
From: Bill Veghte
Sent: Saturday, November 09, 2002 9:59 AM
To: Paul Flessner
Subject: RE: Goldman Sachs Linux Panel

It is not \$50 of margin for Dell. It will get passed directly back to the customer and they are stuck with the same margin they have today. That is what happened on the desktop any time we made pricing changes broadly with OEMs and that is what will happen on the server (it is already happening on Linux pricing). It is just a fact.

--- Original Message ---

From: Paul Flessner
Sent: Saturday, November 09, 2002 9:02 AM
To: Bill Veghte
Subject: RE: Goldman Sachs Linux Panel

I would go for the \$50 pts of margin. You need to think more broadly. All you say is true but my statement is true as well. It is just fact.

--- Original Message ---

From: Bill Veghte
Sent: Saturday, November 09, 2002 8:08 AM
To: Paul Flessner; Bob Kelly
Cc: Brian Valentine; Jim Allchin; Rodrigo Costa; Kevin Johnson; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie; Bob Muglia; Gordon Mangione; Andrew Lees
Subject: RE: Goldman Sachs Linux Panel

Sigh... Yes, I can disagree with your statement that Dell's behaviour won't change. If it won't change, then we should just throw in the towel and settle for 50% market share at best. We will change Dell's behaviour by thinking thru their motivations and opportunities and being very creative.

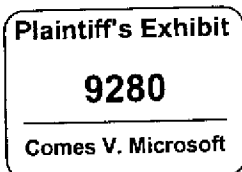
Lets start by articulating Dell's perspective relative to the comments Russ made... Linux is Unix on x86. Dell sees it as the cheapest way to convert Unix LOB servers to being Dell customers. Dell sees no partnership with us on databases and partnership with Oracle as a way of pushing further into the enterprise. Oracle sees partnership with Dell and Linux as a great way at going after us at the lower end of the database market. Dell sees Linux as great negotiating leverage in their relationship with us.

All of these things are reality. Given those realities, lets add our perspective to the picture. If I am Michael Dell, I have to believe that my #1 competitor long term is IBM. Dell has to decide what their competitive strategy is going to be against IBM. If they are going to compete with IBM and it services driven organization, they are a) going to have to build a strong relationship with our field and service partners, b) they are going to have to bet on our engineering engine as their primary innovation machine. That means a close partnership with us. They need to understand that with the passage of time Linux and IBM become more and more equivalent.

Now, lets interject what I am asking into the picture.... We invest big, big \$\$ in Dell. We will continue to invest big, big \$\$ in Dell. I am asking that we do this investment with our eyes wide open. I do not want to invest \$\$ in Dell to fund their Red Hat efforts. I am asking that:

- a) we be quite prescriptive in our investments with Dell relative to the competitive threats we see with Linux
- b) we constantly benchmark ourselves against the actions that they do with RedHat

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This is an engineering statement, this is a marketing statement, this is a field statement.

---- Original Message ----

From: Paul Flessner

Sent: Saturday, November 09, 2002 7:13 AM

To: Bill Veghte; Bob Kelly

Cc: Brian Valentine; Jim Allchin; Rodrigo Costa; Kevin Johnson; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie; Bob Muglia; Gordon Mangione; Andrew Lees

Subject: RE: Goldman Sachs Linux Panel

You can't disagree with my statement. It is a fact. It is capitalism, like gravity.

Now – there is nothing to disagree with me on around what we should do. We should whack them, we should make sure they understand our value, we should do all of the things you and Brian suggest. I totally agree.

In the end, if I where them, I would do all I could to see Linux succeed because it would put \$50/pc(or whatever our OEM license costs) back into my pocket. Sure Windows has greater value and lower TCO and all of that. I would keep my relationship with MS and customers and do the dance. But every chance I get I would invest in Linux and try to make more sales on Linux because I increase my margin by \$50/pc. It is an advantage for Linux.

Where are our advantages? That is a productive discussion.

This is just life. I am not giving up. I don't have a Penguin in my basement. I LOVE Windows which is why I want us to face this so we can figure it out.

The sooner we recognize it the sooner we can get our heads around it and decide how to go after it.

---- Original Message ----

From: Bill Veghte

Sent: Friday, November 08, 2002 6:44 PM

To: Paul Flessner; Brian Valentine; Rodrigo Costa; Kevin Johnson; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie

Cc: Bob Muglia; Gordon Mangione; Bob Kelly; Andrew Lees

Subject: RE: Goldman Sachs Linux Panel

Boy do I respectfully disagree with the statement "Dell's behavior is predictable and won't change..."

Dell's behaviour is predicated on us not acting in response to their actions. I want them to understand that every day they lead with Linux over Windows in Unix migrations they turn our field against them (take the southeast region mail thread as an example). I want them to think very, very carefully about when and which forums they decide to push Linux very, very hard. Today, they do not. When they do, you can bet, behaviour will evolve.

I think there are two very specific actions:

→ alignment in the field pushing Dell on the one that they are going to be most uncomfortable with... Unix app migration (Kevin & Joe Marengi)

→ clarity and metrics around Windows Server vs. Redhat in marketing and technology (product group and OEM group)

To Rick's last mail on this thread around actions, I want to be careful we don't personalize it with Russ because I want to win him back but the key to that is thru Joe.

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

From: Paul Flessner

Sent: Friday, November 08, 2002 9:07 AM

To: Bill Veghte; Brian Valentine; Rodrigo Costa; Kevin Johnson; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie

Cc: Bob Muglia; Gordon Mangione; Bob Kelly; Andrew Lees

Subject: RE: Goldman Sachs Linux Panel

The obvious but: Dell is HW company. They are facing tremendous margin pressure in a commodity market. If you are Dell you are being forced to squeeze every dollar out of the business you can to survive. Given that situation you would be looking hard at that MS OEM payment.

Think back to Jim Cash's talk this week. These guys are living that situation.

I don't have the answer here but Dell's behavior is predictable and it won't change.

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

From: Bill Veghte

Sent: Friday, November 08, 2002 7:55 AM

To: Brian Valentine; Rodrigo Costa; Kevin Johnson; Paul Flessner; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie

Cc: Bob Muglia; Gordon Mangione; Bob Kelly; Andrew Lees

Subject: RE: Goldman Sachs Linux Panel

I was sitting right across the panel from him. We waved at each other briefly before the panel started.

He said their basic strategy is around open standard systems of which there are two; Linux and Windows. He said Windows three times during the whole discussion (it was a Linux panel tho) and then proceeded to push Linux very hard, never mentioning Windows. Ironically, the guy on the panel that was most balanced in their comments was the CTO from BEA.

Dell is and must continue to be a partner with us but we need to be very aggressive in comparing our position and their investment in RedHat.

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

From: Brian Valentine

Sent: Thursday, November 07, 2002 10:27 PM

To: Bill Veghte; Rodrigo Costa; Kevin Johnson; Paul Flessner; Jim Allchin; Rick Wong; Orlando Ayala; Craig Mundie

Cc: Bob Muglia; Gordon Mangione; Bob Kelly; Andrew Lees

Subject: RE: Goldman Sachs Linux Panel

Did Russ Holt know you were there? I can't imagine he would be this blatant against us if he knew you were there. If he knew and he is really doing this, then we have some serious thinking to do around this relationship.

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

From: Bill Veghte

Sent: Thursday, November 07, 2002 10:07 PM

To: Rodrigo Costa; Kevin Johnson; Paul Flessner; Jim Allchin; Brian Valentine; Rick Wong; Orlando Ayala; Craig

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Mundie

Cc: Bob Muglia; Gordon Mangione; Bob Kelly; Andrew Lees

Subject: Goldman Sachs Linux Panel

I was down at Goldman SW conference earlier this week doing a keynote and on the agenda there was a panel discussion on Linux after me so I asked to participate. The panel consisted of CFO of RedHat, VPs from Oracle, BMC, BEA, Veritas and Dell. It turned into quite a lively discussion as you can imagine. Couple quick notes...

Dell & Linux:

Each company's position was quite predictably slamming us but the one that really got me animated was Dell. Russ Holt (Server VP) was there representing Dell. He was introduced as the man behind Dell's Linux strategy and the guy driving the Linux initiative at Dell. He started off by saying, Dell is the #1 OEM distributor of Linux and they are committed to seeing that position grow. He said that he and Dell believed Linux was ready for the enterprise and as way of evidence said Dell was a significant customer of RedHat and runs it in key mission critical environments; specifically their order entry system. He said he was seeing growth not only in the "traditional" areas of web & f/p but also web, Unix LOB and HPC. He then talked about how good the Oracle/Linux solution was and the strong partnership they had with Oracle around Linux. Later, when he was asked about the open source development model he said he saw significant advantages to it because it enabled much closer interactions and synergy with RedHat.

I spoke to Rick Wong about today but we need to make darn certain that our investments with Dell are benchmarked against any investments they make in RedHat. The majority of their business is on Windows and their marketing, their website, and their investment should reflect this or we should call them on it. Same goes for things like sales training or events. When we do events, field engagement and measure our progress it should be benchmarked against the results and/or what they are doing with RedHat. Dell is a key partner for us and one that imho will grow in significance in the coming years so it is a tricky balance but one that we need to be more aggressive around.

Linux & the enterprise:

This was *the* focus. RedHat CFO spent his entire time talking about how their entire focus was Linux in the enterprise and all the things that they were doing to make it enterprise ready. He then went on and on around the certification and testing programs that they had put in place and the partnerships they were building with companies like IBM, Dell, Oracle, Veritas, BMC, BEA etc.. Every other panelist underscored (a) that Linux was ready for prime-time in the enterprise, and (b) they were committing significant resources and product to make it even more so.

Linux Development Model:

Each of the panelists talked about the interaction with RedHat and the community development model as a real highlight for them. They all talked about how it made it easier to impact the direction of the platform (including Dell ironically) and how transparent the whole process was.

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