

# **Microsoft Negotiation Strategy**

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- **Objective:**
  - Get IBM the best terms, conditions & royalties possible
  
- **Strategy:**
  - Present justification for lower royalties
  - Trade terms for lower royalties
  - Negotiate for profit neutrality, at minimum
  - Elevate negotiations to Microsoft decision maker

# Oustanding Financial Issues

<u>Financial Issue</u>	<u>MS Position</u>	<u>IBM Goal</u>
Royalty Amounts		
Windows 95	\$62.00	\$52.13
Win NT	\$127.00	\$95.00
Windows 3.11	\$43.50	
Win NT Upgrade	\$55.00	\$0
Translations		
Windows 95	\$6.00	
Windows NT	\$12.00	
Windows 3.11	\$4.00	
Royalty Effective Dates		
Windows 95	06/01/96	
Win 3.11 & MS DOS	06/01/96	10/01/96
MDA 96		
Volume Commitments		

Note: Royalties Do Not Include MDA Reductions

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# Windows Desktop Family Royalty Proposal

Product	Current Terms	MS Proposal	'96-'97 Volumes	Delta	Profit Hit	Proposed Royalty
Win 95	\$81.10 + \$6	\$62.00 + \$6.00	5.2M	\$ .90	\$4.7M	\$52.13
MS DOS/Win 3.11	\$11.00 + \$2.50	\$62.00 + \$6.00	n/a			
MS DOS/Win	\$12.50 + \$2.50	\$62.00 + \$6.00	n/a			
Win 3.11	\$9.00 + \$2.50	\$45.00 + \$4.00	1.1M	\$36.00 + \$1.5	\$39.7M \$1.7M	
Win	\$12.50 + \$2.50	\$45.00 + \$4.00	n/a			
Win NT 3.51 WS		\$127.00 + \$12.00				\$95.00
Win NT 4.0 WS						\$95.00
Individual						
Win 3.11	\$9.00 + \$2.50	\$43.50 + \$4.00	1.1M	\$34.50 + \$1.50		
MS DOS w/ Tools	\$2.00 + \$0	\$18.50 + \$4.00	n/a			
Win	\$12.50 + \$2.50	\$43.50 + \$4.00	n/a			
Total Profit Hit					\$46.1M \$	

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## **Royalty Summary**

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- \$46.1 M Profit Hit over July - June Period
  - \$8.87 Reduction in Windows 95 Royalty
  
- \$5M Settlement Agreement
  - \$1.00 Reduction in Windows 95 Royalty
  
- Windows 3.1 Investment
  - Premature Termination of Return
  
- IBM Investment in NT = \$80M
  - \$32 Reduction in Win NT Royalty
  
- IBM will Pay MS 5X 1995 Royalties

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## **Desktop Family Effective Dates**

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- **Royalty Effective Dates**
  - New Windows 95 Effective Immediately
  - New Win NT Effective Immediately
  - Current Win 3.11 Effective Through 9/30/96
  - New Win 3.11 Effective 10/1/96
  - NT Upgrade \$0 Royalty
  - \$20 MDA Reduction Effective Immediately
  - Actual MDA Reduction Effective 1/1/97
  
- **Plan A**
  - Go With Proposed Effective Date Mix
  
- **Plan B**
  - All New Royalties Effective 10/1/96

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# **Operational Issues**

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- **Preinstallation of Product on Hard Disk**
- **Third Party Installation Rights**
  - **Windows 3.11**
  - **EIAA**
- **Encryption**
- **Power & Server Agreements**
- **Demo & Internal Use Copies**
- **Upgrade Rights**
- **Dual Install Expiration**
- **Recovery CD Distribution**
- **Product Documentation Distribution**

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# **Tradeable Terms**

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- Encryption for Workstation Products
- Demo & Internal Use Copies
- Win 3.11 Source Code Rights
- Win 3.11 & NT 3.51 Payment Structure
- Shorten Grandfather of Windows 3.11

## **Next Steps**

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- **No Royalty Discussions with Existing Team**
- **Elevate Discussion to J. Kempin for decisions**
  - **Royalties**
  - **Operational Issues**

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