

MEMORANDUM

To: Robert Gunn

cc: Duncan Baldwin
Russel Smith
Charles Nicholls

+ Lindsay (sorry nearly forgot)

From: Tony Speakman

Date: 15th Jan 1992

Subject: OEM Pricing

Summary

During the last two years there have been a number of changes to our GPOS business;

DR DOS became a retail product - previously it was OEM only,

The RRP price of DR DOS has dropped from £120 at its peak to the current price of £79,

The number of DR DOS distributors has wisely been increased from one to four or five and this has led to a price competition in the market,

DR DOS OEM Packaged Product was launched in the UK.

Each of these changes have come about for valid business reasons, but the cumulative effect is that we now have some contradictions in the pricing of DR DOS in the various channels. This short document aims to illustrate where these inconsistencies lie and makes proposals to resolve them.

The History

The basis of the OEM business was to sell high volume licenses at relatively low unit price in order to secure a high penetration of product into the market place. Upfront payments and a single point of support made this a highly profitable business.

The Retail/Distribution business was structured around the higher value, higher price, more visible Graphics products sold through distribution but with an expectation that a proportion of end users would expect technical support direct from DR.

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The market place has changed significantly over the last 5 years with a proliferation of small OEMs, many of whom sell direct to the public through mail order or through their own stores. At the same time the Distribution business has seen numerous changes, including several near bankruptcies and a number of takeovers, and has as a result looked to new product areas including operating systems.

Whilst our pricing and licensing policies have changed to accommodate these market conditions, the changes in OEM and Distribution have not been closely co-ordinated and some conflicts/inconsistencies now exist. As a result of this we are now competing with ourselves in the OEM packaged product versus distribution area.

Current Pricing

Three problems need to be resolved:

1) OEM competing with Distribution

2) 1000 & 5000 License pricing being being unattractive to small OEMs. This make it difficult to convert packaged product OEMs to being full licensees which is our aim.

3) Pricing expectations in the Middle East, and S. Africa due to various grey imports.

1) Due to various promotional deals over the last 12 months the distributors have been able (and willing) to sell low volume of DR DOS to small OEMs for less than the £35*100 or £40*50 packaged product pricing. Whilst we do not wish to deal at the 50 level any longer, it is very important to exploit the commitment that OEMs make by buying in OEM quantities;

If an OEM has 100 or more copies in stock it is much more likely that he will sell the benefits of DR DOS to customers who ask for MS DOS. If on the other hand he can buy DR DOS for the same price in lots of 10 from a distributor he will hold a stock of both DR DOS and MS DOS and simply supply which ever the customer asks for. This is not in our interest.

It is difficult to get documentary evidence of the price at which DR DOS is being sold in the market. However, the uncollaborated



figures that are quoted to us by OEMs suggest that a price of £34 to £39 for quantities of 5 - 10 is very common.

It is therefore important that we maintain a reasonable price difference between the 100 off OEM price and the distributor price. This can be done either by increasing the distributor price or lowering the OEM price. My preference would be to increase the disti price but this will be impractical in the short term.

2) Packaged product and 1000 & 5000 Licenses prices

We are keen to migrate PP OEMs to full licenses however this needs to be commercially attractive to them.

The following are our current prices;

No Copies	License	Packaging	Total
*100			£35.00
*200			£32.50
*500			£30.00
1000	£24.00	£12	<u>£36.00</u>
5000	£18.00	£12	<u>£30.00</u>

* Packaged Product

There is obviously no incentive to move to licensing at these levels.

In order to alleviate the conflict between OEM and Distribution and to make the migration to Licensing more attractive I propose the following prices;

*100			£32.50
*500			£30.00
1000	£20.00 ✓	£10.00#	£30.00
5000	£16.00 ✓	£10.00#	£26.00

By buying manuals only at £7 and doing their own replication these totals would fall to £27 and £23 respectively.

These price levels will fit neatly between the PP price and the 10,000 level without diminishing the the attractiveness of those other levels.



3) Middle East and S. Africa

Further research needs to be carried out in these markets but it is very clear to me from my recent visit to Cairo and Tel Aviv that the prevailing prices of MS DOS is considerably lower than our current price book.

As our level of business in these territories is not very great at present it may be simplest to negotiate each situation on its own merits with a lower limit to the negotiation being pre-set as 40% lower than list prices. In my experience people in these territories expect large discounts so it is probably best to use our standard price list rather than having a separate list so that they feel that they have done well in their negotiation - as this seems to be important to them

Summary

With MS DOS 5.0, Windows and a mouse being sold to small OEMs for £55 and MS DOS being shipped into the UK for £15-£25 with hardware we have sufficient competition. The elimination of intra channel competition and the removal of the conflicts at the mid-volume level will help us focus selling the benefits of DR DOS rather than spending time making excuses for our pricing policies.

100 - £55.

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