Microsoft Memo

To: Pete Higgins, XLMGRs
From: Lewis Levin
Date: August 18, 1992
Sub: Annual Report for Fiscal Year 1992

To the Excel Business Unit

Congratulations on yet another phenomenal year. This year Excel alone is nearing the size of Lotus Development Corporation and is bigger than Borland International. And in profitability we smoke them both. This is the result of putting most of our wood behind the main arrow.

Financial Highlights

- Revenues grew by 32% over FY91, growing from $378M to $497M, or 133% of the FY92 plan. Just for comparison, Lotus (the entire corporation) had FY91 revenue of $828 million and Borland had FY92 revenue of $483 million.

- Profits are the envy of our competitors. Excel's FY92 burdened operating income of $236 million was 135% of FY91 (including Project) and 166% of plan. Burdened operating income was 47.6% of revenue. This compares to Lotus's pre-tax corporate profits of $67,686 million (their FY91 ending 12/31/91) and Borland's loss of $(110,434) million (their FY92 ending 3/31/92).

- COGS was 13.3% of net revenue, beating the plan by 1.2%. This is phenomenal and really helps profitability. While we should be spending on things that help our users, our high volumes and many smart decisions enable us to do this more efficiently than our competitors: Lotus is at 21% and Borland is at 21.5%.

- Product Support was 3.2% of net revenues or roughly $10 per unit sold.

- For a more detailed view of our financial results, see the tables below. Please note that these tables contain gross revenue, different than all of our quoted financial results which use net revenue (the difference is approximately 8 tenths of one percent, .008). MS Office revenue is the Excel portion only.

Revenue Year to Date

Product Class	Europe Actual	Budget	ROW Actual	Region Budget	USA Actual	Budget	Grand total Actual	Budget
Excel Academic	12,239,168	7,331,523	2,739,321	641,983	10,495,496	3,737,422	25,473,985	11,710,928
Other	2,291,194	0	170,904	0	5,283,642	0	7,745,740	0
Retail	161,414,840	149,742,855	34,546,530	47,824,265	102,156,950	99,799,397	298,118,320	297,366,517
Updates	22,793,823	779,452	5,995,384	1,372,339	35,825,919	7,437,772	64,615,126	9,589,563
Upgrades	3,701,157	0	3,554,881	0	18,908,363	4,453,184	26,164,401	4,453,184
Whitebox	5,992,026	12,398,485	2,457,343	5,132,117	0	0	8,449,369	17,530,602
Excel Non-academic	196,193,040	162,920,792	46,725,042	54,328,721	162,174,874	111,690,353	405,092,956	328,939,866
Excel	208,432,208	170,252,315	49,464,363	54,970,704	172,670,370	115,427,775	430,566,941	340,650,794
MS Office	16,764,831	5,447,382	10,669,004	8,634,064	42,905,697	22,469,462	70,339,532	36,550,908
Grand total	225,197,039	175,699,697	60,133,367	63,604,768	215,576,067	137,897,237	500,906,473	377,201,702

Units Year to Date

Product Class	Europe Actual	Budget	ROW Actual	Region Budget	USA Actual	Budget	Grand total Actual	Budget
Excel Academic	57,026	37,586	20,001	5,087	91,065	36,963	168,092	79,636
Retail	419,525	408,803	136,212	174,311	447,856	454,122	1,003,593	1,037,236
Updates	164,544	9,400	61,338	12,502	436,483	86,028	662,365	107,930
Upgrades	32,381	0	27,690	0	181,661	43,151	241,732	43,151
Whitebox	45,102	96,309	25,133	47,019	0	0	70,235	143,328
Excel Non-academic	661,552	514,512	250,373	233,832	1,066,000	583,301	1,977,925	1,331,645
Excel	718,578	552,098	270,374	238,919	1,157,065	620,264	2,146,017	1,411,281
MS Office	66,617	21,836	70,189	49,833	323,365	120,953	460,171	192,622
Grand total	785,195	573,934	340,563	288,752	1,480,430	741,217	2,606,188	1,603,903

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Year in Review

- Wrapped up Excel 3 international releases: Win Excel 3: Portuguese (Oct), Mac Excel 3: French (Aug), German (Sep), Portuguese (Mar), Turkish (Apr) PM Excel 3: French (Oct), German (Oct), released Japanese and Chinese versions of Far East Win Excel 3.0.

- Published Excel 4 ("Encore") Spec and kicked off Milestone 1 (Jul). Development of Excel 4 actually took less than one calendar year.

- Conducted usability tests on more features than any previous version of Excel: Toolbar, Drag and Drop, AutoFill, AutoFormat, Crosstabs, Scenario Manager, View Manager, Workbooks, Format Number.

- Collected over 1000 Lotus macros, putting them through internal and external testing till LMI successfully ran over 95% of Lotus macros.

- Published ODBC spec, and successfully announced ODBC with great support from major database vendors.

- Integrated IPG into User Ed, Testing, Program Management and Development. This occurred during the third milestone of Excel 4. Despite the slightly more than momentary upheaval, international versions of Excel have shipped with the shortest delta from US ever.

- Shipped Win Excel 4 in March. This was the shortest turn around of a major release ever (Started implementation of Excel 4 7/8/91. Shipped Windows US 3/28/92.). Product support reports fewer product support calls than were anticipated which means the product was of very high quality. User response to the new version has been very positive.

- Shipped Mac Excel 4 (US) with the shortest delta ever (6 weeks).

- Shipping international releases of Excel 4 with shortest deltas ever: French and German Win Excel 4 (May) just over 30 days after the US release, and are poised to deliver the shortest Far East delta ever for Excel 4, less than 6 months.

- Excel 4 is the first major application to support the Apple Object Model and Apple Script.

- Excel 4 is the testbed application for Windows NT. Excel will be one of the first major applications to support NT.

- Shipped Win Graph 3.0 (for WinWord 2), 3.0a (for Project and PowerPoint), and 3.0b (for PowerPoint and Office). Released U.S., French, German, Spanish, and Portuguese versions of each of these.

- While Excel 4 was being developed many other activities were underway, including the start of development of Query Tool, the preliminary spec for Excel Basic, development of the EIS Pack , development of pcode Excel to be burned into ROM for the HP Lion machine, and released and continued planning of Graph.

- Evangelized "Activities Based Planning" to other business units.

- Excel 5 planning is underway. Published vision statements for the Excel 5 activity areas. Began spec work on major Excel 5 feature areas, particularly "Spreadbase," "Charting," and "Object Basic."

Marketing Highlights

- In the Intel (DOS + Windows) spreadsheet market we made significant gains in market share although we have a long way to go to be dominant. At the beginning of the year our market share run rate (monthly share calculated as a 3 month rolling average) was approximately 25% both in North America (SPA stats combine US and Canada) and worldwide. At year-end run rate market share was 33%. Keep in mind that at the beginning of the year we were about 6 months after the shipment of Excel 3 so our share would not have been at its high and our year-end market share includes the tremendous sales of Excel 4. I give you these caveats rather than performing any legerdemain on the numbers.

- In the Windows spreadsheet market we observed two phenomena. One is the increase of Windows spreadsheets relative to DOS spreadsheets. Two is the arrival of competition of Windows—we no longer have 100% of Windows spreadsheets. In North America, our market share on Windows went from 100% (obviously) to 67%. If we can keep our Windows share at this level or even grow it, then we will be in great shape as customers continue to shift to Windows applications. The trend is clear: Windows spreadsheets as a

share of the "Intel" spreadsheet category went from 36% to 58%. This was the watershed year.

- On the Macintosh we also saw the arrival of new competition—Claris Resolve and 1-2-3/Mac. As a result both our North American and worldwide market share went from 100% to 75% of units. As Resolve languishes and Lotus has trouble keeping up because they aren't using core code, we may see our share improve. We need to watch out for more customers using ClarisWorks as their spreadsheet. This won't appear as a change in our market share; it will appear as reduced spreadsheet penetration on the Macintosh.

- We did a back-to-basics launch of Excel 4 and got an overwhelmingly positive reception. We shipped an unprecedented number of units for an application. Early sell-through has been strong. Office was revised promptly to include Excel 4.

- We have done more than ever before to include our subsidiaries around in the world in the planning for Excel 5. Activities based planning meetings were held with customers in Europe and Japan. Specific product feedback was gathered from European subsidiaries and Japan.

- We performed an interesting experiment by offering a lower price on version upgrades than on competitive upgrades. We avoided most of the "hate" mail we received from the Word 2.0 upgrade and we sold lots of units. We are still investigating whether we really sold all those units to owners of prior versions of Excel.

- We achieved a significant PR success with usability. By emphasizing this theme from Word 2.0's launch, through Excel 4' launch, and beyond with the Usability Tour we have made this a defining agenda for product reviewers and our competitors.

Efficiency

- We used completely core books and nearly core help and cbt files for Macintosh and Windows. This was a tremendous savings in effort (at the cost of some effort) for English and for localized versions.

- We used Glossman extensively to speed up and improve quality of code localization. We hope to extend it's use to further streamline our localization efforts.

- We continued to make improvements in our use of core code by reducing the delta between Macintosh and Windows versions in development and testing. Next year we add NT to the roster of platforms.

Organization

- We became the Excel Business Unit!

- We grew by 77 people (or thereabouts—I know who and how many we are today, but it's hard to back track to the starting number this year) as many people from IPG joined.

- ODBC joined Database and Development Tools Division to consolidate our database strategy and development work.

- Robbie Bach joined the management team.

- We have many new faces as people joined during the year and new folks from campus have begun arriving.

Key Objectives for FY93

This year we saw the arrival of one new Windows competitor and the lengthy, as yet unfinished, entrance serenade of another. We trumped them with Excel 4.0, but we have a tough year ahead of us. Quattro Pro will ship and Lotus will ship a new version of 1-2-3/W. We have a great opportunity to consolidate our position on the Macintosh. This will be a tough year for us. Though we are flush with the success of a new version, in the market's eyes that will soon be behind us. With no new version during the fiscal year, we are still projecting significant market share gains. Our marketing and sales will have to grow the business while we busily create an awesome Excel 5 that distances us from our competitors.

1. Grow market share in the PC spreadsheet category. Hold off our new Windows competitors to keep dominant market share on Windows as it takes over more and more of the overall PC spreadsheet category.

2. Release all 3 languages of Far East Excel. It is time to make big gains in these markets.

3. Regain market share on the Macintosh as Lotus and Claris falter.

4. Continue to make our product easier to support by improved designs that reduce unnecessary complications for the user. While this saves costs, it also improves customer satisfaction—which has a big upside in better word of mouth support for Excel and more sales.

5. Meet our FY93 revenue goal of $663 million (32% growth in gross revenue) and our burdened operating income goal of $275 million. I swear this is the year we didn't sandbag. Or, more appropriately, this year's forecast means working hard and feeling a real sense of urgency.

6. Design, develop, document, test, and market (in many countries) an awesome Excel 5. Let's put our wood behind the big arrow. In addition to great new features and big technology investments, let's make sure that customers see our upcoming new products as one family.

7. Achieve new strides in flexibility and ease of data access—and trounce Borland while we are at it—with the combined might of Query Tool and ODBC.

8. Ship EIS and build yet another reason for corporate customers to insist on Excel and the Microsoft family of products.

9. Bring Excel charting and Graph together and pull off the biggest upgrade ever to our charting capabilities.

10. Shoot the smaller arrows to add to Excel momentum: ROM Excel, CD Excel.

11. Do even more versions of Excel 5 on a roughly "simship" schedule: more languages—French, German, Swedish, Italian, and DBCS enabling for Far East; more platforms—Windows, Macintosh, Windows NT. The only way to do this is to get even smarter as one team.

12. Help deliver the benefits of Microsoft systems platforms with the NT release of Excel and new features for Windows for Workgroups. Help advance the Microsoft Applications strategy with OLE 2.0 and Object Basic. Make sure our customers with networks connecting workgroups prefer Excel and our other applications.

13. A new project gives us the chance to revise and improve our processes. Let's remember this in the crush of things to do. I think we are already off to a good start on this.

14. Let's all invest in ourselves and do something planned and specific to improve our various skills.

15. Do more ridiculous things to have fun (that's ridiculous—more, not more ridiculous).

Phew, that's a lot of goals. It's already a busy year.

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