

To: NDAM's, RAX'S, DM'S, GM'S

From: Mike Rhamy, Amy Harry, Trish Keaton, Geoff Saunders, Arlene Yanow
Channel Policies Group

Re: January/June 1994 Reseller purchasing and marketing fund policies
Key changes memo -- final program roll-out

Date: January 18, 1994

Purpose The purpose of this document is to provide Microsoft field sales personnel with an overview of the January - June 1994 purchasing and marketing fund policies, and to outline key changes. RAX's and NDAM's will be emailed/mailed specific rebate goals, presentations, contracts, rebate and marketing fund guidelines on December 13. Documents and presentations outlining the January - June 1994 purchasing and marketing fund policies are located at the following network location: \sales\public\janjun94.

NET DISCOUNT STRUCTURE

| Net discount structure overview | Discount | Rebate | Net Discount |
|--------------------------------------|----------|--------|--------------|
| Full Product | | | |
| Distributors | 46.0% | 5.5% | 49.0% |
| Direct Resellers | 43.0% | 9.0% | 48.1% |
| Select/Upgrades/Subscriptions | | | |
| Distributors | 20.0% | 5.5% | 24.4% |
| Direct Resellers | 16.0% | 9.0% | 23.6% |

Key Changes Direct reseller (LVR) discounts for all products with upgrade discounts will be reduced from 17% to 16%. Products impacted include all Select/licensing products, various packaged upgrades, subscription and support products. Existing Select contracts will *not* be grandfathered. There are no other planned changes to discounts and rebates for the next six months, but accounts should know that Microsoft may change discounts and rebates again in July, and will *not* grandfather existing Select agreements.

Rationale Improve indirect reseller participation and motivation to market and sell upgrade and Select products. Currently, if direct resellers earn all of their rebates and distributors do not, they have the ability to purchase these products at a slightly steeper discount than distributors. We want to ensure that distributors have the opportunity to purchase products at a higher discount than direct resellers.

Implications Street prices for affected products may increase by 1%. Direct resellers may need to re-negotiate pricing on existing Select agreements. Distributors and indirect resellers will be more motivated to compete for Select and upgrade business. Direct resellers may be motivated to stock up on upgrades prior to the change in discounts; therefore, Inside Sales will implement measures to ensure that certain upgrades, which will be obsolete in early 1994, will not be over-stocked by direct resellers (particularly Win Office, Word, Excel and Powerpoint).

REBATE PROGRAMS

Rebate Summary January/June 1994 Rebate Programs and percentages:

| | Cost Reduction & General Reporting | Consumer / Education Sales & Channel Development | Desktop Sales/Channel Development | Enterprise Sales & Channel Development |
|---|---|---|---|---|
| Handicrafts/AT | 1% | 4.5% | | |
| All other distributors/franchise | 1% | 1% | 2.5% | 1% |
| Direct Resellers | 2% | 1% | 4% | 2% |
| Objectives/ Performance Criteria | Obtain weekly sales-out/inventory data on Microsoft products and aggregate sales-out data on selected competitive product categories. | Increase sales/distribution of consumer division products. Achieve sell-through/sales-out goal agreed upon between Microsoft and account. | Increase sales/distribution of Win/Mac Office (bundles) products. Achieve sales-out goal agreed upon between Microsoft and account. | Increase sales/distribution of NT/NTAS products. Achieve sell-through/sales-out goal agreed upon between Microsoft and account. |

Program Overview There are four major components to the rebate program for both distributors and direct resellers. They include a reporting rebate, and sales-out/sell-through rebates for focus consumer, desktop and enterprise products.

HIGHLY CONFIDENTIAL

MSC 00814091

January/June 1994 reseller purchasing and marketing fund programs

**General/
Reporting
Rebate**

The objective of the General/Reporting Rebate program is to incent resellers to provide timely and accurate electronic reporting. There will be two components to the "fast-track" reporting rebate:

- Reporting weekly sell-through and inventory via EDI (electronic data interchange) reporting format.
- Reporting weekly aggregated competitive internal market share data via EDI reporting format.

The weekly "fast-track" data must be submitted every Monday (by 8:00 AM PCT) for the previous week (Sunday/Saturday week). An account will forfeit one-sixth of their general/reporting rebate for each month their reporting was delinquent and/or non-compliant. Data must be provided in EDI format, as specified by Microsoft's Sales Technology group. In the event an account is unable to comply with EDI reporting, they must submit the data in an alternative format, as specified by Sales Technology, with a clear implementation plan for reporting via EDI.

The following table outlines the competitor product information that will be reflected in the reporting. The following table outlines those product categories and competitor products that will be included in the "fast-track" rebate program. Reseller's are required to report sell-through and inventory for each Microsoft sku, but are required only to report total unit competitor product sell-through for each category. All sku's for these titles should be counted, including FPP, upgrades, MLP's, education, government sku's. All packaged products must be counted as one unit. Volume licensing agreements should count one for each license sold.

| Category | Microsoft product | Competitive products |
|----------------------------------|-------------------|--|
| Windows word processors | Win Word | Win WordPerfect Win Ami Pro |
| Windows spreadsheets | Win Excel | Win 1-2-3 Win Quattro Pro |
| Windows bundles | Win Office | Lotus SmartSuite WP/Borland Office |
| Desktop operating systems | DOS 6 Upgrade | IBM/PC-DOS Novell/DR-DOS OS/2 |
| Network/server operating systems | Windows NT/NTAS | Novell Netware 3.11+ Banyan OS/2 |

Rebate payments are also contingent upon Microsoft receiving AMS and MBS reporting by the 10th of each month, for the previous month, as stated in each accounts annual purchase agreement. In the event an account is non-compliant and/or delinquent in their monthly reports, one-sixth of an accounts total rebate will be penalized.

**Sales / Channel
Development
Goals**

Sales development goals are based on increasing sales-out or sell-through of a specific focus products in each of the following categories – consumer, desktop and enterprise categories. The specific products are as follows:

- Consumer: all consumer division products plus Microsoft Scenes
- Win/Mac Office (including Office Pro, but not individual apps)
- Enterprise: Windows NT and Windows NTAS

HIGHLY
CONFIDENTIAL

NDAM's will be responsible for ensuring that effective depth/breadth plans are implemented for distributors and franchisors, based on that accounts specific situation. All sales-out/sell-through rebates will be paid on a pre-specified sliding scale based on the percentage of the goal achieved.

All recommended goals were based on the following: 1) Distributor/reseller historical contribution to MS sales, 2) Microsoft's forecasted sales for each product category, 3) Account manager and account validation. Account managers 1) should present the recommended goals for to your account, 2) work with your account fill in the forecast worksheet attached to your rebate attachments with their forecast of what they will sell-through in January/June 1994, 3) Have the account sign and return the rebate attachments (including the forecasted worksheet) to Amy Harry at Microsoft by December 30th. These goals then will be approved by the Microsoft VP of Sales or returned for further negotiation.

If less than 2% of a distributors or reseller's Microsoft business, as determined by the rebate specialist, is in a consumer, desktop or enterprise category, the account may opt to apply that portion of their rebate program to an alternative sales development category.

**Rebate
Communi-
cations**

Monthly reseller rebate information is sent to account managers on the 30th of each month. Each account manager's monthly executive account letter should include the rebate performance and reporting compliancy status information provided on the 30th. Any issues relating to rebate performance information should be sent in writing to Amy Harry 30 days from the executive letter date. This will allow us to address the issues before the rebate period ends, thus also allowing us to issue rebate payments in a timely manner. Any issues not received, in writing and within 30 days of the letter date, will not addressed.

**Rebate
Calculations
& Payments**

Rebates are paid in the form of a purchase credits at Microsoft 45 days after the end of the semester rebate period (August 15th for January/June 1994 semester). Rebates are calculated by taking the achieved rebate percentage times net qualified purchases. Where net qualified purchases are defined as:

Purchased product shipped during the rebate period for which payment has been received by 30 days after the end of the rebate period. This excludes all returns, credits, price adjustments, and promotional product.

**HIGHLY
CONFIDENTIAL**

MSC 00814093

January/June 1994 reseller purchasing and marketing fund programs

MARKET DEVELOPMENT FUND (MDF) PROGRAMS

Marketing Fund Summary

| | Standard Accruals | Supplemental Consumer | Supplemental Desktop | Supplemental Enterprise |
|---|--|--|--|-------------------------|
| All Distributors/Franchisers | | | | |
| Accruals | .28% of revenues | 5% of sales-out to targeted Mass Merchants | Small opp. fund for telemarketing incentives. | TBD |
| Spending Guidelines | Standard guidelines | Must be used to pay for special mass merchant merchandising, service, support costs. | | TBD |
| Direct Resellers & Senior Partners | | | | |
| Accruals | Directs: 2.8% of purchases. SP's: 1.75% of purchases from distribution at SRP | Retail Opportunity Fund | Small opp fund for catalog / telemarketing incentives. | |
| Eligibility | SP same as July-Dec. | Must have minimum number of retail stores. | | |
| Spending Guidelines | Standard guidelines | Must be approved by retail channel manager. | | |

Standard accruals Distributors will continue to accrue .28% MDF and direct resellers will continue to accrue 2.8% MDF. Senior Partner accruals will increase to 1.75% of SRP to achieve greater parity with direct resellers. Rationale: upgrades are increasing as part of product mix, so the Senior Partner accruals need to be adjusted.

Distributor Supplemental MDF *Consumer*
Distributors will accrue an additional 5% in marketing funds on sales-out to targeted mass merchants, similar to the July-December period. A list of updated mass merchant accounts will be provided. Funds must be used to provide incremental racking, merchandising and reporting services for mass merchants. In order to qualify for the additional mdf, distributors must submit a monthly consumer channel merchandising report. The purpose of the report is to collect consumer product market share and merchandising information, in order for Microsoft to better understand the consumer channel market place and establish/maintain an optimal merchandising strategy, as well as purchasing and marketing fund policies. Distributor consumer reporting will include information surrounding merchandising services performed, returns of Microsoft products in the consumer division, incentive fund expenditures, assortment trends, and IMS by account.

Desktop
No specific supplemental funds will accrue. However, the distributor channel manager will have some funds available for distributor proposals who wish to run telemarketing breadth promotions in support of Win Office and Mac Office sku's.

Enterprise
A supplemental MDF program in support of Solution Providers and Windows NT/NTAS will be determined at a later date.

Distributor Mass Merchant Reporting The objective of the Consumer reporting rebate is to reward distributors for reporting consumer product market share and merchandising information, in order for Microsoft to better understand the consumer channel market place and establish/maintain an optimal merchandising strategy, as well as purchasing and marketing fund policies. Distributor

MSC 00814094

January/June 1994 reseller purchasing and marketing fund programs

**HIGHLY
CONFIDENTIAL**

consumer reporting will include information surrounding merchandising services performed, returns of Microsoft products in the consumer division, incentive fund expenditures, assortment trends, and IMS by account.

**Direct /
Senior Partner
Supplemental
MDF**

Retail Opportunity Fund

The retail channel manager will have additional funds available to retail accounts who have a minimum number of retail outlets and submit an MDF proposal. Funds will be allocated on an opportunity by opportunity basis, and must be used to promote consumer and desktop products, obtain permanent Microsoft displays or other incremental display and promotion.

Proposals

A Marketing Fund Proposal Form is required for participation in the January - June 1994 program. Proposals must:

1. Be prepared, signed and submitted to Microsoft by January 31, 1994.
2. Be revised and resubmitted if changes to the proposal are made during the period.
3. Receive approval from the Microsoft General Manager on activities not approved in the Standard guidelines.

Partner

Agreements

To participate in the January - June 1994 Marketing Fund program each nominated Senior Partner and Mass Merchandiser Partner will need to:

- Meet the criteria of \$1,250,000 or \$400,000
- Sign/submit agreement to Microsoft no later than December 31, 1993.
- Prepare, sign and submit a Marketing Fund Proposal by January 31, 1994.

Partner

**Purchase
Commitments**

Each Senior Partner and Mass Merchandiser Partner will receive an agreement with a "Maximum Recommended Purchase Commitment". The reseller must agree to purchase a Minimum of \$1,250,000 and a maximum of the Recommended Purchase Commitment stated on their agreement. If the reseller presents a clear business strategy showing their forecasted purchases should be higher than the number on their agreement, the Reseller Account Manager (RAX) must receive written/email approval from their General Manager (GM) and send to the Marketing Fund Specialist.

**Incremental
MDF or
subsidies**

Any additional MDF, free product or any other marketing subsidy provided to resellers must be approved and tracked by the MDF Specialist. This includes but is not limited to any free product, MDF or marketing subsidies provided by:

- product marketing
- field/district discretionary funds
- channel strategies segment managers

For all marketing funds provided, an MDF proposal form must be completed and on file by the MDF Specialist.

PRIVILEGED MATERIAL
REDACTED

Also, all marketing subsidies will be tracked for relative effectiveness, and the corresponding ROI's will be reported to sales management.

**HIGHLY
CONFIDENTIAL**

MSC 00814095

**Revisions to
standard
spending
guidelines**

The following revisions will be made to standard spending guidelines, in order to broaden spending guidelines, reduce exceptions, and streamline procedures.

Ordering Promo/NFR products

NFR products, purchased and billed to Marketing funds, will be deducted from oldest MDF fund available at Pinpoint Marketing, Inc. Orders will still be placed via the "mktfun" alias but can no longer be deducted from any fund.

Select infrastructure

Provides up to \$10,000 per semester reimbursement for Select infrastructure development costs. Funds may be used for systems development, Select administrator and sales force training costs. Funds must be used to *exclusively* support Microsoft Select program.

Telemarketing costs

Provides up to \$10,000 per promotional activity to support exclusive telemarketing efforts for Microsoft focus products, including Select, Win/Mac Office and Windows NT/NTAS.

Headquarters-mandated incremental display (retail accounts only)

Provides up to \$10,000 per promotional activity to support incremental (secondary) display of Microsoft products. Displays must be:

- Headquarters mandated, with 100% of selected volume outlets participating.
- Tied to incremental units of norm shelf stock. Inventory may not be shifted from shelf to floor.
- A minimum increase of 10+ Microsoft units per display per outlet over standard stock
- Consumer price is clearly communicated and an integral part of the display
- Is pre-approved by emailing MDF Specialist with the following information: name of account, number of outlets participating, type of display (end cap, pallet, etc.), beginning and ending dates, total number of units displayed (all units in all outlets by title), total funds requested. Some exceptions will be granted (greater than \$10,000) for incremental sales opportunities.

**HIGHLY
CONFIDENTIAL**

MSC 00814096

January/June 1994 reseller purchasing and marketing fund programs

**Revised
procedures**

Elimination of marketing plans / development of MDF proposal templates

Marketing plans will no longer be required by corporate (although districts and/or account managers may still choose to develop account marketing plans). An MDF proposal template, provided by the MDF Specialist) will be required to be eligible for all standard, supplemental and opportunity-based MDF provided to resellers. The MDF proposal template will require the following information:

- Fund name/Source
- Forecasted Commitment
- Projected Marketing fund amount
- Utilization Plan
- Other reseller commitments
- Spending dates
- Reseller signature

All MDF proposal templates will be reviewed by the MDF Specialist to ensure compliance with MDF guidelines, then will be forwarded to PMI for tracking. Rationale: increase MDF effectiveness by making all MDF proposal based and having reseller sign for commitments, and reduce RAX administration time.

Streamlined claim processing

Resellers may send claims directly to PMI for claim processing and reimbursement, as long as claims are compliant with the MDF proposals previously submitted. NDAM's and RAX's will not to review claims before submitting to PMI, thereby reducing administration time and delays in claim processing, unless they require exception approval. NDAX's/RAX's may still request that account claims be routed through them before being forwarded to PMI. All exceptions must be approved by GM's, and will be closely tracked reviewed by sales management.

Over/under achievement adjustments

As in the past, direct distributors and resellers will continue to accrue standard MDF on a monthly basis on actual purchases. However, for standard accruals for Senior Partners & Mass Merchandiser Partners, and any supplemental fund where funds are committed up front, all accounts will be reconciled at the end of the accrual period, and account debited or credited for over or under-achievement of the commitment level.

**Reporting
requirements**

All direct distributors, resellers and Senior Partners are required to submit monthly sales reporting to Microsoft by the 10th of each subsequent month. Any month where a reseller does not report or sends bad data, 1/6 of the reseller marketing funds will be deducted from their account at PMI.

MSC 00814097

**HIGHLY
CONFIDENTIAL**

REBATE AND MARKETING FUND AGREEMENTS

Agreements January - June 1994 agreements must be signed and returned by December 31st.

DISCOUNT, REBATE AND MARKETING FUND CONTACTS

| | |
|---|------------------------------|
| For general questions regarding discount, rebate and marketing fund procedures and guidelines | Ed McCahill |
| For specific net discount issues | Geoff Saunders |
| For specific rebate issues | Amy Harry, Rebate Specialist |
| For specific MDF issues | Trish Keaton, MDF Specialist |

1 11

MSC 00814098

**HIGHLY
CONFIDENTIAL**

January/June 1994 reseller purchasing and marketing fund programs