

From: Tom Reeve [tomr]
Sent: Wednesday, March 16, 1994 11:43 AM
To: Jeff Lum; Joachim Kempin; Kellee McCusker; Mark Baber; Mary Jo Newton
Cc: Patty Stonesifer; Sandi Thomas
Subject: RE: Patty's call with Amezcua

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
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 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.

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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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