

Microsoft Memo

To: List
From: Mark Chestnut
Subject: MS-DOS Upgrade Marketing Plan
Date: November 3, 1999

List:

Bill Gates
Jon Shirley
Steve Ballmer
Scott Oki
Rich Macintosh
Jeremy Butler
Joachim Kempin
Bernard Vergnes
Russ Werner
David Vaskevitch
Mike Negrin
Valerie Houtchins
Ron Davis
Sharon Decker
Barry Briggs
Jean Thompson
Marty Taucher
Kathryn Hinsch
Richard Fade
Ted Hannum
Melvin Henderson-Rubio
Rick Farmer
Jim Peterson
Rich Abel
Tom Lenson
Mike Dryfoos

Gary Gigot (O&M)
Mike Lucero (O&M)
Mike Delman (O&M)
Alicia Anderson (O&M)
Marianne Allison (TWG)

→ List
Dryfoos

Get ready!

[Handwritten signature]

X 517285
CONFIDENTIAL

Plaintiffs' Exhibit
5067
Comes v. Microsoft

MS-PCA 1154122
CONFIDENTIAL

MS-DOS UPGRADE MARKETING PLAN

Mark Chestnut

November 3, 1989

MICROSOFT CONFIDENTIAL

X 517286
CONFIDENTIAL

MS-PCA 1154123)
CONFIDENTIAL)

CONTENTS

Introduction	1
Marketing Objectives	1
Marketing Summary	2
Market Opportunity	2
Positioning	3
Target Audience	3
Pricing	6
Distribution	6
Marketing Programs	7
Programs Summary	7
Public Relations	7
Advertising	7
Product Rollout	8
Other	9
Support	9
Competition	10
Timing and Availability	10
FY 90 Forecast	11
Appendix A	12
Appendix B	13

X 517287
CONFIDENTIAL

MS-PCA 1154124
CONFIDENTIAL)

Introduction

MS-DOS is the most successful PC software product in the history of the industry, with over 35 million copies shipped by Microsoft's OEMs since 1981. OEM distribution has proven to be very successful and profitable, and consequently Microsoft has never had the need to sell MS-DOS through the retail channel. OEM distribution of MS-DOS upgrades, however, has been another matter. OEMs currently do a very poor job of upgrading their DOS installed base. Many offer no upgrade programs at all, and those that do offer upgrades do not market these programs aggressively (primarily because they perceive that DOS upgrades do not leverage additional hardware sales). For example, in the U.S., the three largest PC shippers other than IBM - Compaq, Tandy and Zenith - each ship only about 4,000 - 6,000 units of DOS upgrades per year, a penetration rate of less than 1% of each OEM's DOS installed base.

Based on consistent feedback from user groups, resellers and corporate accounts, it has become clear that there is a significant, existing demand for a general purpose MS-DOS upgrade product. To meet this market need, Microsoft is introducing the MS-DOS Upgrade.

The MS-DOS Upgrade is the official Microsoft upgrade to MS-DOS Version 4.1 targeted at current users of MS-DOS versions 2.11 and greater. The MS-DOS Upgrade will be an upgrade product only - it will require that the user have an existing version of DOS, and will not be bootable out of the box. It is therefore not a replacement for the standard MS-DOS product provided by OEMs. The MS-DOS Upgrade will support both hard disk and floppy disk systems.

The MS-DOS Upgrade will be distributed through the retail channel and sold as a "one size fits all" upgrade product for all types of IBM-compatible systems that currently are running DOS 2.11 or greater. The MS-DOS Upgrade will include a small number of diskettes and a scaled-down manual set, and so will have a very low cost of goods.

Marketing Objectives

The key marketing objectives for the MS-DOS Upgrade are as follows:

- 1) Establish Microsoft as the leading supplier of MS-DOS upgrades to general end users and corporate accounts
- 2) Establish a retail presence for MS-DOS and reduce the potential appeal of MS-DOS clone products in the retail channel
- 3) Substantially increase the penetration rate for DOS upgrades over current levels
- 4) Generate \$3.7 million in revenue in FY 90

X 517288
CONFIDENTIAL

MS-PCA 1154125
CONFIDENTIAL

Although there is clearly existing demand, creating a viable DOS upgrade business will nevertheless be a challenge. Corporate and end user customers have traditionally been very apprehensive about upgrading. They need to be assured that the upgrade process itself will be relatively painless. They also need to be convinced that the upgrade offers new features that are compelling enough to justify the time, trouble and expense associated with upgrading. Consequently, it is critical that we clearly communicate that the MS-DOS Upgrade is a safe, no risk upgrade for the user. A key component of this message is that this is *the official* MS-DOS upgrade product. As such, it offers the quality associated with the Microsoft name and Microsoft support, plus the legitimacy of being supplied by the company that is the "MS" in "MS-DOS". In addition, we must also effectively communicate that the MS-DOS Upgrade delivers significant benefits to the end user.

Marketing Summary

Market Opportunity

According to International Data Corporation, the total units of DOS shipped worldwide at the end of 1988 was approximately 30,023,000. In the first six months of 1989, it is projected that an additional 5.5 million DOS units shipped, resulting in a total installed base of 35.5 million as of July 1, 1989 (based on MS actuals and estimated IBM shipments).

The estimated breakdown of the DOS installed base as of 7/1/89 is as follows¹:

	<u>Total Units</u>	<u>% of Total DOS Installed Base</u>
DOS 1.x	150,000	<1%
DOS 2.x	3,000,000	9%
DOS 3.0 and 3.1	4,000,000	11%
DOS 3.2x	12,000,000	37%
DOS 3.3x	15,800,000	42%
DOS 4.0x	500,000	1%

The numbers suggest that there is a huge market opportunity for the MS-DOS Upgrade. Even a very modest penetration rate for the MS-DOS Upgrade would result in a highly successful product. A penetration of 1%, for example, would allow MS to realize approximately \$15 million in revenue.

¹ Based on IDC data and information supplied by OEM's on installed base size and penetration of DOS upgrades, assuming a total base of 35.5 million.

X 517289
CONFIDENTIAL

Positioning

The MS-DOS Upgrade is the official upgrade to the latest version of MS-DOS that provides the essential capabilities needed for increased productivity with your PC.

Key Support Points:

"the official upgrade to the latest version of MS-DOS..."

- 1) The MS-DOS Upgrade is offered by Microsoft, the creator of MS-DOS
- 2) This is a safe and easy upgrade. It includes a bullet-proof installation program, it supports all IBM-compatible systems and it is backed by Microsoft support
- 3) Microsoft will continue to offer this product/service as new versions of MS-DOS are introduced, so the user will always be upgrading to the latest and greatest MS-DOS version

"provides the essential capabilities needed for increased productivity..."

- 1) New utilities (undelete, unformat) increase user productivity by providing easy recovery of lost data
- 2) New utilities and support for large disk partitions increase productivity by providing useful tools for more efficient management of large hard disks
- 3) The MS-DOS Upgrade includes a new graphical shell which reduces user time spent managing files/directories and organizing applications

Target Audience

In general, the target audience is current users of MS-DOS, versions 2.11 and greater. Specific target audiences for the MS-DOS Upgrade include the following:

- 1) General Users

The MS-DOS Upgrade offers features and benefits that should appeal to each of the major end user categories.

X 517290
CONFIDENTIAL

MS-PCA 1154127
CONFIDENTIAL }

a) Power Users

<u>Feature</u>	<u>Benefit</u>
Large Disk Partition Support	More efficient use of large hard disks
New Utilities	Increased productivity by providing tools for recovering lost data and managing large numbers of directories and files
EMS Support	More efficient use of system resources by making more memory available for applications
Improved Expanded Memory Manager (EMM386.SYS)	More functionality and value for 386 the user - he will not have to purchase an expensive 3rd party product such as Quarterdeck QEMM or Qualitas "386-to-the-max"
Microsoft Support	Increased productivity by providing faster/better resolution of DOS-related questions and problems

b) Intermediate and Novice Users

<u>Feature</u>	<u>Benefit</u>
DOS Shell	Increased productivity by providing easier, more intuitive way to manage files/directories and do "system housekeeping" chores
New Utilities	Increased productivity by providing easy to use tools for recovering lost data
Microsoft Support	Increased productivity by providing faster/better resolution of DOS-related questions and problems
Large Disk Support, EMS Support	Optimization of investment in existing hardware

2) Corporate Accounts

This is a potentially significant audience for the MS-DOS Upgrade. Included in this category are all companies with internal MIS departments, whose users include novice, intermediate and power users. Many of these accounts have PC's from multiple vendors.

X 517291
CONFIDENTIAL

MS-PCA 1154128
CONFIDENTIAL

Most have multiple versions of DOS scattered throughout the company. The benefits that the MS-DOS Upgrade offers to this audience are as follows:

- standardization on a single version of DOS, thereby reducing internal support costs
- a convenient, single source for upgrades (the retailer)
- a single discount which most effectively leverages the company's total number of PC's when purchasing DOS upgrades
- a single source of support for DOS across all types of PC's - Microsoft
- the ability to migrate all end users, regardless of PC manufacturer, to the current version of DOS at once

One of the problems in selling the MS-DOS Upgrade to corporate accounts is that MIS departments view operating system upgrades as risky, and would prefer to keep such risks to a minimum. This could have a potentially serious impact on the MS-DOS Upgrade, as DOS 4.01 currently has a reputation as being a "buggy" product. However, by basing the product on a new version of MS-DOS - version 4.1 - we should be able to avoid some of the stigma associated with DOS 4.01. Combined with effective communication of the "safe and easy upgrade" message, this should allow us to address the concerns of corporate account customers.

3) Small and Medium-Sized Businesses

Like corporate accounts, this category includes novice, intermediate and power users. Small businesses may have anywhere from one to dozens of PCs, and typically do not have formal MIS departments. This is a potentially good market for the MS-DOS Upgrade, in that it not only benefits from all of the advantages discussed above for corporate accounts, but is also less characterized by the conservatism of large corporate accounts towards operating system upgrades.

In addition, many companies in this segment either have installed or are considering installing PC networks, and for these companies who currently have users running DOS 2.x, it will be a requirement that they upgrade those DOS users so that they can hook up to the network. This in conjunction with the retail availability, pricing and MS support should make the MS-DOS Upgrade attractive to such companies.

4) Current "Illegitimate" DOS Users

It is clear that there are a reasonably large number of current DOS users who obtained their DOS from a questionable source. These users may find it difficult or impossible to obtain DOS upgrades, and many may be using very old versions of DOS. In addition, these users are currently getting little or no DOS support. The MS-DOS Upgrade will offer this group a relatively inexpensive, convenient way to "legitimize" their DOS, which offers the increased functionality of the current version over older versions, plus the ability to get quality DOS support.

Pricing

The suggested retail price of the MS-DOS Upgrade will be \$79. This will provide:

- 1) a price point that is consistent with that necessary for an impulse or add-on purchase
- 2) pricing that is competitive with IBM's (IBM's DOS 4.01 Upgrade SRP is \$95)

Distribution

The MS-DOS Upgrade is primarily, if not exclusively, a retail product. Widespread retail distribution is fundamental to the product concept itself. One of the primary reasons that DOS users are currently not upgrading through OEMs is that this is a very inefficient channel for upgrade distribution, and so there are no plans currently for the MS-DOS Upgrade to be distributed through OEMs.

Based on early feedback from a few key resellers, there should be little problem in gaining widespread retail distribution for the MS-DOS Upgrade in the U.S. The key accounts are very enthusiastic, feel that it will be a potentially high volume product, and are anxious to carry it.

A possible second channel for the MS-DOS Upgrade would be service companies. TRW, the largest of these, currently has about 250,000 PCs in the U.S. under maintenance contract. Phoenix Technologies currently distributes upgrades of its ROM BIOS through TRW, and TRW provides all end user support for this upgrade to its customers. Initial discussions have taken place between MS and Phoenix regarding the possibility of Phoenix licensing the MS-DOS Upgrade, and bundling it with their ROM BIOS upgrade through TRW and possibly other service companies as well. This would be a royalty deal in which Phoenix would manufacture and distribute the product.

The MS-DOS Upgrade could also potentially be distributed through mass merchandise retailers. The pervasiveness of DOS (35 million plus users), and the notion that the MS-DOS Upgrade could be widely perceived as being the single, official DOS upgrade which all DOS users will want, suggest that mass merchandisers could become a viable distribution channel for the MS-DOS Upgrade.

X 517293
CONFIDENTIAL

MS-PCA 1154130
CONFIDENTIAL)

Marketing Programs

Programs Summary

<u>Program</u>	<u>Budget</u>
Public Relations	\$ 55,000
Advertising	\$250,000
Product Rollout	\$ 75,000
Other:	
Point of Sale "6-Pack"	\$ 45,000
Sales Support Materials	\$ 15,000
Samples	\$ 25,000
Packaging	\$ 10,000
TOTAL	\$475,000

Public Relations

Based on early conversations with members of the press, it is expected that announcement of the MS-DOS Upgrade will be considered very newsworthy. The news is that MS for the first time is making MS-DOS upgrades available through retail distribution, and that the product is based on a new version of MS-DOS and includes several significant new features.

The major objective of public relations will be to capitalize on the news value of the product and generate highly visible articles in the trade press. In so doing, public relations will augment our advertising program and help create awareness among the target audience. To accomplish this, three major activities are planned:

- 1) Press tour for long-lead publications in late November
- 2) Press tour for weeklies at time of product announcement (February)
- 3) Announcement event (February)

The vehicle for the announcement event has not yet been selected. It is felt that a large user group meeting might be the appropriate vehicle. User groups have been highly vocal about the need for Microsoft to provide an MS-DOS upgrade product, and so should be very enthusiastic. Generating end user enthusiasm at product announcement is important, because it will add credibility to our claim that this is an important product/service and that we are being responsive to our customers in providing it.

Advertising

To the extent that there is strong, existing demand for this product, the role of advertising will not be to educate or persuade customers as to why this version of

X 517294
CONFIDENTIAL

Plaintiff's Exhibit

Comes V Microsoft

MS-PCA 1154131
CONFIDENTIAL

MS-DOS is better and why they should therefore upgrade. Rather, the objectives of the advertising program are to:

- 1) Create widespread awareness that Microsoft is now offering the official MS-DOS upgrade
- 2) Inform customers how to purchase the product
- 3) Communicate the benefits that the product offers

To achieve the above objectives, there will be a heavy burst of advertising in the PC trade press (PC Magazine, PC Week, Infoworld) for the first 3 months of product availability. It is felt that heavy advertising over a 3 month period will better achieve the objective of creating awareness than less concentrated advertising over a longer period of time. Heavy advertising up front should also nicely complement the prominent trade press coverage that we expect to generate, and allow us to achieve significant awareness levels.

The advertisements will announce the availability of the product, and will include a user call to action to "call for the name of the dealer near you". The primary target for the advertising will be power and intermediate users. A secondary target is corporate MIS.

Product Rollout

The objectives of this program are to:

- 1) Maximize distributor and reseller awareness
- 2) Get distributor/reseller commitment to stock the product
- 3) Convince distributors/resellers to recommend the product to customers

Distributors and resellers have historically expressed a very strong interest in being able to offer a Microsoft MS-DOS product. Consequently, we believe that creating awareness and gaining commitment to stock the MS-DOS Upgrade shouldn't be extremely difficult. Trade incentives are not considered a good investment, as distributors/resellers are likely to stock the product with or without specific incentives. Provided that we effectively implement reseller communications and field communications programs, we should be able to meet the awareness and stocking objectives without a trade incentive (details on these programs will be included in a forthcoming memo).

The third objective - convincing distributors/resellers to recommend the product and generating sell-through - is the most important, and will be the focus of the Product Rollout Program. While gaining initial channel buy-in should be straightforward, creating momentum and generating sell-through will be a challenge. Because this is a very low ticket item, it is expected that RSPs will expend very little effort in selling/recommending the product. While the other marketing programs should create end user awareness and generate some demand, we need to insure that resellers are motivated to push the product as well. It is important that they catch on quickly to the idea that this product is very easy to sell, and that they can generate significant incremental business

X 517295
CONFIDENTIAL

MS-PCA 1154132
CONFIDENTIAL

by recommending this product as an add-on purchase to all customers. For these reasons, a rollout promotion that includes some element of RSP incentive to create "push" - as well as end user incentive to generate additional "pull" - is required. Product Marketing and Distribution Marketing are currently working on putting this promotion together.

Other

The other marketing programs are focused on providing effective point of sale and dealer sales support materials to make it easy for resellers to effectively merchandise the product. These programs are addressed in detail in the Corpcom Communications Plan.

Support

The MS-DOS Upgrade will be supported through Microsoft Product Support Services, but it will be supported differently than current MS retail products. A special 900 number will be established for the MS-DOS Upgrade, and for general DOS users. With 900 number support, the customer will be charged a fixed amount (most likely \$10) for the phone call. This will allow PSS to cover its costs in supporting the product, and will also eliminate the need to distinguish whether the caller is an MS-DOS Upgrade customer vs. a general DOS user (the 900 number allows us to support both).

While we might expect some adverse customer reaction to the 900 number (many customers are unaccustomed to paying for support), we believe that this should not become a major problem, for the following reasons:

- 1) MS-DOS is today supported by multiple OEMs, many of whom charge the customer for that support
- 2) Users of this product are already familiar with DOS and should not require extensive support
- 3) We have essentially unbundled support for the product to be able to deliver a great value to the user (rather than building support into the price of the product and penalizing those who don't need much support, we have opted for a low, \$79 SRP and a more equitable "pay as you go" support plan)

In positioning the 900 number support, we need to emphasize that the MS-DOS Upgrade is a very unique product, and requires a unique support mechanism. The 900 number is the most efficient means for MS to deliver maximum value to MS-DOS Upgrade customers in the total product/support package.

For corporate accounts, the MS-DOS Upgrade should create an outstanding opportunity to sell additional OnLine Plus accounts. Corporations will not want their end users calling the 900 number, but rather will support these users internally through corporate MIS. OnLine Plus will provide a cost effective way for corporate MIS to receive quality, centralized support for MS-DOS for the first time, which will allow them to more efficiently support end users. This is far superior and less costly to corporate MIS than the haphazard MS-DOS support that they typically get today from the multiple OEMs that they deal with.

X 517296
CONFIDENTIAL

MS-PCA 1154133
CONFIDENTIAL

Competition

Currently, the only direct competition for DOS upgrades is IBM. IBM offers a DOS 4.01 product through retail distribution, priced at \$95 (compared to \$150 for the standard DOS 4.01 product). IBM has made no attempt to market this product aggressively, and essentially offers it as a convenience to its customer base. The IBM DOS 4.01 upgrade can be special ordered through many retail outlets but is rarely stocked by dealers. Since the IBM product is higher priced, less functional and not designed to support a wide range of OEM hardware, it is not considered a serious competitor to the MS-DOS Upgrade.

A potentially more significant competitor is Digital Research, Inc. DRI offers "DR DOS", a DOS 3.3-level clone which offers some nice utilities and enhancements over and above standard DOS 3.3. DRI currently markets an OEM version of the product and competes primarily on the basis of price. They also offer a packaged product version through a California mail order house, 2001 Sales. So far, DRI has been unsuccessful in gaining general retail distribution in the U.S., but they are continuing to pursue this channel. DRI positions DR DOS as a low priced alternative to MS-DOS that offers more functionality than MS-DOS.

The MS-DOS upgrade offers a number of advantages over DR DOS. First and foremost, MS-DOS is the clearly accepted industry standard, while DR DOS has very little awareness, and those who have any awareness of it perceive it as being non-standard and therefore risky. Secondly, despite DRI's claims, DR DOS is not fully MS-DOS compatible. Network redirectors offered by IBM, 3 COM and others are incompatible with DR DOS, as are the MS CD ROM Extensions and CD ROM applications. Thirdly, DRI has long had a very bad reputation for customer support, so it is very doubtful that they could deliver support that would be competitive with that offered by MS.

In dealing with the DR DOS threat, it is important that we effectively differentiate our product from DRI's. A key element of this will be to successfully communicate the "officialness" of the MS-DOS Upgrade. We must clearly distinguish our product as the one true, universally accepted industry standard. The repeated emphasis on the official nature of our product in packaging, advertising, collateral, etc. should accomplish this. Our ability to offer "the real thing" at a great price to customers should minimize the potential appeal to distributors/resellers and end users of a retail DOS clone.

Timing and Availability

First Beta Release	10/6/89
Second Beta Release	11/30/89
Final Release to Manufacturing	2/1/90
Ship Date to Distributors and Directs	2/18/90

X 517297
CONFIDENTIAL

MS-PCA 1154134
CONFIDENTIAL

FY 90 Forecast

	<u>Units</u>	<u>Revenue</u>
July	0	\$0
August	0	\$0
September	0	\$0
October	0	\$0
November	0	\$0
December	0	\$0
January	0	\$0
February	35,000	\$1,329,965
March	12,000	\$ 455,988
April	14,000	\$ 575,120
May	16,000	\$ 607,984
June	18,500	\$ 702,982
<hr/>		
TOTAL	95,500	\$3,672,039

X 517298
CONFIDENTIAL

MS-PCA 1154135
CONFIDENTIAL

APPENDIX A: MS-DOS UPGRADE COST OF GOODS

MS-DOS Upgrade, 5.25 Inch Media

Item	Cost Per Unit	Units	Labor & Burden	Cost
5.25" 360K Disk	\$0.28	5	\$0.17	\$1.54
Disk Label	\$0.02	5		\$0.08
Disk Sleeve	\$0.00	5		\$0.02
User's Guide	\$2.37	1		\$2.37
Box	\$0.71	1		\$0.71
Inner Wrap	\$0.13	1		\$0.13
Legal Disk Pack	\$0.09	1		\$0.09
Registration Card	\$0.10	1		\$0.10
Final Assembly	\$1.68			\$1.68
Labor & Burden				
TOTAL COGS				\$6.72

MS-DOS Upgrade, 3.5 Inch Media

Item	Cost Per Unit	Units	Labor & Burden	Cost
3.5" 720K Disk	\$0.97	3	\$0.28	\$3.19
Disk Label	\$0.02	3		\$0.05
Disk Sleeve	\$0.00	3		\$0.01
User's Guide	\$2.37	1		\$2.37
Box	\$0.71	1		\$0.71
Inner Wrap	\$0.13	1		\$0.13
Legal Disk Pack	\$0.09	1		\$0.09
Registration Card	\$0.10	1		\$0.10
Final Assembly	\$1.68			\$1.68
Labor & Burden				
TOTAL COGS				\$8.33

X 517299
CONFIDENTIAL

MS-PCA 1154136
CONFIDENTIAL

APPENDIX B: NEW FEATURES IN MS-DOS 4.1

New Utilities

- Undelete (for files and directories)
- Unformat
- File Locate
- DOSkey (command line history and keyboard macro facility)
- Enhanced DIR command (provides enhanced directory sort capabilities)

New DOS Shell

- Visually identical to MS-DOS 4.01 shell in graphics mode
- Significantly improved in character mode (over MS-DOS 4.01)
- Smaller and faster than MS-DOS 4.01 Shell
- Usability improvements over MS-DOS 4.01 Shell
- Supports Hercules Graphics

New Expanded Memory Manager (EMM386.SYS)

- Significantly Improved Performance (over MS-DOS 4.01 EMM386.SYS)
- Windows/386 Support
- VCPI Support
- Busmaster Support

X 517300
CONFIDENTIAL

MS-PCA 1154137
CONFIDENTIAL