To: FY96 WWSMM Attendees
From: Steve Ballmer
Date: March 30, 1995
RE: FY96 Planning Memo

I. Introduction

We need to be more aggressive in our marketing and sales efforts. 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 customer focused action. We must make sure there is no wasted efforts in what we do— that all actions are designed to have a direct impact on the customer, partner, or competitor at whom they are directed.

The diversity in our business is a very real obstacle to conducting ourselves this way. Our product line is broad. We have a broad set of partners and customers with different needs. We have excellent broad and focused competitors. Some of us will focus too narrowly and work within known comfort levels. Others will try to spread too much. We must allow our people to specialize in the business areas— desktop, consumer/end user, server/org, Org Support, End user support, MSN, or OEM. The starting points are the right organization, clear goals, well communicated strategies, and strong general managers.

Our general managers cannot be expert in all businesses so they must leverage regional and corporate expertise. We must continue to share best practices worldwide and avoid reinventing the wheel. However, we must avoid overdoing reliance on shared when that takes more time than it saves. Our general mangers and district managers must understand local market opportunities, find key synergies in our approaches to the customer, make resource tradeoffs to optimize our overall company goals in the market, and be the spokesperson broadly for Microsoft. This represents a specialty in itself.

We will focus on three things:

<u>Eliminate weaknesses:</u>

- In each geography, we must identify where we are weak— parts of the country, vertical industries, different size customers, product categories, channel partners, price levels, etc. We must study the customers and our competitors relentlessly to know where opportunities exist and how to exploit them. Some of these are purely share related, others have more to do with how big we can make our business. The more we understand about the overall structure of the industry and who is buying what, the better we will see these opportunities. The business plan templates try to give some focus to channel partner, competitor, and hardware market type opportunities. The best subs though are constantly developing their own tools to map out the market in various ways and measure our success with varying constituencies.
- We will communicate more effectively how we approach our business, our competitors, our customers, and our business partners. The "big, bad Microsoft" tag has not yet affected customers and we cannot let it. It may already be affecting prospective business partners. We will start with some white papers explaining our views. We must respond quickly and clearly when press or influential say things about us that are factually inaccurate. We are a good lawful, ethical firm. It is legal and proper to be aggressive and to achieve economies of scale from multiple businesses.
- Information publication and training are large problems for the company overall. We really need to attack these as one unified issue. Keeping people current while keeping them in the field serving customers is critical to customer satisfaction and successfully managing diversity. We need to determine appropriate content, form, authorship and audience for information and training material. We need a standard taxonomy for this material so many people can contribute productively to the pool of shared information. We need a unified approach to delivering the information so people can easily browse, find and use information. Over the next few months HQ will develop a some thoughts and tools for improving information publishing. Each key manager really needs to think some about the information which they produce and how to ensure other users can get what they need. Hopefully the taxonomy and tools from corporate will be a major help.
- We are committed to continuing improvements in customer service in operations. Select 3 and Desktop 95 will showcase those improvements.

Build on existing successes

- We have achieved a high level of success in a number of businesses. Our Input device and Works businesses, Office applications share, OEM OS revenue, and tools businesses are all good examples. These businesses account for 100% of today's profits. They all have upside based on current shares, prices, and upcoming product flow. As we get excited about new opportunities this year, we simply cannot fail to build on these past successes. I do not want to lose what we have as we chase new consumer, server, on-line, and upgrade opportunities.
- It is particularly important that we maintain our Office applications market share momentum. I do hope we can stabilize pricing but share remains primary. Stabilizing pricing means we hold our prices and we see no significant new shifts in business mix from higher profit license types (like FPP) to lower profit license types (like OEM).
- We have developed great strength in working with reviewers writing on our products. That remains a fundamental competence.

Invest in future successes

- We must continue to invest in the server business. We must be even clearer on why small, medium, and large organizations should and can adopt Windows NT Server. We must build the SP relationships that make it easy for customers to install our offerings in their infrastructure and implement their solutions on that infrastructure. Customers of all sizes must see the value these partners can bring them.
- We must get off to a strong start with Exchange. We are leaders in the mail business but have let it languish. We are behind severely in the "groupware" business. Exchange will help us on both fronts. Success in the mail business is mandatory as is progress in the groupware space.
- Gain wide trial for MSN. The product team will build and attract core content for broad sets of end users. We must activate them to try. We must encourage our business partners and customers locally to put up content that is exciting to more narrow or private audiences. We should use MSN as appropriate to reengineer how we work with, communicate to, and support customers and partners.
- We will invest in building a Home software business in countries where people will buy English (worldwide culture), French, German, Spanish (Latin American culture), Italian, or Japanese titles. This will require new skill sets in many subs as we work with new distribution partners, new retailers, and new members of the media (press and broadcast) for PR. We must get the basics of this new business right this year. We must get our products in the right stores, at the right time, in the right quantity, with the right presence. Exciting promos are also nice but investment should go first into the basics. The product group will put people in place under their management in the subs to ensure we build the right products with the right local content people.
- We hope to conclude the Intuit merger shortly. We must make this acquisition a success. Only a very small percent of Intuits business comes out side the US today— we must change that over the next two years. That means working through integration issues in sales, marketing, support and operations promptly after the merger. It means supporting our new Intuit development division as they put people in subs around the world to work on local needs. We will also work with local ISV's and customers to help them understand our plans for Intuit so we keep them as good partners going forward. Banks and small business accounting ISV's as examples will have some natural questions about our post merger plans.

II. Competition

Lotus

- Lotus has focused their company largely on Notes. They have made smart Notes pricing decisions. They have momentum everywhere in the world for Notes as a business productivity tool.
- They see Notes as an operating system extension. They want to take our OS strength from us with Notes. They want to make Windows the graphical c: prompt as communications becomes the key role for the PC. They have a clear focus of using broad Notes momentum to help them in other businesses.
- Their desktop apps business is more threatened than at any time in the company's history. They will be aggressive and nimble in their actions to hold position. They will try to do that though partnerships and market actions which require low Lotus time and money. This may make them more aggressive on price and terms in FY96. They will have Windows 95 applications around the time of Win 95 launch.
- IBM and ATT will aid Lotus in their efforts. ATT will compete with MSN with Notes. IBM will compete with Windows and NT with OS/2 Notes and Smartsuite.
- We must find out who still buys Smartsuite and go after those customers aggressively. We must get stronger in the mail and Office businesses. If people use our mail infrastructure and our apps to view information they will likely use our products for bulletin board and other group applications. We must unseat Lotus's loyal MS-DOS and OS/2 customers. We must win with customers who may like Notes features or features we do not have.

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Novell

- Novell remains a company with excellent strengths. Their Netware installed base and authorized resellers are a key asset. They have hard-core loyalists among their WordPerfect users. They are strong financially and have new focus in management and are a more serious threat than ever.
- PerfectOffice is a good product that has built market momentum in some countries. They have priced the product low and it appeals to end users in smaller and medium business.
- Their Netware installed base and reseller network remain their most important asset. They will use Netware 4, Unixware, and their SuperNOS strategy to build application server opportunities and shut off the progress we have made.
- We must continue to win the majority of application server design wins. We must also take Netware head on and get networking infrastructure design wins. In large accounts we must do the work and bring in partners who can do the implementation with the accounts. For small and medium accounts, we must develop resellers who promote our products over Netware based upon applications and ease of use. They must see Windows NT server as a platform where they can make as much money on services, hardware, and software sales as they do on Netware.
- Growth in our MCP SE and NT product specialist base is critical. Those people will be our best allies in unseating Netware. They are still way ahead with CNE's.

UNIX, OS/2

- HP has excellent credibility and momentum in the enterprise market. They have a vast support organization and significant ISV's dedicated to HP-UX. We must do a better job of promoting the Intel standard and integration with our Desktop OS and Office to compete. We must get HP to support NT on Intel side by side with HP-UX.
- SCO is an agile focused competitor. We must be intensely aggressive about capturing Intel UNIX server business.
- We must get ISV's and SP's focused on UNIX, Informix, and AS/400 to bring Windows NT solutions to market.
- OS/2 is backed by an incredible marketing investment and a religious commitment. OS/2 has had some success with the Warp upgrade and with a few OEM's. Windows 95 success is key to blunting that momentum as will as recapturing corporate accounts who moved to OS/2.

Oracle

- Oracle views us as their number 1 competitor. They are large, well financed and have loyal enterprise customers. Their product line is broad— server software, tools, and enterprise business management applications. They aspire to many of the same new product categories we do.
- They are aggressive and flexible.
- They have very high share in the most mission critical product for organizations— the database. Their product set is good and they update it regularly. They view windows NT as a threat to their share and to the price points they command for their database products so actively sell against it and us.
- We must start tracking Oracle competitively. We must drive SQL Server amongst resellers and before Oracle picks up momentum. We must leverage our focus on PC servers, aggressive price points, and ease of use to build broad presence and acceptance now.

III. Goals

1. Achieve sufficient revenue and profitability
2. Make the Win 95 launch an incredible business success
3. Build the server business and get Exchange off to a tremendous start
4. Drive to be a world class consumer software company (appropriate subs only)
5. Gain high trial for MSN amongst consumers, org customers, and our business partners
6. Extend end user customer satisfaction
7. Grow organization customer satisfaction
8. Creatively attack anti-piracy marketing challenges

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1 Achieve sufficient revenue and profitability

- We will provide you a US revenue summary plan for FY 96 by May 1. We expect strong revenue growth worldwide this year in three finished goods businesses— business systems, consumer (new and input devices) and developer. Our DAD new user business will not grow much in mature markets while we should see reasonable growth in existing user business. Be careful not to over forecast DAD revenue. Windows 95 one time upgrade revenue will be high but not sustainable after FY 96. Our OEM revenue should grow strongly through reduced naked systems, higher Windows penetration and higher prices for Windows 95. MSN revenue will be small this year as we build the customer base. Overall revenue could rise 40% but most of this is either non-recurring or non FG revenue.

- We will use the finished goods P&L for planning purposes. OEM, MSN, and MS Press expenses do not show there nor do expenses for product group resources stationed in the field. We will set profit targets for the finished goods channel and for the finished goods channel minus revenue and marketing and PSS expenses associated with Win 95. We do not want to increase our fixed expenses in sales and marketing people for the one time revenue bump from the Desktop 95 launch. You must make profit targets for your geography. These will be set with my direct reports and communicated by them
- In general, we will not grow sales, marketing, and F&A headcount beyond what was approved during the MYRs. Geographies that can achieve greater than 25% revenue growth without Win 95 revenues can propose increases. We should increase PSS headcount to maintain today's service levels in cluster 1 and 2. Subs with REC's should review staffing with for the REC's with PSS Redmond. We will need to invest in REC's this year but will strive to have cluster 4 and Premier support break even with cost recovery next year. We do want to see aggressive plans to add MCS BUT MCS must break-even with 10% investment hours and 4% of MCS revenue to cover MCS corporate overhead. We will add headcount in large subs for MSN EU marketing, recruiting certain IPs and selling MSN forums. These heads will not be on the FG P&L or in those targets. We have decided these numbers after discussion with the product division and the regional directors.
- The regional directors will give you marketing budget %'s but you should expect they will be roughly the same as last year (without Win 95) and perhaps slightly less (as a %) than last year with Win 95. That will yield a large rise in marketing money in most subs. We have a unique opportunity this year and want to spend behind it. Spend the money wisely. I do want to make sure that subs with new Consumer titles spend sufficient money to get that business off to a good start. Those budgets do not include MSN money or broad reach money. We will base MSN budgets on Win 95 forecasts. We will do broad reach ads at roughly the same level as this fiscal year. Spending will continue in all currently funded countries. We will decide whether to add Italy and Japan in the next few weeks. Other countries can consider funding broad reach activities from their base marketing budgets using creative from Corporate. This chart shows what I am thinking about for split of US marketing money. Each geography might be different but it gives you a guide. We will send a final breakout on May 1. Subs without broad consumer lines will spend a lower percentage there.

	FY96 % of Total Marketing	FY95 % of Total Marketing
Desktop apps	16%	21%
Personal systems	12%	7%
Business systems	6%	7%
Consumer	12%	10%
Developer	6%	7%
EU	29%	26%
Org	15%	16%
Corporate marketing	4%	5%
Total	100%	100%
Broad reach/MSN	31%	23%
Total with broad reach	131%	123%

2. Make the Win 95 launch an incredible business success.

- The Desktop 95 launch represents a unique opportunity to grow revenues, to build competence in selling upgrades, and to make progress on a variety of longer term goals. We must devote a high level of energy, creativity, and focus to this incredible opportunity.
- In the OEM arena, we should use Windows 95 to reduce naked systems by 5 points and move OEM's who are MS-DOS only to Windows (90% Windows penetration for non naked systems). We do want OEM's shipping Windows today to transition to Windows 95. Our strategy depends on that, but we will not cut Win 95 pricing to get there. I believe that excellent efforts will get 90% conversion by the end of FY 96.
- We must have ambitious Win95 upgrade goals although we will plan revenues more conservatively. Upgrade rates of 20%+ of all Windows systems(regardless of hardware) for FY96 are quite good.

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- Our Office business will increasingly come from upgrades and maintenance as the PC and software markets become a replacement market. With single apps and Office and competitive upgrades, measuring upgrade rates is difficult. We will measure Office upgrades as follows: 2X Office version upgrades + 1X Word and 1X Excel version upgrades divided by 2X Office installed base + 1X Word and 1X Excel installed base. Excellent upgrade rates will be 30% plus. To achieve that, we must sell one Office or Office app upgrade for every two Windows 95 upgrades. Subs who receive localized versions late in the year should pursue that attach rate. Getting high attach rates will require a real focus on getting market understanding of our application upgrades on the same timing as the Windows 95 upgrade. Effective selling of Select and MOLP maintenance and effective distribution of packaged upgrades are key.
- We must be unsparing in our share drive for Office. The goal is to increase Office and individual apps shares by five points or more. We should have Office share of 85% and WP and spreadsheet shares of 70%. We can get there with constant prices unless competitors embark on new desperate tactics. MELP is a key tool, and our move to modify concurrent license options will present some obstacles.

3 Build the server business and get Exchange off to a tremendous start

- We must build share relative to Lotus, Novell and Oracle. In every geography, BSD revenue should exceed Lotus Communications revenue by at least 15% and rise to at least 40% of Novell's non WordPerfect revenue. Our ability to be perceived as trusted advisors in the BSD area directly correlates with growth.
- It is key to our ability to combat Notes that we have an aggressive Exchange launch. We must do what it takes to keep and grow our Mail business while we launch Exchange. We must support customers who want to continue to deploy MS-Mail.
- Winning reviews, great case studies, and press and market reports predicting our success will be vital. Make this PR work a priority. We must communicate both the technical merits of our products as infrastructure and the business value of the solutions that customers and partners create on BackOffice.
- We have great opportunity to take business from the lesser players in this space like Informix, SCO, and smaller UNIX vendors.
- The Developer division will expand their evangelism of BackOffice ISV's and support our SP teams worldwide in the effort to get penetration of Windows NT in specific application and industry sectors.

4 Drive to be a world class consumer software company (appropriate subs only)

- Subs with modest localized Home lines should focus exclusively on hardware, works and Publisher. These businesses should grow nicely next year between OEM and FG.
- Assigning goals for sales of the new localized Home line will be difficult. The product group will meet with consumer people in England, France, Germany, Italy, Australia, and Japan to review and challenge Home title forecasts before business plan reviews. We are making huge investments in these products for the domestic and international markets. We must see aggressive revenue increases on the products that ship.
- We must strive to attach 32 bit Consumer apps to Win95 at appropriate resellers.

5 Gain high trial for MSN amongst consumers, org customers, and our business partners

- The key goals for MSN are 1) Trial: 15% in North America, 10% Europe, and 5% for FE and ICON amongst all Win 95 users (OEM and upgraders); 2) a 60% subscription rate amongst all people who try the product. These goals will be appropriately challenging. Corporate accounts may see little value initially and we do not have all the technology available on day one to help IS organizations manage access from the network to MSN. Our content story is richer inside the US than outside and connect rates are cheaper. In all markets we will be at an initial disadvantage to competition on content in the base offering.
- We must manage PR to create a sense of excitement and a sense of community for MSN. We must be prepared to deal with PR issues that inevitably may arise from product, content, or outsourced operations (data center capacity, customer service, and technical support).
- We must stay focused in the field and get quick feedback on issues to the product group. In this business, operations, base content acquisition, and complex customer requirements are the product divisions' responsibility. If local content providers or customers have issues that you cannot address, escalate them quickly to the product group. We must focus on attracting end customers, encouraging people to put their own forums for public or private groups, and handling first line interaction with companies interested in developing and offering sophisticated applications.

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6 Extend end user customer satisfaction

- We invest heavily in PSS. Communicate the benefits of this investment to customers Make sure we have the capacity to back up our support claims and policies. The Desktop 95 launch will stretch our capacity tremendously. We want to maintain our end user PSS investment, not grow it or reduce it.
- Our products must be available where customers want to shop for PC's and software. Our products must be in stock and easily found. Many of the new resellers serving end users will have unique requirements. Be quite flexible and open minded in pursuing these opportunities. We have some operational constraints on the number of customers we ship directly but can be flexible in many other ways. We need specific focus on mass merchants. as a key to broaden distribution. These accounts represent incremental business for Consumer, Office, and Windows products.
- Win95 includes a registartion wizard that allows users to register via modem. It is imperative that our operations systems capture this information seamlessly.
- MSN provides unique opportunities to deliver value to customers Customers will expect this and we must deliver.

7 Grow organization customer satisfaction

- We are increasing our investment in support options for organization customers and SP's. These have some related cost recovery but they do represent an investment. We must give high quality, effective support on a 7X24 basis. We must really promote these enhancements to the market.
- Customers and partners want and need high quality technical and strategy information from us. The information must be timely, accurate, detailed and easy to find. As we better package this information for internal consumption, we will also publish it on the internet and MSN.
- We must have a range of SP's to help customers with small and large projects. We must have SP's who design and implement network and mail infrastructure, develop custom applications, and do vertical business applications. As we evangelize new SP's, target those who help us meet the open needs of customers.
- We must effectively map customer business scenarios on to our platforms. We cannot know our customers and partners business. We can help them translate their understanding to our architecture.

8 Creatively attack anti-piracy marketing challenges

- Our losses from piracy and counterfeiting are roughly equivalent to our total revenues. Making progress against piracy is absolutely key to long term growth.
- Piracy is a social phenomena that requires a multi-faceted response— marketing, political, technical, sales, PR, legal and legislative. The pirate is another customer segment to target for sales.
- The product groups have increased focus on anti-piracy issues. We will pioneer new approaches in the products that discourage piracy without penalizing the legitimate user.
- Each sub should propose concrete action to fight piracy locally.

IV. Summary

FY96 is Microsoft's twentieth anniversary. We have had incredible success in a short time We are a still a young company with an exciting future. When I look back at our success there is not a question but that it is all due to our people. I think Microsoft has the best people of any company in the world. Our peoples hard work and their commitment to customers remains key to our success.

Let's go have another great year. Let's make FY96 the greatest year in Microsoft's history by any measure.

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