

From mikemur Thu May 16 17:49:33 1991
To: bradsi johncon jonl paulma russw tonya
Cc: ntf
Subject: NBU Strategy
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fyi - this went to all NBU employees today:

May 16, 1991

Events from the last couple months have many thinking that we are at a proverbial "crossroads" in terms of our overall strategy. The purpose of this mail is to change "crossroads" to "cross hairs" -- that is, we have moved out of the "intersection of issues" and have created an extremely focused plan for our future: focused products, focused teams, focused purpose.

Crossroad - a crucial point or place
Cross hair - the focus of an eyepiece used as a sighting reference

Why are we here?

Microsoft's stated corporate mission is: A computer on every desk and in every home. When Bill Gates first uttered these words as a young sophomore at Lakeside High in Seattle, he could not have known that all these desks would, one day, be connected. Nor did he know that there would be 60 million such desks by 1990.

In 1990 we began hearing about IAYF -- Information At Your Fingertips.

The PC becomes the window to the information in the organization. Operating systems must provide the underlying plumbing to enable the transparent and seamless movement of information across the organization's netwo

It is our collective charter to envision and then build the plumbing that will help achieve IAYF. As an operating system company, we must build advanced distributed computing functionality into our operating systems. In addition, it remains our historic responsibility to carry today's current NBU customers into the future with us. This, in sum, is what the company pays us to do.

Where did we come from?

Our "parents" had brilliant vision -- that of a common operating system on both the client (desktop) and the server. This commonality would greatly simplify the life of the MIS manager, the ISV and the ultimate end-user. Moreover, this OS would be "industrial strength", thus allowing for the development of truly distributed applications and management tools. In order for this vision to become reality, this new OS would have to become a high volume product and would, in fact, replace MS-DOS as the ubiquitous standard desktop OS. It is important to note that this compelling vision remains intact today -- that of a common OS on both the desktop and the server. Unfortunately the first attempt at implementing this vision has achieved only marginal success due to the lack of acceptance of OS/2 as a high volume desktop operating system.

Our "OEM" marketing/distribution strategy for our LAN products was tied directly to the hypothesis that OS/2 would replace DOS and that major OEMs would be selling OS/2 with their systems. The LAN products would receive a "free ride" into the distribution channel, with little

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marketing, support or training from Microsoft.

But the market voted otherwise and OEMs did not put OS/2 onto their hardware, so LAN Manager was stuck someplace between Redmond and the "market". 3Com however did manage to create a business out of selling LAN Man. They sold 500 - 1,000 copies per month. Much of this was into their existing installed base. Unfortunately their number paled in comparison with Novell's monthly run rate of 20,000 copies of Netware.

So we entered the reseller channel last fall in an attempt to broaden distribution and to create brand recognition for our networking products. We have succeeded in signing up and training lots of resellers and we've increased product awareness significantly. We have learned and continue to learn a great deal about customer requirements and reseller requirements for products of this kind. In terms of sales, we have yet to achieve what we forecasted. This is due, in part, to all the points previously mentioned in addition to the "client server" position of our product line. This positioning (which we continue to believe to be the most advantageous) does not allow for high volume, off the shelf purchasing of the product to solve basic file and print sharing problems. Instead it argues for MIS involvement, evaluation and development. Call it "downsizing" or "mission critical" or "line of business". The sales cycle is long and the support requirement is intensive and expensive. However, our client server products: LAN Manager, SQL Server, Comm Server and lots of front ends is a comp

IBM has now decided to make the acceptance of OS/2 on the desktop a religious crusade -- we wish them well in this endeavor, but we are not holding our breath. Why? Because Windows has become one of those "once in a decade" phenomenons in the software industry. ISVs, customers, and hardware vendors have all agreed that Windows is "good". This "goodness" is instantly translated into several million copies of product being sold each year. This natural market momentum has taken on life of its own -- (compare this with the previous OS/2 example) -- and it will be difficult for even \$70 billion IBM to stop the train.

Lest we not quickly forget, IBM has also muddied the waters by "partnering" with Novell. This action adds an additional complexity to the mapping of relationships and strategic alternatives.

Bottomline: LAN Manager failed to become a high volume, mainstream component in the networking market. Each time we turn around looking for reinforcements (ie, OS/2 on the desktop), we find that Microsoft's future is strategic partners have now set independent agendas. Our dependency on OS/2 creates an unhealthy long term exposure.

Is the glass half empty or half full? This depends on your belief in the basic vision -- and on your ability to deal with temporary setbacks.

Clearly we haven't achieved what we set out to do. This is disappointing to all of us -- whether you've been here 4-5 years or 4-5 months. Microsoft hires people who insist on winning and achieving. Some of you have said that we need to "give it more time...that we've only been in the (reseller) business for 6 months". I've given this lots and lots of thought, as has jimall, steveb, mikehal and billg. At the core of *any* successful business lie stellar products. Great marketing, great training, great support can cover up product weaknesses, but only for a short period of time. Ultimately the truth outs. The core product weakness for NBU is our dependency on OS/2. LAN Manager, SQL Server, Comm Server and our yet to be announced products are all very competitive products. But they all have a glaring weakness: A fundamental dependency on OS/2. The handwriting on the wall is so clear to those of us who have been wrestling with these issues. In order for Microsoft to achieve a leadership position in "networking" we must leverage our

natural strengths and not become dependent on an operating system (OS/2) that is controlled by another vendor (IBM). This is our achilles heal. So if we "give the current business model more time", we are only postponing

For a while it has felt like we were caught between a rock and a hard place. But like an early spring Redmond morning, the fog has cleared and we know what we must do in order to achieve and win in this business

Where are we going?

The initial vision remains intact -- that of having a common OS that can run on the client and the server. We must align ourselves to leverage the natural strengths of Microsoft. What this means is that we are going to change horses -- we'll be getting off the OS/2 horse and onto the Windows horse. And let me extend the analogy a bit further: if LAN Manager is the saddle, then we must take it off the OS/2 horse and put it onto the Windows horse. But our years on the track have taught us that we need to integrate the saddle "into" this Windows horse (you've probably always pondered the phrase, "a horse of a different color"). And we need to do this as soon as possible.

It is our specific goal to change the dialog. In the future we will not be in the "networking" business. Instead we'll be in the operating system business. And "networking" will be built into the operating system. We will leverage the strength of Windows, of OEMs who are beginning to bundle hardware with Windows, of ISVs who are writing hundreds of new Windows applications, of corporations who are choosing Windows as their standard desktop operating system. We will not be forced into a frontal assault with Novell. We will move from the desktop upward into the organization -- a very PC centric point of view -- a view in line with our vision and the history of the PC industry. This is a strategy that leverages Microsoft's technologies, channels, ISV relationships, and image. The result will be IAYF.

The achievement of this effort will require the cooperation of many groups within the Systems Division. It will require us to move some project teams from one center of focus (OS/2) to another (Windows). Some people will be asked to work on the future while others will be asked to stay with the present. As anxious as we are to get to the future, we have customers who have purchased our current set of products and we can neither alienate nor abandon them. For us to succeed in the long term we must move all these existing customers into the future with us over the next few years.

Two months ago Jim Allchin and I presented a 5 Point Plan for NBU:

1. Build and learn with IM today
2. Enhance MS clients to be as network capable as possible
3. Create a low end peer network product
4. Extend OS/2 3.0 for "serious" distributed processing
5. Sell server applications which extend the OS/2 3.0 platform

Many of you have asked what the "next steps" are. I would like to set specific direction for each of these objectives and will also add one additional objective. You will notice that each goal is reworded to emphasize the Systems Division new "Windows" focus.

1. Build and learn with IM today

- * Complete and ship IM 2.0c
- * Complete and ship "connectivity" pieces asap
- * Package OS/2 1.3 (Tiger) with IM 2.0c
- * Complete and ship all Gosling (3Com) work
- * Maintain market presence, do not "oversell/overpromise"

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- * Current POR: No OS/2 2.0 server support
 - * Long term: Support OS/2 as a "foreign OS" (similar to our LM/U strategy for Unix)
 - * Organizational focus: survival of the fittest; "commando" mentality; keep OS/2 LM alive until reinforcements arrive.
 - * Organization: there will be about 100 people in this group; it will remain in NBU.
2. Enhance Windows to be the world's best network client
 - * Moved the "Win-N" team to the Windows group in March.
 - * Windows will become the "universal client", providing transparent connection to LAN Man, Netware and other servers.
 3. Create a "product of the year" Windows peer product
 - * Started "Kato" project to investigate opportunities
 - * The resultant "product" will be built into Windows -- peer networking will become an integral part of Windows
 - * The product must have "product of the year" quality
 - * Organization: Small focused team to be located in the Advanced Windows Development group
 - * Goal: Team to be defined and working by 5/15/91
 - * Ship goal: 12/31/91
 4. Extend Windows/NT for "serious" distributed processing
 - * Big decision: NT is now the platform for all new LM functionality. NT becomes a "mode" of Windows. Networking gets "built-in" to our operating systems.
 - * Organizational: The LM 3.0 team (about 55 people) vector off of OS/2 and onto NT. A management reporting structure will be in place by 5/15/91.
 - * Product goal: NT release 1 must be > LM 2.X
 5. Sell server applications which extend the Win-32 platform
 - * CSA group organized in April (about 45 people)
 - * Products will refocus onto Win-32 as soon as practical
 - * No NLMS

And since these 5 Points were created, we have picked this new objective:

6. Maintain LM/SMB support for "foreign" server platforms
 - * Support ATT in all LM/U related work
 - * Support OS/2 as a foreign platform
 - * Provide OEM releases of LM/U, OS/2 and OS/2 LM.

Summary:

We are changing the dialog to one that we have an opportunity to control. This dialog focuses on operating systems with built-in networking. The resultant strategy leverages our inherent strengths: desktop volume, OEM relationships, ISV support, and client-based pricing. It does not ignore the complexity of the sales and support requirements for large organizations. To this end we will continue selling and supporting our present group of products and will learn and evolve on a regular basis.

What this means is that we will not throw the baby out with the bath water. The "baby" is our current NBU "business" of selling LAN Manager, SQL Server and Comm Server. The "baby" is also the

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customers and resellers who have made a commitment to Microsoft. The "bath water" is OS/2 as the server operating system. The challenge, of course, is to make sure the baby is happy while the bath water is being changed -- and it's really easy for babies to cry alot at bath time.

Finally we pause to be introspect and look at NBU as a eclectic group of wonderful people. Over the past 4 years NBU has taken on a very special culture all it's own. Part of this is a reflection of the personalities of certain individuals; part of it is a reflection of the competitive nature of our particular business (red has always been an inflammatory color). We pride ourselves at being creative, flexible, energetic, team-oriented. Now is the time to be all this and more. The time for discussion is over. It's time to execute!

IBM wants to own OS/2. Great. Now that they are out of the way, we'll show them what real OS development is all about. IBM wants to claim LS 2.0 is converged and that it is a superset of LM. Great. We'll ship product after product after product which demonstates MS's superiority. Novell's laughing at us. Great. I actually believe that they think we're not going to fight back. We *will* fight back -- in every release, in every presentation, etc. And we'll be fighting on our terms, not theirs. We'll see who laughs when we ship networking integrated into operating system.

Cross hairs, not crossroads. He who laughs last, laughs best.

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