

FY98 - A Foundation Year

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Just when we thought we had it all down to a fine art, the industry is facing yet another major challenge by some of our fiercest rivals: IBM, Oracle, NSCP and SUN. If truly aligned, this would be a formidable coalition, but despite a certain amount of displayed unity, all of the above are truly competing as fiercely with each other as they are with us. The key for us in OEM will be to isolate them from the rest of the industry where they, except SUN, hold significant stakes. Knowing our roadmap, it will take us 12-18 months to respond with superior TCO and productivity solutions. The only weapon we have in the interim is to use our current good relationships with the majority of the PC manufacturers to keep them in our camp and isolate the dangerous four in the market place. While the company is moving toward a D-day type announcement on June 24th, 1997, we in OEM need to continue to point out to PC manufactures that any cooperation with the dangerous four - even from groups outside their PC division, will hurt the PC industry mission of providing superior productivity solutions to our mutual customers. Naturally, talk alone will not pull us out of this crisis. This is why I am calling FY98 the foundation year.

This is the year, which will determine ours and MSFT's success in the year 2000, which is only 3 years away. Job #1 is unchanged - we must continue to build competitive immunity. The key initiatives in FY98 to prepare us for the year 2000 challenges are as follows:

1. Learn how to improve our customer intimacy record significantly
2. Execute a value added web strategy for System Builders
3. Nurture and influence the transition to NTW for all business desktops
4. Increase bootable OS penetration in key development countries
5. Increase WW piracy efforts by creating a grass roots movement as well as stepping up legal enforcement

1. Improve customer intimacy

I have always been convinced that the key to customer intimacy is delivering real value. The first critical step to doing this is listening! We have just gone through the first round of IE 4.0 discussions as well as a series of meetings with customers in regards to an improved Windows experience at boot time. In both cases we have demonstrated that we can listen and allow our partners more freedom to run their business and generate happier endusers in the process, a value proposition every participant has been looking for. At the same time, we're going through a major rewrite of our master agreements. This should make it much easier and predictable to deal with us when we roll out a 3-year T&C framework independent of any licensing agreement. The value here lies in less time spent in negotiations and more time spent in working with OEM customers to improve their business position while increasing their trust in us. These are just 3 great examples of how listening to customers can change our business practices and deliver real value to customers. We need to do more of this and I hope you all will actively participate in developing and delivering

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3. Transition to NTW for all business DT

This is a hard core business issue for the next three years to come and we have to work on it now. While generating close to \$3.8B worth of net revenue for the corporation in FY97 and having a shot at \$5.0B in FY98, we will have to lay the foundation for our \$10B FY2000 dream. This dream will not come true if we increase the NTW penetration to only 25%. We will need 60-70% NTW penetration in FY2000 to make the \$10B dream come true. This means spending marketing money now to engage OEMs to make the move ASAP. I recommend we spend 50% of all DSP, Named and Multi-National marketing funds for this purpose alone. Seminars, road shows and closely working with ECU and OCU are the key methods to work this issue. For the next 6 month I recommend you spend at least 25% of your time with the account on this subject as well. Given OEMs limited funds, we cannot do it alone. To make the equation work, we must cooperate with all parts of MS to make NTW the OS of choice for small, medium and large organizations.

4. Increase bootable OS penetration

The key focus areas for FY98 will be in the following key development countries but not restricted to: Brazil, India, Indonesia, Russia and PRC where we will try hard to establish a MS partner program and use the COA to build awareness between endusers. This should put pressure on dishonest middlemen as well as organized crime. So you will see lotteries and enduser advertising in these countries to change product-buying behavior. All this will only produce results if we can engage Named Accounts, SBs and Multi-Nationals in these countries simultaneously. Be prepared for a long battle knowing that changing this type of entrenched behavior is super hard to achieve. We have our work cut out for us in all countries around the world and we'll need all our energy and passion to produce the desired anti piracy results to lay the foundation for our FY2000 ambitions.

5. Increase WW piracy efforts

Piracy is our enemy number one when it comes to revenue. A potential \$1.5-2.0B per year is being lost in the OEM segment through HD loading, counterfeiting and "good" neighbor OS. Piracy exists in all countries. Our naked system counts in most countries are substantially understated. 15-20% is normal for industrial countries and some development countries should show as much as 50-60%. Piracy is also rampant in the retail area and I urge all of you to work closely with your counterparts in Microsoft to fight piracy wherever possible. We will step up the effort in FY98 by making it harder to counterfeit our products, continuing enduser education and further improve law enforcement. Marketing money needs to be spent in every subsidiary to support these efforts and we will use the Web more efficiently to make our efforts more transparent to endusers, DSPs and SBs. While we are doing this, the product group is laying the foundation for better technical solutions to protect our IP. I expect them to be in place in FY99, just in time to have some impact in FY2000.

Let me close my FY98 direction statement by saying thank you to all of you who contributed to a great FY97 and express my hope that I can count on your support to tackle FY98 with FY2000 in mind. Take the long-term view and start working now!

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more value to our OEMs than ever before resulting in customer oriented change in the OEM group for the years to come.

To that end, we have initiated an OEM training program – Holden Value-Based Selling. Over the next 18 months, all sales, management, marketing and SE personnel will undergo this training. We are investing in you to build a “value” oriented sales and marketing organization. It will help us to engage customers at the right level with full understanding of their value disciplines. So, less frustration on both sides, more understanding of where we can help each other effectively with measurable results. If executed well it will lead to customer intimacy. We will have to learn this in order to stay sharp and be competitive in the new century.

At the same time, we will use this opportunity to overhaul our sales and marketing processes in OEM to be the best in the industry. It is more fun to lead than to follow! The most important current thought leadership project to improve customer intimacy is the IE 4.0 and Memphis adoption process by the PC manufacturers. In working with them, we will lead them to more opportunities in nurturing their customer base. This should increase their chances for repeat, as well as, add on business and create happier customers through closer communication. And I hope we all understand that an investment in our technology by our customers will make it much harder for competitors to deteriorate the Windows UI as the standard Web access tool.

2. Value added web strategy for system builders

We need to make the Web our bet when it comes to reaching out to System Builders and DSPs. Knowing that not all countries around the world have a supportive infrastructure in place, we will invest in the industrialized countries first and leverage our investment in the other countries as the infrastructure comes along. We have several projects underway to improve SB relationships via the Web:

- Improve current MOOTI and make it a more interactive Microsoft marketing tool
- Integrate DSPs in these marketing activities
- Help SBs to source components more effectively through a MOOTI extension
- Make MOOTI a support tool for SBs and possibly even their endusers
- Help SBs to sell more PCs via the Web by adding an enduser accessible configuration model to MOOTI

While it will take us 12-18 months to complete this project, it should demonstrate our commitment to this customer base. SBs at the end will consider MOOTI as their business lifeline, so will the DSPs and other component vendors. This should give us the opportunity to sell sponsorships to fund future development and promote our products where it counts.

Our benefits will come from newly to be learned interactive marketing methods via virtual account management. We have started a pilot program in the US already and will extend this to other regions as soon as we can recruit enough SBs for our Internet site. Without customer e-mail addresses, no action! FY98 needs to see a major drive by all subsidiaries to increase their e-mail database. Eventually SBs without a known email address will be without communication as we phase out classic mailings in most countries. Ultimately we will tie our sales out information into the MOOTI site and reward customers who buy on a monthly basis more than the ones who buy only infrequently. This will hopefully be another way of educating customers to buy genuine products from legit sources.

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