Microsoft Corporation
One Microsoft Way
Redmond, WA 98052-6399

Tel 206 882 8080
Telex 160520
Fax 206 883 8101

Microsoft Memo

see page 5

TO: Jeremy Butler, Mike Hallman, Bernard Vergnes, Steve Ballmer, Mike Maples, Frank Gaudette, Jon Lazarus, Jeff Raikes

FROM: Bill Gates

cc: Brad Silverberg, Greg Tibbetts, Joachim Kempin, Aaron Getz

DATE: April 25, 1991

SUBJECT: Europe Trip Report - March 23-30, 1991

I flew Seattle to London Saturday night with Charles Simonyi in order to discuss his research on more efficient programming approaches. In London I met up with David Svendsen for the trip to Dublin.
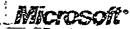
Apparently there is some security directive out to the subsidiaries about my visiting. I object strongly to this being done without talking to me and in contradiction to my instructions. Checking into a hotel under an assumed name that no one remembers, or showing the right passport or credit card or receiving calls is all too confusing. Try convincing the press of any normalcy with guards standing around to escort me to a bullet-proof Mercedes. What kind of image do you have in mind? The money and inconvenience of this is significant. Someone has decided we can't announce I am speaking far in advance making it hard to get people to attend. As far as any security benefit goes there is very little. Paris was nice because Bernard was my driver and bodyguard and my room reservation was for "Gates".

IRELAND

On Monday morning we had a press conference. All of the *Wall Street Journal* articles have reduced the subsidiaries' ability to speak for the company to customers and press. This effect is not as bad as the "OS/2 is dead" beliefs but far more impactful than the mis-statements about FTC, Apple lawsuit and Windows. Europe loves UNIX and OS/2 won't easily be brought back to life. When I have only eight or less journalists the less Microsoft people in the room the better and I prefer less handling like "Mr. Gates will take only three more questions" rather than letting me speak for myself. The format made me seem a little arrogant.

Next I had a presentation on our manufacturing philosophy and a tour. Some of the things like all master disks transmitted on the Microsoft network and the plan to print labels/apply labels/duplicate at one station with one person are really smart. I would like to see a COGS comparison of Ireland to the U.S. - I wonder how using low volume printers with sheet-fed equipment and requiring daily delivery affects cost? I gave a speech and handed out World Class Manufacturing certificates. I was impressed with the factory.

I toured IPG Ireland. I didn't realize we are making all new code pages for Windows - different from DOS. Even though this preserves some DTP characters I want to

MS 0181450
CONFIDENTIAL

Microsoft

understand it better. We fought for one Russian code page - now we add another! The Russian consultant wrote a generic program to generate keyboard drivers - the U.S. should use this and take it over. The idea of providing localization handbooks to ISVs is good - I will talk to Greg Tibbetts about how we are pursuing these ISVs. I gave a speech to 149 people but was told not to mention the move to "no compilation" in IPG because the engineers and testers would wonder about their jobs. This just reminds me what a joke our current approach is. I feel the same way about our having different approaches to documentation in the U.S. and International and Tricia Green is doing a report on this. I saw how we make packaging in Ireland on the Macintosh to get short lead times - I wonder if the U.S. does this? I don't think so because Ireland isn't editing a U.S. file when they start.

I spoke to 300 customers and included the Excel/OLE demonstration. A good turnout for Ireland!

Switzerland

Bernard and I flew to Zurich. Time with Bernard is always very valuable. My cold prevented me from making the best use of the spare time this trip. We discovered that you can't roll down the window of a bullet-proof Mercedes!

Peter Blum organized a group of large accounts for dinner. I gave two speeches. The Chairman of Swiss Air sat next to me and he is a hardcore user. A manager from the International Technical Union - which is part of the UN and controls standards like CCITT - wants us to be serious about ODA. I couldn't respond. I need to review our ODA plans.

On Tuesday morning we visited Bank Vontobel, a 600-person trading firm. They have the most advanced Windows trading system ever! FIDES, a development group inside Credit Suisse, built it. I was amazed at their network and user interface - far beyond Reuters and including all Reuters data and a lot more. (Jon Lazarus - we should consider a video of this for Windows on Wall Street.) FIDES says many people ask for UNIX (DEC trade or SUN) so they will provide it even though they try to push Windows. Their server work on LAN Man for all the data feeds should be available to other customers. I will discuss the situation further with Jon Lazarus.

We have had significant delivery problems in Switzerland - I am not sure what the plan is to solve them.

I spoke at our seminar for 250 people. A high percentage that I talked to were from the industry - Compaq, distributors, etc., but given how new we are to the market it was a good turnout. I used the same PowerPoint slides and gave the OLE demo.

We had a 45-minute session for distributors. Petra Keller did a formal introduction which wasn't necessary. I was surprised no one from Microsoft seemed to have a lot to discuss with these partners. Mr. Windmer (CFM) and Mr. Schenk (LAN distributor - Ascom Eleotha) asked most of the questions. The trip briefing said to use slides but they had just attended the seminar.

After a few interviews and lunch I spoke to 30 journalists. Surprisingly almost all of them attended the seminar too so I had to come up with new things to say and take questions. Finally I had a TV interview where they asked me about our high prices.

Germany

Bernard and I flew to Frankfurt, met Christian and went to our office there to have dinner with the Frankfurt team and some large account sales people and SEs who had flown in. I gave a speech but mostly it was informal. I was surprised how young and how new all our people are - do we ever hire sales people over 35 for large accounts? Networking is having the same difficulties as in the U.S. IBM is very trusted in Germany and is pushing Novell.

First thing on Wednesday, I met with the EVP of DP from Deutsche Bank. He said Ken Olsen had told him OS/2 was dead and that Microsoft agreed. I corrected this but I wonder how many people Olsen told this to. I explained that someone should use OS/2 for servers, desktop SAA and other high-end requirements but in general Windows meets desktop needs. The family story works one-on-one but not through the press. Pricing is a big issue for this account - they want a discount worldwide (mainly Europe, New York, Tokyo and Singapore). Apparently our first response was that we can't do it. They are not asking for the same price everywhere. They mainly want to know they are getting a good deal. Works OEM bundles are being sold separately at prices below what we quoted Deutsche - so again they feel we are not giving them large account treatment. Bernard agreed we would work on their problem for Europe.

I spoke to our Eastern European distributors and took questions. Novotrade in Hungary wants to do development for us. They have an office in California for liaison and should be considered for contract work. Our complex localization process makes it very expensive to do Eastern European software - we should just send some WinWord files and a resource editor to distributors to do the work. As a result, we are doing Russian, Hungarian and Czech Windows, WinWord and Excel at great expense and slowly and nothing for the rest of Eastern Europe. I would like to see our schedules for these. I still think it is a mistake not to do Works - at least we are doing Russian Works. The questions from these distributors and the Czech and Hungarian magazines were very similar to what U.S. publications would ask. OS/2, Geoworks, Novell ... I wonder if we have a code page strategy for DOS and Windows for these.

Compunet, a high-end IBM hardware-only reseller arranged a seminar for 30 top accounts and attracted very senior people. I was told to stress our strong relationship with IBM so I did. I used PowerPoint and did the OLE demo. I promised convergence between LAN Man and LAN Server. I was asked if we would do an upgrade promotion like our $129 U.S. deal in Germany. I started to say we would consider swap programs for large accounts when Christian said such things are illegal. I believe we can find a way and that we need to show more flexibility. These large accounts are wondering if IBM can do great software and are unsure what to do if the answer is no. There is an opportunity to get them to work with us if we give them a way to let us in as a tactical solution. There were good questions about tools, downsizing, networking and mail.

I had lunch with Mobil and Allizz, among others, who both showed a strong interest in Windows.

An interview with *High Tech* was quite confrontative in a U.S.-press kind of way but I think I got a friendly, humble message across.

A one-hour meeting with Siemens - Nixdorf's VP of Software was friendly. I explained ACE/ARC and encouraged him to join (later he did). I reviewed our strategy. He wanted to know whether to keep doing OS/2 banking software and we said yes. The main action item is joint development. Do we want to work with them on x.500 or licensing/distribution or anything? They have been asking for years (mainly Nixdorf) and we never really answer. They agreed to send information on their licensing/distribution software to Steve Ballmer. (Bernard, please make sure someone follows up on this). We need a joint project with them - they have 1,400 developers on systems-related software all over the world - including US, UK, France, etc. We could get them to put XPG3 on NT. We should do some joint work with Siemens and NT or software distribution might be a way to start. (Jeff Raikes, are we working with them on Spitfire or not?) Some OEMs like Siemens, Bull and Olivetti need joint development of some kind so their internal engineering groups like us or at least know us. Since they don't love SCO Open Desktop, Hans Appel suggests we give them NT source code to do subsystems. Siemens - Nixdorf sold 140k PCs last year and expects to grow 25%. They sold 20k UNIX systems with lower growth and yet 80% of their development and message to the market is UNIX. Since Siemens gets MCA components from IBM they get a confusing OS/2 story. We need to focus on making sure they keep going on OS/2 applications and that OS/2 is part of their MIPS strategy.

Holland

Bernard and I flew to Amsterdam where Patrick met us. Our meetings were 30 minutes from the airport on the ocean.

I spoke to 150 OS/2 user group members for an hour. We helped organize this OS/2 group like many in Europe. I was very pro-OS/2 in this meeting. There were surprisingly few questions.

Thursday morning we met with Apple Netherlands. It was a very friendly meeting - the General Manager was new. Sixty percent of Macs are sold through Apple-only outlets (Apple Centers). I explained our support for System 7 and that I would be at the U.S. announcement. We discussed the various markets the Mac sells to and they agreed on the need to focus more on the general business user. Bernard asked what we could do better and they mentioned localization issues (we are not the same as other Mac apps in some areas) and pricing. They have no particular relationship with Claris - Apple does separate the sales side of systems and applications a lot more than we do.

The morning was taken up with a series of interviews including a Windows magazine. It's interesting that several European countries have Windows magazines and the US does not. It could be that Windows is too popular for a special magazine.

We had 60 Apple resellers in for an hour. It's fun just to talk about applications, particularly Excel 3. I think it went well - the Mac community likes reassurance of our commitment.

Lunch with Tulip (Van Eck) focused on LAN distribution, Windows bundling on 286 (they plan to drop it but it's a small percentage of their machines) and hardware futures (video, pen, multimedia). Tulip is surviving quite nicely and our relationship is good.

After more interviews, I spoke to over 300 industry people using PowerPoint. The OLE demo didn't work for the first time but I still don't know why. It wasn't the sub's fault. Many of the questions were a little random - like an HP guy attacking DDE or someone with a mail product wondering about my strong statements about our mail commitment.

France

Bernard and I flew to Paris for dinner with David McKinney, VP IBM Europe. He was very friendly and professional but he was clear he won't get in between the product divisions and us. He even asked what happens if we get totally divorced. We explained our commitment to OS/2 and said we were surprised IBM doesn't meet with us more. McKinney agreed to look into Steve's being kicked out to the PS Forum (Steve was reinstated but they would still prefer an apps person) and Germany not selling LAN Server anymore (when he called after my trip he agreed they needed a consistent message). He explained the new organizational changes and said he would be in Europe the rest of the year. He encouraged us to meet with McCracken. IBM HQ told him my Research Board speech was not pro-OS/2, which amazes me. McKinney was very professional - he might carry a message back to HQ that we seem reasonable and want more dialog.

Friday morning we met with Olaf Larsson, VP Europe Apple and several of his people. He wanted to understand OS/2. We reviewed our relationship with Apple in various countries - he agreed to try and help some in Sweden and Spain. He was glad to hear about our System 7 commitment and upgrade plans. He strongly suggested our German organization of a focused Mac group would be crucial to working with Apple. He wants us to adopt this all over Europe. Even in the US we might need to move to this model more - I want to discuss this with Maples, Hallman and Oki. Apple's Eastern European strategy is very similar to ours. I think we need to study our $/Mac - Apple doubled Mac sales in Europe Q190 to Q191 and I don't understand why we aren't doing better. We did lower Works prices but we should review whether it was enough. The scary thing Apple said is that they plan to do more software bundles in the future. I think we need a special transfer price for bundles that a GM can use whenever he wants - at least on Mac. Apple Claris is separate but they will be far more aggressive than our prices allow us to be without a clear plan. This should cover more than just Works. Apple has about ten software evangelists in Paris - very similar to what we are planning. At the end of the

meeting I told Apple I would be glad to say positive things at a large account event if they plan to have one and they seemed interested.

I met with a large account - UAP. We actually do good deals with some large accounts in France but we need standard approaches to broaden this. UAP thought we were inflexible and said they discussed this with may other accounts. Large accounts have buying power and if they are organized enough to exercise it they should get better deals - penetration pricing is the best deal for us.

I met with Geraint Davies to discuss his ISV programs since he is going to hire new people. His plans are right on target. He will start to let the UNIX developers know about our systems. We discussed how to work with the service companies like Logica and Segos - during the next year we will at least start a dialog with them.

I gave a video interview for a Bun conference on the future of computing. I was very GUI/Windows-oriented.

I had lunch with the EHQ staff. Sanderson and Bach were on vacation. It's a good group. I talked quite a bit with Hans about the OEM situations.

On the way to the airport before my last interview I met with Dr. Skopicki who has talked to us about a small keyboard, touch-sensitive machine with windowing, Basic and multi-tasking for over five years. He has it running and is working with the Japanese. He sees it for personal organization, simple data entry, calculator and controlling things like phoning, home temperature, exercise readouts - with its "soft" keyboard and JEIDA cards it's very flexible. Since his OS is not Windows I don't think we can work with him but it points out somewhat of a hole in our product line I will write more about later.

I had two long press interviews - after responding to a long list of things in one I got a little sarcastic which is always dangerous, but particularly with a language barrier, European expectations and the example it sets.

Overall it was a productive trip. I am going back in June and September so I will be in major subsidiaries two days and minor ones for one day. I apologize for the delay in this trip report - it reminds me of the benefit of writing the report every day and finishing on the flight back - I finished 80% and took three weeks for the rest.

WHG/jg