

| to be strategic and try to squeeze \$5 more per system shipped from OEMs.
| Define a premium product with some performance improvement and other
| attractive features which fall more in the "Norton tool and nice to
| have" area. Make the premium version the only retail version and let
| OEM pay \$15 more if they want it. This would allow the retail biz to
| sell at a reasonably high price, cuts down the SKUs and will attract
| e/U as well as OEMs to make a fast transision.
| I have not done the math, but a rough estimate tells me this will get
| us to 3 B\$ no problem.

From: Tom Evsiln
To: Bill Gates; Mike Maples; Steve Ballmer
Cc: Brad Silverberg; Brad Chase; Joachim Kempin; Jonathan Lazarus; Paul
Maritz
Subject: 2 Chicagos or 1
Date: Saturday, January 15, 1994 12:30PM

Disclaimer: What I am arguing below is best possible outcome for workgroup
strategy. But I believe it's right for Chicago revenue as well.

problem in maxmizing Chicago revenue is to add enough value vs. Win 3.1 so
either oems or consumers buy a high priced version most of the time. Having
a base version. I think, makes this harder rather than easier.

(obvious) if there's a base, the money making version has to have a big
value delta over the base as well as over 3.1. This is a mking nightmare
because we have to differentiate two new windows versions and sell against
our own low end version while still promoting as better than the very
popular win 3.1. It's also a problem for dev which needs not only to make
and test two versions but also needs to make sure that upgrading base to
premium isn't a slam dunk for some 3d party. We spend dev effort making
things worse rather than better.

Although speed is a great differentiator, it is not enough (I say) for
promoting a total shift of the market AND a new price point. Windows isn't
faster than DOS; it is easier to use and applications which are easier to
use require Windows. APIs are a great differentiator for the longterm
although they have little shortterm market value. Once apps are written to
the new APIs, anyone who wants those apps or any oem selling machines to
people who will probably want them needs the system software that supports
them - price is much less a factor.

But we can't use APIs as a differentiator between base and premium
effectively because apps won't rely on APIs that are only in premium. Apple
is getting nowhere with system seven pro. Desktop can be ordered to support
the new APIs significantly but that means that Office competitiveness
suffers because cool new features are unavallable not only on Win 3.1 but on
new machines with base Chicago. Similarly, if these APIs like MAPI are key
to keeping ISVs from using competitive APIs and are the entry point to our
servers, then we hurt ourselves by keeping them off base. So, if we have a
base and a premium, we will end up supporting the same APIs on both and
can't differentiate this way. If we do end up with both, I'D ARGUE FOR
PUTTING MAPI AND CAPONE ON BOTH.

If we sell one Chicago we can put all our wood, systems and apps, behind
making that compelling. We may have to license it at a fairly low price in

its first year to build installed base for apps and workgroup. But I would think we could raise the price yr by yr as the apps appear that support its APIs (Joachim, is that reasonable?). By the third year, we hit the revenue target by a combination of higher price and great penetration - and killing OS/2. This strategy leaves no big hole for a competitor because we only raise the Chicago price as it becomes compelling vs. win 3.1.

Our recommendation for server pricing and packaging is converging on a model that supports a highpriced one Chicago model. I think we will end up recommending that client software - sql, ems, filesharing, sna etc - always be delivered with Windows "free". We will charge at the server for connections. But these "free" clients let us charge more for Chicago since a competitor would have to provide all these bits in his desktop OS or have it be an incomplete client. This packaging model also lets us promote Chicago or create oem addons by putting tokens for server access in a bundle with Chicago (or Office).

You could argue that we should only put the "free" clients in premium. But these clients have APIs. And we hurt the chance of making a server suite (Microsoft BackOffice) a standard.

So I recommend one Chicago; failing that I think we should make sure both Chicagos have all APIs including MAPI.

Technical note: We could deliver Capone client capabilities including APIs and LMS with base whether or not it has the Explorer capability. This would actually be our NT client. It is 32 bit and lack only the integration with File manager that the Chicago client has. Navigation between the lms folders and file system folders is possible but means two separate windows with hierarchies in them. Drag and drop still works.