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Desktop Systems Group - 70 Garden Ct., Monterey, CA 93940
TEL (408) 649-3896   FAX (408) 649-0750

Confidential Memorandum

TO: Toby Corey, Chris Taylor, Birdie Alfred (Santa Clara)
         John Linney, Steve Tucker, Andy Wightman (Hungerford)
         John Constant, Stephanie Workman (Monterey)
FROM: Chuck Brewer
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SUBJECT: DOS 7 and Personal NetWare issues

This represents a compilation of my thoughts on the issues we discussed in Tuesday's conference call. (It may ramble a bit, but hey, that's how my mind works.) It seems we are looking at three alternatives.

1. One product called Personal NetWare (?) that includes the DOS as an optional install, but is strongly positioned as a networking product.

2. Two versions of Personal NetWare a Standard Edition (no DOS) and an Advanced Edition (includes DOS). Both positioned as networking products.

3. Two separate products, Novell DOS 7 - an advanced DOS with networking, and Personal NetWare - a simple advanced peer-to-peer networking product. Each positioned for different markets. Assumes we control engineering and marketing of both of these.

Alternative 1 pros and cons
PRO

♦ This has been essentially been bought off by senior management. (We proposed it!)

♦ Simplest (and cheapest) to produce one product from an operations standpoint.

♦ Can throw our entire launch budget into this single product.

CON

♦ Difficult to position - if it's a networking product, why does it have a DOS?

♦ High cost of goods to include a DOS.

♦ Customer perception of paying for DOS they don't want or need.

♦ We say the DOS adds value, which implies it does not work as well with MS-DOS. As a networking product, including the DOS actually detracts from its value for many customers.

♦ If we play down the DOS, we lose the DOS upgrade market.

The bottom line for this alternative is that Personal NetWare is stronger *without* DOS included- so how do we deliver the DOS component?

Alternative 2 pros and cons

PRO

- Have it your way - Personal NetWare with or without DOS

CON

- Does not really solve any of the problems raised by the first alternative, it just adds an SKU. The "advanced edition" is too bulky to be either a DOS upgrade or simple a peer-to-peer network.

Alternative 3 pros and cons

PRO

- Collaterals, press tours, product positioning is already done for DOS 7, so we don't have to go out and change our story.

- We can maintain our engineering and doc schedules. Plus we can control and prioritize the schedules for the networking components.

- With control of the marketing, we can ensure that messages for DOS and for Personal NetWare are consistent and appropriate for their respective audiences.

- There are a lot of people out there that really *want* us to do a DOS and are looking forward to DOS 7. We should do $10-15 million/yr easily just on the momentum we have so far (we were doing $8-10M for Multiuser DOS with *no* marketing). This is incremental revenue we probably do not capture with a combined product or "advanced edition" of PNW.

- We are "growing the networking industry" by making networking part of DOS and making it easy for them to connect up.

- We stay in Microsoft's face. We are more of a thorn in their side for DOS than IBM. Nothing would make them happier than for us to back out of DOS 7.

CON

- Lack of support for this position on the side of senior management - we've basically been told not to do this. (Toby - put on your dancin' shoes!)

- Sales channel will focus on PNW product, not DOS, but that's OK - we'll take what we can get.

- Severely limited marketing budget for DOS. How successful can it be? For that matter, how successful would we be with a "full-out" launch of DOS 7 - is there that much life in the old girl?

My "expert" analysis and recommendations:

OK, now that we have the Desktop products and looking at everything guess what - we decided that we need two products after all. So there is not enough money to properly launch both a DOS and a networking product, we'll concentrate our efforts on Personal NetWare and plan to spend 80-85% of our budget on that. Personal NetWare is our flagship product after all and whatever comes from DOS (say $10-15M) is incremental and incidental.

For DOS 7, we can create an ad and place it in one or two end user publications that are doing feature articles on DOS 7 (PC Magazine, PC Computing), and let that run for first three months or so after ship. That ad would be aimed generating pull through the channel and would address a largely non-Novell audience with a message that says: "With DOS 7 networking is easy and cool - do it now!" We would also need to do an upgrade mailing to our installed base for DR DOS.

That would be the extent of our marketing on Novell DOS, with the exception of occasional programs funded by MDF if there is a demand for them. By the end of FY94, we would plan to "transition" Novell DOS to Master VAR OEMs. We could do that in Europe now with Vobis.

This is admittedly the end of the line for DOS, but to properly do an "end-of-life" plan you need to 1) Ship the product (tell some people you've done this!), 2) Milk it for that first wave of revenue (upgrades, early adopters and technoids) then 3) Sell it off while there is still some interest in it.

Given an overall budget of $3.5-4M for desktop we could do a limited launch of DOS for $600-750K, and spend the rest ($3M or so) on Personal NetWare to do a more substantial launch.

Summary

There are a number of assumptions here. I'm assuming that there is actually a profit to be made from the revenue on DOS after subtracting the costs of production, sales and support. I'm also assuming that there is *some* support for it in the sales channel (my experience indicates that there is.) I suppose a fourth alternative is to not ship DOS and only do Personal NetWare. I believe however that any negative effect of shipping DOS 7 (if indeed there is a negative effect) is outweighed by the negative effect of abandoning the efforts we have put into developing and marketing it so far. We need to finish the job.