

Microsoft Memo

To: Pete Higgins
From: Hank Vigil
Date: July 23, 1992
Re: June '92 Monthly Report
cc: AMKT Staff, Robbicc, Markk

I. Highlights/Major Achievements

Applications Marketing

- Hosted first Applications Strategy Briefings for press and industry influentials
- Reworked Applications strategy presentation
- Conducted joint quarterly plan review with Corp Account Marketing and US Marketing
- Completed FY93 planning within "Campaign" framework to achieve marketing integration
- First phase of reg base/direct marketing backend development. Continuing effort in FY93
- Co-chaired Copernicus research project. Presented results broadly within Microsoft
- Refined large account licensing and pricing policies (XLA, network licensing/metering, maintenance)
- Developed Applications OEM pricing guidelines
- Strong participation on the COGS reduction SWAT team.
- Packaging and registration card redesigns

Winline Marketing

- Fiscal year closed with the Windows Office having shipped more than 207% of planned revenues, 233% of planned units. Worldwide revenues were 197% of plan and Worldwide unit sales were 213% of plan.
- International revenues were 43% of sales for FY 92.
- The Windows Office represented approximately 25% of Word's new unit sales and approximately 30% of Excel's for FY92.
- Total Windows applications revenues across the industry exceeded that of DOS applications for the first time in April 1992
- Microsoft's applications revenue per each copy of Windows sold has reach \$65
- Initial plans have been set to combine the Applications and Systems newsletters for FY 93
- Focus groups were conducted to prioritize interoperability and apps consistency issues.
- The FY 93 Windows Office Campaign plan has been completed
- Released Windows Office version 2.0 and 2.5
- Developed Winline marketing materials

Macline Marketing

- Hosted Joint Bill/ John Sculley press event. Great PR results
- Excel the first Microsoft Mac app to support System 7, including full support of the Apple object model and Apple Events
- Lead participant in Apple's Quicktime announcement
- Excel 4 featured during Apple's World Wide Developers Conference
- Hosted BCS Macintosh SIG at MacWorld

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EXHIBIT
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- Conducted Macintosh launch "Blitz" in 6 cities
- Won MacWorld "Readers Choice" award for Macintosh support
- Shipped Excel 4 and Word 5.0

Marketing Operations

- Managed Fox Manufacturing issues. Coordinated the builds in Perrysburg and Canyon Park and prepared the final SKU listing with both Fox and MS part numbers for the sales team.
- Concluded the FY '93 budgeting process by adding project codes to the budget
- Pulled the Excel budget together with Robbieb and Billj
- Began the transition for Mo and Fidelmc from Int'l Systems Marketing to Apps Marketing

OEM

- Developed OEM Apps strategy plan
- Initiated pricing policy project

II. Business Summary

U.S. Sales

TOTAL Product	Month of June		Fiscal YTD		Month of June		Fiscal YTD	
	US Units	% of plan	US Units	% of plan	US Revenue	% of plan	US Revenue	% of plan
3.5 inch	9,997		113,367		\$3,484,147		\$46,325,941	
5.25 inch	2,703		32,063		\$320,294		\$11,857,908	
MLP	5,340		19,636		\$1,257,970		\$5,906,006	
CD ROM	0		0		0		0	
MNT	2,397		11,720		\$60,840		\$388,212	
MCD	1,672		6,061		\$30,765		\$950,317	
ELA			23				\$7728	
XLA	17,683		17,683					
Promo 3.5	400		5,609		\$105,986		\$1,605,968	
Promo 5.25	222		3,357		\$61,953		\$922,555	
Total	40,414	506%	212,519	233%	\$5,321,955	180%	\$67,964,635	207%

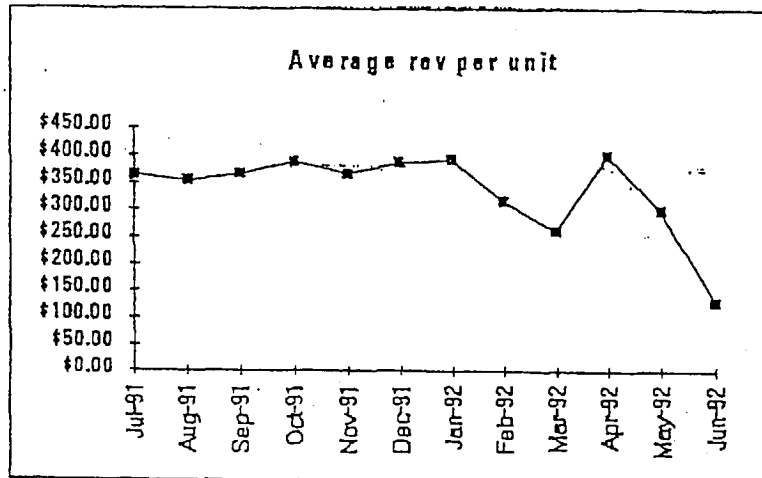
Source : Domestic Retail report

U.S. Monthly vs. Plan

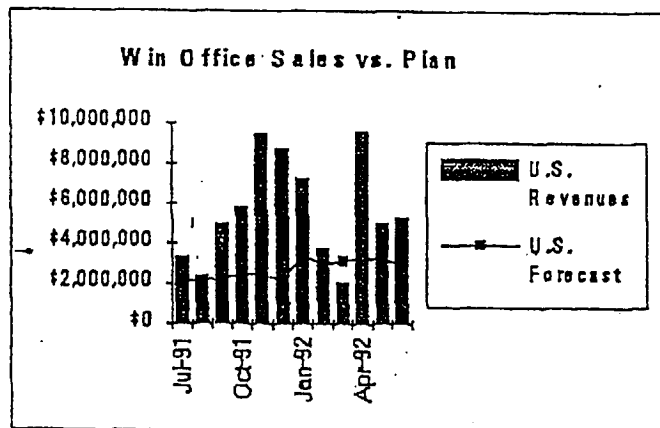
- The month of June was another strong sales month for the Office. Unit sales achieved 506% of plan (however, many of these were XLA units) and revenues were 180% of projections.
- Win Office stocked out at the end of June, with approximately 8000 units backordered (\$3.2mm revenues). This would have increased revenues to 217% of plan.
- Promo copies of the Office are still being used mainly in conjunction with the seminar offering and are being counted above as end user sales.
- 3.5 inch disks are outselling the 5.25 medium by a factor of 10 to 3

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- Revenues per unit for the Office held fairly consistent through the first half of FY92. Since January, however, we've experienced several months in which the average revenue declined significantly. The extremely low revenue in June was due to a large number of XLA units being sold in. Without the XLA units, the average revenue per unit would have been \$234. The lower revenue per unit in May can be attributed to maintenance contracts.



U.S. FYTD vs. Plan



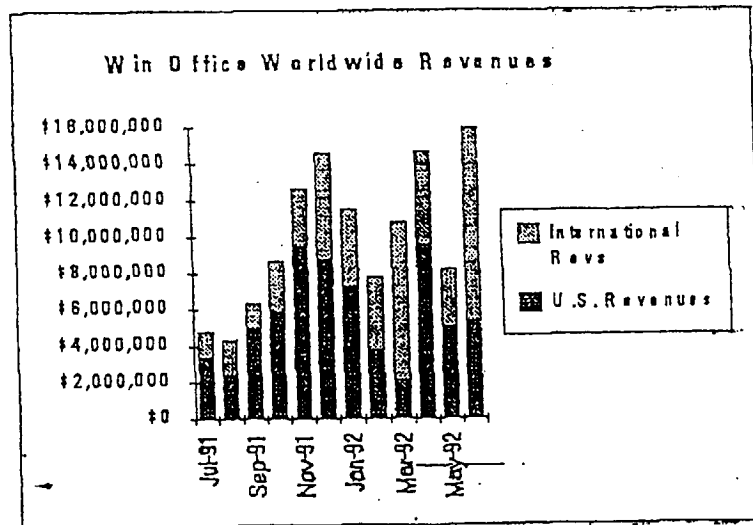
- With the exception of August and March, Win Office has consistently out shipped plan by a factor of about two. The lower sales in March were due to the transition over to Excel 4.0 (Win Office v2.5). Most of these sales were pushed into April, which was the highest sales month of the year.
- Office ended the fiscal year at 233% of forecasted units and 207% of revenues.

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Worldwide Sales

	UNITS				REVENUES			
	June	% of Plan	YTD	% of Plan	June	% of Plan	YTD	% of Plan
U.S.	40,414	506%	212,519	233%	\$5,321,955	180%	\$67,964,635	207%
International	19,516	324%	106,438	182%	\$10,627,510	378%	\$52,314,343	185%
Total	59,930	427%	318,957	213%	\$15,949,465	277%	\$120,278,978	197%

- International revenues were approximately 67% of total Win Office revenues for the month of December. This represents a significant increase over previous months. In part, this is due to the delayed shipment of Office v3.0 in the U.S.
- For FY92, International sales were 43% of total.
- International sales were well above plan, at 244% of projected revenues for the month. This sales level is expected to continue
- Worldwide, Office completed the year at 197% of plan for revenues, with a strong sales increase in international in the latter half of the year.



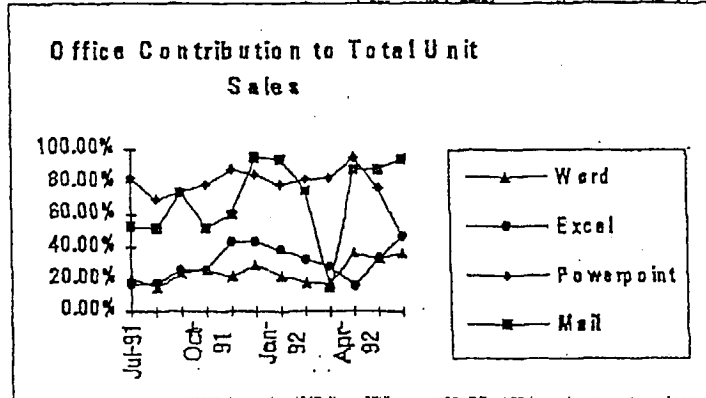
Revenue Allocation

Office revenues for the month of June were accounted for as follows:

PRODUCT	June Revenue Allocation
Word	\$2,288,441
Excel	\$2,235,221
PowerPoint	\$638,635
Mail	\$159,659
Total	\$5,321,955

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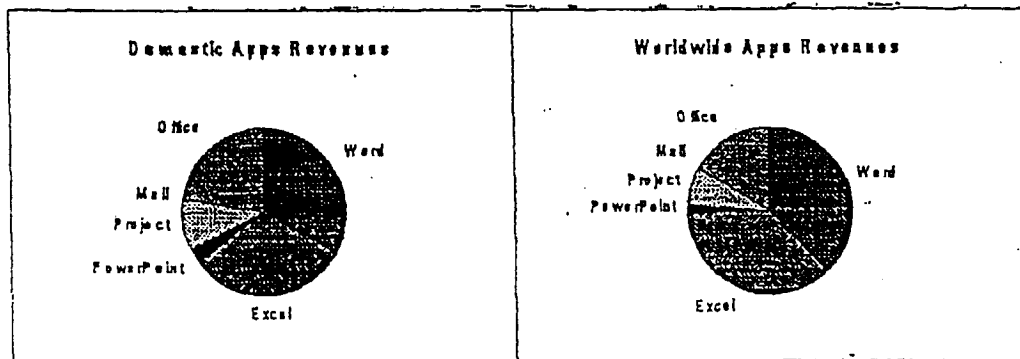
Win Office represented an exceptionally high percent of retail sales for Word and Excel for the month of June; Office was approximately 37% of Word's total unit sales and 47% of Excel's. The proportion of Microsoft's Windows applications sales that are due to Office has been increasing markedly in the past months, with the exception of sell-in months for major version updates. Averaged over the year, Office is 25% of Word's retail unit sales, 30% of Excel's, 72% of PowerPoint's, and 66% of Mail's.



Windows Applications Sales

Below is the U.S. revenue by product. Word, Excel and Office represent nearly 77% of total Windows apps retail revenue for Microsoft in the U.S. and 87% of international retail revenue. The difference in average price between Word and Excel is due to the larger proportion of upgrade business for Word.

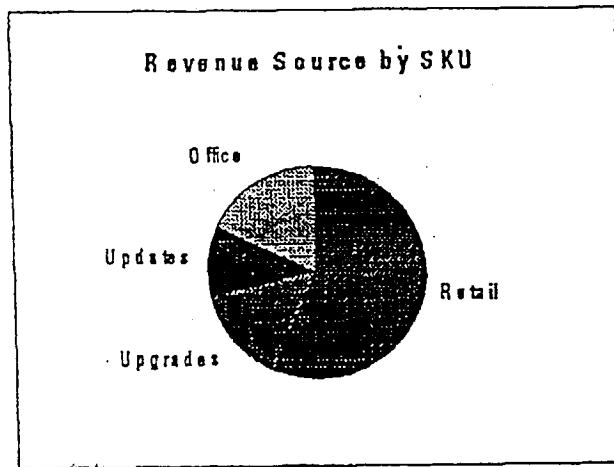
Domestic Retail/Upgrade Sales	Revs	Units	Ave Price
Word	\$96,997,308	680,449	\$142.55
Excel	\$92,967,687	546,186	\$170.21
PowerPoint	\$10,240,575	104,073	\$98.40
Project	\$27,111,104	95,381	\$294.72
Mail	\$897,182	22,000	\$84.04
Office	\$65,154,762	192,230	\$338.94



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In FY 92, Upgrades and the Office became a larger portion of Microsoft's revenues. However, retail products still represent 57% of total revenues in the U.S. On a unit basis, the Office remains a more profitable SKU than upgrade units (\$113 per "unit" vs. \$104 per unit).

U.S. Windows Apps	Revs	Units	Ave Price
Retail	\$209,898,830	1,335,482	\$157.17
Upgrades	\$54,578,332	262,645	\$103.94
Updates	\$40,514,422	321,140	\$74.49
Office	\$65,154,762	192,230	\$338.94



COGS

- Total FY 92 COGS for Win Office is \$8.2 million, or approximately 12.0% of total revenues. This includes material charges for all versions of Win Office.
- The only product costs that are out of line with Microsoft standards is the Win Office Promo packages. We may look for an alternative to promo packages that cut out some costs if it appears warranted.

June Product	Ave COGS (\$)	Mo. COGS (\$)	Mo. COGS (%)	YTD COGS (\$)	YTD COGS (%)
Win Office 3.5*	51.90	517,338	12.7	6,110,674	12.8
Win Office 5.25*	47.80	130,072	11.7	1,539,893	11.8
Win Office MLP	2.20	11,516	0.9	42,664	0.8
Win Office Promo 3.5*	52.10	20,801	19.7	304,720	18.9
Win Office Promo 5.25*	48.10	10,724	17.3	168,435	18.0
Win Office Total		690,451		8,166,386	

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- PSS tracking is allocated to the individual product groups. However, it will be necessary to cross-train all major PSS application groups with the Win Office v3.1 unified setup that is expected in October.
- We will be meeting regularly with PSS WinLeads in order to track interoperability issues.

Inventory

Due to the high demand of the Windows Office, inventory at stock-out status for the most popular SKUs, particularly for 3.5" and MLP. New builds will be complete by mid-July which should eliminate backorder. In addition, all old units of the Win Office v2.0 will be reworked. However, if sales continue to be strong, we will likely stock out of v2.5 before shipping v3.0 at the end of August.

- Backorders at the end of June were 8151 units representing \$3,197,890 revenues. By mid-July there were 20,000 units in backorder.

Product	Inventory 6/28/92	3-Month Rolling Avg. Demand	Months of Supply
Win Office 3.5"	0	11,570	0.00
Win Office 5.25"	4,206	2,548	1.65
Win Office MLP	1,515	2,834	0.53
Win Office Promo 3.5"	14	521	0.03
Win Office Promo 5.25"	408	169	2.40

Source : Manufacturing Build Forecast Report & US Daily Order Status

Staffing and Organization

Staffing for the Winline is now complete

- Dave Malcolm joined the group in April and will focus on Interoperability/ABP and applications programs (customer satisfaction).
- Open headcount for the Windows Office product manager is expected to be filled by the first of August by an internal hire, Marlee Baker.
- Our IPM/IPG position for WinLine/Office has been accepted by Fiona Kelly. Fiona will be joining the group at the end of August when her visa has been processed.

III. Marketing

Market Share

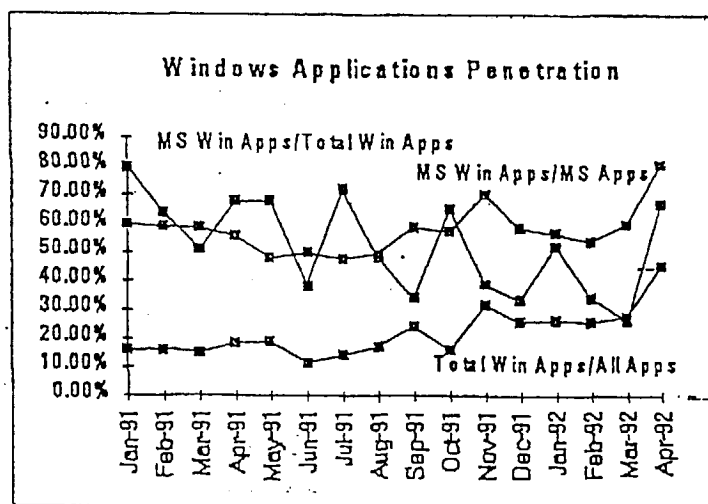
Analysis of the SPA data for CY 91 reflects several trends in Windows applications:

- Microsoft's share of Windows applications is decreasing as more developers enter the market. Our share has been somewhat erratic, mainly due to large sell-ins of competitive products, such as WordPerfect for Windows and 1-2-3W. Average for CY 91 is 50%. CY 92 shows a significant increase in April due to the release of Excel 4.0.
- Windows applications are increasing as a percent of total applications. Win apps now represent approximately 30% of the total application revenue on a monthly basis, or 25% of

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monthly unit sales. In April 1992, sales of Windows applications exceeded that of DOS applications for the first time.

- Windows applications are the dominant and increasing portion of Microsoft's business, approximately 70% of all application sales.



Source: SPA Report

Microsoft's penetration on new Windows desktops increased significantly in June. Over the last six months, Microsoft made roughly \$110 in applications revenue for every unit of Windows sold. The number of applications per Windows desktop has increased to approximately 2.5 apps/desktop.

Market Penetration Data	Jan-92	Feb-92	Mar-92	Apr-92	May-92	Jun-92	Six Month Average
#MS Apps/Windows	1.31	0.36	0.47	1.08	0.75	2.04	1.00
\$ MS Apps/Windows	150.43	48.61	53.26	175.05	54.91	182.66	\$110
# Apps/Windows	3.29	1.53	2.86	2.23	N/A	N/A	2.48

Competitive News

- Win Office is outselling Smart Suite more than 5 to 1 in the channel. Rumors about the channel being overstocked have been reaching us.
- Retail pricing of Smart Suite is below that of Win Office despite the fact that the SRP is higher. This indicates price discounting. However, Smart Suite represents a more significant threat in corporate accounts.
- Lotus has extended a special upgrade offer: customers can upgrade to the Smart Suite for \$395 if they own one of the products.
- Lotus announced lower than anticipated earnings. They cited the increase of "suite selling" and "price wars" as the critical factors.

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Customer News

- WinLine strategy was presented at ten corporate briefings over the course of the month. The strategy presentation will be revised by mid-August.
- Over 17,000 units of Win Office were sold as XLA extensions in June. These units have no revenue accrual.
- Focus groups were held in LA, Dallas, and Boston to prioritize interoperability issues (see separate research report). Interoperability ranked just behind "ease of use" as reasons to upgrade to a new version. Consistency issues were less top of mind, and most often used as a synonym for "ease of use".
- Corporate account visits for interoperability will begin in July.

Marketing Activities

- The Office Campaign for FY 93 has been solidified. Individual project efforts are now underway in customer satisfaction and Windows Line.
- The newsletter for Apps and Systems has been combined (see separate Creative Brief) and is planning an initial drop for November. The newsletter will be focused on customer satisfaction, but will also have the additional objectives of providing value to being a registered user and to create brand awareness for Microsoft.
- The first draft proposal for a Welcome/registration acknowledgment program has been completed.
- Initial plans for an Apps user conference are now in discussion. An event will be tentatively planned for Spring (March/April) and will have both a user/support and development track.
- Focus groups on Microsoft's brand/line marketing will be conducted in August. Initial ideas and objectives will be circulated in July.
- Interoperability research continues (see focus groups above). A phone survey will be complete in July and competitive analysis and corporate visits will be initiated.
- The OLE 2.0 rollout plan has been kicked off.

IV. Project Status

- Kiosk: Borland is planning to introduce their OEM Kiosk-like program called Borland Choice.
- Direct Mail: Donnelley has expressed interest and should decide this week if they want to be in this business.

V. Strategy Changes

Winline Marketing

- White box version of Win Office was approved for international promotions and OEM agreements.
- Unified setup has been dropped from Win Office v3.0 in order to speed the release of PPT 3.0 and Mail 3.0 to the channel. The setup will be added in a later release, v3.1, due out in October.

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OEM

- Survey of ISVs with software that could be used for the Kiosk program in process

VI. Product Issues

- RTM for v3.0 of Win Office, which will include Word 2.0, Excel 4.0, PPT 3.0, and Mail 3.0 is set for 8/12/92. Product should be in the channel by end of August/first of September
- Packaging for international has been signed off
- RTM for v3.1 of Win Office, which will include Word 2.0, Excel 4.0, PPT 3.0, Mail 3.0 and a unified setup.
- Win Office v3.1 will be localized into French and German. Unified setup will require additional testing and development time.

Product Version	RTM	Ship
US & A 3.0	8/12/92	8/26
Z 3.0	9/2/92	9/16
German 3.0	8/26/92 (est)	
French 3.0	8/26/92 (est)	
Spanish 3.0	tbd	
US & A 3.1	10/20/92	

VII. Objectives

Winline Marketing

- Hire Win Office product manager
- Newsletter strategy document
- Initiate Win Office data sheet
- Initiate PR Plan
- Finalize schedule for Win Office v3.1
- Preliminary planning for OLE rollout
- Coordinate plan for apps PR event
- Win Office int'l BOMs and white box version
- Interoperability product planning - implications report
- Background research on Lotus Smart Suite
- First draft of line message testing document
- Finalize international Win Office package

Marketing Operations

- Manage the Win Office 2.5 stockout situation
- Review the PM reports and Manufacturing reports and develop a cost management plan
- Complete understanding of International issues

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Desktop Division Headcount - June 1992

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DESKTOP APPLICATIONS DIVISION HEADCOUNT JUNE 1992

DEPARTMENT	FY 92 PLAN				AS OF FIRM		
	Q1	Q2	Q3	Q4	30-Jun	HIRES	TOTAL
DESKTOP APPLICATIONS MANAGEMENT							
4104 Desktop Applications Management	3	3	3	5	2		2
APPLICATIONS INTEROPERABILITY							
4103 Applications Interoperability Group	2	3	3	3	3		3
4150 Usability	13	15	16	16	15		15
4151 Visual User Interface	6	8	8	8	8		8
4186 OLE					30	1	31
4202 Design and Standards					5		5
TOTAL	21	28	27	27	61	1	62
APPLICATIONS MARKETING							
4149 Applications Marketing	12	15	17	17	11	1	12
EXCEL BUSINESS UNIT							
4201 Excel Management					2		2
4105 Excel Development	36	39	41	44	46	2	48
4106 Excel Marketing	19	20	20	20	17	1	18
4107 Excel Program Mgmt	19	19	20	20	25	1	26
4109 Excel Testing	29	33	35	36	46		46
4110 Excel User Ed	43	45	46	47	71		71
4189 Lingua 2					15		15
TOTAL	146	156	162	167	222	4	226
GRAPHICS BUSINESS UNIT							
4128 International	9	9	10	11	9		9
4129 GBU Development 1	13	14	15	15	12		12
4130 GBU Development 2	11	14	14	14	10		10
4131 GBU Marketing	8	9	9	9	7		7
4132 GBU Software QA	11	14	17	20	14		14
4141 GBU Program Mgmt	5	7	8	8	4		4
TOTAL	57	67	73	77	56	0	56
PROJECT BUSINESS UNIT							
4108 Project Marketing	7	8	8	8	7		7
4166 Project Development	12	13	14	14	13	1	14
4167 Project Program Mgmt	4	5	5	5	7		7
4168 Project Testing	11	13	13	13	16	1	17
4184 Project User Ed					23		23
4185 Project Management					3		3
TOTAL	34	39	40	40	69	2	71
WORD BUSINESS UNIT							
4134 Word Testing	36	38	39	39	58		58
4135 Word User Ed	32	34	35	36	54	2	56
4136 Word Development	59	59	59	59	64	2	66
4137 Word Marketing	21	22	22	22	21	2	23
4140 Word Program Mgmt	16	17	17	17	33		33
4154 Apps Config. Testing					8		8
4162 Word Management	1	1	1	1	2		2
4203 Information Management Product Unit					7		7
TOTAL	165	171	173	174	247	6	253
GRAND TOTAL	433	477	495	507	668	14	682

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