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## Microsoft Memo

TO: Steve Ballmer, Frank Gaudette, Mike Maples, Mike Brown, Richard Fade, Gary Gigot, Pete Higgins, Joachim Kempin, Lewis Levin, Paul Maritz, Mike Negra, Chris Peters, Jeff Raikes, Chris Smith, Patty Stonesifer, Bernard Vergnes, Hank Vigil

Board of Directors - Paul Allen, Dave Marquardt, Bob O'Brien, Gary Reed, Jon Shirley

FROM: Bill Gates

DATE: October 16, 1992

SUBJECT: Semi-random Marketing and Sales Thinking

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I devoted almost all of my think week (October 5-10, 1992) to product issues. However, a number of more marketing-related thoughts also came up. These are in no particular order.

I am extremely concerned about the potential commoditization of the word processing and spreadsheet markets, from which we receive a high percentage of our profits. In word processing, the latest version of Ami has won several reviews versus our last version of Word. WordPerfect is doing well with a mediocre product, and will introduce a significant update in early 1993. Microsoft does have an overall technical advantage and we'll do our best to keep that as large as possible, but Sales and Marketing have to do more to add value to our products.

We need to show customers the value of Office. We have never made Office exciting enough. Tell us what additional code or documentation would make it more attractive. For example, we could go and get a great drawing package, or we could have a whole packet of 'discount' coupons for other software products such as fonts, fax, draw, clip art, add-ons.

We need to get more credit for our large investment in support. Our scale should give us more advantages in this area. I hope we are getting credit for support in countries where we are the best.

I think a pricing scheme that allows the customer to pay part of the price later might be well received. Instead of paying all the money up-front, if the customer is still using the product, they pay us the rest in the year. Since users really like our products, in most cases we will still get paid in full. It is kind of like leasing.

It is tricky if another update comes out in the meantime. The user then has both a deferred purchase cost and an update cost. You could bundle these together as follows.

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We could sell to the channel as though the SRP is \$295, creating a \$180 street price based on a \$150 dealer cost. The user can agree to pay \$99/year for free support and updates. This is entirely optional, but the user is committed to pay at the end of the first year if they want to continue to use the product at all. This scheme would provide a real price decrease on purchase. The main cost to us is losing the update revenue.

We could give a copy of Office to all buyers of Word and Excel. If they are still using one of the other products a year later, they would agree to pay us the price difference. We could even mail this offer to the entire installed base of Word and Excel users, we will send you the other products at no charge for the first year. It is hard to pick a price for the upgrade because the delta between the discounted prices of a full product and Office is around \$150. I think the best choice is have a box on the registration card (in addition to mailing already registered users) that says 'Please send me the other two products and I will agree to pay \$179 in one year, if I am still using them'. Refills would receive a commission of say \$20. The commission could either be computed by simply taking the percentage of the product that they sell and paying them a pro-rata share on all sales or we could try to do real tracking.

By doing this sort of thing we give people a reason to register, make Excel and Word more valuable, and receive more revenue, all in one stroke. We do have to pay a lot of COGS for people who receive the product and decide not to pay. We could also lose some sales of Office, although this scheme does cost the user more. It might force us to reduce the price of office to \$695 instead of \$750. The whole scheme could be done on a temporary basis to see if it works.

Remember that I talk about these pricing schemes in the context of a time frame when we are going to have to reduce prices anyway. I am just considering ways of reducing our prices that might cost less than a brute force approach. We are in danger of dropping below 50% of Windows units in word processing and spreadsheet, and I don't think that is acceptable.

I still believe that we should increase our presence in retail stores, especially super stores and software-only stores. I would love to have a big Microsoft-only phone sitting in the store. Someone could pick it up and immediately receive pre-sales support from a Microsoft employee at the other end. I don't want it to just be an auto dialer that goes through a queue. If a store is large enough, we should have a real person there.

I would love to have a computer sitting in the store. Users could periodically stop by the machine in order to pick up value-added products and information from Microsoft. We could include add-ons for all products. We could include updates, like Mac Word 5.1 or C7. We could provide a changing collection of image, fonts and games. We could let users electronically provide suggestions or register their products. We could let users browse a database of local solution providers (this could be tricky if any of them compete with affiliates of the store). We would have all the new windows stuff, such as drivers and technical notes. Users could copy the stuff to disk or hook up a portable through a SCSI connect or Zippy port. This would actually help drive traffic into the store.

The point of providing direct pre-sales support and all of this after-sales information and computer software is to help build the ongoing relationship with the customer - to

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get them to think of Microsoft as their primary software company because we can help them and we have a broad set of products that really work together.

I have asked, again and again, to see the results of our slow-moving efforts to have computers and people in the store. I am starting to think our retail group doesn't believe in using our scale to do something unique. If we wait long enough, other vendors will do these things first or they will emerge in a way where we can't be the best.

I am out of date on our registration drives. I assume that we have implemented the plans by now, and are starting to see results. When we start requiring registration in order to get the first 90 days of support free for Windows (with the annual 'membership' fee to get more support), we will have to make it very easy for people to register. The retail group has never pushed for registration to be done on the computer. We could do this by offering to make a modem connection, by offering to print out the registration information after it is entered, or by offering to create a diskette that can be mailed-in. Electronic registration can automatically fill in the computer configuration information. I am not sure if electronic registration is worthwhile or not.

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