

Pete Higgins

From: Kathleen Schoenfelder
 To: Jeff Raikes; Mike Appe; Mike Negrin; Pete Higgins; Steve Ballmer
 Cc: Hank Vigil; Lewis Levin; Mark Kroese; Robbie Bach; Ron Souza
 Subject: Reponse to 1-2-3v4
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Robbie and Leslie did a lot of thinking about this and have already initiated some tactics to respond to the Lotus 1-2-3v4 release. The tactics are outlined below along with an spending/reach attachment. Overall, we have increased marketing \$2mm during June-August to respond to Lotus.

In addition, I've outlined some recommendations for expanding efforts in direct marketing and the reseller channel. We've also discussed pricing changes and aren't going to recommend it now. Please provide input or any thoughts you have on these areas.

Overall Response Objectives:

- 1) Demonstrate that XL is the leader; position 123v4 as catch up release
- 2) Prevent Lotus from gaining on Win desktops; capture switchers from DOS as they move to Windows
- 3) Get people to wait for XL5; special emphasis on reviewers and influentials

Key Tactics (already in motion):

- 1) "Switching" campaign directed at DOS 1-2-3 users. total funding \$1,240k
 - DR TV (60 sec spot, offers free 30 min. video--testimonial by 1-2-3 users who switched to Excel
 - DR print (offers same video free)
- 2) Direct Mail Upgrade Offer. total funding \$770k
 - 1.1 mm pieces to drop 6/15, timed to coincide with 1-2-3 upgrade notice
- 3) Excel leadership ads/momentum ad. total funding \$230k
 - PC press, 10 insertions.
- 4) Early demos of XL 5.0
 - VBA announcement by Billg at PC Expo (with some XL 5 teasers)
 - Backroom briefings at Windows World and PC Expo
 - Broad customer NDA sessions in July in field sales offices
- 5) Public Relations
 - Potential XL momentum press release (89% of fortune 100)
 - Controlled leaks: emphasis on the dramatic UI changes to XL5 that indicate it is a major release (3D, tab dialogs, "hands on" charting)
 - Letter to PC editors pointing out Excel v3 and v4 innovations that 1-2-3v4 is now "catching up" with. This tool may just be used with the field.
- 6) Office Upgrade Promo pricing extended
- 7) Office Professional Release

For details on spending and reach, please see attachment
 <<File Attachment: 123RESP.XLS>>

The potential market of Lotus upgraders is roughly 3-5mm users (US). We believe that by previewing XL5 and arming the salesforce with appropriate tools to position XL versus 1-2-3v4 we can forestall most large account purchases. Our biggest area of exposure is with small to mid-sized businesses that we don't reach through normal enthusiast marketing or the sales force. The two ways we can reach them is through direct marketing and resellers.



Proposals for going beyond the current tactics:

1. Expand direct marketing

Corp Comm and O&M are developing a recommendation that could expand our current DM plans to "colder" lists. The ideal is to find target lists that could approximate Lotus 1-2-3 DOS users. We could change the current offer in several ways:

- * Include "technology guarantee" ("we guarantee that XL is a better spreadsheet than 1-2-3 or your money back")
- * Discount coupon for XL upgrade (a direct mail coupon that would offer \$30 off the XL upgrade as another form of purchase incentive)
- * Drop comp. upgrade price to \$99 or \$49 (see #3 below)
- * Offer free version upgrade to Excel 5 (see #4 below)

We already have direct mail printed and ready to drop on June 15. We think it is critical to drop this at the same time as Lotus sends its upgrade notices. Changes would delay this by approximately 4 weeks. I recommend that we don't alter the current offer, but we could seek out colder lists that could extend our reach. Robbie and Leslie considered this, but the cost is very high. With response rates under 1% on cold lists, the cost per buyer is over \$50 ea. Kind of expensive on a \$129 upgrade. If we had good lists targeting 1-2-3 users, it could be worth the hit just to send them some self-funding direct advertising.

2. Reach reseller channel

We would also like to goose competitive upgrades and get attention when Lotus is selling in tons of upgrades. In addition to applying the same ideas above to upgrades in the reseller channel (lower prices, offer free upgrades, technology guarantee) we could add tactics for retail:

- * SPIF reseller sales personnel on all Excel units
- * Increase support for Office Upgrade and Office Pro launch (not directly an XL response, but could dilute 1-2-3's reseller push)
- * Let resellers know we take Lotus upgrade notices as valid proof of ownership in order to buy Excel competitive upgrades.

SPIFing resellers could increase awareness for XL competitive upgrades. SPIFs don't always work, but if you back it with some reseller attention (CRN ads, MS field calls) it might help.

3. Drop competitive upgrade price to \$99 or \$49

We could drop prices in the channel despite the 1+million direct mail drop. We don't think \$99 has much impact on a 1-2-3 user who thinks 1-2-3/w will be an easier transition. The real goal is to get in the consideration set when this DOS user finally thinks about getting a Windows spreadsheet. That means visibility, not price. Then there are all the cumbersome logistics issues we'd like to assume away, but tend to come back and bite us:

- Word and Excel comp. upgrade prices different
- Office competitive upgrade less attractive
- undercutting Select pricing
- harder to move the comp. upgrade prices up in the fall

4. Free upgrades to Excel 5

If we want to get aggressive, offering free upgrades to Excel 5 from now on will get some attention! It could stall 1-2-3 sales because it broadcasts our upcoming new version. Combined with a technology guarantee, it's a strong leadership message and builds momentum and hype/interest for the next release. This could really get expensive with an exposure of more than 300k users and possibly \$2-3 million in free upgrades (COGS + shipping, assuming lots of the 300K never cash in). One disadvantage is making the Office version upgrade less attractive in the fall as many users would already have a free Excel version upgrade (\$299 for Word and PowerPoint upgrades wouldn't be very attractive). Obviously, much of the Excel, Word, and Office installed base wouldn't qualify for the free Excel upgrade so the Office upgrade is still a good deal. Another disadvantage is that, similar to dropping prices, it undermines the long term pricing we're trying to establish for upgrades.

5. Spend a ton more on advertising and direct response advertising. Believe it or not, the agency and Corpcom do not recommend this. We are at saturation on product advertising for Office and Excel in the PC press. Despite the good early indications for direct response, it is expensive on a per conversion basis (you can quickly give away lots of videos, but only some video recipients buy). We need to understand the conversion rate better-- the research has begun on this.

Recommendation:

>From the ideas above, here is what we recommend doing:

1. Reseller SPIF, technology guarantee, and accept Lotus upgrade notices--all to focus attention and sell more Excel competitive upgrades. Mikene has suggested the following way to implement a potential SPIF:

Direct Resellers and SPs - sell through SPIF for XL sold in July and August of \$5 per unit for any Excel SKU (inc. all Office skus). A pain to implement, but we've done it before. Outbound Resellers - do trade ads (CRN) and announce a \$10 SPIF on any sales in July and August through these resellers.

2. Look for lists that may reach 1-2-3 users. If we can find good ones, mail to them. Otherwise, don't do this. Mailing to cold lists is just not cost effective and has to be viewed as expensive advertising.

3. If we really want to get aggressive, go for the free Excel 5 upgrades. It would be the most compelling to end users and would really get attention and it does all the right things for us strategically. It is also the single most expensive thing proposed. We'd have to support it by revising our ads and having the field push it. It could be disruptive to all the stuff we have planned for Office, but I guess it is not really the Excel group's job to worry about that. Certainly crunching Lotus is a pretty good thing to do for Office.

4. Get the field and all of US Group HQ marketing geared up for a massive fall launch of Word 6 and Excel 5. Obviously, we do this no matter what, along with everything else. Just a reminder that all of the tactics above are really just measures to get us through the next 4 months in better shape. I have no doubt that the juggernaut of Word 6 and Excel 5 (and the other app releases) are going to be a serious blow to Lotus, Borland, and WordPerfect.

Thoughts or input?

--Kathleen and Lewis