

**PLAINTIFF'S  
EXHIBIT**

tabbier

2156

Comes v. Microsoft

DOJ - Legal

From: Bill Gates  
To: Bernard Vergnes; Brian Fleming; Chris Peters; Hank Vigil; Jeff Raikes; Joachim Kempin; John Neilson; Lewis Levin; Mike Brown; Mike Maples; Pete Higgins; Peter Pathe; Richard Fade; Steve Ballmer  
Cc: Bill Gates  
Subject: Office and other revenue  
Date: Thursday, October 06, 1994 11:32PM

Some thoughts on Office issues related to pricing...

<< File Attachment: doc1.doc >>

**EXHIBIT**

tabbier

30

6-22-01

FL AG 0027666  
CONFIDENTIAL

MX 1395980  
CONFIDENTIAL

Page 1

VERGNES EXH. 28

To: Steve Ballmer, Mike Maples, Pete Higgins, Jeff Raikes, Bernard Vergnes, Richard Fade, Joachim Kempin, Mike Brown, Hank Vigil, Lewis Levin, Chris Peters, Peter Pathe, John Neilson, Brian Fleming  
From: Bill Gates  
Date: October 6, 1994

## Office and other revenue

One way to look at our Office pricing is to remind ourselves that we are still gaining share of installed base and that is our overriding strategic goal. We are in a strong enough position that over time our competitors will be cutting back on their technical and sales investments and we will become a preferred supplier. I discuss this share opportunity in another memo. However, Office revenue is critical enough that we should consider if we can do better without giving up our overriding strategic goal.

Our revenue per Office license continues to fall for a number of reasons. I am particularly concerned about the drops at the start of this fiscal year. I discuss here some of the factors I think we need to focus on more diligently.

**License discounts:** In the retail channel our average license discount is high and getting higher all the time. The field should be very involved in tracking and setting goals for these levels. For example I think the discount should be lower in countries where we have high market share. I am not sure why it is necessary for the percentage of business done with licenses or the average discount to be going up so quickly. With the myriad forms of licenses including custom select agreements we may have structured this business in such a complex way that we can't really understand what is happening. When I discuss the trends in licenses some people say to me they didn't notice it or they see different numbers. This is a bad sign. Meanwhile customers find our offerings quite complex as well. Ideally we should be able to discount prices where it is really necessary because of competition and not in other cases. We have not come up with new approaches to achieve this. One particularly discounted "license" is our Academic license. This has become a much larger component of our sales in many countries and needs to be investigated carefully. The first step to dealing with these discounts is to simplify our offerings and improve our reports so we can actually tell what is happening. Perhaps sales people should have a clearer incentive to avoid discounting. Many times when we convert an account to licensing it is business we would have gotten anyway at higher prices. Are there products that we should eliminate from these programs? What impact would changing discount levels have? Do these licenses distort revenue timing by accelerating revenue causing a problem later on?

**Concurrent usage:** This is a license discount of a special nature. I have often worried about its impact over time. The arguments for keeping it are that most customers don't use it and the customers who do care a lot about it. We are still trying to increase our share and avoid creating issues where Microsoft is viewed as being "high priced" or not "customer sensitive". Eliminating concurrent use even for new versions could trigger that. The danger is that it as customers demand that network administration tools support this and demand that applications support LSAPI it will become mainstream. Any corporation that distributes applications across the network can also track usage through the network. When a customer switches to concurrent use it cuts our revenue from that customer by over 50% and sometimes as much as 80%. A worldwide corporation can take their concurrent licenses around the globe during a 24-hour period. Associations can be formed to buy groups of license and share them through a public network structure. Are there products that we should eliminate from this program? I am not concerned that this will hurt us badly in the short run like the discounting described above but I don't think we will be able to stay with concurrency in the medium term. I think we need creative ideas on how to "ease" our way away from concurrent pricing over the next 2-3 years.

**Saturation:** As more and more machines are sold as replacement machines and a high percentage of new machines go into the home our Office volumes could decline. I know I am reasonably unique in raising this

FL AG 0027667  
CONFIDENTIAL

MX 1395981  
CONFIDENTIAL

warning flag. Pete is presenting the results of some work his group has done on this in the next month. We have lots of large account where our ongoing revenue is a lot smaller than our peak revenue. Our penetration onto Macintoshes is a good example of how a shift to the high growth new user markets (home and education) can negatively impact our sales. The salvation is to get increasing revenue from the installed base.

Upgrade/ Maintenance revenue: I believe that under the right program businesses will be willing to pay \$100 per year (after ALL discounts are applied) to have their office workers have the best productivity software. This doesn't mean they want to waste a lot of time installing and learning a new program with no significant productivity or business benefits. Corporations are sometimes more open minded to paying for maintenance releases than they are to paying for new feature releases! I think we may have to give provide a choice of getting the latest (A,B,C...) type upgrade for Office or getting the new version with features which may tax the machine resources and require some learning. By giving corporations that choice I think we should be able to sign Office user up to \$100 per year. I have always wondered if we could lower the upfront price for Office substantially in return for a commitment to buy upgrade. Compare a 5 year license at \$100 per year in terms of value to Microsoft to a one time office license with low percentage of upgrade/maintenance. From a cash flow point of view competitors might not be as generous as to provide this option. Also customers may not give them as much credit for being able to stay up with technology and give customers what they need.

Do we understand what percentage of our customers are signing up for maintenance and what they expect? Do we feel that maintenance and support should be brought together as a single offering for large customers? I think we should establish goals and measurements in this area.

Over time our biggest opportunities come from the "sea changes" I discuss in another memo which has a more optimistic look at what the future might hold for Office and other revenue. However we need to understand and optimize our licensing prices to maintain customers understanding of the value of software.

FL AG 0027668  
CONFIDENTIAL

MX 1395982  
CONFIDENTIAL