Q. Good morning, Mr. Ayala.
A. Morning.

Q. Okay. Mr. Ayala, could you please tell me what your current title is at Microsoft?

A. I'm senior vice president for small and medium business solutions group.

Q. And how long have you held that job?

A. About a year.

Q. And what did you do with Microsoft before that? If you could just take me from the time you joined Microsoft up to your present job, please.

A. I joined the company 1991 mostly to head the Latin American division, nonexistent at that time. So I was in charge of building that group. After that I moved around the intercontinental group. That was as vice president of intercontinental. That was mostly all countries in the southern hemisphere.

Right after that, if I am not mistaken, in 1997 or so I moved to run the Americas. That includes North America and Latin America and the South Pacific region, which is kind of the composition at that time. And in 1999 I was promoted to run worldwide sales of the company. And I did that for about three years. And after that I moved to the new job about a year ago.

Q. Okay. But if not right now, very soon the entire sales force for the MBS solutions will report to you?

A. Yeah, that's correct.

Q. And as I -- as I hear you, sir, and please correct me if I'm wrong, what you seem to be saying is that one needs to analyze competition across all its dimensions at the same time?

A. I think that any responsible company would do that. That's why generalizing that we are in the enterprise space is just so broad of a -- of a statement that I said it's just wrong. It's hard to just look at it that way.

Q. Because sometimes you are, and sometimes you aren't; right?

A. Yes.

Q. Okay. Let me -- fair enough. That's a fair point. Let me start over, then. Okay. With respect to selling core ERP, finance and HR fundamentally, would you agree with me that there's a greater opportunity in the corporate account space over the next five years than there is above that in the larger enterprises?

A. For Microsoft, absolutely. For the other vendors I would say this is still opportunity in both places.

Q. With respect to the other vendors, would you agree with me that the dominant opportunity is replacements?

A. Define opportunity. In terms of what?

Q. The dominant opportunity to make any kind of -- of new license revenue is by selling a replacement of an existing system.

A. I don't track as closely the number of licenses you can sell of an established vendor like Oracle or SAP into the corporate enterprise GSM space. My view of this is for non-established vendors into the GSM space that is nearly a zero opportunity to them, for non-established vendors.

Q. And that is in part because you're always competing against the existing solution, and you have existing vendors there?

A. Is many reasons. I think having the footprint to support those customers, having those capabilities. I think it is kind of a very, very -- even if we had a product, it's a very, very costly proposition. So for non-established, I don't think there is a big chance to -- there's zero opportunity, in my view.

For established vendors, I will say, you know, basically because of their reputation, they have been working on this stuff for a long time, they know how to do it, they have the connections with the right people, talking to the decision makers in these places, I would argue that this is still probably some relevant opportunity there.

Now, I can also understand how they don't want to limit themselves to that. They want to also participate down market, which is what Oracle and SAP and others are doing. So you know, you got to look at these things from that length. So kind of making a statement up there there's an opportunity broadly, period, I don't think is actually factual. It depends on who is the player in that space.

And I would argue there is still a lot of opportunity for Oracle and SAP up there. Now they want to have more coming down, and I can understand that, too.

Q. And my question is, in your experience when large customers procure -- we were talking about database software. When large customers procure database software, do they end up paying more if they have down selected to just two vendors than if they had down selected to three vendors?

A. If they pick the wrong ones they may end up paying more.

Q. As a general matter does the number of bidders, two versus three, make any difference on the price that they pay?

A. Totally disagree with that statement.

Q. You think it does not make a difference?

A. It depends on who is there. I mean, I'm very serious about my answer.

Q. Look, you seem to think that we're arguing, and we're not.

A. No, I'm not.

Q. So let me -- let me be clear. Do I understand you correctly that in your experience, you cannot generalize that someone will pay more money because they down selected to two than if they down selected to three?

A. You can't generalize that way.

Q. You --

A. You cannot.

Q. You cannot generalize that way; okay. Now, and that's been your experience with respect to database software?

A. Yes.

Q. Has it been your experience with respect to other products that are sold to GSM customers?

A. Yes.

Q. Is it -- is it fair to say that it's been your experience with respect to all the products that you've sold to GSM customers?

A. Yes.

Q. And then I think you said that it would be harder if Microsoft was trying to go above basically its current target markets, which we'll call midmarket and CAS; is that correct?
A. Yeah, I do believe that's a lot harder.
Q. And why would it be harder?
A. Again, I think the investment, even having the money, I think the time to get there would take us a long time. You know, we could even decide tomorrow, okay, let's just build a product to compete directly with SAP. Even that decision is made, I think the capability to be built here and include all the aspects I described before,

you know, it will take us years. Now, that's why I do believe that's not the smartest investment for the company.

Q. Okay. Let me see if I can understand what you've just discussed. You said even if Microsoft had the money and decided tomorrow to enter, I'll call it the GSM space --

A. You mean like the product I said?

Q. I'm sorry?

A. Even if we had the product?

Q. Even if you had the product.

A. Let's say a product ready technically.

Q. Okay. You had a product technically ready?

A. Yeah.

Q. Which you don't have now, in your opinion.

A. We don't have now.

Q. But if you had had a product that was technically ready, it would take you many years still to enter the GSM space?

A. Absolutely, I believe that.

Q. Okay. Let me go back to Government 162 again on the first page. Moving down about a sentence, but still in that first paragraph, it says,

"I do believe a real part of the problem today is that there are no boundaries, so everyone seems to believe we should go for a lot of things including geo expansion in all markets -- all big markets, multiple lines in more countries than we can afford, et cetera, et cetera, et cetera. As Steve B puts it," that would be Steve Ballmer, "our eyes are bigger than our stomach."

What is it that you were trying to convey by that sentence or two sentences there?

A. Two things come to mind as very precise examples to illustrate the point. I think customers with multinational presence, there was a tendency to believe that we are able to support Axapta pretty much everywhere where they had offices.

And clearly they have caused issues with customers that go to Japan and say, "Okay, I'm ready for the Japanese installation of Axapta. Where is it?" Well, it's not going to be here for the next two years. So when I say our stomach -- our eyes seem to be -- or when Steve says that, it is really referring to the fact that we have to be very precise.

If we're going to say to a spoke situation, got to tell them very clearly what's the capability of the product, what countries you have support and which countries you don't have support, to ensure a customer walks into a situation with wide-open eyes. If that means for us to lose the deal, we'll lose it.

Q. And why is it preferable to lose those deals?

A. As a leader of this group, I do believe you don't build relationships for one year. You really -- I really believe in the lifetime experience of our customer should be there at all times. So it is the only way you will build credibility.

Q. Would it be fair -- and please correct me -- if

I could somewhat sum up some of your concerns by saying that in trying to build credibility by making sure you don't oversell the product?

A. Yeah. There may be some of that. I don't say that that was basically my intention or I intended and premeditated way people was trying to do things. I think it's more we didn't take the steps to clarify precisely so the sales force can do a responsible job selling these products.

Q. So you're saying that you don't blame the sales force for, quote, overselling the product, but there wasn't enough clarity for them to focus on the customers they could best serve?

A. Being the leader of the team, I take the accountability for not providing more detailed guidance.

Q. And I believe we started the discussion of Chanel by you listing it as an example of a case where, as Steve Ballmer put it, our eyes were bigger than our stomach?

A. Exactly. We ate all of.

Q. That's okay.

A. But it's a good example.

Q. Can you think of any other examples, customers like that?

A. Well, more than customers, it's really countries in which I know --

MR. WALL: Excuse me. What did you say?

THE WITNESS: Countries. Countries. I would say in places like Brazil is a good example. We don't have the capability to invest in four multiple ERP lines. So I guess nobody has told the country that we are not going to do four lines. So some people sold, midmarket customers sold, you know, all these lines. And I know we cannot support four whole lines in Brazil.

BY MS. BLIZZARD:

Q. So would it be -- would it be fair then to say that there are countries where you are similarly concerned that partners have sold products that you do not have the means to support or implement or they don't have the features that will meet those customers' needs?

A. That is correct.

Q. Let me turn back to 162.

A. Just wanted to make that I'll tell you, it's been a humbling experience to get into this business.

Q. It's been a humbling experience in the last year?

A. It's very highly complicated, even for the midmarket.

Q. And let me ask you just to expand on that. Why has it been humbling?

A. Well, because I think as a company perhaps our business model has been of high velocity of business. These are sales that take a lot of time and resource and very expensive to do. Even with great partners like ours, it's expensive to do. You need a lot more support.

So in some ways I think putting boundaries around is really acknowledging the fact that you don't get into this business overnight. You really don't. Even for midmarket. We just -- our ability to be, quote, unquote, "a multi-country player" in the business applications space, it will take us years, even for midmarket. So market share is still very small. Not to say -- I mean, in the enterprises space, forget about it, you know. But no chance.

Q. Okay. When you say that it's been a humbling year, are you sort of contrasting your experience this year to your prior experience as head of sales for a different set of products?

A. Absolutely.

Q. And what -- and what -- what is the difference between this past year and your prior year?

A. I was not as acutely aware of how hard it is to get into these type of -- how hard it is to get into these type of business. I mean, I will say -- let me tell you, give you an example which I think is now very true.

If you talk about entrenchment and the capability to convince a customer to change something, I think the thing that touches closely business process is the hardest thing to change, the hardest. That's why I would say that at the top of the enterprise in GSM it's very, very difficult to enter, very difficult.

Virtually you come to our CIO and say, "Okay, let's change his AP." Probably we have to be thinking of writing a hundred million dollar check. And I'm sure that's not going to fly by. I'm totally sure. So that's why it's very humbling. It's a lot more than I expected it. It's harder, very hard.

Q. So would it be fair to say that you think people generalize around enterprise as opposed to focusing on the CAS space that you're going after?

A. Yes. Especially in the early times, you notice in the e-mail July 21st, 2003. Probably I was one month on the job, you know. Today I'm very acutely aware of propounding in any interview the characterization we are -- and here perhaps I didn't spend enough time with them really saying, so they just think enterprise is a very, very general word.

What tends to confuse people is to say, hey, these guys are going to go and change the biggest ERP system in the world, which is totally, totally bad. So part of the education, moving forward and the effort we're making is really clarifying what we -- it's not about changing strategy. I think it's consistent with a year ago. Now I learn that there was not emphasis enough made on characterizing the spaces where we are is very important.

Q. I believe you already said you -- well, let me ask. Did you attend Convergence 2004?

A. I did.

Q. And what is Convergence?

A. Convergence is the prime customer event for Microsoft Business Solutions. Partners happen to attend, too.

Q. And do you recall seeing this document before?

A. Yeah, I think I read this document.

Q. Is it something that would have been prepared for you in sort of as part of your preparation for Convergence?

A. For all the executives attending.

Q. For all the --

A. All the executives attending.

Q. All the executives attending. If you turn to the first page where it says, "Top executive Q and A." The third question down says, "How does Microsoft Business Solutions define its target market?" And it says,

"Using Microsoft internal customer segmentation taxonomy Microsoft Business Solutions targets the core small and mid-size business segments and divisions of large organizations. Microsoft defines core small business as having one to 49 employees, mid-size businesses as having 50 to a thousand employees, and divisions of large organizations of

having 1,000 to 5,000 employees. In terms of
revenue, Microsoft Business Solutions targets
customers with 1 million to 1 billion in annual
revenue."

Do you think that's accurate?

A. Yeah, it's accurate.

Q. Do you think it's accurate with the clarifications that we've discussed today about the appropriate types of divisions of large organizations that would be good fits for the MBS products?

A. That would be more precise.

Q. Do you think that MBS products can fit all divisions of large organizations?

A. I don't think so.

Q. Do you think MBS products are good fit for all organizations up to a billion in annual revenue?

A. I don't think so.

Q. The next question says, "Is Microsoft Business Solutions planning to take its products up market into the enterprise market?" And the answer says,

"To move to the large enterprise market is not a
natural extension of Microsoft Business Solution's
current business model. It would mean creating
different products, different price points, different
sales channels and building an infrastructure around

that business."

Do you think that's accurate?

A. Well said.

Q. Well said? The next sentence says, "Rather than pushing to move up into the enterprise space, we are looking to move out into a broader range of global markets and industries within the small and mid-sized businesses and divisions of large organizations."

A. That's very accurate. I think it's a very good characterization of the strategy as it stands.

Q. Right. And but you have been involved on many, many occasions in the process of selling software, Microsoft software, and Microsoft products to GSM customers, even if those sales were consummated through partners; correct?

A. Define for me process.

Q. The sales process, and whether it's in a general level of marketing or talking -- evangelizing, talking to customers about your products.

A. I talk to the customers about our products, sure.

Q. So you're not ignorant about the dynamics of selling business software to GSM customers, are you, sir?

A. I know some about it.

Q. In fact, you were the head of worldwide sales for Microsoft for many years, were you not?

A. Correct.
Q. Now, Mr. Ayala, do you have any particular expertise in knowing when it is that a large enterprise may or may not have a viable option of implementing a spoke solution?
A. Not personally, but we have technical people who do that.
Q. But personally don't know when that would be technically feasible and when it would not be; correct?
A. It would be I think impossible for anyone to know precisely that.
Q. It has to be assessed on a case-by-case basis; correct?
A. People should look into the details of customer requirements.