Microsoft Memo

To : Bill Gates, Mike Hallman, Jon Shirley
From : Mike Maples
Cc : Brad Chase, Lewis Levin, Scott Oki, Apps BUMs, Apps Group Product Managers
Date : May 10, 1990

Re : Request and justification for incremental FY 91 Marketing $

Purpose

The purpose of this memo is to ask for additional funding for FY 91 in Applications. It shows what is currently being planned and suggests what we need and explains why.

Assumptions

The current plan for FY 91 shows the following (all data US only):

- Apps revenue increases 26% vs FY 90, to $301.7mm vs $238.7mm in FY 90.
- Just as in FY 90, USSMD marketing programs will be funded at 27% of the total marketing pool (i.e. 12% of forecasted revenue * 27%).
- The *remaining* funds for apps marketing net out at $26.6mm for FY 91, vs. $23.8mm in FY 90[1].
- Therefore, the current proposal finds Apps-only marketing budgets increasing by 12% over FY 90 levels, vs. a forecasted revenue increase of 26%.

To recap:

	FY 91	FY 90	% Change
Forecasted US Applications Revenue	$301.7mm	$238.7mm	26%
Apps Division Marketing Pool	$26.6mm	$23.8mm	12%

Analysis

The numbers below show, sliced by platform first and then by business unit, what is currently planned for FY 91 marketing. In each case that amount is contrasted with FY 90 spending.

	TOTAL MARKETING EXPENDITURES			ADVERTISING MEDIA ONLY		
Item	FY 91	FY 90	% change	FY 91	FY 90	% change
Division	$26.6mm	$23.8mm	12%	$11.4mm	$9.9mm	15%
Win Apps	$13.5mm	$11.7mm	16%	$7.1mm	$5.0mm	43%
Mac Apps	$7.8mm	$6.2mm	25%	$2.5mm	$2.8mm	-10%
CUI Apps	$3.7mm	$3.9mm	-3%	$1.7mm	$2.0mm	-15%
PM Apps	$0.6mm	$0.2mm	199%	$0.0mm	$0.0mm	0%
Maples Opp.	$1.0mm	$1.8mm	-44%	N/A	N/A	N/A
ABU	$6.7mm	$6.6mm	1%	$3.0mm	$2.6mm	18%
DABU	$0.7mm	$0.9mm	-22%	$0.2mm	$0.4mm	-45%
EBU	$3.0mm	$2.4mm	25%	$1.2mm	$1.3mm	-8%
GBU	$1.2mm	$1.2mm	1%	$0.7mm	$0.4mm	61%
OBU	$8.6mm	$6.5mm	33%	$3.7mm	$3.5mm	6%
Win Line	$2.9mm	$2.0mm	45%	$1.8mm	$0.7mm	150%
Mac Line	$2.6mm	$2.5mm	4%	$0.8mm	$0.9mm	-19%

The following table shows marketing spending as a % of forecasted revenue for the various platforms. It helps show how both CUI and Mac apps are helping to fund Win app spending in the current budget.

[1]The FY 90 number includes $3mm in incremental funds which is over and above the 12% "pool".

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Platform AREA	FY 91 Mktg. $ as a % of forecasted revenue	FY 90 Mktg. $ as a % of forecasted revenue
Win Apps	10.36%	13.19%
Mac Apps	7.37%	7.14%
CUI Apps	6.55%	7.37%

Note that FY 90 Win Apps spending includes $3.0mm in incremental funding for PC Excel and Omega. Without that amount the FY 90 % would have been 9.7%. Explanatory notes on marketing budgets follow:

(1) *Mac Apps*. As the second table shows, Mac Apps are not spending any higher a % of revenue than last year. FY 91 will be a busier year, with one new product intro (Project) and four major updates (Word, Excel, Mail, and Fl. Sim.) FY 90 saw no major Mac updates, as both Word and Excel shipped in the last few months of FY 89. The necessary expenditures for update mailings add $400K alone to the FY 91 budget.

(2) *ABU*. The ABU number could be misconstrued. The FY 91 number reflects funding Win and Mac Project launches, basically at the expense of PC Excel, whose budget is $1.1mm less than FY 90.

(3) *OBU*. OBU's marketing $ may seem high because they need to not only fund launches for Mac Word, Mac Mail, and PC Mail, but also fund 12 months' worth of efforts for Win Word.

(4) *EBU*. EBU made excellent progress on PC Works in FY 90, and funded this at the expense of Mac Works, Flight Sim, and Learning DOS. All of these products are behind FY 89 revenues and well under plan for FY 90. In order to stem this tide, adequately invest in PC Works, and launch three smaller-revenue products (Learning Windows, Mac Flight Sim 4.0, and PC Flight Sim Add-On) their spending needs to track revenue.

(5) *Win Line*. This reflects an entire year's worth of line advertising. FY 90 Win Line advertising did not commence until April.

FY 91 Opportunity

Let's assume Windows is a huge hit, and that within 18 months it is firmly entrenched. Within a year our major competitors will have their Win apps done and the rules will change. FY 91 offers the only chance we'll ever have to take share from Lotus and WordPerfect quickly and cheaply. The benefits of entrenchment have been demonstrated by the resilience of our Mac apps. Our efforts with PC Word and PC Excel offer stark contrast. The combined experience has taught us that it is far easier to keep share than it is to try and gain share once the environment is established.

The only way to deliver this 1-2 KO punch is to (a) fund Win Computing to make sure Windows is a hit, and (b) separately fund Win apps to successfully follow Windows into the mainstream where Lotus and WordPerfect are king. If Win Computing is really well done, it has to be credible, ie not favorable at all to our apps. Making the Windows environment a success is a necessary, but not sufficient condition for making our Windows apps successful. We need to be right there with a separate and parallel message making sure our apps are entrenched now. If we don't invest now, we'll have to do it later at a far greater cost.

Incremental Request

Outlined below is what we feel is necessary to achieve the above goal, and make sure we do not underfund existing (healthy) businesses. The total amount needed is $5.5mm, of which $1mm will come from Mike Maples' Opportunity Fund, leaving $4.5mm needed.

Product Area	Win Apps Bus. Press	Sustaining Advertising	Launch Spending	Total Request
Win Apps	$3.00mm			$3.00mm
ABU	$0.50mm			$0.50mm
DABU		$0.25mm	$0.25mm	$0.50mm
EBU		$0.50mm		$0.50mm
GBU		$0.30mm	$0.70mm	$1.00mm
OBU				$0.00mm
Total	$3.50mm	$1.05mm	$0.95mm	$5.50mm
Less Maples Fund				($1.00mm)
Total Request				$4.50mm

Win Apps: $3mm Windows apps line ads in biz press.
ABU: Working models for Excel generated by biz press ads.
DABU: Thunder launch; PDS updates.
EBU: Continue FY 90 Works family business press ads.
GBU: Windows PP launch; sustaining Mac PP ads.

Funding Options

This is a request for $4.5mm in incremental funding. However, we see two major areas to potentially help fund this request. The first is to change the way we account for the direct mail solicitations we do for product updates. Rather than regard these as marketing expenses, we could choose to view them as self-funding businesses. This would save an estimated $0.9mm out of the FY 91 Apps marketing budget.

The second source of savings is to fully answer the question Jon Shirley posed: "What would you trade off?" Our recommendations:

(1) *Road Show*. Eliminate the road show entirely. This would save approximately $600K, of which $360K would flow back to the Apps Marketing pool.

(2) *Education Marketing*. The submitted request for $925K includes a large amount for collateral and advertising. We believe we could trim $300K from this budget request and still achieve all of our goals. About $180K of this savings would flow back to apps.

Note — A significant portion of our gains in Education sales may have come from cannibalization of Mac products by their Academic Edition counterparts. Mac Works, for example, has seen its historical penetration rate stay constant at 11%, while 4 of those 11 points have migrated from retail sales to academic edition units in the last fiscal year.

(3) *Small Business Marketing*. The submitted request for $665K could be reasonably reduced by $200K with no appreciable effect. $100K is budgeted for a self-funding seminar program. An additional $100K is allocated to a reseller-oriented "small business push" which is as yet undefined. Of the proposed $200K savings, $120K would flow back to apps.

(4) *Corporate Accounts Marketing*. In addition to the hands-on end-user portion of the road show (above), this group budgeted an additional $600K for separate corporate accounts seminars, targeted at technical decision-makers. We believe a road show-like event is an ineffective way to build sustainable end-user demand. We would fund such a program at $300K, and restructure it so it is not an event marketing program. Of the proposed $300K in savings, $180K would flow back to apps.

Summary of Potential Savings:

Proposed US Marketing savings	$1.40mm
Amount flowing back to Apps (60%)	$0.84mm
Plus amount saved from within Apps	$0.90mm
Total Savings	$1.74mm

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