Debra Vogt

From: Bill Gates
To: Mike Brown
Subject: Revenue recognition
Date: Friday, September 17, 1993 9:20AM

Another this of interest to me is this thing that Sherlund wrote about in his latest report.

Its says that it you commit to a customer to provide support and/or to give updates over a period of time you can recongize the revenue ratably over that period. That might be a very good idea for us with Chicago. I wonder how far you have to go to do the recognition-this way - does it have to be both update and support or just one of them? Over what time perido would be reasonable - 12 months? 24 months?

From: Mike Brown
To: Bill Gates; Charles Stevens; Chris Peters; Lewis Levin; Mike Maples; Pete Higgins; Roger Heinen; Steve Ballmer
Cc: Bernard Vergnes
Subject: RE: Pricing
Date: Friday, September 17, 1993 9:04AM

I'll crank up a modelling effort right away and report back.

From: Bill Gates
To: Charles Stevens; Chris Peters; Lewis Levin; Mike Maples; Pete Higgins; Roger Heinen; Steve Ballmer
Cc: Bernard Vergnes; Mike Brown
Subject: Pricing
Date: Thursday, September 16, 1993 5:35PM

This is my input on pricing thinking. I send it to make sure the pricing group considers a superset of the things discussed here. I make a number of "reccomendations" but really these are things I am just thinking about and several contradict each other.

1. Subsetting.

I think we should have3 tiers of product - free, $99 street and full.

The free WP would be the one built into chicago mail. The free spreadsheet should also ship with Chicago - both on the Cd and to OEMs. The table features in word and works should move over to use/match the free spreadsheet. The text features in Excel should use/match the free WP features. The free spreadsheet would be mostly an OLE 2 table object with recalculation. It would be missing things like multiple sheet support and tons of other features of excel. The $99 version would also have some feature deletions that would make it unappealing to a high percentage of buyers. A weird approach would be to have the $99 version be the old version of the product - not very appealing.

Drawbacks of subsets - effort to create, confusion, cannabilization. Benefits - people would be excited to know there is something free. For example we could give the free stuff to mac users in return for registering.

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2. Licensing.

We could move to a license where you pay $79 per year for a single application and $129 a year to be an office user including getting one free CD with the latest and some level of support. You lose the right to use the product altogether if you dont renew - of course some people would continue to use it but most people who we can get revenue out of would pay it. The negatives are the transaction overhead. The positive is that it really builds an ongoing relationship and points our how cheap software really is. The Cd would contain other stuff you could unlock and buy as well. We would lose some revenue at first with this approach but we could afford that. Of course another company could attack your renewal base with cheap software so you have to hope users are working with your unique features.. When I say prices like these I am assuming our volume discounts are not nearly as steep in the future as they are today.

A half way approach to this is to have people buy the first 2 years when they first buy so the numbers

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would be: $159 and $259.

In every industry when prices go down what happens is that first they go down for volume users and so the tilt for volume is high but then they go down for everyone and the tilt gets a LOT flatter.

3. European market up.

I think we should just unilaterally move to a 1.3 maximum markup throughout Europe. This would be costly but I think the longer we delay the more we risk our market share position.

4. Basic US price.

I like the LOTUS approach of a simple $299 upgrade to Smartsuite that contains 5 great products - approach, organizer, freelance, 1-2-3 R 4, and ami. Its a far simpler message than most of ours and I think it will work because their products are all exciting and their advertising is quite good. We have always made it hard for an existing user to move up to office. I wish we had more things to include in OFFICE so we werent weak compared to LOTUS but I am not sure what else would have value to the customer - I wish we had some creativity in this area - it was so smart of lotus to buy organizer and approach for as little as they did.

One hardcore approach is to say we sell individual applications for $199, and OFFICE for $299 whether or not its an upgrade. This would change our revenue a lot. Its worth modeling the effect of this on us and competitors.

5. Borland

If the key is competing with Borland then database pricing and any other category they do well in should be reviewed. We should take a few countries like Germany and try a $99 FOX deal to attack the DBASE market hard core before DBASE for Windows comes out. We should understand Borland overall better than we do - where do they get their revenue from when they have a spreadsheet at $50? Analysts are predicting they will be profitable during this promotion period. How?