

MSG:FROM: 'DUBINSKY--AUSVM6 TO: GNORRIS --AUSVM1 11/10/95 20:25:17
***** Found In: 112795A OFSLOGf1 A0 #162 *****
To: HNICOL --RALVM6 Harry Nicol GNORRIS --AUSVM1 G.D. Norris
NKING --RHQVM02 Nick J. King CLAUSON --AUSTIN Roy A. Clauson
GARCIA --BCXVMPC2 Jose E. Garcia

Dean Dubinsky, Kirkland Programming Center, 206-803-5827
DUBINSKY at AUSVM6, FAX: 206-822-6999 (no TIE line)

Subject: Microsoft Briefing

Logistics:

Meeting: Tuesday November 14th at Comdex
Time: 1:30 - 2:30 (Requested MS reserve a 30 minute buffer)
Loc: Joachim Kempin's Suite at the Mirage

Company: Microsoft Corporation
One Microsoft Way
Redmond, Wa. 98052

Contact Name: Dean Dubinsky 206-803-5827
Microsoft Relationship Manager
3600 Carillon Point
Kirkland, Wa. 98033
(During Comdex at the MGM Grand Hotel 702-891-777)

Meeting Purpose:

Meeting was requested by Bruce Claflin. The original purpose of the meeting was to review the current relationship with Microsoft as a

Meeting Participants:

Joachim Kempin (Sr VP OEM Sales)

Kempin is the key play for this meeting. Kempin has led all meetings in the past with respect to the IBM/MS Relationship, (Ref: meetings with Claflin, Santelli, Thomas, Gates). IBM must gain Kempin's confidence for Kempin to go once again to Steve Ballmer and Bill Gates with any request from IBM.

Kempin is currently Sr VP World Wide OEM Sales, reporting in to Steve Ballmer, Exec. VP WW Sales and Support, who reports to Bill Gates, Chairman of the Board and CEO of MS. Kempin's past MS titles were VP of Product Services/Support/OEM, and GM for Microsoft Germany. Prior to joining MS, Kempin was the Country Manager for Apple of Germany, and worked for DEC of US and Germany.

Jan Claesson (Director Large Account - OEM Sales)

Although Claesson is between Baber and Kempin from a management perspective, Claesson is not a player. Baber works directly with Kempin on the IBM account.

Mark Baber (Group Manager - OEM Sales)

Mark Baber is a key influencer in this meeting. Baber created

the Compaq/Microsoft Alliance, and was the catalyst at Microsoft attempting to the IBM relationship when he took over the account two years ago. Baber, with Kempin's support has been instrumental in taking the 'hard line' position with IBM after efforts to implement an 'Alliance' failed. Baber has been at every major meeting between IBM and Microsoft in the last two years, and can bring up all the history.

Baber is currently the Group Manager responsible for all companies with PowerPC initiatives. Prior to owning all of PowerPC, Baber was the IBM Group Manager. His previous job was the Compaq Group Manager where he worked with Peiffer to create the FrontLine Partnership. Before joining Microsoft, Baber worked for Wang in Strategic Mergers and Acquisition, Philips as both Area and Division Manager, Exxon as a Branch Manager, and IBM in Sales and Marketing.

Wolfgang Struss (IBM Account Manager - OEM Sales)
Wolfgang Struss is the Microsoft primary contact. Struss is responsible for all activities between IBM and Microsoft. Struss will be responsible to execute any work items that result from this meeting. Struss is relatively new to the team.

Prior to joining the IBM account team, Struss was Account Manager for key Microsoft Latin America accounts.

Key IBM Team Members:

 Tony Santelli - Past Relations GM PC Co and Power Personal Systems
 Harry Nicol - Director of Technical Strategy , IBM PC Co
 Garry Norris - Director of Preload Strategy and Strategic Relations
 Nick King - VP, Emerging Technologies, PC Co
 Roy Clauson - Director of Kirkland Programming Center
 Dean Dubinsky - Microsoft Relationship Manager

Key Discussion Points

 Following are the suggestions for the meeting between Stephenson and Kempin. Understand, that Microsoft is in the position where MS feels it no longer needs IBM to be successful

IBM to offer:

- o Public proclamation that the 'War is Over' between IBM and Microsoft. IBM and MS will become a safe choice for customers. IBM will not longer 'disparage' Microsoft products publicly.
 o IBM to make a major commitment to Windows95 and WindowsNT on both Intel and Power based PCs. This commitment to include significant volume commitments to both products.
 o IBM to work with Microsoft to significantly and publicly improve the relationship over the next year as follows. Improvement of the relationship is along the lines of a partnership.

Support:

Creation of a 'Support Alliance' where IBM and MS work together to create 'World Class' support for our mutual customers.

Development:

IBM and MS will continuously define and implement 'Development

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Initiatives' that are strategic to both companies and the industry. IBM will start by working with MS to implement two initiatives outlined in the Settlement Agreement. <Top Five Projects>

Marketing:

IBM and MS will work together to define and implement marketing initiatives that promote the 'Support Alliance', the 'Development Initiatives', and each others products. <List of examples>

Sales:

IBM and MS will, where appropriate, work with Microsoft on Cooperative Sales calls. IBM to train a percentage of sales team to be MS Certified Trained Professionals. Having IBM Sales folks more knowledgeable on MS products is a 'WIN/WIN'.

- o IBM to significantly expand the role of the Kirkland programming center to support for WindowsNT, Windows95 on both Intel and PowerPC based products. The KPC will be the focus for the new expanded relationship. KPC will not only ensure compatibility, but focus hardware optimization and feature exploitation. The KPC will also become the focal point for 'Industry Initiative' projects between the two companies.

IBM to Request:

- o Need to change the overall 'climate' of the relationship. Today IBM is not even able to get Microsoft's attention in the process of defining 'Industry Initiatives'. MS has no interest.
- o Cooperation in early definition of future versions of Windows and other strategic initiatives. Participate in WOSA, Windows Open System Architecture.
- o Continued access to the WindowsNT Development team, as per the PowerPC/WinNT initiative, but with expansion to the Intel products. Establish the same relationship with the Windows95 Development team.
- o Cooperation with the MS Marketing Organization. Will need MS Marketing cooperation to work with IBM to help identify cooperative initiatives.
- o Better royalties for both WindowsNT and Windows95. Note: MS will request greater volume commitment from the Intel products wrt NT.
- o Commitment from MS to port languages, tools, and applications to the PowerPC Platform.
- o Support from MS, (minimal), in IBM's effort to provide Windows95 support on the PowerPC.

Customer Background:

Microsoft is primarily a software company. 1995 Net Revenues were \$5,937 Million with \$1,433 Million in Net Income. Major initiatives within Microsoft are Windows95, WindowsNT, Microsoft Office, Microsoft BackOffice, and Microsoft Home, (consisting of Multimedia Titles). Revenue from sales of 1995 Operating Systems was \$2,356 Million, and \$3,581 Million in revenue coming from applications and content. Current employee population is 17,800 with over 10,000 onsite in Redmond.

Revenue Customer Receives from IBM:

Today IBM spends over \$200 Million a year at Microsoft, to cover the cost of Operating Systems, (DOS, Windows 3.1, Windows95, WindowsNT,

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etc.) as well as royalties due on products jointly developed with Microsoft, (OS/2, PC DOS, Lan Manager, etc.).

Customer Satisfaction

Neither IBM or MS is satisfied with the current relationship as it stands. Microsoft believes that IBM is out to 'annihilate' Microsoft and this perception, (reality), has made any cooperation almost impossible. At a minimum, Microsoft would like IBM to stop 'disparaging' their products in public.

IBM is currently being held at arms length from Microsoft. IBM is not allowed to participate in any future development activities. IBM has no visibility to MS future strategies. Microsoft controls all access to Microsoft Confidential information, a process that impacts IBM's ability to compete.

IBM pays too much for Microsoft's products. Microsoft has structured it's royalty plans, such that customers that openly promote Microsoft's products, obtain those products at a much more competitive rate. This is currently done via partnerships and methods such as Market Development Agreements, or MDA's. Customers that assist Microsoft in making 'new markets', reap the most rewards.

Top Issues:

- o IBM is loosing major customers due to IBM's current lack of commitment to Microsoft's products and strategies.
- o Without Microsoft, IBM is loosing it's position as a leader in the Personal Computer Industry.
- o IBM is and will have difficulty remaining competitive, since MS will charge IBM more for their products. IBM needs better royalties.

Key Projects:

There are many possible projects where IBM and Microsoft could work together. Although MS would prefer purely a marketing initiative, IBM can best benefit from a development initiative. The best solution is a project that is a mixture of development and marketing, making a public statement that IBM and MS are working together, while advancing IBM and the industry. Below is a list of potential projects:

Future Power Management	Collaborative Video Conferencing
Infrared Support (4MB IR LAN)	Telephony / Voice Support
Speech / Human Centric Interfaces	DSP / NSP Integration & Support
Multimedia (MPEG, 3D Graphics)	System Management Tools
Wireless Communications Support	Home Networking / Banking
Set Top Boxes / Net Surfer	Home Controller
Games / Virtual Reality	Application/Video Servers
Clustering Support	

Opportunities:

- o Market Development Agreement - Agreed to Marketing Activities that will reduce the royalty payments for future versions of Microsoft products. Completion of current MDA will save IBM

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\$14.50 off every Windows95 License.

- o Industry Initiatives - Agreed to initiatives before year end could save IBM \$5 Million.

Optional Additional Items:

(none)

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