From: Brad Chase
Sent: Wednesday, December 14, 1994 9:25 AM
To: Carl Gulledge; David Williams (POSD)
Cc: George Downing; Joachim Kempin; Russell Stockdale
Subject: RE: New Coupon offering

good comments. i want to run some numbers but this should work. I do think you can get a bit more than the std deal for the per system coupon

From: Carl Gulledge
To: Brad Chase; David Williams (POSD)
Cc: George Downing; Joachim Kempin; Russell Stockdale
Subject: RE: New Coupon offering
Date: Tuesday, December 13, 1994 7:30PM

OEM is getting very excited about this. Your suggestion to simply charge the OEM's standard Windows 95 royalty is sound. Per Copy roy for coupon should be $75 less the OEM's standard dos+win roy or for simplicity $50. In both cases OEM supports and EU pays for cogs when ordering through an AR.

Two coupons:
Per Copy Coupon $50.00 + royalty for MSDOS+WFW
Per System Coupon - OEM pays their full $ Win 95 royalty and ships msdos+wfw

In both cases, coupon ship in box with msdos+wfw. Retailers won't need "out of box coupons" if we get a few key players to do this.

AR's fulfill when end users return Coupon and COA along with payment to cover COGS + postage. AR's ship OEM version of Windows 95 upgrade and will sticker the doc to direct support to the OEM.

What can we do for the DSP channel? Our current combo penetration is not good. We should consider a combo+coupon sku to increase our windows penetration in this market segment pre Win95.

Regarding your issues:

—————————What if we get low penetration on the coupon?
Who cares, we get paid up front anyway. no interest here if they want to pay upon fulfillment only, that's what the per copy coupon is for..

—————————Will this impact upgrade revenue?
This is upgrade revenue at a high penetration rate. Essentially this is no different than dual product ship which OEM's are expecting anyway. If the penetration is high enough then this is essentially becomes an incremental revenue opportunity.

—————————When do we let OEMs promote this?

Timing here is critical. Activate and terminate time have to be carefully worked out. As well as coupon expiration date. We should start program no sooner than April 1 or ~ 90 days pre RTM which ever is later if we want to maximize the impact of this program.

The press will have a field day no doubt. "Greedy MS is doing another Coupon gig!"

—————————Is this a crutch OEMs will use to delay pre-installation?
No, not if timing is done right. Instead, it could motivate them given that the momentum will validate the demand.. OEM's will all have PNP systems and many of them want to ship Win95. They simply need the market to demand it from them.

—————————OEMs will push back that we are making them pay for prod the eu may not use?

We don't care if OEM's whine about being charged for product the end user may never use. This essentially is self through insurance - They don't have to buy it. I pity those that don't.

From: David Williams (POSD)
To: Brad Chase; <"bradsi@microsoft.com">; Brad Silverberg; Carl Gulledge; Joachim Kempin
Cc: David Williams (POSD); George Downing; Russell Stockdale
Subject: New Coupon offering
Date: Tuesday, December 13, 1994 12:58AM

Based on our meeting, below is my draft of the coupon offering. We need to rethink our pricing on the "per-copy".

1. If the OEM pays an effective $8-12 royalty for the per-system coupon (plus cogs etc.) , a per-copy coupon for $49.00 is too low. Depending on whose numbers you use for support, cogs and fullfillment, an OEM would decide to go with the percopy model of $49.00 first if they thought that the return rate for the coupon was any where between 20-40%. Having MS support with the per-copy offering makes the decision easier to go per-copy.

2. If royalty for per-system coupon is based on the delta price between the OEMs MS-DOS/Windows royalty and Windows 95 (per system) royalty, what don't we base the pricing of the per-copy coupon on what the OEM would pay on the per-copy delta and remove MS-support.

This makes the models match how OEM offers per-copy and per-system, incents the OEM to go per-system. The below is based on this premise.

please look at some of the issues I have put at the end.

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OEM Coupon for Windows 95

For OEMs that are shipping systems with MS-DOS & Windows, prior to RTM, we will allow these OEMs to offer an end user "upgrade" coupon. There will be two offerings through the OEM Channel, basically a per-copy and per-system offering.

Prior to launch of Windows 95.
Coupon offered to end user purchasers of OEM systems to build confidence that their systems will run Windows 95, and they should not delay buying decision prior to street availability of Windows 95. From an OEM view point, this is just like shipping a "reserved" copy of Windows with every MS-DOS / Windows 3.1 system prior to RTM. (Virtual Windows 95)

Post launch of Windows 95
We need OEMs and resellers to manage their inventory down, and be incented to convert their pre-installations to Windows 95 as quickly as possible, and not use either coupon as a crutch to get around pre-installation of Windows 95. Also, consider that the time between RTM (when OEMs will get their pre-installation tools) and launch could will be around eight weeks, we will stop offering coupons to OEMs as soon as they have the OPK, with a buffer time to allow them to start the pre-installation of Windows. This time frame will be in license agreement with the OEM. The coupon will have a hard expiration date also.

OEM vs Reseller
1. For OEMs that agree to per-system shipment of the coupon, we will receive revenue just like Windows 95 is actually shipping on the OEMs PC shipments.
2. OEMs have always have a program in the past to provide copies of a new release of a product on PC systems sold prior to launch. This program satisfies this need and the resellers having to deal with product in the channel.
3. We get logistical advantages handling this through ARs. This is especially true in a coupon redemption program for international resellers.
4. We use this as a tool to get OEMs to think about and manage the transition issues to pre-installing Windows 95.

Per-System
1. OEM Royalty cost To offer Windows 95 early, they have to have a signed Windows 95 license agreement. OEMs will pay the

agreed to per-system royalty for Windows 95 for all systems
defined in the license agreement. The royalty should have
added any pre-installation incentive added back into the
price. ($3.00 MDA + $1.00 other pre-install incentive, pricing
example on OEM PGL)
2. Coupon cost: OEM purchases coupon from AR for COGs and
Fulfillment. MS AR fulfills product. We get names, and will
return to OEM.
3. Coupon is shipped in the system box only from OEM. No out of box distribution.
4. Fulfillment product is OEM product from MS AR. It will
have an insert with specific OEM support numbers included.
The coupon will use same tracking mechanism as OEM COAs, AR
will know which OEM the coupon came from.

Per-Copy
1. OEM cost: OEMs will pay the agreed to per-copy price
according to the terms of their Windows 95 per-copy agreement.
Less any pre-installation incentive.
2. Coupon Cost: OEM purchases coupon from AR for COGs and
Fulfillment. MS AR fulfills product. We get names, and will
return to OEM.
3. Coupon is shipped in the system box only from OEM. No out of box distribution.
4. Fulfillment product is OEM product from MS AR. Volume of
different OEMs may be an issue here, so having different
support numbers may not work.

Coupon Detail:
1. Coupon will be very clear to end user that this is for
purchasers of new PCs only, and what the EU must do to return
with coupon. End User sends in with Windows 3.1 system COA.
(proof of purchase not needed if coupon is shipped in system
box.)
2. Coupon should include a pre-addressed envelope.
3. Coupon will have an expiration date.
4. Coupon will have anti-counterfeit measures on it.
5. No OEM name on coupon. We can track OEMs and coupons the
same way we track COAs today. When the coupon is returned,
the AR will know which OEM system the EU purchased.

Issues:
        What if we get low penetration on the coupon? The goal
of this program is prevent end users from delaying a buying
decision based on the upcoming availability of Windows 95. If
we have limited usage of an "in-the box" coupon in the
channel, this will limit the end users choices and may create
the very problem we are trying to solve. Not to mention
hurting our resellers ability to satisfy the EU. Competitive
pressure is part of the answer, but the goal of this program
is to have a high penetration of in the box coupons, not a
smattering of offerings by different OEMs.

        Will this impact upgrade revenue? If we get the
penetration, this is just like OEMs shipping the product, so
its a matter of timing as to when the OEM revenue starts, and
upgrade revenue for those systems drops off.

        When do we let OEMs promote this? Timing should be such
that every OEM and reseller has ample opportunity to get
product in the channel before any promotion starts. However,
promoting too soon could turn into a product launch.

        Is this a crutch OEMs will use to delay
pre-installation? Probably not. Pre-installed is easier to
support, lowers COGs and there is a pre-installation
incentive. Also, we will have an expiration date on the
coupon, and a hard stop when the OEM must stop shipping the
coupon.

        OEMs will push back that we are making them pay for
Windows 95 that the EU may not actually use. We need to help
the OEMs increase systems sales with this program, & increase
the return rate of coupons. Having any retail promotions in

the upgrade sent to the EU adds value to the offering. On the
downside we may have OEMs wanting to replace our promo with
their own.