

ATTORNEYS ONLY

Systems strategy

Mar 27 10:53 1990 MAIL Page 1

From paulma Tue Mar 27 09:02:17 1990
To: billg jeremybu joachiak mikenap petern richardf sbdirect steved
Subject: MS SYSTEMS SW FOCUS - LONG MAIL - I am sending paper copy too
Date: Tue Mar 27 08:59:58 1990

SUBJECT: .. MICROSOFT SYSTEMS BUSINESS FOCUS

With drive to get OS/2 healthy, and the amount of BS going on with IBM, this seems an almost insane time to send this memo, but over last couple of months, I (and, I suspect, others) have become increasingly concerned about the following issues.

Specifically, I have concerns about:

1. Our positioning in the system software business, and fact that we seem to be on strategy that:
 - makes many enemies,
 - is expensive to execute (have to build large sales/support force),
 - is not culturally our forte,
 - leaves us increasingly identified with IBM and SAA (as opposed to open).
 I also worry simply that we do not have the bandwidth from a technical IQ and managerial point of view to pull off the strategy that we are on.
2. Our family strategy (Win/OS2) is particular lacking in tools that are relevant to the corporate market and which span BOTH environments.
3. I think we are in danger of not sufficiently differentiating our platforms long term. Specifically we are leaving a vacuum for the likes of New Wave.

In this mail, I am only going to address 1. above, and have tried to synthesize these concerns and some possible remedies as follows:

A. THE PROBLEM(S):

In the systems software business, we are trying to compete with the following organizations:

- desktop OS: UNIX (meaning in varying degrees so or all of the forces of AT&T, DEC, HP, Sun, IBM, US Govt, etc.)
- server OS/networking services: Novell and UNIX camp (as above)
- databases: Oracle, Informix, RTI, IBM

Furthermore, we are continuing to make it more and more difficult for any o

12027684

Gates
DEPOSITION EXHIBIT
44
2/28/92

X 172144
CONFIDENTIAL

MS-PCA 1107702
CONFIDENTIAL

DEFENDANT'S EXHIBIT
4125

ATTORNEYS
ONLY

Mar 27 10:53 1990 MAIL Page 2

the above vendors or groups to be really friendly to us - the UNIX guys vie OS/2 as their mortal enemy, Oracle believes they have to favour UNIX at some level as antidote to us, Novell feels they cannot endorse OS/2, etc.

What is more we are telling ourselves that to really succeed against the above competitors and service the corporate market, we are going to have to build large sales and support forces, and do business in a way that is presumably expensive, and which we have little experience of. To be credible in front of corporate clients, we have to explain how we are going to acquire/supply/be competitive in all the pieces.

(Note: I am not automatically against investing in these other areas - it is just that our current positioning and strategy REQUIRES us to be successful in all these areas. I think it needlessly exposes the heartland of our business - the desktop. I also think it causes us to miss out on opportunities.)

As Nathanael has pointed out, our current score card in each of the above areas

- desktop operating systems:
 - Windows - promises to be success, but limited growth path identified.
 - OS/2 - we have dug a deep hole and now have to spend a lot of resource to get out of it.
 - Family strategy - poorly executed.

Collectively between Windows and OS/2, we are at best keeping up in terms of the basic functionality of operating software, we are certainly innovating (NLS still problematic, objects still not crisply defined late on key functions, etc.)

- server OS/networking:

We have made some headway but it is going to be a battle to claw our way to 30% market share. We don't really have a good strategy for a heterogeneous environment (ie. OS/2, UNIX, VMS servers), we are late on delivering competitive functions (directory, security, RPC which are being offered now by UNIX camp).

- Database - minute market share compared to Oracle. We have no immediate vision of how to change this, no vision for distributed database operations, etc. Furthermore Sybase is not a perfect partner (they are fundamentally unwilling to cede all business to us, our movement to MP and RISC just makes them more wary).

- Other services:
 - SNA Communications: good product, weak distribution
 - Mail: ? (late)
 - ISO Communications: ?
 - Network Management ?

By contrast, our strategy calls for us to be leaders with timely, competitive, complete offerings in all of the above areas, and to back it up with a competitive, comprehensive large account sales/support force.

Finally (perhaps most seriously), I fear that we have exceeded our collective

12027585

X 172145
CONFIDENTIAL

MS-PCA 1107703
CONFIDENTIAL

ATTORNEYS
ONLY

Mar 27 10:53 1990 MAIL Page 3

bandwidth to really think thru and manage each of our thrusts in the above areas.

B. POSSIBLE RE-FOCUSSING

Below are some ways that I think we could better focus ourselves and have the industry thank us, instead of view us as "across the board" enemies.

Focus on the desktop - declare servers and services of all kinds to be a "level playing field" (like Systems does with Apps today):

To make this credible (ie. make it clear that MS does NOT have to be everywhere), we would ship with each of our OS's (Windows and OS/2) of standard requestor services - an "information socket" that any s and service can plug into. We would make it clear that this "socket open - ie. specifications public and under control of some "neutral entity" (see below).

The socket would compromise:

Today:

- standard transport (and NDIS drivers)
- standard "redirector"
- standard SQL requestor

Tomorrow: add

- upgraded requestor:
 - DPS
 - directory
 - security
- standard mail requestor
- others? (eg. net management)

Each of these socket components would be publicly specified at the API level as well as the protocol level.

We would place the spec's for "the socket" under the nominal control of some industry body (ala LIM, DPMI, etc. or under auspices of some bigger body like X/OPEN), and we would allow all the "server/service folk who want to plug into our information socket to participate, and thereby not feel the pressure to provide or favour desktop competitors.

C. HOW DOES THIS DIFFER FROM WHAT ARE DOING TODAY?

In some senses, you can say how does this differ from what we do today?

(i) Positioning:

- we declare that we are friends of servers/services all flavours, the MS desktop is the "safe, standard commodity" choice. You don't have to first make meg decisions about the whole environment and "strategi

120274:86

X 172146
CONFIDENTIAL

MS-PCA 1107704
CONFIDENTIAL

ATTORNEY
ONLY

Mar 27 10:53 1990 MAIL Page 4

vendors" before being willing to standardize on MS desktop software.

Specifically, today we have to go out and sell the whole enchilada, and in the process sell against UN, Novell, Oracle. Under this "re-focussing", the desktop software team would instead boast about the support they have from Microsoft, Novell, UNIX camp, Oracle - just as we boast about support from Lotus, Borland, etc.

- we are "open" - ie. socket can be supported by anyone, and we agree to evolve it in "responsible" way.

(ii) Products/Packaging:

- we are doing some of this stuff today (eg. Open SQL which is API only spec), but we are not packaging OS's so that they come with a functional socket. Bundling is most powerful we can make with respect "standardization".

- we would have to think through more of our services to ensure that they really do work with heterogeneous server platforms (eg. directory, DFS, security).

(iii) Sales/Support:

- this approach is much more aligned with our traditional mode of doing "OEM" business - ie. it means the desktop remains a commodity that can be safely bundled, whatever the wider systems context is going into.

- the decision to build a large sophisticated sales force becomes an option, not a requirement.

- by allowing other key computer entities to view us "friendly", and by positioning ourselves as more "open", we are less dependant on IBM for legitimacy particularly in the corporate, connected environment.

D. POSSIBLE/LIKELY REACTIONS FROM OUR CURRENT COMPETITORS/PARTNERS:

Minicomputer Bunch (DEC, HP, NCR, NEC, Oli, etc):

Would love it. Allows them to focus their efforts on the server and network, while embracing MS desktop software. Removes imperative for some (eg. DEC, HP) to have UNIX on desktop (as counter-balance to IBM controlling the desktop socket).

12027537

X 172147
CONFIDENTIAL

MS-PCA 1107705
CONFIDENTIAL

Novell: Would probably be neutral. If they believed they could have meaningful say/influence on the socket, they might even become enthusiastic. They should - it would greatly remove FUD which is our most effective weapon against them today in large account situations.

PC Bunch (Compaq): Neutral to positive - it would help them sell iron into major accounts (it would neutralize IBM FUD factor by making desktop truly a commodity - like a terminal).

Oracle: As for Novell, but would probably not be really positive unless we publicly back off SQL Server.

Sybase: probably would like it.

Informix, RTI: would strongly support it.

IBM: Initially they would not like. It commoditizes the desktop and removes their "unfair" influence over the key "information socket" (which should be at the heart of SAA of the desktop). On the other hand, I suspect that if they perceive that it is inevitable, then they may become reconciled to it.

E. WHICH BUSINESSES SHOULD MS (Systems) BE IN THEN?

1. Desktop OS: YES, foundation of all we do, needed to make our financial goals, what we know how to do, etc.
2. Server OS: YES, in order to:
 - offer OPTION of one stop shopping to OEMs (single s drivers, etc)
 - not make "information socket" be at complete mercy UNIX as we evolve it technically.Key points however are:
 - it is not need to make our financial goals (can be funded out of desktop)
 - we do not need to have majority market share to succeed, just have to balance Novell and UNIX.
3. Database: OPTIONAL
 - not needed to achieve financial or strategic goals.
 - maybe needed if you want to be "strategic vendor" a corporate account.

12027648

X 172148
CONFIDENTIAL

Mar 27 10:53 1990 MAIL Page 6

4. Mail, Net Management, etc: OPTIONAL

What this could logically mean is that we would organize (or be perceived to organize into) into essentially three layered "businesses" at MS:

- a. Desktop Systems
- commodity software, sold thru OEM and FG channels
- b. Server Services
- non-commodity software sold direct and thru VARs
- c. Applications
- retail

13027899

X 172149
CONFIDENTIAL

MS-PCA 1107707
CONFIDENTIAL