

**From:** Scott Van Vuren  
**Sent:** Friday, June 19, 1998 4:45 PM  
**To:** Ken Myer  
**Subject:** FW: Compaq/RS

Did you make any progress on this today?

—Original Message—

**From:** Scott Van Vuren  
**Sent:** Thursday, June 18, 1998 6:31 PM  
**To:** Ken Myer  
**Cc:** Joe Williams; Ed McCahill  
**Subject:** RE: Compaq/RS

Looks pretty good to people down here, need to have a few more weigh in but let's move ahead.

We'll plan on a royalty of \$150.57 to CPQ

I'd like to explore an instant rebate, but let's understand the legal ramifications, and pricing ramifications. We may have to go with the more standard end user \$40 rebate.

We also need legal's opinion on requiring CPQ to MAP the product at RS

MS to cover fulfillment costs, cleaner to CPQ and the end user, a \$150.57 royalty can support fulfillment costs

In the \$150.57 we'll also include an MS Press CD Word/Excel Starts Here, allocate \$3.00 from the \$150.57 for MS Press

—Original Message—

**From:** Ken Myer  
**Sent:** Thursday, June 18, 1998 11:23 AM  
**To:** Scott Van Vuren; Joe Williams; Ed McCahill  
**Subject:** Compaq/RS  
**Importance:** High

Recap of our discussion (with a few additional points of consideration to minimize channel conflict - we can discuss further)...potential program framework.

The consideration for supporting this potential opportunity with Compaq through their unique relationship with RS/Tandy is not to be considered a policy change within DAD. This will be an exclusive one time offer to Compaq for their business with RS. RS is a unique COT.

1) MS sells to Compaq "white box" version of SBE (including standard \$40 upgrade rebate coupon inside packaging), which is a derivative including an MS Press Office Training CD @ \$X (\$130.00+?). The SKU is only for direct attach sales at the time the PC is purchased at an authorized RS location. There will not be any after the sale of the PC add-on opportunity with SBE. The upsell must be on the same receipt with the PC. "White Box" packaging will state; "Only to be sold with the purchase of a new Compaq PC from RS".

The program math; This needs to be fully sorted out before we make any offer.

ERP:

\$ 249.00

RS Retail Price

\$ 239.00

RS Advertised Net Price

\$ 199.00

(net of \$40 MS mail-in rebate)

RS Cost from CPQ

\$ 167.30

RS Margin

30%

Compaq Cost from MS

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\$ 150.57

**Compaq Margin**

10%

**Support Cost**

\$ 20.00

(est. - final TBD)

**MS Billing**

\$ 130.57

(may be higher - re: support costs)

2) We expect RS will offer at the time of purchase of a new qualifying Compaq/RS model PC, the upsell to SBE for \$239 pre-rebate and the consumer can then submit the MS Rebate of \$40. RS will determine final offer to the consumer. Compaq will be obligated to MS to determine a MAP on the upsell pricing of SBE at RS.

3) When RS closes the upsell, the consumer will pay RS for the add-on of SBE either in full or through the RS financing with the PC. RS will then submit to a third party fulfillment partner (MS authorized partner), the necessary documentation (copy of receipt, PC serial# & shipping address for the customer, etc.) and the third party will then fulfill directly to the customer within X hours. Consumer can send in the MS Rebate which is inside the product packaging.

4) The fulfillment house will then bill Compaq for only the actual attach sales.

5) MS will receive revenue from CPQ.

6) MS is not entering into any sales or contractual obligations directly with RS (Product support). MS is selling to Compaq as an OEM customer.

7) Office SBE unit attach forecast TBD.

**8) Open Issues:**

- a) CPQ provides support for SBE/MS Press OEM bundle.
- b) DAD management approval for new "white box" SKU?
  - 1) Will it be a modified DSP SKU
- c) Final pricing to Compaq. Need accurate support costs.
- d) CPQ pays the fulfillment costs.
- e) Legal review of program structure and SBE/MS Press bundle pricing.
- f) Program does not conflict in any manner with the existing SMB div'n @ Compaq agreement for SBE.
- g) How to structure this program with Compaq where it does not create any future instance in any other Compaq business area. The program does not have any facility to be transferred or offered anywhere else.
- h) Will be be obligated to Circuit City and Sears in any manner?(see below) Is the RS COT position strong enough for isolation?
- i) Is SBE the right product for the targeted customer? Should we also offer HE as an option too?
- j) Time to market - how fast can we gain approval, react and implement.
- k) Other??

**Business consideration rationale;**

1) RS is a unique retailer that reaches consumers in a very broad spectrum of geographies our CSS, CE and MM COT segments do not. RS has > 7000 retail locations nationwide, where many are in secondary and very rural locations. The next largest store count is approximately 2300 at Wal-Mart, however they do not reach as many markets. RS will have Compaq PC displays/demo units in 4500 of their locations and will be selling the systems at all 7000+ store fronts. MS will gain substantial presence through the store displays and the exposure through all of the selling locations. Local store convenience is also important.

2) RS/Compaq research has identified that the large majority of consumers who shop and or purchase PCs from RS are family based home users and elderly home user consumers. They have identified Circuit City and Sears as their second and third possible choices of retailers to make a PC purchase. Both of these retailers are not destinations for PC SW and our effective Office attach per PC in both is far below our known levels with the two. These consumers

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also tend to be less price sensitive and are looking for ease of purchasing, often through consumer financing.

3) Piracy and / or unbundling will be minimized through the fulfillment process and unique packaging.

Your comments please.

Thank you,

**Ken**

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