

From: Kellee McCusker [kelleem]
Sent: Wednesday, March 16, 1994 12:14 PM
To: Jeff Lum; Joachim Kempin; Mark Baber; Mary Jo Newton; Patty Stonesifer; Tom Reeve
Subject: RE: Patty's call with Amezcua

I agree with Patty and Tom. This is a short term loss of \$1.5M in revenue, from an account that should be \$15M in Consumer products (like Compaq or PB). We still get the Encarta & Int'l Works biz, but let's focus our efforts on winning this back on value. If we go to \$3 - we NEVER go up and it becomes impossible to set any value for Utopia - which is new and unproven. Mark & his team are making great inroads into this account now, but maybe this is our payback for leaving them w/o account management for such a long time. This is really risky for them to go to spinnaker let's really make some noise with PB & Compaq now. PS/1 is in a tough position b/c their channel is demanding that they drop their prices lower which they are having a very difficult time doing, so therefore no royalties for sw. Mary Jo just sent mail that for personal finance they are entertaining offers for \$0 royalty PLUS a % cut in back-end revenue.

One question - why would they pay \$8 for Encarta when Comtons is lower priced (\$6 or less) and has offered revenue sharing in the past to other OEMs? Doesn't make sense that we can establish value & premium there but not with Works..... Makes me think there is something else in the Spinnaker offer... free Express Publisher too? special version just for them that exploits their Rapid Resume technology?

From: Patty Stonesifer
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mark Baber; Mary Jo Newton; Tom Reeve
Subject: RE: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 6:34PM

I agree that we should not cut to this price even if it means losing 500K machines, if we give this kind of break to IBM it will become the industry norm, Spinnaker will tell everyone why they lost it, we will lose far more than we will gain in price cuts the next round of negotiations with our partners Compaq and PBell, etc. We dominate this market at retail with over 80% share and we don't have to give this away. I want to be in this Works OEM business for the long haul, at prices that allow us to continue to invest, in mktg, in R&D, etc. Thanks to everyone for continuing to work this.

From: Tom Reeve
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mark Baber; maryjon
Cc: Patty Stonesifer
Subject: RE: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 6:09PM

I think at \$3 we hurt ourselves more than we hurt Spinnaker.

From: Joachim Kempin
To: Jeff Lum; Kellee McCusker; Mark Baber; Mary Jo Newton
Cc: Patty Stonesifer; Tom Reeve
Subject: RE: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 4:19PM

I am late catching a plane:therefore short:
IBM did not tell us anything about being pissed because we are doing consumer biz with Compaq. Relationship, hard to judge for me. Take the biz at \$3 and hurt a competitor,

From: Kellee McCusker
To: Jeff Lum; Joachim Kempin; Mark Baber; Mary Jo Newton
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Except that when Spinnaker was at \$3 and we were at \$6, the delta was not significant enough for them to make the change. They will pay "the premium" as they see it. So, since Spinnaker is at \$0, they are saying we would need to be at \$3 to even be considered. Sorry that was not clear in my mail. What do you recommend we do?

From: Mark Baber
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mary Jo Newton
Cc: Patty Stonesifer; Tom Reeve
Subject: RE: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 2:09PM

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Kellee - if all the below is in fact true then IBM should not be interested in licensing Works at even \$3.00.

markba

From: Kellee McCusker
To: Jeff Lum; Joachim Kempin; Mark Baber; maryjon
Cc: Patty Stonesifer; Tom Reeve
Subject: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 1:34PM
Priority: High

Patty just gave me an update on her call with Robert. The call did not go well in that PS/1 firmly believes that there is no difference in Works packages out there, therefore decision based only on price. Without a \$3 Works price, this US business is lost to Spinnaker for now. Price is king.

I don't think we should go to a \$3 price. I know this business is binary – but it sets a whole new precedent in Works pricing – soon PB, Compaq, and our other big players will be there and this significantly affects our revenue. Spinnaker is a shitty product – they are desperate, we need to win this battle on the relationship and value fronts. From a revenue standpoint, long term it would hurt us to go down across the board and that's what has happened for the last 3 years. Going to \$3 fixes a short term problem, but hits us harder in the long term.

I think it has hurt us that we don't have the right relationship with PS/1. No reflection on Mary Jo as she is new to this biz and only 2 months on this account. Robert's Lexington group only cares about product engineering and has no marketing. Marketing is in Atlanta, a group which is so out of touch with the channel and overall it is a very disfunctional situation. By penetrating marketing and management groups, we will be able to better establish our value as premium products, get them in touch with their channel, HELP them market, etc.. I think they may need to learn the channel returns and PSS cost experience themselves. PB & Compaq did and they came back to form committed partnerships with us. It is true that WORKS will not make someone buy a PC, but if they can't use the pc when they get it home or it's hard – they return it or call the OEM more.

We still win with Encarta on PS/1 in the US and Works Int'l.- so we are not shut out completely.

Other comments from Patty's conversation:

- Robert knows Maples, maybe we should have him call? maybe not, Patty is not sure that this will help the situation.
- PS/1 pissed that we are marketing with Compaq and makes them want to have a different works product.
 - apparently communicated this to Joachim last week
- Their research shows a works is a works is a works and customers do not care
- They don't believe returns or support costs will go up with spinnaker.
- Interested in marketing, but PRICE rules.
- Pissed that we offered Encarta derivative bundle at \$8 if they kept Works on these systems. Feel this is tvino & illeoa!.

**Privilege Material
Redacted**

So at this point, we have still lost this business in the US for the short term. Joachim, I know you are going out of town to London, but would like your thoughts and your team's thoughts on this situation. –Kellee

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From: Mark Baber [markba]
Sent: Wednesday, March 16, 1994 12:43 PM
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mary Jo Newton; Tom Reeve
Cc: Patty Stonesifer; Sandi Thomas
Subject: RE: Patty's call with Amezcua

Look guys we will not stand a chance with Utopia at IBM if they are shipping Spinnaker. If we can lock IBM up with Works, Encarta and potentially Money the field will be wide open to work in additional MS apps and more importantly we can demonstrate to IBM how our marketing muscle can benefit IBM in the channel. I believe IBM feels we have taken them for granted over the past few years and just collected their money while at the same time partnering with PB and Compaq. From my perspective I think IBM is right. I want to use this opportunity to show them what a partnership can do for their business.

markba

From: Tom Reeve
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mark Baber; maryjon
Cc: Patty Stonesifer; Sandi Thomas
Subject: RE: Patty's call with Amezcua
Date: Wednesday, March 16, 1994 12:43PM

Agreed we won't get the sale in the Channel. But picture our avg revenue per unit for big 6 OEMs dropping by 1/2 and you see a much bigger revenue loss than the value of \$3 per machine that IBM U.S. gives us. The price concession could have a huge negative impact.

And we ain't perfect yet with our upgrade machine. We need to have much better ways of reaching these customers before we can assume that the upgrade business is as glorious as we'd like.

From: Jeff Lum
To: Joachim Kempin; Kellee McCusker; Mark Baber; Mary Jo Newton
Cc: Patty Stonesifer; Tom Reeve
Subject: RE: Patty's call with Amezcua
Date: Wednesday, March 16, 1994 12:10PM

KELLEE YOUR COMMENTS ARE VALID, HOWEVER, I THINK WE'RE BEING SHORTSIGHTED HERE. IBM PS/1 WILL BE EITHER #2 OR #3 IN VOLUME (BEHIND CPQ AND MAYBE PB) IN THE CONSUMER CHANNEL. PATTY'S COMMENT ABOUT SPINNAKER POSSIBLY LETTING OTHER OEMS KNOW ABOUT THIS DEAL IS VALID, HOWEVER, THE COMMENT ABOUT GETTING THE SALE IN THE CHANNEL IS NOT. THERE WILL BE 500K MACHINES IN THE US THAT WILL NOT BUY WORKS IF WE LET THIS GO. \$3 IS BETTER THAN \$0. I STRONGLY BELIEVE WE NEED IBM, CPQ, AND PB SHIPPING OUR PRODUCTS - WHAT AN INCREDIBLY STRONG SHOWING THAT WILL BE FOR US. THEY REPRESENT A HUGE % OF THE SALES IN THE CONSUMER CHANNEL. WE'LL GET THE MONEY ON THE UPGRADES, AND YOU'LL HAVE LOTS OF REFERRAL BUYERS IN THE CHANNEL FOR YOUR RETAIL PRODUCT.

From: Kellee McCusker
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No reflection on Mary Jo as she is new to this biz and only 2 months on this account. Robert's Lexington group only cares about product engineering and has no marketing. Marketing is in Atlanta, a group which is so out of touch with the channel and overall it is a very disfunctional situation. By penetrating marketing and management groups, we will be able to better establish our value as premium products, get them in touch with their channel, HELP them market, etc.. I think they may need to learn the channel returns and PSS cost experience themselves. PB & Compaq did and they came back to form committed partnerships with us. It is true that WORKS will not make someone buy a PC, but if they can't use the pc when they get it home or it's hard -- they return it or call the OEM more.

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