

## Office FY95 Plan

### Executive Summary

Our mission is to develop the most successful desktop productivity tools in the world, marketed both as suites and standalone applications. Our worldwide market share goal is 80% for office suites and 60% for apps including spreadsheet, word processing, presentation graphics, database, and project management. Achieving these goals hinges on our ability to sustain product development momentum, leverage other Microsoft technology (e.g. Chicago, EMS, Ren, etc.) and non-technology assets (e.g. registered base, PSS, etc.), and create innovative marketing approaches to help differentiate MS from competitors like Lotus, Borland and now Novell/WordPerfect. At the same time, we have aggressive internal goals for reducing costs – particularly cost of goods sold and documentation and localization costs – and increasing development and marketing efficiency.

Our overall FY95 revenue forecast for Office and the component applications is \$2.1-2.3B.<sup>1</sup> We will achieve this performance in FY95 through several key initiatives: aggressive promotions and merchandising to sustain Office applications through the launch of Office 95<sup>2</sup> with Ren; leveraging the launch of Chicago, EMS and other Microsoft technologies; creating an efficient and profitable upgrade engine; penetrating new markets and geographies to drive share growth; building a third-party infrastructure to leverage Office as a development platform; testing potential distribution and sales tools such as CD Unlock and Microsoft Online Services (MOS), and fighting piracy with compliance checking (CCP). Outlined below is a high-level view of the market today, the competition, and the product and marketing strategies needed to continue to grow the business profitably in the next fiscal year.

### FY95 Revenue and Share Objectives

Our initial worldwide Desktop Apps forecast for FY95 shows a revenue increase of 7%, including an upgrade business which we forecast at 13% of revenues. The major upside opportunities in this outlook are growth in the Access business, economic recovery (and growth) outside the US, higher upgrade/cross-grade sales, Ren standalone sales, and a higher percentage of OfficePro in the mix. Although overall unit category growth for new users in FY95 is projected to be 75% for suites and roughly 25% for component applications, we are anticipating continued price pressure and increased OEM units in the mix. This price/mix effect, combined with the fact that we will not see much revenue from Office 95 in FY95, lead us to be conservative about overall revenue growth. See Appendix I for projected revenue and mix percentage for the various Office SKUs.

Our goal is to hold worldwide Office share at 80%. Within Office sales, our OfficePro target is 25% of our overall mix worldwide. These goals will require an incredibly strong push as Lotus continues to challenge with a new version of SmartSuite, aggressive pricing, and OEM bundling. The Novell acquisition of WP and Borland Quattro Pro promises to make the Borland Office a more credible player in the office suite category as well. We must fight hard and look for new markets to help us gain and defend share.

At the same time, we must increase individual product share. Our goal is to increase worldwide share for Word, Excel, Access and PowerPoint to at least 60% by the end of FY95. Focused switching campaigns combined with broader distribution, instore merchandising and targeted small organization (SMORG) marketing will enable us to achieve these gains. We must aggressively launch and market Ren both in the Office and as a standalone app to penetrate the PIM/workgroup information management category<sup>3</sup>.

### FY95 Product Strategy

<sup>1</sup> Numbers are draft estimates that will be refined over the next several weeks.

<sup>2</sup> This is a tentative name for the product which still needs to be finalized.

<sup>3</sup> A separate Ren marketing plan and forecast will be distributed in May.

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The office suite category is the fastest growing in the business and is an area of competitive advantage for Microsoft. We have moved to a "12/24" release schedule that allows for major architectural releases every 24 months and competitive releases every 12. Individual releases will be synchronized beginning with Office 95, making it easier to code, design and market products together. Although Office 95 is technically a 12 month release, the inclusion of Ren represents a major addition to the product. Office product strategy for FY95 centers on several key events and principles summarized below:

- **Release Office 4.2 (c) to counter SmartSuite/Notes workgroup message.** We are currently working on a slipstream "Office 4.2 (c)" release which will support Application Field Exchange (FX) and save documents into a Notes database.<sup>4</sup> We are counting on this release to neutralize or at least slow any Notes/SmartSuite momentum until we have EMS shipping. We currently plan to localize this release for the tier 1 languages and are evaluating whether it should be localized for tier two languages.
- **Ship Office 4.2 for the Mac, PowerMac and NT platforms.** We will ship a 68K version of Mac Office (and the component apps) early in Q1 of FY95 and versions optimized for the PowerMac approximately 30 days thereafter. We will ship 32-bit NT versions of Word and Excel in the May/June timeframe along with an NT Office (which will have 16-bit PowerPoint).
- **Launch Office 95.** Microsoft's ability to set industry direction is a key asset for the company and the productivity applications mission. We will work to time apps releases with the release of other MS products for maximum benefit. Specifically, we will focus on leveraging:
  - **Chicago:** We expect a March 1995 RTM of Office 95, a release designed to exploit Chicago capabilities. Office 95 will be an outstanding Chicago app, providing more robust support for OLE 2.0 (since Chicago has OLE built in), better crash protection, support for long filenames, true multi-tasking, improved system security and a better memory model so that users can *really* work with all of our apps together. The current plan calls for a 32-bit version (only) for Chicago and NT with separate versions for RISC platforms TBD. The focus of this release is on exploiting Chicago and integrating Ren (see below); there will be more modest additions (e.g. 4-5 competitive features) to the individual applications. Note: the current plan of record calls for no 16-bit or Mac versions of Office 95.
  - **Ren:** The most significant addition to Office 95 will be Ren, an integrated workgroup information manager (some would say "PIM") that will be included in Office 95. Ren will give Office 95 significant new breadth functionality and bring real email functionality into the Office (as opposed to today's license). It will also provide a new level of integration between our applications and messaging products and will leverage EMS, taking advantage of stronger security and information sharing scenarios. Although we are still completing initial projections of Ren sales, early estimates of standalone sales run between 300-500K units during the first 12 months. Pricing and retail/OEM mix assumptions will be finalized within 30-60 days.
  - **EMS:** When EMS ships,<sup>5</sup> Office 4.x users will experience richer message and file handling capabilities and find sharing documents easier. Users will be able to integrate Office both with the EMS server (e.g. sending documents from within applications to public folders) and with the Capone client (e.g. to directly drag and drop objects from applications into mail). With Office 95 and EMS, users will be able to do visual editing, browse public folders (tbd) from within applications and add custom properties to Office doc files for easier message management.

<sup>4</sup> This release is scheduled for May/June 1994.

<sup>5</sup> We are assuming fall 94.

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- **Add value to Office.** We will continue to add value in the form of additional product depth functionality and value-added data and services. Possible bits for Office include Word Assistant, Office Assistant (templates, wizards, etc.) and other SMORG-oriented bits. Add-on bits should be localized for all markets where Office is sold (or at least Tier 1 countries). We are currently exploring ways to leverage other Microsoft applications—such as Publisher and Money—to benefit both the Office and the individual applications.
- **Be the best platform for business solutions.** Productivity applications are increasingly being used as part of company-wide solutions, including solutions that automate important business processes. Office 95 will provide a better solutions platform: PowerPoint will expose an OLE-based object model; Excel will offer an improved version of VBA which will feature better data access capabilities; Excel and Word will let users build custom solutions with EMS through richer support for MAPI 1.0 and ODBC. Word, Ren and Access will support OLE automation but not have internal VBA until the Office 96 timeframe (March 1996).
- **Localization.** Our goal is localize into all Tier 1 languages within 60 days; Tier 2 and Far East within 90 days, and Tier 3 within 120 days. We are currently working to get Office localized in every country where we have a subsidiary on the ground but this is pending approval.

### **FY95 Marketing Strategy**

To continue to grow the Desktop Applications business, we must build new marketing assets and strategies that specifically address several key challenges coming in FY95. These challenges include:

- No major DAD applications releases until Q4 FY95
- The launch of Chicago and other key Microsoft technologies (Ren, EMS, etc.)
- Slowing category growth, saturation of traditional markets and opportunity in new markets
- Changing business models of our major competitors
- Growing potential of new distribution channels (e.g. superstores) and vehicles (e.g. CD, MOS)
- Evolving customer segments with different influence and purchase behavior
- Erosion of pricing and revenue/unit due to OEM bundling and competitive pressure
- Ongoing cannibalization of retail sales from piracy

In light of these business challenges, the Office marketing team will focus on several key initiatives in the next fiscal year. The following initiatives map to the above challenges and are the "core strategies" around which we will target most of our spending and resources:

- **Run sustaining marketing programs to maintain product momentum through Chicago launch.** This will be a key focus through most of FY95 as there will not be a major new Windows apps release until Q4. In addition, we need to use this sustaining marketing activity to address the share we have lost (at least in the US and some other markets) on individual apps sales, excluding Office. Although strategies and tactics will vary from subsidiary to subsidiary, all regions must work to create marketing noise and excitement until the launch of Chicago and Office 95. In the US, we will split marketing resources roughly 65:35 between Office and the individual apps while focusing on these sustaining activities:
  - **Continue aggressive switcher campaign:** We will continue to run very aggressive switcher campaigns focused on WP and Lotus users. In the WP case, we have a great, short-term opportunity to gain share, and we plan to capitalize on the market uncertainty created by the Novell/WordPerfect merger to switch WP users.
  - **"Counter-launch" to neutralize new SmartSuite.** When Lotus introduces the new version of SmartSuite this summer, we will be ready with a detailed counter-launch program to slow their momentum. Johngab will provide this plan separately by 5/15.

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- *Distribution push:* We believe that this is an important objective for the US, particularly given efforts to sustain Office momentum and to win share in the SMORG market. This objective may not be relevant for all subs but we will design programs that can be scaled worldwide.
  - *Retail push:* The Office marketing team will launch a fall enduser promotion (details forthcoming) for Office and the individual applications that can be leveraged worldwide. We will invest in building a better merchandising presence in key retail accounts (e.g. superstores and office supply in the US) and MORs.
  - *Mac apps efforts:* We need to generate significant momentum in the Mac market as we launch the 68K and PowerMac apps. This is a major transition point for Mac users with Apple aggressively pushing new hardware, and we need to map to their efforts closely to maintain/regain mindshare as the leader in Mac apps. Increasingly, we need to link/combine our Mac and Win sustaining efforts so that we talk to segments like SMORGs in a unified way.
  - *Office Compatible program<sup>6</sup>:* Introduce the Office Compatible program to attract third-parties and build momentum behind the Office platform.
  - *PSS Marketing:* We will continue to emphasize PSS (both quality and unlimited/no charge) as a key differentiator. This will include building PSS messages into all of our materials (Ads, PR, etc.) and evaluating how we can make this more relevant for users. Note that this message will have to be adjusted for various regional differences given that there may be some countries where we have to charge for support.
- **Leverage Chicago momentum (PR, channel, etc.) to accelerate sales of Office 95.** We will work closely with Personal Systems Group to ensure that the positioning, PR, packaging, promotions and overall marketing direction for Office 95 leverages and builds from Chicago. The integration of Ren in Office 95 will provide excellent value-add for the product and open up new co-marketing activities for Office (e.g. with Franklin Planner, Day Runner, Covey Leadership, etc.)
  - **Build an efficient and profitable engine for selling to the installed base.** We must generate more revenue from our installed base on a regular basis by upgrading a higher percentage of them and by moving more to Office. This includes not only moving people from Word or Excel to Office but also moving a significant percentage of Works users up to Office. In FY95 we will begin to turn our upgrade business into a "circulation machine," testing programs (including personal maintenance or "subscription" selling) to sell more product to our installed base. Our goal is to increase our overall upgrade rates and drive more of our version upgrade business through subscription by FY96. New offer strategies in FY95 will give us a way to move single app owners to Office ownership and help us lead customers to the appropriate channels (e.g. direct, instore, MOR, OEM, etc.) and purchase mechanisms (e.g. subscription, Select, MOLP, etc.). We will also develop and test alternative selling vehicles (e.g. catalogs, online, CD, etc.) to maximize exposure and sales.
  - **Penetrate new markets to grow worldwide share and revenue.** The initial focus will be to raise awareness among SMORG influencers with business press advertising; increase visibility and availability of products in selected retail environments, and leverage SPs who develop solutions within targeted segments (accounting, legal, real estate and insurance).
  - **Focus additional resources on high-growth international markets.** We will provide additional localization resources and product marketing attention on key growth markets. Areas to be given special attention in FY95 include the Far East (esp. Japan, Taiwan, Korea), Latin America and Eastern Europe. Our plan is to provide Office 4.2 and Office 95 in all markets and to work more closely with each region to implement appropriately scaled Office marketing plans.<sup>7</sup>

<sup>6</sup> This program will be announced in the US the week of April 25th. Judych will provide guidelines for scaling to subsidiaries.

<sup>7</sup> Localization plans still being finalized by Mattmi team; English PPT or Access will round out Office 4.2 in some cases.

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- **Leverage CD to increase distribution, trial and more profitable sales of Office.** The expected proliferation of CD-ROM drives creates an opportunity for increasing our mix of CD Office sales and increasing profitability per unit. Our goal in FY95 is to increase our CD unit mix from 10% to 20%, thereby contributing more than \$14MM to the bottom line<sup>8</sup>. The dramatic increase in CD adoption opens up new distribution and packaging opportunities as well. We will begin testing "CD Unlock" this fall with the hope that it will be a useful tool for promoting trial and broadening distribution (e.g. through OEM seeding, etc.). It will also likely change the model for purchasing software, enabling users to buy the functionality they want as they need it and giving us a means for selling incremental bits to our users. We will also look to test Microsoft Online Services as a potential mechanism for delivering on-line registration, support, vertical solutions, documentation, easy upgrades, and add-ons.
- **Increase efforts to recruit and train third-parties/ISVs to sell and support Office and Office-based "business value" solutions.** Our overall strategy is to: 1) foster the creation of Office-based solutions by evangelizing our development approach to solution providers and developers, equipping them with the right tools, and providing those who resell to other organizations with a compelling business model for selling solutions built with our products; 2) create enduser demand for Office-based solutions in large and small companies by arming SPs and by reaching them directly through MS field, PR and vertical marketing activities, and 3) reinforce Office solutions positioning through ongoing PR. Our VAR and SP efforts are especially important given the strength of Novell's CNE network. Additional tactics for meeting these strategies will be published separately.
- **Accelerate push for CCP to reduce piracy.** We will rollout localized versions of compliance checking that will detect competitive versions. Note: this will require an incremental commitment of sub or HQ resources to gather competitive product information and ensure smooth implementation of localized CCP.
- **Reduce product costs by improving development and marketing efficiencies.** Our goal is to reduce Office COGS by more than 10% in FY95 by streamlining and simplifying packaging and manuals. The Office team is working to drop the number of Office SKUs and Johngab is driving these efforts and can provide details as required.

### Positioning and Communication

Office positioning will remain largely unchanged in FY95. We will continue to describe Office in advertising and collateral as "full-featured applications that work together as one" and emphasize three key dimensions to Office leadership with what we call the "beyond messages" and the corresponding technologies that make the messages credible.

1. "Beyond ease of use" with IntelliSense (e.g. autofeatures, Wizards, etc.)
2. "Beyond cut and paste" with OfficeLinks (e.g. consistent design, OLE 2.0)
3. "Beyond personal productivity" with Microsoft Office solutions (VBA, OLE, Access Basic, etc.)

The only change to Office positioning is in the change in the third support message from "beyond macros" to "beyond personal productivity." This change enables us to incorporate several points about our workgroup story (EMS, FX support, Ren, etc.) and to speak more broadly about our range of VB-based solutions development technologies.

### Target Markets

There are four target markets that the above marketing programs and initiatives are designed to reach:

- **Large accounts** will remain an important segment, although our message will evolve to be more solutions-oriented; productivity apps will be used increasingly as components in business solutions.

<sup>8</sup> Assumes [3.5 million new licenses x 10% increase] x \$-40/unit COGS savings = \$14MM

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We need to develop the infrastructure (SPs, tools, programs, etc.) to promote our products as a development platform and to get design and standardization wins. Finally, we need to position Office as a key component of any downsizing strategy.

- Small and medium organizations represent more than 50% of the desktops in N. America and are growing faster than the market overall. Many of the larger subs have reported similar data, and we think there is an opportunity to roll-out plans that can be scaled/adjusted to meet needs in many countries.
- Existing users of Microsoft and competitive products are the target for the many programs that will test or rollout in FY95. Note that while the characteristics of these two groups are different, we will experiment and use many of the same vehicles for reaching them. Our existing users will become increasingly important as we move to generate upgrade revenue in late FY95 and early FY96. By the end of FY97, we hope to generate 25+% of our revenue from upgrades.
- Solution Providers and VARs are a critical target market given our need to work with leveraged partners to penetrate both small and large accounts.

### Competition

Our competition in FY95 and beyond will be Lotus and Novell. Although there are a few other companies challenging us in specific categories (e.g. Claris, Borland), we are focusing on the two best able to challenge us on an enterprise-wide basis. Below is a "snapshot" of the key strategies and marketing tactics we expect each to deploy over the coming year.

**Lotus:** Lotus will position Notes as an operating platform and their apps as the products that best exploit it. As part of this strategy, they will focus on leveraging the equity in 1-2-3 as a means of generating SmartSuite acceptance. They are also pricing aggressively to capitalize on OEM bundling and retail channel opportunities. Lotus is spending heavily (est. \$34M in 1994) on a corporate ad campaign and will certainly continue to position themselves as a "technology and groupware pioneer." We expect them to release a new version of SmartSuite in the summer which will include a major update to Approach, possibly a major update to AmiPro (still not clear), and minor updates to 123 and Freelance. In addition, we expect them to split the product into two SKUs—the existing one plus a higher-end, Notes-enabled version. We also anticipate a Chicago version of the SmartSuite apps around the time Chicago ships. Lotus has several strengths or strategic assets to leverage, including a large installed base; strong share and awareness among small and medium businesses; potentially strong alliances (e.g. AT&T); perception as workgroup leader; and aggressive retail marketing. Their weaknesses include perception as single product company; weaker individual apps with low market share (AmiPro, Approach, Organizer); lack of Mac line; slower introduction of some key technologies (common macro language, OLE 2.0, etc.); integration of disparate product elements; and workgroup challenge from Novell and MS.

**Novell:** Clearly, we are still evaluating Novell's strategic options as a result of the acquisition (as is Novell), but here are some initial thoughts on their likely activities. Novell's strategy is to leverage operating system and applications assets to challenge Microsoft directly. They will undoubtedly tighten the integration of their apps suite and seek to win the workgroup battle by leveraging the strength of Netware and their strong VAR channel. It's possible they will bundle Netware Lite with their suite and initiate aggressive retail and OEM pricing in an effort to quickly gain share. Novell is likely to create links with WordPerfect Office, a solid messaging and workgroup product, while exploiting strengths such as a very large installed base and a strong, geographically diverse CNE base. Their weaknesses include a short-term defocusing while the manage the merger, inexperience with enduser business and support and the challenge of integrating disparate products.

### Deliverables/Action Items

The Office team will produce the following deliverables. If subsidiary managers can provide feedback on the respective plans, we will consolidate feedback and distribute final documents by dates indicated below:

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Deliverable	Description	Distributed	Comments Back	Final Out
Office Marketing Plan	PPT drill down on tactics and specific programs to support FY95 Office goals	April 18	May 2	May 16
Office Fall Promotion	Short doc to define goals and objectives of fall promotion	May 2	May 11	May 30
Office Chicago Launch	Doc describing oppty's for leverage/synergy with Chicago	June 1	June 15	June 27
Ren Marketing Plan	Doc describing Ren positioning, pricing, selling strategy, etc.	May 9 (first draft)	May 23	June 6 (second draft) final: June 11

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## Appendix I

### DRAFT Desktop Applications FY95 Forecast

The data below provides a preliminary look at the Desktop Applications business in FY95. This forecast, which shows 7% revenue growth, does not yet include any Ren revenue nor does it include the Access business (which we are forecasting in DAD for the first time). Note that this forecast was developed "top down" based on early estimates of US revenue and units. Regional forecasting and roll-up still needs to be done to understand the differences in our business across different geographies and to get more precise about a worldwide revenue number. Having said that, it is clear that FY95 will be a challenging year since we will not have significant upgrade revenue until late in the year and our competition will continue to be aggressive.

We will have more fine-tuned forecasts (and data for Ren and Access) over the next two weeks.

### DRAFT Worldwide FY95 Forecast

*Worldwide Licenses in Thousands, Revenue in Millions*

	FY94				FY95 Forecast				Growth		
	Lic	\$/Unit	Rev	Mix	Lic	\$/Unit	Rev	Mix	Lic	\$/Unit	Rev
Office New Users	2,578	\$ 355	\$ 915	46%	4,116	\$ 264	\$ 1,086	51%	60%	-26%	18%
Other Apps* New Users	4,371	\$ 181	\$ 702	39%	4,257	\$ 165	\$ 703	33%	-3%	3%	0%
Office Existing Users	543	\$ 139	\$ 75	4%	581	\$ 128	\$ 75	4%	7%	-7%	-1%
Other Apps* Existing Users	2,371	\$ 89	\$ 210	11%	2,670	\$ 74	\$ 197	9%	13%	-17%	-8%
Other (DOS, other)			\$ 83	4%			\$ 62	3%			-25%
<b>Total DAD revenue</b>			<b>\$ 1,986</b>	<b>100%</b>			<b>\$ 2,123</b>	<b>100%</b>			<b>7%</b>

\* Word, Excel, PowerPoint, Project

### DRAFT \$/Unit and Product Mix

*Worldwide Data*

	FY94		FY95	
	\$/Unit	Mix	\$/Unit	Mix
<b>Office</b>				
FPP	\$440	46%	\$420	28%
CUP	\$284	18%	\$280	17%
License	\$290	31%	\$270	28%
Academic	\$209	4%	\$82	7%
OEM	\$332	1%	\$100	20%
<b>Total</b>	<b>\$355</b>	<b>100%</b>	<b>\$264</b>	<b>100%</b>
<b>Indiv Apps*</b>				
FPP	\$272	30%	\$265	34%
CUP	\$101	14%	\$85	21%
License	\$187	15%	\$180	17%
Academic	\$75	25%	\$61	23%
OEM	\$55	16%	\$50	5%
<b>Total</b>	<b>\$151</b>	<b>100%</b>	<b>\$157</b>	<b>100%</b>

\*Word, Excel, and PPT.

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