From: Kunju Kothari
Sent: Thursday, October 07, 1999 12:33 PM
To: Bill Landefeld (Exchange)
Cc: Jon Anderson (Exchange)
Subject: Global Price Waterfall Presentation to RichT's staff

Bill,
You had asked me to brief RichT's staff on the GWF project. This meeting is scheduled for tomorrow at noon. Are there any issues I need to be aware of / focus on in the meeting?

I have prepared a presentation that gives an overview of the project, current waterfall issues, proposed waterfall rules to handle these issues, and implementation timelines. Will this meet the needs of the audience? Thanks for your help in advance.

Global Price Waterfalls - Cons...

Kunju

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Global Price Waterfalls

Kunju Kothari

October 7, 1999

Agenda

- ⌘ Situation - European Price Harmonization Project
- ⌘ Goals & Objectives
- ⌘ Current Price Waterfall Issues
- ⌘ Proposal Summary
- ⌘ Implementation Plan

European Price Harmonization

- Europe's move towards pricing in Euro Currency meant:
  - Need existed to do large scale price adjustments
  - Be consistent with US (default) Price Waterfall rules
    - Open A will be the base price
    - Apply an uplift to base price
    - Be revenue neutral
- US Price Waterfall rules had issues that needed to be addressed before Europe could move forward
- Presented an opportunity to define a Global Price Waterfall
  - Process efficiencies
  - Reduced complexity
  - Greater consistency between subsidiaries

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<u>European Price Harmonization project</u>

* Led by Richard Lindh (Director EMEA Marketing), and Gillian Frampton (Business services manager - channel programs, Burlington Consultants.

* Objective: How MS products will be priced in Euro currency & achieve coherent pricing. REVENU NEUTRALITY MODEL

* Proposal - Adopt US Volume Waterfall from Open A through MVLP Upg. FPP constrained to a 20% bandwidth. Apply two uplifts - Standard 20%, transitional low of (6% for Greece and Spain)

* Recommendations made to Michele Lacombe Oct 98 - approved

Goals & Objectives

- ⌘ Define a Global Price Waterfall that is:
  - Consistent within each Product Family
  - Minimizes revenue impact / number of price changes
  - Logical and Simple
  - Provides a platform for introduction of new Licensing programs
- ⌘ Obtain buy-off from Senior Management - Feb 23rd 1999 (timing driven by Europe's plan to publish Euro price lists July 1st)

Current Price Waterfall Issues

- **Inconsistent Price Waterfalls**
  - Between Products and within same Product Families eg. Office and Office Pro
  - Upgrades Waterfall flatter than Full license for some products, steeper for others
  - Relationship between Full License and Upgrades vary by product e.g. US VUP Open A Office Pro starts at 58%, Office Std at 46% and Word at 25%
  - Minimum Price differential between FPP & Open A varies by product

- **Pricing anomalies**
  - Net Open C&D prices lower than Select A Open
  - Often Retail street price lower than Open A
  - Published (ERP) price cheaper at Open when net price OK
  - Wide gap between Select ERP and Street price
  - End user rebate specific to US impacts worldwide pricing

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Comparison: ERP, Street, & Disti Price

Office Pro, standard (new) license:

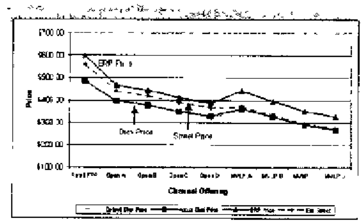
Issues :

→ Current US Prices for Open C and D are lower both at disti and ERP price

→ Close relationship between Street price and ERP for FPP, and Open. Much Wider gap for Select

Proposal :

→ Align ERP markup with Open at 117.65%



Points	Office SU Pricing	Default Disti Price	Actual Disti Price	ERP Price	Est. Street	Actual Margin	MS Calculated Margin
	Retail FPP	$409.17	$409.17	$539.00	$559.00	10%	19.7%
[illegible]	Open A	$389.66	$395.86	$466.00	$440.00	10%	15.0%
[illegible]	Open B	$379.21	$322.84	$445.00	$420.00	13%	15.0%
[illegible]	Open C	$350.04	$349.84	$412.00	$389.43	13%	15.0%
[illegible]	Open D	$325.87	$328.65	$387.00	$366.32	10%	15.0%
[illegible]	MVLP A	$363.41	$363.77	[illegible]	$371.25	2%	17.7%
[illegible]	MVLP B	$325.46	$326.75	$397.00	$338.69	2%	17.7%
[illegible]	MVLP C	$299.03	$299.70	$353.00	$296.39	2%	17.7%
[illegible]	MVLP D	$269.34	$269.30	$327.00	$274.90	2%	17.7%

Current ERP Markup and Margin

Corporate		Uplift from Net to ERP (Markup)	Discount from ERP to Net (Margin at ERP)
Std and Upgrades	FPP	123.00%	19.7%
	Open	117.65%	15.0%
	Select	121.51%	17.7%

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- Use example of Office Pro to highlight problems with current US Waterfall

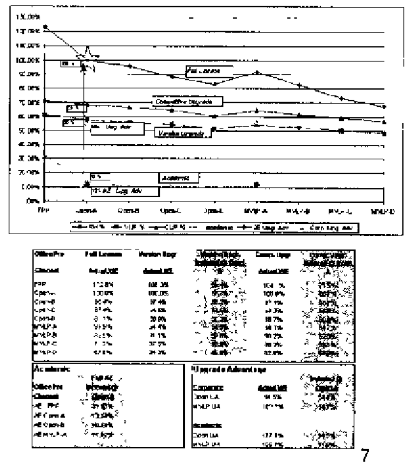
- The chart shows price at which we sell to disti (net rev. to MS), ERP published prices and Street price. Numbers at the bottom show s how this translates into margins for the channel

- If we go to the chart, we can see that both Open C and D are cheaper than MVLP A . This is a big issue and the company is spending many cycles explaining why this should be the case Also, recently, we dropped number of units required to qualify for Open, so the explanation of lower price for upfront payment becomes week.

Office Family
Comparison: Current Full License & Upgrades

MS Office in the US

- → Upgrades Waterfall flatter than Full License
- → Open C&D prices lower than Select A
- → Relationship between Full License and Upgrades vary by product in the US, e.g. VUP Open A Office Pro starts at 58%, Office Std at 46% and Word at 26%
- → Similar findings in other subs.- VUP Open A Office Pro starts at 48% in Germany and UK, 53% in France, and 58% in Japan
- → Academic discounts differ by product
- → Open Upgrade Advantage price lower than VUP price / varies by product and pricing level



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Global Waterfall Proposal

- Separate Price Waterfalls by product groupings eg. Office Family, Developer Tools, Consumer OS, Windows Pro, and Servers/Cals.
- Separate Price Waterfalls for Full License & Upgrades
  - **Upgrades Waterfall:**
    - Flatter than full product waterfall for all Products (except Servers & Cals - one Waterfall)
  - **Minimum Price** differential between FPP & Open A of 10%
- Upgrade Advantage pricing rules consistent for Select & Open at 130% of their respective VUP level A price
- Open A will be the base price
  - Greater consistency in Licensing
  - Flexibility with FPP
- Open C/D pricing reconciled with Select A
- Select ERP reduction; no change to net price
  - Eliminates open/select "published" price differential
  - Better reflects margin for single tier distribution

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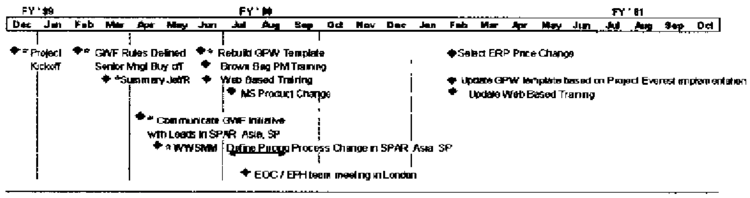
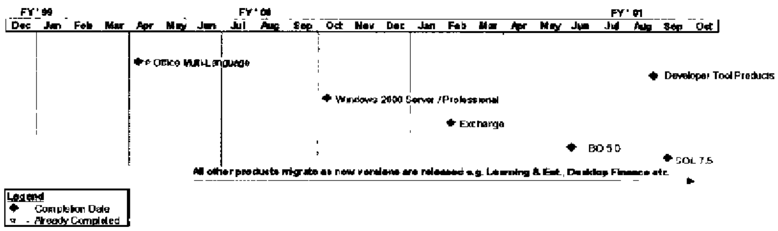
Global Price Waterfall - Implementation Plan

Global Price Waterfall Status - 10/1/99



Migrate Products to Global Waterfall Rules (Milestones refer to Global prices in MS Product)



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Methodology

- Project used an iterative process of Analysis - Consultation - Analysis to drive towards a solution
- Project Team
  - Core team comprised of Finance, Volume Licensing and Product Groups. Consultation with customer units / Europe
  - Reviews / Approval - Peterbo and JonA
- Analysis Focus
  - Analyze Current Waterfall rules
  - Map similarities / issues
  - Competitor Waterfall analysis
  - Scenarios / Impacts
  - Proposal
- Project started Dec 98 and completed Feb 99

Price Waterfall History

- First Price Waterfall developed 5 years ago by US Channel Policies
- Only FPP, MLP and Select offered at that time
- Select discount determined by cost savings within MS versus value proposition to the customer, and MSI competitive research
- Open appeared later and squeezed in between FPP and Select
- Move from SRP to ERP for FPP and Open.
- Select ERP could not be adjusted due to global implications. This may explain markup differences between FPP, Open and Select and current price anomalies

Summary: Price Waterfall Proposals

Agenda

- Relationship between ERP, Disti. and Street Price
- Current and Proposed Waterfalls
  - Desktop Applications
  - Developer Tools
  - Platform Desktop
  - Platform Servers and Cals.

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Office Family
Comparison: Current Full License & Upgrades

MS Office in the US

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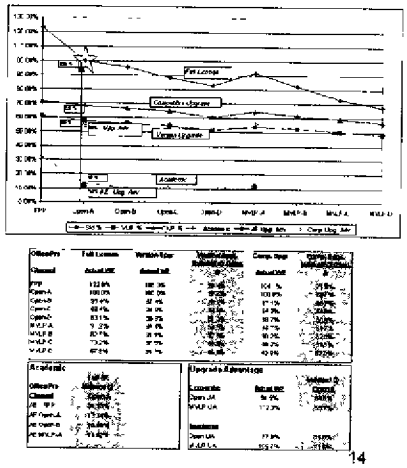
- → Open C&D prices lower than Select A
- • Relationship between Full License and Upgrades vary by product in the US, e.g. VUP Open A Office Pro starts at 58%, Office Std at 46% and Word at 26%
- → Similar findings in other subs.- VUP Open A Office Pro starts at 48% in Germany and UK, 53% in France, and 58% in Japan
- → Academic discounts differ by product
- → Open Upgrade Advantage price lower than VUP price / varies by product and pricing level.



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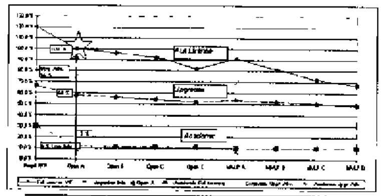
Desktop Applications: Global Waterfall Proposal

- Separate Price Waterfalls for Full License & Upgrades
  - **Upgrades Waterfall:**
    - Flatter than full product waterfall
    - Key variable is Open A % discount from full product
    - Subs. apply theoretical Open A price for VUP (gross of end user rebates in US)
  - **Minimum** Price differential between FPP & Open A of 10%
- **Upgrade Advantage pricing rules consistent for Select & Open at 130% of their respective VUP level A price**
- **Open A will be the base price**
  - Greater consistency in Licensing
  - Flexibility with FPP
- **Open C/D pricing reconciled with Select A**
- **Select ERP reduction; no change to net price**
  - Eliminates open/select "published" price differential
  - Better reflects margin for single tier distribution



	Full License WF	Upgrades WF	Upgrades Index @ Open A	Academic Full License	Corporate Upgr Adv	Academic Upgr Adv
Retail FPP	120.0%	115.0%	[illegible]	30%		
Open A	100.0%	100.0%	[illegible]	[illegible]	73%	[illegible]
Open B	[illegible]	[illegible]	[illegible]	11%		
Open C	[illegible]	[illegible]	[illegible]	11%		
Open D	[illegible]	[illegible]	51.[illegible]%	11%		
MVLP A	[illegible]	92.[illegible]%	[illegible]	11%	70%	[illegible]
MVLP B	81.9%	90.[illegible]%	[illegible]	11%		
MVLP C	[illegible]	[illegible]	50.7%	11%		
MVLP D	[illegible]	84.7%	48.3%	11%		

Notes

Academic proposal is for US only. Only Open level A, B and MVLP A are offered

LED will use same Waterfall as DAD

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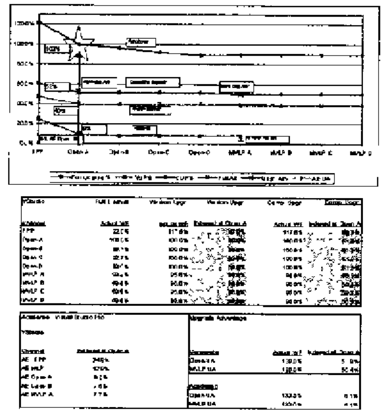
Developer Tools:
Comparison: Current Full License & Upgrades

Visual Studio Pro

- Upgrades Waterfall flatter than Full License
- Full License Open D price lower than all Select Levels
- Relationship between Full License and Upgrades vary by product in the US, e.g. VUP Open A is 40% of Full License Price for Visual Studio but 60% for VC++ and VJ+. Competitive Upgrade price is 52% for Visual Studio
- Full License Academic price starts at 25% of FPP and is discounted down to 8% for Select
- Upgrade Advantage price is consistent for Open and Select at 130% of their respective VUP level A price



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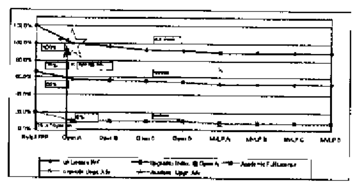
- Use example of Office Pro to highlight problems with current US Waterfall

- The chart shows price at which we sell to disti, ERP published prices and Street price. Numbers at the bottom show s how this translates into margins for the channel,

- If we go to the chart, we can see that both Open C and D are cheaper than MVLP A . This is a big issue and the company is spending many cycles explaining why this should be the case. Also, recently, we dropped number of units required to qualify for Open, so the explanation of lower price for upfront payment becomes week

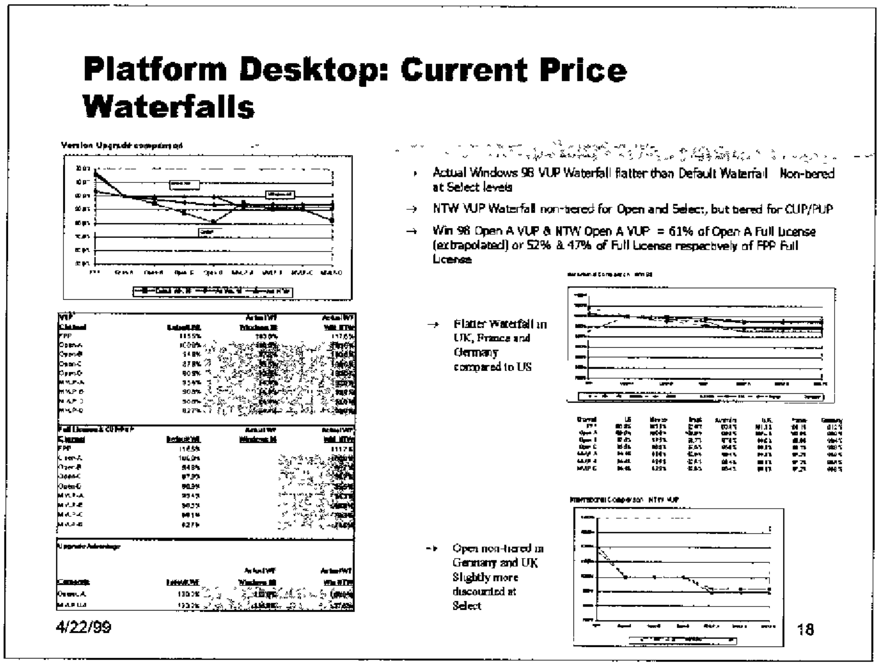
Developer Tools: Global Waterfall Proposal

- **Separate Price Waterfalls for Full License & Upgrades**
  - Select Non-tiered - same pool as Desktop Apps, qualifies customers for Select price on strength of other product purchases
- **Upgrades Waterfall:**
  - Flatter than full product waterfall
  - Key variable is Open A % discount from full product
  - Subs apply theoretical Open A price for VUP (gross of end user rebates in US)
  - **Minimum Price** differential between FPP & Open A of 10%
- **Upgrade Advantage pricing rules consistent for Select & Open at 130% of their respective VUP level A price**
- **Open A will be the base price**
  - Greater consistency in Licensing
  - Flexibility with FPP
- **Open C/D pricing reconciled with Select A**
- **Select ERP reduction; no change to net price**
  - Eliminates open/select "published" price differential
  - Better reflects margin for single tier distribution



	Full License WF	Upgrades WF	Upgrades Index @ Open A	Academic Full License	Corporate Upgr Adv	Academic Upgr Adv
Retail FPP	120.0%	115.0%	66.7%	20%		
Open A	100.0%	100.0%	56.0%	10%	75%	9%
Open B	96.3%	98.3%	57.0%	10%		
Open C	92.7%	96.6%	56.1%	10%		
Open D	90.1%	95.0%	55.1%	10%		
MVLP A	90.8%	90.8%	52.7%	6%	70%	7%
MVLP B	89.8%	90.8%	52.7%	6%		
MVLP C	89.8%	90.8%	52.7%	6%		
MVLP D	89.8%	90.8%	52.7%	6%		

Note Academic proposal is for US only Only Open level A, B and MVLP A are offered



- Use example of Office Pro to highlight problems with current US Waterfall

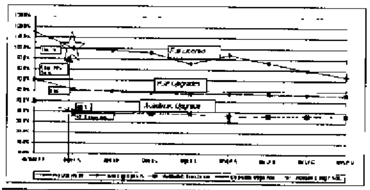
- The chart shows price at which we sell to disti, ERP published prices and Street price. Numbers at the bottom show s how this translates into margins for the channel,

- If we go to the chart, we can see that both Open C and D are cheaper than MVLP A . This is a big issue and the company is spending many cycles explaining why this should be the case Also, recently, we dropped number of units required to qualify for Open, so the explanation of lower price for upfront payment becomes week.

Platform Desktop: Global Waterfall Proposal

- **Separate Price Waterfalls for Consumer (Win 98) & Business OS (NTW)**
- **Consumer OS:**
  - → Full License - FPP only
  - → Upgrades - Flat Waterfall at Open Select non-tiered No change.
  - → Minimum Price differential between FPP & Open A of 5%
- **Business OS :**
  - → Full License & Competitive/Product Upgrade - Steeper Waterfall than VUP
  - → Version Upgrade - Open Waterfall same as Consumer OS Select tiered to reward volume purchase
  - → Minimum Price differential between FPP & Open A of 10%
- **Upgrade Advantage pricing rules consistent for Select & Open at 130% of their respective VUP level A price**
- **Open A will be the base price**
  - ☒ Greater consistency in Licensing
  - ☒ Flexibility with FPP
- **Open C/D pricing reconciled with Select A**
- **Select ERP reduction; no change to net price**

Business OS (NTW)



	NTW Full License VF	NTW VUP VF	VUP Upgrade Index @ Open A	Academic Full License	Corporate Upgr. Adv.	Academic Upgr. Adv.	Add upgrade above Win 98 Upgrade
Retail FPP	115.0%	115.0%	70.2%	50%			110.0%
Open A	100.0%	100.0%	61.7%	40%	79%	37%	100.0%
Open B	98.0%	97.0%	59.5%	38%			97.6%
Open C	96.0%	95.5%	58.3%	38%			95.5%
Open D	85.5%	93.8%	57.1%	38%			93.1%
MVLP A	94.2%	95.4%	57.6%	30%	75%	13%	94.4%
MVLP B	86.0%	93.5%	57.0%	38%			94.4%
MVLP C	79.5%	92.4%	56.4%	38%			94.4%
MVLP D	73.5%	91.5%	55.8%	38%			94.4%

Note Academic proposal is for US only Only Open level A, B and MVLP A are offered

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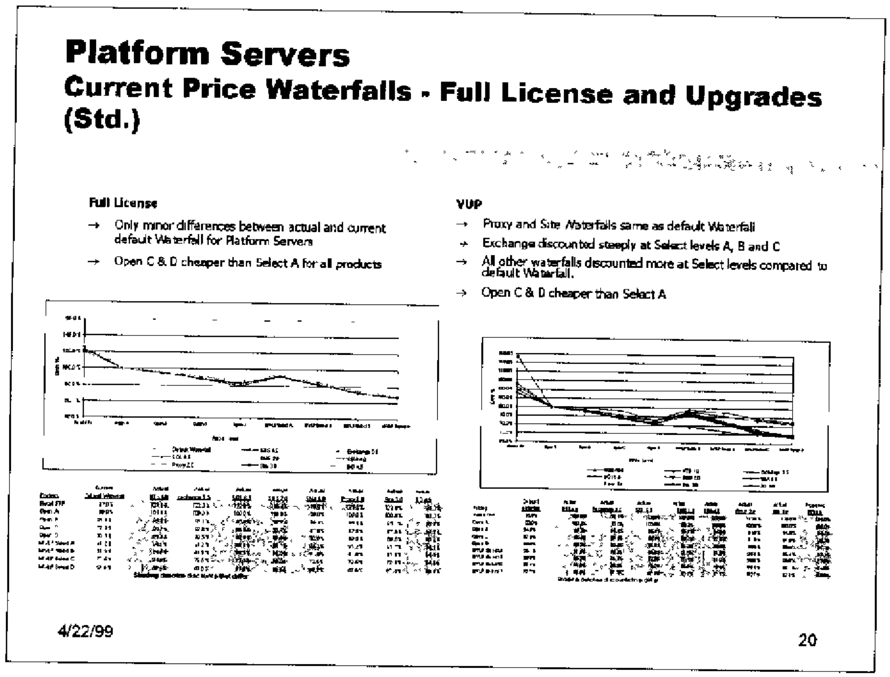
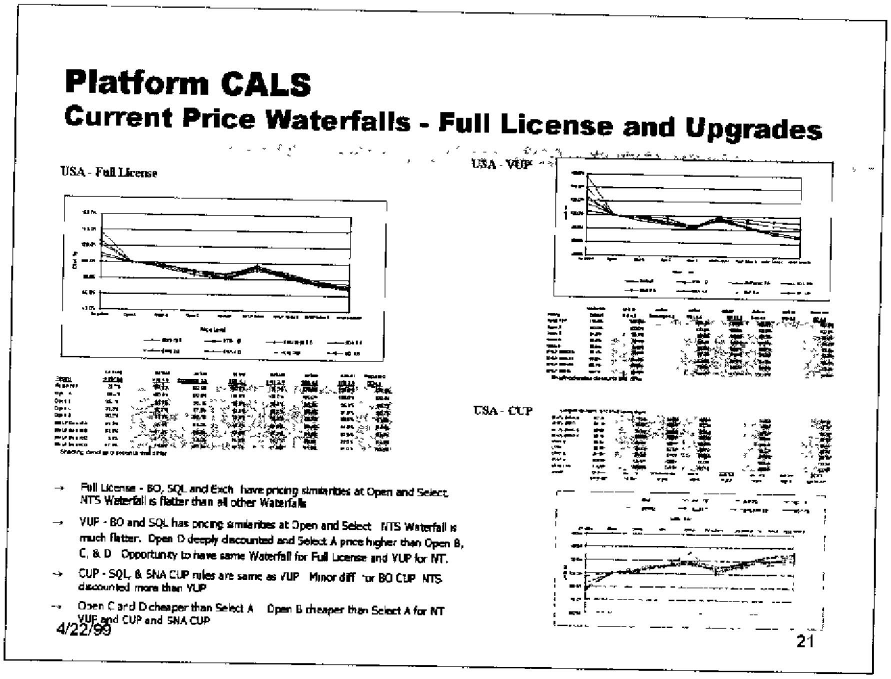


US, Mexico, Japan,UK, France - same issue with Open C being cheaper than Select. Hong Kong applies a linear waterfall, and offers steep discount for Open A at 25%.



US, Mexico, Japan,UK, France - same issue with Open C being cheaper than Select. Hong Kong applies a linear waterfall, and offers steep discount for Open A at 25%.

Platform Servers and CALs: Global Waterfall Proposal

- **Same Price Waterfall for Full License & Upgrades, & for Servers and CALs.**
  - Exception will be made in the US for NTS to manage revenue impact
  - **Minimum Price** differential between FPP & Open A of 10%
- **Upgrade Advantage pricing rules consistent for Select & Open at 130% of their respective VUP level A price**
- **Open A will be the base price**
  - Greater consistency in Licensing
  - Flexibility with FPP
- **Open C/D pricing reconciled with Select A**
- **Select ERP reduction; no change to net price**
  - Eliminates open/select "published" price differential
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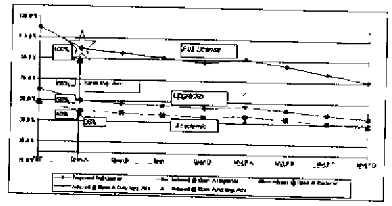

	Proposed Full License	Indexed @ Open A Upgrades	Academic	Corp Upg. Adv	RE Upg. Adv
FPP	100.0%	60.0%	40.0%		
Open A	100.0%	50.0%	40.0%	65.0%	46.0%
Open B	96.0%	48.0%	38.4%		
Open C	91.9%	46.0%	36.8%		
Open D	87.5%	43.8%	35.0%		
MVLP A	91.5%	45.8%	36.6%	59.5%	37.9%
MVLP B	85.0%	42.5%	34.0%		
MVLP C	78.2%	39.1%	31.3%		
MVLP D	71.0%	35.5%	28.4%		

Note Academic proposal is for US only Only Open level A, B and MVLP A are offered