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II. PRODUCT STRATEGY

The key to winning overall is achieving volume with Windows NT AS:

- Getting the basics right: addressing performance and other areas in Daytona where we received "bad marks" in past reviews.
- Leveraging our server applications to drive sales -- in particular, SQL-Server and Hermes in FY94 and Exchange in FY95.
- Providing for free a NetWare 3.x compatibility server in early FY95 with additional compatibility in Cairo.
- Creating a far better file/device sharing "server application" than NetWare by leveraging the power of OFS -- a file system on steroids. Specifically, searching the network for files could be up to 100x faster in this environment as well as include more flexible browsing, replication, etc. It is important to remember that many NetWare sites use a file server only as private bulk storage -- not for file *sharing* per se. Thus, having a better storage system for private use is critical to win.
- Making Chicago run better with Daytona AS and Cairo AS than with NetWare. A high priority must be to enumerate key features that could be done.
- Making Office run better in this environment. Examples include OLE 2 network link tracking and much higher performance on OLE 2 documents stored in OFS. Another idea would be to have Office use the account information directly from NT AS or make network installs easily on NTAS. A high priority is expand this list.
- Providing simple (yet powerful) administration using an integrated global directory service, comprehensive distributed security system, etc. Specifically, the goal is to reduce administrator cost.
- Ensure that we have not only best-of-breed Server applications, but also a best-of-breed solution when all the applications are used together. Examples include: leveraging *one* security system for account information; integrated administration, etc.
- Ensure that tools are available for LOB custom application creation that leverages all the server applications.

Windows NT AS will win by 1) being the most solid, multi-functional operating system offering excellent price/performance vs. NetWare and Unix 2) being a consistent standard available on a wide variety of hardware 3) leveraging the shared programming model and UI with Windows 4) being the most cost-effective to operate 5) integrating well into NetWare environments, and 6) encouraging the use of richer semantic levels of protocols (e.g., OFS).

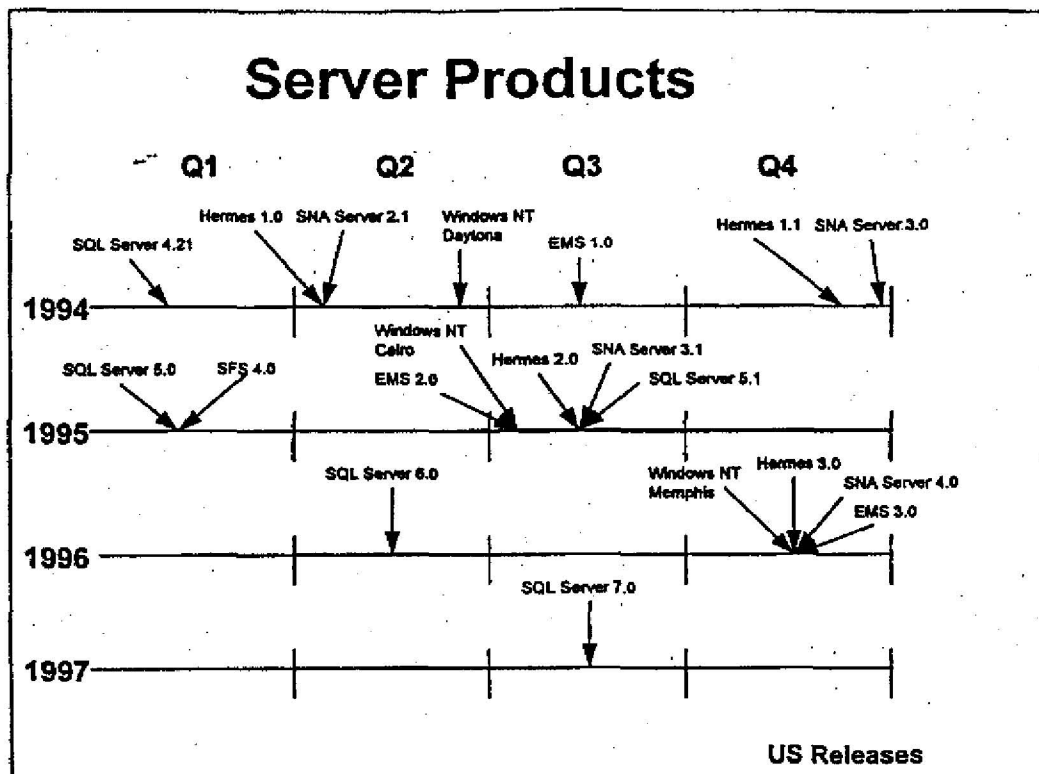
SQL-Server will win by 1) being integrated seamlessly with Windows NT AS 2) offering better price/performance 3) leveraging our relationship with Sybase for cross-platform use and 4) leveraging our desktop tools.

Exchange will win in messaging by: 1) providing state-of-the-art user interface and end-user features 2) advancing administrative capabilities which rival those found in powerful host-based systems 3) incorporating best-of-breed group scheduling into our messaging products, and 4) expanding the role of messaging from primarily a person-to-person communications tool to a workgroup communications and applications development platform.

Exchange will win against Lotus Notes by 1) providing a more feature-rich and easier to use client than Notes, 2) far superior administrative capabilities, 3) a more scalable and powerful development environment and 4) by being a better email system than Notes. Today Notes is generally a second infrastructure within a corporation rather than leveraging the existing messaging infrastructure.

Hermes will win by 1) providing the most comprehensive framework for desktop management 2) integrating with Enterprise Management systems, and 3) being integrated seamlessly with Windows NT AS.

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III. SALES AND MARKETING STRATEGY

The marketing of Microsoft's Organizational Computing Mission requires the following ingredients for a successful implementation:

- Customers need evidence that it will save them time and money. They also need assurance it is easy and proven so that they have little risk
- In addition, the customer needs a complete solution. The solution is comprised of three components: Microsoft products, third party products, and custom developed solutions. These three components can live on clients or servers depending on the implementation technique.
- Finally, customers need support. Support has two attributes, low-cost and timeliness.

These ingredients need to be delivered to the following target audiences:

- Business decision makers and influential end-users who see the possibilities of a new server platform.
- MIS/Network administrators who make up the support staff must be convinced that they can support the implementation of the overall solution.
- Application developers who write the basic code and solution developers who provide the customization and business solutions for specific industries that must be convinced our platform is a viable one.

Our organization solution will work for everyone from the doctors office to the Department of Defense. The challenge is to deliver these ingredients to our full range of customers in a cost efficient way. For our largest

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accounts we have our direct corporate sales force that manages the overall sales process. In specific cases, MCS will act as the general contractor to build the overall solution, subcontracting components to various SPs. Finally, the Solution Providers may supply support and training, or supplement internal resources. In medium and small organizations a variety of SPs fulfill the sales, general contracting, and subcontractor rolls.

To summarize our major strategies:

- Leverage our unique server applications breadth
- Get other people to sell and support our servers
- Get applications and solutions developers to write for our Organizational Computing products
- Generate end-user demand (as well as administrator demand)
- Focus on category growth rather than installed base of our competitors

Corporate marketing provides the PR, advertising, and support tool aircover necessary to generate end user demand and increase channel efficiency. Corporate's number one priority is to win reviews, analysts reports, and get positive editorial coverage. In addition they need to execute on case studies and testimonial advertising.

The key to achieving success with our total business solution is to "jump start" a positive cycle of customer wins that generate good word-of-mouth which generates more customer wins:

- **Initial wins.** First, we need to start with an initial set of customer wins, applications/solutions that work and support that is reliable. How do we get there? First, by making sure that every early adopter of our platform is satisfied. We need a high rate of success pilots, sales growth for early application/solution developers and easy support. This will validate our solution and remove the "unproven" stigma that we now suffer. The majority of our wins to date have come from Microsoft Windows and applications users. In a recent focus group literally every signal participant using Windows NT was also using Windows For Workgroups and Microsoft Applications. Leveraging our desktop application and operating system strengths is critical to our success.
- **Accelerate pilots.** The next step is to increase get the word out and generate more pilots. This will increase the demand for applications/solutions that developers will respond to, increase demand for training and support that solution providers will respond to. Initially, these will have to be targeted pilots in segments that we have good solutions. Over time, we can broaden the range of our pilot programs.

If we can get 10,000 pilot operating rolling in FY95, then we are well on our way to developing market momentum. Current Windows NT AS customer studies in the US show that success rate is over 75% today, we must increase the quantity of pilots and their success rate. See Solutions Provider vision statement for more details.

Preliminary Packaging and Pricing Proposal

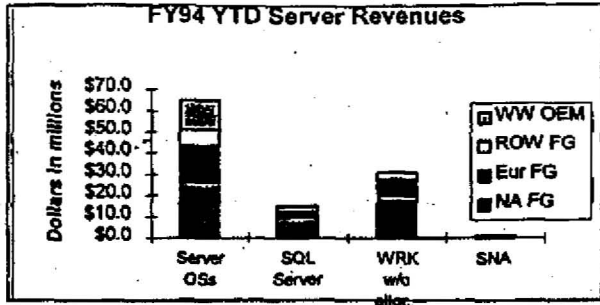
We are preparing a proposal to revamp our current server and server application packaging. We will be doing focus groups, end-user research and other feedback to validate this work so it is far from final. The goal is to simplify the purchase, installation and administration of these products. The draft scheme will mean each server application will have two types of SKUs. See the attached appendix for more details.

IV. BUSINESS STRATEGY

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Combined server product revenues grew significantly from \$94 million in FY92 to \$164 million in FY93. Current projections for FY94 are ~\$250 million. Year to date revenues for our server businesses are as follows. Note that WPG revenues do not include allocations from Office or Windows for Workgroups.

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Based on the proposed packaging and pricing strategy mentioned above, we forecast market shares at:

MICROSOFT SERVER APP MARKET SHARE
(incl. BackOffice Sales)

	FY94	FY95	FY96	FY97
<i>NOS/F&P Servers</i>	5%	6%	9%	13%
<i>Application Servers</i>	1%	2%	3%	4%
Total NTAS	6%	8%	12%	17%
<i>Database Applications</i>	5%	7%	9%	12%
<i>Mail & Groupware Applications</i>	16%	20%	20%	22%
<i>SNA</i>	9%	11%	15%	20%
<i>Management Applications</i>	0%	20%	25%	32%
Weighted Avg Server App. Mkt Share (incl. NOS/F&P)	19%	27%	33%	41%

MICROSOFT SERVER APP UNIT SHIPMENTS

(All products, office sales listed separately and excludes maintenance)

	FY94	FY95	FY96	FY97	CAGR
NTAS	62,411	99,398	154,829	240,938	40%
SQL	17,110	22,536	37,045	60,960	37%
EMS (used for mail & groupware)	0	16,682	28,923	50,577	45%
SFS	44,975	45,713	46,462	47,224	1%
SNA	4,250	6,171	8,960	12,010	32%
Homeos	0	1,227	1,933	3,044	35%
Total Server Shipments (incl. Office)	124,746	191,737	278,153	415,775	34%
BackOffice Units	0	5,997	10,316	18,336	45%
BackOffice - # of Server Applications & NTAS	0	29,953	52,579	91,679	
Total Server Shipments	124,746	221,688	338,732	507,454	47%

MICROSOFT SERVER REVENUES

(In \$000 - Office sales listed separately, includes Select & Maintenance)

	FY94	FY95	FY96	FY97	CAGR
NTAS	\$89,555	\$137,348	\$212,241	\$327,260	35%
SQL	\$67,682	\$88,642	\$144,704	\$236,095	37%
EMS (used for mail & groupware)	\$0	\$34,395	\$93,411	\$161,550	45%
SFS	\$114,323	\$115,542	\$116,624	\$117,529	1%
SNA	\$4,134	\$5,968	\$8,606	\$12,390	32%
Homeos	\$0	\$12,073	\$18,884	\$29,489	35%
BackOffice (ships in Q3 of FY95)	\$0	\$45,290	\$78,952	\$136,493	46%
Total Revenue	\$175,693	\$459,260	\$673,421	\$1,020,806	39%

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Based on these assumptions, the following BOI is forecasted:

	FY95			FY94 YTD			FY93 Continued Server Business
	WNT Product Unit	OCS Product Unit	Workgroup Business Unit	WNT Product Unit	OCS Product Unit	Workgroup Business Unit	
Net Revenues	\$7,359	\$88,200	\$61,000	\$43,000	\$50,610	\$40,111	\$670,000
Cost of Revenues	\$3,163	\$14,616	\$7,008	\$11,676	\$5,700	\$5,262	\$157,000
Gross Profit	\$4,176	\$73,584	\$53,992	\$31,324	\$44,910	\$34,849	\$513,000
Operating Expenses							
People	\$34,305	\$3,077	\$24,677	\$28,800	\$1,146	\$14,145	\$50,000
Facilities	\$13,495	\$1,245	\$8,002	\$5,710	\$314	\$3,050	\$11,000
Marketing	\$16,205	\$4,231	\$9,635	\$11,570	\$884	\$4,800	\$48,000
Product Development	\$13,004	\$1,151	\$7,275	\$6,697	\$266	\$3,472	\$26,000
PSS	\$3,484	\$8,918	\$4,642	\$7,373	\$3,442	\$3,708	\$100,000
Other	\$1,357	\$1,622	\$798	\$365	\$1,252	\$398	\$16,000
Shared Resources	\$25,851	\$3,231	\$2,821	\$8,854	\$1,872	\$482	\$70,000
Total Operating Expenses	\$108,121	\$24,578	\$64,354	\$70,850	\$6,210	\$28,103	\$342,000
Responsibility Margin	(\$103,945)	\$49,007	(\$10)	(\$39,527)	\$38,694	\$11,746	\$71,000
Allocations	\$30,400	\$23,509	\$21,057	\$33,883	\$8,835	\$12,378	\$248,000
Burdens Operating Income	(\$124,354)	\$72,516	(\$31,057)	(\$73,414)	\$47,529	(\$16,357)	\$222,000

WNT includes Windows NT, Advanced Server, SNA Server, and SQL Server for NT
OCS includes Lan Manager, SQL Server for OS/2, CommServer, NetB, and OS/2

V. DEPENDENCIES AND ISSUES

As noted earlier, we are totally dependent on the SP group/channel, client OS, and some integration from the productivity applications. In the latter two cases, favoritism is *required* vs. the competition in order to win. Supporting the least common denominator for network server functions means it is impossible to demonstrate new features and therefore show end-user value which is necessary to win.

VI. SUMMARY

Thinking about this combined business is new for Microsoft. Further, Windows NT AS and applications (e.g., Hermes, Exchange, OFS) are new. In short, there are still many unanswered questions. Each week we get smarter and I'm sure we're going to adjust our tactics as we learn what does and doesn't work. Nevertheless, key aspects of this strategy have been clear for years (that's why OFS has been under construction for a couple of year). Unification through this mission is a *huge* advantage and so is the opportunity!

There are several key implementation objectives for FY95:

1. Establish one voice in the marketplace for this mission
2. Launch Daytona, Hermes, and Exchange and win reviews; get Cairo ready to launch
3. Ensure rich set of horizontal business solutions, vertical solutions, and tools for custom business automation and processing exist on NTAS

There are 3 key strategic things to remember from this paper:

1. End-user appeal is critical to our success in this business
2. Business solutions drive our sales
3. To win in the organizational computing marketplace we must execute as a total business: one vision (product, marketing, support, etc.), one implementation plan, and as one unified force in front of customers.

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APPENDIX A. COMPETITIVE DETAILS

Competitive Analysis

FY93 Data For NOS and Messaging, CY93 for database

	Unit Volume Server Units[1]	% of Market	Revenue to Vendor [2]	Avg. Revenue to Vendor [3]
Novell				
NetWare 4.x	18,667	2%	\$65,000,000	\$3,900
NetWare 3.x	308,000	32%	\$657,900,000	\$2,136
NetWare 2.x	61,400	6%	\$29,000,000	\$472
Total NetWare	388,067	41%	\$751,900,000	\$1,948
IBM				
IBM	45,750	5%	n/a	
Microsoft				
Microsoft	50,700	5%	\$31,082,646	\$613
Banyan				
Banyan	22,350	2%	\$30,900,000	\$1,383
Digital				
Digital	17,300	2%	n/a	
Other				
Other	80,800	9%	n/a	
Total NOS	602,967	64%	n/a	
UNIX				
UNIX	345,247	36%	n/a	
Total Number of Systems	948,214	100%	n/a	
Oracle				
Oracle	61,000	22%	\$297,000,000	\$4,869
Microsoft				
Microsoft	13,823	5%	\$16,722,000	\$1,210
Sybase				
Sybase	20,800	8%	\$102,000,000	\$4,904
Informix				
Informix	77,500	29%	\$97,500,000	\$1,258
Ingres				
Ingres	8,300	3%	\$54,000,000	\$6,506
Progress				
Progress	20,900	8%	\$20,500,000	\$981
Other				
Other	69,550	26%	\$136,000,000	\$1,955
Total Database	271,873	100%	\$723,722,000	\$2,662
Lotus ccMail				
Lotus ccMail	33,362	16%	\$55,000,000	\$1,649
Lotus Notes				
Lotus Notes	10,582	5%	\$58,200,000	\$5,500
Microsoft Mail+Sched+				
Microsoft Mail+Sched+	28,416	14%	\$63,000,000	\$2,217
WordPerfect				
WordPerfect	15,000	7%	\$16,875,000	\$1,125
Other LAN				
Other LAN	55,223	27%	\$52,228,000	\$946
Other UNIX				
Other UNIX	64,320	31%	\$167,520,000	\$2,604
Total Messaging	206,903	100%	\$412,823,000	\$1,895

[1] IDC Data for OS and Messaging. Computed from IDC for Database

[2] Shearson for Novell, Lotus, Oracle. IDC for Others

[3] Divided by [1]

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APPENDIX B. REVENUE PER HEADCOUNT FOR MICROSOFT DIVISIONS

Revenue per

Revenue per WEG Head	FY92	FY93	FY94
File and Print Services	\$129	\$151	\$353
Database Applications	\$336	\$535	\$1,285
Messaging Applications	\$68	\$169	\$237
SNA Applications	n/a	n/a	\$269
Management Applications	n/a	n/a	n/a
Consumer Division	\$418	\$428	\$535
DAD Division	\$1,515	\$1,988	\$2,306

APPENDIX C. COMPUTING MARKET SHARES

Market shares for our top server products will be an important metric for measuring our success. For the purpose of analyzing the server business, market share is defined as follows:

Products	Unit Market Share	Revenue Market Share
Windows NT Advanced Server	Number of Server Operating Systems Shipped as a percentage of server hardware shipments	Revenue to Microsoft for Server Operating systems as a percentage of the total server market revenue (including user licenses, but not including client-side software)
SQL Server	Number of SQL Server units as a percentage of number of client-server RDBMS shipped	Revenue to Microsoft for SQL Server as a percentage of the total client-server RDBMS market revenue to vendors
Exchange (EMS and SFS)	Number of EMS and SFS servers shipped as a percentage of total mail and groupware server shipments	Revenue to Microsoft for EMS and SFS as a percentage of the total market for mail and groupware

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APPENDIX D. SERVER BENEFITS TO OFFICE USERS

Server Application	Benefit for Office/Windows users
Windows NT AS	<ol style="list-style-type: none"> 1. Single place to load applications saving hard disk on workstations 2. Easy way to update to new versions of Office and Windows 3. Central hard disk so that you don't have to replace PC disks when users run out of storage 4. Central backup of critical data 5. Easy to access your files when at home or when using a notebook on the road. 6. Protection of your businesses critical information with auditing and passwords
SQL Server	<ol style="list-style-type: none"> 1. Use Excel beyond the desktop making it a front end to access corporate data with pivot tables 2. When you outgrow XLS, store Excel databases and share them. 3. Grow Access applications to full multiuser systems with full backup, error recovery and logging
Exchange	<ol style="list-style-type: none"> 1. Store Word, Excel, and PowerPoint documents in a central location that can be shared over the enterprise 2. Rout and collaborate on common documents. 3. Extend Mail with sophisticated sorting, and central storage.
SNA Server	<ol style="list-style-type: none"> 1. Use Access to browse information on IBM AS/400s and ES/3090s 2. Enables SQL Server to access DB2 data 3. View host data and copy and paste into Excel, Word or PowerPoint.
Systems Management *Hermes	<ol style="list-style-type: none"> 1. Faster diagnosis of end-user problems through auditing of hardware and software installations 2. View screen of an end-user with a problem without having to go to that person's office. 3. Easy way to run the Office off of the network 4. Simplify downloading of critical Excel and Access databases to each user. 5. Simple update of software from a single console in the network.

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