From: Bill Gates
Sent. Friday, June 27 1997 9 37 AM
To: Ben Waldman
Cc: Jon DeVaan Greg Maffei
Subject: RE Moving forward with Mac Office 97

I appreciate your mail It shows the kind of passion about great products that has made Microsoft successful I admit we have neglected the Mac business Although the Mac is declining f we move ahead on this product we should ask for the subs with localized product to make a real effort

I have 2 things I need to understand better

1) Realistically when do we think we would ship this product?
2) Can we avoid Apple knowing how far along we are for the next 30 days?

GOVERNMENT EXHIBIT 263

—Original Message—
From Ben Waldman
Sent Friday, June 27, 1997 1 56 AM
To Bill Gates
Cc Jon DeVaan, Greg Maffei
Subject Moving forward with Mac Office 97
Importance High

I am writing to argue for making a final decision to FINISH Mac Office 97, and detach this issue from the current Apple discussions

The pace of our discussions with Apple as well as their recent unsatisfactory response have certainly frustrated a lot of people at Microsoft The threat to cancel Mac Office 97 is certainly the strongest bargaining point we have, as doing so will do a great deal of harm to Apple immediately I also believe that Apple is taking this threat pretty seriously, and at least someone there seems to want to move forward (when I discussed the issue with Jim Gable, an Apple marketing VP who visited MS today, he seemed very concerned about getting more details on our specific objections to their latest proposal also we received mail today from Apple's evangelism group asking for details on the Office Early Adopter Program, saying that exec mgmt had instructed them to get these details (participating in this program was one of the minor issues in the discussions))

Regardless of the outcome of these discussions, though, I believe we should ship Mac Office 97 Furthermore I believe we need to decide this immediately - our indecision so far has caused quite a bit of harm and this will become far worse very shortly, as we are not only close to shipping code externally but need to finally start press and customer communications, especially with MacWorld a month away

1) We are creating a good product (perhaps the last one)
I really believe that we are creating the right product, a product that we can feel good about and that will be well received by customers press, and analysts Because of these discussions, we have not yet done a product review with you, so I want to give you some highlights
Our focus has been to build on the base of Win Office 97 and create a great Macintosh product for Macintosh users, which is 100% interoperable with the windows product To this end, we conducted research with 25 of our top 50 accounts, and also ran a survey on the web to solicit end-user feedback These surveys confirmed that the initial goals I set for the product were, in fact the right ones These include
a) Performance - I have people working on nothing but performance (no features no bugs) We have performance back around Office 4 levels, and expect to be better with some additional changes we think we can make This work has involved breaking up the product into more DLL s to circumvent stupidity in Apple's loader, extensive use of Pcode the creation of post-processing tools to reduce code size (remove NOPs, do peephole optimizations), more delayed loading, etc
b) TCO - FAR simpler deployment and maintenance Mac Office 97 will not require a setup program! Installation will involve dragging the Office folder onto your hard disk - that's it (also enabling LORG admins to use push tools to do automatic install, since it's as simple as copying files No other large Mac program does this (or Windows program for that matter) Not only will this greatly simplify deployment it will help maintenance significantly (with Office 4 (or Windows Office), moving a folder or renaming a hard disk would break Office, now it will work just fine We've also found many accounts that tried to reverse engineer our setup and do their own, and ended up doing it wrong, causing great support problems, in one case we wrote a custom app to fix a 5000 seat botched installation The bottom line is that I feel I can say with a straight face *that upgrading to Mac Office 97 will be cheaper than sticking with Mac Office 4*
c) A good transition for Mac Word 5 1 users A large amount of our customers are still using Word 5 1 so we have focused on getting them back We have scoured "Why I hate Mac Word" web pages, gotten PSS and customer input, and are attempting to solve the major issues For example some people liked the Mac Word 5 1 interface Fine, we will give it them with just one menu selection Users wanted the "Font and "Work" menus back, we're giving it to them Users wanted their "Address Book back (gone in Mac Word 6 0, since the win product used the schedule+ PAB) We're not only giving it back to them, but also giving them the ability to read the address book of Outlook Express
d) Support for Apple technology where it actually benefits end users We will be supporting Apple's drag and drop, so people can actually drag/drop between our apps and other Mac apps, like the Finder

(big customer complaint) We have extended Office Art to support QuickTime movies, QuickTime VR movies and QuickDraw 3D images We will be supporting the new visuals of Mac OS 8 (due to ship on 7/22) I believe we have comarketing opportunities we can do with Mac OS 8 and Office 4 (as well as Office 97)

e) Integration with IE and Outlook Express We will be several pieces of code with IE with the user benefit of reduced hard disk space and more efficient memory utilization This includes the code that implements the internet protocols (there's no WININET DLL on the Mac (!)) shared disk cache, shared favorites, URL monikers We won't have the same integration as on windows unfortunately, (no accobjects on the Mac and also that the Mac IE group doesn't have the time to support the HLINK protocol as Win IE and Office do), but we will have what I said above File Send will work with Outlook Express, and Word will also be able to read Outlook Express's address book

f) Mail integration - lacking an OS mail infrastructure File/Send support has to be written specially for each client Though Office supported our old mail client, the Mac Exchange client broke this Mac Office 97 will work with Exchange Outlook Express, Eudora, Netscape Mail, and, we hope Claris Emailer

g) Competitive response - as with the Word 5 1 support, the goal is to not give anyone an excuse to not buy Word At January MacWorld I got a demo of the new Mac Wordperfect One feature they talked about a lot was "right click thesaurus" i e that clicking on a non-misspelled Word gave you a list of synonyms in a context menu That feature is now in Mac Word 97 (the Windows Word guys think it's cool too)

2) We are close to shipping

We will be shipping our first code outside of Microsoft in about 8 weeks and plan to ship in just 5 months from now On august 27, tech beta 1 will go out to < 50 people worldwide (I am making a special effort to include intl sites as this is always a complaint with Win Office betas) whom we think will give us great feedback that we can incorporate into the product In mid-October, beta 2 will go to a significantly broader set of people We'll also use this release for our Early Adopter Program, in which LORGs commit to deploying Office on a certain # of desktops and give us good PR in exchange for product support and free licenses, we hope to include Apple in this program By the third week of November, we should have a release candidate that we can use for a preview program or "marketing beta" We plan to RTM on 12/3, just 5 months from now

3) The team is motivated

While canceling this product in March would have had a terrible effect on the team and, I think, on DAD canceling this now would be devastating Many people have worked long and hard to get the product to where we are now Developers have written new features fixed thousands of bugs, written custom development tools and improved performance significantly Testers have set up a large Mac lab (a first for Microsoft) gotten their automated tests running on 4 codebases (not a trivial accomplishment given that a lot of the work from Windows Office couldn't be used), set up a performance measuring system, reviewed bugs fixed in Win Office to see if they were fixed on the Mac and, of course have entered thousands of bugs Program Managers have picked up all loose ends inherited from the win project, tracking and working on every addin and template they've spec-ed all the new features have signed contracts with and are managing external contractors, our release team is providing daily setup builds for both English and German Product planning has tracked PSS data, visited key accounts run a web survey, and are working on a comprehensive LORG migration document All groups have picked up loose ends dumped on us by other parts of the company such as Forms^3

People are enthusiastic and believe in our vision of creating a great product and making a difference

One big morale problem that does exist is the lack of any idea on what we'll do next, after December, it seems like we're falling off the end of the Earth (obviously, I recognize that this decision will have to wait for an agreement

4) Keeping our word - customers, press, etc

As you noted in April, we've given our word to our customers that we will do this product We've also been clear on this point with press and analysts Pulling out at this point no matter how high our frustrations with Apple, would be a blight on our integrity

5) We can experiment with Mac Office

Because Mac Office is so much less critical to our business than windows, we have the flexibility to test out new things in the product and in its marketing before we try them on Windows Setup-less install for example is one thing we'll do on the Mac first Another thing I'm trying on the Mac is greater involvement of international sites in betas and the EAP program In France most of our Mac sales are to MORGs rather than LORGs I wonder what % of the MORG market uses Macs in France – can we try out some ideas to reach MORGs on the Mac first?

I've personally also found the Mac market interesting because I've seen so many trends appear there first, and eventually become important on Windows For example, the concerns about "bloatware," hard disk size and memory utilization have become a real issue with Office 97 Well, we heard exactly the same thing for Mac Office 4 three years ago, when we weren't really hearing it on Windows High-level cross-app programmability appeared on the Mac first Mailing document contents around in a visible form (rather than an attachment) was something Apple tried with PowerTalk Even things like System 7's publish and subscribe model seem to be re-appearing now (i e one indicates what data one is interested in, and gets notified when it changes asynchronously)

I also want to comment a bit on Mac Office revenue Though the decline in our sales (from about $200MM in FY96 to $150MM in FY97) is, in a large part, attributable to Apple's decreased market share, another, not insignificant factor is the incredibly terrible job we do in the sales force and with in the marketing organization here in Redmond and elsewhere in the world

It's been years since anyone in the field was able to talk to a customer about the Mac or our Mac products EBC customers always complain that their reps know nothing about the Mac, and that these reps insist on trying to get them to move to NT Customers find this behavior insulting, and are angry about it Even when I have visited customers at the request of a field person the field could often not even tell me the # of Macs a customer had or their distribution (68K vs PowerMac) We aren't even mentioning the Mac at the MGS (I would have loved to have a session to talk about our Mac strategy)

A more recent development has been the astonishing neglect of our Mac business in the US and abroad In the US, for example there are NO sustaining marketing efforts for Mac Office 4 -- all of calendar 1997 will pass with no ads no promotions, no marketing of Mac Office A recent inquiry I made about a competitor (Corel) was met with a response that the person didn't have time to look at it, so I should go and check Corel's web site for information I went to MacIS Europe to speak with Mac LORGs and MORGs, and NO ONE from the marketing org accompanied me

An example of what's possible has been the work of 1 person (actually a half person) in the French sub (Isabelle Nicolai) Despite Apple's 20% drop in units in France, Mac Office sales are up 7% France's Mac Office sales are almost TRIPLE their plan, at around $18 million, comprising around 12% of DAD revenue on France, and 9% of overall MS revenue there This was done with a marketing budget of under $100K How did we do so well? We actually did some marketing! We did end-user promotions (direct mail and phone), reseller promos (50% off every other Mac Office upgrade) a rebate deal for new Mac purchasers (with Apple) We set up a bundle with a database (ACI) to make a "PRO"-like SKU, the terms are very favorable to us -- we sell the product to ACI for $450 dollars (retail is $500, OEM is $150) and they add their DB and resell it Projected sales of 2000 units give us another million in revenue In fact, our European OEM deal, rather than cannibalizing finished goods sales had the effect of increasing them because we leveraged the OEM deal as an opportunity to speak with press and customers yet again, with Apple people in tow, implying Apple's endorsement of our product (i e FG sales are up in France from FY96 to FY97)

Unfortunately, the situation is more bleak in the rest of Europe While in Europe last week, I wanted to meet with sub product managers to talk to them about our product plans and also to learn more about their markets their customers (and get beta candidates) local apple relationships, etc Outside of the UK and France we couldn't get anyone else to come! We're localizing the product in German Italian Spanish, and Swedish and no one from those countries cared enough to learn what was going on On Tuesday I got a letter from a PSS person in the German sub begging me to help them out -- he told me that no one in the German sub cared about marketing our mac products, and that the one person in Central Europe (in Switzerland) who cared about mac marketing was just fired (and was also apparently told he couldn't come to Paris to meet with me on Mac Office 97) I don't know the specific issues with that case but I do know that there's a huge difference in sales results between France and other countries (You wouldn't believe how often I get mail from various parts of the company asking for help on some Mac issue b/c someone who cares thinks the right thing isn't happening) Sales are down in every European country outside France we made no effort in these countries to leverage the OEM deal the way that the French did (note too that France is not the country with the highest sales for Mac Office in Europe -- our FY97 European sales of Mac Office are UK 23% France 21%, Germany 12%, Sweden 8%, Italy 7% Switzerland 6%)

I'm certainly aware of opportunity costs, and if we choose to spend the last marginal person in each marketing org only on Windows Office, that's fine, but let's be aware that we could be achieving higher Mac revenues

Lastly, I want to urge that we make a final decision soon Initially, after forming my group, we had planned to be very pro-active with press and customers, sending the message that something had changed at MS, and that we were going to do really great work for the Mac Given the indecision, we have completely stopped pro-active communications, and have lost this advantage Our constant excuses for why we can't do interviews are wearing thin -- one Washington Post reporter has been put off several times, and we didn't respond to Lee Gomes from the WSJ MacWorld is coming up in a month and we had planned to demo the product there -- doing so obviously means a lot of other things need to happen -- writing a demo, refining positioning setting up meetings with press and customers, visting press before the show, and doing some sort of promotion in the fall to prevent a sales dropoff But we aren't doing any of this now A January launch means long lead press tours in September, since we had initially told some press to expect an October ship date they are expecting long leads now, but we aren't communicating to them at all So we're at the point where we need to start doing some communications now, but we can't until we decide to go forward with the project

So I think that making a decision very soon is critical and I think that decision should be to finish the product

Thx,
Ben

P S I owe you some info on connectix virtual PC -- short answer is that it's a cool product that emulates haroware (Triton chip set, IDE controller, Ethernet card scundblaster, etc) rather tnan Windows (like SoftWindows does), and so can run any OS -- Win95, NT, Linux, DOS, etc They are OEM-ing Win 95 and DOS from us, we get money for every copy sold I know the people there very well, and could easily arrange a demo for you I also have a coy of the product they sent me and could show it to you Performance seems adequate on high-end Macs