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MICROSOFT CORP; COMPAQ COMPUTER CORP; HEWLETT PACKARD CO

CMP Tech Wire: September 6, 1996 Friday

DELL, GATEWAY ENJOY DISCOUNTS -- Microsoft Office deals handcuff reseller partners

COMPUTER RESELLER NEWS, Page 1, September 9, 1996

Boston - The channel is in an uproar, and Microsoft Corp. is declining to comment on a dramatic disparity in the price direct PC makers pay for Microsoft Office vs. that charged reseller partners.

Microsoft signed a deal with both Dell Computer Corp. and Gateway 2000 Inc. to bundle Office on every PC shipped for 75 percent less than the best price available to resellers, said channel executives. This licensing practice makes resellers unable to effectively compete against the direct-marketers.

"Bypassing the channel has a history of failure," said David Dukes, vice chairman and chief executive of the Ingram Alliance Reseller Co. "The channel will react aggressively to any competitive threats from a foe such as Dell."

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Channel executives said Microsoft ships Office and Office Professional to Dell and Gateway for as low as \$35 per PC. A white-box version of Microsoft Office or Office Professional for the channel is priced at \$300 per PC, sources said.

Microsoft declined to comment officially for this story. However, a company source said the \$35 figure bandied about by some resellers as the price of Office to Dell and Gateway was "way off."

"We just want Microsoft to level the playing field. If we could buy Microsoft Office at the price that Dell and Gateway get it, it would be fair," said Larry Beaudoin, account executive for ComputerLand in Albany, N.Y. "The difference is in excess of \$300."

A reseller buying Office Professional in a three-pack from Ingram Micro Inc. pays \$961.55. A stand-alone version of Office Professional with Bookshelf is \$495 for the channel, resellers said.

While Microsoft said it wants to compete in the burgeoning build-your-own market, VARs are unable to compete against Dell and Gateway with the prices Microsoft is offering them.

"It leaves the channel with an unfair disadvantage because of this pricing deal," said one channel executive.

Mike Healey, president of PC Build, a VAR based in Needham, Mass., added. "From a build-your-own standpoint, we won't even bother if [they] are competing with Dell or Gateway. If a customer wants a bundle of Office Professional, we'd get killed. We will only consider it if it is a special project or we can get multiple on-site licensing. That makes it more competitive."

This also makes it more difficult to sell a Compaq Computer Corp. or Hewlett-Packard Co. system because once the reseller adds an Office bundle or upgrade, a customer has to spend more per unit.

"There is a disparity in price, and one of the big problems is the perception that all PCs are the same," said ComputerLand's Beaudoin. "Corporations are starting to realize it is a better buy to get a real computer, but they have to look at the bottom line and can probably do it for \$75 to \$100 less per unit [with a clone]."

Compaq and HP do not bundle suites with their commercial PCs, instead letting the channel do the configuration.

At the same time, some resellers are seeing the Office bundles being taken off Dell and Gateway machines and being sold in the gray market at "ridiculously" low prices, sources said.

Microsoft has introduced a program, called Delivery Service Partners, to combat gray marketing. This program allows smaller VARs to buy OEM copies of operating systems in packs of five at nearly the same cost paid by larger licensees.

According to resellers, Microsoft also has set up a toll-free number to fight gray marketing called 1-800 RU-LEGIT.

Gateway could not be reached for comment. A Dell spokesperson, meanwhile, said volume pricing is a common practice and would not comment on the specifics of its licensing deal with Redmond, Wash.-based Microsoft.

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