FY'98 Planning Directions
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PREAMBLE

FY'98 could potentially see OEM revenue exceed $5B. In order to achieve this, we will have to execute flawlessly in certain key growth areas and do extremely well in developing key customer relationships.

Key FY'98 Revenue impact areas action items:

- Increase NTW adoption rate
- Continue investment in people and marketing in countries where we lag OS penetration
- Actively sell Office SBE and NTS in SB/DSP channel - at the right price
- Increase OEM shipments of IntelliMouse
- Lower MDA incentives

While the NTW share drive should be obvious to everybody, I would like to note that a more intensive SB share drive in all countries would have an even larger impact on the FY'98 results. Most countries should build their plans based on 2-3x growth opportunities and not just on their more moderate budget numbers. While I will address the new product issues later, let me make sure we all understand the need to present the MDA as a goodwill measure from MS and set the expectation that these incentives will change from year to year as we see fit. This time we won't make promotional items a priority, in particular, after Intel changed their view. Do not discuss technology leadership campaign opportunities with customers without the OEM Director of Marketing approval as we will be very selective and work with less then an estimated 10-12 customers next FY.

Relationship impact focus for FY'98:

- Develop dependable, life-line website for OEM community
- Continue focussed technology partnerships and make the results more visible through marketing means
- Help key partners grow in the defined marketing segments - in particular Small Business!

The marketing people and SE's will be challenged to execute along these directions. For the Website, we will focus primarily on building one to manage the many SB relationships before we extend this to other customers. Last but not least, we have to continue to fight piracy.

Anti-piracy focus for FY'98:

- Drive anti-piracy technology development and deployment beginning with forced registration
- Drastically reduce counterfeits
- Increase "secret shopper" program to stop HD-loading
- Attack mouse counterfeits worldwide

Forced registration will be an issue Davewr and myself will address with the product groups to determine when this might happen on a product by product basis. Anti-counterfeit and anti-illegal hardware loading activities are solely an OEM field responsibility and these activities need to be significantly stepped up and taken more seriously in FY'98 by using more outside help and doing it more systematically around the world following Johnj's three phase model.

POINT BY POINT

1. **Unit growth**
    Needs to be determined on an account by account basis. Realistic assumptions for Multi-Nationals should be around 17-18% and Named accounts at 12-15% on average. As usual, they both need to be determined on an account by account basis. The SB/DSP business is trickier to forecast. Careful planning needs to be done in most Western European countries where we have achieved great penetration over the years. All other countries including NA need to set their targets on more than 35% unit growth and present a marketing plan in how to exceed it.

2. **NTW**
    Current product shortcomings as well as NT 5.0 might slow unit growth. I therefore recommend against aggressive growth planning. In any case, we need to do this segment by segment. While I believe that 5-10% penetration for SBs and Named seems realistic, certain Multi-National solution provider OEMs could exceed 12-15% for the 98 FY. Account by account considerations will be needed to do this well.

3. **Hardware**
    We need to continue our drive to gain more market share in all segments without compromising price. Careful planning is needed to avoid any inventory issues. In addition, we want to push IntelliMouse to gain more S/Units. The new keyboard will give us an opportunity to increase share while continuing to sell today's keyboard aggressively to get us into a good starting position . . . Some suggestions:
    1. Plan 5-10% price erosion over the FY'97 in all channels.
    2. Plan improved DSP channel penetration of absolute 5-10%.
    3. Plan royalty accounts on an account by account basis, while gaining new customers and switching old ones to IntelliMouse in case they are selling DAD supported applications and even more so when IE 4.0 supports the device better then IE 3.x does today.

Office SBE/DAD Apps
The policy for this has been clearly set. Single apps are the preferred bundling opportunities to pursue. Office SBE will be made available to win against aggressive competitors in the direct OEM segment and to gain share in the small business segment. The latter needs careful consultation with the local subsidiary and director approval. Key things to look for when making the right decisions is channel control. All royalty agreements need to be per system agreements. Per copy agreements are only possible at DSP pricing. (See below).
We need to actively sell Office SBE and Home Essentials through the DSP channel. With the new revenue recognition plan, we will be responsible for planning the budget. This being the first year, I would like us to take a cautious approach. In countries where the price is pegged to the FPP price, we should not exceed 3% of bootable system penetration. I would support a more aggressive plan if the price were being pegged to the CUP model. In any case, close cooperation with the subsidiary is needed which will have the marketing funds for our selling activities. I would consider an average 3-5% total penetration of bootable GUI OS's a great success for the first year.

NTS
The policy calls for preinstalled server SW sold to royalty accounts on a per system basis. Per copy agreements are not in our interest and LAR or DSP opportunities should be explored with OEMs instead. There is no room for pricing much below price guidelines either. As a new opportunity, we need to pursue Wolfpack agreements with key industry players. NTS needs to be sold through the DSP channel and its price will be pegged to the FPP price. As in the case of Office SBE, we will do the budgeting and revenue sharing with the subsidiaries that will receive marketing funds - ensuring that they are being used for attracting more SBs. Careful planning is needed. If you assume that 1.6M servers are being sold out of 80M total PC units, a 2% bootable OS penetration should be considered aggressive, in particular when the DSP price will be close to the FPP price and no Select or MOLP pricing will be made available. I would consider a .5% average penetration a great success for the first year.

Consumer Titles/Works

Continue to sell opportunistically and continue to increase our share for Works, Money and Encarta as well as the other attractive titles as they come along during the year. This is not the greatest revenue opportunity for us and it needs to be seen as making our products popular by using the OEM distribution opportunity to beat the competition.

SUMMARY

The key to our success in FY2000 to - "out-love our customers" - starts with work in FY'98. We as a division must improve how we work with our customers and delivering more value will be a sure way to win the hearts and minds of our customers. It is a requirement for each individual in this division to take responsibility for delivering value to our customers and working within Microsoft to accomplish our mutual objectives and attain the goal of OEM Job #1 "winning the hearts and minds of our customers". Second, driving growth of the overall PC market, and third, gaining profitable non-OS revenue.

In more practical terms FY'98 will be the year to improve how we work inside OEM between sales management, marketing and technical support and how we translate this into better customer relationships. At the same time, we will be challenged to work closer with the MS field sales force to leverage the SB/DSP model in such a way that we as a company gain share in that segment and increase total MS dollar per PC unit. The new revenue sharing model should help here but we will need to establish human interaction and cooperation inside the company to make it work beyond the numbers. Good planning and good communication should be seen as the most essential components to achieve this - so let's get started and finish FY'97 with a bang!