

From: Pascal Martin
Sent: Fri, 4/3/1998 5:47 PM
To: Richard Barrie; Stephane Boulez; Gayle McClain; Detlev Schenk
Subject: FW: Final WWSMM Memo

-----Original Message-----

From: Steve Ballmer
Sent: Wednesday, April 01, 1998 10:07 PM
To: Rosa Garcia
Cc: Joachim Kempin, Jeff Raikes; Cameron Myhrvold, Thomas Koll; Brad Chase, Rich Tong; Bob Muglia (Exchange), Jim Allchin (Exchange), Paul Maritz; Jeff Raikes; Michel Lacombe; Orlando Ayala; Pieter Knook, Deborah Willingham; Sam Jadallah; Charles Stevens; Sanjay Parthasarathy; Lori Moore Ross; Kevin Johnson (EGU), Craig Bruya; Mich Mathews; Paul Bazley; Liz King, Pete Higgins; Robert (Robbie) Bach
Subject: Final WWSMM Memo

<<  1 (Attachment): Final.doc >>

Plaintiff's Exhibit

6355

Comes V. Microsoft

FY 98 Summary

FY 98 has been a good year for Microsoft, but not the blow out that we had hoped for. Sales will not hit the \$16 Billion we had hoped for at the MGS, Windows NT Server sales growth has stalled, and poor economies in Asia have slowed growth in that region. We have much to do in FY 99 to improve on FY 98 and to further build market momentum.

The Good. FY 98 was amazingly good in a number of ways. Our DAD business will grow 31% (more than anyone could expect) with Europe leading the way at 45% in local currency. Our large account revenues increased sharply, and EA's give us great hope for some future growth. We drove browser share up (although it is unlikely we will hit the 65% target). ADCU got off to a fast start. We also continue to build an impressive asset in our depth partners although we did not get as far as I hoped this year in terms of recruiting Sun, Notes, and Oracle depth partners.

The Undecided. Oracle continues to dominate their market. JAVA Write once run everywhere fever is declining on the client but building on the server and we remain challenged to establish Windows and COM+ as the best way to write server and client apps.

The Bad and Ugly. We did poorly in a number of areas. Exchange sales are way up but Notes is growing almost as fast and we still do not understand who the Notes customers are and what it will take to turn them. We need more Novell focus. Novell has steadied their revenue and Windows NTS/BSD revenue will only equal H1 in H2 of this fiscal year. Our attempts to reach out to breadth accounts have proceeded more slowly than we hoped and are still more based on our efforts than partners'. We continue to strive to get our OEM efforts more integrated with FG selling particularly with VAP's/SB's and in the DAD space where OEM may be the key to SORG and HOME revenue/PC increases.

Image. Everyone in the company sees our image problems and wants them fixed. Research shows us there are three aspects to improvement in this area. First, we need core audiences to know us and like us better. IT people and developers complain about pricing, about insufficient contact with us and support from us. Second, as busy as we are, we must deal better with constraints in resources so customers and partners do not feel blown off by us in terms of follow up on commitments or due consideration of their interest and requests. Third, the press, government, and special interest group spiral of negativism must be broken by taking our story not only to core audiences but also to broad audiences who can appreciate the empowerment of adults and children which our products have permitted. We will focus this broad communication in the US, which is the source of press negativism. We must prevail in court on our right to innovate and we will focus the battle on this key issue as opposed to some of the side contracts issues which people bring up.

New Investments in FY 99

There are a number of new investments, which we will make in FY 99. Two of them will be dramatic for us --- an investment in customer satisfaction measurement in every geography in the world and an investment in building community with core IT and developer groups worldwide. These investments help us touch and satisfy customers. They are driven by a view that community, evangelism, and satisfaction will help drive business. They are NOT sales investments per se and we will not be able to measure their impact directly so do NOT try.

Customer Satisfaction

Measurement. We have talked about the importance of customer satisfaction much in the past but we have not measured it systematically (except in PSS) in a way that told us how to change our actions. This year we will systematically measure customer satisfaction in all US districts and subs. The surveys will be driven centrally from Jeffr's group. We will measure and understand satisfaction amongst VAP's, IT professionals, developers (to be measured statistically), and solution providers and large accounts (to be measured by account). This will complement existing measurement of PSS and MCS satisfaction. The tools will help us diagnose what to do differently which will over time improve satisfaction and revenue and image with it.

Improving People's Lives. Our key value propositions for customers and developers will remain unchanged. We need to offer a platform that enables digital nervous systems and the web life style in a way that no other platform offers. That means better user functionality in the platform, with greater simplicity of operation, and unique applications that simply are not available on other platforms. I was embarrassed the other day when a university customer interested in Windows NT asked me what the university could do on Windows NT that they could not do on UNIX, their default choice. I could say Windows NT was cheaper and the future etc. etc. etc., but I could not name an educational scenario which we could do reasonably that UNIX could not. Shame on me, and shame on all of us who cannot do that for our customers.

IT Issues. For the IT people who implement web life style and digital nervous system scenarios, we must offer greater manageability, scalability and data center support, internet capability, and interoperability than any other platform.

Community Development

Past. Years ago, seminar marketing was a key strength of this company. We used to bring in end user audiences, do demos of new products, and delight them. We never tracked those attendees but they went forward and bought our products, recommended them to others, and got their companies to buy them in large quantities. The past few years, we have focused on seminars as tools to build leads for partners to close into sales. That is important BUT I think we have lost much of the value and power of seminars.

Audiences. There are three communities of people I think we should support vigorously through direct face to face contact. These are not people who have enough influence individually to call on or track. They are though the real implementers of our products and their education and satisfaction will drive demand for products and fuel a good reputation. These audiences are VAP's, developers, and IT professionals broadly. This includes web site developers, hosters, corporate IT people, CAD's, ISV developers etc. etc. etc. (Of course all VAP's are IT pro's or developers or both). I want these guys to see us regularly, feel part of a community of people we care about and support.

Events. The best way I know to do this is to get these people to come to regular events or seminars with their peers. There are 10 million of these people, they all have to deal with our products daily, they all care about them, and they have no opportunity to see us and touch us and question us. I want to get at least 2 million attendances per year from this group at community events. (I say attendances rather than people since a number of people will come more than once per year). I want them at real Microsoft events where they can feel like we cared for them. I want them to know that there is a community meeting they can attend regularly. I do not count trade shows, event hosted by other companies or events that we organize with the intention to just promote and sell our products. We only touched 400K or so people this way this year in the US (which includes a number of SSC attendees) and that number will need to rise to 1 MM to achieve the 2 MM total. SSC will refocus narrowly on structured selling and we

will move many attendees to IT evangelism events. In the US, roughly 40% of the attendees will go to IT events, 30% to MSDN events, and 30% to Direct Access events. (Dev Days and MS at the Movies events count if they are really hosted by us in addition to RD's).

Requirements. To achieve this goal will require five things. First, we need the employees to manage this program and to give talks and answer questions at these events (the former are great organizers, the latter are great technical presenters). Second, we need a great list of IT professionals and developers, which we can email efficiently. Third, we need great reputations for these communities/events. People should tell their friends that they went to the Microsoft FOO event and it was great for answering their questions and networking with others. This is important to satisfaction and keeping cost of getting people to come down. To have a reputation, the community/events need names. We have Direct Access and MSDN and are finalizing the name IT professional communities. Fourth, we need marketing money to get people to these events and pay for the events. These need not be elaborate affairs. Still, with today's lists and the newness of these brands, we plan for \$30/ attendee per event, with a goal of \$20 12 months from now. Lastly, we need great content for these events. Each geo team will customize what they present and when but Redmond must generate great technical content and demos on Windows NT, COM+, messaging, Access/SQL development, Office/ Site Server and our Internet products.

Skills Development. All geographies have expressed concerns about the lack of skilled technical professionals in their territories and what they can do to stimulate skill building on our products. I think these community events can be a great tool to help since they will focus on explaining new products and approaches and transferring knowledge.

Influential End Users. Some people will wonder whether the focus I propose here excludes community development efforts for Influential end users. It does not, but I want a clear focus on people who love IT in these events. If end users attend that is fine and they should be counted!!! The US will continue its Xtreme program that targets novice through influential users but those people will NOT count in this quota.

Other Investments

VAP Support. We are testing a view that additional PSS support could help us build share versus Novell and revenue through VAP's. We are giving free phone support to VAP's in Portland and free electronic support to VAP's in Indianapolis. We had planned to do this last FY but slowed down to do a proper test. This pilot took us longer than it should have. We will decide whether to rollout worldwide by December.

ISV Co-Marketing. We will give ADCU a fund of money (\$30 million for H2 FY 99) to do promotions with ISV's worldwide. This will please some partners and displease others so we need to manage well. This money should help us get SQL Server 7 moving faster and increase the view of this company as partner oriented.

HP. We very much want to develop HP as a partner on the scale of Digital. We have a lot of marketing money to do enterprise selling and training with HP in the applications, infrastructure and NOW the Exchange space. I want us to win business with HP everywhere more aggressively than in the past. They will still not be as Windows NT centric as Compaq/Digital but we need two large global enterprise services partners. ECU Redmond will allocate this marketing money.

Embedded Systems. We have decided there is both great opportunity and great competitive pressure from Sun to go after the embedded or dedicated systems market. These are systems like HPC's and others, which can use a general purpose OS but are not PC's. Sun with Solaris in high-end systems like copiers and Java OS in lower end configurations is pursuing this market aggressively. We have put headcount in place and must sell over 10MM copies of Windows NT and CE this way within three years. We need to get off to a great start globally with small customers served by distributors and large

electronic companies worldwide served by us directly.

Windows NT in Universities. We will dedicate some marketing money to Dennis Adler in research this year to go after leading research universities and get them to make Windows NT a major part of their research and curriculum the way they use UNIX today. This is a global budget that will be managed from Redmond.

Sales and Support Tools. We are all frustrated by the tools we have to interact with and market to customers. We have agreed across all customer units and geographies to implement Clarify for support and Siebel for sales force and event automation. We will do major roll outs of these systems this year although we will not get all functions implemented in all geographies by FY end. We must have these systems fully deployed in all geo's by FY 00 end and completely replace Manager. These are the only systems we will connect to microsoft.com. There are a number of short-term transition issues and data interchange issues with Manager. We will do some interop work BUT the strong direction to all is to drive to the new systems as fast as possible and not spend too much time on short-term issues.

Collaboration and Notes

We must have a special focus this year on helping our customers with their collaboration needs. The key addition to our product line to help this year is Office 9. Office 9 complements the collaboration capabilities of Exchange for customers who have it, but also enables rich departmental collaboration scenarios of its own. The key enhancements come from Access and additional Office features supporting Web publishing. We have enhanced Access to support better replication to and from SQL Server and to better support routing through built-in additions for departments or through Exchange for enterprise needs. Office 9 can also publish documents to a departmental Web server, and collaborate on their contents. I would not say Office is our answer to groupware. I just want us to increase our evangelization of Office and Access as tools to build exciting applications. We will also add this year some additions to the Office line including a high end Premium SKU and possibly a server for departmental tracking and advanced knowledge management. Both of these would further the Office collaboration story. We must continue to beat Notes as an email system with Exchange and talk about Office 9 as a complement. Exchange should never lose to Notes on price.

Core Customers and Partners

ECU depth. There is not a lot new here. We must drive EA's hard and get our customers to deploy using an appropriate mix of our MCS and Premier services, partner services, and ISV partner applications. We must do a better job with our global accounts program. We are not delighting those customers today at all.

ECU breadth. Our primary tool to build business in this space is the SSC. I do not want to have people confused. SSC events are not community events, SSC events are designed to reach decision-makers in smaller groups with very careful follow up on leads. I do want to sell this audience EA's and have services come from SP's and through Microsoft Authorized Support from partners.

MORG's. Our approach to MORG's is also based on SSC but without Microsoft resource to follow up on opportunities. There are two keys in this space—great partners and an EA type license/relationship, which we do not have. We will develop an easy license with standard partner involvement and some way to let the customer touch us after the sale in person and over the phone.

Depth Partners. Our approach is good today. We must add partners who can connect customers to the Internet and develop and host their Web sites. We also need to improve our value proposition for companies that specialize in competitive products. I think all geo's agree that we should plan on helping new competitive partners win some business with our products to really get them in the fold.

IT, VAP, Developer Communities. Discussed earlier.

HOME and SORG buyer stimulation. We must figure out how to stimulate buying in this audience to grow revenue. Many geos have experimented with low prices, OEM bundles, VAP sales incentives etc. We must continue to experiment with these tools but also with marketing approaches that help people really understand why to buy and stay current and with support approaches that make them feel comfortable with being active. VAP's and anti-piracy are two necessary pieces of this.

ISV's. ISV's want four things from us. They need compelling reasons from us why their applications will be able to do more or be more economical for their customers if running on our platforms. They need great technical support to get their applications done AND done well on our platforms. They want to leverage our marketing machinery to build customer opportunities. And last, they want our help closing tough deals where their customers might feel more comfortable in a skill sense with other platforms. I think we are doing a decent job on the first and not as well on the last three. I especially want to see us do a better job of making our marketing machinery work for ISV's through vertical events/Industry Solution Briefings. Our work supporting the ISV efforts must be very leveraged in all phases.

ISP's and Telecommunications firms. Our focus must shift from mostly browser to mostly server. We must focus on five key design win scenarios. First, we must make sure that ISP's can and do host web sites developed on Windows NTS and IIS. Our evangelism and selling efforts must win the developers but the hosters cannot slow these efforts. Second, Windows NTS must emerge as the leading platform to network businesses using the Internet for branches and telecommuting. Third, we must drive ISP's to build their core access services on Windows NTS and MCIS. High-speed access is another opportunity to crack this market. Fourth, we should ensure ISP's use our Start services as a foundation for their Internet user experiences. Fifth, MCIS must grow to be the platform to deploy new voice and other services that use IP instead of traditional, expensive POTS approaches. Market share more than revenue is the key goal in these areas this year. We also will make WebTV into a platform we can sell (not just an MS branded service) to help ISP's connect TV's to the Internet.

Resellers/OEM's/VAP's. Our approaches to LAR's, retailers, direct marketing resellers, and system builders have been working. We will rework our LAR relations to relieve the pressure on them to discount large deals to an unprofitable level while giving them greater incentive for selling into LORG breadth and MORG accounts. We will look for new ways to get direct marketers to help us stimulate MORG customers particularly. We need to integrate our VAP and SB efforts particularly the stepped up Direct Access events we will do to stimulate this joint audience. Our retail challenges have not changed much--- stocking, display and merchandising. We also will come up with new approaches to "attach" software to home PC's to raise legal software usage and revenue.

Goals

This is a year of incredible opportunity as the new products are the most exciting ever.

Revenue. We should grow 17%+ in developed markets with higher growth in less developed markets. DAD should grow at least 10%, PSD 25%, BSD 30% and IMG/hardware 15%. SMORG revenue should grow fastest with ECU and home close behind. I see no way to duplicate the fantastic DAD growth of FY 98 as customers upgraded to 32 bit systems until we get Windows NTW 5 deployment in FY 00.

Platform 2000. Windows NT 5 infrastructure will facilitate future upgrades of all our products and can motivate Exchange adoption and Office 9 upgrades as customers do one set of desktop touches and put in one administrative platform. This is the so-called Platform 2000 selling concept. We must get Windows NT 5 deployments started in 30% of all enterprise accounts this fiscal year. We must also focus on getting our people, our partners, and our customers ready technically for Platform 2000 well before it ships.

Windows NT Server. Windows NTS sales have been slow worldwide and Windows NTS revenue and unit growth is a key for next year. We should achieve 33% unit growth to 2 million servers (including BackOffice and SBS). This will require that we make Small Business Server and/or Windows NTS the default choice of VAP's for small business where we still have less than 50% market share in most parts of the world. We must outsell Novell by at least 3:1 in new servers.

Windows. Windows 98 must be at least 100% of Windows 95 first 90-day sell through revenue in retail. The key though to success is driving OEM's to use Windows NTW for ALL their business machines. The first step is to motivate customers today to buy Windows NT 5 ready machines - i.e., PC's with Windows NT4 and 64MB of RAM. We must still increase Windows NTW FG sales next year by 15% to achieve revenue goals.

Share.

- Windows and Office have excellent share positions that we will defend technically and commercially in every way.
- We must continue to battle NC's and the JAVA OS successfully. All losses are a disaster, which we cannot afford. Be vigilant on the server not only the client! We have Hydra, Intellimirror, COM+, and WFC with Visual Studio as great new tools to fight these threats.
- I expect us to almost catch Notes in revenue this year by selling 30% more clients than they do. Selling a lot of Exchange is key to this but so is popularizing Access and Office as tools for collaborative and knowledge management applications. Office and Access success will erode Notes support.
- We must get to 25% of Oracle in database revenue and pass Oracle in database clients sold (up from 16% revenue share and 70% of Oracle client sales). We cannot simply compare Oracle on NT to SQL Server anymore now that we want significant overall database share. SQL 7 is not a super set of Oracle so we will need to be great in sales and marketing. It will mostly match Oracle on major application (SAP, Baan, Peoplesoft etc.) benchmarks and lag Oracle on TPC's. It will have a great client implementation that is bundled with Access and improve client server apps development.
- We must achieve 70% browser share as measured by hits on popular web sites (business and consumer sites) and 85% share for connections by depth ISP's. We must get 30% of all Internet web sites hosted on IIS versus Apache or Netscape up from 15-16% this year. MCIS is a tool to reach this goal as is the Commerce Server 3.0 technologies, which we just, introduced and makes us very competitive technically with IBM in ecommerce.

Profit. Responsibility margins next year should be flat. We approved an enormous number of new people in the past 12 months and paying for them for a full fiscal year will be expensive. To achieve that we will be tight on heads and expenses.

Headcount. We will grow FG headcount by 285 heads or less next year. 150 heads will be available to my direct reports and Orlando to spend on needs they see based upon business planning. The other 135 heads will be dedicated to community development and evangelism. These heads will be allocated proportionate to your quota for event attendance.

Marketing. We will no longer keep marketing flat as a % of revenue. This year's marketing budget will be the same as last year's in local currency. My directs will have \$20 million to target rapidly growing geographies, and ADCU will have an extra \$30 million of ISV co-marketing

MCS. We are not changing our core MCS strategy this year--- focus on EPM's, partner development, skills transfer, customer satisfaction, product revenue, 10% investment dollars, and breakeven. There is still a lot of room to grow heads consistent with that charter and we should grow 25%+ even in mature practices.

PSS. We must improve against our customer satisfaction goals this year for Premier, Priority and warranty support. I am prepared to see flat PSS costs as a % of revenue so we can do that. Other than the VAP test, we will not increase support policies or pricing, BUT I expect broad roll out of Premier Support for developers (more geographies and corporate developers in addition to ISV's).

IMG. We should target 75% minimum share in all Encarta markets. We want to do this with an eye though to profit. Our on-line, concise, standard and deluxe SKU's give us pricing flexibility to achieve both goals. Our goal for the input device business is to maximize share of gross margin dollars which means we do not fight for unit share at any price. Logitech has been effective in picking up gross margin dollar share because we have not had mice at low enough price points. We will have a new line of mice in April, with prices from \$19 to \$69. We should grow games share by 50% as we effectively launch the new games and keep promoting them three times a year (Christmas, Back to school, and spring).

Community development and evangelism. Each geography will get from my directs very specific quota for community event attendance this year. You will need to plan how you attain that quota and what the specific breakout for Direct Access, MSDN, and IT events will be in your geography. A key focus of these events is to increase satisfaction amongst these audiences so we will view attendance in that context as well. Remember the worldwide total will be 2 million!!!!

Customer Satisfaction. We will not be able to set customer sat targets this year globally since audiences vary culturally in how they rate satisfaction. We will get data this year and set targets for improvement next year.

How we work

Not much has changed. We must be fast moving. We must not be internally focused. We must constantly seek to improve the value customers and partners get from our products. We must get more customer touches and all customer touches should be high quality whether we can help or not and whether we are busy or not. We must make sure everything we do contradicts any PR impressions that we are arrogant. We cannot let our legal woes bog us down. We should work ethically and with the intelligence and commitment that Microsoft people are known for.

Our people remain our most important asset. We must keep Microsoft a company where the best, brightest and most aggressive people love working. We will review employee survey results carefully this mid year to keep focus on this goal.

Last but not least, we cannot lose our aggressiveness and relentlessness about doing the right thing for customers and winning their business. We should be proud of that and how often customers decide on us versus competition.

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