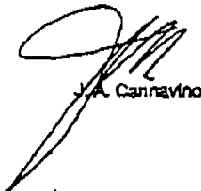


Mr. L. V. Gerstner, Jr., et al.
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December 14, 1994

With the above backdrop, we have arrived at the following general conclusion:

1. The PC Co./PPS must be free to form alliances with leading software providers in the industry in order to compete. The PC Co./PPS must be free to bundle high volume, industry leading solutions with their platform and make these available to our customers (e.g. Windows 3.1). This should not be at the exclusion of supporting IBM's high volume OS platforms. PC Co./PPS should work diligently with IBM's software organizations to create complete client and server offerings for the market (integrated, tested, easy to use).
2. IBM's Personal Software organizations (PSP, SWS, NS) must be free to form alliances with OEM hardware manufacturers to achieve market penetration and share (e.g. Vobis, AST, Packard Bell, Compaq). These organizations should look to the PC Co./PPS as one of their biggest customers and thus try to exploit the IBM desktop and server hardware prior to, or at the same time as OEM hardware.
3. IBM should make sure the high volume clients in the industry work well with our servers.
4. IBM's client/server middleware organizations must be free to put their technology across all industry leading platforms. The target should be to follow the "IBM First" guideline, but if an IBM hardware or OS platform is not ready, we should not halt shipment of IBM's middleware into the industry. The exception to this is that IBM should not put our technology on a competitor's OS before the OS has achieved volume, and is in fact, viewed as industry standard. (IBM will not put its middleware on NT at the present time; NT is still in a make market stage, and IBM should not help make the NT market.)



J. A. Cannavino

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Attachment

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ATTACHMENT

1. We will actively pursue the following activities to make OS/2 successful targeting three key segments of the market: High Volume Client, Enterprise Client and Server. We will develop and package complete offerings around these market segments which are fully integrated, tested and provide a new level of ease of use to the end user.

- a. John W. Thompson will execute an ISV Strategy (Project SpringBoard) for OS/2 which includes risk dollars associated with porting of applications and includes restoration of funding to achieve world class porting centers, developer assistance programs, service and tools.
- Funding outlined for Risk Dollars associated with Porting applications is \$64M.
 - Funding identified to have a world class developer program and support system by the original task force was \$124M. The team has scaled this number back to a request for \$120M. Currently \$80M is booked in the 1985 plan. Jim Bryant is working to close these funding issues.

Project Springboard targets 23 SOHO applications, 72 horizontal applications and 70-80 industry vertical applications. John W. Thompson should set targets and incentives inside development and industry marketing to achieve these targets.

A strategy of acquisition is not appropriate at this time.

With regards to Lotus, it was decided that Bob LaBant, Ellen Hancock and Jim Cannavino would meet with Jim Marzani December 8, 1984. In exchange for a commitment to more actively support the OS/2 strategy, IBM would offer:

- development activity tied to Notes on the SP2
- a marketing plan for OS/2 Lotus applications
- a plan to try to dissolve conflict in IBM and Lotus' mail and messaging strategies
- use of IBM's telesales and catalog channels for Lotus' products
- relationship with our ISUs to become a part of our industry solutions

With regards to Novell, Jim Cannavino will work with Bill Filip on a strategy to lessen conflict in our Network OS strategies and gain Novell's commitment to have their productivity application suite support OS/2.

In general, we need to look across our development and marketing plans for areas that overlap products and services readily available in the industry. In some cases, the investments made in these areas, cannot be enough to offset the negative impact of having a potential industry partner turn into a competitor (e.g., look at the economic benefits of Usimail and Autobahn versus licensing or partnership arrangements on Lotus Notes). Steve Mills will tee up this debate with Jim Cannavino, Ellen Hancock, and John M. Thompson.

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- b. Lee Relowig will execute an OEM preload strategy. The 1995 WW plan calls for 860K OS/2 licenses achieved from OEM preload sales. There is an opportunity for an additional 10 - 15% above plan. Incentives should be placed on the PSP Marketing team to overachieve the plan objectives.
 - c. Commit the PC Co. to preload OS/2 on all OS/2 capable systems. John W. Thompson and Rick Thoman should agree on 1995 volumes. Currently PC Co. believes they can achieve volumes in the range of 1.5 to 2.7M systems, contingent upon PSP providing acceptable WIN 95 compatibility and dual boot capability. This volume is also dependent upon PC Co. getting OS/2 preload requests up from 7% to 15% of all system requests.
 - d. Bob LaBant and Ned Lautenbach should set clear marketing objectives for OS/2 and related products within the geographic marketing, services and industry units.
 - e. Bob LaBant and Ned Lautenbach should agree on an acceptable level of OS/2 advertising. The current budget is set at \$53M. This work should be done in conjunction with Abby Kohnstamm.
 - f. The geographies should offer IBM employees promotional opportunities to buy OS/2 at cost for their personal use. Incent IBM employees to reference sell OS/2 to friends & family.
 - g. The geographies should target promotions by customer segments. (e.g., Quickly assign an executive to close a promotion in China (possibly Shanghai) where Chinese universities handle translation, distribution and level 1 support of OS/2 and share handsomely in the returns. This offering should be the OS/2 version that does not include Windows compatibility. John M. Thompson agreed to take on the China promotion).
 - h. Gerry Prothro should implement a plan to install OS/2 WARP inside IBM.
2. IBM will NOT delay the introduction of its PowerPC system, slated for introduction Spring 1995. The positioning of non-IBM OS's on our PowerPC platform should be one of accommodation. The PowerPC team should work with PSP to create an announcement plan that minimizes disruption to the OS/2 marketing plans/messages.
- IBM will not work with the ISV community to incent them to embrace a non-IBM OS in an effort to benefit an IBM hardware platform. (e.g., IBM will not incent ISV's to support NT in an effort to help the PowerPC platform.)
- IBM will not jointly market a PowerPC system with a non-IBM OS, and will not preload, unless requested by a customer.
3. IBM's client/server middleware organizations must be free to put their technology across all industry leading platforms. The target should be to follow the "IBM First" guideline, but if an IBM hardware or OS platform is not ready, we should not halt shipment of IBM's middleware into the industry. The exception to this is that IBM should not put our technology on a competitor's OS before the OS has achieved volume, and is in fact, viewed as industry standard. (IBM will not put its middleware on NT at the present time; NT is still in a make market stage, and IBM should not help make the NT market.)

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4. Human centered should be an IBM leadership area, not just a Power Personal focus. We should put it on all PowerPC's and most Intel systems. While we can lead with IBM, we must actively market to other software and hardware manufacturers.
5. IBM will continue to push the Open Standards message in the industry and with our customers. We should attempt to create a list of standards which our customers can use as a guide for their vendor acquisitions.
6. IBM will not pursue licensing System 7 and will not attempt to develop and market a Mac clone. IBM will pursue discussions with Apple on a more common application development platform, which will involve licensing some of the Apple technology.
7. We need to complete the work on communicating our application development strategy, including the positioning work between OpenDoc and Taligent. In addition, we need to gain the commitment from our Systems Integration & Services Units and our ISU's to develop all new projects with OpenDoc and Taligent technologies (SWS to publish a tools roadmap).
8. PC Co. should attempt to gain agreement with Microsoft to have a productive relationship whereby Microsoft's products run well and exploit IBM PC Co's hardware. PC Co. will propose that we accelerate disclosure of future product plans, under existing confidentiality agreements. If a customer has made a Microsoft decision, in conjunction with an IBM decision, we may make joint calls with Microsoft employees to facilitate planning, installation and support. PC Co. may preload Microsoft's products on its machines, but will also notify Microsoft of its intentions to preload IBM's software products as either separate systems or as part of a dual boot offering.

IBM may supply Microsoft with demonstration hardware for Microsoft's use at industry events.

IBM will not participate with Microsoft in:

- Joint Sales
- Joint Marketing
- Cooperative Advertising
- Unique collaborative development (i.e., excluding PSP or other IBM SW products)
- Joint training

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December 16, 1994

TO: Mr. B. L. Claflin
Mr. W. E. McCracken
Mr. N. Mii
Mr. A. E. Santelli

For your information. Please limit distribution
to only those with a need to know.

G. Richard Thoman

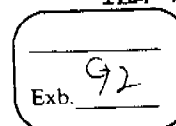
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Senior Vice President,
Strategy and Development.

December 14, 1994

Memorandum to: Mr. L. V. Gersner, Jr.
Mrs. E. M. Hancock
Mr. R. J. LaBant
Mr. N. C. Lautenbach
Mr. P. J. Rizzo
Mr. G. B. Thomas
Mr. J. M. Thompson
Mr. P. A. Toole
Mr. J. B. York

Subject: High Volume Client/Server Software Strategy

Following is the final version of the high volume client/server software strategy. Please limit distribution to those folks with a need to know.

It is critical that IBM remain a major player in the server market segment. (IBM's Revenue projection for 1995 for this segment is \$13.8B with an NEBT of \$3B). IBM will take appropriate steps not to lose market share in this important segment.

The client space is also a very large opportunity for IBM. Industry estimates indicate the size of this market to be \$100B in 1995, with IBM's share at \$13.7B. We have decided it is important to play in the client space in order to protect our server business (e.g., most NT client decisions ultimately lead to NT AS server decisions on OEM hardware).

As we continue on our journey to a truly Open company, we have set guidelines in place for our laboratories and marketing units to practice "IBM First". The spirit of "IBM First" is that we should focus our development and marketing efforts on building and promoting IBM software and hardware solutions prior to, or at the same time as competitive offerings in the industry. With the ever quickening pace in the industry, it is unlikely for IBM to always have total solutions in the timeframe demanded by our customers and our competitors. It's important for all elements of IBM's product family to be competitive and successful in their own right and to achieve volumes that will sustain future investments in their product technologies. Therefore, where necessary, and with forethought on the impacts to the rest of IBM, exceptions will be made to the "IBM First" guideline. Unit heads should be personally involved in exceptions to the "IBM First" guideline to assure we are maximizing IBM's investments and image.

In some circumstances, it's not in IBM's interest to help make the market of our competitor's products. In these circumstances we should not augment a competitor's product with other key IBM products, especially when that action would give an appearance of IBM "endorsing" the new competitive product. An example of this is Microsoft's NT operating system. We should ensure however, that Microsoft's client OS's (Win 3.1, Win NT, and Win 95) work with our servers.

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