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From: rob cheng@gw2kusa
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Bcc:
Subject: re: Office 97
Attachment:
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I met with Oldham yesterday and here is where we are at. Warning - this is going to be long.

Executive Summary

Although it is not in stone, it looks like we can move to a royalty rate around \$70. This would include Office 97, Encarta, Publisher, Bookshelf, Plus Pack, and Money. We would also market MS keyboard and Magellan mouse on all systems. Cobranding is a dead issue. The key question is how to structure the agreement to preclude others from getting our deal. There are three areas: customization, support, and marketing.

Discussion Notes:

The largest company complaining to Microsoft about our Office deal is GTSI. In addition to them, all of the other companies that are complaining are government suppliers. Although Dell is complaining, this is not driving their behaviour. These guys are called in Microsoftspeak, LAR's (Large Account Resellers), and are buying Office for about \$200.

I explored the following concept with him: In bid situations, Office is either always on or always off. There should not be a criterion so that we can choose, because this is how the LAR's are determining our price. Note: Microsoft thinks less than 4% of our systems are going out with no software application. I'll get the real numbers cause I suspect it's less than that.

Mike rolled out the following timeline of MS events:

Education pricing (April) - They want to put us on select pricing for the US education market. This pricing would be a \$40 reduction from our current Windows/Office rates. Craig Marzoff (US Marketing) is handling this right now. In addition to the reduction, we would also like coop funding. Craig's put together a pretty nice plan for the entire deal.

\$2 Plus Destination (May) - I have no idea where this is coming from. Someone from GPO/GPPQ must be driving this. They are planning on DL1 including Plus Pack with a \$2 royalty.

FPC Plus (June) - Again no idea on this, but same concept but for Family PC's.

Mouse (June) Our price goes to \$5.50. I had thought our price was already \$5.50.

Office 97 (September) Following is their initial proposal:

- * Office 97 hardbundle royalty = \$108
- * royalty includes Money, Bookshelf, Encarta, and Plus
- * Will also need to hard bundle Magellan mouse and Natural Keyboard in all hard bundles.
- * Office 95 hard bundle = \$55
- * Single App 95 hard bundle = \$22
- * Single App 97 hard bundle = \$35
- * Office 97 upsell from Office 95 = \$158
- * Office 97 softbundle = \$195

GW 031075.

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- * Front Page - Are willing to license software in for free exclusively for Gateway.
- * MS's assumption is that the XL would get Office 97, and all others Office 95.
- * All Office 97 discussions are 100% independent to our Generations discussions. Are we rev'ing Generations. Haven't seen anything on the menu?
- * COGS is reduced to one disk. Plus goes on System CD.

I countered with:

- * Office 97 on all Professional systems + Bonus Pack.
- * Bonus Pack would include all of MS's software - examples - student pack, small business pack, little kid's pack, etc. <--- focuses on our customization edge. Also, there are upsell opportunities here! Problem: does not extend internationally as well.
- * \$70'ish royalty, Oldham's number not mine!
- * Mouse/keyboard are downgradeable/deletable.
- * Software is not deletable, although current customers deleting apps will be grandfathered.

He need to check back at Redmund on this. He implied that Gates was involved in this decision, so it must be pretty important to them.

The conversation turned to raising the bar and exclusivity.

Customization - This was my idea, and hence the bonus pack concept. This concept automatically precludes anyone in retail from getting our deal. The question is whether we can do this worldwide from an operation or product standpoint.

Support -The fact that we support their software is a huge plus. They are also pushing for some sort of deal where we have X technicians trained as Microsoft certified. I've been saying this is not important, but we need to determine our position.

Marketing - For me this is a no brainer. To the extent that we have an exclusive deal on Office 97, we'll dedicate ad space, box covers, etc.

NT - They confirmed that our royalty rate is increasing when NT 4.0 is available. Right now, we have the best royalty in the world at \$60, where everyone else is paying \$100. Told them that if we have nothing to lose, we would drop our upgrade price to \$49, currently \$99, and go for broke. He pee'd in his pants, but it didn't have much effect. There must be some way we can sustain this competitive advantage. Steve O, can you check our NT agreement with them. I had thought it covered a rev change.

Rob

Original text

From Rick Snyder@GW2KUSA, on 3/6/96 4:46 AM:
To: Bart Brown, Dave Russell, Jim Collas, Rob Cheng
Cc: Bern Ebert, Bob Spears, Ted Waitt

How are we coming on this project? We need to figure out our strategy and negotiate a deal with MS before the end of the month if not sooner.

GW 031076.