

Microsoft Memo

To: FY95 WWSMM Attendees
From: Steve Ballmer
Date: April 4, 1994
Re: FY95 Planning Memo

I. INTRODUCTION

We need to be more aggressive in our marketing and sales efforts. We cannot be complacent and reactive. We need to attack our competitor's weaknesses and force them to react to us. We must take initiative, make smart, fast decisions and act. We must gain and maintain leadership through decisive aggressive action. We will focus on three things:

Eliminate weaknesses

- In each geography we must identify areas where we are weak -- single apps share, low share in small and medium organizations, retail leverage, etc. -- and move quickly to fix them. We must study and completely understand our competition, identify their weaknesses, and focus on them relentlessly.

Exploit past investments

- FY94 was a year of investment in many areas, investing dollars and effort to build key assets. Now we must move from building these assets to driving volume through them.
- This is the year to drive volume server and apps revenue through our best SPs, leverage the regbase and reseller partners to drive higher upgrade rates, and move from invest and test to selling aggressively in the consumer business.

Invest in key areas

- A goal for this year is to dramatically broaden and strengthen the Microsoft brand to make Microsoft a household name, the recognized leader in the industry, and the obvious purchase for the broad set of our customers.
- We will continue to invest to build the server business. We will need to work to drive NTAS adoption in organizations and convince partners to build solutions on NTAS. We must communicate how the combination of our products and partners provide real business value to customers.
- We must work hard to broaden the number of resellers we work with and strengthen support from key reseller partners to reach and sell to more customers.
- This year we must also invest to build world class operations with end-to-end ownership and execution to drive sales and customer satisfaction. We've changed the organization with this goal in mind but it will take energy and focus in each geography to make it happen.

II. COMPETITIONLotus

- Lotus has momentum with Notes as a platform and is leveraging it to drive demand across their product line, particularly SmartSuite. They are doing a good job of communicating business value that is compelling to business people and traditional MIS alike.
- They are striking and leveraging partnerships with AT&T, Novell, IBM.
- They are aggressive and nimble, with an intense focus on Microsoft.
- We will launch a concerted attack on Notes with Exchange, we will battle SmartSuite and not let them gain any ground, we will extend our reach into small and medium organizations where they are strong in many geographies.

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Novell

- The WordPerfect merger and the acquisition of Quattro Pro broadens Novell's line to compete with us on more fronts. They will move to integrate their Office apps better and try to develop synergy with their server offerings. They face tough challenges pulling it together but the combination makes Novell a more serious threat than ever.
- The Netware installed base and authorized reseller network continues to be their stronghold. They will continue to invest to meet us head on in the enterprise with Netware 4.0, Appware, Unixware.
- Their business model is highly leveraged, they will likely extend this model to their desktop business.
- They still have plenty of cash for acquisitions, investment in R&D.
- We will take the offensive with NT and server apps, we will go after and convert their loyal CNE base, we will take advantage of the merger by launching an aggressive switching campaign.

UNIX OS/2

- UNIX vendors like HP and IBM are strong and credible enterprise players.
- OS/2 is winning some awards and appears to be gaining momentum.
- Opportunity to convert existing business applications built on UNIX (and AS/400) to Win NT.
- We will attack OS/2 with Chicago and NT, we will capitalize on the increasingly fractured UNIX market to convert ISVs and SPs to NT.

III. FY95 GOALS

1. Achieve sufficient revenue and profitability
2. Successfully launch Chicago
3. Gain Office share
4. Build the server business
5. Deliver business value to a broader set of organization customers and partners
6. Extend effective points of sales and satisfaction among End User customers
7. Broaden the Microsoft brand
8. Increase efficiency

1. Achieve sufficient revenue and profitability

- We will use our traditional finished goods P&L for planning purposes since it is comparable with the FY94 P&L. You must make profit targets. These will be set for each area with my direct reports and communicated to you by them. We will capture revenue and expense data much more consistently to allow easier analysis across subs and more data analysis of our End User and Organization activities.
- In geographies where finished goods sales grow less than 35%, marketing headcount should be flat or shrink while sales can grow if marketing shrinks. PSS will resource to meet demand at today's service levels and new support policies. MCS can and should grow with an objective to break even including investment hours. Operations and F&A will be flat or shrink as we gain efficiency. In geographies where finished goods sales grow by greater than 35% we would expect growth in sales and marketing headcount.
- This FY we expect revenue growth comparable to FY94. We should see high growth in the personal OS, business systems and consumer divisions. We think desktop apps will see reasonable growth while OEM should grow moderately. The regional directors will give you marketing budget %'s but you should expect they will be roughly the same as last year. Below is my thinking on how we will split marketing spending amongst activities in North America in FY 95 vs FY 94. You may want to compare your FY94 and FY95 spend as below for comparison.

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	FY94 %	FY95 %
End User	29	29
Organization	17	13
Corporate Marketing	7.5	7
Personal OS	3	6
Desktop Applications	22	18
Business Systems	4	8
At Work	2	2
Consumer	7	9
Developer	8	6
On Line Services	0.5	2
Total	100%	100%

- We will categorize all marketing expenses in one of the categories below. Some people will come up with ideas that do not fit obviously but you should use best judgment.
- End User marketing includes things like reseller marketing funds, channel promotions, End User newsletters and seminars, POP materials, etc.
- Organization marketing is technical marketing, CP and SP marketing, large account and SMORG seminars, solutions message PR and advertising, etc.
- Corporate Marketing is broad tradeshows and corporate PR. The % above doesn't include any broad reach activity we may choose to do.
- Product Division marketing is ads, PR, launch events, upgrade direct mail, etc.
- Stage 1 geographies (see Consumer Division memo) will probably budget consumer marketing spend similar to the US. Stage 2 and 3 will most likely cut the percentage in half.

2. Successfully launch Chicago

- We currently hit about 70% OEM penetration with MS-DOS. Increasing Windows penetration and reducing the number of naked machines shipped (no MS-DOS and/or Windows license from us) are essential business goals that must be accomplished. In FY 95 we would love to achieve 100% Chicago penetration on new machines shipped.
- Chicago is an important upgrade opportunity and therefore we have aggressive goals -- upgrade 15% of the installed base within 6 months and 20 % within 12 months of ship. We must do a great job of upgrading the typical OS upgrader. We must also find innovative ways to create demand among the large group of customers that typically don't upgrade, and have broad distribution to make it easy for them to find and purchase Chicago.
- It is also a great opportunity to drive other parts of our business. We must leverage it to expand into new channels. It can help us drive Office 95 revenue and demonstrate commitment to the 32-bit platform. It is the best client for EMS and NT AS. We need to use the launch to drive massive end user appeal and name recognition, to broaden the Microsoft brand.
- The Microsoft Online Services client will be shipped with every retail and OEM unit of Chicago. The Chicago launch will also be the launch vehicle for Microsoft Online Services.

3. Gain Office share

- We must aggressively pursue market share gains and aggressively defend against share losses. Our goal is to increase Office and individual apps share by a minimum of 5 points in each geography, and to achieve a minimum of 80% share in the Office category and 60% individual apps share.
- Novell's acquisition of WordPerfect is our best opportunity ever to take share, it is our key opportunity in the first half of the FY. We need to move fast and aggressively in the next six months while they work through the merger. We need to switch the installed base of WP DOS users, communicate the message that there has never been a better time to switch to Word. We can beat our 60% goal if we seize this opportunity.
- We must also continue to focus on switching the huge base of 123 DOS and dBase users.
- We should leverage our PSS competitive advantage in quality of service and generous support policies.
- Office 95 coming in the second half will be an exciting product and a key upgrade opportunity.

4. Build the server business

- For planning purposes you should be lower, but I will be disappointed if we do not increase server revenue by a minimum of 2.5x in each geography.
- We will implement a new price-per-user model, and new positioning across the server line.
- A key will be converting leading AS/400 and UNIX vendors to build products on our platform.
- Winning reviews is critical. We also need great PR to publicize design wins and industry support to build momentum. In every geography we need great customer wins and references for NTAS, Hermes, and Exchange.
- A great Exchange launch is critical for our server aspirations and to combat Notes.

5. Deliver business value to a broader set of organization customers and partners

- We must communicate to customers how the combination of our solutions platform and our partners' products and services helps them realize business value. We must tell the story of how partners and developers in organizations can use our tools, server products and Office to build vertical applications, line-of-business solutions and custom solutions, and how these solutions drive critical business results like increased customer satisfaction, higher market share, better customer communication, operational efficiencies, etc. Our story must make sense to organizations large, medium and small. It must be clear to our partners how they can make money using our products. We will invest to educate and support those partners that add business value but must focus on driving sales through them this year.
- MCS will be key to helping organizations and solution providers realize business value. We must also attract more Certified Professional SEs and developers to this end.
- Customer satisfaction is key. We must continue to enhance developer, corporate and premier support, and introduce relationship offerings like the Partner Network that enable us to keep customers and partners informed.
- Key revenue for the Organization unit is Business Systems, Developer, Select and MOLP revenue

6. Extend effective points of sales and satisfaction among End User customers

- We must create more points of customer contact, get them to promote more of our products, and make it a more satisfying experience for our customers. We need to broaden distribution within current channels and test alternative and emerging channels. We need to focus on building relationships with key resellers to strengthen their support and build real advantage with them.
- We need to drive upgrade rates. We need to better exploit the regbase this FY, but continue to focus on growing the regbase too. The goal is to improve registration rates by a minimum of 10 percentage points in each geography.
- This year we will introduce some new alternative distribution methods. We will introduce lock and key technology (codename Alibaba) with Chicago that includes MS applications encrypted. We will also introduce annuity and subscription products. We must have the operational systems in place to support these products.
- We need to sell consumer products aggressively. This is most relevant to French, English and German speaking subsidiaries with localized products beyond Works and Publisher. We need to build the Home brand in these markets.
- Microsoft Online Services will be introduced and will provide a great communications vehicle to end user customers.
- Customer satisfaction is key. We must improve operations effectiveness to ensure reliable product supply and service to customers and partners. We need to maintain the same PSS service levels we have with the new End User policies as adopted.

7. Broaden the Microsoft brand

- We have a great opportunity to make Microsoft a household brand name, recognized as the leading software company in the world. We can use product messages to enhance the meaning of Microsoft, and the Microsoft brand should make our products a more valuable and obvious purchase. Driving broad end user recognition of the Microsoft brand is key.

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- The timing is right with the explosion of PC penetration in the home, the Chicago launch, and the coming flood of Consumer titles. This can be a key advantage over our competitors
- We are considering conducting a big campaign that will be worldwide in scope. Overall ownership and coordination for this effort will be in the Corporate Marketing group in Redmond. This group will be responsible for collecting worldwide thinking and developing a coordinated plan to move forward.
- There is no need to budget for this. For now, you should review the thinking and give feedback into the plan.

8. Increase efficiency

- It is an imperative that we have smooth operations. Our business model increasingly depends on this. It is a key focus for this year.
- We will spend less time on business planning this year.
- We will have clear measurement and analysis systems. Key ones are Worldwide Sales, CMS, Fast Track. These systems must be implemented in all major geographies. Systems improvements in NGBS will help our operations, but will not roll out fully this FY. We still need customer marketing systems, and though we don't have a buttoned up plan yet we will certainly have one this fiscal year.
- We will invest in training approaches to help us build expertise in solutions selling.

IV. The Reorganization

We must make the reorganization work

- We are globalizing some aspects of our business for consistency, efficiency and faster decision making. This will allow us to spend more time working with customers and less time on internal issues. You as managers are empowered to make decisions based on what's best for your business. You are responsible for determining strategy, executing great marketing programs, allocating resources, etc.
- Reorganizations are challenging. They require leadership and communication to work. It will take some time for this organization to gel but we need to make this time as short as possible.

Fiscal Year 95 Timeline			
Q1	Q2	Q3	Q4
NTAS Push	Consumer push	Chicago launch	Office 95 launch
Hermes, EMS betas	Reinvigorate Office	Distribution push	Chicago sustaining
SNA launch	Chicago pump priming	MOS launch	Consumer sustaining
Office sustaining	NTAS momentum	Office 95 preparation	
Consumer sustaining	EMS launch	EMS push	
Win/DOS slow		Alibaba launch	
Chicago pump priming			

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