

**The *Microsoft* Office Academic Upgrade Program**  
(A.K.A. "The Student Annuity Program")  
**Marketing Plan**

**Owners:**  
**Microsoft Education Customer Unit**  
**Tina Arnold**  
**Bob Maher**

Plaintiff's Exhibit

9548

Comes V. Microsoft

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**Last Updated: August 8, 1997**

**FL AG 0086537  
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**The Microsoft Office Academic Upgrade Program**  
(EdCU Pilot program - September 15, 1997 - February 27, 1998)

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## EdCU Student Annuity Pilot "At-A-Glance"

**Program Name:**

"The Microsoft Office Academic Upgrade Program"

**Microsoft Goal:**

To capture more revenue from students - a market which typically does not upgrade.

**Brief Description:**

Two year subscription program for Microsoft Office Professional (FPP Windows Version only) sold through ~50 participating campus resellers and one academic distributor (NACSCORP). Initial package purchased at reseller - Microsoft mails upgrades (full package - major upgrades/version changes only) to students.

**Value Proposition:**

The Upgrade Guarantee offers students an inexpensive and simple way to stay up-to-date on Microsoft Office making them more hireable after graduation.

**Price:**

Microsoft to Distributor - \$211.70; Estimated Academic Retail - \$299

**Channel:**

Distributor - NACSCORP; Resellers - Any campus reseller AER is eligible to carry SKU but we anticipate participation from 50 campus resellers.

**Time Frame for Pilot:**

September 15, 1997 - February 27, 1998

**Marketing Efforts:**

Reseller recruitment at reseller conference in July (CCRA); merchandising kits with creative POP displays provided to all participating resellers; campus newspaper ads at 25 participating campuses; NACSCORP faxing product information to all of their resellers; call downs to top participating resellers to assist with and encourage compliance with merchandising; student flyer distributions on top participating campuses.

## **The *Microsoft* Office Academic Upgrade Program** (EdCU Pilot program - September 15, 1997 – February 27, 1998)

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### **Program Overview:**

Microsoft is launching pilot for a two-year subscription program for the Academic version of Microsoft Office Professional for Windows. The program, called "Microsoft Office Academic Upgrade Program", will be launched during the 1997/1998 school year and will give college students the opportunity to purchase Office 97 Professional bundled with guaranteed upgrades for the next two years. "The Microsoft Office Academic Upgrade Program" will be available to college students through their campus resellers. The program is being positioned as an inexpensive and easy way for students to stay up-to-date on Microsoft technology - making them more marketable/hireable after graduation. This message is consistent with Microsoft's back to school campaign, which emphasizes that 90% of Fortune 500 companies run Microsoft Office. The objective is to drive incremental Office revenue from college students. The target retail price point for The Microsoft Office Academic Upgrade Program is \$299, which includes Office 97 Professional plus free suite upgrades for the next two years. This represents significant savings over the full package price for Office Professional for the next two years.

### **Background on the Student Market – A Brief Overview:**

Some important statistics about the academic market include:

- ~15 million college students in the United States
- ~33% of new college students refresh each year
- ~39% of college students own a PC (~5.85 million students)
- ~72% of freshman machines are Wintel (~1.05 million machines)
- ~28% of freshman machines are Mac (~406K)
- 64% of undergraduates say they obtained their first computer before college.

Students typically only purchase one productivity software package while they are in school. Currently, Microsoft does not offer any way for students to "upgrade" to the next version. Their option is to purchase a new copy the product at academic pricing.

### **The Strategy Behind the Pilot Program and the Value Proposition**

The strategy behind the execution of this pilot program is to create a valuable Office upgrade program that will allow Microsoft to capture more revenue from college students. The value proposition for students is that the Academic Upgrade Program provides an inexpensive and simple way for them to stay current on Microsoft technology – making them more hireable after graduation.

### **The Execution of the Pilot Program**

#### **The Product**

The product offering is a packaged SKU that includes FPP Office 97 Professional for Windows Academic Version bundled with two years of upgrades to the suite. The customer purchases the product off the shelf of their campus reseller. Along with the usual CDs and documentation included with the Office product, the Academic Upgrade Program package also includes a program brochure and registration card that allows them to register for the Program. The Program registration card captures address information as well as demographic and marketing research data. Students officially enroll in the program by sending Microsoft the Program registration card along with a copy of their purchase receipt and box top. Major upgrades (i.e., version changes) will be sent to the students within two to four weeks of them becoming

## **The *Microsoft* Office Academic Upgrade Program**

(EdCU Pilot program - September 15, 1997 - February 27, 1998)

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available to retail outlets. A student's two-year clock starts ticking on their date of purchase (as indicated on their purchase receipt). For example, if a student purchases the product on November 2, 1997, she will be sent all major upgrades to the Office suite with a street date of November 2, 1999 or earlier.

### **Channel Partners:**

Our channel partners for this pilot include one distributor, NACSCORP, located in Oberlin, OH and their campus resellers. Microsoft is partnering with NACS in recruiting campus resellers who will carry the Microsoft Office Academic Upgrade Program SKU. Any NACS reseller can participate in the pilot. We have specifically targeted large resellers through call downs along with a hospitality event and presentation at a reseller conference in July. We are estimating that 50 resellers will carry the SKU throughout the pilot.

### **Pricing:**

The target retail (academic) price for the Microsoft Office Academic Upgrade Program SKU is \$299 which represents a \$100 premium over the estimated retail (academic) price for Office Professional without the Upgrade Program. Microsoft is selling the product to NACSCORP for \$211.70. NACSCORP has listed the price to resellers at \$235.22. The strategy in pricing is to test the concept of bundling future upgrades at a price that is considerably lower than the full price the customer would pay for the individual products they will receive in the future. While customers will pay a price premium over regular FPP Office Professional, they will realize substantial savings over what they would pay for the upgrades they will receive. Further, this pricing strategy will allow graduating seniors to extend their academic pricing status.

### **Time Frame for the Program:**

The pilot program will run from September 15, 1997 (the first day the product will be available in campus stores) through February 27, 1998 (the last day the product will be available in campus stores).

### **Target Market:**

The target market for this pilot is college students in two year and four year institutions. Although the Program's marketing materials target college students, any individual who is eligible for academic pricing can purchase this SKU. This includes Faculty and Administrators.

### **Marketing and Promotion Efforts:**

The Microsoft Office Academic Upgrade Program will be promoted to both resellers and to students.

### **Marketing to Resellers:**

Several tactics have been employed to generate reseller interest in the pilot program. First, Tina Arnold and Bob Maher (EdCU) called down to the top 20 NACS resellers in early July to pitch the concept and solicit feedback for the design of the program. EdCU also had a presence at the Campus Computer Reseller Association (CCRA) conference in Anaheim in mid-July where Microsoft hosted approximately 50 resellers in a hospitality suite where we informed them about the program and how they could participate. In addition, NACSCORP pitched the pilot to their resellers in a vendor presentation. In August, NACSCORP will include information about the Academic Upgrade Program in their monthly faxed reseller newsletter. Microsoft is providing NACSCORP with marketing dollars to conduct a

## **The *Microsoft* Office Academic Upgrade Program**

(EdCU Pilot program- September 15, 1997 – February 27, 1998)

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targeted call down to pitch the Academic Upgrade Program to its top 25 resellers. Participating resellers will be supported with merchandising kits and training information once the pilot begins. EdCU will develop 1:1 relationships with two key participating resellers. Microsoft will have weekly telephone follow-ups with these key resellers and will spend marketing dollars to help these resellers reach the target student population. The purpose of the 1:1 relationships will be to support the resellers and to collect anecdotal feedback for our evaluation of the pilot.

### **Marketing to Students:**

The primary vehicle for communicating the Academic Upgrade Program to students will be through merchandising materials provided to participating resellers. Merchandising kits will be provided to each reseller participating in the program who orders a significant quantity of the SKU. The merchandising kit will include tent cards, shelf talkers and two sided posters. In addition to merchandising kits, Microsoft will place three Microsoft Office Academic Upgrade Program advertisements in the campus newspapers of the top 25 schools participating in the program. Further, Microsoft will provide marketing dollars to our two key 1:1 schools. The marketing dollars will be spent to poster the campus with ads for the Upgrade Program. Advertising and merchandising materials will leverage the Microsoft back to school campaign which emphasizes that proficiency in Microsoft Office will help you get a job. The Microsoft Office Academic Upgrade Program will benefit from Microsoft's extensive back to school advertising and merchandising materials which will drive traffic to the Office SKUs on the shelf. Potential vehicles for advertising also include "Career Seminars" and web advertisements.

### **Operations Process:**

The following section outlines the operational steps involved in the delivering the product to the student from the point of purchase at the campus reseller:

1. Student purchases the Microsoft Office Academic Upgrade Program SKU (which includes Office 97 Professional Version for Windows) from their campus reseller for \$299. Each student's two year clock starts ticking on the date of purchase (as documented on their purchase receipt).
2. Student completes the program registration card attached to the Program brochure included in the package.
3. Student mails the registration card along with purchase receipt and box top to Microsoft Operations (self-addressed postage paid envelope included in package).
4. Microsoft Operations validates the registration and enters the student in the Program database.
5. Students who have not properly registered for the Program (e.g. forgot to include the box top) will receive a letter instructing them to send whatever is missing.
6. Operations sends a "Welcome Kit" to registered students which includes a letter and postage-paid change of address cards. Welcome Kit also provides students with a toll free phone number, fax, and address to contact if they have questions or need to inform Microsoft about an address change.<sup>1</sup>
7. Approximately thirty days prior to Microsoft shipping an upgrade to the student, a letter will be sent to the student informing them that their upgrade will be arriving shortly.
8. Microsoft Operations will direct Softbank to ship full package product upgrades to students. The upgrades will be delivered to customers within two to four weeks after becoming available in retail outlets.

### **Program Evaluation:**

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<sup>1</sup> The legal terms and conditions of the program are such that the customer is responsible for keeping Microsoft apprised of their address.

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**The *Microsoft* Office Academic Upgrade Program**  
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NACSCORP will provide product order and sell through data to Microsoft every two weeks. Further, Microsoft will call down to resellers to gather information on how well the product is moving in their stores. The data we are capturing on the registration card will provided Microsoft with valuable information about program customers including: age, year in school, age of computer, where they purchased their computer, field of study, how they learned about the Program and whether or not this is their first Office installation.

**Dependencies:**

**DAD Marketing Operations (Harriet Smith/Chris McDuffie)**

- SKU creation
- Logistics of product build at KAO

**Microsoft Operations (Tamar Boden)**

- Manage process of fulfillment of upgrades
- Manage process of development and maintenance of customer database.
- Manage process of sending Welcome Kits, 30 Day, and Non-Comply letters.

**Supply Chain Management (Jill Alfano/Sheila Sigmund/Victor Bahna)**

- Letter of agreement with NACSCORP
- Forecast for product build

**Legal (Karen Aust)**

- Terms and conditions
- Risk management
- Trademark

**Channel Policies (Annie Olszewski/Allison Haro)**

- Consult on Letter of Agreement

**Microsoft Finance (Bill Benneck/Kunju Kothari)**

- Pricing Waterfall (Distributor price on ERP \$299)

**Product Support/PSS (Steve Blair)**

- Cost estimates for supporting two year annuity program

**Tactical Review Board (Julie Schaller/Jennifer Molloy)**

- Counsel on creation of new kitted SKU for 3 ½ months
- Facilitate communications between Microsoft groups

**Microsoft Resource Management (Joe Hollandsworth)**

- Manage process for the development, creation, production, and shipping for all creative materials including: packaging, merchandising materials and advertisements.

**NACSCORP**

- Distribute product and merchandising materials to participating resellers
- Recruit resellers to sell The Microsoft Office Academic Upgrade Program
- Proactively push The Microsoft Office Academic Upgrade Program

**The *Microsoft* Office Academic Upgrade Program**  
 (EdCU Pilot program- September 15, 1997 – February 27, 1998)

- Provide sell through data

**Forecasts:**

We are estimating that 50 resellers will participate in the Pilot. Appendix 1 shows the unit, cost, revenue, and profit projections we are estimating for the Pilot. For the purposes of this analysis we are assuming that the Academic Upgrade Program will not result in incremental Office sales but will rather replace a certain percentage of Office sales. We assumed that 25% of Office sales in participating resellers would be Academic Upgrade Program sales.

**Key Forecasts:**

Number of Units	1,179
Total Revenue	\$249,541
Incremental Profits from Program Sales	\$6,423
Incremental Profit/Reseller	\$128
Incremental Profit/Unit	\$5.45

**Sensitivity Analysis:**

The forecasts we have made are highly sensitive to the assumptions we have made. Two key assumptions in our forecast were “Number of Resellers Participating” and “% of Office Purchasers Who Will Purchase Annuity”. Table 1 below shows how the results of our forecast would change with different “Number of Resellers Participating”. As demonstrated in the table, the profitability of the Pilot experiences a significant increase between 50 and 100 resellers. Based on our discussions with NACSCORP, we feel that 50 resellers is a good estimated for the number of resellers that will participate.

**Table 1: Forecast Sensitivity to “Number of Resellers Participating”**

Number of Resellers	Incremental Profit / Reseller	Total Incremental Profit	Number of Units	Profit/Unit
50	\$128	\$6,423	1,179	\$5.45
100	\$488	\$48,846	2,358	\$20.72
150	\$608	\$91,269	3,536	\$25.81
200	\$668	\$133,692	4,715	\$28.35

Table 2 shows the forecast sensitivity to “% of Office Purchasers Participating”. This shows how profitability varies with the percent of total Office customers that chose the Upgrade Program instead of the regular Office Professional SKU. Based on 50 resellers participating in the pilot, this analysis shows a break-even point at 21.215%.

**The Microsoft Office Academic Upgrade Program**  
(EdCU Pilot program- September 15, 1997 – February 27, 1998)

**Table 2: Forecast Sensitivity to “% of Office Purchasers Participating”**

Number of Resellers	Incremental Profit / Reseller	Total Incremental Profit	Number of Units	Profit/Unit
5%	(550)	-\$27,516	236	-\$116.59
10%	(381)	-\$19,031	472	-\$40.32
15%	(211)	-\$10,546	707	-\$14.92
20%	(41)	-\$2,062	943	-\$2.19
21.215%	-	\$0	1,000	\$0.00
25%	128	\$6,423	1,179	\$5.45
30%	298	\$14,908	1,415	\$10.54
35%	468	\$23,393	1,650	\$14.18
40%	638	\$31,877	1,886	\$16.90



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**Appendix 1: Unit, Cost, Revenue, and Profit Forecast for the Microsoft Office Academic Upgrade Program Pilot**

Model Assumptions	
Number of Resellers Participating	50
Average Office Pro (Win) Sales Per Reseller (FY97 - top 250 resellers)	82
Sales Growth of Office (Win)	15%
Projected Office Pro (Win) Sales Based on Growth Rate	94
% of Office Purchasers Who Will Participate in Annuity	25%
Distributor Price for Office Pro	\$ 140.29
Distributor Price for Office Pro Plus Annuity	\$ 211.70

	Without Annuity	With Annuity	Delta
<b>UNITS</b>			
Total Office Pro (Win)	4,715	4,715	
Total Non-Annuity Units	4,715	3,536	
Total Annuity Units	-	1,179	
<b>REVENUE</b>			
Office Pro AE FPP (Win)	\$ 661.467	\$ 496.101	\$ (165.367)
Office Plus Annuity (Win)	\$ -	\$ 249.541	\$ 249.541
<b>TOTAL REVENUE</b>	\$ 661.467	\$ 745.642	\$ 84.175
<b>COSTS</b>			
<b>COGS</b>			
Std & non (FPP) @	\$ 14.01	\$ 66.057	\$ 66.057
COGS for OP Fulfillment *	\$ 17.00	\$ -	\$ 26.050
Annuity COGS @ **	\$ 2.45	\$ -	\$ 2.888
<b>TOTAL COGS</b>	\$ 66.057	\$ 92.108	\$ 26.050
PSS Costs (Total per NON-ANNUITY Unit)	\$ 19.51	\$ 91.990	\$ 68.992
PSS Costs (Total per ANNUITY Unit)	\$ 30.38	\$ -	\$ 35.810
Operations Costs (per year that we run pilot)	\$ 7.000	\$ -	\$ 7.000
Annuity BOM Development	\$ 16.000	\$ -	\$ 16.000
Merchandising Materials***	\$ 6.000	\$ -	\$ 6.000
Reseller Training/Recruiting		\$ 7.000	\$ 7.000
<b>TOTAL COSTS</b>	\$ 158.047	\$ 232.910	\$ 77.751
<b>PROFIT</b>	\$ 503.421	\$ 512.732	\$ 6.423