

Teresa Jennings

From: Bill Gates
To: Bernard Vergnes; Brad Silverberg; Chris Peters; Jeff Raikes; Jonathan Lazarus; Lewis Levin; Mike Brown; Mike Maples; Mike Murray; Paul Maritz; Pete Higgins; Steve Ballmer
Cc: Bill Neukom; Steven Sinofsky
Subject: Two Companies with Business Focus
Date: Sunday, April 25, 1993 2:10PM

THIS is a very confidential memo.

I have a major concern that our sales force is too focused on our system products and that we don't really generate activities based on profit potential. Does our sales investment go primarily into increasing OFFICE share? I haven't seen many clever ideas for increasing OFFICE share for a long long time I doubt that our sales investment (over \$1 per year including everything) is really focused or clever. I think we could do a lot better as suggested by this memo. I am not saying we should split but we can have the benefits without splitting or without any major reorganization.

If we split systems and applications into 2 truly separate companies. What would be different? I am not saying we should do this or that I am even considering it but rather I want people to consider what the strategies would be.

First take the system company. It has decided to use OEM sales at low prices as its totally channel for new users. The volume it drives thru the oem channel insures that the users it misses in this channel and its upgrade products will have high demand so it does not have a retail sales force. It has 3 very focused and fairly small (<150 each) sales groups: 1) OEM sales - a lot like what we have today. 2) ISV evangelism and 3) "Server sellers". Groups 2 & 3 meet directly with very few customers - no EBC and no account plans. Any account that is a problem must stem from an ISV that group 2 needs to work on or something in group 3. The systems group has a headquarters operation that assembles task forces to look into segments of the markets where our products are not dominant. Because there is a fast moving task force mentality with a budget and leverage thru outside consultants there have been attack plans for 4 specific markets are assembled per year - examples include: K-12 education, OTP, As/400, and banking. Once a market is fixed the group moves on. All of these plans set measurable results for the various "sales groups" and these objectives are reviewed. The marketing budget of the systems group is very small focused on: new product introductions and the task force goals. All of the seminars it does are break even and very leveraged thru 3rd parties. All of its ISV activities and education out reach are break even or profitable - very little course delivery and lots of certification. It does gather an end user name list for direct mailing upgrade information. It does not attend a show unless it has a major new product introduction or a task force tells it to. The "server seller" group is not vaguely defined around solution selling - it is defined around selling servers. It has group events for the people who sell servers all the time and it is in a clear feedback loop. Vague words like "client-server" do not confuse this group. This systems company does have a VERY small support organization since it pays 3rd parties to handle the surge of new introductions and only 30-90 days free support. Because of this it really trains a lot of people before every new release. This company does not have an executive briefing center or a subsidiary presence in most countries of the world. It has determined that platform standards in countries outside the US, Europe and Japan will be set based on what happens in those countries. The server seller group uses a lot of 3rd party relationships in various countries. Total headcount outside the US is less than Compaq: 400 people from the 3 sales force groups. Financial systems for this company are simple. Since the systems software upgrade business has such peaks and valleys manufacturing is mostly outside. This company would have 5 standard speeches updated regularly - where is our system going, how we connect to other systems, why our servers are better, how/why to develop for our platform, how we work with OEMs. This company is easy for the press to understand. It is highly profitable since support, sales, marketing and other overheads are kept very low. Development cost is its primary expense and it has a task force on each of the following topics: tools for developing more efficiently with lot of shared ideas, making testing less headcount intensive, how to do a "release" every 12 months on a predictable basis with every other release being major [2 hardware design points at all times - today it would be 4megabytes and 16megabytes], getting all documentation on line, doing all support on line. Most corporate customers have an annual contract that lets them get all the upgrades on all of their machines. When products do not sell the response is not some sales force thing but rather a focus on getting the product right. This company does not advertise in the business press except for alliance announcements or major introductions.

[In a major simplification I am skipping the tools business altogether in this analysis. It is focused on the

EXHIBIT
2
Sinofsky
9.24.01

mass of developers and has a very small sales force)

Now lets take the applications business. Its primary focus is high market share in primary categories by selling OFFICE. This company also does not have an Executive briefing center since it focuses on design wins for OFFICE that are commonly done at lower levels. It only works with retail outlets when it can get a specific competitive advantage by doing so. It has high enough share that it doesnt have to work with people to get stocking or to talk about normal course of business issues. The reduction in retail outlets has allowed it to be very focused. Its products are popular enough that retailers like Egghead participate in all major initiatives. Walking into a store this company has spent time with shows a noticeable difference. This company wakes up every day and says " how do we avoid people thinking of our product and the competitions as interchangeable? All of its marketing and technical work focus around this goal. When this companies executives give speeches they start with exciting concepts but they quickly focus on the competitive advantage. It is amazing how many exciting demonstrations this company can give of its upcoming products. This company is not held back by puritanical views about showing the future since by the time something is shipping it is old news and now covered and the competition can already demonstrate many of the same features in that time frame. A few zingers are kept under the covers until shipment for 2 reasons; a) to spread out the news so that both the early reveal innovations and the ones at shipment get coverage and b) so that a few things competition does not imitate. This company has also gone to a 12-24 month cycle for its products showing brilliance in tying its work to the exciting work the systems company is doing. This company has managed to convince the systems company to ship applets using exactly the same file forms and command structure as the ones in the major applications so it is natural for people to use these applications. It is amazing the great presentations this company gives about: support issues and how the new product responds to those, examples of users working with advanced features and the future of the categories. (note: I still cant get decent slides out of our applications group). This company does not have account coverage on a regular basis at all. They spend time with accounts when there is an opportunity to get them to switch. For example they have a huge focus on companies that have no moved their standards up to Windows. This company loves showing customers how we read the competitions files and are a superset of them. This company understands the economics of its competitors. This company knows the research that will affect its products. The support policies of this company are tuned for one thing: competitive advantage. It does not spend money on support things that cannot be proven by credible 3rd parties to be worthwhile things. This company has subset products to use for OEM deal but it also has a presentation for the press or oems saying how hard bundle deals are not that great for the customer. This company also has a reduced presence in the field since people dont bother it with lots of random questions - only questions about its products. It is easy to have a sales force know all the answers to the top questions about these products. When a product does not sell the focus is on getting the product right rather than spending more marketing money on it. This company does not advertise in the business press except for a major alliance or product introduction. The company refreshes getting backing unique to it because it is thinking competitively. This company has the same kind of "vertical" approach as the systems company however these is somewhat more permanent staff because once you win in a category it doesnt stay won as easily as systems. This company knows which market segments it is strong in and which ones it is weak in.