



From peterbra Sat Sep 28 10:42:54 1991
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Subject: Compaq Windows status
Date: Sat Sep 28 10:42:26 PDT 1991

On 9/25 Mark and I met with Clark and Alan. Among other issues that Mike brought up, he came up with an alternative way for Compaq to bundle Windows. On 9/26 we had a meeting with their Windows team.

Mike's alternative way of bundling Windows would be that Compaq bundles Windows with MS-DOS. There would not be a separate DOS SKU; there would not be any choice. When somebody buys the Compaq DOS product he gets Windows with it. This is significantly different from there last try at a Windows SKU. It is the only proactive Windows Compaq has come up with since Stimac started thinking of their key disk approach.

The idea came from Jim Odom as a result of the number and quality of Windows questions that other oems asked at the OEM Briefing. This caused Jim to realize that Compaq's Windows knowledge is slipping versus other oems. He feels the only way to regain this is to license Windows. In addition Odom sees this as a way to reduce his development time and support of system utilities by having a Windows interface to them.

This Windows/DOS bundle has not been discussed internally at Compaq so it still unclear what the rest of their management thinks of it.

Although initially against this idea I think it does have some merits and should be looked at closely. For Compaq, it removes/reduces many of their objections/problems with a Windows bundle. For MS, it makes a very strong Compaq statement for Windows and pushes forward DOS and Windows being one OS when we have some potential DRI problems.

Compaq issues with bundle/painstall that are addressed

- 1. The manufacturing preinstall problem
2. The updating of Windows when it is on the hard disk
3. Allows the end user the choice of installing Windows and allowing custom configuration of Windows according to specific requirements.
4. Simplify their localization issues.
5. Reduce cost - will not lose dos revenue with a preinstall and offset the cost of Windows by charging for it.
6. Still allowing the end user the choice to buy other operating systems for his system; not burden the end user with either the implicit cost of Windows or having to to deinstall Windows and DOS.
7. It provides Compaq with a perceived leadership position with Windows by being the first oem to combine Windows and DOS.

For MS it does the following:

- 1. Compaq leadership position with Windows.
2. With slick technology, Windows/DOS can be installed quickly w/o much of the pain installing Windows today. Although it is not a preinstall, it will be much easier to get Compaq to preinstall in the future if they combine Windows/DOS now.
3. Gets many more Windows sockets out there. We believe that our attach rate today with Windows on Compaq 386 systems is between 25% and 35% based on their registration information. Their current attach rate for DOS is 86%.
4. It raises the bar for other oems and makes it more difficult for DRI to compete.
5. Will increase our revenue from Compaq, depending on what we can get for the Windows royalty.

Issues that need to be addressed to make this happen.

- 1. Length of time for Compaq to make a decision. How do we make this happen quickly so they can announce with Windows 3.1
2. Diminished value of Windows in the retail channel. Compaq would need to make sure that their SKU would not run on any other hardware. We might want want them to charge some additional delta over and above their current price of \$99 for DOS.
3. Lost retail Windows revenue - How much retail revenue will we lose against the gain in Compaq royalties.
4. What we will settle for for in a Windows royalty (of course Mike doesn't want to pay anything additional for Windows).
5. Other oem customer issues if we do this

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own exclusivity slick technology for Compaq????
others that I can't think of

I would appreciate any and all comments.

The following day Alex, Jon, Mark and I met with the Compaq Windows team to review and discredit their Windows preinstall focus group studies. In addition we proposed a one SKU bundle/preinstall in conjunction with a MS/CPQ Windows 3.1 comarketing program commencing with the Windows 3.1 announcement.

Our attempts to discredit their focus group research back fired. We spent much of our time arguing over points in the focus groups with Andrea Morgan, their marketing research manager. Because of her strong position, she is attributed for the timing success of the IXT line, Compaq management will continue to listen to her. The focus groups are much too subjective to refute the Compaq findings so Andrea is important to win over and not run over.

Compaq liked the idea of comarketing programs, but they did not see the need to license Windows to make this happen. They do feel that they are missing a very important message, Windows being optimized for Compaq systems. Their approach to this is a JIA Lan Man approach to it, however. They might even include a Windows optimization disk with their processors. In other words we did not get any closer to trying a one SKU bundle approach.

With the upcoming exec review, I would like to move quickly on this Windows/DOS bundle. Is it viable for us and under what conditions.
Peter

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