Erik Stevenson

From:	Brad Chase
To:	braddir
Subject:	FW: New Business Proposal
Date:	Friday, September 03, 1993 9:45AM

Not sure I sent this to you. Thanks to those who passed on feedback.
This is the final proposal sent upstairs. So far not much reaction one
way or the other

From: Brad Chase
To: Bill Gates; Jeff Raikes; Mike Maples; Paul Maritz; Steve Ballmer
Cc: Anne Schott; Brad Chase; Brad Silverberg; Richard Freedman
Subject: New Business Proposal
Date: Tuesday, August 17, 1993 06:04PM

While working on Elroy (MS-DOS 6.2) and preparing for our work on
MS-DOS 7, the MS-DOS BU has also been evaluating its charter. The
following proposal has been reviewed with bradsi and he asked that we
send it to you for discussion. I will set-up a meeting to discuss when
bradsi returns from vacation. In the meantime we, of course, welcome
your feedback.

Brad

< <File Attachment: COMPAN.DOC> >

A Proposal: The Windows Companion Group

This document outlines a proposal for an extension of the charter of the MS-DOS Business Unit. For the sake of simplicity the new product development group is known as the Windows Companion Group, or WCG.

This proposal is based on a vision of the marketplace that combines hard data, intuition and our experience from the development and marketing of MS-DOS 5 and 6.

I. Executive Summary

Notwithstanding the success of our operating system upgrade business, we face a number of challenges. Given the complexity and size of Windows and MS-DOS Upgrades, we have not done well enough appealing beyond our large but core group of technology-driven purchasers. And since our appeal is so technology-based, our upgrade revenue streams fluctuate wildly with the product cycle.

Our aim is to create a business focused on appealing to and beyond our core franchise in order to generate significant, sustainable revenues. In US terms, the vision can be summed up as "30,000 outlets." The best distributed Microsoft product ever, the MS-DOS 6 Upgrade, was in 12,000 US outlets at launch and is now in far less, and setting a target distribution of 30,000 outlets (in the US) has huge business model implications.

First, 30,000 outlets implies products that can sell off the shelf at Kmart and in huge volumes. Like operating system upgrades, the Windows Companions would contain silver-bullet, broad-appeal features, but they would be much simpler and easier-to-swallow. Second, 30,000 outlets implies a marketing plan driven by doing whatever it takes - from new types of packaging to signing up new distributors to changing our pricing models - to gain distribution in new classes of outlets like drug stores and office supply stores. And finally, since 30,000 outlets implies low street prices (likely less than $30), all costs under the control of the product group, such as R&D, PSS and cogs, would be rigorously controlled to keep margins at 30%.

We propose that the Companion series begin with four utility-like products. Two, known as the Maid and the MS-DOS Companion, would be developed. A third, known as the Printer Companion, would be based largely on the existing Fontpak, and a fourth would be a repackaged and repriced Scenes.

II. Situation Analysis

Notwithstanding the huge sales of our three major operating system releases (MS-DOS 5 & 6, Windows 3.1), there are still three basic challenges facing our operating system upgrade business:

Missing the next wave of software buyers
Although our three blockbusters have captured millions of new customers - and will capture more through better broad-reach marketing - operating system upgrades are the wrong product for capturing software buyers beyond our core franchise. We will be doing quantitative research soon, but qualitative research already completed points to three reasons:
* People fear change: Operating system upgrades stir this fear since they are complex, feature-rich products that change the system at the lowest level
* Price: $49 is cheap to a power user but not to the occasional software buyer
* Distribution: The $49 price hurts distribution since it is high for outlets like book and record stores

Revenues fluctuate up and down because they are driven by the product life cycle
While true of much of the software business, operating system upgrades are the ultimate spike business. Their distribution is limited to software specialty stores and certain mass merchants, and much of their appeal is to a large but still core group of technology-driven purchasers. Consequently, revenues are completely a function of the product life cycle and we never maintain our huge retail launch volumes over time.

Failure to price-discriminate within our core franchise because of feature overload
Regardless of one's opinion on the $49 price, the data clearly shows that a significant number of customers would have paid more for the MS-DOS 6 Upgrade. But our model of dumping everything into the OS keeps us from price discriminating among our core customers who are not price-sensitive. We do not get full value for all our features because we are constrained by the price people are willing to pay for the operating system.

Our operating system upgrades have set sales records because they have provided silver-bullet benefits like more speed, more memory, more ease, and more disk space. Yet they also suffer from feature overload, which has a number of nasty side effects:
- It creates products that overwhelm the next wave
- It makes it very difficult to formulate crisp product positionings
- It makes products expensive to develop, manufacture and support. As an example, it will cost approximately $150,000 worldwide in FY94 to support Interlnk, a feature that has probably not sold a single incremental copy of MS-DOS 6.

We know from the MS-DOS 6 Upgrade that:
1. We can sell lots of product with a couple of key features and a positioning based on only one feature,
2. After a point, more features don't improve customer satisfaction, and can even detract from it. Mail and Schedule+ in WfW are good examples.

So why do we put in so many features? For good reason, because we want to be aggressive to stay ahead of our competition and because we want people to think our products are an incredible value. But while appealing to our core franchise is clearly good business, in designing products for them we have left the next wave behind.

We believe we have a model to stay aggressive vis a vis our operating system competition, still give customers incredible value in the base OS, help consistently earn significant incremental revenue by reaching larger number of customers with operating system add-ins, and via the success of these same add-ins further help entrench the strategic base OS (Windows).

III. A Vision and Proposal: The Windows Companion Group

We propose forming the Windows Companion Group, or WCG, within the MS-DOS business unit. In US terms, the mission of WCG can be summed up as "30,000 outlets." That is, our goal would be to develop an annuity business by marketing a line of four or more "frosting on the cake" products (the cake is of course Windows). These products would be distributed in 30,000 outlets in the US; note that the MS-DOS 6 Upgrade, the best distributed Microsoft product ever, was in 12,000 outlets at launch and is now in only 7,000.

To be successful we would need to combine the best of Softkey (a software business discussed below) - broad distribution, wide selection and low prices - with the best of Microsoft - a recognizable and strong brand name, high quality products, and broad PR. Although we may not reach 30,000 US outlets, setting such a high goal has enormous product and business model implications. It implies that the products would all:
- Be priced low, perhaps no higher than $29.99 street (we have to do the research to find out)
- Have a very crisp, broad-appeal message
- Be simple, non-intimidating products with few features
- Be packaged in multiple ways to allow for mass distribution. Possible examples include a normal shrink wrap box, book or magazine packaging, and video-tape form factor packaging

Business model implications include:
- Rigorous cost control, to the extent that the product group can control them

- New classes of resellers, such as office supply stores, hardware stores, book stores, record stores, drug stores, perhaps even supermarkets
- New distributors for the above markets
- New channel policies, such as, for example, more liberal returns since book stores only sell on consignment, and the willingness to buy shelf space

Given that the evolution and structure of the retail channel in Europe and in other non-US locations is materially different than the US there will be some additional challenges we face to make this successful worldwide. However, the European channel is evolving very rapidly and is becoming more similar to the US. In addition, the non-US sales of the MS-DOS 6 Upgrade have been significantly greater than the MS-DOS 5 Upgrade partially because the subsidiaries have been more successful at "consumer marketing."

Once we have the Companions, there are many ways to leverage them. They would clearly be perfect upsells along with the launch of the Chicago Upgrade (the next Font Pak), and could be distributed on the same CD ROM and as part of the more general Microsoft CD-ROM distribution effort. We could bundle them together in a "Companions Office" for our core franchise market, offer them for a royalty to OEMs or book publishers, or six months after launch bundle one or two with Chicago to give it a mid-life kicker.

IV. The Business Case
An important key to the success of the Windows Companion Group is to treat it like its own business and to carefully control costs based on revenues. The WCG needs to generate an on-going, very profitable annuity "frosting" business because that is by far its most significant strategic purpose.

First, here is a conservative guess at Companion Series revenues:

Channel	Annual Windows Volume	Companion Penetration	Companion Volume	Companion Unit Revenue	Total Revenue
Upgrade	6,000,000	15%	900,000	$20	$18,000,000
OEM	24,000,000	5%	1,200,000	$20	$24,000,000
OEM	24,000,000	5%	1,200,000	$2	$2,400,000
Total			3,300,000		$44,400,000

Notes:
- The first OEM line is for estimating the number of Companion sold at retail to new PC buyers
- The second OEM line is for estimating Companion OEM royalties

Second, the cost structure would be as follows:

Category	Percent	Dollars
Revenue	100%	$20.00
Fixed Allocations	-38%	($7.60)
Controllable Expenses:		
Cost of Goods	-12%	($2.40)
Product Support	-3%	($0.60)
R&D	-9%	($1.80)
Marketing Expenses	-8%	($1.60)
Burdened Operating Inc.	30%	$6.00

The implications of this cost structure are as follows:
- Fixed allocations: This is an estimate from Finance of total fixed allocations outside the control of the product group

- COGS: A one-disk product would cost around $1.80, and a two-disk product around $2.70. At 12%, or $2.40, we're assuming a roughly equal mix of one- and two-disk products. In outlets where shelf space is at less of a premium, like software stores, we would stock separate 3.5" and 5.25" SKUs. In outlets where shelf space is costly, like drug stores, we would stock 3.5" SKUs only.
- Product Support: Product support for the MS-DOS 6 Upgrade is 4% of revenues. The Companion would have 90-day support but be simpler than MS-DOS, and hence the 3% estimate.
- R&D: Given a 9% R&D budget, projected revenues of $44M, and an estimated cost of $100K per head, the Companion line could justify as many as $3.96M / $100K = 40 heads. However, as is the practice in the MS-DOS group, we will staff lean and license as much code as possible. We believe we can develop two new Companions, revise another, repackage a fourth and market the entire line with a team of 15 people. The four products are discussed below.
- Marketing Expenses: Given projected revenues of $44M, at 8% the total marketing budget would be about $3.5M.

V.   A case study: Softkey Software
Softkey Software is a Canadian ISV whose strategy is distribution-driven rather than technology-driven. Their mission is "software for the masses," and they market three broad lines of products: A shareware line priced at $5.99 street, a just-announced mid-range line at $14.99 street, and a high end of over 30 products priced mostly at $29.99 street. These products, which range from mapping to CAD to word processing to home inventory, are undifferentiated and of reasonable but not top quality. For example, Key Fonts, one of their best-sellers, does not have a setup program; one installs the fonts manually from the control panel.

Softkey does not spike market. Their products are almost never mentioned in the trade press. In fact, most don't even have version numbers. Their strategy relies on wide distribution, broad selection, low prices and impulse buying, and this strategy has generated sustainable revenues. They claim to have 5,000 outlets in North America; by contrast, no Microsoft product is in as many as 5,000 outlets except the MS-DOS 6 Upgrade. Softkey has a strong presence in both the software and mass-market channels.

In FY93 Softkey's revenues grew 66% to $61MM (all figures are in Canadian dollars), although Q1 FY94 revenues grew only 20% from the previous year's quarter. Remarkably, however, in FY93 net margins were 20% and profits were $12.5MM. Softkey's high margins on such low-priced product are due in part to:
- Low R&D: Softkey has no in-house R&D. They either license new products from small ISVs, or old versions of existing products from major ISVs, at a typical royalty of 5% of revenues. Microsoft's FY1993 R&D was 12% of revenues.
- Low marketing expenses. Sales & marketing expenses were only 14% of revenues. (Microsoft's are at 32%. However, the numbers may not be directly comparable because Canada may have different accounting standards). Unlike Microsoft, Softkey's marketing does not rely heavily on advertising.

Softkey recently acquired Wordstar International, and there are rumors of an impending takeover of a leading low-priced ISV, Spinnaker.

VI. The Windows Companion Series
As stated earlier, the Windows Companion Series products would each have a crisp, broad-appeal benefit, and be small and inexpensive. A major issue is whether the Companions should require Chicago. If they do, then until Chicago gains critical mass in the installed base - around 12 months after its launch - Companion distribution and sales will be limited to that of the Chicago Upgrade. Since limiting distribution and initial sales disrupts the entire strategy, we propose that the Companions run on Windows 3.1 but leverage Chicago technology whenever possible. There are some technical challenges (ex. only Chicago has last access date, two platforms means double testing) that we will have to review to decide for sure.

At the beginning, we envision at least four products in the series. For the purposes of this document the four are named as follows:
1. The Maid

2. The MS-DOS Companion
3. The Printer Companion
4. Scenes

These products are all utility-like extensions to Windows. Since our goal is to sell products in Kmart, one issue is whether we have chosen the right type of products. Most people love "The Maid" but there are detractors. Can the MS-DOS Companion have the broad appeal we are seeking here? In general, utilities have never been considered mass-market, particularly in contrast to, say, personal finance packages, do-it-yourself lawyer packages, or recipe cataloguers. Our rationale for developing utilities is:
- Like operating system upgrades, utilities can provide silver-bullet features that appeal to everyone
- We believe that they can have mass appeal if marketed correctly
- Utilities better leverage the Microsoft name than low-end applications
- The core competency of the MS-DOS group is in developing utilities

We should also note that the product proposals below are not meant as final specs. The actual product specs would likely contain a subset of the features listed below.

The Maid
Message: Clean up all that clutter on your hard disk

The maid would contain a number of heuristics designed to help users sweep unnecessary files off their disks and save disk space. It could either be run by the user or run at some scheduled interval (it would include a scheduler).

Application file house-cleaning
The maid would have an updatable database, much like a virus signature file, that would contain the following information about every file shipped with every major application and operating system:
- What software package the file belongs to
- What the file does in plain English
- Identifying characteristics (file name, size, date, first 50 bytes)

The maid would present the user with the following information (the "D" button stands for "Delete"):

	The following files are all part of MS-DOS 6			
	File	Size	Purpose	Last used
[D]	KEYB.COM	14.8K	Lets you configure your keyboard for languages other than English	Not since you installed the Maid
[D]	LABEL.EXE	9.3K	Creates, changes or deletes the volume label of a disk. You can also perform this task in the Windows File Manager.	Not since you installed the Maid

Last access date and viewers
For data files and application files the maid doesn't know about, it would present the user with a list of all files not accessed in the last X months. For data files, it would contain viewers for popular file formats to allow the user to see the file before deciding whether to delete it.

Uninstallation
Uninstallation support that includes cleaning up ini files would be a compelling feature and consistent with the maid's product message.

Other

There are any number of other heuristics for finding unnecessary files. The maid could also search for:

- Duplicate files
- *.tmp files
- Duplicate functionality using the file database. Examples: Dosshell and Fileman, multiple Smartdrv/Himem/EMM386 in \DOS and \Windows, other caches like PCCACHE and NCACHE.
- Old unnecessary files in \DOS and \WINDOWS like VDISK
- IBM-specific files installed by QEMM, 386Max, Windows etc. on non-IBM systems
- Network-related files on non-networked systems. We would ask the user if they plan to be networked in the future ("Do you use this PC at home?" for example)
- GRP files not installed in Progman as groups

The maid would be architected to allow new heuristics to be plugged into future upgrades and to allow it to be easily updated by us or even ISVs when they release new versions of existing products or new products.

Background MaxCompress

This feature is consistent with the theme of saving disk space, assuming we could solve the legal issues

Auto PKLite

About 50% of Maid buyers won't have DoubleSpace installed, and so MaxCompress isn't of use to them. For uncompressed users, Maid setup would, using its database of file signatures, PKLite every file it knew was safe to PKLite. Note that in MS-DOS 6 QBasic/Edit and MSD are PKLited on the user's disk. For example, a user with MS-DOS 6, Windows 3.1, Excel 4.0 and WinWord 2.0 installed would save 5MB by having all their .EXE's and .COM's PKLited. Also, we would periodically run through the disk PKLite'ing any new files the user added over time.

SuperDelete

Files deleted in the maid would get copied to a trash can, and files in the trash can would get purged over time. So far we have described delete sentry. But unlike delete sentry, SuperDelete would hook file open. If file open returned "file not found," super delete would check the file against a list in the trash can. If the file wasn't yet purged, super delete would automatically move it from the trash back to its original spot, and so provide an added level of protection against users deleting files they shouldn't delete.

The MS-DOS Companion

Message: The comfort of MS-DOS plus the power of Windows.

The MS-DOS Companion would be for anyone who uses MS-DOS apps with Windows or just likes MS-DOS. Its feature set could include:

Super Windows command-line

Although the data is dated, we know from a 4/92 survey we know that 62% of Win 3.0 users use the C: prompt. We also know that many Windows users and rejecters consider GUI too cumbersome. "Wincom" would be far more powerful than the command-line in MS-DOS 7 or Chicago:

```
┌──────────────────────────────────────────────────────────┐
│ ≡            Command for Windows                    ⊠ ⊡   │
├──────────────────────────────────────────────────────────┤
│ ▓dir▓ ▓copy▓ ▓del▓ ▓cd▓ ▓ren▓ ▓move▓ ▓▓▓▓▓▓▓▓▓▓▓▓▓       │
│                                                           │
│  C:\>dir                                                  │
│                                                           │
│   Volume in drive C is RICHARD                            │
│   Volume Serial Number is 6073-60ED                       │
│   Directory of C:\                                        │
│                                                           │
│  ████████████████████████████████                         │
│                                                           │
│  WINDOWS       <DIR>      09-30-92     7:24p              │
│  WINWORD       <DIR>      09-30-92     7:55p              │
│  EXCEL         <DIR>      09-30-92     8:28p              │
│  COMMAND   COM   52,925   02-09-93     6:00a              │
│  CONFIG    SYS      402   05-13-93     9:32p              │
│  AUTOEXEC  BAT      277   05-19-93     8:35a              │
│          3 file(s)        53604 bytes                    │
│                         ·6078464 bytes free              │
│  C:\>_                                                    │
└──────────────────────────────────────────────────────────┘
```

A main goal is to have press people say "This is what we've wanted for 12 years!" Wincom features could include:

Mouse-capable file management
Beyond the button bar for command MS-DOS commands, Wincom would be mouse-capable and mimic Fileman behavior:
• A button would act on any selected file or directory
• Double-clicking a file would start the associated application
• Double-clicking a directory would change directories
• Files could be moved by a drag-drop into a directory

Command-completion dialog boxes
Typing CD, DEL, COPY, XCOPY, FORMAT, UNDELETE, REN or MOVE without arguments would bring up a command-completion dialog box similar to the dialog boxes for those commands in Fileman, except that they would provide all the same options as the command-line switches.

In general, external commands such as XCOPY, ATTRIB, FORMAT and CHKDSK would not work properly in Wincom since can only run inside a DOS box. They would require some rewriting simply to be able to work in their existing TTY modes under Wincom.

Customization
• Display in any font, including proportional fonts
• Selectable C: prompts and a simple C: prompt editor (akin to an icon editor)
• Color control (display files in one color and directories in another; display .exe's in a special color, etc.)

Improved Error handling
• Forgiving parser: Non-modifying commands, such as DIR or ATTRIB without arguments, would be parsed more forgivingly and executed automatically if entered as DOR or ATRIB. Modifying commands, like DEL, that were typed as DEK, would generate a "Click OK if you meant DEL" dialog
• Error wizards: The top 10 error messages would each be rewritten to fail gracefully and give the user a chance at corrective action. For example "Bad command or filename" would tell you which was bad -

the command or the filename - and would generate "I couldn't find that command - Could you please retype?" dialog.

Batch enhancements
Include the big five or so batch commands (we could ask batch experts like Dan Gookin and Neil Rubenking what they would pick).

Other cool stuff
- Unlimited scroll-back, including split-screen support so you could keep the C: on the bottom half, scroll to your hearts' content on the top half, and drag-drop or copy-paste between the two
- Right-mouse click brings up a box with the last 10 commands a la a right-mouse click Excel
- Complete cut-and-paste support
- Built in DOSKEY functionality
- UNDO - undoes your last command (delete one or a group of files, copy or copy overwrite, etc.)

Other MS-DOS Companion features
- Idle-time defragmentation
- 704K or 736K DOS boxes for text mode apps
- Additional VxDs not in Chicago: UNDELETE, RAMDRIVE, etc.
- Local configuration support: This implies (1) the ability to load device drivers from the command-line, and (2) a PIF setting allowing a batch file to execute before an app
- Configuration Wizard: A Win app to help anyone who helps users over the phone (PSS or corporate helpdesk types):
    - CONFIG.SYS, SYSETM.INI and WIN.INI field editor. Should be designed to make over-the-phone configuration editing easy and fast. Instead of asking a user "Find the line that says FILES=" and tell me what it says" the helper could simply say "Press ALT-F and tell me what it says"
    - Syntax validator for CONFIG.SYS commands and common drivers like EMM386
- Automatic font-scaling for DOS boxes (pulled from Chicago)

Printer Companion
Message: Makes printing faster, easier, prettier.

At a minimum the Printer Companion would be the Fontpak remarketed as part of the Companion Series. This means a reduction in cogs, a consolidated product line - one Fontpak only - and a lower price.

However, since printing is such a common PC activity, one idea is to combine some fonts along with other utilities into a Printer Companion. Chicago already includes better spooling - although they may leave an opening for even faster printing - but other possible features include universally appealing money-savers such as "Print in paper-saving mode" (multiple pages on one-sheet) and "Print in toner-saving mode" (lighter print).

Scenes
Message: The fun way to help preserve your monitor (this needs some work)

The changes we would make to Scenes would be:
- Reduce cogs: Each of the three Scenes packages contains the screen-saver app as well as 48 images on two disks. We would cut the number of images to 20 in order to fit on one disk. We do not believe that removing 25 or 30 images would affect sales materially.
- Rationalize the product line: Each Scenes product contains the entire screen-saver engine, which eliminates the opportunity to price-discriminate using a razor/razor-blade model. We would either reduce the Scenes line down to one product, or sell the engine plus some bitmaps for $29.99 and additional bit-map add-ons, without the engine, for $14.99 or $19.99.

Other Microsoft Products

SoundBits
Initial sales of SoundBits have been abysmal - about 800 per month - largely because the market is so small. Given its very narrow appeal, SoundBits is not a good candidate for the Companion Series.

Entertainment Paks, Flight Simulator, Golf, Ink, Splat, Money
Though they are not of the same genre as the products listed above, we have naturally discussed (and of course have been asked about) the appropriateness of many of the Consumer products as Companions. Given rigorous cost control, which probably means a reduction in cost-of-goods and R&D expenditures, these products could make excellent Companions.

However, for the Companion products to succeed, they must all be owned by one group and marketed as a line. They cannot each be managed as separate entities, and so at this juncture, before we have proven that our strategy works, we think it would be best if we focus on the operating system add-ins and that the products above remain in the Consumer Division.

VII. Why the MS-DOS group?
The MS-DOS team has a great deal of experience marketing and developing operating system add-ins because that is essentially what MS-DOS 6 is. The MS-DOS team also probably understands the mass-market better than any group at Microsoft[1]. These skills will be less applicable to MS-DOS 7 given that it will be more of a niche product.

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[1] Broad PR and distribution were central to the MS-DOS 6 Upgrade strategy. To date 26% of MS-DOS 6 Upgrade sales have come from mass merchants and we have some even more aggressive plans.