

Teresa Jennings

From: Jonathan Lazarus
To: Bill Miller
Subject: FW: Meeting with Billg next week on Windows profit boost/maximization
Date: Thursday, September 23, 1993 11:16PM

From: Brad Silverberg
To: Brad Chase; David Brooks; Jim Allchin; Jonathan Lazarus; Jonathan Roberts; Paul Maritz; Richard Freedman; Richard Tong
Cc: David Cole; John Ludwig
Subject: RE: Meeting with Billg next week on Windows profit boost/maximization
Date: Thursday, September 23, 1993 6:44PM

this is the right thing to do and yes, richf and davidbr should take the lead.

I also spoke with billg about this today. what we wants to do is recreate the world where we "doubled dipped": we got the oem's to pay us for ms-dos and then we sell windows retail. chicago base becomes the old dos, and the power-pack becomes the old windows. one topic he wants to discuss is what exactly should be in the base and how we can make the power pack super attractive.

From: Paul Maritz
To: bradc; bradsi; davidbr; jmall; jonl; jonro; richf; richt
Subject: Meeting with Billg next week on Windows profit boost/maximization
Date: Thursday, September 23, 1993 4:08PM

(meeting was "Windows Add-on Business" proposal meeting).

Having spoken briefly with Billg yesterday, and having been present at a discussion of Apps pricing strategies, I think we should bear following in mind:

- Billg believes that there are scenarios in which it will be hard to get same kind of growth out of Apps that we have seen in past few years,
- thus he believes that we need to think thru scenarios in which we harvest significantly increased revenue out of systems business, by growing the server business, but also significantly more out of Windows
- basically the challenge is to find another \$1B in revenue.
- the basic thesis he has is that customers are willing to pay more and place a value of \$99+ on the Windows environment. Given that we cannot harvest \$99 from every OEM on every machine, and that we do not, under any circumstances, want to lose market share in the OEM channel - this leads to some variant on strategy where we sell a basic OEM version of Windows and an "upgrade" package. The base version would be OEM focussed and would carry most important API's for ISVs, and the "enhanced" version would be available both thru OEMs (albeit for significantly higher royalties) and thru retail. The delta in functionality between base and enhanced has to be compelling enough that a high proportion of users would elect to buy it.

With above in mind, I think we need to do following:

- start with brief baseline data on what the DOS/Windows business is today (FY'94) - what we get in terms of:
 - OEM revenue/margin
 - retail revenue/margin
 - upgrade revenue/margin

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- addon revenue/margin (Fonts, WPS, Scenes, anything else we have -

instructive to see how small it is)
(ignore allocations).

- Go thru several scenario's for revised packaging and pricing - and model them in terms of revenue AND margin yield with some "low/medium/high" kind of sensitivity analysis on the assumptions (eg. what % would elect to take the "enhanced version", as well as prices) - with the above four source of revenue (OEM, retail, upgrade, add-on).

- It would also be interesting to do some "goal seeking" - ie. what would it take in terms of above assumptions to double the BOI that systems currently produces on DOS/Windows (ie. go from roughly \$400M to \$800M).

- Go thru some discussion of the functionality split between the various packaging options.

I have let Billg know that this will be a working/brainstorming meeting, not a decision meeting, but it would be good to have some common data on the table, and have some framework to discuss things.

Brads can overrule this, but I would like to request that Rich Freedman and David Brooks take the lead on pulling the above together.

I think it is OK to introduce the concept that jonl/richt/jonro have floated of "including" Windows NT desktop version on a common CD with Chicago, but we shouldn't make that affect the above analysis either way at this point.

Comment?