
From: Brad Chase
To: Richard Freedman
Subject: FW: 2 Chicagos or 1
Date: Monday, January 24, 1994 12:18PM

From: Paul Maritz
To: Brad Chase; Brad Silverberg
Subject: RE: 2 Chicagos or 1
Date: Monday, January 24, 1994 10:49AM

I agree that we have to do what you describe below (ie. have stepup, which is not positioned different from base chicago in a major functional way), or have only one product.

The more I think about it, the more I come to conclusion that we cannot afford to have "2" Chcago products. It will be a disaster for us, and a gift to our competitors, if people are confused about "which Chicago" to review or buy. Can you imagine the field day that the press and our competitors would have. It would be bad enough EVEN if we could give each version a legitimate identity and role, which have proved to ourselves we cannot. We have to bite this bullet.

Our job #1 is to get OEMs and existing end-uers to move to Chicago. We should make this as simple as possible, and eschew anything that threaten this - and nothing will threaten it as quickly as confusion. People should not have to think.

The consequences of accepting this point of view is that retail revenue is going to be lower than we would like, and we have to focus on OEM revenue - both for the base and the stepup. I would be interested in seeing the numbers.

From: Brad Chase
To: Bill Gates; Joachim Kempin; Mike Maples; Steve Ballmer; Tom Evslin
Cc: Brad Chase; Brad Silverberg; Jonathan Lazarus; Paul Maritz; Richard Freedman
Subject: RE: 2 Chicagos or 1
Date: Monday, January 24, 1994 9:59AM

another idea that may be easier to sell and communicate is to have two products, Windows 95 and the Windows 95 Step-Up. The Step-Up could be the Potporrui or something else but lets say for the sake of arguement and visualzation that it has the speed and space features we discussed at the BOOP meeting. So the product has DoubleSpace and a little more speed. Hopefully over time we can add even more speed. Anyway, now we have only one Windows 95 for both OEMs and Upgrade. Then there is the Step-Up product that sells at retail say for b/t $29-$49.

Some advantages of this approach are that
a) Joachimk can still try to get more money for the base Windows 95
b) The step-up has a clear retail value so if it does well it is easier to sell it to oems for another $5-$15
c) More revenue upside. Everyone (not just base customers) who gets Windows 95 can be step-upped. Much easier to sell to people who get Windows '95 on a new PC.
d) Way less confusing b/c the Upgrade and OEM products are the same
e) You can do more with less features b/c you do not have to have this amazing set of features to differentiate the step-up like you do to differentiate premium from base. For example speed and space is hard to sell as premium. but while it is not earth shattering, it is not as bad as a step-up (if you count some % of the MS-DOS 6 Upgrade and Stacker monthly sales compression has a pretty good monthly retail run rate even

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though now almost all new machines already have DoubleSpace).
f) Base customers are more likely to step-up b/c they pay $29 to $49 instead of $99. You could argue that you lose revenue here too of course if you believe lots of base customers will pay $99 (which i don't believe).
g) Makes it easier to keep Capone in the base product b/c the Step-Up *is half* the price of the Upgrade
h) Gives you some retail flexibility, for example you have your font pak for launch. you could bundle the two products is sales are slow.
h) Gives you more flexibility over time than having one product

Some disadvantages of this approach are:
a) One more retail sku to market, support etc.
b) The lower SRP of the Step-Up puts boundries on what you can charge OEMs for it
b) Less of the Windows magic fairy dust. The Step-up is not Windows itself so it will be more clearly seen as a utility pak (even though the delta b/c base and premium would likely be the same feature set). We can mitigate this somewhat by still making sure that the features can not be copied. No integrated compression without the step-up for example.

We haven't run #s on this yet, worked through the technical issues or talked to alot of people about it. But I thought I would throw it out now for feedback.

From: Tom Evslin
To: Bill Gates; Joachim Kempin; Mike Maples; Steve Ballmer
Cc: Brad Chase; Brad Silverberg; Jonathan Lazarus; Paul Maritz
Subject: RE: 2 Chicagos or 1
Date: Monday, January 17, 1994 9:40PM

If we follow Joachim's suggestion, then I think the logic is that mapi and all capone need to be in base. This should be OK (I hope) if we're only tring for a $15 delta for premium from oems.

From: Joachim Kempin
To: billg; mikemap; steveb; tomev
Cc: bradc; bradsl; jonl; paulma
Subject: RE: 2 Chicagos or 1
Date: Monday, January 17, 1994 11:49AM

After thinking about this over the Weend, and reading this mail, I recommend we investigate an approach which goes like this: define an attractive base product which contains all the APIs we deem to be strategic and try to sqeeze $5 more per system shipped from OEMs. Define a premium product with some performance improvement and other attractive features which fall more in the "Norton tool and nice to have" area. Make the premium version the only retail version and let OEM pay $15 more if they want it. This would allow the retail biz to sell at a reasonably high price, cuts down the SKUs and will attract *e/U as well as OEMs to make a fast transistion.*
I have not done the math, but a rough estimate tells me this will get us to 3 B$ no problem.

From: Tom Evslin
To: Bill Gates; Mike Maples; Steve Ballmer
Cc: Brad Silverberg; Brad Chase; Joachim Kempin; Jonathan Lazarus; Paul Maritz
Subject: 2 Chicagos or 1
Date: Saturday, January 15, 1994 12:30PM

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Disclaimer: What I am arguing below is best possible outcome for workgroup strategy. But I believe it's right for Chicago revenue as well.

problem in maximizing Chicago revenue is to add enough value vs. Win 3.1 so either oems or consumers buy a high priced version most of the time. Having a base version. I think, makes this harder rather than easier.

(obvious) if there's a base, the money making version has to have a big value delta over the base as well as over 3.1. This is a mkting nightmare because we have to differentiate two new windows versions and sell against our own low end version while still promoting as better than the very popular win 3.1. It's also a problem for dev which needs not only to make and test two versions but also needs to make sure that upgrading base to premium isn't a slam dunk for some 3d party. We spend dev effort making things worse rather than better.

Although speed is a great differentiater, it is not enough (I say) for promoting a total shift of the market AND a new price point. Windows isn't faster than DOS; it is easier to use and applications which are easier to use require Windows. APIs are a great differentiater for the longterm although they have little shortterm market value. Once apps are wrtitten to the new APIs, anyone who wants those apps or any oem selling machines to people who will probably want them needs the system software that supports them - price is much less a factor.

But we can't use APIs as a differentiater between base and premium effectively because apps won't rely on APIs that are only in premium. Apple is getting nowhere with system seven pro. Desktop can be ordered to support the new APIs significantly but that means that Office competitiveness suffers because cool new features are unavailable not only on Win 3.1 but on new machines with base Chicago. Similarly, if these APIs like MAPI are key to keeping ISVs from using competitive APIs and are the entry point to our servers, then we hurt ourselves by keeping them off base. So, if we have a base and a premium, we will end up supporting the same APIs on both and can't differentate this way. If we do end up with both, I'D ARGUE FOR PUTTING MAPI AND CAPONE ON BOTH.

If we sell one Chicago we can put all our wood, systems and apps, behind making that compelling. We may have to license it at a fairly low price in its first year to build installed base for apps and workgroup. But I would think we could raise the price yr by yr as the apps appear that support its APIs (Joachim, is that reasonable?). By the third year, we hit the revenue target by a combination of higher price and great penetration - and killing OS/2. This strategy leaves no big hole for a competitor because we only raise the Chicago price as it becomes compelling vs. win 3.1.

Our recommendation for server pricing and packaging is converging on a model that supports a highpriced one Chicago model. I think we will end up recommending that client software - sql, ems, filesharing, sna etc - always be delivered with Windows "free". We will charge at the server for connections. But these "free" clients let us charge more for Chicago since a competitor would have to provide all these bits in his desktop OS or have it be an incomplete client. This packaging model also lets us promote Chicago or create oem addons by putting tokens for server access in a bundle with Chicago (or Office).

You could argue that we should only put the "free" clients in premium. But these clients have APIs. And we hurt the chance of making a server suite (Microsoft BackOffice) a standard.

So I recommend one Chicago; failing that I think we shoudl make sure both Chicagos have all APIs including MAPI.

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Technical note: We could deliver Capone client capabilities including APIs and LMS with base whether or not it has the Explorer capability. This would actually be our NT client. It is 32 bit and lack only the integration with File manager that the Chicago client has. Navigation between the lms folders and file system folders is possible but means two separate windows with hierarchies in them. Drag and drop still works.