

**Date:** May 7, 1991

**To:** Bill Gates, Mike Hallman, Steve Ballmer, Brad Silverberg, Scott Oki, Frank Gaudette, Rich Macintosh, Jeremy Butler

**From:** Brad Chase

**Subject:** Proposal for MS-DOS 5 Upgrade Volume Purchasing Program (VPP)

**cc:** Charlotte Guyman, Mike Negrin, Kevin Harrang, Bill Pope, David Curtis, Russ Werner

**I. Action Items**  
 The proposal below is a final draft. For this program to be successful we need to roll it out before we announce the MS-DOS 5 Upgrade. As a result, I would appreciate your comments by the end of the week. We will work out the implementation details after your feedback.

- II. Objectives**
1. Make it easier for customers to purchase the MS-DOS 5 Upgrade in large volumes
  2. Stimulate massive upgrades to MS-DOS 5 and increase MS-DOS 5 Upgrade revenue
  3. Use the reseller channel

**III. Definitions**

**Site:** A physical ~~co-designated~~ location for a company or division of a company. At Microsoft, the corporate campus is a Site, as is Ridgewood and Lincoln Plaza.

**Purchasing Site:** A single Site or any number of Sites designated by the customer in the VPP agreement. All PCs at such Site or Sites shall constitute the Purchasing Site. A Purchasing Site is limited to a single country and must have at least 100 PCs to qualify for the VPP program.

- IV. Recommendation**
- Microsoft should implement a Volume Pricing Program for the MS-DOS 5 Upgrade. As per the above definitions, Sites can be combined as long as the customer purchases a license for all the DOS machines at all involved Sites. For the purposes of the contract the combined Sites will be called a "Purchasing Site."
- The process would operate as follows:
1. The customer conducts a one time count of their installed base of DOS PCs at the Purchasing Site.
  2. The price paid by the customer would be determined by multiplying the number of PCs at their Purchasing Site by the Volume Purchase price offered by the reseller.
  3. The customer then receives a license to Upgrade all DOS based PCs at their Purchasing Site to MS-DOS 5.
  4. As with all our other software sales to end users, all licenses are between Microsoft and the customer.

This following pricing is recommended for the US version sold in the US:

# of PCs	100 - 999	1,000 - 4,999	5,000 or more
US SRP	\$59	\$44	\$37
Cost to reseller (Revenue to MS)	\$40	\$30	\$25

**Notes:**  
 Program is offered to all reporting LVA resellers direct (no distributors or franchisors) from Microsoft.  
 No direct reseller rebates or marketing funds apply.  
 Discount is 31%. Revenue to MS in the above table is rounded.  
 Subsidiaries purchase using standard transfer pricing mechanisms (35% of SRP).

*- is 100 2 protection required?*  
*- how do you sell at varying rates to the reseller?*

- This price schedule is recommended because it combines:
1. Aggressive pricing to stimulate massive upgrades
  2. High enough pricing to maintain good profitability.
  3. An understanding of our OEM royalty structure on DOS 5. Although this is MS-DOS 5 Upgrade pricing, OEMs could be concerned if this pricing was significantly lower than their royalty.

Microsoft Confidential

Final Draft - Please comment

MS-PCA 2599451

CONFIDENTIAL

**V. Rationale**

This program meets our objectives in two fundamental ways:

1. *It is easy for customers* - they simply do a one time count of PCs at their site and they do not have to worry about MS-DOS 5.0 again. The beauty of this program is that very quickly most new PCs will come with MS-DOS 5 installed and therefore we don't have the usual worries about how to account for sales onto new machines.
2. *It provides an additional incentive for larger commitments*: - the MS-DOS 5 Upgrade will sell in large quantities and some accounts will standardize without this program. However, many more will not. For example, the product is not as compelling on 8088 or 8086 machines.

**VI. Business Analysis**

The simple model: The VPP program is worthwhile if it brings in more revenue than Microsoft would get if it only did the MLP. Accounting for all rebates and COGS, the MS-DOS 5 Upgrade MLP gross margin is \$38 per unit. Assume that the average revenue from the VPP is \$30 per unit. Under this scenario, the VPP is advantageous if for every user who would have bought an MLP, 1.27 users license the MS-DOS 5 Upgrade under the VPP plan.

**VII. Question and Answer**

*Can the "Purchasing Site" upgrade machines they buy that have a previous DOS version installed?*

Yes. Any new or used DOS based PCs purchased after the agreement is executed that do not yet have DOS 5 on them may be upgraded with the MS-DOS 5 Upgrade for no extra charge. This helps make the program simple for our customers.

*Does the license cover future Upgrades to MS-DOS?*

Only maintenance releases: Defined as 5.00"letter" (example 5.00a) or 5.0"x" (example 5.01)

*Can a user in a company that has a VPP license get documentation?*

Yes, documentation sets can be ordered for \$20 each.

*What happens if a company sells or moves its PCs that have been licensed for DOS 5 as part of the VPP program to a Site that is not covered?*

These machines are still licensed for MS-DOS 5. Of course the machines that were at the unlicensed Site are still not licensed for MS-DOS 5.

*How will this program work for a company (within a country) that requires DOS Upgrades in multiple languages?*

We will work with the subsidiaries to require them to come up with a single price for the customer. For example, if a Swiss firm needs MS-DOS 5 Upgrades in German, French and Italian, they will still have the convenience of a single price per machine if they meet the necessary criteria.

*Do users at a VPP Site get Product Support?*

Yes, the same product support policy applies; the user gets 90 days 206 support and can call the 900 phone number thereafter.

*What if a customer does not want to purchase a license for every PC at a Site?*

They should buy the MLP.

*Does the customer have to install the MS-DOS 5 Upgrade on every machine at a Site?*

No, they only have to purchase the license for every machine. We hope they install it on all machines but we do not have the resources to track this.