From: Hahns Burg
Sent: Monday, May 15, 2000 6:52 PM
To: US Distribution Sales
Subject: US Distribution FY01 Budget Scrub

Importance: High

FY01 Budget Scrub for
Bob Clou...

I would like to personally thank you all for contributing to the US Distribution FY01 Budget Scrub. We reviewed the business with Bob Clough today and I felt the review went very well. Overall, we had a *great* discussion on the state of the channel, the direction of our strategy, and the nature in which we engage districts/distributors/VAR's, etc.... When it comes to tactics like the VAR 2000 program, Consultative Selling, MDF Focus, District Engagement, Focused Infrastructure heads, etc.., Bob's general feedback was "keep doing what you're doing .... your strategy is very consistent with the direction we need to be going." The two areas I heard the most concern expressed were around the level of morale given revenue performance and are unfinished work to be done around VAR Agent model.

Thank you very much for making this milestone a success. It's great to have our work validated at an Executive level as worthwhile and on track.

Let's all drive hard to engage sales and maximize our revenue on the home stretch ! ! !

Thanks and Congratulations !

-Hahns.

Hahns Burg
Director US Distribution Sales
☎ 425-703-1663   📱 425-766-7354

US Distribution Sales FY01 Plan

INGRAM MICRO

Tech Data

MERISEL.

GATES/ARROW DISTRIBUTING

nacscorp
HELPING YOU SUCCEED

p①nacor

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Hahns Burg
Director

State of the channel

✓ "New blood" in all accounts

✓ Price increases in Feb-Mar

✓ Margins partially restored

✓ Merisel/Pinacor can't downsize fast enough

✓ Pinacor in Chapter 11

✓ VAR channel still not engaged

Software growth continues to lag:

	Ingram	Tech Data	Merisel
Overall growth		30%	0%
HW growth		52%	
SW growth		20%	

Wall Street confidence returning:

Merisel is in trouble:

Pretax margin

	Ingram	TechData	Merisel
Q2-99	1.9%	1.5%	0.1%
Q3-99	0.9%	1.2%	-1.6%
Q4-99	1.2%	1.1%	-0.2%
Q1-00	0.4%	1.2%	-0.9%
Q2-00	1.6%	1.2%	-2.0%

Disti Stock Prices May 1999 - May 2000

ARW
TECD
IM
MICA
MSEL

$50
$45
$40
$35
$30
$25
$20
$15
$10
$5
$-

5/3/1999 6/3/1999 7/3/1999 8/3/1999 9/3/1999 10/3/1999 11/3/1999 12/3/1999 1/3/2000 2/3/2000 3/3/2000 4/3/2000 5/3/2000

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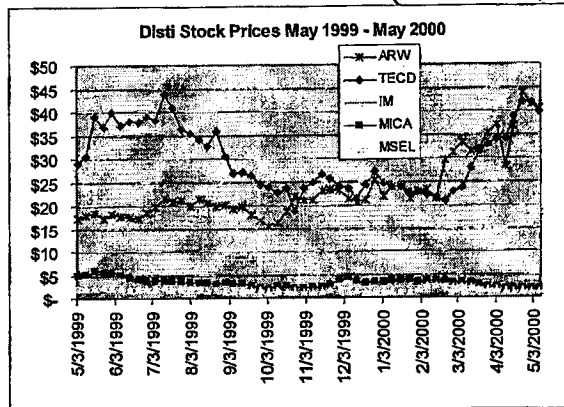
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Merisel

•Who did we lose market share to?

Pinacor

•Hardware number is representative of their loss of both Compaq and 3Com as vendors along with a general slowing of their hardware business attributed to Y2K (their assumption).

•Software number is representative of above average performance by both Network Associates and Adobe. Each posted 176% and 115% growth respectively. Novell and IBM/Lotus both posted average to slightly above average growth (they wouldn't divulge exact numbers). And while MS is 50% of software and only grew 3% vs overall software growth of 18, software is only approximately 3-5% of their overall revenue and as a result would not have pertinant impact on overall Revenue Growth.

Arrow

•The above numbers represent ARROW NACP numbers for S1. Due to their mix of business (software being 5% of their overall revenue) the 49% growth in softwar does not have the impact on total revenue. Of note in the software number is the data point that MS is 44% of software and grew 23%, however Novell pulled out in FY99 and IBM/Lotus had a huge Q4 due to a one-time hardware (AS/400, Netfinity)/software (Notes) bundle done by an ISP for 20M.

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FY00 Lowlights/Highlights

Lowlights:

- Missed plan by wide margin
  - ❏ Shift to pre-installed sw
  - ❏ Shift to Managed accounts
  - ❏ Loss of reseller breadth
- Sales engagement still slow
  - ❏ Executive turnover in all accounts
  - ❏ Difficult to obtain focus with accounts
- ❖ Financial instability
  - ❏ Pinacor bankruptcy
  - ❏ Merisel Q1 loss $13.4MM

Highlights:

- ✓ Hiring & bench building
- ✓ Windows 2000 launch
- ✓ Visio transition
- ✓ Everest launch
- ✓ VAR 2000 Promotion
- ✓ District integration
- ❖ System Builder growth
- ❖ Price increases to restore profitability

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FY00 Forecast – Unmanaged

	FY98 Actual	FY99 Actual	FY00 Plan	FY00 Forecast	Growth '99 Actual	'00 Plan	'00 Fcst
Office	451,838	379,763	444,323	344,220	(16%)	17%	(9%)
Win2000 Pro	55,368	66,042	95,761	72,351	19%	45%	10%
Win2000 Server	128,451	179,699	242,594	196,970	40%	35%	10%
SBS	11,245	20,901	28,217	20,559	86%	35%	(2%)
BackOffice	49,644	43,289	58,440	30,476	(13%)	35%	(30%)
Exchange	46,893	47,689	59,611	40,438	2%	25%	(15%)
Other	382,222	328,422	321,055	323,010	(14%)	(2%)	(2%)
Total Products	**1,125,662**	**1,065,800**	**1,250,000**	**1,028,023**	**(5%)**	**17%**	**(4%)**
Top Products %	*66%*	*69%*	*74%*	*69%*			
FPP	678,494	659,378	677,350	595,602	(3%)	3%	(10%)
Open	310,921	400,454	572,650	431,987	29%	43%	8%
Other	136,246	5,972	0	434	(96%)	(100%)	(93%)
Total Programs	**1,125,662**	**1,065,805**	**1,250,000**	**1,028,023**	**(5%)**	**17%**	**(4%)**
Open %	*28%*	*38%*	*46%*	*42%*			
LAR	0	0	0	25	0%	0%	
DMR	6,538	6,970	10,107	4,824	7%	45%	(31%)
VAR	805,746	867,949	1,024,180	791,593	8%	18%	(9%)
System Builder	31,443	57,678	83,632	99,011	83%	45%	72%
Retail	137,227	118,118	121,561	124,350	(14%)	3%	5%
Other	144,707	15,090	10,419	8,220	(90%)	(31%)	(46%)
Total Channel	**1,125,662**	**1,065,805**	**1,250,000**	**1,028,023**	**(5%)**	**17%**	**(4%)**
Var %	*72%*	*81%*	*82%*	*77%*			
Ingram	417,296	468,965	585,737	488,467	12%	25%	4%
Tech Data	177,353	213,285	267,089	246,446	20%	25%	16%
Merisel	182,616	160,031	195,038	142,030	(12%)	22%	(11%)
Gates Arrow	32,843	45,270	56,690	48,109	38%	25%	6%
Pinacor	150,392	90,046	112,761	71,118	(40%)	25%	(21%)
NACSCORP	26,565	26,050	32,621	24,595	(2%)	25%	(6%)
D&H+Inacom	138,596	62,159	0	7,259	(55%)	(100%)	(88%)
Total Distributor	**1,125,662**	**1,065,805**	**1,250,000**	**1,028,023**	**(5%)**	**17%**	**(4%)**
Big 3	*69%*	*79%*	*84%*	*85%*			

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FY00 Forecast - SME

	FY98 Actual	FY99 Actual	FY00 Forecast		Growth	
				'99 Actual	'00 Plan	'00 Fcst
Office	377,656	423,182	474,590	12%	17%	12%
NTW	55,160	78,600	104,657	42%	96%	33%
NTS	130,687	189,328	240,419	45%	39%	27%
SBS	13,892	25,505	27,021	84%	48%	6%
BackOffice	40,644	52,206	48,596	28%	48%	-7%
Exchange	48,319	57,225	57,599	18%	23%	1%
Other	513,116	516,684	551,615	1%	0%	7%
Total Products	1,179,474	1,342,732	1,504,497	14%	21%	12%
Top Products %	*56%*	*62%*	*63%*			
FPP	765,379	741,424	683,873	-3%	11%	-8%
Open	229,618	354,622	482,320	54%	56%	36%
Select/EA's	27,671	36,783	56,102	33%	-1%	53%
Courseware	72,081	83,241	83,889	15%	9%	1%
DSP/ROEM	47,769	89,200	153,686	87%	52%	72%
Other	36,957	37,462	44,627	1%	9%	19%
Total Programs	1,179,474	1,342,732	1,504,497	14%	21%	12%
Open %	*19%*	*26%*	*32%*			
LAR	147,189	181,068	226,518	23%	16%	25%
DMR	157,006	233,142	343,965	48%	33%	48%
VAR	681,490	688,206	634,184	1%	18%	-8%
System Builder	47,769	89,204	153,687	87%	52%	72%
Retail	122,762	142,086	134,541	16%	23%	-5%
Other	23,259	9,025	11,602	-61%	0%	29%
Total Channel	1,179,474	1,342,732	1,504,497	14%	21%	12%
Var %	*58%*	*51%*	*42%*			

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FY00 Marketing

- New marketing taxonomy in place and running
  - Spending with more care & focus
- Sales engagement
- Shift toward sales incentives
- Focusing spend more on distribution, less on reseller
- Q4 Ingram push
- Merisel in control

	FY00 Allocation
Ingram Micro	$ 2,994,567
Tech Data	1,429,330
Merisel	1,065,481
Arrow NACP	333,428
Pinacor	558,201
NACSCORP	155,744
Total Account Allocation	$ 6,536,750
Centralized Marketing/Other	325,134
Windows2000 CRK's	50,000
VAR/SORG Opp'y	-
FY00 Forecasted Spend	$ 6,911,884
Windows 2000	$ 500,000
Samples	13,250
Marketing Efficiency	548,854
FY00 Budget	$ 7,973,988
Marketing % Plan	87%
Revenue % Plan	82%
Marketing % MYR	96%

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FY01 Overview

Strategy:

- ❖ Restore VAR breadth in SMB, particularly Open reseller breadth
- ❖ Drive depth/frequency of Open among SMB focused resellers
- ❖ Drive Windows 2000 revenue (Server and Client; Enterprise and SMB)
- ❖ Attach Office 2000: leverage Windows 2000 momentum
- ❖ Partner with System Builder (ROEM)
- ❖ Ready the channel for Exchange 2000
- ❖ Ready the channel for Small Business Server 2000
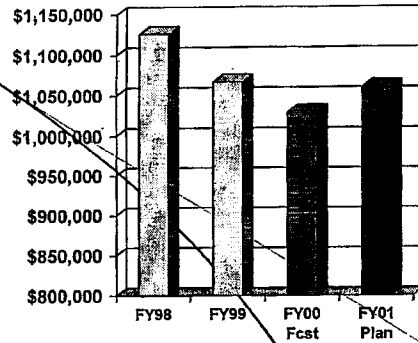
Tactics:

- ❖ Sales Driver programs in all accounts
- ❖ Focus champs infrastructure investment (pilot)
- ❖ Drive adoption of Consultative Selling Model
- ❖ Open license automation on the web
  - ❖ Disti → VAR
  - ❖ VAR → SMB Customer
- ❖ VAR Agent Model
  - ❖ Disti → SMB Customer
- ❖ Shifting rebates toward strategic investment

Key Issues & Challenges:

- ❖ Protecting reach & breadth
  - ❖ Pinacor bankruptcy
  - ❖ Merisel financial instability
- ❖ Ability to engage distribution in new models
  - ❖ "Hold on to the status quo"
- ❖ VAR exit from reselling models
- ❖ Piracy & demand generation

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FY01 Forecast - Unmanaged

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Office	451,838	379,763	344,220	354,546	(16%)	(9%)	3%
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BackOffice	49,644	43,289	30,476	33,523	(13%)	(30%)	10%
Exchange	46,893	47,689	40,438	44,482	2%	(15%)	10%
Other	382,222	328,422	323,010	293,979	(14%)	(2%)	(9%)
Total Products	1,125,662	1,065,805	1,028,023	1,058,864	(5%)	(4%)	3%
Top Products %	66%	69%	69%	72%			
FPP	678,494	659,378	595,602	497,280	(3%)	(10%)	(17%)
Open	310,921	400,454	431,987	561,584	29%	8%	30%
Other	136,246	5,972	434	0	(96%)	(93%)	(100%)
Total Programs	1,125,662	1,065,805	1,028,023	1,058,864	(5%)	(4%)	3%
Open %	28%	38%	42%	53%			
LAR	0	0	25	0			(100%)
DMR	6,538	6,970	4,824	2,500	7%	(31%)	(48%)
VAR	805,746	867,949	791,593	802,150	8%	(9%)	1%
System Builder	31,443	57,678	99,011	148,517	83%	72%	50%
Retail	137,227	118,118	124,350	105,698	(14%)	5%	(15%)
Other	144,707	15,090	8,220	0	(90%)	(46%)	(100%)
Total Channel	1,125,662	1,065,805	1,028,023	1,058,864	(5%)	(4%)	3%
Var %	72%	81%	77%	76%			

Source: Field forecast allocated by customer segment by channel

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FY01 Marketing

	FY00 Allocation	FY01 Allocation	Change	% Chg
Ingram Micro	$ 2,994,567	$ 2,857,624	$ (136,943)	(5%)
Tech Data	1,429,330	1,443,993	14,663	1%
Merisel	1,065,481	919,792	(145,688)	(14%)
Arrow NACP	333,428	331,984	(1,444)	(0%)
Pinacor	558,201	487,129	(71,073)	(13%)
NACSCORP	155,744	169,391	13,647	9%
Total Account Allocation	$ 6,536,750	$ 6,209,913	$ (326,838)	(5%)
Centralized Marketing/Other	325,134	650,268	325,134	100%
Windows2000 CRK's	50,000	-	(50,000)	(100%)
VAR/SORG Opp'y	-	259,060	259,060	
FY00 Forecast/FY01 Request	$ 6,911,884	$ 7,119,241	$ 207,357	3%

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VAR 2000 Promotion

❖ Distributors
  ➢ "Double Your Salary" ISR contest
    o W2K Pro
    o W2K Server
    o O2K

❖ Resellers
  ➢ O2K Open License rebate
  ➢ W2K Open License rebate
  ➢ "Click Rewards" sales incentive

❖ Customers
  ➢ Office Essentials
  ➢ Bonus training offer for Office Open

Business Divisions

US Distribution Sales   *VAR 2000 Promotion*   Districts

SORG Partner Group

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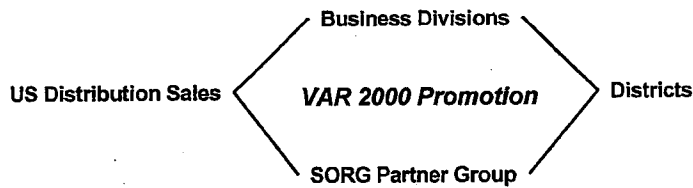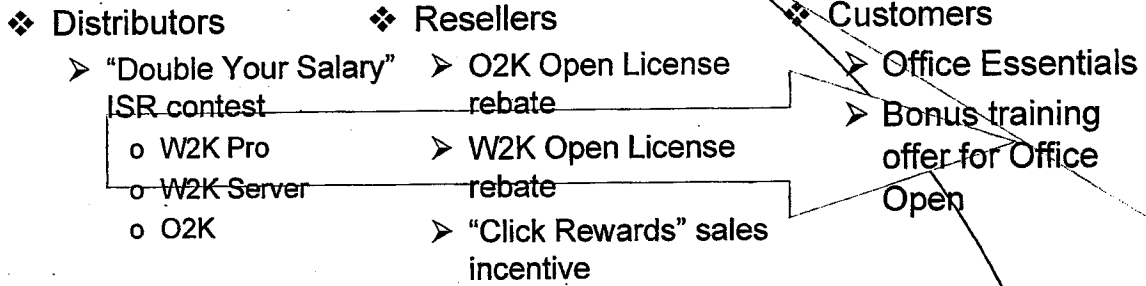
VAR 2000 - Reseller

❖ **VAR Rebate Up to $8,125 in Cash Back Incentives**
- ❑ Earn your company up to $8,125 in cash rebates by selling Microsoft Office 2000 & Windows 2000 to small & medium businesses! This offer is available to any reseller that sells qualifying product under Open License. Available until June 30, 2000.
- ❑ More information visit http://www.msvar2000.com/

❖ **ClickRewards win vacation packages, sporting equipment and much much more!**
- ❑ All you have to do is sell Windows 2000 and you will be awarded Click Reward points that you can use to redeem towards a wide range of prizes. Available to any reseller that sells Windows 2000 via Open License, Full Packaged Product or Retail-OEM – earn 1 reward point for every $1 sold. Available while points last!
- ❑ More info http://www.microsoft.com/directaccess/go/clickrewards/

❖ **Sky's the Limit – sponsored by Ingram Micro**
- ❑ Sell Windows 2000 & Office 2000 and earn frequent flyer points for Open, Full Packaged Product & Retail-OEM. Earn 1 buyer point for every $1 of Office 2000 sold and earn 2 points for every $2 of Windows 2000 sold. Available until June 30, 2000.
- ❑ More information contact Ingram Micro on 800 456 1000

❖ **"Open" the Window – sponsored by Merisel**
- ❑ **Place any Open order over the value of $1,000 and qualify for sweepstake drawing! Prizes will include shopping sprees to the value of $250 to $1,000 with a drawing happening every 2 weeks! Available until June 30, 2000**
- ❑ **For more information call Merisel on 800 227 1312**

$8,125 in rebates!
msvar2000.com

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http://www.msvar2000.com/
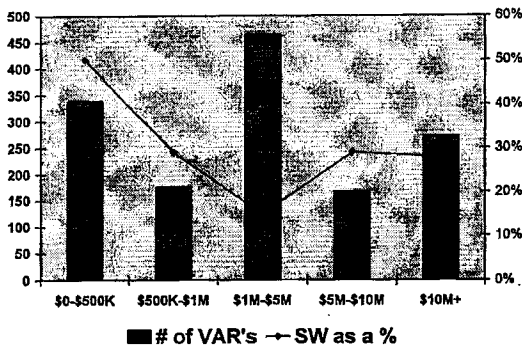
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VAR 2000 – Who's playing

- ❖ **Primary Business Focus**
  - ❑ Small = 0-50 PC's
  - ❑ Medium = 50 – 500 PC's
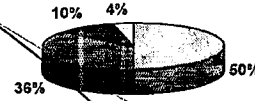 - ❑ Large = 500 – 100 PC's
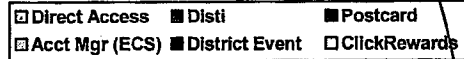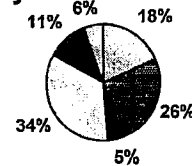 - ❑ Enterprise = 1,000+ PC's
- ❖ **Total company revenue**

  VS.

  Software as a % of Revenue

10% 4%
36%
50%

☐ Small	▨ Medium
■ Large	☐ Enterprise

How They Were Recruited

6% 18%
11%
34% 26%
5%

⊡ Direct Access	■ Disti	■ Postcard
☐ Acct Mgr (ECS)	■ District Event	☐ ClickRewards

■ # of VAR's → SW as a %

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District Engagement

Strategy:

- ❖ Drive joint recruitment to VAR2000
- ❖ Leverage resources, activities and investments
- ❖ ID and develop go-to NMP's
- ❖ Educate on individual value add
- ❖ Forge relationships to drive sales

S101 Overview

- ❖ Best Practice sharing
- ❖ Possible co-funding
- ❖ Early adoption of channel & disti promotions
- ❖ District promotion of disti value-adds
- ❖ More broad, cross disti / district relationships

S2 Progress

- ❖ 7 exclusive districts/disti partnerships
- ❖ Broad spectrum of activities (trials)
- ❖ Telemarketing, direct mail, event coverage, recruitment
- ❖ Learning engagement requirements and interests

Issues / Challenges

- ❖ Funding activities
- ❖ Conflicting Business Models
- ❖ MS vs district vs disti goals
- ❖ Disti field un-engaged – driven from disti HQ
- ❖ Lack of ownership at disti
- ❖ Broad reseller focus vs narrow
- ❖ Dismal historical success

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Open License

- ❖ Increase Open penetration, leveraging Open Business
  - ❑ VAP Open Agent model
  - ❑ District engagement with Direct Access
- ❖ Drive frequency of VAR Open purchases
  - ❑ Microsoft reseller, but not Open
  - ❑ Distribution customer, but not Microsoft
- ❖ Educate on Government and Charity
  - ❑ Government has huge opportunity within disti's
- ❖ Issues/Challenges:
  - ❑ need tools to simply Open, e.g. portable configurator, disti online
  - ❑ Continual education of sales reps and VAR's
  - ❑ Distribution 'interest' of providing Open services to VAP's (that don't resell)
  - ❑ Driving Open into SORG market where knowledge and interest is very low
  - ❑ SORG is toughest and most expensive market to develop
  - ❑ Districts have to play vital role

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strategies, programs & initiatives, challenges, and metrics

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Small Business Server 2000

❖ Drive SBS penetration of server shipments to 12%

❖ Education of channel on SBS 2000 value of integration of complex products:
  ❑ Windows 2000 Server, Exchange 2000, SQL 2000, Proxy, Windows 2000 Shared Fax/Modem Services, health monitor

❖ Leverage investments in Consultative Selling Framework
  ❑ Enables services sell
  ❑ "Hooks" into the customer via SBS2000 flags
  ❑ Lead with Visio utilities for asset management & quote building

❖ Target availability November 2000

❖ Measurement:
  ❑ Forecasting 25% growth in FY01
  ❑ Penetration in SORG

❖ Issues/Challenges:
  ❑ Sustaining revenue through product release – tech guarantee as of Jan 1, 00
  ❑ Positioning vs. Windows 2000 Server, selling complexity into SORG – value proposition of integration
  ❑ Educating channel on removal of BackOffice branding
  ❑ Technical tools & resources to train tech support engineers
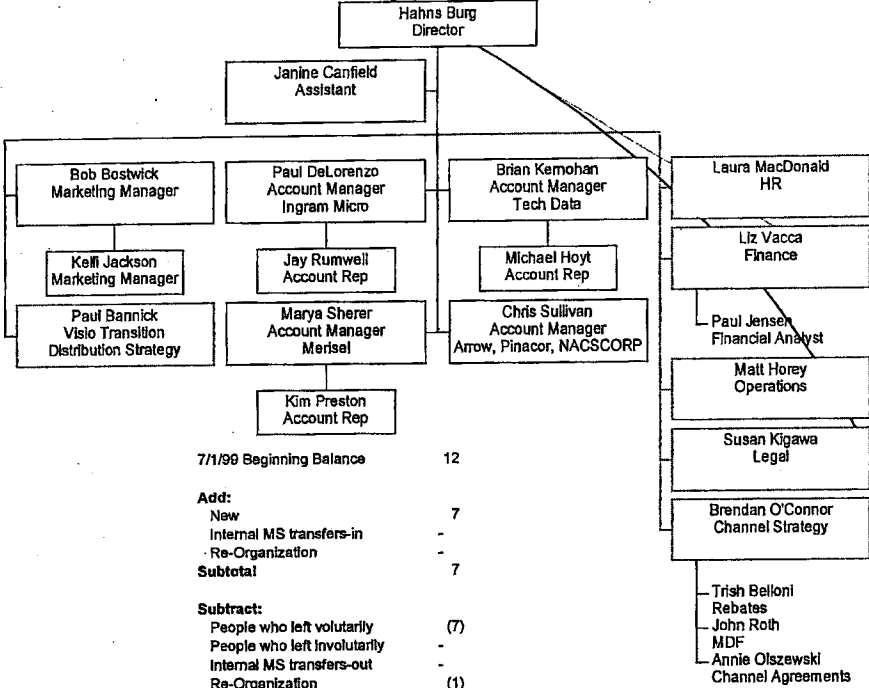
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ROEM

- ❖ OEM sales will no longer be counted in 'qualified' sales for rebate payment due to mixed disti channels
- ❖ Marketing Funds Guidelines:
  - ❑ 10% of MDF spend reserved for ROEM
  - ❑ Funded champions will provide support roles for OEM in addition to FPP & Open
- ❖ Marketing:
  - ❑ Include ROEM in S1 channel and distributor promotions
  - ❑ Tentative: joint promotion on configuration services
  - ❑ Possible Q3 'Naked PC" Campaign
- ❖ Business Planning:
  - ❑ OEM Account Managers (AM's) to attend distributor S101 planning sessions
  - ❑ OEM AM's are developing integration plans with FG
  - ❑ Quarterly Scorecard reviews
 - ❑ Synchronize travel schedules – joint visits

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Organization

Hahns Burg Director		
Janine Canfield Assistant		

Bob Bostwick
Marketing Manager

Paul DeLorenzo
Account Manager
Ingram Micro

Brian Kernohan
Account Manager
Tech Data

Laura MacDonald
HR

Kelli Jackson
Marketing Manager

Jay Rumwell
Account Rep

Michael Hoyt
Account Rep

Liz Vacca
Finance

Paul Bannick
Visio Transition
Distribution Strategy

Marya Sherer
Account Manager
Merisel

Chris Sullivan
Account Manager
Arrow, Pinacor, NACSCORP

Paul Jensen
Financial Analyst

Kim Preston
Account Rep

Matt Horey
Operations

Susan Kigawa
Legal

Brendan O'Connor
Channel Strategy

Trish Belloni
Rebates
John Roth
MDF
Annie Olszewski
Channel Agreements

7/1/99 Beginning Balance	12
Add:	
New	7
Internal MS transfers-in	-
Re-Organization	-
Subtotal	7
Subtract:	
People who left volutarily	(7)
People who left involutarily	-
Internal MS transfers-out	-
Re-Organization	(1)
Subtotal	(8)
6/30/99 Ending Balance	11

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Ingram Micro

Assets:

- ❖ 1,400 Vendors
- ❖ 50,000 Customers
- ❖ 25,000 MS Resellers
- ❖ Pre and Post Sale Technical support
  - ❖ 160 total technicians. 28 dedicated to MS
- ❖ 500,000 Sq Ft, ISO certified configuration center. Out sourced White box solution for large bid opportunities
- ❖ 91 dedicated Volume License Associates. 29 Associates dedicated to MS
- ❖ Ingram Micro.com, robust website
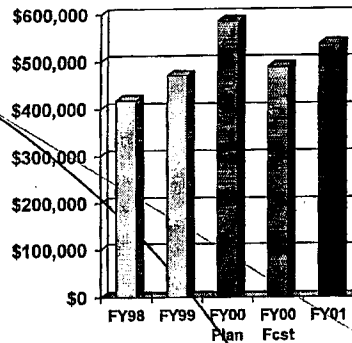
INGRAM MICRO

Programs & Initiatives:

- ❖ Microsoft Agent Model
- ❖ Volume License Automation
- ❖ SMB Division
- ❖ Profitability
- ❖ Global Partner Services
- ❖ E-fulfillment
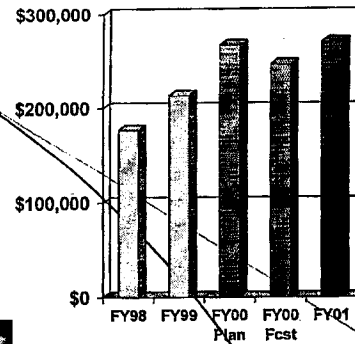- ❖ ESD

Key Issues/Challenges:

- ❖ Profitability
- ❖ Degradation of current distribution vol ic revenue business and increase in CODB due to MS license program strategies
- ❖ Additional rebate initiatives for less total rebate compensation
- ❖ Sales shifts within customer segments due to pricing, programs and conditions
- ❖ Communication
- ❖ Unrealistic growth goals

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Tech Data

Assets:

- ❖ 900 Vendors
- ❖ 53,139 Customers
- ❖ 19,337 MS Resellers
- ❖ 550 ISR's
- ❖ Licensing resources 20 dedicated ISR
- ❖ Technical support 165 (75 pre-sales, 15 fee based post sales, 75 vendor SE's)
- ❖ Services include: Configuration, "Viento" Whitebox, EUB, Private Label delivery
- ❖ Online solutions FPP only, Licensing TBA

Programs & Initiatives:

- ❖ TD strategic priorities:
  - ❑ Excellence in Execution - pricing, customer accessibility, product availability, shipping effectiveness, human capital, planning and reporting
  - ❑ Proactive Initiatives - P&L ownership, sales process, maximize customer interaction, Marketing sbu's, business development (RIB, etc)
  - ❑ E-Commerce focus - IT infrastructure (Siebel), EC Marketplace
  - ❑ Supply-chain management - demand planning, supply chain metrics, optimize transportation, capacity planning, upstream integration (I2)
- ❖ MS strategic Priorities
  - ❑ Revenue & Rebate attainment through Sales engagement
  - ❑ IT partnership to utilize MS tools & platforms
  - ❑ Implementation of an electronic licensing solution highlighting Open License
  - ❑ Development of a SMB strategy

Key Issues/Challenges:

- ❖ 100% turnover of all executives and staff responsible for MS relationship in 12 months
- ❖ Convincing TD of MS' capabilities to help them accomplish their strategic priorities
- ❖ Getting TD's support to help drive MS' SMB initiatives

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Merisel

Assets:
- ❖ 400 Vendors
- ❖ 18,000 Customers
- ❖ 3,000 MS Resellers
- ❖ 400 ISR's
- ❖ Pre/Post Sales Technical - at least 1 Tech per sales team cluster. Tech Support located both in Cary and El Segundo
- ❖ Configuration group located in Hayward, CA. No white box solution today, and nothing in the near future.
- ❖ Licensing group of 40ppl./ 2 managers/1 MS lead. Currently close approx 80%of licensing business closed through the licensing desk.
- ❖ Online solution SelLine/ (On line configurator will be running 7/1). ASP offering 6/2000

MERISEL
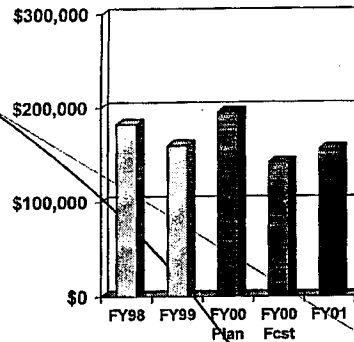
Programs & Initiatives:
- ❖ VAR/ SMORG
  - ❏ Recruitment
  - ❏ Retainment
  - ❏ Penetration
- ❖ E Commerce
  - ❏ ELD
  - ❏ ASP – June 2000 support and manage the fulfillment of FutureLink's OfficeConnect ASP service .
- ❖ Profitability-
  - ❏ Increasing pricing to customers in February. Committing to keeping a higher margin structure.

Key Issues/Challenges:
- ❖ Sustaining customer base after February price increase. (drop of 20% in software sales in Q4)
- ❖ Moving from a US and Canadian management team to a North American Structure
- ❖ The sales group has gone from individual contributor, to a team cluster format.
- ❖ Adapting and implementing Canadian marketing programs for VAR's.
- ❖ High turnover on Merisel team (Product Specialist, Back Office Champ, Buyers)

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Controllable Operating Expenses

T&E:
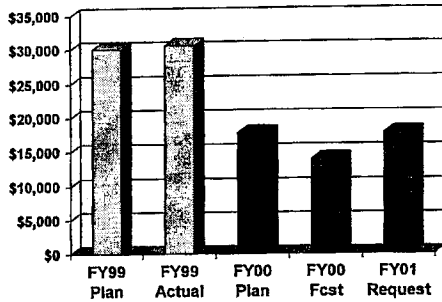
- ❖ LOBA
- ❖ T&E back to FY99 Plan
  - ❑ Sales engagement
  - ❑ Buffalo, NY
  - ❑ Cary, NC
- ❖ No Capex
- ❖ Some computer repair

	Controllable OpExp ($)				Cost per Head ($)			
	FY99 Actual	FY00 Plan	FY00 Fcst	FY01 Request	FY99 Actual	FY00 Plan	FY00 Fcst	FY01 Request
Employee Fringe	5,588	2,830	2,830	8,250	479	257	257	750
T&E	369,218	194,700	148,531	194,700	31,647	17,700	13,817	17,700
Training	5,338	26,599	28,443	26,599	458	2,418	2,646	2,418
Postage	6,625	4,943	3,938	4,032	568	449	366	367
Supplies & Equipment	4,951	5,718	8,986	5,718	424	520	817	520
Computer Expense	11,357	22,260	26,444	6,600	973	2,024	2,460	600
Telephone	32,870	29,480	28,227	28,886	2,817	2,680	2,626	2,626
Network charges	3,706	3,676	3,076	3,146	318	334	286	286

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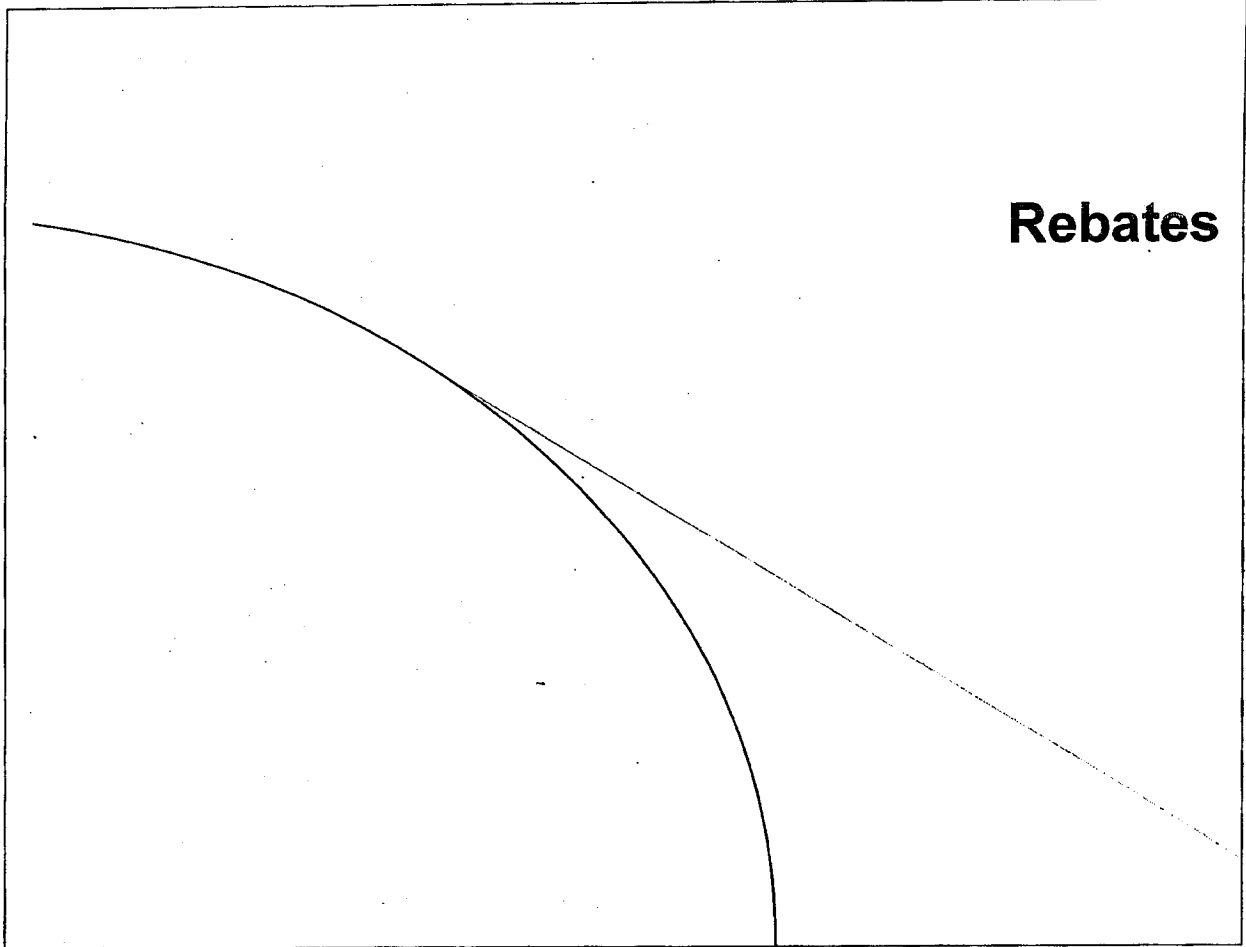
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FY01 Capital Requests

None

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Rebates

Distribution Rebate Mission Statement

"Bounty. For payment and reporting complaince. For selling Microsoft software in new customer and channel segments by offering economic incentive to our distribution partners, where economic incentive would otherwise not exist."

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Distribution Rebates – past vs. future

Problems:

- Goals historically based on _volume_
- Reinforces _price_ competition among distributors to hit _volume_ goals
  - 2.3% - 3.25% of rebates go to price to hit volume goals
  - chase volume accounts (e.g., retail direct)
- Distributors missing volume goals, resulting in significant financial losses
- Distributors are not well differentiated
- Distributors are not investing in the future or our target customers
- Unmanaged sales-out in 2nd consecutive year of decline
- Can't get rebate goals precise on SMB
  - NRO allocations
- FY00 rebate payout totals $68 million

Desired Results:

- Microsoft no longer "contributes" to _price-volume_ competition
- Stop paying rebates on portion of rebates that go to price → no "strategic" value
- Drive SMB revenue through distribution and it's SMB focused customers
- Drive Breadth of Resellers selling into Small Business
- Investment by distribution partners in new business models to help us reach SMB customers
- Encourage and allow distributors to differentiate themselves
- Profitable and healthy channel
- Increase in channel partner satisfaction

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FY01 Distribution Rebate Strategy

Recommendation:

- ❖ Drop rebates by 3.0% (from 3.5% to 0.5%)
  - ❑ Acquiesce what's already going to price
  - ❑ 0.5% residual for compliance
- ❖ Pricing
  - ❑ Drop disti pricelist 2.5% on FPP/Open
  - ❑ 0.5% impact on street price of FPP/Open
- ❖ Invest 0.5% of rebate with our distribution partners in SMB focused channel models
  - ❑ $11MM per year run rate

Key considerations:

- ■ Pricing
  - – Street price will go up by whatever amount we invest in the channel
    - – See APPENDIX ("Distribution Economics")
  - – Affects Retail Direct pricing by comparable amount
  - – Compresses Pricing Waterfall between Open Volume and Select Level A for other products
    - » Open Volume already lower than Select Level A on Office/Pro
- ■ Absence of rebates in Distribution channel would mitigate second sourcing issues currently between Retail Direct vs. Distribution
  - – Distributors still chasing Retail volume

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Where to Invest

❖ SORG Agent Model
❖ Dedicated Microsoft SMB sales force; business development for VAP's who don't (used to) resell
   ❑ Computer Associates
❖ Web based "virtual" back office, 'Killer' SORG app, includes
      o Volume License Open configurator
         ▪ Services add-on (billing, pre-install, tech support)
      o Ties to on-line ordering system; flags no s/w, no/low clients, with automatic link to Open configurator
      o Web hosting offering: Set-up and develop web server farms for hosting reseller sites on MS technology
      o XML/web SMB sales model – what and how to sell
❖ VAR Consultative Framework (MSF)
❖ Technical training
   ❑ more web and workshops around Windows 2000, SBS 2000
❖ Profiling/data-mining - ID true SORG customers; user groups and forums
❖ ASP development with VAR's (leasing, billing, training)
❖ Software as a service – beginning with bCentral

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What other vendors are doing

❖ Compaq
- ❑ Still offer quarterly rebate based on sales out *volume*
- ❑ Virtually all of rebate going into price
- ❑ Rebate program under review (read: "heavy scrutiny")
- ❑ Potentially pull the plug July 1, 2000
- ❑ Possibly replace with some other "margin enhancement" program

❖ Intel
- ❑ Still running rebate program at all accounts
- ❑ Goals for overall volume and breadth
- ❑ Distributors segmented into "fulfillment" and "value-add"

❖ Cisco
- ❑ No rebates (never had)
- ❑ IM trying to model business after Cisco
- ❑ High growth, very profitable, but very young

❖ Computer Associates
- ❑ Quarterly rebates: converted to breadth & share from revenue
- ❑ Feel rebates are driving minimal (if any) results and behavior
- ❑ Disti's asking to get rid of rebates – no near term plans to do it
- ❑ Ingram pricing meetings went away – rebates losing focus
- ❑ Ingram missed goals badly and 'gave up' mid-quarter – removed rebate from model – CA sales were unaffected
- ❑ Rebates go to price – would like to convert to MDF or business development if they could figure out how to do it

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Alternatives

❖ Do nothing
  ❑ Not an option → current "carrot" model not working
❖ "New & Improved" rebate model – "re-engineer to make it work."
  ❑ SMB precision does not exist in current MS Sales model
  ❑ Increase in overhead investment to administer more complex rebate programs to create "synthetic" SMB goals
    o Every time you add a business rule to a rebate program, you increase the cost of supporting that program
  ❑ Can't make ROI work on goals that may be acceptable to Distribution (e.g., pay $20MM to get $9MM in revenue)
❖ Drop rebates and reinvest – pricing is #1 issue
  ❑ 0.5% pays for compliance (prompt payment and channel reporting)
  ❑ No change in price → PR issue as street price increases
  ❑ Drop price < 3.25% → reduces impact from Microsoft on street price
  ❑ Drop price 3.25% → no impact from Microsoft on street price
  ❑ Rebates not passed on in price reduction either given back to the company or plowed back into distribution channel in the form of very specific joint investments with partners

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Distribution Economics

I. Distributor factors rebate into price and misses volume goal

	Base Case	Rebates to Price	Miss Rebate
Revenue	$ 100.0	$ 97.0	$ 97.0
Rebate	3.5	3.5	2.5
COGS	(95.0)	(95.0)	(95.0)
Gross Margin	8.5	5.5	4.5
SG&A	(4.0)	(4.0)	(4.0)
Margin	$ 4.5	$ 1.5	$ 0.5
Margin % Revenue	4.3%	1.5%	0.5%

-67% decline in profit dollars

II. Microsoft removes 3.0% points of rebate, Distributor raises price by 3%.

	Rebates to Price	Remove Rebate	Increase Price
Revenue	$ 97.0	$ 97.0	$ 100.0
Rebate	3.5	0.5	0.5
COGS	(95.0)	(95.0)	(95.0)
Gross Margin	5.5	2.5	5.5
SG&A	(4.0)	(4.0)	(4.0)
Margin	$ 1.5	$ (1.5)	$ 1.5
Margin % Revenue	1.5%		1.5%

3% increase in price

III. Microsoft removes 3.0% points of rebate, drops price 2.5%, Distributor raises price 0.6%

	Rebates to Price	Remove Rebate	Increase Price
Revenue	$ 97.0	$ 97.0	$ 97.6
Rebate	3.5	0.5	0.5
COGS	(95.0)	(92.6)	(92.6)
Gross Margin	5.5	4.9	5.5
SG&A	(4.0)	(4.0)	(4.0)
Margin	$ 1.5	$ 0.9	$ 1.5
Margin % Revenue	1.5%		1.5%

0.6% increase in price

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Channel Margin Analysis

SKU	Product	License	Std/Upg	Disti			DMR			Retail Direct Account		
				Buy	Sell	Margin	Buy	Sell	Margin	Buy	Sell	Margin
021-02655	Office	FPP	Std	$404.87	$417.02	3%	$417.02	$437.68	5%	$396.77	$499.99	26%
021-02651	Office	FPP	Upg	$201.62	$207.67	3%	$207.67	$229.90	11%	$197.59	$229.99	18%
021-03851	Office	Open	Std	$314.65	$324.09	3%	$324.09	$348.54	8%	$308.36		
021-03898	Office	Open	Upg	$148.70	$153.16	3%	$153.16	$166.76	9%	$145.73		
A96-01199	Office Premium	FPP	Std	$648.78	$668.24	3%	$668.24	$697.19	4%	$635.80	$699.99	10%
A96-01200	Office Premium	FPP	Upg	$372.35	$383.52	3%	$383.52	$429.90	12%	$364.90	$429.99	18%
A96-01376	Office Premium	Open	Std	$504.23	$519.36	3%	$519.36	$556.39	7%	$494.15		
A96-01442	Office Premium	Open	Upg	$295.30	$304.16	3%	$304.16	$327.76	8%	$289.39		
269-02188	Office Pro	FPP	Std	$486.17	$500.76	3%	$500.76	$527.36	5%	$476.45	$599.99	26%
269-03670	Office Pro	Open	Std	$377.84	$389.18	3%	$389.18	$418.56	8%	$370.28		
B23-00079	Windows 2000 Pro	FPP	Std	$255.00	$262.65	3%	$262.65	$276.97	5%	$249.90	$299.99	20%
B23-00082	Windows 2000 Pro	FPP	Upg	$177.23	$182.55	3%	$182.55	$189.97	4%	$173.69	$199.99	15%
B23-00462	Windows 2000 Pro	Open	Upg	$149.11	$153.58	3%	$153.58	$167.23	9%	$146.13		
C11-00016	Windows 2000 Server	FPP	Std	$797.13	$821.04	3%	$821.04	$856.97	4%	$781.19	$999.99	28%
C11-00018	Windows 2000 Server	FPP	Std	$945.48	$973.84	3%	$973.84	$1,048.60	8%	$926.57		
C11-00019	Windows 2000 Server	FPP	Std	$1,390.53	$1,432.25	3%	$1,432.25	$1,549.41	8%	$1,362.72		
C11-00027	Windows 2000 Server	FPP	Upg	$390.62	$402.34	3%	$402.34	$426.97	6%	$382.81	$499.99	31%
C11-00028	Windows 2000 Server	FPP	Upg	$457.67	$471.40	3%	$471.40	$508.09	8%	$448.52		
C11-00029	Windows 2000 Server	FPP	Upg	$658.82	$678.58	3%	$678.58	$719.49	6%	$645.64		
C11-00565	Windows 2000 Server	Open	Std	$740.45	$762.66	3%	$762.66	$809.94	6%	$725.64		

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Pricing Waterfall

	Std Product				Upg Product (VUPs)			
	Office	Office Pro	Windows 2000 Pro	Windows 2000 Server	Office	Office Pro	Windows 2000 Pro	Windows 2000 Server
FPP	404.87	486.17	255.00	n/a	201.62	282.92	177.23	n/a
Open Business	314.65	377.84	n/a	627.50	148.70	222.53	102.48	313.75
Open Volume	291.34	349.84	n/a	600.70	143.79	216.17	100.28	300.35
Select A	302.86	363.77	n/a	598.09	144.03	215.63	99.12	299.04

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APPENDIX
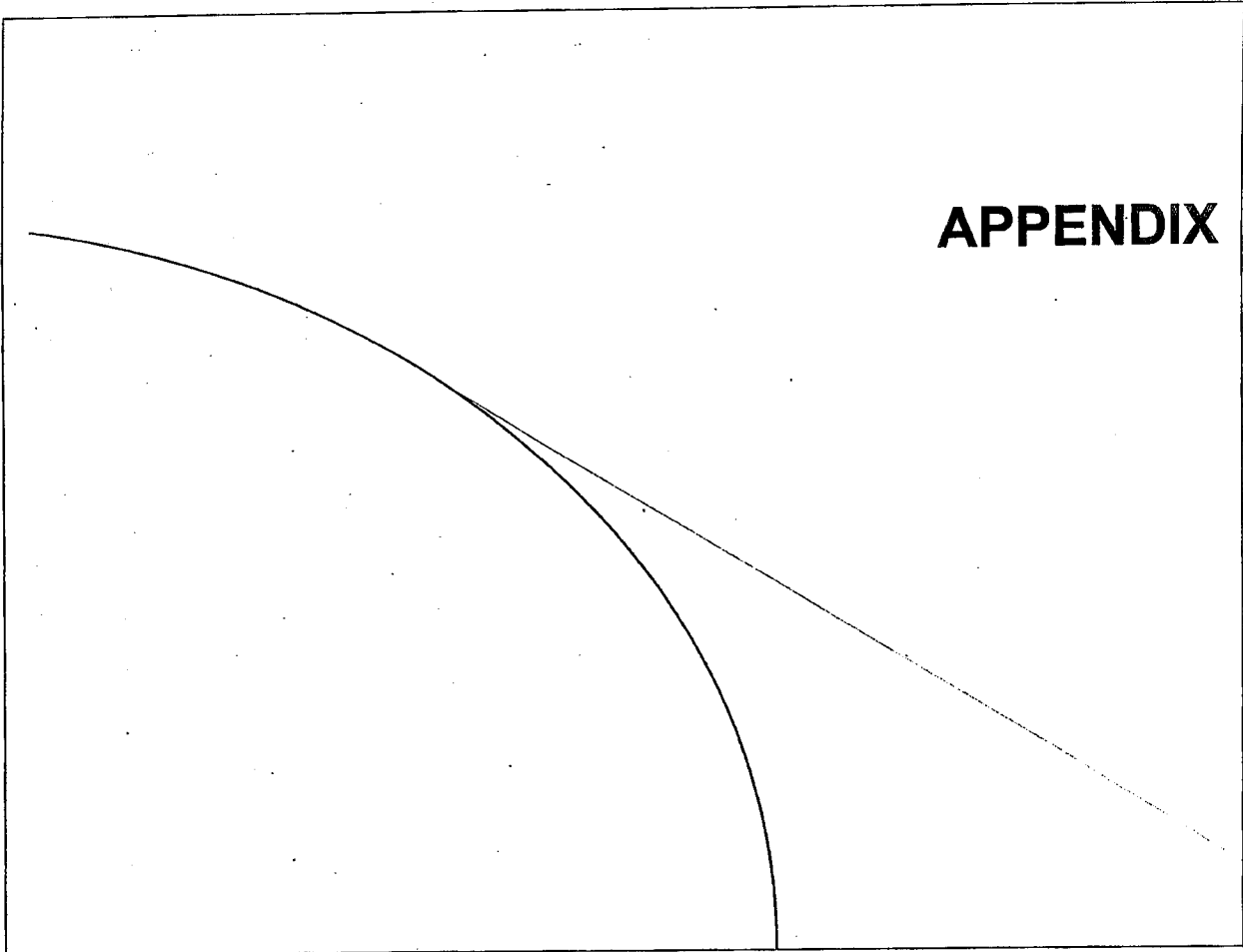
Shift toward pre-installed software

Product	Channel	YTD Growth	
		License	Sales Out
Office	FG	6%	6%
	OEM-Retail	83%	100%
	OEM	20%	65%
Windows NTW/2000 Pro	FG	(2%)	(7%)
	OEM-Retail	86%	58%
	OEM	22%	11%
Windows NTS/2000 Server	FG	2%	18%
	OEM-Retail	67%	70%
	OEM	43%	43%
Small Business Server	FG	104%	18%
	OEM-Retail	27%	31%
	OEM	31%	9%

Note: FG & ROEM growth in SME. OEM across all customer segments

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Shift toward Managed accounts

SME FG by Product			
		YTD Growth	
Focus Product	**Mngd/Unmgd**	**License**	**Sell-Thru**
Office	Managed	26%	27%
	Unmanaged	(11%)	(13%)
Office Total		6%	6%
Windows NTW/2000 Pro	Managed	51%	43%
	Unmanaged	(24%)	(30%)
Windows NTW/2000 Pro Total		(2%)	(7%)
Windows NTS/2000 Server	Managed	61%	80%
	Unmanaged	(14%)	1%
Windows NTS/2000 Server Total		2%	18%
Small Business Server	Managed	227%	89%
	Unmanaged	74%	4%
Small Business Server Total		104%	18%
Grand Total		10%	8%

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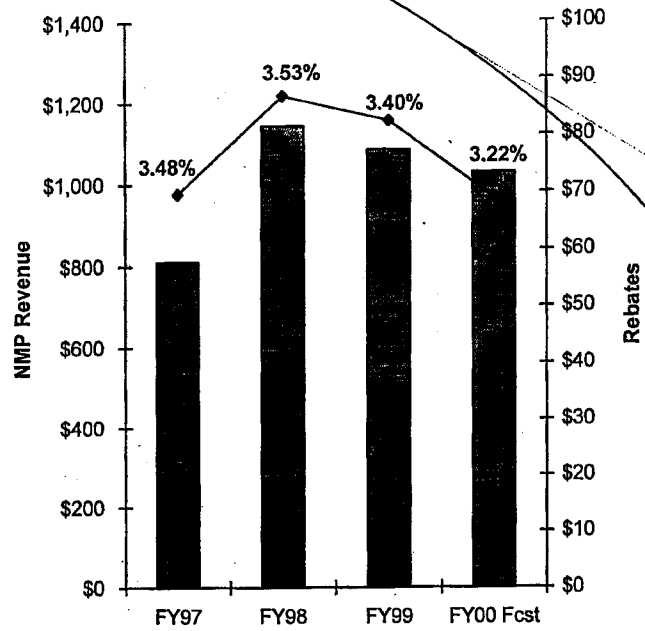Distribution Sales

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Reseller Breadth
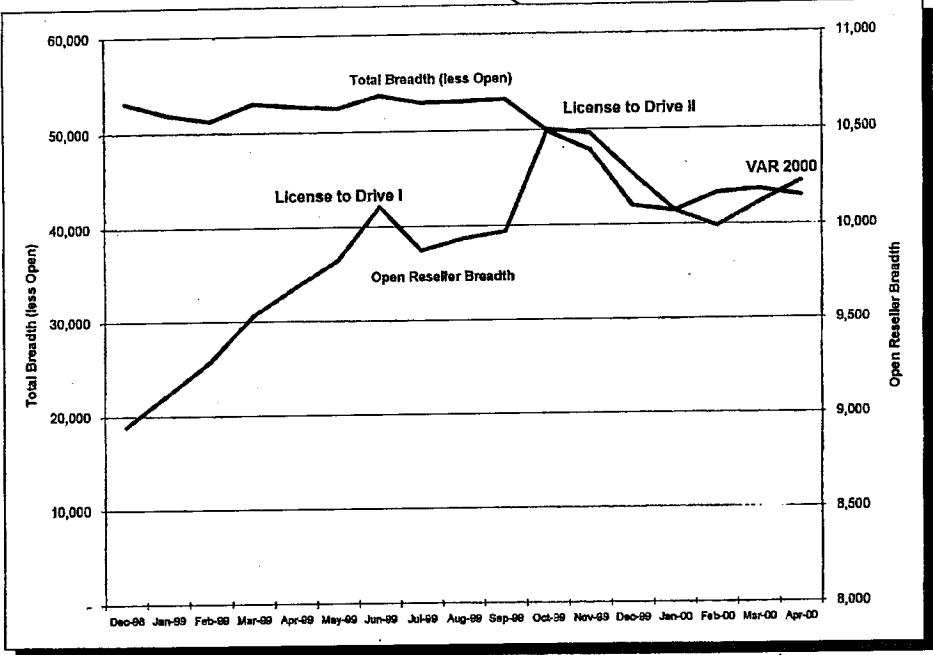
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Price war vs. sales-out
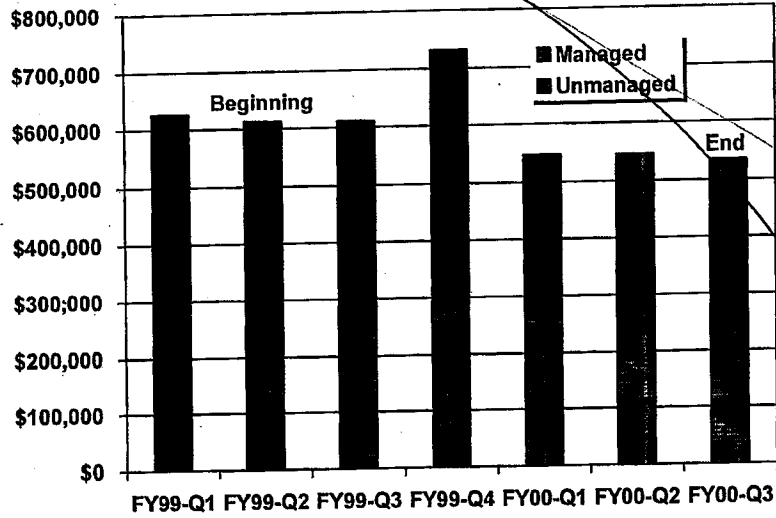
.... accelerated shift from Unmanaged business as
Distributors "chased" big deals with pricing

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Rebates vs. Revenue

Chart axes: NMP Revenue (left, $0 to $1,400), Rebates (right, $0 to $100), with categories FY97, FY98, FY99, FY00 Fcst.

Line values: 3.48%, 3.53%, 3.40%, 3.22%

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FY01 Revenue Growth

	Depth	Breadth	MORG	SORG	ACAD	Consumer	Thru Chan
Outbound	11.2%	11.8%	14.0%	18.5%	60.4%	-63.1%	13.8%
DMR	2.4%	16.3%	28.7%	24.3%	24.5%	-10.6%	19.3%
Retail	-7.2%	-8.4%	14.5%	19.5%	15.5%	8.9%	9.5%
Managed	10.7%	11.9%	20.5%	21.8%	48.8%	7.3%	12.7%
VAR	-26.0%	-15.2%	3.9%	2.0%	18.3%	-18.0%	0.7%
Retail & DMR	10.1%	9.8%	-3.1%	-9.6%	26.7%	4.7%	5.6%
Direct	10.1%	9.8%	11.0%	11.5%	26.2%	4.7%	8.9%
Unmanaged	-15.2%	-10.3%	3.8%	1.8%	19.9%	-6.0%	1.7%
Total Sell Thru	10.1%	9.8%	11.0%	11.5%	37.6%	4.7%	11.1%

Source: MS Sales, Field Forecasts, Finance

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Visio

- ❖ Implemented transition rebate that included:
  - ❏ added incentives for sales growth (up to 5% for 10% growth versus old Visio plan of 2%)
  - ❏ recommended order quantities to ensure sufficient inventory to accommodate a 10% growth rate while ensuring that no more than distributors would not have more than 3 weeks remaining at the end of March
  - ❏ Disqualification for late pay or interruption of reporting
- ❖ Sell-Through during the transition rebate period grew 6% over prior quarter's daily averages
- ❖ Visio training was conducted at all distributor sites by the end of February
- ❖ Dedicated Visio licensing specialists retained through June to ensure high visibility on the Visio line
- ❖ Fax and email blasts executed through Distribution to keep focus on Visio at reseller level

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Windows 2000 Launch

- ❖ Windows 2000 Marketing Day in Las Vegas
- ❖ Two rounds of sales training at disti's (~1,800 sales reps per round)
- ❖ Channel Readiness Kits to 15,000 qualified disti resellers
- ❖ $50K incremental funding from W2K marketing for technical readiness
- ❖ ~ 4,000 man hours of Window 2000 technical preparation at Ingram alone - $95K investment representing 990 heads (cumulative) in seats for ALL training sessions

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Windows 2000 Launch

- ❖ Launch:
  - ❑ ~$1M in marketing spend around preparation and launch
  - ❑ Under-forecasted FPP sales – causing shortage
  - ❑ Operationally – near flawless execution
  - ❑ No exceptions returns from channel – 5-7 weeks of inventory in channel currently
  - ❑ Initial overstock on upgrades – sales increase & terms adequate to offset inventory
  - ❑ 'Sky's The Limit' frequent buyer program from Ingram Micro
- ❖ Post launch
  - ❑ VAR 2000: Open Rebate and ClickRewards(all W2K)
  - ❑ Double Your Salary distributor sales promo (revenue * breadth)

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Open 5.0 Everest Launch

❖ Disti Airlift:
  ❑ February 1st & 2nd
  ❑ 28 attendee's from US disti teams
  ❑ Presentations from Open Mktg, Operations, Disti Mktg, Educ.
    Mktg and Piracy

❖ Weekly planning meetings with Op's, Open Mktg,
  LAR/DMR, SME, Canada and Disti's

❖ Trained ~ 50 dedicated Open reps on 5.0

❖ Merisel co-launched SELline online ordering tool for
  the new Open

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Marketing Taxonomy

Activities	Infrastructure	Sales Training and Tools	Reseller Communication and Product Awareness	Sales Demand Generation/Incentives	Reseller Demand Generation/Incentives
Investments & Media	Backoffice Champs	CTEC Training	Reseller Trainer Fees	Sales Contest Prizes	Data Mining
	Hardware	Intranet	Reseller Events Catering/Space	Sales Event Collateral	Direct Mail
	MCS Consulting	Sales Trainer Fees	Reseller Events Collateral	Sales Events Catering/Space	Email Blast
	MCS Consulting T&E	Training Events Catering/Space		SPIFFS	FAX Blast
	Office Supplies	Training Events Collateral		Entertainment - Dining	Flyers
	Sales Champs	Training Events Space		Entertainment - Event	Internet Ads
		MS Training Events T&E		Entertainment - Travel	Magazine Ads
					On Hold Messages
					Reseller Contest Prizes
					Reseller Event Collateral
					Reseller Events Catering/Space
					Reseller MDF
					Telemarketing

Open Agent Model
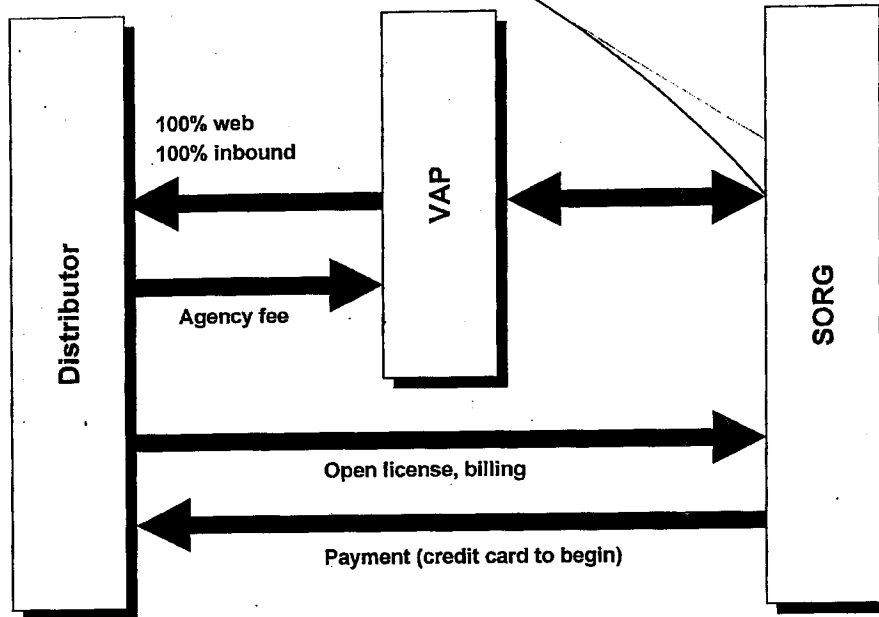
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Windows Millennium Edition (ME)

❖ Disti planning tour is under way
❖ Include in CPS Product Fair & PC Experience presentation
❖ Top priority for ROEM in Q1 – available 8/15
❖ Training efforts will start in July for mid-September launch
  ❑ 1 month after ROEM
❖ Challenges:
  ❑ Disti's will focus excessively on this launch
  ❑ Educating VAR's on ME vs. W2K Pro – positioning/features
❖ Opportunity/Issue: ME will drive immense excitement in the VAR channel, regardless of positioning
❖ Success will be measured by Retail vs. VAR and NMP revenue in Q2

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strategies, programs & initiatives, challenges, and metrics

Exchange 2000

❖ Hosted disti's at Exchange Marketing Day – held 2 hour joint planning meeting with all disti's

❖ Technical readiness is key for planned August launch

❖ Top priority is selling Version Upgrades

❖ Measurement:
- ❑ Expected approx. $30M in dist (US) sales

❖ Key Opportunity: attach Exchange 2000 Conference Server for an incremental 10% in revenue

❖ Challenges:
- ❑ messaging and tools to sell into the SORG market, vs. SBS vs. Internet messaging
- ❑ Developing channel/disti training tools (channel readiness kit)
- ❑ Interpreting multiple licensing schemes for servers

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strategies, programs & initiatives, challenges, and metrics

Distributor – Double Your Salary
3/1 – 6/30

❖ <u>Windows 2000</u>
- ❏ 1 point for CAL's
- ❏ 5 points for Professional
- ❏ 10 points for Server
- ❏ 50 points for Adv Server

❖ <u>Office 2000</u>
- ❏ 1 point for Standard or SBE
- ❏ 2 points for Professional or Developer
- ❏ 3 points for Premium

❖ 3 winners per month
- ❏ 1 - W2K Pro
- ❏ 1- W2K Server
- ❏ 1 - Office 2000

❖ Points x resellers sold to (bill-to) = <u>Total</u>

❖ Most <u>total</u> points for each product wins monthly prize

Microsoft
US
Distribution Sales

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Distributor – Double Your Salary

❖ To accommodate distributors incentive policies, Microsoft will offer two options for the contest, to be finalized by account manager(s) for their disti:

- individual monthly incentives to double their base monthly salary (3 winners per month)
- Top sales 'branch/cluster/team' compete for one of the 3 monthly prizes of $2500 (or equivalent as appropriate)

Microsoft
USA
Distribution Sales

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VAR Promotions

❖ VAR Rebate for Office 2000 Open
- ❑ $20 per license (up to 50 licenses per agmt)
- ❑ Capped at 5 agreements
- ❑ $5,000 in possible rebates!

❖ VAR Rebate for Windows 2000 Open
- ❑ $20 per license (up to 50 licenses per agmt)
- ❑ Capped at 5 agreements
- ❑ $5,000 in possible rebates!

❖ Must register sales at www.var2000.com, which links to www.msrebate2000.com

Microsoft
US
Distribution Sales

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"Click Rewards"
VAR Sales Rep Promotion
3/1 – 6/30

❖ VAR Sales reps accrue ClickMiles for every dollar of Windows 2000 product sold

❖ Accumulate ClickMiles which convert to spending $$ at popular nationwide retailers, e.g. CD Now, Barnes & Noble, Macys, Gap, eTrade, etc

❖ To qualify, sales reps MUST register online at: www.var2000.com or TBD site

Microsoft
USA
Distribution Sales

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Office Essentials End User Promotions
- - 2/17 – 5/31

❖ Acquire Office 2000, get one of the following*:
- ❑ Free E-Stamp Starter Kit plus $25 postage ($75 value)
- ❑ Free 3-month Microsoft bCentral Promotion Pack ($75 value)
- ❑ Free copy of MapPoint 2000/Bookshelf 2000 Bundle ($109 value; S&H charges apply)

* Limit of 3 per company, any combination

❖ An **incremental** offer for Open License customers*.
- ❑ Acquire 5-9 Open Licenses, get a free Office 2000 class from ExecuTrain
- ❑ Acquire 10+ Open Licenses, get a 2nd Office 2000 training voucher free
- ❑ A special 45% discount from ExecuTrain for additional company attendees in this Office class.

* Training offer limited to 2 seats max per company

Microsoft
US

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