

March 21, 1994

M Memo FIRST DRAFT

To: WW Sales and Marketing Managers

From: WW End User Customer Unit Team

Subject: FY95 End User Customer Unit Mission, Objectives and Strategy

cc: Bill Gates, Mike Maples, Steve Ballmer, Mike Brown, Ray Emery, Pete Higgins, Hank Vigil, Brad Silverberg, Brad Chase, Patty Stonesifer, Ruth Ann Lorentzen, Jim Allchin, Rich Tong, Roger Heinen, Cameron Myrhvold, Jonathan Lazarus, Nathan Myrhvold, Craig Mundie, Deborah Willingham, Paul Lovell, Elton Welke, Russ Seigelman, Jeff Wirth, John Connors

The End User Customer Unit Mission

The mission of the Worldwide End User Customer Unit is to provide guidance, assistance and leadership in supporting the efforts of Microsoft subsidiaries in identifying, targeting, and developing lifelong customers for Microsoft home and business products through effective sharing and implementation of direct and channel partner communication, marketing and sales efforts.

The End User Customer Unit Team

The Worldwide End User (EU) customer unit team is comprised of key participants representing the major customer units and geographic areas of the MS WW Sales organization. The representatives are:

Representative	Geography or Customer Unit
Michael Appe	United States
Michel Lacombe	Europe
TBD	ICON - APAC
Phil Welt	ICON - Latin America
TBD	ICON - AIME
Tony Laudico	Far East
TBD	Canada
TBD	OEM Customer Unit
John Neilson	Organizational Customer Unit
Jeff Sanderson	WW Channel Strategy
OPEN	WW End User Strategy

Plaintiff's Exhibit

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The WW EU customer unit team is assisted in their efforts of developing global strategies and directions for end user and reseller channel customers by the support and involvement from participants representing other key areas of the Microsoft organization, including:

Representative	Representing
Deborah Willingham	PSS
Paul Lovell	WW Operations
Rick Devenuti	North American Operations
Elton Welke	MS Press
Hank Vigil	Desktop Applications
Brad Chase	Personal Operating Systems
Rich Tong	Business Systems
Cameron Myrhvold	Developer
Ruth Ann Lorentzen	Consumer
Craig Mundie	Advanced Consumer Technology
Russ Seigelman	MS On-Line
Jeff Wirth	ITG
John Connors	Finance

The End User Customer Unit - Customer Focus and Objectives

*"We need greater customer focus. We need to spend much more time with customers and key partners. We must put ourselves in our customer's shoes and ensure the sum of our offerings serves the entire spectrum of customer needs."*¹

The EU customer unit will have responsibility for activities that target end users that make individual buying decisions for the PC's they use at work or home. This unit focuses on building long-term profitable relationships with individuals. The primary focus of the WW EU customer unit is to focus on two distinct categories of Microsoft customers:

1. The individual home or business user
2. The reseller channel segment that sells to and supports all of Microsoft's ultimate consumers of our products (be they End User or Organizational Unit customers)

The primary challenge facing the EU customer unit is to fulfill our customer unit mission while helping to grow the market share of the key product divisions that are targeting, developing and marketing their products to this key customer (and channel) segment. Further memos from the Reseller Channel Strategy and End User Strategy groups outline the specific objectives, strategies and tactics that will be recommended for Worldwide or other local implementation to fulfill the EU customer unit mission.

Worldwide End User Customer Unit Objectives

The primary objectives of the EU customer unit parallel many of the objectives outlined for the Worldwide Sales and Support Organization in the FY95 Planning Memo. These are:

1. Achieve sufficient revenue and profitability
2. Successfully launch Chicago
3. Gain Office share
4. Build the server business

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¹ "Re-engineering For Opportunity", March 10, 1994. Bill Gates, Mike Maples, Steve Ballmer

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5. Deliver business value to a broader set of organization customers and partners
6. **Extend effective points of sales and satisfaction among end user customers**
7. Broaden the Microsoft image
8. **Increase efficiency**

(bolded entries note focused effort areas for the EU customer unit)

Some of the strategies and tactics to accomplish these objectives that are called out in greater detail in the separate End User Customer Strategy and Reseller Channel Strategy memos include:

- Developing a common EU customer and reseller channel taxonomy.
- Creating programs and policies to ensure customer satisfaction and retention.
- Developing seminars, events, and sales training for end users, resellers and end user field people.
- Creating a renewed competitor focus.
- Developing greater efficiency in communications, marketing, selling to and supporting end users and reseller channel partners.
- Assisting in efforts to develop more efficient operations.
- Making decisions quicker and executing faster once decisions are made.
- Implementing consistent worldwide terms and conditions (where applicable).
- Leveraging our worldwide distributor relationships.
- Further developing a shared best practices approach.
- Ensure a positive experience for end user or reseller channel customers needing the service of our PSS organization or affiliates

The End User Customer Unit - Product Focus and Objectives

*"We must simplify our messages to customers and partners. We are overloading the market with lots of complex messages. This does not necessarily mean we need to have fewer products. We need to consolidate SKU's and develop clear themes that pull together what we say about our products. We will group our product activities into seven divisions to facilitate this."*²

The primary focus of the WW EU customer unit is to concentrate communication, sales and marketing efforts in support of the goals and objectives of the following three product divisions:

1. Consumer
2. Personal Operating Systems (POS)
3. Desktop Applications (shared responsibility with Organizational Customer Unit)

In addition to supporting the needs of these divisions in reaching end user customers, the EU customer unit will focus efforts on ensuring the success of the goals and objectives of the other product divisions and customer units through management of the reseller channel and direct marketing terms, conditions and policies. The primary challenge faced by the EU customer unit is to fulfill our customer unit mission while helping to grow the market share of the key product divisions targeting, developing and marketing their products to the end user customer segment and through the reseller channel. Further memos from the Reseller Channel Strategy and End User Strategy groups outline the specific objectives, strategies and tactics that will be recommended for deployment to fulfill the EU customer unit mission.

FY95 Product Objectives

"After years of virtual obscurity to corporate vendors, the consumer PC market is on a roll, and anybody who's anybody is jumping on for the ride. In recent months, a slew of top-tier PC vendors, including COMPAQ Computer Corp., AST Research Inc., and Dell Computer Corp., have carved out separate

² "Re-engineering For Opportunity", March 10, 1994, Bill Gates, Mike Maples, Steve Ballmer

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consumer divisions and wooed management talent from consumer industries to tackle the emerging arena. Analysts expect the channel to mushroom from 2.7 million PCs shipped in 1993 to 5.9 million units in 1997. A number of pieces have come together to ignite the consumer boom. Low PC pricing, mass distribution, and the emergence of technologies such as digital convergence, CD ROM drives, and easy-to-use consumer software have certainly been major factors, according to Jon Hulak, industry analyst at BIS Strategic Decisions, a market researcher in Norwell, Mass.³

"Computers are now found in 25 to 33 percent of America's 96 million households, depending on who's counting. Meanwhile, consumer sales of personal computers rose 17 percent last year, according to BIS Strategic Decisions in Rockland."⁴

The following outlines the key objectives of the End User customer unit as it relates to the objectives of the three key product divisions that are a focus of this unit:

Consumer Division

"It's never say die at MICROSOFT," said Charlotte Guyman, director of marketing for the company's Consumer Division in Redmond, Wash. "It sounds funny for MICROSOFT, but we have been appropriately ... humbled by consumers and the consumer market."

The key goals for the Consumer Division product line to be addressed by the End User customer unit in FY95 include:

- Meet or exceed the revenue and BOI objectives for the Consumer division in FY95
- Establish a world class distribution program for Microsoft Home titles
- Develop programs to support up-sell and cross-sell of Microsoft Home titles
- Continue to build the registered user base of Microsoft Home users
- Establish a dominant position for Microsoft in the home, education and home-business market through effective promotion of the Microsoft Home brand and line of products
- Establish beach-heads in key emerging markets for PC consumer titles including book and video stores, on-line systems, CD-ROM distribution, etc.
- Ensure broad depth and breadth positioning and stocking of Microsoft's Home line particularly in the retail and mail order market segments
- Increase secured customer satisfaction rating to 40%+

Personal Operating Systems (POS) Division

"Moving both the first and second wave customers to Chicago will be a challenge. For both, Windows 3.1 works quite well, and they have invested heavily in it. They will be disoriented initially by the new user interface, and without proper introduction they may reject it. They also will compare the new UI to the MAC and OS/2, so we must make sure that they understand the unique attributes of Chicago's UI."⁵

The key goals for the POS Division product line to be addressed by the End User customer unit in FY95 include:

- Meet or exceed the revenue and BOI objectives for the POS division in FY95
- Successfully launch Chicago and attain a 25% adoption rate in the first 6 months
- Establish a world class distribution program for POS products including Chicago - reach 20K outlets
- Continue to build the registered user base of Microsoft POS products
- Establish beach-heads in key emerging markets for POS titles (including Chicago) in book and video stores, on-line systems, CD-ROM distribution, etc.

³ Michael R. Zimmerman from PC Week, February 28, 1994

⁴ Nathan Cobb, The Boston Globe Knight-Ridder/Tribune Business News

⁵ "Chicago First Wave Adoption Plan", Steven Guggenheimer, March 18, 1994

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- Ensure broad depth and breadth positioning and stocking of Microsoft's POS line particularly in the retail and mail order market segments
- Increase secured customer satisfaction rating to 40%+

Desktop Applications Division

The key goals for the Desktop Applications Division product line to be addressed by the End User customer unit in FY95 include:

- Meet or exceed the revenue and BOI objectives for the Desktop Applications division in FY95
- Establish a world class distribution program for Microsoft Desktop Application products
- Develop programs to support up-sell and cross-sell of Microsoft Desktop Application titles
- Continue to build the registered user base of Microsoft Desktop Application users
- Establish a dominant position for Microsoft in the home, education and home business market through effective promotion of the Microsoft Office brand and line of products
- Help to establish beach-heads in key markets with Desktop Application titles by aggressively promoting such licensing programs as Select, MOLP, CD-ROM distribution, etc.
- Ensure broad depth and breadth positioning and stocking of Microsoft's Desktop Applications - particularly Office - in the retail and mail order market segments
- Increase secured customer satisfaction rating to 40%+

WW Deliverables of the End User Customer Unit

The deliverables of the End User customer unit will be targeted at providing support in the following areas:

	Worldwide	Regional	Subsidiary
1. Mandated practices & or policies	Implemented when decided by WW Directors & Steveb	Implemented when decided by Regional SVP	managed by regional SVP & local GM's
2. Agreed standard practices & or policies	Implemented when global MS and/or customer benefits can be shown	Implemented when regional benefits can be shown	managed by regional SVP & local GM's
3. Recommended practices & or policies	Implemented at the discretion of Regional SVP's & Steveb	Implemented as market or customer conditions dictate	Implemented as market or customer conditions allow
4. Shared best practices & or policies	Implemented over time where benefits can be proven	Implemented over time and in regions where benefits can be proven	Implemented over time and in subsidiaries where benefits can be proven

The Worldwide EU customer unit will focus attention and call out action on policies, programs, terms & conditions, etc. as outlined above to ensure recommendations are presented and discussed in a consistent context. The separate memos from the Reseller Channel Strategy and End User Customer Strategy groups will address the specific deliverables of these respective units in FY95 as it relates to the format above.

Operations Aspects of the Worldwide End User Customer Unit

The Worldwide EU customer unit will focus primary attention on addressing the mission, objectives and strategies outlined in this memo as well as in the separate Reseller Channel Strategy and End User Strategy memos as they specifically relate to global issues and challenges. The specific operational aspects for coordinating and communicating from this unit are outlined below:

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Worldwide End User Team Alias - An email alias WWEUTEAM will be established for communication among and to the members of the Worldwide End User Customer Unit Team outlined in the beginning of this memo. The purpose of this alias is to provide a means for broadcasting important global communication to the team, escalating key strategic or operational issues and for general team communication and discussion.

Semi-monthly EU Email Status Report - Each team member of the Worldwide EU customer unit will collect and summarize an email status report on the key issues from their geography's or customer unit related to the status of the EU business twice a month. These reports will be brief and highlight the key positive (green) caution or possible negative future implication (yellow) and negative or needing immediate action (red) items. These will be reviewed and summarized on a worldwide basis by Mike Appe and items needing attention or direction will be followed up on or forwarded as appropriate.

Issue Escalation Procedure - The escalation procedure for directing actions to the WWEUTEAM will be as follows:

- EU issues that can be managed inter-country should be handled at the direction of the local GM or management team.
- EU issues needing attention or direction outside of the local subsidiary should be escalated to the regional EU customer unit team member with copy to the regional SVP and local subsidiary GM. Where appropriate and able - the issue should be handled at this level.
- EU issues needing attention outside of the regional EU customer unit contact should be escalated to the WWEUTEAM by the regional EU team member with copy to the local GM, regional SVP and Mike Appe.
- All escalated issues should receive responses within 24-48 hours.

Quarterly EU planning & direction meetings - A rotating schedule of WWEUTEAM meetings will be established by Mike Appe. The objective of these meetings will be to review the state of the EU customer unit business and issues globally. Involvement will be encouraged from the support groups (Product Marketing, PSS, Operations, etc) to review their issues and objectives as it relates to the charter of the WWEUTEAM.

Planned annual EU meetings - There will be three key annual EU planning meetings. These include the:

- North American, AIME, APAC Sales Meeting or European Sales Meeting
- Worldwide Directors (WWDIR) meeting
- Worldwide Sales and Marketing Managers (WWSMM) meetings

The goals and objectives of these meetings will follow the format established by Steveb for the later two and a format to be published by the WWEUTEAM for the Sales meetings.

Metrics of the End User Customer Unit

The metrics for measuring the success of the EU customer unit team will be outlined in greater detail as part of the separate Reseller Channel and End User customer memos. Following the format for the FY95 objectives as outlined by Steveb, below is a brief list of some of the key metrics that will be established for the EU customer unit:

1. Achieve sufficient revenue and profitability
 - Attain End User customer segment revenue and profitability goals
 - Achieve individual Consumer, POS & Desktop Apps divisions revenue & BOI goals
2. Successfully launch Chicago
 - Upgrade 25% of the installed base within 6 months

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- 100% penetration on new machines shipped
- Leverage the launch to increase market share and presence of other MS apps
- Leverage the launch to broaden MS image
- 3. Gain Office share
 - Attain 75% Office category market share
 - Attain 60% individual Win apps market share
- 4. Build the server business
- 5. Deliver business value to a broader set of organization customers and partners
- 6. Extend effective points of sales and satisfaction among end user customers
 - Achieve 40%+ secured customer satisfaction rating
 - Increase MS product distribution (depth and breadth) by 25%
 - Reach 20K+ outlets with Chicago
- 7. Broaden the Microsoft image
- 8. Increase efficiency
 - 15%+ BOI for Consumer division products
 - xx%+ BOI for the POS division products
 - yy%+ BOI for the Desktop Applications division products

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US End User Customer Unit Functional Organization Structure

Regions	Distribution Management	Reseller Channel Strategy	End user Strategy	Chicago Launch	EU/Channel Biz. Operations
<ul style="list-style-type: none"> Develop profitable & efficient reseller partner relationships 	<ul style="list-style-type: none"> Develop profitable & efficient distribution partner relationships 	<ul style="list-style-type: none"> Develop reseller channel strategies, training, programs, and T's and C's that lead to profitable & efficient reseller partner relationships 	<ul style="list-style-type: none"> Optimize and deliver cost-efficient direct marketing sales & communication models that address EU needs across multiple divisions 	<ul style="list-style-type: none"> Coordinate the development, implementation and launch of end user & reseller channel strategies, programs, and T's and C's that lead to the profitable & efficient launch of Chicago 	<ul style="list-style-type: none"> Oversee the US P & L statement for the End User customer unit
<ul style="list-style-type: none"> Create a dominate presence for MS in the mail order channel segment 	<ul style="list-style-type: none"> Focus and utilize the distribution channel to create a dominate presence for MS in the mail order channel segment 	<ul style="list-style-type: none"> Develop strategies, programs, training, and materials that create a dominate presence for MS in the mail order channel segment 	<ul style="list-style-type: none"> Deliver more relevant, targeted & segmented communication per marketing \$ spent on end users 	<ul style="list-style-type: none"> Coordinate the efforts to create the "catch the wave" effect for other MS products during the Chicago launch 	<ul style="list-style-type: none"> Provide guidance on the WW P & L statement for the End User customer unit
<ul style="list-style-type: none"> Capture mindshare, shelfspace and presence in the retail channel segment 	<ul style="list-style-type: none"> Focus and utilize the distribution channel to assist MS in capturing mindshare, shelfspace and presence in the retail channel segment 	<ul style="list-style-type: none"> Develop strategies, programs, training, and materials that ensures MS captures mindshare, shelfspace and presence in the retail channel segment 	<ul style="list-style-type: none"> Increase our sales & communication capacity by leveraging our partners 	<ul style="list-style-type: none"> Ensure the development of strategies, programs, and materials that ensures Chicago captures mindshare, shelfspace and presence in the retail channel segments 	<ul style="list-style-type: none"> Develop the management reporting tools, reports, and metrics for the End User customer unit
<ul style="list-style-type: none"> Capture mindshare and presence in the Outbound channel segment 	<ul style="list-style-type: none"> Focus and utilize the distribution channel to assist MS in capturing mindshare and presence in the Outbound channel segment 	<ul style="list-style-type: none"> Develop strategies, programs, training, and materials that ensures MS captures mindshare and presence in the Outbound channel segment 	<ul style="list-style-type: none"> Invest in our registered user data base as a core asset to ensure we can deliver on the EU objectives today and tomorrow 	<ul style="list-style-type: none"> Coordinate the development of strategies, programs, and materials that ensures Chicago captures mindshare and presence in the Outbound & Mail Order channel segments 	<ul style="list-style-type: none"> Monitor and provide guidance on the performance of the Reseller Channel segments as part of the End User customer unit
<ul style="list-style-type: none"> Identify and target new and emerging channel segments and partners 	<ul style="list-style-type: none"> Assist MS in identifying and targeting new and emerging channel segments and partners 	<ul style="list-style-type: none"> Develop strategies, programs, training, and materials that ensures MS captures mindshare and presence in the distribution channel segment 	<ul style="list-style-type: none"> Establish more interactive EU relationships & ensure that we learn and leverage more about our end users as we build the registration data base 	<ul style="list-style-type: none"> Coordinate the development of strategies, programs, and materials that ensures Chicago captures mindshare and presence in the distribution channel segment 	<ul style="list-style-type: none"> Monitor and provide guidance on the performance of the End User segments as part of the End User customer unit

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