From: John Vail (Exchange)
Sent: Sunday, November 07, 1999 7:18 PM
To: GMs of Subsidiaries; Global Desktop Applications Product Mgrs
Cc: Thomas Gersten Calderon; Peter Cray; Joel Cano; Geun Kim; Han Boem Heo; Jae Sung Yoo; Eduardo Rosini; Michelle Davis; Mark Wolfram; Rose Gyotoku; Carlos González; ASP Taskforce; Ignacio E. Davila; David Daniels (CANADA); Christophe Aulnette; Stephen Wu; Richard Lindh; Paul Gross (Exchange); Steven Sinofsky; Bob Vellone; Charles Stevens; Joseph Krawczak Directs and Leads
Subject: Office Online Service Announcement

Importance: High
Sensitivity: Confidential

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INTERNAL ONLY - DO NOT FORWARD
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This email is a follow up to Charles Stevens message to the GMs of Subsidiaries message sent last Tuesday. The contents of this message are for your review only and contains information you need to prepare for the announcement of Microsoft Office Online on Tuesday, November 9th. Microsoft Office Online is a new service that enables small to medium business users to rent Microsoft Office 2000 on a monthly basis through Microsoft bCentral and a number of 3rd party application service providers (ASPs). Please do not forward, only discuss with the key members in your organization, and under no circumstances should the contents of this memo be made public until after the announcement.

Office marketing in Redmond has been conducting NDA press and analyst briefings for the past 2 weeks in preparation for the Office Online announcement. Below, you will find the core materials we've presented as well as a summary of our key learnings. In addition, you will find the latest draft of the Office Online press release.

- The Office Online analyst PowerPoint presentation & Rude Q & A

  Shortcut to Office   Shortcut to Office
  Hosting Str...   Application...

- An overview of the key learnings and best practices based on the past 2 weeks of NDA press & analyst work in the US

  Shortcut to Office
  Online Anal...

- The latest DRAFT of the Office Online press release

  Shortcut to
  icrosoft Announce..

In addition, this message contains the latest draft of the announcement email that will be sent to the worldwide sales force on Tuesday morning. It contains recommended rules of engagement, the most current messaging & presentations for each customer segment and partner type. Note, there are still some items that are incomplete or in draft form. These will be updated tomorrow before the email goes out to the field.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
SALES FORCE ANNOUNCEMENT - NOVEMBER 9TH
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MS/CR 0028370
CONFIDENTIAL

Over the past month and a half, Steve Ballmer has spoken extensively about the importance of "Software as a Service" to Microsoft as well as our customers and partners. Today, we are announcing the Microsoft Office Online pilot program - a new service that enables small to medium business users to rent Microsoft Office 2000 on a monthly basis through Microsoft bCentral as well as a number of 3rd party application service partners (ASPs). The goal of the pilot is to refine our understanding of the

evolving customer needs, licensing models, delivery channels, key user scenarios, and the technological requirements for being successful in the software services market. The results of this trial will form the basis for the full rollout of the complete commercial licensing program that will be delivered by Q2 2000.

Key Messages

- The software services market holds tremendous promise, but is still in its infancy. The Office Online pilot program enables Microsoft, working with partners, to better understand customer needs and develop the technology expertise required to be successful in the software services market.

- The nascent software services market will provide Microsoft partners with new opportunities to deliver a broad range array of services ranging from customization & deployment, to application management and services delivery. For the foreseeable future, Microsoft partners should expect their current business models to continue successfully.

- Microsoft bCentral and ASPs participating in the Office Online pilot, will deliver Microsoft Office 2000 over the Internet using Windows Terminal Server; a rich, customer-proven hosting solution available today. In addition, many Office Online pilot partners will provide Microsoft Exchange, thereby delivering a full Knowledge Management solution as part of their service offering.

Here is the Office Online Press Release:

Shortcut to
icrosoft Announce..

Action Items for You

We expect extensive analyst and press coverage from this announcement so your customers and partners will have questions. As such, we've prepared a complete set of materials and recommendations for engaging your customers and partners. If you have non-customer or non-partner related questions regarding the Office Online announcement, please refer to the **INTERNAL ONLY** Q & A below:

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<<INSERT MICROSOFT INTERNAL ONLY Q & A.DOC HERE>>
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Customers

It is important to remember that Microsoft Office Online services are in **PILOT** at this stage. Therefore, most customers will view this as an opportunity to explore their options more fully and will want to get more information from Microsoft. For example, there are a few scenarios where hosted services could be a compelling solution for customers:

Breadth/Depth
- Organizations with branch offices that don't have on-site IT support can rely on an ASP partner to deliver guaranteed service.
- Organizations with a significant number of roaming users (e.g. consulting firm with knowledge workers moving to numerous client locations)

SME
- SME customers with limited technology expertise may view ASP services as the easiest way to access new software solutions
- SME customers may want to develop internal technical competencies because it defocuses them from their core business

Recommended Steps

Given the early state of the software services market, we do not expect this new offering to drive significant business away from traditional EA and Select opportunities among Breadth/Depth customers. Nor do we expect any significant changes from our current OPEN and FPP business with SME customers. If you have accounts that are interested in the software services model, we recommend the following steps:

1. Send the attached email and Q & A to your customers who want more information. They provide a high-level overview of the Office Online pilot announcement, background information on our software services strategy and answer the most

common customer questions.

2. For customers that want more in-depth information, you may decide that an account call is warranted. In this case, you should deliver the PowerPoint presentation attached below. It builds upon the content in the email message by adding in more information about usage scenarios, Microsoft hosting technology, a deeper overview of Microsoft software services strategy and high-level timeline.

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<<INSERT CUSTOMER-READY Q & A HERE>>

Partners

Application hosting is very important to our channel partners because it presents a broad array of new business opportunities ranging from service customization & deployment, to application management and services delivery. On the other hand, some partners will see this as a significant change in the way they do business today and may perceive it as a risk. Therefore, our job is to inform them of the long-term opportunities and Microsoft's strategy for succeeding in the software services industry.

1. MCSPs

Messages
Microsoft's vision is to empower people with great software any time, any place, and on any device. For businesses, this vision translates into lower costs, increased productivity, and greater competitiveness. Over time, this vision will be realized through software as services delivered with ISP, Telco and Hosting Provider partners.

Microsoft is embarking on a pilot program to enable a limited set of ISP, Telcos and Application Service Providers (ASPs) to deliver Microsoft BackOffice and Office 2000 as hosted services. Although limited in scope, this pilot will provide many new service opportunities for our MCSPs. In order to realize the benefits of these hosted applications, businesses will require a wide range of MCSP-provided services such as implementation, integration, and solution development/customization. This pilot is an opportunity for both Microsoft and MCSPs to learn together what services our customers need to be successful in the new world of hosted applications.

If you are interested in learning more about how you can work directly with the hosting partners participating in the pilot please or are interested in exploring the possibility developing your own hosting services on the MS platform, go to the MCSP web site at www.mcsp.one.microsoft.com <http://www.mcsp.one.microsoft.com>. From this site, you may get details on the ASP pilot programs or to register for local, MCSP-exclusive "Building ASP Services into your Offerings" Business Builder Briefings.

Slide presentation
Note: file is big (8.2MB) and uses builds. Please take this into account when downloading and viewing.

Shortcut to MCSP
ASP Message- ...

MCSP-ready email

Shortcut to Office
Online MCSP...

Field actions
- Send out the attached email to all local MCSPs after the Nov 9 announcement
- Use the MCSP ready presentation to answer any questions MCSPs may have
- Refer MCSPs to local Q3 MCSP-Exclusive Business Builder "Building ASP services into your Offerings" events and the MCSP website to get greater detail. Content around these items is part of the official Q3 SME QIC and may be found in the QIC binders.

MCSP call to action
Go to the MCSP web site at www.mcsp.one.microsoft.com <http://www.mcsp.one.microsoft.com>. From this site, you may get details on the ASP pilot programs or to register for local, MCSP-exclusive "Building ASP Services into your Offerings" Business Builder Briefings.

2. ISPs, ASP, and Telcos

Messages

Microsoft's vision is to empower people with great software any time, any place, and on any device. For businesses, this vision translates into lower costs, increased productivity, and greater competitiveness. Over time, this vision will be realized through software as services delivered with ISP, Telco and Hosting Provider partners.

Microsoft is embarking on a pilot program to enable a limited set of ISP, Telcos and Application Service Providers (ASPs) to deliver Microsoft BackOffice and Office 2000 as hosting services. As a pilot, this program is limited to just those partners that have already been working with Microsoft on previous pilots and have demonstrated a high state of readiness for application hosting.

We expect that the commercial license program will become widely available by late Q2 2000. In the mean time, partners who are not in the pilot but want to prepare for the coming commercial phase can engage with NSG and begin working with ASP deployment kits and other readiness tools as they are made available through NSG.

MCSP-ready email

Shortcut to Office
Online NSG ...

Slide presentation

Shortcut to NSG
Telco ISP part...

Field rep call to action
- Send out the attached email to all local ISP's, Telco's and hosting providers after the Nov 9 announcement
- Use the NSG partner-ready presentation to answer any questions ISPs, Telco's and hosting providers may have
- Refer ISPs, Telco's and hosting providers to the Microsoft ISN web site at www.microsoft.com/isn
  <http://www.microsoft.com/isn>.

Partner call to action
In addition to this pilot program, Microsoft is also interested in working broadly with ASPs, ISPs and Telcos to help them achieve service-readiness for application hosting services based on Microsoft products. We recently announced the availability of 4 ASP deployment kits for Customer Relationship Management, Business Services, Corporate Purchasing and Office Server Extensions. These kits are available at no charge to our partners, and are great tools for understanding what is involved in delivering application hosting services.

To download the 4 ASP deployment toolkits, please go to the following URL's:

Customer relationship management:
<http://www.microsoft.com/ISN/comhost/cust_rel_mgmt.asp>

Business services:
<http://www.microsoft.com/ISN/comhost/great_plains_hosting.asp>

Corporate Purchasing / E-procurement:
<http://www.microsoft.com/ISN/comhost/clarus_e_commerce_pa.asp>

Office Server Extensions:
<http://www.microsoft.com/ISN/comhost/office_2000_ose.asp>

If you are interested in learning more about application hosting services on the Microsoft platform, please visit the ISN web site at www.microsoft.com/isn <http://www.microsoft.com/isn>.

3. LARs & Distis

Messages
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Slide Presentation

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LAR & Disti call to action
<<BRENDO TO DELIVER MONDAY>>

Next Steps

It is important to note that this announcement is the first in a series of public commitments that Microsoft will be making throughout FY00. We expect to have at least one other major announcement in this area by the end of CY99. This is a very important strategic announcement, because it is our first announcement of our plans with Office, but this is one in a set of important announcements. There will be more announcements in the next 6 months as we move forward. You should think our strategy in the software services market as having at least these 5 critical components (to put this announcement into context):

- **Software services platform** - Windows DNA 2000 services; announced Sept 13th '99 with future announcements planned early next year.
- **Knowledge Worker services** - Microsoft Office and Microsoft Exchange services are in PILOT today. We are NOT making a broad commercial availability announcement, this will not happen until the Q2 2000.
- **Microsoft bCentral** - our strategy for helping small businesses leverage the Internet to drive their business. bCentral was announced this summer, the announcement includes Office as one of those services.
- **LOB hosting strategy** - leveraging our platform (above) to allows ISVs, DSC, SIs, and customers to host their LOB apps and services. This program is in pilot today with 6 ISVs and about 10 ASPs and will be extended soon. A joint announcement with CISCO was made on October 26th.
- **Partner engagement strategy** - while Microsoft is engaging with a new set of partners to go after this market (ASPs, ISPs, and Telcos), it is important to remember that we are also working with our current partners to take advantage of this new opportunity. Our commitment is to work openly with partners, to learn and share our experience with them in these pilots, to attack new opportunities for growing our business and delivering higher quality customer experience.

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From:	Andrew Dixon (Exchange)
Sent:	Sunday, November 07, 1999 5:46 PM
To:	John Vail (Exchange); Joseph Krawczak Directs and Leads
Cc:	Lisa Gurry (BROWN); David Jaffe (OFFICE) (Exchange); Kari Hensien (Exchange); Christine Chang (Exchange)
Subject:	FW: Release/Q&A for the update mail
Importance:	High

In addtion to the docs below, here is a top level 'best practices' doc that outlines some of the learning from the analyst tour we conducted last week with stevesi. It highlights ways to refine our messages and identifies key issues and how to respond to them. These documents will all be included as a part of John Vail's internal communication.

Office Online
Analyst Best Pra...

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

From:	Lisa Gurry (BROWN)
Sent:	Sunday, November 07, 1999 1:31 PM
To:	John Vail (Exchange)
Cc:	George Meng (Exchange); Andrew Dixon (Exchange)
Subject:	Release/Q&A for the update mail
Importance:	High

Press release:

Microsoft
nounces Office Onl.

Rude Q&A:

Office Application
Hosting Rud...

Link for more information for customer-ready email:
http://www.microsoft.com/office/smallbiz/ (this link will hold fact page, link to press release, link to WTS info, links to partner press releases, FAQ)

We'll also have headlines on Microsoft.com and the Office home page on Tuesday and we'll be included in the Microsoft Daily News.

Lisa Gurry
Microsoft Office
425-703-0549
Pager: 1-800-759-8352, Pin:1577218

Office Online Analyst and Press Tour
Key Findings and Best Practices

During the week of November 1 we conducted an analyst and influentials tour in preparation for the November 9 Office Online announcement. The slide deck and talking points used for the document are attached below (along with the rude Q+A).

Overall we gathered good feedback on our pitch including ways to refine our messages and identifying key issues and how to respond to them. At a high level, analysts were not surprised by our plans to make Office available as an Internet-hosted application. They see our actions as a rational approach to addressing this emerging market.

The opportunity for us is to properly balance the excitement of application hosting with our rational, logical approach in such a way that our announcement is seen as significant and exciting news. The following is an overview of the key takeaways of what we learned from the meetings.

1) **Office Hosting Strategy**
   Make it clear that we have a realistic strategy when it comes to application hosting which builds upon the strengths of Office. We stressed that we have over 100M users around the world, all with different needs. Office Online is a natural extension to our business in that it represents another choice in how customers receive and use Office. Be clear up front that this is inline with our strategy to provide the best applications for customers in a variety of different ways. In addition, this is not a rip and replace strategy – Office Online delivers the full Office 2000 suite and leverages your investment in tools and training.

2) **Timing**
   Some analysts asked if our announcement was a forced response to Sun's. We made it very clear that this not the case. The industry rather than customers (or competitors) is the real driver for application hosting. Stress that the hosting market is in its infancy and likely won't be a significant business until 2-5 years out. That said, MS has proven hosting technology available today and is taking a leadership approach by getting into the market now so we can better understand customer and implementation issues as this market begins to emerge.

3) **Technology**
   Some analysts were confused about the version of Office and the technology that is used to deliver Office Online. It's important to be very clear up front about the fact that this is the complete (and the same) Office 2000 suite, delivered using Windows 2000 Terminal Services. This also helps to reinforce the fact that we have been working towards a Web hosting solution for a number of years. It is key that we demo this technology for those who are unfamiliar with terminal services and hosting in general. One example Stevesi used was that of Harvard Business School students who were running Desktop.com (an HBS grad company) in their browsers on terminals. In the time they downloaded the Desktop.com controls, Steven was able to run the entire Office 2000 suite with the full Windows 2000 desktop.

4) **Customer Demand/Reaction**
   Some analysts challenged us as to whether there was any significant customer demand for hosted desktop applications. It is important not to be perceived as trying to sell or defend the need for hosted applications. In fact we said that we felt there will be more demand from the channel wanting to sell this as a service than there will be customers who want to buy it. The most likely customers who will benefit from Office Online are likely niche customers such as certain branch offices, small businesses, and verticals (see PPT slides). Stevesi also used the example of our own Office development team uses Office in a hosted environment to be able to run each new build of Office as we develop the next release, without having to continually re-install it on their local machines.

5) **Channel Partners**

There was significant concern about what Microsoft's entrance into the hosting market will mean to the channel and partners. We were very careful to stress that application hosting is a nascent market, and the traditional models of purchasing and using software won't change overnight. Office Online has advantages for certain customers and scenarios but also has real limitations (e.g., no offline support for laptop users). Customers will likely continue to purchase and use software as they currently are doing for the near future. Delivering Office as a hosted service opens up opportunities for the channel (ASPs, ISPs, traditional resellers, OEMs etc.) to extend their current business models. The true value will come from Office as a part of other value added services that deliver against customer needs and that can be outsourced.

6) **Pricing**

There was strong interest in the question of Office Online pricing. We emphasized that pricing was not yet final but it should be thought of as taking the price of a box of Office and amortizing it over the useful life of the product (24-36 months). It is important to stress that Office Online is going to be price (or cost) neutral – we are not trying to make more or less money per license. This is simply another choice in how our customers can receive and use the leading desktop suite. We also emphasized that ASPs would likely be delivering Office as a part of a larger service offering and that the Office license would be a small part of the overall cost.

7) **Security/privacy**

The security and privacy of data was a concern for some of the analysts. We stressed that Office Online uses encrypted technology (the RDP protocol) and NT security on server side. We also agreed that service level agreements, privacy, reliability, security will all be important in choosing the ASP to provide services such as Office.