



Follow up 5/10

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May 6, 1993

MEMORANDUM TO: Mr. W. W. Casey
Mr. J. V. Kalb, Jr.
Mr. E. M. Lineen
Mr. J. R. Patrick
Mr. L. R. Reiswig, Jr.

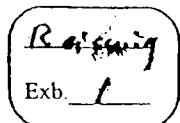
SUBJECT: Briefing Sheet for Gerstner Call to Bill Gates
May 26

The attached briefing sheet has been prepared for Lou Gerstner for his May 26 call with Bill Gates. Please review and return your comments to Mike Nolan by May 10 so that he can incorporate them into the final version for Jim.

Mike Nolan's PROFS ID is BCRVMPC1(MFNOLAN); Fax 407-982-6494, T/L 982-6494. Thank you.

R. L. Blair

RB/ag
Attachment



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MAY 6 '93 8:33 FROM IBM BOCA 821 5418

PAGE.001

Fax Transmittal Memo 7672

To: Kay Blair

Company:

Location:

Fax # 826-3872

Message #

Comments:

Re: *4* *5/6*
From: *Mike Nisar*
Company:
Location:
Fax # *982-64794* Report # *910-4220*
Origin: Owner New Call Home

Microsoft

Company Profile

Founded: 1975	Total Revenue (1/92-12/92)	% Rev
Incorporated 1981	\$1.2B	
IPO: 1986	\$0.5B	17%
CEO: William H Gates	\$2.7B	83%
Exec VP Products: Michael J. Marcus		
Exec VP Marketing: Steven A. Ballmer		
Employees: 11,300 (WW 12/92)		
Operating Expenses		
- R&D	\$0.4B	13%
- Sales and Marketing	\$1.0B	32%
- G&A	\$0.1B	3%
SG&A Expense/Revenue		35%

Statement of Operation:

Engaged in Design, Manufacture, Marketing, And Support Of Microcomputer Systems And Application Software Products And Related Books, Hardware, And CD ROM Products

Vision: "Information At Your Fingertips"

- Empower The User By Making Information Easy To Find & Use
- Make Technology More Approachable, Yet Give People Access To More Information Than Ever Before
- "Windows Everywhere" Is The Foundation Of This Vision

Strategy Summary:

Microsoft develops and markets the broadest line of PC software products for Intel, Apple, RISC and UNIX platforms. Their goal is to establish "Windows Everywhere" by extending their operating systems from the desktop up to workstations, servers and mainframes and down to consumer devices such as wallet computers, fax machines and television cable converters. The operating systems then leverage Microsoft's programming tools, applications and services. Products are acquired or developed internally using proprietary tools and customers are used extensively for testing. Being early to market is more important than function or quality.

Their business strategy is focused on defining industry standards through market share. Specific tactics to drive market share and long-term customer commitment include:

- Exclusive contracts for preloading Microsoft software on OEM equipment
- Deep discounts for reselling Microsoft software on all PCs in large accounts
- Aggressive upgrade pricing and bundling of competitive functions in the operating system

Microsoft also publicizes their strategies and product directions frequently and aggressively, highlighting future offerings years before availability. Microsoft executives are highly visible with customers, press and the investment community. Generating negative information about the competition seems to be part of their PR effort.

Bill Gates:

Bill Gates is Microsoft. The company's identity and products are all perceived to emanate from him. He is a Harvard University dropout... very driven... an innovator and visionary. Bill Gates has a special aura that attracts curiosity, as well as an abundance of press about him. He has been labeled the "Julius Caesar of the software industry" - ruthless, incisive, and tactically brilliant. "Unlike most founder-chairman types, Gates is a strategic thinker...at every turn of the road, he's made long-term decisions that have paid off. He licensed MS-DOS to IBM instead of selling it. Most 25-year-olds would have sold the firm." At the brink of success of VisiCalc, Gates decided that application software (spreadsheets, word processors, data bases, etc) would be a category he would have to dominate in order to achieve his goals for Microsoft.

Bill maintains a very casual demeanor (e.g. he uses words like "cool" & "rad"). He works 13-hour days, 7 days a week. He is frequently considered "quirky" - likes expensive sports cars and did not own a television until recently. He has publicly stated that his goal is to "bury IBM" and that "OS2 is dead."

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MAY 6 '93 8:34 FROM IBM BOCA 021 S410

Key Industry Alliances:

AT&T EasyLink

- Integrating Microsoft Mail & AT&T Electronic Mail Service

Compaq Computer

- Joint development of new hand-held consumer devices, pc-based machines and c

DEC

- Combining of DEC's Alpha hardware architecture with Windows NT
- Bundle Windows and DOS 5.0 on All DEC PCs (3 years)

InfoNet

- Joint development of a worldwide electronic software distribution and support net
- Information Builders

 - Joint development agreement to allow Windows applications to access a wide range including IBM's IMS and DB2.

IBM PC Company

- Although IBM's Personal Software Products view Microsoft as a direct competitor, build relationships with the IBM hardware organizations

Intel

- Portable Computing Initiative to drive standards on battery powered computers
- Optimization of NT for Pentium
- Joint development (along with General Instruments) of a new television cable com

Santa Cruz Operation

- Jointly Market Microsoft XENIX Since 1981

Sybase

- Developer of Microsoft's SQL/Server, SQL/Server NT and its Gateway Links to ho

Sony

- Microsoft will be supplying software tools and electronic titles for Bookman portable brings together audio, video, and text information

Tandy

- Jointly developing "black box" that hooks up to TV sets & contains CD-ROM play

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History of the IBM/Microsoft Relationship

1980

- IBM approached Microsoft to acquire rights to a BASIC Interpreter, assemblers, compilers and operating systems
- IBM considered CP/M from Digital Research...decided on Microsoft's DOS
- Microsoft sold its own DOS version (MS-DOS) concurrently...helped expand the market

1981

- Substantial development activities underway and IBM had a very successful launch of the IBM Personal Computer.

1982

- Microsoft announced Windows 1.0

1983

- IBM "Topview" program project was killed because of insufficient profitability. This created a vacuum later filled by Microsoft Windows
- Consideration was given to acquiring an equity position in Microsoft but idea rejected
- Additional agreements in place for subsequent DOS versions, and for a "C" compiler for IBM

1984

- IBM and Microsoft continued joint development and enhancement of DOS 3.2 including some IBM differentiation

1985

- Microsoft ships Windows 1.0
- IBM planned for its own derivative work DOS 3.3 and 4.0, and licensed Microsoft to sell it. IBM had an opportunity at 3.3 time for significant divergence
- Joint development began of a new, fuller function operating system, OS/2, intended to be "The Successor to DOS". OS/2, which only ran on IBM PS/2 computers, was jointly owned and sold by IBM and Microsoft
- IBM acquired source code rights to DOS for first time

1986

- Microsoft's Windows is emerging (filling a vacuum on non-PS/2 computers). Microsoft prevails in keeping it a separate stand-alone product

1987

- DOS 3.3 and 4.0 agreements are implemented
- OS/2 announced - highlighted in the Microsoft Annual Report

1988

- Microsoft begins development of Portable OS/2 (for RISC and Intel hardware)
- Microsoft strongly disagrees with IBM joining the Open Software Foundation (OSF) in light of the joint development effort on OS/2

1989

- IBM and Microsoft reaffirmed their combined Windows-OS/2 strategy at Comdex in November

1990

- Microsoft delivers Windows 3.0, with a graphical user interface and limited multi-tasking... gains rapid acceptance
- In reference to the Windows 3.0 launch, Microsoft's VP of Strategy stated "OS/2 be damned"
- Microsoft announces their "Windows Everywhere" strategy and renames "Portable OS/2" to "Windows NT"

1991

- Availability from IBM of DOS 5.0

1992

- IBM announced OS/2 version 2.0 and ships two million copies
- Microsoft and IBM redefine the terms of their licensing agreement:

Product	Prior to 9/93	After 9/93
DOS (All Versions)	Jointly cross-licensed, IBM has complete access to all code	IBM has no access to newly developed code, license to old code continues indefinitely
Windows (all versions)	Jointly cross-licensed, IBM has complete access to all code (including Windows for Workgroups)	IBM has no access to newly developed code, license to old code continues indefinitely
OS/2 (all versions)	Jointly cross-licensed, Microsoft has complete access to all code	Microsoft has no access to newly developed code, license to old code continues indefinitely
Windows NT	Jointly cross-licensed, IBM has complete access to all code	IBM has option to license on OEM terms. Maintenance right to view modified NT Code Retained rights to port NT to IBM hardware. Give up rights to modify or incorporate NT source code for use in OS/2
OS Portals	Jointly cross-licensed	Microsoft continue

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Product Line Comparison:

Category	Microsoft	IBM
Hardware	(Alliances w/ Compaq, DEC) Microsoft Mouse, DisplayPoint Mouse network, audio, video cards	PS/2, PS/3, ValueLine, ThinkPad Laptops IBM Mouse, network, audio, video cards
Operating Systems	PC Windows, WinPad MS-DOS Windows 3.1 Windows NT ** Cairo **	ProDOS * , Pro-Point IBM-DOS * OS/2 * OS/2 ** Telligent **
Development Tools	ASML BASIC C, C++, COBOL, PASCAL, FORTRAN Visual Basic	ASML BASIC, REXX C, C++, COBOL, PASCAL, FORTRAN
Networking	LAN Manager Windows for Workgroups	LAN Server * Novell NetWare NT/OS **
Peer-to-Peer		
Communications	DCP/MX Communications Server	Communications Mgr.
Database Server	SQL Server	Database Mgr 2.2
Applications	Word Excel PowerPoint Outlook, Access Project Works Mail Money, Profits	Lotus Notes Lotus Notes
Multimedia	Windows MM Extensions	MM/MM/3

* Royalty Bearing to Microsoft
** Not Yet Available

Potential Synergies with IBM:

- Enhanced support of PC Company platforms
 - DOS 6.0, Works, Windows Works, and advanced tools on the PS/1 and ValuePoint
 - NT on the 295 Server
 - CD-ROM Reference Library (Bookshelf)
 - Windows for Pen Computing
- Operating system and application support for the Power PC
- Mobile Computing
 - Various activities ranging from product support to strategic alliance being defined today
- Standards cooperation, e.g. object, audio/visual API, systems management

Potential Conflicts with IBM:

- Microsoft will compete for every customer software dollar
 - Product lines have significant overlap
 - MS is building a sales force and VAR/SI channel to compete with IBM
- Any new initiative with Microsoft may be perceived as discommittting OS/2
- A new relationship with Microsoft would jeopardize other IBM relationships
 - Lotus: Joint marketing of Notes and cc:Mail office applications
 - Apple/Telligent: Development of leading edge object technology
 - Novell: Joint marketing of NetWare - industry leading networking software
 - General Magic: Pending deal on communications technology

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** TOTAL PAGE .004 **

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