. Until WordPerfect 5.1 ships, PC Word needs to be consistently evaluated head-to-head against WordPerfect, where Word can often win.

Selling Strategies: The Windows apps all require presence on the demo stations, and (or possibly to develop) RSP recommendation for instore selling. End user/influencer training is considered less important; retail merchandising least important of all. The clear preferred strategy for outbound is the Working Model, which ranked either number 1 or 2 for every app (for PC Word this was substituted with an autodemo). Seminars were also considered effective; it was suggested that seminars with the working model as a takeaway would be a good combination. End user training and RSP recommendation followed. Outbound selling is considered much more important for these applications than inbound. The Working Model was also considered an effective strategy in Corporate Accounts. Beyond that there was no significant distinction made between feature/benefit presentation, product demo, or in-depth seminar for Corporate Account activity -- all were considered equally important and fundamentally quite similar strategies.

C. "ENTRY" LINE (MAC WORKS; PC WORKS; FLIGHT SIMULATOR)

For both Works products, the product focus is on home business and small business, with the target audience primarily novice and intermediate users in those groups. Trial and evaluation are less important stages in the end user purchasing process for these products, since the customer typically has minimal experience with a computer -- therefore the assumption is that awareness leads fairly quickly to purchase. Both products consider RSP recommendation and retail merchandising the most important selling inbound strategies; and seminars to small business important for outbound selling. Inbound is considered more important than outbound for these products. A major goal is to increase the number of SKUs each outlet carries.

D. CONCLUSIONS

Opportunities: Obviously, the clear strategic opportunity for TI lies in the Win apps: if some (or ideally all) of the Windows apps are shipping, we will be able to tell a convincing Windows line story for the first time.

Risks:

- 1) Ship Dates: We will persist in working with unknown ship dates for a large part of the planning process for this trimester.

³ An exception was Project, which puts its contacts with Aerospace ahead of Large Business.

- 2) **Mac Apps:** Although launching the Windows line is clearly important, between WingZ, Persuasion, and Clark/WordPerfect, our competitors on the Mac side are gaining momentum. There is significant risk in ignoring the Mac apps during T1.
- 3) **Noise:** If all (or even most) of the competitive products that are rumored to ship during this period in fact do so, we will have a very crowded marketplace – COW and PM WordPerfect; Lotus 1-2-3/G in addition to v. 2.2 and v. 3; PM WingZ; Ami Professional; Aldus Persuasion.

E. APPLICATION INPUT FORM SUMMARY

1. COMPETITIVE ENVIRONMENT

PC Apps:

Product	Ship date	Competitive environment	Other
PC Word 5.0	shipping	PC WordPerfect 5.1 probably will be released, with with a new interface (pull-down menus) and mouse support.	
PM Excel 2.2	October 1989	In addition to 1-2-3/G and 1-2-3 Release 3.0, Informix may have released its PM version of WingZ which will be a snazzy product.	
Win Excel 2.2	shipping	Lotus 1-2-3 Release 2.2 (minor upgrade); 1-2-3 Release 3.0 (major upgrade); 1-2-3/G to some degree.	Runtime Windows; Windows 2.01
Win Office	PowerPoint, plus minimum 6 weeks		Requires Windows 3.0
Win PowerPoint 2.0	December 1989	Lotus Freelance and Harvard graphics are selling very well, and can run on older machines. Aldus Persuasion will probably ship its Win version in early 1990 (unclear whether Aldus's product is Win 3 only or not).	Requires Windows 3.0. No runtime
Win Project 1.0	October 1989	SuperProject from Computer Associates, particularly aggressive in retail channel.	Runtime Windows, Windows 2.01
Win Word 1.0	November 1989	See PC Word above. In addition, WPC may have announced or shipped their PM version; Ami Professional from Samna (a full featured GUI word processor) will also be shipping.	Runtime Windows; Windows 2.01

2. Entry Line:

Product	Ship date	Competitive environment
Mac Works 2.0	Shipping	MacWrite II (see Mac Word above); WriteNow; FileMaker II
PC Works 2.0	Shipping late Sept	First Choice -- probably a "line" promotion with their other "First" products, and possibly a new version.
Flight Sim 4.0	September 1989	F19; Falcon AT have strong in-store presence and may have new releases.

3. Mac Apps:

Product	Ship date	Competitive environment
Excel 2.2	shipping	WingZ is developing into a formidable opponent, especially in the reseller channel, with an aggressive \$99 "upgrade from Excel" program. Lesser threat from Full Impact.
Mail 2.0	8/4/89	TOPS + Inbox poses threat at low end
Office	shipping	No competitive products -- only potential cannibalization of Word and Excel sales.
PowerPoint	shipping	Significant ongoing pressure from Aldus Persuasion, who are dedicating lots of retail sales resources to this product.
Word 4.0	shipping	Claris's MacWrite II has launched a specific campaign against Word in the dealer channel, including in-store materials and a \$75 upgrade from Word. Major new versions of FullWrite and Mac WordPerfect will probably also be released in this period.

2. Financial expectations * for Jan-May:

Product	Units	Dollars (in 000s)
Flight Sim	41,000	
Mac Excel	52,329	\$ 10,838
Mac Mail	16,325	1,820
Mac PowerPoint	18,700	3,452
Mac Word	50,000	n/a
Mac Works	33,968	5,626
MS Office (Mac)	10,000	n/a
MS Office (Mac-CD)	1,100	n/a
MS Office (Win)	n/a	n/a
PC Word	36,000	5,670
PC Works	65,000	4,875
PM Excel	10,000	n/a
Win Excel	50,000	n/a
Win PowerPoint	21,000	4,856
Win Project	7,211	2,607
WinWord	51,100	10,250

*Figures according to Apps Input forms

IV. SYSTEMS

The following section outlines the situation and marketing priorities for the Systems divisions key retail products: Windows, DOS Upgrade and languages.

A. WINDOWS 3.0

Microsoft Windows 3.0 breaks through the barriers that have hobbled Windows in the past and represents the most significant, update in the product's history. New features include:

- Protected mode memory management that breaks the 640k barrier
- Enhanced interface
- Easy, graphical setup program
- Enhanced and/or new utilities and applets

Shipment of meaningful Windows applications (ours and competitor apps) as well as PM apps in the T1 timeframe could also mean significant changes to Window's situation.

On one hand the shipment of Windows apps and the continued acceptance of GUI reduces the complexity of the Windows message. On the other hand, issues like 286 vs. 386, package product vs. runtime product, Version 2.x vs. Version 3.0 and Windows 3 vs. OS/2 create an even greater communication challenge. We do not expect resellers to alone be able to clear up this confusion. Education will have to take place between Microsoft and the consumer.

Windows marketing imperatives (as they relate to trimester campaign activities) during this timeframe include:

- Position Version 3 as a new, break-through product - cutting loose from any baggage of the past
- Gain immediate reseller awareness and distribution of Version 3. Begin to position Windows as a "class" of products, supporting this message with the significant new Windows apps which will be shipping.
- Create an instant installed base by upgrading as many Win 2.x and runtime Windows owners as possible
- Support ISVs through cross promotions
- Expand the Windows users base by 1) converting "shelfware" product owners (people who own but don't use Windows) and 2) by selling the package product to new customers.

Windows has several markets and different objectives for each. In order of priority these are:

#1 Windows Apps Users who currently use a runtime version of Windows

These customers understand the benefits of the interface. They now need to realize they aren't using full Windows and there is value in the packaged product and benefits in the environment that they are not currently getting. Awareness, education and a very simple, easy upgrade path are key. Our message to runtime owners would be even more credible if we had the support of their application suppliers.

#2 Windows Users

This group will upgrade readily providing we can get the message out to them and reach *beyond our registered owners* base. The goal is awareness.

#3 "Shelfware" Owners

This group of customers owns Windows but doesn't use it. Many may have received it as part of a hardware bundle or promotional bundle. Some have never opened the box; others have tried it and had a bad experience with it. The goal is to get this group to re-evaluate the product via Version 3. Awareness, education and trial are the goals.

#3 New Users

This group can be divided into two subgroups: 1) Enthusiasts/Power Users in large corporations; and 2) Small/Medium Business people. The Enthusiasts/Power Users are already sold on the value of GUI. They need to understand how Version 3.0 breaks down the previous roadblocks so that now they can justify purchasing it. Awareness/consideration are key. Small/Medium Business users are the computing professionals in their companies. They are cautious, rely on resellers for advice and can't afford to make purchasing mistakes. The goal should be to sell the value of Windows package product itself without discounting the value of the Windows systems message.

Windows 3.0 will be supported by strong PR and advertising at announcement. An entirely new Windows identity will focus more on the benefits of the package product than the concept of "environment" There are

also plans for an aggressive and extensive upgrade program, possibly extended to runtime users and involving ISVs.

Windows programs and promotions should be extendable to ISVs (i.e. a Windows apps display could be extended to include ISV apps).

Broad channel distribution is not an immediate problem for Windows. Reseller challenges include getting resellers moved over Version 3.0 quickly and helping them understand that Windows is a "class" of products -- distinctly different from DOS character apps.

B. DOS UPGRADE PRODUCT

The Microsoft MS-DOS Upgrade product will ship in December, 1989. This is the first official upgrade for MS-DOS 4.01 and is targeted at the installed base of approximately 20 million users of MS-DOS Versions 1.x to 3.3x. The marketing opportunity is significant not only because of the size of the market but because OEMs currently do a very poor job of upgrading their DOS installed base. Note: this Upgrade product is not a PC DOS (IBM) upgrade product.

A few of MS-DOS 4.01 key features include:

- Improved support for large hard disks and files
- EMS support
- DOS Shell

Important features specific to the Upgrade product include:

- Popular DOS Utilities including Undelete, Safe format, DOS command line edit
- Microsoft customer support

The Upgrade product's target markets break down as follows:

- Corporate Accounts - DOS Upgrade provides a single product/single source of support for all IBM-clone systems within a corporation.
- Power Users - These people are more likely to update their system to squeeze every bit of functionality out of their hardware and will be most interested in RUP's support for large hard disk files, EMS and performance improvements.
- Intermediate Users - These people use their PCs on a regular basis but have don't have the latest hardware and the latest version of DOS. They will be most interested in upgrading to protect their hardware investment via 4.01's support for networks, more advanced apps and large disks and files. They will also appreciate the DOS shell and help.
- Novice Users - This group could be unaware of DOS as a separate software product from their PC and they probably use Version 2.x. They will benefit from the DOS shell, help and ease of installation.
- Small Businesses

PR will create awareness (and thus demand) for this product among Power Users and Corporations. The Task Force suggest direct mail may be another good way to reach this and other DOS targets. Because the Intermediate User and Novice User does not typically read trade publications, PR will not be effective in creating awareness for this segment. This group is best reach through strong retail merchandising activities.

DOS Upgrade product will need distribution, reseller awareness and a visible retail presence in the T1 timeframe. Because there is a strong market for a DOS upgrade, the reseller will be able to move large volumes of product provided we ensure he is aware of the opportunity and can communicate the PC-DOS/MS-DOS issue simply to the customer. Finally, a retail challenge will be ensuring the reseller positions this product as DOS - not simply as a DOS utility or DOS shell.

Current communication plans include a shelf talkers, sales tip cards, feature/benefit sheets and ad slicks. A direct marketing campaign will be launched toward dealers sales reps prior to the shipment of the product. \$25,000 has been set aside for sample product to be freely distributed via ASRs. There are also plans to ship the product in 6 unit pre-pack displays during the first three months.

DOS product marketing expressed concern about using the product as a "give away" during its intro because this could lower its perceived value.

C. LANGUAGES

The Language division product priorities for the T1 timeframe are:

#1 priority - C6.0, with MASM (shipping by Oct. 30)

#2 priorities - QuickC, Quick Pascal

C is a key trimester product because of its revenue and because Version 6 includes Programmers WorkBench -- an integrated development environment which provides the benefits of GUI (windows, pull down menus, icons) as well as benefits generally associated with an open architecture (working with multiple programs, DDE, consistent interfaces). Programmers WorkBench supports Microsoft's vision message and indeed is the beginning of an integrated environment/system message specific to languages. Through Programmers WorkBench, we hope to redefine the standards by which C compilers are evaluated by basing that standard on increased productivity, not just features and speed.

C is currently a "hot" language and the market is growing. This is partly the result of migration from other languages, including migration to 386/OS/2 environment languages from mini and mainframe based languages. C's target is professional programmers found first in large corporations and medium sized businesses and second in small businesses or consultant businesses.

C6 is sold primarily through Egghead, direct marketing resellers like PC Connection and Corporate Software and language specialty resellers like Programmers Shop and Programmers Connection. C receives little benefit from traditional inbound reseller programs and reseller sales reps. Because the C market is easy to define and target Version 6 is a more likely candidate for "outbound" direct marketing and seminar activities. The "integrated development environment" message could find a nice fit with a larger Microsoft system and strategy message.

The Quick Languages receive second priority only because the C6 challenge/opportunity is so important. Quick C and Quick Pascal may ship new versions in the T1 time frame. [Our experience from last fall's retail promotion indicates that Quick Language revisions during the middle of the trimester would certainly impact the success of any retail promotion. Ship dates for new versions of QuickC and Quick Pascal will need to be monitored closely.] Quick Languages seem to be promotion sensitive (based on results of the 1987 Christmas Rebate, Buy-One-Get-One-Free and Quick Pascal Intro promotions). Although they are a secondary priority, Quick products have traditionally plugged into retail merchandising activities easily and effectively.

D. HARDWARE

September 1989 is the expected ship date of the new Microsoft Mouse 400 series. The series includes six SKUs, including Serial-PS/2 or Bus versions bundled with Paintbrush or Windows 286; and Business 5 Packs for Serial/PS/2 and Bus interfaces. The Microsoft Mouse and EasyCAD2 SKUs are being discontinued with the launch of the 400 series.

The new Mouse features major hardware improvements, including:

- higher resolution (400ppi)
- all Serial/PS/2 electronics combined together inside the Mouse
- single worldwide driver with accelerator algorithm (mouse accelerates across screen as you move it more quickly)
- new driver for OS/2
- Paintbrush 4-entirely new version, with 256 VGA color support, context sensitive help, etc.

These new features place the Microsoft Mouse in a leadership position. Already, the Mouse enjoys award-winning design which is often imitated and serves as the model for all post-1987 designs. With the move to 400 ppi, it offers the highest resolution of any mouse, and the subtle technical improvements with further enhance the feel and movement of the Mouse. The SKUs packaged with software are excellent values— for Windows application users; the new Paintbrush version for paint users; and the Business 5 Pack for significant savings without additional software offerings for multiple purchasers. There will be no new package redesign or visible exterior design changes in the Mouse itself to distinguish it from the earlier versions.

Growth rates for all mice have exceeded 40% a year for 1987-1988, and are expected to increase as Windows applications proliferate the market. (Only 18% of PC installed user base is currently utilizing mice.) Key competition for the Microsoft Mouse, which in 1988 had a 41% domestic mouse market share, includes Logitech (27% share), IBM (9%), and Mouse Systems (8%) for the single-pack mouse. Of particular concern is Logitech. Logitech competes on pricing (always 10% below ours); bundles a DOS Shell utility rather than Paint software; and by extensive redesign of their product and packaging. They also have excellent distributor relationships and compete heavily via extensive merchandising/advertising.

Key Problems/Opportunities:

By T1'90, the new Mouse will have had a six month introductory period to initiate the message that "all mice are not the same" and begin establishing a clear superiority message. The key marketing goals are to:

- communicate new design superiority, particularly in relation to Logitech mouse.
- increase depth and breadth of distribution of all SKUs
- increase awareness of the business 5 pack

Advertising and PR for the Series 400 introduction are scheduled most heavily in the fall, with plans also calling for a sweepstakes overlay to occur simultaneous to the T3'89 campaign (during which the Mouse will receive no added support). Due to the heavy competition for dealer floorspace and mindshare during the end-of-year selling season, the T1'90 campaign marketing goals for the Mouse may remain the same as in the initial introductory period, with the possibility of garnering more mindshare for the Mouse during this trimester. There may also be substantial opportunity to tie in with the Windows applications message, as the proliferation of Windows apps will positively impact Mouse sales. Version 6.0 of C also supports the Mouse.

Key targets for the Mouse include all PC users, with an emphasis on medium/large business decision-makers/influencers. For the Business 5-pack, primary target segments include volume purchasers, from Fortune 500 accounts to small business and education markets. Selling strategy for the Mouse includes dealer recommendations for the Mouse as part of a total "system". For the 5 Pack, outbound recommendations to Corporate accounts will be key to sales.

E. SYSTEMS INPUT FORM SUMMARY

1. Product Overview

Product	Ship date	Situation Overview
Windows	Dec 89	Positioned as a new break-through product. Want to gain immediate installed base by upgrading Win 2.x and run-time owners. Support ISVs through cross promotions.
Languages C 6.0	Oct 30	Includes Programmers WorkBench. Supports Microsoft's vision and is the beginning of an integrated environment/system message specific to languages. Primarily sold through direct marketing resellers.
Quick C, Quick Pascal	Possible new versions in T1	
Hardware Mouse	Sept 89	New higher resolution of 400 ppl moves the Microsoft Mouse into leadership position for both design and technical performance.
DOS 4.0 Upgrade	Dec 89	Currently OEMS do a poor job of updating DOS owners. Updates will only be available for MS-DOS owners. PC-DOS owners may update through IBM.

2. Financial Expectations * for the period: (Jan-May)

Product	Units	Dollars (in 000's)
DOS Upgrade	85,500	3,579
Mouse	187,940	19,181
Windows 3.0	204,100	24,506

*According to Product Management input forms

VI. USSMD

There are many USSMD key issues that need to be considered in the development of trimester reseller programs. These include distribution, field resource allocation, vertical marketing to small and medium business, the role of corporate account resellers, and the role of programs and promotions in marketing software products.

A. DISTRIBUTION MARKETING - SITUATION AND PERSPECTIVES

If Windows applications (excluding Excel) are available during the T1 timeframe, the number one objective of the distribution group will be to obtain quality distribution of product. New product rollout plans will be developed in conjunction with both product marketing and the programs group to obtain distribution through direct and indirect resellers. These plans will be finalized once product ship dates are determined. In order to reach product objectives, new product rollout plans are developed in conjunction with product communication plans developed by corpcom.

During the launch of the Windows application products, it will be critical that we not abandon current revenue generating applications, language and hardware products to sell Windows applications only. In addition,

attention needs to be devoted to maintaining distribution and sell through of the Macintosh products, the entry level products, hardware and the language products. Channel inventory levels of existing product will need to be closely monitored to insure sell through after the holiday selling season. All this will help us achieve USSMD profitability goals (20% pre-tax profit).

As with each trimester, Distribution Marketing will develop and communicate trimester T's and C's to direct and senior partner accounts. In addition, during this timeframe, direct annual agreements will be revised and presented. During the next two months specific changes and modifications of the existing T's and C's and the annual agreements will be discussed. Because the trimester campaigns are closely tied to the presentation of these agreements, significant changes to these agreements would impact:

1. Number of direct and senior partner promotion commitments
2. Attractiveness of participation in the campaign (i.e., if promotion participation is eliminated and/or if rebates are reduced to all classes of resellers)
3. Time available to present and communicate the promotions.

From a distribution perspective, the retail and demo portions of the trimester campaigns have distinct objectives and may occur at different times with targeted reseller participation based on their selling practices who may or may not participate in both promotions. Since the T3 '89 in-store promotion ends Jan. 31st, the optimal months for an entry level product promotion for T1 are Feb-March. Windows products will be best promoted in-store once product has quality distribution in targeted resellers.

Distribution Channel Objectives

- Leverage reseller participation in programs designed to build on their selling practice. i.e., seminars, direct mail, merchandising and demonstration stations.
- Continue to leverage the trimester program design and implementation process yet allow for flexibility to react quickly to Windows applications availability.
- Through direct resellers, increase or maintain sell-through of specific products as measured by internal market share (Don't want to abandon current revenue generating applications for windows products which will be much harder to sell)
- Through indirect resellers, increase penetration and increase sales of Macintosh, hardware and language products. Increase distribution and sales of entry level products.
- Leverage usage of existing trimester sell-in process but allow the opportunity for reseller customization and differentiation.
- Assist resellers in leveraging marketing funds to promote Microsoft campaigns to end users to stimulate sell through.

In addition to the T1 activities, the successful execution of other distribution marketing programs occurring during T1 timeframe is important (i.e., Major Chain Audit program which includes the fixture and demo components). Also to continue to develop an understanding of the outbound sales process including the role of the indirect outbound sales rep to small/medium business and development of outbound oriented communication and sales tools for these RSPs.

Targetting -- We want to continue to develop a core group of resellers who take advantage of the trimester campaigns. Specific resellers should be identified to participate in the demo oriented promotion to meet Windows product objectives. If possible, target indirects that sell outbound to small/medium business to upgrade to Windows applications from Microsoft and competitive character applications.

B. FIELD - SITUATION AND PERSPECTIVES

The key field issues for T190 include prioritizing ASR responsibilities; Corporate Account salesforce targetting; providing adequate training on new products; and scheduling of major field activities. Annual account contract agreements, as well as T1 Trimester contracts and promotion agreements must all be sold in during this timeframe as well.

Scheduling: Several issues will affect sell-in of the program. The T3 promotion will be running over into the first month of the T1 program; during this time AS's will be involved in MRSS seminars as well as product

training/store visits. Planning will need to take into consideration that ASRs will not be available for briefing on the campaign or sell-in to accounts until early February. Dependent upon the scheduling of the Roadshow, sell-in may be pushed back even further. In terms of the RAXs, the campaign must be initially presented to the field on October 30-31 to allow adequate time for the field to sell in both annual and T1'90 Trimester and promotion agreements. Because programs may not be solidified this early, there may be the need to present contingencies to the field, and allow them to present flexible options to their headquarter accounts. The extent to which Ts and Cs differ from the prior year will also have a major impact on the sell-in process.

Corporate Accounts: In January, the Corporate Account salesforce will be moving from general to a targeted "named account" process. Corporate Account Reps will now have specific accounts on which they must concentrate; this may have an impact on programs such as the Corporate Accounts Seminars, as the field will no longer be able to utilize the general targeted platform of these seminars to help them sell to their specific targeted accounts. Another issue is the allocation of inbound versus outbound spending. Corporate Account would like to see the dollars allocated more evenly across inbound and outbound platforms and be relational to profits brought in from the two types of accounts.

ASR Resources: There are no additional ASR allocations planned for 1990. However, the geographic distribution study of ASRs in relation to accounts will ensure proper allocation of manpower in each region. This study may also impact the way Inside Sales and ASRs cover their accounts.

One of the larger anticipated issues for T1'90 will be ASR bandwidth. In addition to the standard program and account management responsibilities, the T3 Trimester increases ASR activity with the overlay MRSS pilot program. If this program is expanded, other ASR activities will need to be cut back or ASRs will need to be relieved of some responsibilities. The current feeling is that ASRs are stretched to the maximum, and additional responsibilities will dilute their overall effectiveness with accounts. When overlay programs such as the Roadshow are factored in, the realistic level at which ASRs can perform must be considered. This issue is compounded if we consider that some resellers who don't typically receive a great deal of ASR support through trimester programs (Nynex, Entre, Businessland) may be key resellers to target with our new Windows apps.

Another key issue is ASR hardware. Currently ASRs do not all have adequate hardware to handle Windows apps demonstrations well.

Finally, a key issue for the field is communication. All program planning and requirements must be clearly communicated to the field so that they can adequately represent the programs at the reseller level.

Training: Currently, only two days of quarterly product training in each region are scheduled for ASRs (during late September-early October). All hands-on training is self-administered with training modules. If the Windows products are released in time to be featured in the T1'90 Trimester, there may be the need for additional training for the ASRs, particularly if ASRs are involved in giving seminars/training on the products for the MRSS series.

RSP Training and Incentive Programs: There is currently discussion in the US Marketing and Application Marketing areas about testing an RSP in-store training program and an RSP incentive program in the Fall timeframe. These programs would then be rolled out in a more complete form during either T1 or T2. The RSP training program would be ASR delivered, product specific, take place in-store and include new, impactful materials and incentives. The RSP incentive program would have the goal of directly rewarding for product sales, as compared to rewarding for training. These two programs, their pilots and actual launch dates are still very uncertain. Karen Abel is currently working on the RSP training program and Road Show. Judy Chase is currently working on the RSP incentive program.

Road Show: An RSP training program may include another Microsoft Road Show. If so, the Road Show would probably take place during the T1 period and have significant impact on our resellers and field sales force. A major marketing/training event like this could be leveraged well by a new Windows application line and be used as the kickoff to a strong in-store ASR driving training program.

C. SMALL/MEDIUM BUSINESS MARKET

During FY89, Microsoft developed, tested and rolled out programs for the legal and accounting vertical markets, focusing on Microsoft Word and Excel to provide automation solutions specific to these industries. In the final quarter of 1989, vertical market interests were expanded to include medium/small businesses in general (defined as those businesses with under 1000 employees), as this is rapidly proving to be one of the largest potential markets for personal computers.

The legal and financial markets will continue to be targeted with Microsoft Word and Excel, not only because these products provide automation solutions specific to law and finance, but also because these markets play key influential roles to other businesses (every business works with an accountant and lawyer). However, the small/medium segment represents additional opportunities across all of Microsoft's application products. For instance, Works is ideal for the small business person who needs a breadth application; Word and Excel offer powerful word processing and spreadsheet capabilities fundamental to all small, productivity-oriented companies; the Microsoft Office provides the perfect platform for networked automation within a medium-sized business; and a Windows line of products will be particularly impressive when presented in the context of a total office solution (presented by a VAR or consultant, offering a total software/hardware solution, etc.).

During the T3'89 Trimester, a pilot seminar program called the Microsoft Reseller Solution Series (MRSS) will be rolled out and focus on solution-oriented seminars featuring Word 5.0, Excel for Windows, the Microsoft Office, and Microsoft Works (PC and Mac). This program will be offered in conjunction with our indirect resellers and aimed at small/medium business end-users. A series of market research projects are also underway to understand end-user needs and to understand and better target outbound resellers who are actively selling to small/medium business. However, these results will not be available in time to impact T1'90 planning.

The key challenges for the T1'90 Trimester as they relate to the small/medium business segment, then, will be to: 1) begin processing information from the research being conducted to answer questions regarding how outbound accounts sell, and determine what other outbound selling options are available to us to target the small/medium business end-user, and ; 2) rollout the MRSS series. As ASRs are currently responsible for program implementation in their indirect accounts, their ability to be effective in this capacity, their bandwidth, and their compensation levels must all be examined. This becomes particularly important dependent upon the product focus during the T1 Trimester. If Windows applications become the focus, for instance, it must be determined how and if these products can be integrated into the MRSS series, as they would likely require extensive additional training for ASRs, or require tailored solutions presented by someone other than the ASR (consultants, ISVs etc.).

D. CORPORATE ACCOUNTS

Several key Corporate Account marketing program activities will take place during T1 timeframe. These include:

1. **Microsoft Days Kit.** This "kit" will contain information, instruction and materials which will enable ACARs to put on a small Microsoft seminar or "trade show" at the headquarters of corporate accounts.
2. **Corporate Seminars.** This 8-10 city 1-day travelling event will be targeted at technical decision makers in Fortune 200-300 companies. It will cover issues such as languages, development platforms, technical futures and current applications. It may be held during the same timeframe as the Reseller Road Show (February- March).
3. **Strategy Briefing Tour.** This small, round table of Microsoft executives and key corporate account executives will take place again in March or April and likely be in 8 - 10 cities.
4. **System Seminar.** The Systems Division may sponsor an OS/2 seminar during the same timeframe as the Corporate Account Seminars. This event will also target Fortune 500 technical decision makers.

E. PROGRAMS

In addition to the specific product and USSMD objectives outlined in this document, the Programs Group must also take into consideration several other key areas when planning the T1 Trimester. As we move toward an

increasingly sophisticated marketing environment, we are working toward fine-tuning the selling practices that we utilize, and ensuring that our programs:

- 1) take into consideration all other concurrent Microsoft communication programs, such as advertising and PR;
- 2) provide superior advantages over competitive product promotions; and 3) provide the tools necessary to meet short and long-range product objectives.

To this end, we have included a brief summary of the role promotions should play in introducing and sustaining Microsoft products, as well as a brief overview of the communications and competitive framework to be considered in the T1 planning phase.

1. ROLE OF PROMOTIONS

In General: The role of promotion is to modify or influence behavior. *Whenever we have a behavior we would like to influence (sales force, trade or customer) promotion can play a key role in accomplishing this.* Any promotion has the following characteristics:

- **It is a temporary offer.** Depending on the objective, the time period could be as short as a month or two (e.g. a customer incentive) or up to a year (e.g. an RSP frequency program).
- **It affects the pocketbook.** The offer either adds value (e.g. bundling, free training, free merchandise) or subtracts from the price (e.g. rebates, cash discounts).
- **It results in action.** The offer motivates. The customer must act now to receive the benefits.

In High Tech: Overall, promotion is more complex in high tech than in other industries. High tech is characterized by highly segmented markets at both the trade and customer level, and high tech product life cycles are shorter than in most industries. Thus, promotion objectives are many and varied, and they need to be accomplished relatively quickly. This complexity requires what is essentially a matrix or "cell" approach to promotion, with each cell focusing on a product objective specific to a particular channel and target audience, and each cell requiring a specific delivery mechanism (or selling practice) which addresses the needs of the product given the unique dynamics of the cell.

Due to the complexity of the product in high-tech, just as in high-ticket durable, there also exists an evaluatory phase between product awareness and product purchase. This phase may only last one hour for some customers (e.g. the amount of time for a hands-on demo), or it may take several months (learning the competitive products, reading reviews, seeking influentials' opinions, etc.). Promotion can play a key role in expediting the customer through the evaluatory phase by disseminating information/achieving recommendation from the trade, and providing product information and incenting hands-on experience.

In New Products: In general, promotional efforts in the early introductory phase (first few months) are more trade-focused than customer focused. Once key trade objectives have been accomplished, and general awareness of the product has been established (through advertising/public relations), broad-based customer-directed promotional efforts begin.

Salesforce and Trade-focused Promotion: The objectives that can be accomplished are as follows: 1) Gain awareness/excitement from both the salesforce and trade; 2) Gain rapid and broad distribution; 3) Educate and establish an understanding of product positioning and features; 4) Achieve demo station installation; and 5) Gain feature/display.

Customer Focused Promotion: In the early intro phase most customers do not have a significant enough awareness or interest in a product to warrant a full-fledged promotional effort directed at purchase. Promotion at this stage should impact the evaluatory phase by incenting product demo for instance, or incenting the positively pre-disposed customers to purchase. (Pre-disposed customers could include existing users in the instance of upgrades, or general customers when pent-up demand exists from product introduction delays). The later phase of introduction, once most of the salesforce/trade objectives have been met, is the appropriate time for initial broad-based customer-directed promotional efforts. At this point, customer-directed promotional offers can compress the evaluation phase and stimulate purchase.

General Implications for T1:

If trimester objectives are based on the introduction of the Windows products, there may be the need for aggressive promotional efforts focused at the salesforce and trade levels. Specifically: 1) broad distribution needs to be gained rapidly; 2) the salesforce and trade need to be excited and enthusiastic, and they need to

view the introduction of these products as something big and important to them; 3) the salesforce and trade need to be educated so that they understand the features and benefits of the individual products, as well as the Windows story and how Windows fits into the evolutionary path; 4) the trade needs to install the products at demo station and feature/display.

The customer objectives would most likely focus on achieving product demos and achieving purchase from the positively pre-disposed customers. A broad-based purchase incentive or a price promotion would not be as appropriate in this early introductory phase. When we are introducing the Windows products, we are positioning them in the market place and establishing their perceived value. Offering a price reduction/incentive would lower the perception of the products' worth. This would be a difficult position to recover from. Note: adding value to the product by temporarily expanding the offering (a la bundling, free training, hot-line service, etc.) would definitely be an appropriate incentive in the introductory mode.

2. ADVERTISING AND PR

During the T1 timeframe, Microsoft's three tiered advertising approach of product, line, and brand advertising will continue. Advertising will be scheduled to support introductory periods and on a sustaining basis, with "heavy-up" during key periods. Media will be selected to provide national coverage. A dominant presence will be established in core enthusiast publications through high visibility/high impact positions, and key business publications will be used to expand Microsoft's presence to the broader Corporate Decision Maker target and key vertical markets.

Advertising messages will be designed to move the prospect along to the next step in the purchase process, which will differ depending on the complexity of the product and the level of sophistication of the target.

Product Advertising

Individual product advertising will support virtually all products in the T1 timeframe, including introductory ads for Microsoft Windows 3.0, Microsoft Project for Windows, Microsoft Word for Windows, Microsoft PowerPoint for Windows, and the Mouse, as well as new ads for current versions of many of Microsoft's other products. Introductory advertising for the Windows applications is currently slated for January start dates, with the exception of Windows 3.0 (November - January, March - May) and PowerPoint (February or March). These dates, however, are tied to product ship dates and will shift accordingly.

Line Advertising

A number of opportunities have been identified for selling families of products, the most obvious being the Mac line and the PC Windows applications line. New Mac line ads are currently slated for November through February. While PC line advertising is dependent on shipment of Windows applications, it's anticipated that we'll go out with a PC line message in the T1 timeframe. Additionally, we've identified several other possibilities in this category, including an Excel category ad (Mac, Windows, and OS/2) that will run in this timeframe.

Brand Advertising

Designed to focus our brand image and to differentiate Microsoft from its competition, brand advertising will continue in FY90. Current schedule calls for the first flight of ads to break in mid-October, with the second flight running March through May.

Public Relations

PR efforts for the products featured in T1 will be finalized as the product release dates become more firm (plans are usually initiated two months prior to product release dates). The new version of PC Works will be receiving some PR attention when it ships in September, as will the new Mouse release. Positioning and plans for the Windows products, the DOS retail upgrade, and the Languages (C and the Quicks) will be explored in more detail as they become available.

3. COMPETITIVE PROGRAM CONSIDERATIONS

There have been several key developments in the competitive environment in the past year which we should factor into our planning for T1.

The competition is becoming increasingly sophisticated in their promotion approaches and execution. Competitors are taking new and more creative approaches to their promotions, as exhibited by the recent Ashton-Tate sponsorship and promotion of the Leonard/Hearns boxing match, the Lotus introduction of the Passport Club, and the recent Informix promotion of Wingz with an on-pack video, consumer offer and dealer loader. However, there remains a wide opportunity to bring exciting and fresh thinking to this arena.

Competitors have begun to imitate Microsoft's promotions in a variety of ways. Lotus has moved to trimester planning, and also added to their salesforce to increase their retail coverage. Ashton-Tate recently created a special marketing group for promotion planning. All key competitors have begun to use retail merchandising and demo station selling practices in essentially the same fashion and frequency.

An escalation of pull strategies (customer events) should be expected, while push strategies directed at the trade may be moderated. Competitors will most likely move away from the strategies which resulted in channel stuffing in late 1988 and early 1989, when they engaged in heavy discounting at the end of several quarters to ensure quarterly earnings performance. Both Lotus and Ashton Tate were criticized extensively by the trade for engaging in major push efforts without engaging in comparable pull efforts. This means that there will be increasing in-store promotion competition.

Product proliferation will create a need to leverage promotional dollars. Key competitors are expanding product lines across platforms and across categories. As new applications for Windows and for OS/2 enter the market, as well as other expected new product activity, we expect that the competition will be forced to seek ways to leverage promotional dollars. It is likely that a pulsing strategy will evolve, allowing competitors to focus and leverage their promotional dollars for the highest impact.

COMPANY	PROMOTION ACTIVITY
Ashton Tate	<p>"One on One" Sweepstakes (12/88). Top prize was 50 Mac IIs, 50 Full Impacts, 50 Full Writes.</p> <p>"dBASE IV TKO" Sweepstakes, (4/1-6/12/89). -received nat'l adv. and promotion (print and radio in selected markets) -Trade: spiffs on dBASE IV and MultiMate Advantage II, T-shirt for product quiz. -Consumer: entered by going to dealer to get free "commemorative" disk. Disk contained dBASE demo and boxing info. Prizes included VIP trips to Hearns Leonard fight, Compaq Deskpro 386/25s, Compaq laptops, TKO jackets, free pay-per view certificates for fight. Free upgrade offer to dBASE LI for LO purchases btwn 7/1 and 8/31, plus choice of \$200 off AT-sponsored dBASE training course, training video(\$395 value), a free copy of DRAW APPLAUSE (\$495 SRP), or perFORM a forms processing program (\$295SRP). •Gary M. Reynolds and Assoc., Brookfield, WI hired to create/implement fall promo on college campuses nationwide</p> <p>Joint effort with Novell to spur NewWare and LAN version of Framework II sales. (Framework III for \$100 (\$995 SRP) to NetWare purchasers). •Also participating in Novell's 39 city "Issues in Connectability" seminar tour.</p>
Lotus	<p>Lotus "Frequent Flyer" Club (sales incentive program). Was to extend to "house" accounts this quarter.</p> <p>"Free for All" promo (May-June 1989) Buy 1-2-3 Release 2.1 or Symphony, get free Always; with Manuscript, free flight bag, with Magellan, free demo disk. Bundling Always with Symphony currently.</p> <p>"1-2-3 Perfect Fit" promotion (7/1 -12/31/89): Purchase or upgrade to Release 3.0 or 2.2 and get \$100 in-pack rebate certificate on Freelance or Manuscript. Major video using CD-ROM highlighting Release 3.0.</p>

Word Perfect	WP offers software subscription service-updates within 5 days of new releases Promo bundle of WP and Grammatik III, a grammar checker, being advertised by Kenfil Distrib for dealer price of \$249 (SRP \$549).
Borland	Joint promo with Datadesk: for \$149.95 get Quattro and a Turbo-Calc 111 enhanced keyboard Samsung joint promotion--buy Samsung desktop or laptop and get choice of Quattro, Sprint, Reflex or Sidekick Plus free, plus Paradox at \$150 (SRP \$495) Turbo Pascal 10-user license for \$300 for the education market, plus coupons for students to buy languages at 1/3 of retail price.
Informix	"Learn to Fly" video offered with Wingz (shrunk-wrapped to package) "Upgrade to Wingz for \$99" (SRP \$399) promo aimed at current Excel users "Wingz World Tour" jacket free with purchase (7/1- 8/31/89) if paid at least \$200 for product (no upgrades or promo copies).

T1 Campaign Task Force and Product Marketing Contacts

Programs

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Lori Rathje (USCC)	v-uscc	(612)870-9810
Elise Holshus (USCC)	"	"

USSMD

David Vaskevitch	davidv/debbyf	8044
Ron Davis	ron	3478
Mike Negrin	mikene	3352
Glenn Young	glenny/michelet	8598
Sharon Decker	sharonde	3014
Nancy Gullick	nancyg	8195
Marta Tyler	martat	

Product Marketing

C 6	Stew Chapin
DOS 4.0	Mark Chestnut
Flight Sim	Karen Fries
Mac Excel	Dawn Trudeau
Mac Mail	Shirish Nadkarni
Mac PowerPoint	Lewis Levin, Don Miller, Connie Clark
Mac Word**	Liz Welch
Mac Works	Brad Chase
Mouse	Tammy Teas
MS Office (Mac)	Laura Jennings
MS Office (Mac-CD)	Laura Jennings
MS Office (Win)	Ruthann Lorentzen
PC Word	Melinda French
PC Works	Robbie Bach
PM Excel	Rich Tong
Quick C	Stew Chapin
Quick Pascal	Stew Chapin
Win Excel	Hank Vigil, Rich Tong
Win PowerPoint	Lewis Levin, Don Miller, Connie Clark
Win Project	Jim Dunnigan
Windows 3.0	Celeste Boyer
WinWord	John Parkey

T1 SITUATION ANALYSIS
COMPETITIVE SITUATION BACK-UP

==ASHTON-TATE==

1. Financial Status

- Revenues for fiscal year 1988 were \$307 million, with net income of \$47.8 million.
- Ashton-Tate is expected to lose \$15 million in current (June 1989) quarter due to excess inventory and low demand for dBASE IV. This will be their first losing quarter, with a revenue drop of 24%.
- The firm continues to be a takeover target, as it trades at the low end of the software category; Computer Associates may be interested. It is also possible that Ashton-Tate will go private via an LBO. Ashton-Tate adopted a shareholder rights program in February 1989, designed to avoid a takeover effort.
- Ashton-Tate income grew only 9% in 1988, compared to 65% average growth rate for the top 10 independent software vendors.
- Financial problems due to:
 - Overstocking of channel;
 - Less than expected demand for dBASE IV;
 - Write-down of \$8 million for Decision Resources product line;
 - Delays in ship date of dBASE IV version 1.1.

2. Strategic Overview

- Past product strategy has been to purchase, rather than to develop: MultiMate, Full Impact, etc.
- They relied heavily on price cutting strategies in 1988, resulting in an accumulation of product in the channel.
- Ashton-Tate recently initiated a targeted, support-intensive reseller program, emphasizing partnership with resellers who are authorized to sell SQL server. Ashton-Tate provides free bulletin board service, telephone support and reseller training through 1989. User training has three options: toll-free support; a dedicated technician for multiple SQL servers; or ad hoc support.
- Ashton-Tate has increased their direct sales force by 65%, and will have doubled it by the end of 1989.

3. Product Activity

Current

- dBASE IV product acceptance has been slower than expected, due to reports of bugs, and its inability to tie into the Ashton-Tate/MS SQL Server. As a result, dBASE III Plus remains the dominant database on the market. A survey of MIS professionals found that while dBASE has a 69% market share, less than half of them have plans to upgrade to dBASE IV at this time.
- Overstuffing in the channel has led to price discounting at the consumer level, and has contributed to a negative perception of dBASE IV.

New

- Ashton-Tate may introduce an OS/2 PM version of dBASE in 1990.
- Tate Publishing (subsidiary of Ashton-Tate) recently announced a new product called "dBASE File Recovery," a file recovery program for dBASE users. The program is part of a new line of software products designed by independent developers and marketed by Tate Publishing.
- Ashton-Tate will be introducing Byline 2.0, a desk top publishing program. It is ready to ship, but they are having contractual problems with developer. It should be out by Comdex.
- Ashton-Tate is expected to introduce these products for OS/2 PM in 1990:
 - dBASE Framework II
 - Multimate Advantage Draw Applause
 - Master Graphics

Updates

- dBASE IV update version 1.1 is expected to correct most problems identified with dBASE IV version 1.0.

4. Promotional Activity

Previous

- Ashton-Tate offered a sweepstakes "One on One" which ended 12/88. The top prize was 50 Mac II's, 50 Full Impacts, 50 Full Writes.
- They recently sponsored the "dBASE IV TKO" sweepstakes, supported with national advertising and promotion. (April 1 - June 12). Details:

Trade Offer

- Spiffs on dBASE IV and MultiMate Advantage II (an unlimited, escalating spiff of \$10 each for three copies sold, \$20 for 4, and \$25 for five on MultiMate, \$10 for one, up to \$50 for each copy sold of dBASE);
- Dealers and salespeople can participate in "Training Camp", a questionnaire that tests knowledge of dBASE IV. Participants answering all questions correctly received a T-shirt;
- Dealers were solicited via direct mail; over 70% of 7,000 targeted participated.

Consumer Offer

- To enter, a user had to go to a participating dealership, get a free "commemorative" disk, enter his/her name to be eligible for an instant win. The disk also contained a dBASE demo, with additional boxing information.
- Prizes included VIP trips to Hearns/Leonard fight, and a Compaq Deskpro 386/25s, Compaq laptops, "TKO" jackets, and free pay-per-view certificates for the fight.
- Promo was supported by print and radio in select major markets.

Current

- Currently offering a free upgrade to dBASE IV version 1.1 if 1.0 is purchased between 7/1 and 8/31, plus choice of \$200 off on an Ashton-Tate sponsored dBASE IV training course, a training video "Moving up to dBASE IV" (\$395 value), and a free copy of DRAW APPLAUSE (\$495 SRP) or PerFORM, a forms processing program (\$295 SRP).
- Ashton-Tate recently hired Gary M. Reynolds & Associates, of Brookfield, WI, to create and implement a fall promotion at college campuses nationwide.
- They recently embarked on a joint marketing effort with Novell designed to spur sales of NetWare and the LAN version of Framework II. Customers who purchase NetWare may purchase Framework III for \$100 (SRP \$995). Ashton-Tate is also participating in Novell's 39 city seminar tour called "Issues in Connectivity".

==LOTUS==

1. Financial Status

- Revenues for fiscal year 1989 were \$469 million, with a net income of \$59 million. For the quarter ending July 1, 1989, net sales were \$132.2 million, an increase over last year's same quarter of only 8%.
- Income dropped 71% in 1st quarter of calendar year 1989. The decline was attributed to:
 - Cost of sales increased 32%, while sales and marketing expenditures increased 35%;
 - Research and development costs increased 43%.
- Symphony and 1-2-3 make up 70% of Lotus' revenues.
- Analysts predict Lotus sales will be over \$560 million in 1989.
- Lotus is projected to ship 400 - 700 thousand units of 3.0 in the form of upgrades and new sales.
- Lotus installed base is 5 million; Lotus estimates that 55% currently have hardware compatible with Release 3.0, and that 1/4 of current customers will upgrade within the first year.

2. Strategic Overview

- Lotus has stated that it plans to diversify its business base by creating new software that takes advantage of evolving technology and enhances the investment that users have made in software, hardware and training.
- They have pursued a multi-platform strategy for 1-2-3, using core technology, and allowing for dynamic data exchange between architectures. According to Jim Manz, this type of integration will define the Lotus product line, not the GUI strategy of Microsoft.
- Lotus made significant changes in early 1989 in marketing strategies. They:
 - Went from 50 "house" accounts (purchasing directly from Lotus) to 20;
 - Increased outlets carrying Lotus products from 4,000 to 7,000;
 - Created a category of advanced product resellers for resellers selling cross-platform or connectivity products. Lotus expects less than 10 resellers to be in this category;
 - Set discount levels for distributors and house accounts at 45% for existing products and 40% for new products (previously had ranged from 43% to 48.5%, based on volume);
 - Moved from quarterly to trimester based marketing;
 - Set up a variety of marketing assistance programs, including training programs, seminars, spiffs, direct mail, radio advertisements and ad slicks for each product;
 - Created a program for directs which allows them to hire a dedicated Lotus rep out of marketing funds;
 - Expanded marketing development activities to include the smaller resellers who purchase through distributors.

3. Product Activity

Current

- Current product line includes spreadsheets, integrated, graphics and document processing, information management, communications, and information services products.

New

- Magellan (April 1989) and Agenda (July 1988) are the newest Lotus products.
- Lotus claims that 12 new products will ship this year including: 1-2-3 for Unix, mainframes, Macintosh, and 1-2-3/G.
- If 2.1 remains on the market, which many expect, it will be positioned for beginners, 2.2 for advanced users on DOS systems, and 3.0 for advanced users on OS/2.

Updates

- A Symphony update could be in beta this summer.
- Release 2.2 is scheduled to ship 9/30.
- Release 3.0 will have a \$100 increase in SRP (to \$595) in January.

4. Promotion Activity

Previous

- There has been little mention recently in the trade press about the Passport Club, the Lotus "frequent flyer" program. They were expected to extend it this quarter to include their "house" accounts.
- Lotus offered a promotion called the Lotus "Free for All" in May and June. Customers purchasing one of these products got the following:
 - With 1-2-3 Release 2.1, free Allways
 - With Symphony, free Allways
 - With Manuscript, free flight bag
 - With Magellan, free demo disk
- Lotus continues to pursue add-ins. Lotus began bundling Allways with 1-2-3 2.01 last October. From May - July, Symphony has a free copy of Allways bundled. (Allways for Symphony SRP is \$149.95); Lotus and Symantec have announced "Budget Express", a budget model development aid for 1-2-3.

Currents

- In the wake of user criticism and third party provision of support for Lotus users, and in anticipation of additional demand relative to Release 3.0, Lotus is increasing support staff by 30%. They are also offering Lotus Prompt, a CD-ROM based collection of technical support and information databases for all Lotus products, updated monthly for service subscribers.
- Twenty-four hour toll-free service is being offered for end-users needing 1-2-3 Release 3.0 or 2.2 help, and will be valid for 6 months post purchase. Users will then be able to purchase more 24 hour support, or regular support. Three different support lines are offered: End users, resellers, corporate accounts.
- Compatibility is a big issue for new release 3.0. Remedies: Lotus is offering a free utility disk named "Check 1-2-3" that allows users to test compatibility prior to purchase and installation by testing memory/BIOS compatibility.
- The Release 3.0 upgrade campaign to their installed base is extensive, and includes:
 - "Check 1-2-3";
 - Information Center Kit" specification sheets and other information to start product evaluation which were shipped a month before release to users;
 - Any company upgrading more than 50 units does not have to send back original program disks;
 - Toll-free number for support.
- Beginning in July, Lotus will offer free "hands-on" training to resellers via their 23 regional sales offices. They also have more than 150 Authorized Training Company sites in the U.S. that will offer Release 3.0 training classes.
- They are currently offering a promotion called "123 Perfect Fit", in which customers purchasing or upgrading to Release 3.0 or 2.2 get a \$100 rebate certificate (in-pack) on the purchase of Freelance or Manuscript. Offered July 1 - December 31, 1989.
- Lotus has produced a video for use at storefront highlighting Release 3.0, and featuring key members of the Lotus management team.

WORD PERFECT

1. Financial Status

- WordPerfect revenues for fiscal year 1988 were \$179 million.
- They are projecting revenues of \$300 million in fiscal year 1989.
- WordPerfect across all platforms accounts for 85% of sales, over \$90 million.
- Privately-owned, it is highly unlikely that they would go public.

2. Strategic Overview

- WordPerfect is pursuing a multi-platform strategy: WordPerfect is available for Digital Equipment Corp's VAX/VMS (\$6 million in sales), IBM 370, the Data General line (\$2 million), Commodore Amiga, Apple II and Macintosh, and has 15 versions of Unix.
- They are also carving out a niche in VAR channel, as WordPerfect leads third party software sales. 8.8% of VARs carry WordPerfect products, as opposed to 3% for Lotus, Microsoft, and Ashton-Tate. This translates to \$74,000 in sales for WordPerfect, \$19,000, \$14,000 and \$10,500 for Lotus, Microsoft and Ashton-Tate.
- WordPerfect is not developing a WordPerfect for Windows application.
- They recently doubled their telephone support staff due to sales of WordPerfect version 5.0. They now have a telephone support staff of 400, and can handle 10,000 calls per day.

3. Product Activity

New

- An OS/2 PM version is expected in early 1990.

Current

- Carrying on the multi-platform strategy, WordPerfect Office has been on the market for 10 months. It is a combined electronic mail, scheduler, database, telephone and address system that operates similarly across all platforms. So far, although reviews have been positive, the product has yet to gain momentum.

4. Promotion Activity

Current

- Word Perfect offers a software subscription service: subscribers get updates within five working days of release of an update.
- Kenfil Distribution is advertising a promotional bundle of Word Perfect and Grammatik III, a grammar checker for a dealer price of \$249 (SRP \$549).

==BORLAND==

1. Financial Status

- Revenues for fiscal year 1989 were \$90 million, versus \$81 million in fiscal year 1988.
- Cost cutting measures instituted in the fall of 1988 have paid off, as company was profitable in the 3rd and 4th quarters of the fiscal year (ended March 31), although they still posted a loss for the year. Borland lost \$2.84 million in this past fiscal year; the previous year they had net income of \$1.75 million.

2. Strategic Overview

- Original strategy was the "Honda" strategy: penetrate a market with low-cost products that mimic current interfaces (Quattro and Sprint), then bring in high end products.
- In late 1988, Borland eliminated 13% of its workforce, reduced monthly expenditures by \$500,000 to \$1,000,000, refocused selling efforts on key products, created a business development department to concentrate on OEM sales opportunities, and created a channel marketing group to develop advertising and marketing programs for individual products.
- Borland is now concentrating on three lines: Turbo language products, Quattro, and Paradox 3.0.
- Borland has been raising prices, perhaps in an effort to overcome a low end product perception. Language product prices were raised from \$99 to \$149 as they were updated in late 1988.
- In July of 1988, Borland introduced the Borland Enhanced Reseller Support and Training program (BEST). It provides technical support through hot lines and on-line resources to more than 100 corporate users of Borland's business applications. They recently enlarged the BEST program to include the Turbo language products. Note: This program does not replace Borland's free technical support to all registered users.

3. Product Activity

Current

- Languages make up 40% of sales; business oriented packages (Paradox, Quattro, Sprint) make up 60%.
- Borland has suspended work on further upgrades for Basic and Prolog to concentrate on Pascal, C and Assembler/Debugger.

New

- They are reportedly working on a 3D version of Quattro.

Updates

- They recently updated Reflex, with the shipping of Release 2.0 (SRP \$249).

4. Promotion Activity

Previous

- Borland has done a joint promotion with Samsung: buy any Samsung desktop or laptop and get choice of Quattro, Sprint, Reflex or Sidekick Plus free, plus Paradox at \$150 (SRP \$495).
- Borland has also done a joint promotion with Datadesk: For \$149.95 get Quattro and a Turbo-Calc 111 enhanced keyboard.

Current

- Borland is stepping up support for students and teachers, the primary target for Turbo Pascal by offering 10-user license of Turbo Pascal for \$300, plus coupons for students to buy Borland languages at 1/3 of retail price.

===Miscellaneous===

===Informix -- Wingz===

Product Activity

- An OS/2 PM version is under development which will retail for approx \$499.

Promotion Activity

- Informix is offering a video called "Learn to Fly" shrink-wrapped on packages of Wingz.
- They are offering Wingz for \$99 (SRP \$399) to current Excel users: "Upgrade to Wingz for \$99".
- They are also offering a "Wingz World Tour" jacket free if Wingz is purchased between 7/1/89 and 8/31/89 and if you paid at least \$200 for Wingz (no upgrades or promotional copies allowed). Jackets may also be purchased for \$60.

===Mouse===

Product Activity

- New technology: keyboard pointer selector called "Isopoint Control" is under development. The product is expected to be at retail by the end of 1989.
- CH Products is introducing a new trackball claimed to be 3 times faster than conventional mouse. Available for IBM PC XT/AT, PS/2, (due in August) and Apple II and Macintosh (due in September). The SRP for all units is \$169 except PC Bus (SRP of \$189, due in October).
- Microtouch Systems has introduced a new touch sensitive tablet for SE & II users. It comes with templates for Word & Excel. Its SRP is \$235, and it is due to ship in late July.
- 50% of personal computer market will use a mouse, tablet, or trackball by the end of 1991, as opposed to 10% of installed base today.