

Stone

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Marketing Plan

To: Brad Silverberg
Cc:
From: Rich Tong *By Random thoughts I got the idea...*
Re: Thoughts on DOS Marketing

It seems to me the main thing to get right in FY90 is:

- Get DOS 5.0 Right. There should be no reason for someone not to switch.
- Follow the apps marketing cookbook and Win 3.0 to motivate the field and get resellers, corporate accounts really excited.
- Market research to get right new features for DOS 5.1
- Longer-term research to understand needs in DOS 6 timeframe like notebook computers, portability, etc. Relationship to OS/2 and Windows.

Make DOS 5 The Right Product

DOS 5 is probably one of the few product that we have (except the mouse) that is all gain for EVERY PC USER and (hopefully) no pain. This is also called the product positioning:

Novices Need Simple

They need "easy to use" and "100% keystroke compatible". I'm not sure how much the command.com freaks are going to like the Shell, so we should make sure they can still use their favorite commands without leaving the shell.

Experts Need Power

More power drives first purchases amongst influential end-users. That includes unde, unformat and memory management improvements. One thing to fix: the file manager is way to slow; it shouldn't read the entire FAT first.

MIS/PC Support Need Control

Providing simple installation (pop in a disk and it changes) plus network updating (can we take our internal upd.exe utility and ship it?) and software management (ie., use counting) may mean that this is the single most compelling reason to get DOS 5. It needs to detect nets and install the REDIR.

Compatibility For Everyone

Hardware compatibility and bug-free. This is the one "failure" possible. A longer beta and preview program is preferable to early release.

*Brad's
Are you
done?
our
big enemy
step*

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The Right Strategy

Some key elements to winning.

- Step 1. Beta Test and Preview: This is an ^{usual} product where showing it doesn't really matter. In fact, it probably helps sales because we can get endorsements and I think the initial sales cycles will be long because people are cautious about something as fundamental as DOS. We may want to go even wider than a 4,000 site beta test.
- Direct Sales: Ads and Press will be important as usual, but Direct Mail will probably play a very, very important role. The product is cheap enough that it is, itself, a "working model". The goal is to get influential end-users to try.
- Retail Sales: This is the perfect in-store merchandising tool. The price point is low enough and everyone who walks into the door could use it.
- Corporate Sales: This is at least as important. I think we could get the top 10 IBM PC accounts to commit to DOS 5 upgrade in the time remaining. Two benefits, incredible endorsement and it feeds word of mouth.

And it'll stop DR DOS too...

The Right Marketing Resources

Two More Key People

Not many more, but I minimum is one "experienced" person to do the retail push and another person split between corporate sales and product research and support for DOS 5.1 and DOS 6. The new person you already have hired could handle the beta program. We'd want very senior people: the very best: now is not the time to "grow and train people". Current staffing could handle embedded DOS, OEM, etc.

Budget

I'd estimate that the low side is sales at 200K units per year and the high side is 1M plus units per year. That gives a product marketing budget of \$4-8M per year assuming standard 12% budget. We'll need that to create a large direct mail (\$4M) and advertising splash (\$2M). See the attached spreadsheets.

T1/T2

We need ASR presence at retail to make this work. Key is make this an in-store purchase given the low price point. POP and some sort of promotion will be key. I'd want to do the promotion in T2 to give us room to slip in T1 for extended testing.

What's the Ultimate Upside?

Money. This could gross Microsoft as much as an incremental \$150M per year. This is the chance to mint money for businesses we're building like LAN Manager.

Reg Base. A reg incentive is going to be important. We could sell a RUP to EVERY PC users in the world. What a tremendous base to sell Windows, DOS 5.x, OS/2, etc. Direct marketing heaven.

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Key Action Items

Size the opportunity and then Fund to grab it
Realistically so that we can develop budgets that make sense. We should follow the standard apps marketing model (12% of gross revenues). That means incremental funds request is a high priority in the next month.

Research the Obstacles: Who is most likely to buy
We've never tested users reactions to this. Do they care that DOS could do a better job for them. I'm especially interested in what MIS will think.
Upgrading every PC is a pain in the ass, what can we give them that makes them want to do it? How about automatic software tracking and auto download of DOS 5.x+. A huge reason to switch is control for them.

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COMMENTS ON MARKETING PLAN

Product Strategy

That means we need to articulate where DOS 5.1 and DOS 6 are going to head. I think this is most important for the MIS sell. I doubt they'll switch just because we have some nifty features and I think they'll be the biggest obstacle to the really big RUP sales.

Notebook/Laptop DOS

The next generation of computers will be notebooks and portables for end-users, I'm pretty sure. We'll want to add the right features for those machines like power down

ROM DOS

Don't understand this yet.

Embedded DOS

I'm not sure what level this requires of effort. Is it really a half time job?

DOS 5.1, 5.2, 5.3, etc.

Also, we need to figure out if DOS is going to bifurcate into DOS 5.x series for low-end machines (all Dataquest forecasts show a ton of these machines will be installed through the year 2000). What are we going to sell in the Third World.

DOS 6/Windows

And, what DOS 6/Windows is going to be.

Product Line Extensions

In the great tradition of ivory soap, I think we could sell a lot more once we have the reg base list besides our traditional products.

Microsoft Tools

While I realize that we don't want to alienate the Norton Utility guys, it is still a potentially interesting market. I'm curious if a low cost version of tools would be worthwhile. Could make a lot of money. Other option is to go very high end.

VMS/MVS/Unix Command.com

Something I've always wanted to think about. DOS command set is used by millions (more PCs than there are dumb terminals). Perhaps we should focus group test and see if users want to run VMS, Unix, etc. with the same commands set.

Programs

I think there is a lot of room for innovativeness in launching this product. Here are a few rumbings.

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Learning DOS Bundle

What a perfect thing to bundle with the new version of DOS. Also a great reg incentive if we can accept the profitability hit.

Mouse Bundle

Since we're mouse aware, might be even more popular than PC Paintbrush.

ISV Bundles

There are lots of third parties that could buy this product as a giveaway item. Particularly interesting if you consider this seeding.

Packaging

Why can't we go for a lower end package. And, for three SKUs: 360KB, 1.2MB, 720KB and 1.44MB. The prime SKUs would be 1.44 and 1.2MB. I suspect that we'll be able to get all of DOS onto single disks.

We can then use a "Learn Excel Now" type of packaging. A single perfectbound book plus disks bound in the back. COGS are in the range of \$5 rather than \$10. Key focus group question is: is this acceptable, or do they need to see a real "box"

Pricing

Although I understand why we want to get to a \$49 street price. I'm very curious if we can hold SRP if we do a reg base mailing. It seems to me that the convenience of direct mail could outweigh the higher price. It's incredibly profitable too. See the appendix.

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DOS 5.0 Upgrade Revenue Estimates
 Optimistic estimate-Response rate of 10%
 Richard Tong

Critical Assumptions			
Response rate	10.00%	10.00%	10.00%
Unit growth in PC ship	5%	5%	5%

	Fiscal Years Ended			
	1990	1991 (six months)	1992	1993
Domestic				
Installed at start of year	20,000,000	24,800,000	29,840,000	34,880,000
PC shipments	4,800,000	5,040,000	5,040,000	5,292,000
Total installed base	24,800,000	29,840,000	34,880,000	40,172,000
DOS 5 OEM units		2,520,000	5,040,000	5,292,000
Per unit royalty		\$7.00	\$7.00	\$7.00
OEM Royalty		\$17,640,000	\$35,280,000	\$37,044,000
Available units for upgrades	24,800,000	27,320,000	25,954,000	23,358,600
Response rate of installed base		5.00%	10.00%	10.00%
DOS 5.0 RUP units		1,366,000	2,595,400	2,335,860
Available for upgrades	24,800,000	25,954,000	23,358,600	21,022,740
Monthly unit volume		227,667	216,283	194,655
SRP	\$99.00	\$99.00	\$99.00	\$99.00
Discount	5.7%	5.7%	5.7%	5.7%
Unit revenue	\$42.57	\$42.57	\$42.57	\$42.57
% sold indirect	85%	85%	85%	85%
Indirect revenues		\$49,428,027	\$30,913,251	\$84,521,926
Direct				
% sold direct	15%	15%	15%	15%
Unit revenue	\$99.00	\$99.00	\$99.00	\$99.00
Total direct revenue		\$20,285,100	\$38,541,690	\$34,687,521
Revenues		\$69,713,127	\$132,454,941	\$119,209,447
Cost of goods sold		10,245,000	19,465,500	17,518,950
Gross Profit		\$59,468,127	\$112,989,441	\$101,690,497
USSMD Allocations		24,399,594	46,359,229	41,723,307
Product marketing		8,365,575	15,894,593	14,305,134
Operating profit		\$26,702,957	\$50,735,619	\$45,662,057
Operating margin		38.3%	38.3%	38.3%
Royalty		\$17,640,000	\$35,280,000	\$37,044,000
Total contribution		\$44,342,957	\$86,015,619	\$82,706,057
Unit cost of goods sold		\$7.50	\$7.50	\$7.50
USSMD Allocations	35%	35%	35%	35%
Product marketing funds	12%	12%	12%	12%

← This is a big bind

DOS 5.0 Upgrade Revenue Estimates
 Recession Case - FY92
 Richard Tong

Official estimate				
Response rate	1.00%	2.00%	2.00%	2.00%
Unit growth in PC shipments	10%	10%	10%	10%

	Fiscal Years Ended			
	1990	1991	1992	1993
Domestic				
Installed at start of year	20,000,000	24,800,000	29,840,000	34,376,000
PC shipments	4,800,000	5,040,000	4,536,000	4,762,800
Total installed base	24,800,000	29,840,000	34,376,000	39,138,800
DOS 5 OEM units	0	2,520,000	4,536,000	4,762,800
Per unit royalty	\$5.00	\$5.00	\$5.00	\$5.00
OEM Royalty	\$0	\$12,600,000	\$22,680,000	\$23,814,000
Available units for upgrades	24,800,000	27,320,000	27,046,800	26,505,864
Response rate	0.00%	1.00%	2.00%	2.00%
DOS 5.0 RUP units	0	273,200	540,936	530,117
Available for upgrades	24,800,000	27,046,800	26,505,864	25,975,747
SRP	\$79.00	\$79.00	\$79.00	\$79.00
Discount	50%	50%	50%	50%
Unit revenue	\$39.50	\$39.50	\$39.50	\$39.50
% sold indirect	95%	95%	95%	95%
Indirect revenues	\$0	\$10,251,830	\$20,298,623	\$19,892,651
Direct				
% sold direct	5%	5%	5%	5%
Unit revenue	\$79.00	\$79.00	\$79.00	\$79.00
Total direct revenue	\$0	\$1,079,140	\$2,136,697	\$2,093,963
Monthly unit volume	0	45,533	45,078	44,176
Annual unit shipments	0	273,200	540,936	530,117
Average per unit revenue	\$41.48	\$41.48	\$41.48	\$41.48
Revenues	\$0	\$11,330,970	\$22,435,321	\$21,986,614
Cost of goods sold	0	2,732,000	5,409,360	5,301,173
Gross Profit	\$0	\$8,598,970	\$17,025,961	\$16,685,441
USSMD Allocations	0	3,965,840	7,852,362	7,695,315
Product marketing	0	1,359,716	2,692,238	2,638,394
Operating profit	\$0	\$3,273,414	\$6,481,360	\$6,351,733
Operating margin		28.9%	28.9%	28.9%
Royalty	\$0	\$12,600,000	\$22,680,000	\$23,814,000
Total contribution	\$0	\$15,873,414	\$29,161,360	\$30,165,733
Unit cost of goods sold	\$10.00	\$10.00	\$10.00	\$10.00
Cost of goods percentage	24%	24%	24%	24%
USSMD Allocations	35%	35%	35%	35%
Product marketing funds	12%	12%	12%	12%