

From dalech Tue Feb 20 09:36:59 1990
To: richardf
Subject: Re: Urgent/Win Word and WinExcel IBM bundle
Date: Tue Feb 20 09:33:19 1990

>From mikemap Fri Feb 16 15:49:39 1990
To: jeffr peteh robg
Cc: cathyw chrisga dalech johnsa robg susanb
Subject: Re: Urgent/Win Word and WinExcel IBM bundle
Date: Fri Feb 16 15:44:47 1990

These prices are about as low as I would want to go. 10% of SRP is the least we should think the intellectual content is worth.

One other alternative is to give them the working models. These are limited, but are very good to get started on and will serve the full needs of many users. We could price them at say \$5. We should also get the req base to do direct marketing into. If they wanted to put the full docs on the CD we should charge more say \$10 for the docs.

>From robg Fri Feb 16 14:31:45 1990
To: jeffr mikemap peteh
Subject: Urgent/Win Word and WinExcel IBM bundle
Cc: cathyw chrisga dalech johnsa robg susanb
Date: Fri Feb 16 14:31:43 1990

As per my previous mail IBM wants a price from us for them to bundle WinExcel and WinWord with their new low-end multimedia system. This is my proposal for what MS should bid. In the interest of time it is short on justification but I am happy to discuss further as long as we meet the goal of deciding in time for me to send a fax on Monday (the 16th, Presidents Day) afternoon.

Background

IBM will begin selling, in June, a machine called Win and Place. Win and Place are home-oriented machines going into very different distribution channels than either we or IBM are currently strong in (see my recent memo on this). IBM is about to decide whether to offer a "multimedia" upgrade to the machine with an SRP of about \$800-\$1000 and a multimedia version of the machine (upgrade plus base unit) for about \$2800-\$3000. This upgrade includes the CD Rom Drive and Audio. As currently spec'ed the system is 1 MB (rather than 2) but is otherwise very much a "Level I" machine by my definition.

Today IBM pays \$4-\$6/machine for PC Works, and has verbally agreed to pay us \$15/System on a future (1991 now) machine to bundle Windows, Multimedia Extensions, and Windows Works.

Proposal:

In order to get the business we would have to go pretty low, both because of prior precedent and because of the price points and channels they are focusing on. I believe the business is of substantial strategic importance to Microsoft so this is worth doing. However I could understand your concerns about lowering the perceived value of your product and of at some point actually having cannibalization concerns.

Therefore I propose we give IBM 2 options: (a) "Full Product Prices," and (b) "Special Function [i.e. subset somehow] Prices." In both cases I propose pure OEM deals (i.e. we hand IBM a CD Rom Master and they do all of the pressing, duplication etc). They may actually want some kind of packaged product deal but we can raise our costs accordingly — this process will iterate for sure. Also I will make very clear that these are "per system" prices — i.e. Microsoft gets paid the royalty for every system they sell with a CD attached.

(a) Full Product Prices:

\$50 for WinWord
\$50 for WinExcel
\$95 for both

Indicated flexibility on our part if they commit to volumes (which IBM is unlikely to do)

HIGHLY
CONFIDENTIAL

(b) Special Function Prices:

\$25 for WinWord
\$25 for WinExcel
\$45 for both

Indicated flexibility on our part if they commit to volumes (which IBM is unlikely to do)

Product Definition

At a minimum the products would be the then-current standard versions of WinWord and WinExcel, with a slightly custom installer so the whole enchilada can be installed from the CD (all target machines have hard disks and windows already included). In addition I will add weasel words that talk about intent to look at multimedia CBT, audio training, on-line docs, etc (stuff that we have already shown them en masse for WinWorks and that they love) although I will not commit to anything (I told them that we would need time here to assess what could be done and would need to better understand the opportunity before committing to anything special).

The "Special Function" versions of the product would be close to fully functional versions of the apps, but with enough features walled off/not included to motivate a significant percentage of the users to want to upgrade to the full version direct from MS. Obviously we would have to be careful what these are (assuming we don't want to besmirch the word and excel names) — at the low end it could be no special printer or other device drivers, at the high end it could be walling off some features (e.g. support for above a certain size of spreadsheet or document). My intention is to be pretty vague with IBM although Jeff/Pete if we can talk in time I will be as specific as you want.

My gut says that these prices are not aggressive enough to close the deal but will show IBM that we are serious; if it turns out that they are serious as well we can then iterate in a more reasoned fashion internally as to how far down we might be willing to go to get the business.

Please Reply asap — thanks.

RobRob

HIGHLY
CONFIDENTIAL

MS 5004583
CONFIDENTIAL