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Sent: Thursday, February 11, 1999 4:52 PM
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Cc: Ken Myer (Exchange); Brent Johnson (Exchange); Carrie Bogner; George Meng (Exchange); John Vail (Exchange); Hahns Burg; Allan Abram; Sean Pickton
Subject: US ROEM-DSP Channel: SB Attach Drive

SMORG Office Attach and \$/PCIB Situation (FG and ROEM):

The US trails all peer subs in SMORG Office/SBE \$/pcib (see schedule below). The peer subs have had much higher success rates attaching Office/SBE to PC shipments through the ROEM channel and upgrading their Office/SBE installed base. Note: I have included Japan's PIPC license type with DSP for this exercise and they don't have a strong ROEM channel. The System Builder attach and rev difference between the US and its European peers need to be further analyzed. Until this research is completed, it's difficult to calculate the true opportunity for the US and other subs to gain incremental sales through this channel.

SMORG Office/SBE Attach (excludes Direct OEM)									
Geography	License Type	FY98 Actual				FY99 Forecast (2x 1st half actuals)			
		Shipment Attach	PCIB Attach	Office \$/PCIB	SBE Mix	Shipment Attach	PCIB Attach	Office \$/PCIB	SBE Mix
US	DSP/PIPC	0.6%	0.2%	\$0	83%	0.6%	0.2%	\$1	20%
	Non DSP	13.1%	4.2%	\$12	3%	12.5%	4.2%	\$12	2%
	All	13.8%	4.4%	\$12	6%	13.1%	4.4%	\$12	3%
Japan	DSP/PIPC	19.8%	7.0%	\$7	0%	32.6%	8.6%	\$8	0%
	Non DSP	17.5%	6.2%	\$18	9%	18.7%	4.9%	\$14	8%
	All	37.2%	13.2%	\$25	4%	51.3%	13.5%	\$22	3%
France	DSP/PIPC	5.3%	1.7%	\$4	94%	7.4%	2.4%	\$6	100%
	Non DSP	19.6%	6.2%	\$21	18%	15.6%	5.1%	\$17	21%
	All	24.9%	7.8%	\$24	34%	23.0%	7.5%	\$23	46%
Germany	DSP/PIPC	1.1%	0.4%	\$1	100%	4.0%	1.3%	\$3	100%
	Non DSP	18.0%	5.8%	\$15	14%	17.8%	5.8%	\$16	18%
	All	19.1%	6.1%	\$16	19%	21.8%	7.1%	\$19	33%
Italy	DSP/PIPC	4.3%	1.3%	\$3	100%	7.1%	2.1%	\$4	100%
	Non DSP	17.3%	5.2%	\$19	4%	14.8%	4.4%	\$15	4%
	All	21.6%	6.5%	\$21	23%	21.9%	6.5%	\$19	35%
UK	DSP/PIPC	2.2%	0.7%	\$1	100%	0.3%	0.1%	\$0	100%
	Non DSP	33.4%	10.7%	\$32	5%	29.2%	9.6%	\$28	3%
	All	35.6%	11.4%	\$33	11%	29.5%	9.7%	\$28	4%

FY98 Source: MS-Sales actuals

FY99 Source: Dec YTD MS-Sales actuals and 2x for full yr fcst (incl. adjustment in US DSP, corrected in Jan)

- US trails all peer subs in Office shipment and pcib attach, and Office \$/pcib in FY98 and 99. Japan has a higher FY99 non PIPC attach at 18.7% vs. 13.1% in US. The peer subs higher attach rates outweigh their higher mix of SBE (lower rev/lic).
- FY99 DSP shipment attach is 7.4% in France vs. 0.6% in US. The DSP channel accounts for 32% of all Office licenses in France vs. only 5% in US.
- In FY99 46%, 35% and 33% of all Office licenses in France, Italy and Germany are SBE vs. only 3% in US.
- In FY99 UK has similar SB attach results to the US, but is still 2.3x the non DSP license attach. I'm not sure why UK's DSP shipment attach declined in FY99 at 0.3% vs. FY98 at 2.2%.
- Germany experienced the largest % growth in DSP shipment attach (4.0% in FY99 from 1.1% in FY98).

Action Items: I'll be oof for most of next week.

- Schedule meeting between OCU, OEM and DAD owners to initiate the research. Let me know who should be participating in this.
- Schedule individual conference calls with Alain/France, Rudolf/Germany and Maurizio/Italy to improve our understanding of their markets and ROEM channel efforts.
- Schedule focus groups with US SBs to improve our understanding of their pricing issues and reluctance to pre-install SBE versus Office Pro.

Incremental SMORG US ROEM Opportunity Model:

Per a recent meeting with Jay (DAD Mktg), I made revisions to the US model from the one used for the OCU MYR. We simplified the Office FPP cannibalization calculations, and included the SB attach option that offers both SBE and Office Pro. This model reflects the incremental attach, revenue and P&L impact of aggressively offering SBE at \$180 (Office Pro at \$280) to the SBs. The model also includes assumptions for break-even revenue and profitability, and best case and worst case scenarios. Let me know if you have any questions.



Shortcut to OEM - DSP
Channel

Base Case - SB Attach Program: Incremental Revenue Effect				
Year	FY99	FY00	FY01	3 Yr Total
SB Shipments Attach Rates				
Aggressive SB Program	7%	18%	31%	
Status Quo	2%	3%	3%	
Incremental	5%	15%	28%	
Total PC Shipments Attach Rates				
Aggressive SB Program	16%	20%	24%	
Status Quo	15%	18%	20%	
Incremental	1%	2%	3%	
Revenue (000's)				
SB Revenue	\$ 24,829	\$ 74,663	\$ 142,407	\$ 241,898
FPP Cannibalization	\$ 12,679	\$ 38,128	\$ 67,005	\$ 117,812
Incremental	\$ 12,149	\$ 36,535	\$ 75,402	\$ 124,086

- 3 yr (FY99-01) incremental rev from this program is \$124M. In the 3rd year SMORG Office rev/pcib increases another \$1.5, from \$16.6 to \$18.1. The lower incremental rev in the 1st and 2nd years primarily reflects the cannibalization of Office FPP new user licenses (\$470/license). Note: There's a limit to the number of Office Pro FPP new user licenses that can be cannibalized (can't cannibalize more than base line forecast). My model is conservative throughout (i.e., high cannibalization rate and low incremental attach rates) and as a result it minimizes potential risks.
- The 3 yr incremental profitability of \$131M is greater than the incremental revenue, and reflects COGS and PSS savings from the cannibalized FPP licenses (\$0 for DSP), offset my increased sales (headcount related expense) to support the program.

The following schedules reflect the Best Case and Worst Case scenarios. 3 yr incremental rev from the Best Case is \$221M and Worst Case is (\$105M). The Best Case scenario assumes higher attach rates and lower FPP cannibalization. The Worst Case scenario assumes lower attach rates and 100% FPP cannibalization.

Best Case - SB Attach Program: Incremental Revenue Effect				
Year	FY99	FY00	FY01	3 Yr Total
SB Shipments Attach Rates				
Aggressive SB Program	10%	25%	39%	
Status Quo	2%	3%	3%	
Incremental	7%	22%	35%	
Total PC Shipments Attach Rates				
Aggressive SB Program	16%	21%	25%	
Status Quo	15%	18%	20%	
Incremental	1%	3%	4%	
Revenue (000's)				
SB Revenue	\$ 35,542	\$ 102,305	\$ 177,320	\$ 315,167
FPP Cannibalization	\$ 10,890	\$ 31,346	\$ 51,744	\$ 93,980
Incremental	\$ 24,652	\$ 70,958	\$ 125,576	\$ 221,187

Worst Case - SB Attach Program: Incremental Revenue Effect				
Year	FY99	FY00	FY01	3 Yr Total
SB Shipments Attach Rates				
Aggressive SB Program	6%	12%	23%	
Status Quo	2%	3%	3%	
Incremental	4%	10%	20%	
Total PC Shipments Attach Rates				
Aggressive SB Program	15%	18%	22%	
Status Quo	15%	18%	20%	
Incremental	0%	0%	1%	
Revenue (000's)				
SB Revenue	\$ 18,702	\$ 44,914	\$ 94,385	\$ 158,001
FPP Cannibalization	\$ 43,509	\$ 96,925	\$ 122,526	\$ 262,960
Incremental	\$ (24,807)	\$ (52,011)	\$ (28,141)	\$ (104,959)

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WILL NOT
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