

From: Sandi Thomas [sandth]
Sent: Wednesday, June 08, 1994 2:48 PM
To: Tom Reeve
Subject: FW: Update -Compaq Consumer Status

Importance: High

FYI,
Sandi

From: Karl Empey
To: Bill Demas; Craig Bartholomew; Richard Tait; Sandi Thomas
Subject: Update -Compaq Consumer Status
Date: Wednesday, June 08, 1994 1:26PM
Priority: High

Just to let you know that we are back on track and that the joint promotion is helping us through this 'crisis' at this point in time. Should know more tomorrow at the latest.

Karl

From: Mike Oldham
To: Jeff Lum; Joachim Kempin; Ken Reeves
Cc: Christine Turner (OEM); Karl Empey; Marty Taucher; Peter Miller; Ruthann Lorentzen
Subject: RE: John Rose call-Compaq Consumer Status
Date: Wednesday, June 08, 1994 12:12PM
Priority: High

Status of the Works-Encarta deal:

Compaq is currently feeling like they want to proceed with the deal pending 2 issues:

1. They want to talk with MS consumer people ASAP about the scope of the Holiday Campaign we would like to launch with Compaq to see if it fits their plans (since we are asking that Compaq provide 5 times the funding MS provides). That conference call will take place Thursday morning with Ruthann and Compaq's North America consumer marketing group.
2. Compaq attorney David Cabello still needs to respond to our indemnification language which includes the cap associated with royalties. Jackson thinks the language as is will be unacceptable to Cabello.

My hunch is that Compaq will agree with everything we have offered and this legal language will be the last issue. They will have to decide if they want to break the deal based on the fair and reasonable language we have offered.

mike

From: Joachim Kempin
To: Jeff Lum; Ken Reeves; Orlando Ayala
Cc: Christine Turner (OEM); Mike Oldham
Subject: John Rose call
Date: Wednesday, June 08, 1994 12:24PM

- He runs Compaq product groups reporting to Pfeiffer. He had one issue I had the other:
1. LA, he believes we offered Compaq an OFFICE bundle and should fulfill what we promised. I explained that we believe we got him into the BRAZILIAN BANK and that he is trying to sell his products by discounting ours. I said I do not need Your help in selling Office to this bank. He replied the bank ask for a total solution from them they went out found the supplier and made their offer. They are interested in 40k units because they have more then this one customer they will offer this to. I said I do not like it, but I will look into the matter. I need the letters we send them ASAP. and will get to You and him afterwards.
 2. Consumer deal(my issue), I told him that I believe his guys do not understand the leverage are dickering with us on the wrong end of the equation, meaning broad mktg message vs \$2-3. He understood and promised to look into it. So we are having a call prob. tomorrow to discuss this with more knowledge on both sides.

Chis try to set this up for late tomorrow so that we can get this behind this week.

From: Tom Reeve [tomr]
Sent: Tuesday, March 15, 1994 5:08 PM
To: Sandi Thomas; Kellee McCusker
Subject: FW: Patty's call with Amezcua

Importance: High

You should talk about this ASAP. I don't think this is worth the \$3 price to us. What say you?

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
Cc: Patty Stonesifer; Tom Reeve
Subject: RE: Patty's call with Amezcua
Date: Tuesday, March 15, 1994 4:19PM

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

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 dysfunctional situation. By penetrating marketing and management

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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 & illegal.

**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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