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3 Year Overview - Consumer Memo

DATE: February 2, 1994
TO: World Wide Regional Directors
FROM: Patty Stonesifer
RE: Consumer Mission Outlook

Setting the Stage

Let me set the stage by saying that the crystal ball for the Consumer business gets very hazy after 24 months. I have tried to paint the potential opportunity and the broad tactics we must stay focused on to be in a position to win in the consumer software and mouse hardware business. At the same time I caution that this part of our business will be under constant review and assessment and our strategy will be tuned and changed as we learn much more about the economics and outlook for this market in the year ahead. In the interest of reasonable page limits I have left out a great deal of information, those who read this and still have interests not addressed should contact me directly.

Market Size

SPA 1993 summary data recapped below supports the premise that the Consumer opportunity is a big one. The table below summarizes SPA 1993 WW revenue for what they define as the Consumer software business, 2-3 year CAGR of 20-50% depending on category, with a \$975M market at the end of 1993 or at 35% CAGR these same categories would reach \$2.4B by end of 1996.

Our own consumer software business for calendar 1993 was over \$200M, over 20% of the SPA estimated market. Our growth so far in FY94 has run +50% over FY93, supporting their assertion that this business is a very fast growing opportunity.¹

More recent SPA data says that over 500 multimedia titles are available today, they predict over 5,000 will be available in the next year. If our hardware installed base assumptions are correct (that the home installed base will grow by over 50% and possibly more in the next 3 years) then it is very reasonable to assume that the consumer software business could quite easily be a \$2-3 billion business, and that Microsoft, with the right products and market approach, could in fact have a very large business in the consumer market (in excess of \$500M) within three years.²

Consumer Software

	Recreation	Education	Edutainment	Personal Finance	Home Productivity	Integrated
1993 Estimated Market Size (\$MM)	\$240	\$155	\$65	\$180	\$135	\$200

Hardware

MS Hardware: Microsoft does \$200M worldwide in mouse business, market size today believed to be \$600M.

¹ Consumer Division (without Hardware) first half FY94 was over \$150M in sales and 23% BOI. Both Broderbund and Electronic Arts have BOI under 20%.

² Note for the purposes of this plan we are assuming a more conservative growth, to \$400M+ in the software part of the consumer mission, and \$200M in the mouse/hardware business.

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Plaintiff's Exhibit

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Market Opportunity

Pricing: Price points for home software and consumer purchases are clearly going to cluster under the \$100 level. Consumer software division revenue per unit for the past 6 months (world wide finished goods) was \$46, and we don't see that changing, in fact it will drop as kids titles (average net around \$30) and games titles increase as a % of the consumer unit mix. All of our pricing tests for the first half of FY94 indicated that a street price of \$99 or less was critical to creating high volume sales and broad distribution opportunities that the consumer software business requires for success.

Usage and Purchase: It is clear that today more than one person in the home that houses a PC will use the machine. Our recent research indicates that the average home software use spans 3 categories (like education, entertainment, etc). With great multimedia software this patten will rise, more people in the household (who are more novice) will use the machine, and more categories of usage will emerge (online services, etc). This is key to our brand strategy, our product development strategy and our long term profitability: we are counting on the fact that the home software purchasing pattern will be more frequent than the business application purchasers, the home software purchaser will purchase several titles a year. Today's SPA data confirms that the average entertainment software purchases owns over 13 different titles.

Installed Base: There are over 97 million US homes, over 25 million of those homes have PCs today. Another 21 million homes are in the "intent to purchase" phase. More than 5 million new PCs went into US homes in 1993, industry analysts predict 7 million new US home PCs will be sold in 1994.

Installed Base Assumptions (MM):

	1994	1995	1996	1997
US Households	97.0	98.3	99.4	100.5
US Households with Computers	34.8	39.9	46.0	53.1
US Households with MMedia	7.3	14.8	26.2	39.8
Windows Multimedia PCs in Home	5.3	10.8	19.1	29.1
Mac Multimedia PCs in Home	2.0	4.0	7.1	10.8

Internationally the percentages for household penetration are much lower, commonly predicted under 10%, and the rate of growth is also slower. It is also true that in Europe at least, the industry analysts and predictions vary widely. This low installed base for the home, coupled with the complex challenges of acquiring or creating local content, makes the obvious strategy for consumer software that is principally home-targeted to "go slow".

International Planning Assumptions

	Germany	France	UK	Italy	Spain	Sweden	Neth
Home Win PCs thru 1997 (1)	4,215	1,971	3,522	1,273	623	493	800
# of Households (2)	35M	26M	23M	25M	16M	4M	6M
Home PC Penetration (3)	8.0%	5.8%	9.9%	3.4%	2.7%	5.6%	11.6%
Multimedia PCs EOY 93/94 (4)	250 / 500	75 / 200	150 / 700				

- (1) Dataquest, September 1993
- (2) Dataquest, 1993
- (3) Dataquest, 1993
- (4) MS Estimates

Division Overview

The software end of the Microsoft Consumer Division revenue today is over 60% from core productivity applications (what I refer to below as essential personal tools), most noteworthy Works and Publisher. The other 40% of our business is coming on strong: with Games, Kids and Multimedia titles contributing sales dramatically exceeding prior years sales, but still establishing themselves in a very competitive market which will be subject to price-per-unit pressure and title/shelf space flooding in the coming months and years.

Despite our recent sales and profit performance, we have reason to be concerned, and reasons to set new directions. Works is our flagship product and contributes almost half our revenues. But we've reached a critical juncture with Works, the category interest and opportunity is flat, we need to find ways to "stay hot", get small, and be opportunistic about keeping the revenues and product alive.

Our hottest growth areas are in segments we by no means dominate, in fact we lack very significant requirements (content, brand ownership, broad distribution and retail presence) that often point to success in the consumer market for information and entertainment products. These emerging segments (games, multimedia, kids) are believed by many (myself included) to be less prone to the market dominant player profiles/model that we see today in traditional software business.

A mature business in these segments may see many players sharing relatively small chunks of market share (20% and usually under) and product consistently carrying under \$100 price points, with not just product quality but distribution strength a key factor in success. All of these phenomena (low market share, low price point, broad distribution requirements) are new market conditions for Microsoft and we must create a product strategy, product development process and sales and marketing structure unique within Microsoft in order to succeed in such a market.

Product Strategy/Mission

The Microsoft Consumer division is a premier supplier of useful, enjoyable and essential software and services to the entire family, selling products with an overall return of at least 15% BOI to Microsoft.

The internal mission will be: be nimble, be fast, make great (home) products, make lots of money, have lots of fun.

Strategic Goals - in the next 3 years

1. Build a synergistic consumer software product line focusing on the following 6 categories of home or individual use of software, build the top (most essential) applications or titles in each category, make the product quality high and ensure we're measured as best of breed to ensure we have at least 2 leading (measured as in the top 4) titles or apps in each category by end of FY96:
 - Personal Tools(Titles: Works, Utopia, Publisher, Imaging, Scenes)
 - Personal Transactions....(Titles: Money/Personal Finance, Shopping, Communications)
 - Family Reference/Information.....(Titles: Encarta, Bookshelf, Atlas, Medical Reference)
 - Lifestyle....(Entertainment, House & Garden, Travel, Hobbies, Cinemania, Music series)
 - Entertainment....(Titles: Interactive Games, Sports, Miscellaneous Entertainment)
 - Kids....(Titles: Creative Writer, Magic School Bus, Fine Artist, Rabbit Ears)
2. Expand Input Device product line while maximizing profit in a flat or diminishing market (retail), and win market share by being the world's low cost supplier (OEM)

- Hardware...(Ballpoint, Professional Mouse, Consumer Mouse, Nexus Keyboard)
- 3. Ensure our titles/software have competitive advantage and "line" appeal through a rich implementation of: social interface, great content exploitation/assets, task orientation, easy "sharing" between synergistic apps and tasks, highest industry return on investment in hours of usage/play, and by having the breadth of products available to address the most essential needs of the home PC user - from entertainment through serious reference or planning their finances or accessing key information/placing key orders or transactions on-line.
- 4. Build a consumer software title production system that allows us to become more nimble than our competitors, allows individual teams/products great success and allows continued investment while maintaining profitability by:
 - Organizing around common customer usage/title needs and delegating authority, responsibility and control to the BUM of each area, yet retaining commitment to cross-line synergy in both development and marketing. Ensure each BUM and their team has the support required to meet or beat key competitors in their field, make fast decisions and set and tune their strategies.
 - Build primarily products that will generate revenues of 5-7x investment in the first 18 months or have significant measurable long term payback with manageable downside risk.
 - Structure a profitable product partnership model (one that meets the needs of both Microsoft and the partners) that is widely understood both inside and outside Microsoft, with a clear business model and terms and conditions process, that addresses our need for three different kinds of partnerships:
 - First for Branded Affiliate Products, where the goal is to acquire products with minimal up front investment that accent and represent the Home brand in product categories or geographic regions where we have determined that the opportunistic model is the right approach, the ISV (who would be selected based on quality measures) would do spec, development, testing and PSS, handing off finished product to MS to handle marketing, manufacturing and sales/returns, Affiliate would receive royalty in the 25% range, this partnership model would be expected to add between 10-20 titles per year to our Home product line, allow us to work with up and coming talent in the industry, protect shelf space for the Microsoft Home brand, and allow us to have a presence in International markets where we do not understand the local consumer needs as well as the local publisher.
 - Second for development partnerships, where the partner is principally hired to develop and test a product that Microsoft has speced and will provide program management, all QA and all marketing and sales, and the fiscal relationship would be flat or monthly fee, this model would allow us to increase our capacity by 25%+ per product group by developing ongoing partnerships with a handful of small consumer development shops.
 - Third for content partnerships, where the partner is principally contracted with because of their unique access to or ownership of content, we will have a both a business and editorial model that will allow us rapid review and decision making on opportunities for content partnerships, we will have a fiscal model that will allow us to readily make decisions on the viability of purchasing or licensing the content being offered, we will strive to know as a company that can make fast, reliable decisions and has tied up the critical content needed to be successful in the key product areas that we have selected.
- 5. Leverage our competitive advantage in early UI work, advanced technology and strong development by establishing:
 - A common agreement on standard UI elements, a MS Home "look", a great sound library, a great character and animation library, in the process find ways to ensure these stay competitive advantages through legal protection or technical implementation.
 - A set of core code and services easily leveraged across all home apps for authoring, for on-line services, for database, text engine, for character creation and animation.

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- A successful system for attracting, retaining and constantly improving the skills of the most talented developers and product designers (and other specialists we identify as critical to our success) in the industry.
6. Leverage our Microsoft name and the early work on MS Home Branding with extremely high in store and channel presence/success as categories explode:
- Establish a MS Branded Affiliate label to take additional Home products to market, help protect shelf space while working on longer term projects, building international presence in secondary markets and ensure near term BOI.
 - Establish title naming model that leverages line approach, be prepared to invest additional marketing dollars for next three years to ensure that key cornerstone titles (Encarta, Utopia) key lines of titles (Kids) and the Home brand are top of mind for retailer and customers seeking home software/solutions, develop a long term, consistent way to build the MS HOME brand with consistent messaging and communications, division-wide.
 - Revamp existing sales approach through new org structure with consolidation of most marketing by product line (instead of by product) and into cross-division marketing organization, work with WW Sales and Marketing to accomplish similar consolidation and leverage of consumer activities. Eliminate overlapping responsibilities and lines of authority. Test new sales approaches including heavy concentration on retail presence.
 - Build channel partnerships into competitive advantage with focus on retail, OEM - "big 6" and emerging distribution channels/methods (e.g. bookstores, home shopping, direct mail).
 - Cross sell our applications and software titles to our existing installed base through newly developed direct marketing models and continue building our list of names and customers.
 - Establish barriers to competition and enhancements to customer satisfaction by being first and best at customer focused programs: money-back guarantees, MS HOME purchasing club, a magazine for users, innovative technical support.
 - Identify and build expertise in key required areas of market research for consumer business worldwide solidify a leadership position in K-12 market and leverage this leadership into sales to consumer parents.
7. Win in strategic international markets, targeting UK, France and Germany and Australia. through a combination of localized products, partnership products and affiliate label products. Heavy emphasis on the word *selected*, with the low penetration of the home pc in other markets and our current educational sales efforts, we do not have a robust opportunity for Microsoft to grow and leverage this home focused software as aggressively internationally as we did with our business applications. The necessity of local content, local "personality" and other localization challenges makes this even greater. Partnering with local publisher as we are doing in Germany on Bookshelf and hope to do in France is a great way to ensure we have early entry into this market (as we did in 87 with Bookshelf in the US). We must be prepared for and watch for indications that the home market might take off internationally as it has done in the US in the past year.

Key Objectives - 12-24 months (by June 1995)

1. Business: Reach minimum \$600M annual run rate for FY96 (for July 95-June 96) with maximum 700 people, minimum 20% BOI. Rough breakdown:

Personal Tools \$120M+....(Titles: Works \$60M, Utopia \$40M, Publisher \$27M, Imaging \$3M)

Personal Transactions....\$30M with very high upside (Titles: Money/Personal Finance \$30M+, Shopping, Communications)

Family Reference/Information.....\$100M(Titles: Encarta, Bookshelf, Atlas, Medical Reference)

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Lifestyle....\$10M (House & Garden \$5M, Travel \$5M, Hobbies, Learning/Exploration)

Entertainment....\$80M

Kids....\$50M

Hardware....\$200M (keyboard, house mouse, corporate mouse, oem mouse, other consumer input devices)

2. **Shared Technology:** Establish shared code and most importantly an effective *process* for sharing code, shared engines, shared services model that puts MS Consumer division at a distinct competitive advantage for rapid and cost efficient building of home titles.. Consider proprietary partnership model that "shares" these services and tools only with content partners where some direct fiscal benefit accrues to MS.
3. **International Objectives:** A, Z and French and German products are our top priority. For other languages (Italian, Swedish, Dutch, Spanish) we will use a BOI rule of thumb, (generally 5x development expense and the likelihood that cross sell will occur). We require a marketing infrastructure in place in each country to support and sell these products profitably. A Branded Affiliate program will bring entertainment, games, lifestyle and deep content/learning titles from local publishers & development houses to market in countries where significant marketing infrastructure is available.
4. **Marketing Objectives:** Today we spend the same % of marketing dollars on our Consumer business as we do on all other portions of our business. That may be revisited in the coming months. The dollars should be split between individual titles spending and a broad campaign designed to build awareness and sales for the MS Home brand *as premier line of useful/enjoyable products for the entire family* through, consistency of communications and integration of promotions (across channels and partners and in demand creation vehicles), building cost effective trial of products, and profitable cross-sell of the line. We need to build leadership in breadth and depth of distribution through a mix of channel efforts: top 6 consumer OEM, retail including Mass merchant, software only, superstores, and independent resellers, mail order, and emerging channels and distribution technology such as CD distribution. We will develop a product launch framework to meet the launch and sustaining marketing needs of our many products, brand communications, and consumer channels and partners.
5. **Product Line Objectives/Outlook**

Personal Tools--Works BUM: Tom Reeve

Top Products	Works--Win, DOS, Mac, going forward just Win/Mac
FY96 Revenue	\$60M+ but will decline year to year IF market category declines
Core Feature/Value	Price, value, integration, basic tools
Competitive Advantage	Installed base, brand name, right features, task focus
Technology Sharing	Today: limited, converge with core division services
International Charter	Every language with targeted BOI
Key 3 Year Objectives	Lean investment, keep Claris at bay, move customers "up" to Office, "down" to Utopia
Average (US) SRP	\$139

Personal Tools--Utopia Home BUM: Melinda French

Top Products	Utopia V1, 16-bit, Windows only, Utopia V2, 32 Bit, Mac/Windows
FY96 Revenue	\$40M+ and increasing year to year
Core Feature/Value	Social interface, covers core home tasks, hobbies people care about--interface unification
Competitive Advantage	First complete home solution, "launching pad" for key MS Home apps/titles
Technology Sharing	Quill, Jet, VB, character animation engine
International Charter	German, French, Z version
Key 3 Year Objectives	Establish as leading home environment, essential app, create 3 -6 million sockets for HOME apps through aggressive OEM strategy, release V2 as foundation product for Home apps from Microsoft, pre-install on all major consumer machines
Average (US) SRP	

Personal Tools--Imaging BUM: Melinda French

Top Products	Imaging editing and cataloging apps, Screen Savers
FY96 Revenue	\$7M+
Core Feature/Value	Editing, cataloging, screen savers
Competitive Advantage	Social interface, complete solution with interesting Backgrounds
Technology Sharing	Color Model, OLE Sever application, camera OS
International Charter	None in 3 year except extensive code sharing
Key 3 Year Objectives	Enter as digital cameras take off, establish Microsoft standard in imaging, capture the consumer photography market
Average (US) SRP	unknown

Personal Tools--Publishing BUM: Melinda French

Top Products	Publisher, Greeting Card App
FY96 Revenue	\$27M+
Core Feature/Value	Great output with no chance of error
Competitive Advantage	Ease of use; reputation; wizards; price
Technology Sharing	Word Art, Clip-Art Gallery, OLE2
International Charter	9 languages - in future, based on profitability
Key 3 Year Objectives	Market with Office, build Utopia app that locks out Print Shop, stay lean, highly profitable
Average (US) SRP	\$139

Transactions BUM: Jabe Blumenthal

Top Products	Money/Personal Finance, Shopping, Communications
FY96 Revenue	\$30M for sure, \$100M+ upside opportunity
Core Feature/Value	Today
Competitive Advantage	Today: bank on-line tomorrow: MOS, link to Advanced Technology, banking on-line, included in OS
Technology Sharing	On-line services, digital money, personal devices, transaction processing
International Charter	German, French, A and Z
Key 3 Year Objectives	Incremental improvements to today's money, utopia pf app, create <i>the</i> on-line personal finance app of choice for both institutions and individuals, front end likely bundled in MOS, revenue principally services and connect time, rich multimedia app for how-to,

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	prototype and customer-test Shopping app: release limited V1 if successful, prototype and customer-test communications app for family communications: release V1 if successful
Average (US) SRP	\$50 but predominantly service fees by 1996

Family Reference BUM: Tom Corddry

Top Products	Encarta, Bookshelf; Atlas, Medical, News
Revenue	\$100M+
Core Feature/Value	Fast trustworthy reference with great MM values; Encourage exploration ,
Competitive Advantage	Breadth of Reference Line, Shared UI Attributes, Growth
Technology Sharing	Mediaview, SPAM, GeoGrpic, Content partners
International Charter	Localized or Equivalent (Affiliated Label) Products in French, German and Z (Localize or Partner)
Key 3 Year Objectives	Establish Encarta as leader, build a proprietary content engine/process, have #1 Atlas, release V1 Medical Companion, prototype on-line News
Average (US) SRP	\$139 for Encarta and Bookshelf, under \$100 for Atlas

Lifestyle BUM: Charlotte Guyman

Top Products	Cooking, Garden, Home Repair, Travel, "Mania" Guides
Revenue	\$10-30M+
Core Feature/Value	How-to, Information at your Fingertips, great content, deep "core" title approach
Competitive Advantage	Social Interface, link to MS Home
Technology Sharing	"Buddy Engines", tight link to Utopia/Home line
International Charter	Strictly BOI model with some Affiliate Label efforts to ensure presence in key markets
Key 3 Year Objectives	Tie up top 3rd party content to ensure future success as this category expands, release V1 of core companion titles, with clear links into Utopia and clear strategy for new titles building proprietary value
Average (US) SRP	\$69.95 - \$79.95

Entertainment BUM: Bruce Jacobsen

Top Products	Flight Simulator, Space Simulator, Arcade, Golf, Baseball, etc.
FY96 Revenue	\$80M+
Core Feature/Value	Best Windows games, leading edge technology, best sports/entertainment titles
Competitive Advantage	Windows advantage, external development model, highly profitable
Technology Sharing	Sprite engine, personal devices, new game players
International Charter	French, German, Z, all based on BOI guidelines
Key 3 Year Objectives	Ensure 7 to 10x investment in revenues, stick with "publisher" model rather than developer, branded affiliated label and traditional external development, some internal for new CD titles, multi player emphasis, new game platforms in year 2/3, 10+ titles per year
Average (US) SRP	\$50

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Kids BUM: Bruce Jacobsen

Top Products	Creativity Line, Interactive books, Goal Oriented Exploration
FY96 Revenue	\$50M+
Core Feature/Value	Social interface, powerful tools, great graphics & sound--game quality
Competitive Advantage	Line of products, MS technology, games technology
Technology Sharing	SPAM, games engines, Utopia
International Charter	Creativity in French, German and Z, others BOI
Key 3 Year Objectives	Create holiday season publishing model for core creativity titles, one/two creativity titles per year and another 6-10 kids books per year, prototype early, invest in product design then test, move forward only with strong customer confirmation, high synergy with Utopia
Average (US) SRP	\$70

Hardware BUM: Rick Thompson

Top Products	Professional Mouse, "Mickey" Mouse (House Mouse), Ballpoint, Nexus keyboard (Possibilities: Kids mouse, game controller, set top remote).
FY96 Revenue	\$200M+
Core Feature/Value	Great design, usability, great install & utility
Competitive Advantage	Name, quality, ergonomics
International Charter	All markets as appropriate
Key 3 Year Objectives	Retail: maximize profits in a flat market; OEM: win share by being world's low cost supplier; Overall: expand the Input Device product line.
Average (US) SRP	range

Technology in the Home assumptions driving new Consumer development

Typical Desktop PC Owned by an Active software Purchaser

	1994	1995	1996	1997
OS	Win 3.1	Win 3.1/4.0/NT	Win 4.0/NT	Win 4.0/NT
CPU	486	486	Pentium	Pentium
RAM (MB)	4	8	8+	8+
Harddrive (MB)	200	200	400	400
Audio	Yes	Yes	Yes	Yes
CD-ROM	No	Yes	Yes	Yes
Modem	Yes (9600)	Yes (9600)	Yes (9600)	Yes (9600)
Add'l Technology			PDA's, Set Top	PDA's, Set Top

Product Distribution and Packaging Assumptions

- By 1997 all products will ship on CD-ROM.
- We will have a complete, consistent packaging system in place and cost per package must be lowered from today's \$12-\$18K per to \$8K per. Alternative packaging must be tested in FY95.
- We will use a technology like UNILOC by 1996 to allow marketing and distribution via word of mouth.
- We will have a distribution mix far broader than today by FY95/96; some direct selling/marketing up to 20%, mass merchants will be 25% of our business, s/w only stores will drop to 25%, more alternative channels will be required (toy stores, books, stores, etc.)
- We will need instore merchandising materials and support.

Core Competencies Required

- **Technical expertise:** on line services, character/social interface development, shared code/services, authoring tools, multimedia technology, efficient product processes, partnership processes, negotiation skills, financial planning.
- **Channel expertise:** we need to be aggressive in emerging channels like mass merchants, bookstores, toy stores and with emerging distribution technologies like CD and Uniloc with policies and programs that allow us to be the preferred vendor, we must also be aggressive at mining the reg base for cross selling purposes. We must be open to and test new sales models including in store stocking and representation. We must be open to spending marketing dollars with our retail partners for strong print and in store campaigns.
- **Consumer marketing expertise:** we must be consistently strong at building a brand and making the investment in national advertising, integrated promotions, sponsorships and choosing products that "lift" the brand, we must be excellent at having a coordinated "product launch framework" that allows us to bring large numbers of small titles to market in an efficient manner, created demand, building announcements that carry the line, collapsing our releases into 4 times per year list announce/release cycles.
- **Consumer corporate competencies:** we must have a focused sales force that knows the emerging channels and the retail business players, we must have integrated creative with fast and low cost turn around on everything from packaging, collateral and advertising, we must have merchandising expertise in both the field and in our creative support, we must have nimble/flexible manufacturing to allow consistent product flow and regulated release schedules, we must have a consumer financial process that tracks life to date investments, royalties, recognizes the different investment models for this business, and we must have an integrated consumer PR program.

Microsoft's Consumer Division Key Competitors -- Topline Analysis

The consumer division is faced with a range of competitors, each strong in their niche, no one competitor yet threatens us across the board. Perhaps our greatest asset - being big and being part of Microsoft - can also be our greatest weakness when facing these competitors in their own areas of focused specialty. We have committed to becoming a competitor-focused organization, aware of our competitors strengths and planning to offset them, aware of our competitors weaknesses and capitalizing on them. I have collapsed many pages of competitive information into the following table. Please email Jolene if you want more detail.

KEY FACTS	
Claris	<p>Product Line: Between 10-20 products. ClarisWorks and FileMaker Pro are big revenue makers. Others include Graphics and Mac apps (MacDraw, MacWrite, MacProject.)</p> <p>Financials: \$160 million estimated in revenue in 1993. Profitable since 1990.</p> <p>Total Employees: 600</p> <p>Strategic Direction: Growth through acquisition and affiliates. go head to head with Microsoft.</p>
Intuit	<p>Product Line: 10-15 products total. Quicken and Quickbooks, supplies and services for both, Chipsoft TurboTax, Home Equity Software.</p> <p>Financials: \$160 estimated revenue in 1993 (w/ Chipsoft). Good financial position. 30% of revenue from supplies and services.</p> <p>Total Employees: 484</p> <p>Strategic Direction: In the business of financial transaction services, not software. Continue to make the rules in their niche.</p>
Softkey	<p>Product Line: Over 100 products total. Task oriented productivity apps such as Resume maker, Calendar. Lots of clipart, fonts, PIM, Games, Education Titles.</p> <p>Financials: SoftKey has been profitable, others spotty and weak performance. Pre-merger estimates for 1993 - Softkey \$49M</p> <p style="padding-left: 40px;">PowerUp \$34M Spinnaker \$31M WordStar \$34M</p> <p>Total Employees: 593</p> <p>Strategic Direction: Be the consumer software company with low prices and expert distribution strategies.</p>
Broderbund	<p>Product Line: 6 main families PLUS affiliated labels. Print Shop, Carmen Sandiego, Early Learning, Living Books, KidPix Family, PC Globe.</p> <p>Financials: \$86M in estimated revenue in 1993. 35% sales growth between 1991/1992. gross margins of 56%.</p> <p>Total Employees: 336. 40 developers.</p> <p>Strategic Direction: Improve Broderbund brand awareness, leverage and protect first mover advantage in high quality, consumer market software.</p>
Electronic Arts	<p>Product Line: Over 160 titles. Kids Educational and all age Sports Action, Story and Simulation Games.</p> <p>Financials: \$298M in estimated revenue for 1993. Huge growth - '93 sales were 70% above '92 sales. Estimated \$414M for FY94.</p> <p>Total Employees: 763 \$391K/Employee</p> <p>Strategic Direction: Invest with abundance of available cash, become worldwide leader in consumer software, form alliances with content owners.</p>
Comptons	<p>Product Line: Encyclopedia/reference. 31 CD MM titles! 16 floppy titles. Rights to 185 titles via Chicago Tribune and 81 more via Affiliate program.</p> <p>Financials: \$28M in 1992. Profitable. Grown at 50% rate last three years. Purchased by Chicago Tribune for \$57M.</p> <p>Total Employees: 140</p> <p>Strategic Direction: Be large publisher and distributor of MM titles in reference, education, business, education and entertainment. Own content and provide tools to content "developers". Patent technology for non-text search and retrieval. Nasty marketing tactics.</p>
Logitech	<p>Product Line: MouseMan, First Mouse and Dexxa retail mice (\$89 to \$19 street). Cordless Mouse. 3dmouse, ScanMan handheld scanners. AudioMan and SoundMan sound boards. Gravis joysticks. Cyberman game controller. Gazelle digitizer.</p> <p>Financials: \$331 million revenue in 12 mos ended 9/93. Two percent net. Debt to equity ratio of 2.1.</p> <p>Total Employees: 2100</p> <p>Strategic Direction: Growth through new products, branding, Profits from diversification.</p>

Microsoft Consumer Division Overall Competitive Strategy

We have a straightforward overall competitive strategy -- Execute best!

- **Define and deliver line product strategy.** Pump out new titles, on time. Support consumer titles with adequate marketing. Deliver rich and deep products with appropriate integration. Build tools to leverage for quick to market.
- **Build Brand Value.** Home branding, cross-sell titles, share regbase, and deliver on interoperability.
- **Be the 1st Mover to new channels, markets, and opportunities.** Localize first, build great titles for entire family, pursue partnerships and publishing model, push for on-line services business, establish presence in direct channel.

Microsoft's Head to Head Competitive Strategies

Claris	Infnit	Softkey	Broderbund	Electronic Arts	Compton's	Logitech
Work to make OLE the standard.	Use Microsoft's product line as key asset. (marketing bundles)	Beat them at the quality game. Establish Microsoft Home as the Overall Quality leader. Make Quality matter even more.	Make sure our Brand image is better, stronger. We have a head start.	Build our brand.	Build affiliate program to get content quickly.	Ensure low cost of goods to match low prices.
Expand Mac lines.			Leverage opportunity to cross-sell across product lines.	Exploit our competence in channels they are weak in.	Own encyclopedia share by dropping prices.	Manage our intellectual properties and patents to our advantage.
Continue to beat Claris on the Windows platform. We have the competence and make the rules.	Make integration matter in their niche market.	Win at SOHO (don't cede this).	Establish relationships with content providers - shore up possibility that content becomes king.	Get access to creative. Develop affiliate program.	Be <u>best</u> of core family reference: technology & content.	Increase our retail presence dramatically.
Make breadth of product line matter even more.	Position ourselves to make the rules in the on-line services market. Make better bets on platforms of the future.	Develop an affiliate program.		Focus on kids s/w-preschool.		
				Ensure we get broad distribution.		