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PROPOSALS

Excel 3 Direct Introductory Trial Offer - Draft

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With Excel 3 we have the opportunity to use direct marketing to more effectively reach key influential users to grow our business.

Program: Introductory 90 day trial offer for Excel 3 for any spreadsheet user for \$149. Available in the channel and by direct mail.

Goal: 50,000 incremental new units, 70,000 total direct units. Overall profitability equal to current forecast, including the program costs of \$4.2 million.

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Key Background Insights

Trial is essential

We believe the purchase model of awareness leading to trial leading to purchase is valid. Gaining share requires reaching users beyond those influenced by our current installed base. Excel 3 will generate good awareness, but an aggressive trial program is essential for converting new incremental users.

IEU's are the key influencers

A new refinement in this purchase model is that the more sophisticated and influential spreadsheet end users (IEU's) have significant influence over multiple purchase decisions in workgroups. Our marketing goal is to convert and fully leverage these influencers to generate recommendations and a ground-swell demand of multiple purchases. This workgroup oriented view of the market means that word of mouth is very important in generating sales, and this implies a need for "critical mass" trial to generate grass-roots recommendations. For Excel 3, our goal is to convert 100,000 new IEU's in 1991. This is the magnitude of exposure needed to gain any significant market share.

To accomplish this, we need a trial program that makes it easy to try Excel, makes the trial experience positive, converts people to using Excel, and fosters positive recommendation to others.

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The traditional marketing programs are not enough

The Excel 2 working models were marginally successful at increasing trial, and marginally successful at converting trial to purchase. Research shows a conversion rate of 6.5%. However, even though working models are marginally successful, their reach is very limited, due to the fact that the conversion rate is small. A large number of models only leads to small number of actual purchases. Conversion is low because a demo disk does not motivate many people to seriously consider and try the software. The installation rate is only 50%. People in Excel focus groups said that if they were evaluating software, they would want the full product.

Seminars and Telemarketing are the other two significant methods we have for pushing conversion, and are reasonably cost-effective. But, their reach is very limited in terms of the sheer numbers of units they can influence.

Win Excel has lead the company in terms of marketing programs such as working model, seminars, and telemarketing. Yet, for all the resources applied, our share has increased only slightly in the last two years, from 8-10% to 11-13%, and this includes a boost from Windows 3.

Using known costs and conversion rates, a very aggressive working model, seminar, and telemarketing campaign would cost \$4 million and generate 15,000 units of Excel. This is far below the 100,000 IEU's we are targeting to gain share. See Attachment 2 for an analysis of the current marketing mix.

For high-end products like spreadsheets, it has been difficult to show that in-store retail promotions have any significant impact on demand. It has also been very difficult in the broad market to motivate dealers to push Excel over Lotus. With most dealers acting as order takers, Lotus' continued high market share is supported by the channel.

Direct marketing can most effectively reach IEU's

Direct marketing can be a very effective tool for contacting and converting influential segments of the spreadsheet market. Borland has proved this with Quattro Pro. Advertising and the press can generate good awareness, but it is very difficult to convert awareness to purchase without an easy trial program. With Excel 3 we should use direct marketing as a primary method of reaching the key IEU segments that will form a vanguard of Excel advocates and provide a long-term boost to our market share. The advantages of direct mail is that it is a very cost-efficient method of delivering a message to a qualified audience. Also, as a new communication medium, it lets us speak to audiences we do not reach in retail stores or in ads. Finally, it is also a very efficient method of delivering trial to qualified users, namely those that self select and respond to the offer.

The time to act is now

In spite of 1,000,000+ units of Windows 3 shipped, the majority of spreadsheet users are either unaware of a Windows spreadsheet, or are happy to wait until 123 is available for Windows. New research for spreadsheet market share on PC's with Windows 3 is Excel 20%, QuattroPro 20%, and 123 40%. We have a difficult marketing challenge in moving these people to Excel now. However, this challenge is nothing like the difficulty we will face selling Excel against \$99 Win Quattro or \$99 123 for Windows upgrades next summer. Gaining share will be very, very expensive after mid 1991, and it is

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unclear that we will be able to ship new versions in 1991/1992 that will be dramatically superior to Lotus and Borland's Windows offerings.

Competition

Both Borland and Lotus have come to understand the importance of making it easy for influential spreadsheet users to try a product, and are leading us in programs. Our competitors have already set the price of trial for current spreadsheet users at \$75-150. There is a war starting over the installed base, and price and direct distribution are key tactics. As our competitors come out with Windows products in 1991, they will continue to aggressively market these to the installed base.

Borland

Quattro Pro has been wildly successful for three reasons:

1. Hardware requirements

Quattro Pro runs on all almost all PC's.

Excel comparison: Their target market is twice as large as Excel's. But many of their units are going to the 286/386 base.

2. Compatible, compelling feature set

Quattro Pro is fully compatible with 123, and offers an incremental but compelling feature set.

Excel comparison: The Excel feature set, while better, has not been as approachable to 123 users as Quattro Pros because of the change in environment and our un-Lotus like interface. With Excel 3.0 we have improved compatibility, with advanced new Lotus Help, and significantly improved usability, but still will not directly run 123 macros.

3. Massive trial

Borland has been very aggressive generating massive trial through direct marketing the full product, with 200,000 units shipped from direct mail.

Excel comparison: We have sent out over 100,000 working models, but they do not lead to serious trial, and the conversion rate is only 6.5%.

Direct Marketing Success

Since launching Quattro Pro in Nov. 1989, Borland has aggressively marketed the product for \$99 in the channel and by direct mail. They have shipped 200,000 units direct and an estimated 150,000-200,000 in the channel. They have been very successful in using direct mail to reach IEU's. \$99 makes it easy to try the product. The fact that the product is good and is compatible with 123 makes the trial experience a good one, and may lead to a high conversion to using Quattro Pro. By successfully converting IEU's with their direct mail campaign they have very quickly built up a vanguard of influential users that have recommended the product to others and created a multiple purchase groundswell. They have vaulted past Excel's market share in one year, and have shaken Lotus. The \$99 price cut alone is not the only reason for their success. The importance of targeting IEU's directly, converting them, and then generating multiple purchases has been a driving force behind their share gains.

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Units / Share	Q4 1989	Q1 1990	Q2 1990	Q3 1990
Quattro Pro	68,000 / 16%	150,000 / 28%	Est. 130,000	100,000?
Excel	42,000 / 11%	60,000 / 12%	45,000 / 12%	

Borland has sold 166,000 units of Quattro Pro via direct mail in 1990, and an estimated 200,000 direct since launch. Their total units are estimated at 450,000. The universe of reasonably targeted direct mail lists for this offer is no more than 3-5 million names, based on the list searches we have done. This implies an overall response rate of 4% to 6.5% after multiple mailings to this group.

Quattro for Windows

Borland is actively working on a Windows version of Quattro, for release in mid 1991. It is likely that they will continue to use the same marketing strategy with their Windows product, and this has dangerous implications for Excel given our current marketing. It raises the possibility of Win Quattro surpassing Excel's market share in a very short amount of time, as they have done with Quattro Pro.

Lotus

New focus on end-user marketing

Borland's success at penetrating the 123 installed base has shown that Lotus does not "own" their installed base, either in terms of brand and now even product loyalty. The specter that they could loose their installed base has visibly shaken Lotus. They have realized that they too must compete for the installed base, and are now aggressively marketing their new "graphical" 123 3.1 to their installed base. Product upgrades are a significant business for Lotus, and they are traditionally priced high, at \$150. The upgrade to 123 3.1 is priced at \$35 for 123 3.0 users, \$75 for 123 2.2 users, and \$150 for 2.01 users (although Egghead is offering this for \$99). It is being aggressively promoted in ads, with 800 #'s and response coupons, and by direct mail. This 3.1 upgrade effort is the marketing equivalent of Borland's efforts at generating trial among 123 users.

123 for Windows

We estimate Lotus will ship 123 for Windows around June 1991. Given the precedents being set, they will likely price the upgrade at around \$99. The price of trying a Lotus Windows spreadsheet will far below the price of trying Excel. Getting people to even try Excel will be more difficult, and gaining meaningful inroads into the installed base will become very difficult.

Target Market Objectives

Our direct marketing efforts should be focused on increasing business in two key markets:

Win the Windows market

We still have a unique opportunity to make Excel dominant on the Windows platform. Excel today leads the Windows spreadsheet market, but even as the leader has low penetration on PC's with Windows. New research for spreadsheet market share on PC's that have Windows 3 is Excel 20%, QuattroPro 20%, and 123 40%.

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The opportunity we have with Excel 3 is to quickly increase our penetration on Windows machines now before our competitors ship Windows products, with the goal of maintaining that penetration as the Windows base grows substantially. For all its success, Windows is still in its infancy. One million units of Win 3 shipped are only a 7% penetration on the 15 million 286 and 386 PCs in the US. Failure to gain share on the platform now could permanently limit our market share potential for Win Excel after Lotus and Borland ship Windows products.

Convert spreadsheet IEU's

Spreadsheet IEU's are the real influencers for workgroup buying decisions. They are the main target audience for Excel 3 marketing efforts. Up to 2 million spreadsheet users in the U.S. may fit this profile, and most use or have used 123. Borland has been very successful selling trial units directly to this market. Reaching IEU's is the primary objective for Excel 3 marketing, and in order to gain any significant share, we must convert 100,00 IEU's. Direct marketing a trial offer for Excel 3 may be the most efficient and reliable method of generating conversion in this target market, provided we can successfully target this audience (see Execution below).

Program

Direct marketing could let us move toward these goals better than any other program we have underway now. See Attachment 1 for an analysis of the program.

Proposal- A large-scale introductory trial promotion for Excel 3 available direct and in the channel

The Offer

Sell Excel 3 to any spreadsheet user for \$149 for a 90 day period after Excel 3 ships. Offer available in the channel and by direct mail. Proof of spreadsheet ownership required in the form of a disk or manual page. Included in the offer will be the options of buying Windows 3 or a mouse for full SRP.

Key Dynamic

By making the offer available in the channel, a substantial number of units in the channel are trial priced, and we lose approximately \$3MM in revenue. In order for the program to be profit neutral, we need to sell 60,000 trial units direct, which requires multiple mailings to 2.5 million users. If we can succeed at this, we will gain share and sell an incremental 50,000 units while achieving our profitability forecast.

The Product

The actual SKU that we fulfill will be full Excel 3 packaging with some additions to insure the trial experience is positive and maximize actual conversion to using Excel. The box will be improved to motivate people to install the product. Setup will include an autodem to generate initial excitement about the product. Once setup is complete, Excel will be opened with a suite of demo files to draw the user into the product and show off Excel's most compelling features. There will also be a new short getting started booklet to quickly introduce users to Excel's best features. Finally, we are planning to provide tools and incentives to encourage showing and recommending Excel to others.

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Critical open issue- Can we use a crippled version of the Win 3 Enabler so that people who do not have Windows will at least be able to install the product when they get it. If this Enabler was truly limited, such as no printing, it should be acceptable to the Windows group because it could not cannibalize full sales.

Channel Distribution

In order to preserve our broad channel distribution, the offer should be made available in the channel. In an effort to minimize price erosion in the channel, the program should have as tight controls for proof of spreadsheet ownership as possible. We assume that there will be little incremental demand in the channel because of the program, and that most of the incremental IEUs exposed to Excel 3 will be those we reach direct. Our revenue losses in the channel because of this program can be viewed as "sunk" costs that we accept with the first piece of mail we send. Given that we are taking this cost hit, we should maximize the direct business we do in this time frame.

We will also face the challenge of launching a new product in the channel at the same time we are starting this direct promotion. However, rather than having this perceived as a threat, we should be able to promote this aggressive trial program in the channel as another way of building reseller excitement and distribution for Excel 3. It will be a limited time opportunity for them as well, and their competitors will be offering it.

Direct Marketing

In order to generate significant units and convert a significant number of IEUs, the offer must be made to a very large IEU audience of up to 2.5 million. This group would include targeted internal lists of 800,000, including 500,000 Win 3 names, and 2 million spreadsheet IEUs drawn mainly from trade mag lists or financial lists.

In this three month period we would drop three mailings. The first would be to the internal lists we know will pull. At the same time, we would test 10-20 other lists. Eight weeks later we would have response data back from the first mailing, and would then drop second mailings to the lists that pulled well. The third mailing would follow up on the second. 8 million pieces of mail with an overall response rate of 2.2% would generate 70,000 direct trial units, of which an estimated 55- 60,000 would be incremental new units.

Controls and Validation

The offer should only be available under tight controls of one per person with proof of spreadsheet ownership required. This will serve to limit channel price erosion. We need to better understand how this would work programmatically in the channel.

Projected Results and Profitability

See attached analysis. The target total response rate is 2.2% and 70,000 units from direct mail. Overall business target is 50,000 new incremental units. Funding required is \$4.2 million, with overall profitability equal to current forecast. This would result in a 4-5% share gain for the Jan.-June period.

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Critical Issues/Risks

"Program Killer" Issues

Can We Execute the Program?

Yes, but it is tight. See full discussion below.

Size, Lists

We have 500K Windows 3 names and up to 300K other internal names. We can get 2 million trade press names, but they are untested. A critical part of the program would be testing these names in the course of the mailings.

Batteries Not Included

Excel requires Windows 3. The direct offer must include an offer for Win 3, probably at \$149. This raises the price of trial to a very high \$300. Can we achieve the needed response rates with this price barrier?

The Word test will answer this. See below.

We also need a crippled version of the Win 3 Enabler so that people who do not have Windows will at least be able to install the product when they get it. If this Enabler was truly limited, such as no printing, it should be acceptable to the Windows group because it could not cannibalize full sales.

Budget

A large direct mail campaign would require up to \$4.2MM in funding. Even if we can show the program would be profit neutral vs. our base forecast, getting this level of funding will be difficult or impossible.

Other Crucial Issues

Quattro Pro Saturation

Borland has already mailed many of the same people. As a follower, our response will be lower. To compensate, our target overall response rate is 2.2% vs. 4-6% estimated for Borland.

Testing Response

How can we know we will get the response we forecast?

The Word test will answer this. See below.

Channel Revenue Loss

We will lose tremendous revenue in the channel due to the price cut. Can this be limited programmatically? We will also lose revenue at the Excel 3 sell in as we could accept full price returns of Excel 2.1 for trial price Excel 3 units.

Required Lotus disk or manual page would limit trial units to a fraction of total channel units. Target is 50% of channel units at trial price, 50% at full price.

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Can We Sustain Share Gains

The purpose of the program is share gains, but how sustainable will they be once the program is over?

If we gain 4 share points with the program but keep only 1 point for the next two years, that share point is worth \$8.5MM in revenue.

Distribution at Launch

Can we get our desired channel distribution of Excel 3 at launch if we also are selling direct?

Rather than having this perceived as a threat, we should be able to promote this aggressive trial program in the channel as another way of building reseller excitement and distribution for Excel 3. It will be a limited time opportunity for them as well, and their competitors will be offering it.

Other Price Erosion

How will the direct offer affect the existing and new non-channel priced business we do with a few corporate accounts and OEM's?

We need to investigate how we could control this. These non-channel priced units represent a small portion of our business.

Program Execution

There are two key issues involving executing this program: 1. Can we successfully execute the logistics, and 2. Will we get the direct response we are forecasting.

Executing the logistics

There are four main areas we need to execute. We will use consultants as needed to insure we will successfully execute the program. For any direct marketing effort, the mailing list is the most important variable, followed by the offer, and then the creative design.

Program design

This document outlines the basic design of the program. Microsoft will own the program design and the offer, and a consultant will make recommendations for improvement.

Lists

Mailing targeted lists is the most important variable. We need targeted lists of 2.5 million.

Using in-house or available lists, we can generate over 800,000 qualified names internally.

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Number Test Estimated Units

Internal Lists		Data	Response	
Win 3 reg base	200,000	Yes	6.0%	12,000
Win 3 fulfillment list	300,000	Yes	6.0%	18,000
Win apps reg base	60,000	No	6.0%	3,600
Win Computing working models	125,000	No	2.0%	2,500
Excel working models	100,000	No	3.0%	3,000
PST attendees	30,000	No	2.0%	600
Mouse reg base	100,000	No	1.0%	1,000
Total	915,000		4.4%	40,700

Beyond the internally generated lists, we need an additional 2 million that will be rented. The trade magazine audience is a know puller based on working model offers, and numbers 2 million. We should test these lists and plan on using them as the bulk of our general audience.

Beyond the trade mag lists, lists become small and less qualified. Lists brokers have recommended a large number of various finance and software buyer lists. These lists are much less targeted and may merit testing but will probably not merit mailing. These include finance related lists, such as CPA's, and finance publications. Note, however, that Excel 2.0 achieved a 5.4% response to a CPA list.

External Targeted Lists	Number	Test Data	Estimated Response	Units
HP Laserjet by SS use	100,000	Yes	3.0%	3,000
OEM Win 3 lists	50,000	No	6.0%	3,000
				0
PC Mag	596,000	No	1.2%	7,152
Infoworld	172,000	No	1.2%	2,064
PC Computing	512,000	No	1.2%	6,144
PC World	544,000	No	1.2%	6,528
Software Digest	45,000	No	1.2%	540
Byte	241,000	No	1.2%	2,892
Total	2,110,000		1.5%	31,320

Testing the Lists

First mailing- Week 1

We have 800,000 very targeted internal names. These would make up the first mailing, along with test mailings of 20 external lists at 10,000 pieces each.

Second mailing- Week 9

Six weeks after the first mailing, we would have initial response data back, and could then pick the lists that pulled the best, and re-mail. Most of the internal lists should have pulled well and should qualify for additional mailings. We will pick the best of the external lists and mail them in full up to 2 million pieces.

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Third mailing- Week 13

The third mailing would use any more data we had to better follow-up on the second mailing.

	Internal Lists	External Lists	Total
First Mailing	825,000	200,000	1,025,000
Second Mailing	815,000	2,000,000	2,815,000
Third Mailing	815,000	1,332,000	2,147,000
Total	2,455,000	3,532,000	5,987,000

Mailing Design Creative

We will use a consultant to insure that the design is a very compelling direct marketing piece. We will use the Quattro Pro style creative as a well tested model.

Logistics

We will find the most cost-effective methods for dropping the mailings.

We may also use a dedicated 800# for a five month period.

We increase capacity for our internal fulfillment for a four month period.

Measurement

We will code each mailing to track response rates, and put in place a thorough measurement program.

Predicting the response rates**Historical Data**

We have some precedents to base our target response rates on:

Borland has sold 168,000 units of Quattro Pro via direct mail in 1990, and an estimated 200,000 direct since launch. Their total units are estimated at 450,000. The universe of reasonably targeted direct mail lists for this offer is no more than 3-5 million names, based on the list searches we have done. This implies an overall response rate of 4% to 6.5% after multiple mailings to this group.

At the Win Excel launch we mailed 80,000 CPA's (a relatively untargeted list) with an offer for Excel for \$100, and achieved a 5.4% response rate.

A post-card mailing to the Win 3 reg base offering free working models has achieved a 15% response rate. Win 3 users are a highly targeted group, and we should identify and contact as many as possible.

The Word Test

The Word group is organizing a direct marketing test for this fall. They will mail a total of 20,000 people, divided by 6 cells:

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List	\$99	\$149	\$299
Targeted (Win 3)			
General (Trade W.P.)			

The mailing will drop Nov. 15, with initial results back by Dec. 15. This will give us last-minute data on response rates for varying pricing and targeted vs. general lists. We will still be able to change Excel pricing at this point, or kill the whole program with limited costs.

Channel Effects

We still have a lot of work to do to better understand and predict the effects of this program on the channel. We will be working with USSMD in the next month to do this.

Issues that need to be better understood and described

1. We need to get a well-thought out appraisal of the possible long-term negative impacts, and assign a realistic probability to them.

2. We need to better understand and document some supporting evidence:

Quattro Pro's distribution has gone from very poor to decent since they launched, in the face of a massive continual direct campaign. Their distribution is currently thought to be significantly narrower than Excel's, but they may still be gaining distribution.

> A successful direct campaign can generate *increased* demand in the channel.

Intuit has been very successful at good distribution and continued direct campaigns.

> Even with a continual direct business, most units are channel units.

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