PX0137

Microsoft Confidential *February 4, 1994*

Mission Plan—Draft

To: Executive Staff, Regional Directors

From: Jim Allchin*

Cc: CSG Marketing

Re: **Organizational Computing Mission—Draft**

Today Microsoft is known as a company that sells personal productivity applications and systems. The next challenge is to become a company that can help customers solve *organizational* or *business computing* problems. As this mission details there is a huge opportunity for addressing this $50B market.[1] Likewise, there is a huge threat from competitors (notably Novell, Lotus, and Oracle) if we don't address this market.

Business computing today is done in one of three ways: terminals connected to a mini/mainframe, PCs connected to servers with PC-based applications using file sharing locking, or PCs connected to servers using client-server applications.[2] There are several important trends/facts that should be kept in mind:

1. Companies want to save money by leveraging the price/performance changes available with the PC revolution. They want inexpensive servers which approximate the same reliability and support of previously much more expensive machines.
2. They want server software that approximates feature-wise (i.e., scalability, adminstration, security) what was provided before for the expensive machines, but they want it easier to use and more powerful and flexible.
3. Since there is impressive computing power at both the client and server, dramatic performance gains can be accomplished by appropriately balancing where computation occurs (the so called "client-server" model). Increased performance is an important motivation to change if it is dramatic.
4. Server applications sell the server platform and server sales mean more places to sell server applications. This was true for the desktop and it is true for the server as well. However, the world appears a little bit funny today because file/device sharing, *the* catalyzing server application, comes bundled with every server operating system. Unlike 1-2-3 which was never bundled with MS-DOS. Novell wins today because it had the first and still the best selling server application (NetWare file/device sharing). The important point is that ust having a better platform (e.g., VINES) doesn't cut it. As always, applications sell systems.
5. Customers want an integrated solution. This means that we need to tightly integrate with the Desktop. Office Missions and the Solution Providers channel in particular to single "image" to our customers.

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[1] Market size and other data from the Solution Providers FY95 Vision memo.

[2] We will specifically exclude "peer sharing" environments from this mission for both simplicity as well as believing that as soon as a peer computer is used as a key company resource, it is dedicated and essentially becomes a "server".

Customers

Our customers are end-users[1], support/administrative personnel, and application/solution developers. One could get confused and think that the only customer for this mission is the support/administrators. This is a fatal strategic error. Focus groups clearly point out that MIS departments will buy what end-users want. They need to ensure that a system is manageable, but that's not the primary driving decision. A key aspect of this mission is to drive end-user value so that end-users are telling the MIS organizations they want our solution.

To drive this point home consider the adoption of NTAS within Microsoft. What value did it offer end-users? None. In fact, it introduced pain. Unless everyone was forced to move to NTAS accounts, would they? No. MIS customers who have mini/mainframes have a significant dollar incentive to move; customers who are using Novell or Lotus do not. We must give them one.

Support/administrator personnel need to save money. Downsizing hardware is driven by this. Advantages in reduced cost in administration is important to our products, but it will be the driving decision for few sales.

And as noted above applications sell systems and therefore applications/solution developers are key in order to provide the applications (and solutions) end-users want. Internally, we have a set of server applications that provide real value, but we need horizontal business solutions (e.g., manufacturing, accounting, HR, and customer/sales tracking), vertical solutions (e.g., Law office document management packages), and tools for writing custom business automation and processing systems.

Solution Providers fit into this model by providing the following three functions: they train support staffs, they supply support and they provide total solutions. In other words, they fulfill the functions of the Corporate Developer and MIS Professional. They are part of the virtual corporation.

Target Audiences	Their Needs	Role in the decision
Influential End User or Business Decisionmaker	Demonstrate Specific Benefit (Access to Info, Time and Money)	Initiate the cycle. Tell MIS or SP they are interested and have business need.
Corporate Developer or SP if contracted out	Rapid development tools for things like database infra-structure and front end report generation tools.	Verify that the platform is robust enough and development can be done or is available.
Network Administrator or MIS Professional or SP if contracted out	Post Sale Support. Specifically, administration tools including back-up utilities, load balancing, account management, etc.	Integral to successful evaluation and subsequent deployment. Also concerned with longer term viability of solution.

The multi-user sales cycle is more complex than the traditional influencer end-user model. The Windows 3.0 "grassroots" IEU simply had to buy Excel, address Lotus conversion issues, and than he or she was able to demonstrate a tangible benefit. They did not need active involvement of numerous parts of the company to champion their cause. On the other hand, the Windows NT AS sales cycle required the active involvement of all of the parties above.

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[1] By end-user here I mean the group of people who have a "problem" they are trying to solve (e.g., payroll, information retrieval, inventory, sales tracking, lack of disk space, access to expensive plotter, etc.).

Synergy Required

Novell is entrenched. Lotus is slowly becoming entrenched. Oracle wants to get into the game. In order to win this mission, we must offer a *compelling* solution for the problems end-users, support/administrators, and developer/solution providers have today. Given this condition, we need synergy with the Client OS, Desktop applications, and between the Server applications in order to really win. The client side of this equation is critical because this is the *only* place where end-user value can be surfaced.

This is not the typical shrink-wrapped business—it is a solutions business. By leveraging Solution Providers, we can avoid the "do it all" syndrome of the mini and mainframe companies. We can focus on the product and feeding the product and training to our the Solution Providers.

The Mission Summary

Our mission is to provide the total solution for solving organizational business problems (vs. individual desktop productivity). This includes the platform, appropriate server applications, and appropriate infrastructure. The heart of this mission is *access to and management of information.* If we can succeed in defining Microsoft as a leader in organizational computing, we can build a $1B business in the next three years.

Success Metrics

Financial

- FY97 Revenue: $1B
- FY97 BOI: $200MM

Product

- Unified product plan across all products supporting this mission
- Recognized compelling end-user benefits
- Higher customer satisfaction vs. our competitors

Marketing[4]

- FY97 Server operating system unit market share: 17%
- FY97 Database server unit market share: 13%
- FY97 Messaging+Groupware server unit market share: 22%
- FY97 Microsoft server application revenue per new server hardware unit shipped: $650

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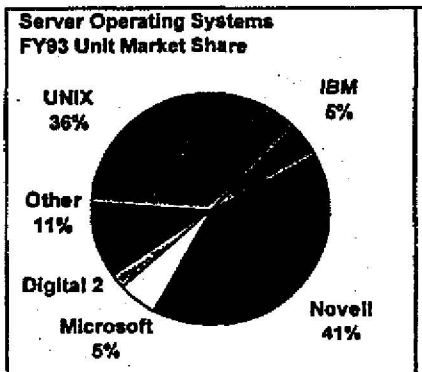
[4] See appendix for how these are calculated (what SKUs are included in numerator and what competitors are in denominator).

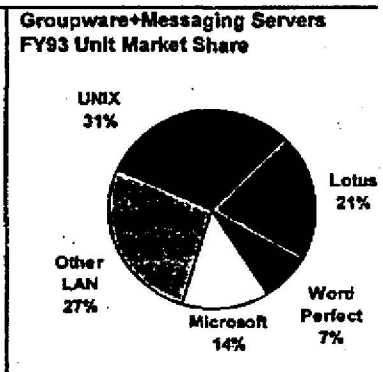
I. MARKET SIZE

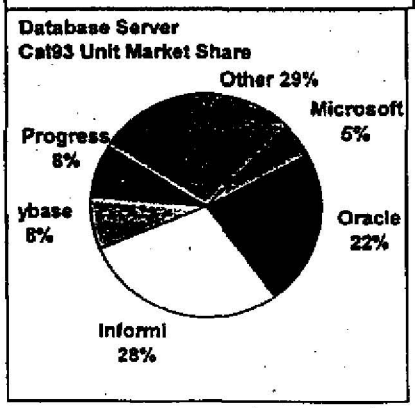
WORLDWIDE SERVER HARDWARE, OPERATING SYSTEM AND APPLICATION MARKET SIZE
(Per IDC, in units - absolute #'s)

	FY94	FY95	FY96	FY97	CAGR
NOS/File & Print Servers	736,344	765,061	794,899	825,900	3%
Application servers (primarily Unix-class hardware)	384,506	516,691	624,334	745,560	18%
Server Hardware shipments	1,120,850	1,281,752	1,419,233	1,571,460	9%
Database Applications	342,200	422,617	521,932	644,586	17%
Mail & Groupware (Notes today) Applications	275,107	339,398	420,906	525,363	18%
SNA Applications	50,000	55,000	60,500	66,550	7%
Management Applications	4,909	6,136	7,670	9,588	18%
Total Server Applications w/o NOS/F&P	672,216	823,151	1,011,008	1,246,087	17%
Server Applications (ex F*P) / Hardware shipments	0.6	0.6	0.7	0.8	7%

Marketshare detail is critically important to understanding this business. However, to date we have been both inexact, careless, needlessly different between the server applications, and hindered significantly by no separate body (e.g., SPA) establishing industry metrics. In the Appendix is more information about how we will perform these measurements consistently from now on. Novell and many flavors of Unix are used for the basic operating system. In groupware, Lotus dominates the business while we are neck and neck in the vanilla mail business.







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A. Novell

Novell's revenue for our FY93 was $1.12 Billion. For server operating systems only their revenues were:

	Unit Volume Server Units[1]	% of Market	Revenue to Vendor [2]	Avg. Revenue to Vendor [3]	Average Nodes Per Server
Novell					
NetWare 4.x	16,667	2%	$65,000,000	$3,900	30
NetWare 3.x	308,000	32%	$657,900,000	$2,136	23
NetWare 2.x	61,400	6%	$29,000,000	$472	8
Total NetWare	386,067	41%	$751,900,000	$1,948	

(Source: IDC for Units, Lehman Bros for Revenues, all values in MSFT FY93 Terms)

1. Novell Product Strategy in FY95

FY95 will be a critical year for the company to legitimize the PC LAN as an information-systems foundation[5] rather than a year of new product introductions. Their overall goal is to provide network services via NetWare, applications services via UnixWare and networked development tools via AppWare to create a "virtual mainframe." The key initiatives they expect to push in FY95 are:

- **NetWare 4.x.** The primary goal for FY95 will be to move the entire NetWare 3.x base to NetWare 4.x. NetWare 4.1 scheduled for late FY94/early FY95 delivery will be primarily focused on 3.x bindery and NetWare Directory Services coexistence. This is a key feature needed to make migration easier.
- **NetWare reseller channel.** They will improve 4.x training and plan new sales partnership programs to help deal with larger installations. This is a focus given the sales effort is 3x greater for NetWare 4.x than for 3.x
- **UnixWare.** They view this as the primary competitor for Windows NT as an application server. UnixWare gets SMP in early FY95 and by mid FY95 will get NetWare 4.x services. In FY96, they plan to create a single environment (e.g., microkernel) that will let NetWare and UnixWare coexist on a single processor.
- **AppWare.** They have WordPerfect, Borland and Gupta talking about writing to this object-oriented cross development platform. They currently have an SDK.
- **NetWare Distributed Management Services.** This was announced 10/93, NetWare hopes to reinvigorate sales of NMS by having a common management information pool that can be accessed by third-party applications thought a common API.
- **Miscellaneous.** They will finalize their Storage Management Services, deliver SFT III on NetWare 4.x, ship processor independent NetWare, deliver APIs to integrate NDS with X.500 and MHS.

Novell will focus on moving customers to NetWare 4.x. This will keep customers from moving to Windows NT AS. They will minimize our key benefits SMP and portability introduced into NetWare and SMP into UnixWare. And, try to reduce our advantage with developers through AppWare. They will attempt to position NDS vs. Cairo as late and slow. Overall, they are using NDMS's lowering of support costs to combat the large our price-performance disadvantage that they have.

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[5] Excerpt from LAN Times, 1/24/94 summarizing the Novell analyst meeting. Other data from Rick Sherland and David Readerman reports.

2. Microsoft competitive strategy

Our strategy is three-fold:

- Demonstrate compatibility and coexistence with NetWare. Currently half of all Windows NT AS is sold into IPX networks and we need to "surround" NetWare 3.x and prevent NetWare 4 deployments.
- Make early "NT AS champions" so that will serve as reference accounts for future wins.
- Long-term, sell strategic benefits of migrating applications to higher level protocols with Exchange[6] and Cairo OFS. This will give customers another set of "killer" applications that will tilt the balance towards us.

B. Lotus Notes and cc:Mail[7]

Goldman Sachs estimates Lotus communications product revenue at $140 million in the year ended 12/31/93, or 14% of revenue, split roughly evenly between cc:Mail and Notes. After years of selling Notes entirely direct, Lotus now engages the channel in 80-90% of Notes and cc:Mail sales, continuing to cut aggressive direct deals with very large customers. Support is now fee-based for both Notes and cc:Mail, with per-incident and "Premier" models very similar to ours. cc:Mail implemented this just in the last month.

Lotus is moving aggressively with a strategy similar to ours. Starting with a 1/12/93 announcement of the LCA, Lotus has made it clear they intend to support the enterprise-wide needs of large organizations with a architecture aimed at helping customers integrate desktops, operating systems and network protocols. The architecture builds on three existing Lotus products: cc:Mail, the world's most popular electronic mail family, Lotus Notes, Lotus' workgroup applications environment; and DataLens, Lotus' access service for traditional, structured data.

1. Lotus Product Strategy in FY95

Their overall strategy with strategic objective with Notes is:

- make their shell the "place you live" instead of Windows and Macintosh or other operating system shells
- be the preeminent workgroup API, one which no developer can afford *not* to write to
- use Notes support to differentiate SmartSuite
- establish a new and profitable app category at $495 per user

Lotus wants to move 4 million cc:Mail users onto the more profitable Notes platform through Lotus Communications Server. LCS integrates the cc:Mail and Notes back-ends and message stores - it is actually a Notes server which can multitask a cc:Mail message transfer agent. The document sharing/viewing interface is Notes, with the cc:Mail interface invoked for sending and managing email. We expect LCS coincident with a Notes 4.0 release CalQ195, on OS/2 and NLM platforms first. They may deliver "LCS/DOS," an update to their cc:Mail DOS MTA sooner.

2.Microsoft competitive strategy

We will stop the growth of Notes as an "information platform" by Chicago and Exchange. As Cairo becomes more visible, we must articulate our broad strategy for information management and retrieval at the operating system

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[6] In this discussion, Exchange will refer to both EMS and MS Mail.

[7] Please see separate Workgroup Mission memo from Tom Evslin for detailed information about Lotus an dour strategy for competing with them.

level and the benefits this approach will provide to users of all applications. We need to reposition Notes as a proprietary technology, with proprietary APIs, poor programmability (although this gets much better in FY95). Overall we must reposition Notes as a limited solution for information sharing applications while showing a broad array of our own solutions running on Exchange and then Cairo.

C.Oracle

With revenues of $1.5B, Oracle Corporation is the world's largest database company. Oracle's derives more than half of its annual revenues from service and consulting, its license revenues include $230M in construction tools sales and $486M in relational database sales.

1.Oracle product strategy in FY95

Oracle's business strategy is to break out of the DBMS market and recast itself as a strong, integrated provider of enterprise software and services.

- **ORACLE7 RDBMS** - Oracle will leverage its strong lead in parallel processing to ride a wave of growth in large systems supporting massive multimedia databases. And they will outflank Microsoft and Sybase at low end with OracleWare on NetWare.
- **CDE - Cooperative Development Environment** - a graphical development framework and toolset for client-server applications, Oracle is opening its architecture and positioning CDE for use with non-Oracle systems. For tools, Oracle is solidly on the Windows bandwagon.
- **ORACLE Office** - workgroup and enterprise messaging - Oracle's strategy for Office 2.0 is to buy market share by bundling it with every copy of OracleWare.
- **ORACLE Glue** - client-server APIs and middleware software for both database access and messaging. Oracle pitches Glue as universal replacement for ODBC, IDAPI, MAPI, VIM, etc.
- **SQL*Net and Open Gateways** - communications and gateway software - Oracle is attempting to elevate SQL*Net into something close to a universal communications architecture with ties to Glue, Office, etc.
- Oracle also has a wide range of organization software including financial packages built on their RDBMS.
- Oracle's key competitive advantage lies in its sales approach. They have a strong, highly trained direct sales force *and* a credible integrator channel. Oracle is strong in the high-end market segment and have invested heavily to build a base of turnkey business applications.

2.Microsoft Competitive Strategy

Oracle has for a long time considered Microsoft a bigger competitor than we have realized. They are highly concerned that we will dominate the Windows NT market and canibalize their UNIX business, and that this time *it will matter*. Microsoft's strategy must be focused around the following themes:

- Own Windows NT/Cairo DBMS position and bet on platform shift away from UNIX/NetWare.
- Avoid going head-to-head at the high end and leverage the 2 million users of Access, FoxPro, VB--and many more Office users--coming up from the desktop. Already Access users express a preference for SQL Server over Oracle by 40% to 17%. We need much tighter integration in our products and targetted bundles aimed at specific segments--for example, Fox/SQL aimed at migrating DOS/dBASE users.
- Differentiate by building closer and closer ties to the OS - leverage everything in Cairo, OLE2, etc. On UNIX, Oracle must actively avoid this in order to offer consistency across many platforms.
- On UNIX, Informix has successfully beat Oracle among VARs. MS has an opportunity to secure a similar lead on Windows NT in the turnkey market with SQL Server, Exchange, Office and DDT tools. To do this we need a coordinated marketing/sales strategy targetting VARs *as customers* (not just influencers) focused on key products including SQL Server and EMS--with evangelism, developer support, and embedded redistribution licensing. *Unlike ISVs, the strategic battleground for VARs is not the Windows API--it is the DBMS and 4GL toolset.* The selection of database and messaging platform will drive much of the rest of the solution.