

From: Danielle Tiedt
 Sent: Wednesday, May 13, 1998 6:09 PM
 To: Ben Waldman
 Cc: Jodi Granston
 Subject: iMac promo

Hi Ben--

Here is my recommendation for the iMac/Office 98 promo: \$100 rebate for Office 98 Standard and GOLD-FPP only. While it is very important that we attach to the Education segment machines, this promotion does not make sense as the cost of the promo would be more than the incremental revenue that we would receive. I am currently exploring the choice of free Encarta or Bookshelf option with John O'Rourke for these customers. We will have a 30-60 day window after they have bought the iMac that this offer will be valid to create a sense of urgency with the customer and encourage quick attach (since we know that consumers are most involved during this window of time, so this is our best chance for attach). This promotion will be for US shipments only, but we will communicate our plans with our subs so that they can decide if this promotion is attractive for them as well.

Below is our worst/most likely/best scenarios with this \$100 rebate. So, even if this promotion does MUCH worse than we expect, we are not hurting our business.

	Redemption Rate	Penetration Lift	Incremental Revenue
Worst Case	50%	5%	\$36,699
Most Likely	35%	10%	\$4,177,377
Best Case	25%	12%	\$6,219,222

I am constructing the mail to Apple that lays out our marketing plans for this rebate. We would like to position the rebate as an Apple/Microsoft offer. Our proposed marketing channels are:

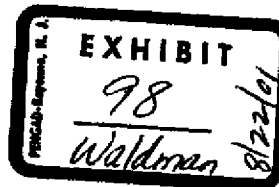
- **Direct Communication:** We would like Apple to include our offer on all of their direct communication to customers including email/direct mail/etc.
- **Website:** We will include information on this offer on our website (headline). We would like Apple to include information on the offer on their website.
- **iMac hard drive:** We would like to have a local html page sitting on the desktop that leverages the current marketing collateral that we have created. This page will have links to the Office 98 Autodemo, Office 98 Brochure and sample education tool (aimed at parents buying this machine for their kids). The documents will all be on the hard drive as well.
- **In-Box:** We will include a coupon for the \$100 rebate inside of the box of all US machines. We will drive and pay for the cost of creating this coupon (approximately \$40,000). This will come out of marketing channel funds.
- **PR:** We would like to announce this offer at Macworld NY. The theme of the show this year is "Consumers" which fits in perfectly with this promotion. We can continue on our commitment/positive momentum message while at the same time creating new excitement around Office. Positioned as an Apple/MS promo, this is also a great partnership message as well as "for Mac customers only".
- **POP:** We would like to be included in Apple's POP advertising. This might be a little difficult to do, however, so we would also like to create our own POP signage at retail and snipes in DMR catalogs calling out Office specific promo - buy iMac plus Office and get \$100 back from Microsoft. See coupon inside iMac box for details. We might want to include on the POP signage that they have a 30-60 day (TBD) window to purchase Office after they have purchased the iMac to create a sense of urgency.

The full analysis is included below. (HINT--when playing with the spreadsheet, change all numbers on the Assumptions page since all formulas are built off of here).



Mac.promo.xls

Danielle Tiedt
 Product Manager
 Office 98 Macintosh Edition
<http://www.microsoft.com/macoffice>



Plaintiff's Exhibit
 6396
 Comes V. Microsoft

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Variables

(all unit and revenue numbers represent sell-through)

Forecasted Office Penetration of sub\$1k machines by segment

Consumer	0.1
Business	0.4
TOTAL PENETRATION	0.09
Rebate Redemption Rate	0.35
Rebate Dollar Value	\$100
Penetration Lift with promo	0.1
Education as % of apple sub\$1k units	0.25
Consumer as % of apple sub\$1k units	0.7
Biz as % of apple sub\$1k units	0.05
US % of apple sub\$1k units	0.65

Choose Rebate Value
(penetration lift and rebate redemption rate are

Apple's sub\$1k shipments by segment (US)

TOTAL	162,500
Education	40,625
Consumer	113,750
Business	8,125

TOTAL	475,000
Education	121,875
Consumer	341,250
Business	24,375

Revenue/License (81% of ERP)

Standard VUP	242.19
GOLD VUP	323.19
Standard FPP	404.19
GOLD FPP	485.19

% of Sell-Through Office units (by SKU)

SKUs	Standard	GOLD	TOTAL
VUP	48%	12%	60%
FPP	32%	8%	40%
TOTAL	80%	20%	

Consumer/Biz Weighted Rev/License

\$23.19
\$20.34

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automatically updated)

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Rebate Sensitivity Analysis Assumptions

Rebate Value	Redemption Rate	Penetration Lift	Incr. Rev. (VUP+FPF)	Incr. Rev. (FPF)
\$25	10%	2.0%	\$886,263	\$1,202,163
\$30	12%	2.5%	\$1,076,140	\$1,471,015
\$40	13%	3.0%	\$1,233,383	\$1,707,233
\$50	15%	4.0%	\$1,598,501	\$2,230,301
\$60	17%	5.0%	\$1,929,403	\$2,719,153
\$70	23%	7.0%	\$2,527,715	\$3,633,365
\$80	26%	8.0%	\$2,687,161	\$3,950,761
\$90	30%	9.0%	\$2,720,483	\$4,142,033
\$100	35%	10.0%	\$2,597,877	\$4,177,377

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Cost of Promo

Segment	Total Office Units	Number of Redemptions	Rebate Cost
Consumer	60,667	21,233	\$2,146,101
Business	14,083	4,929	\$507,859
TOTAL	74,750	26,163	\$2,653,960

Promo Fixed Costs

Mgmt Fee	\$500.00
Reporting Fee	\$150.00
Set up Fee	\$180.00
P.O. Box Fee	\$225.00
P.O. Box Reservation	\$30.00
Fulfilment services fo	\$22,238.13
1-800 number calls	\$1,438.94
Per Minute 800	\$390.14
TOTAL	\$25,152.20

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Model

Without Promo

[REDACTED]

	apple units	office penetration	office units	rev/lic	revenue
Consumer	113,750	0.1	11,375	420.39	\$4,781,936
Business	8,125	0.4	3,250	420.39	\$1,366,268
TOTAL	121,875	0.16	14,625	420.39	\$6,148,204

[REDACTED]

	apple units				
Consumer	341,250	0.1	34,125	420.39	\$14,345,809
Business	24,375	0.4	9,750	420.39	\$4,098,803
TOTAL	365,625	0.17	43,875	420.39	\$18,444,612

TOTAL 487,500 0.23 58,500 420.39 \$22,592,816

With Promo

[REDACTED]

	apple units	office penetration	office units	rev/lic	revenue
Consumer	113,750	0.13	15,167	420.39	\$6,375,915
Business	8,125	0.43	3,521	420.39	\$1,480,123
TOTAL	121,875	0.23	18,688	420.39	\$7,856,038

[REDACTED]

	apple units				
Consumer	341,250	0.13	45,500	420.39	\$19,127,745
Business	24,375	0.43	10,563	420.39	\$4,440,369
TOTAL	365,625	0.23	56,063	420.39	\$23,568,114

TOTAL 487,500 0.23 58,500 420.39 \$31,426,952

Incremental Revenue

Consumer	\$4,229,814
Business	-\$52,436

TOTAL \$4,177,378

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