

IBM OS/2 Warp Brand Plan.....	1
Executive Summary.....	1
Environment Description.....	2
Competitor Assessment.....	7
Internal Capabilities Assessment.....	8
Brand Image.....	9
Brand's Role in Overall IBM Portfolio.....	10
Performance Goals.....	10
Offering.....	10
Vision and Value.....	10
Situation Recap.....	11
Intended Positioning.....	13
Keys to Successful Execution.....	17
Information required to manage the Brand.....	17
Terms.....	18
Vision and Value.....	18
Situation Recap.....	18
Intended Positioning.....	19
Keys to Successful Execution.....	21
Information Required to Manage the Brand.....	21
Distribution.....	22
Vision and Value.....	22
Situation Recap.....	22
Intended Positioning.....	25
Keys to Successful Execution.....	28
Information Required to Manage the Brand.....	28
Service and Support Plan	29
Vision and Value.....	29
Situation Recap.....	29
Intended Positioning.....	30
Keys to Successful Execution.....	32
Fulfillment.....	33
Vision and Value.....	33
Situation Recap.....	33
Intended Positioning.....	33
Keys to successful Execution.....	34
Information Required to Manage the Brand.....	34
Performance Goals.....	34
Vision and Value.....	34
Situation Recap.....	35
Intended Positioning.....	35
Keys to Successful Execution.....	37
Information Required to Manage the Brand.....	38
Brand Image.....	38
Vision and Value.....	38
Situation Recap.....	38
Intended Positioning.....	40
Keys to Successful Execution.....	43
Information Required to Manage the Brand.....	43
Information Systems.....	43
Vision and Value.....	43
Situation Recap.....	43
Intended Positioning.....	44
Keys to Successful Execution.....	44
Obstacles.....	44
Appendix 1. Market Segment Details.....	45
Appendix 2. OS/2 Adoption by Industry Within Geography and Company Size.....	46
Appendix 3. Emerging Geographic Markets.....	47
Appendix 4. Competitor Assessment.....	48
Appendix D1. Key Actions within Last 12 Months.....	52

Appendix D2. Channel Summary.....	53
Appendix D3. Channels of Distribution for OS/2 Brand Products.....	53
Appendix D4. 1995 Planned Channel Program Summary.....	54
Appendix D5. OEM.....	55
Appendix D6. Industry Sales Support.....	60
Appendix D7. Retail Initiatives.....	64
Appendix D8. EMEA Premier League.....	65
Appendix. Current Offerings.....	66
Appendix. ISV Recruiting Programs.....	67
Recruiting Programs for OS/2.....	67
Providing a Compelling Business Argument.....	67
Shared Risk/Shared Return Methodology.....	68
Accelerating Results and Visibility.....	68
Keys to Successful Execution.....	68
Information Required to Manage the Brand.....	69
SDO Roles and Responsibilities.....	69
Appendix. Service and Support Organization, Offerings, and Segmentation.....	70

IBM OS/2 Warp Brand Plan

Executive Summary

Our goal is to make the OS/2 Warp Brand the operating system of choice in the business client/server market and a strong competitor to Microsoft in the consumer market. In addition, we want the OS/2 Warp Brand to be a significant contributor to the IBM software business and for IBM to be recognized as a key player in the global software industry. This means dramatically increasing our profit margins and contributing to the image of IBM as a premier provider of software.

The IBM OS/2 Warp Brand Plan seeks to generate an increase to both market share and revenue for the OS/2 brand year-to-year into 1999. In 1994 OS/2 gained market share, achieving 9% of the client and 14% of the server volumes. The market share target for 1999 is to increase client share to 24% and server share to 25%.

IBM currently holds 10% (1994) of the combined revenue share for the PC-based operating systems and server operating systems markets. The revenue target is to increase revenue share from \$472M in 1995 to \$961M by 1999. These increases are seen as attainable through focus on the following (note that specific initiatives are defined in "Key Success Factors for Attractive Segments" later in this overview):

- Gain commitments in top PC hardware OEMs to preload OS/2 at significant volumes, and continue to gain commitment from the IBM PC Company to preload OS/2.
- Gain commitments from targeted ISVs to OS/2 (Intel and PowerPC) for applications that exploit IBM technologies and demonstrate their value on OS/2. Include consumer personal productivity, cross-industry, and industry-specific applications.
- Develop product offers (including integrated solution packs) designed to meet the needs of our target market segments. Incorporate, into those product offerings, the advanced software technologies necessary to provide a bridge between existing and future uses of our Brand.
- Aggressively develop and maintain channels for our target market segments, especially Retail.
- Develop a major presence in new geographic (China, Russia, India) and technology (PDA) markets.
- Develop a consistent world wide support strategy for OS/2 Warp products.
- Gain total commitment from IBM world wide to the OS/2 Warp Brand, and to mobilizing the IBM company's resources in the battle against Microsoft.

Brand Definition

The IBM OS/2 Warp brand is defined to include a wide array of product components, ranging from a minimum which includes the core operating system (OS/2 Warp) to a maximum which is defined to be any stack of software component built off of and running on an OS/2 Warp base, regardless of hardware platform. The OS/2 Warp brand seeks to provide solutions in the entire desktop arena, which means end users (OS/2 Warp), client systems (OS/2 Warp Connect), and servers (OS/2 Warp Server for LAN networks and Eagle for groupware distributed computing). Details of the specific product offerings are in the Offerings section of this document.

Brand Financial Objectives

Note: Revenue targets currently represent PSP only. We are working on defining the OS/2 Warp Brand revenue targets to correspond to our brand definition.

In order to meet the OS/2 Warp Brand market share and revenue share targets, the financial objectives are:

- Attain total revenue in 1995 of \$472M, up 28% from \$321M in 1994
- Attain client revenue share of 9% in 1995 to 17% by 1999
- Attain server revenue share of 6% in 1995 to 14% by 1999
- Increase revenue share each year through 1999, for a 28% compound growth rate (CGR)
- Attain 6M OS/2 warp accepts, 140K LAN Server accepts in 1995
- Reduce cost (69% in 1994 to 25% in 1999) and development expense (107% in 1994 to 18% in 1999).

Brand Objectives

To achieve the OS/2 Warp Brand financial objectives, the following OS/2 Warp *Brand* objectives must be met (note that specific initiatives are defined in "Key Success Factors for Attractive Segments" later in this overview):

- Increase the OS/2 Warp Brands share across all market segments from 7% in 1994 to 15% in 1999.
- Increase the OS/2 Warp Brand's client (non-server) share across all market segments from 9% in 1994 to 24% in 1999.
- Increase the OS/2 Warp Brands server share across all market segments from 14% in 1994 to 25% in 1999.
- Capitalize on emerging geographic market opportunity; specifically, in China, grow the OS/2 share across all market segments from 10% in 1994 to 25% in 1995.
- Deliver a suite of client and server enabling platforms tailored to the needs of each of the major buyer market segments within the software industry, beginning with OS/2 Warp Connect in 5/95. Include consistent world wide support as part of the offerings.
- Exploit the market emergence of the PowerPC and 615 chip technologies by developing OS/2 Warp products based on the IBM microkernel by 3Q95.
- Provide the technology and product offerings to support the requirements of the Industry Solution Units within IBM.

Environment Description

A General Description of the Industry Dynamics

In 1994, world wide shipments of PCs were up by 20%. In the U.S., 68.3% or 12.7M were shipped to businesses: 31.7% or 5.9M were shipped to homes (source: Dataquest). Interop projects that in 1998 world wide home installations of PCs will pass business installations.

The division of home and office environments is blurring, with PC use at home rapidly increasing. The network might be the Internet rather than a company LAN or the communications by FAX rather than satellite. This change is driven by several influences:

1. Small business boom, many of which start in the home
2. Work-at-home and after hours work-at-home increased
3. Growing home office use, especially in areas of education/entertainment and financial/productivity software
4. Steadily dropping price of technology.

The primary channels for consumer and small business purchases are OEM (delivered preloaded on new personal computers) and retail outlets (purchases made at computer stores, superstores, etc.). More that 2/3 of all PC applications are sold through reseller channels ranging from storefronts to consultants.

Business has taken a sharp turn toward client/server use with PC's in the last few years. Only 30% of customers don't plan to use client/server, 30% have already moved, and the rest are determining how to get there (source: IDC). Also, there has been a shift from 1993 to the present in how client/server is used (source: Forrester Research):

- 1993 – File/application sharing and terminal emulation are the main uses
- 1995 – New client/server business applications surge and there is a drop in host connect uses.

In addition, client/server computing is evolving from two pervasive PC system software types, the desktop operating system (a.k.a., DOS, executing standalone personal productivity applications) and the network operating system (a.k.a., NOS, client extensions and server function allowing the sharing of files/devices), to the combination of a network-aware client and an application server (called AOS by IDC). While the NOS model will continue to exist, the application server provides true client/server computing: execution of new groupware applications which access distributed computing services.

Another piece of the evolution of client/server computing is the division of the old "DOS" model into two parts: a "client system" or a file/device sharing environment with multiple users and shared resources: and a "consumer system" environment with connectivity via Internet, World Wide Web, and TCP/IP, but not real client connectivity. Purchase and delivery are different as well. The consumer system is selected based on ability to execute popular personal productivity and edutainment applications, and will default to a preloaded product when possible. The client system is selected as part of a system solution and on its ability to execute specific groupware applications, and will be placed on the delivered hardware even if a preloaded product needs to be overwritten -- by third-party solution providers.

The advent of groupware and its underlying distributed computing services drives yet another type of infrastructure system software: middleware. IBM has a very large stake in the transition of many key software technologies into successful client/server middleware (DB2, CICS, etc.) These technologies extend beyond the PC space and are covered under the umbrella of the Open Blueprint.

In terms of technology, mobile computing is rapidly penetrating the desktop with the highest usage in large companies. Half of all mobile users connect back to the office via modem. This will accelerate due to the vertical and horizontal applications currently offered not only on notebooks, but also on the emerging PDA devices. All systems, both desktop and portable, are becoming more compact. In a Dunn & Bradstreet poll of their companies in 1993, portables were used for three main reasons: business travel - 31%, field work/data collect - 26%, and home-to-office - 22%.

Finally, new technology markets are emerging in China, India, Russia and other technologically under-developed areas of the world, and these markets represent a significant opportunity for companies that can enter the market early and influence the initial country standards.

Description of the Evolution of the Brand Over the Last Few Years

Of the current 32-bit operating systems, OS/2 is the leading product by far, with over 8 million copies in use. Our premier desktop and server software products have been 32-bit since 1992-the same year 32-bit hardware became dominant.

OS/2 2.0, available April 1992, was technically superior, 32-bit, and exploited Intel 386 and 486 processors. It lacked usability features and native 32-bit exploitive productivity applications, and marketing efforts were not aimed beyond Tops Down and the CIO.

OS/2 2.1, available in May 1993, included Windows 3.1 support and new usability features and soon became a popular choice for client/server and down-sizing projects. It won the majority of the market for desktop operating systems in mission-critical environments in specific induces, such as banking and insurance, and gained a key role as an "application server" platform for true client/server computing.

Microsoft announced its 32-bit Windows NT 3.1 as heir to the Windows install base, and the desktop market became fragmented: DOS/Windows 3.x at the low end, UNIX, servers and workstations at the high end, OS/2 at the middle.

To recruit Windows users. IBM repackaged and repositioned OS/2 as an operating system with a utility which took advantage of installed Windows code, called OS/2 for Windows, in November 1993. The promotional price of \$49 made the product a short-term commercial success, especially among Windows users with 8MB of memory, and IBM shipped more than 500,000 units in its first 3 months of availability. However, there were installation and usability difficulties and OS/2 remained unattractive to the average Windows user with 4MB RAM, an install base of approximately 50 million today.

In October, 1994, IBM launched OS/2 Warp, developed to meet customer's requirements of smaller memory requirements (4MB), easier installation, better GUI, easier tutorial, and more native applications. OS/2 Warp also included BonusPak with more than a dozen native OS/2 applications and one-button access to the Information Highway. IBM shipped more than 1 million copies world wide in first three months. Our largest obstacle to the success of OS/2 Warp remains Microsoft and their new, smaller 32-bit system, called Windows 95, planned for availability in August 1995.

Key Challenges for the Brand In the Near Future

In order to meet our OS/2 Warp brand objectives, we must take the following actions:

- Gain unconditional support for OS/2 Warp and unconditional bias against Microsoft and Microsoft products throughout IBM. Stop delivering products on Microsoft's platforms ahead of OS/2.
- Develop a product naming strategy that is far reaching and validated, confirming our ability to extend the OS/2 Warp brand beyond operating systems into stacks of solutions.
- Aggressively improve our share in key market segments in the face of challenges by Microsoft and Novell.
- Obtain commitments from PC hardware OEMs to preload the OS/2 Warp brand.
- Capture the real decision-makers for the PC systems software solution providers (ISVs, VARs, VADs, SIs, NIs).
- Aggressively pursue share in the large enterprise segment.
- Target activities toward influence (e.g., press, consultants, analysts) who seriously impact our progress.
- Educate our direct sales force on the impact of Microsoft's products and how to address.

- Develop and market IBM cross-divisional integrated solutions.
- Obtain additional funding specifically to pursue the home/consumer segment.
- Obtain additional funding (*need input from other functional areas*).
- Develop an effective “go-to-market” structure that has clearly defined roles and responsibilities which eliminate conflict and overlap.
- Develop and execute coordinated and consistent world wide marketing plans, programs, and campaigns.
- Define and execute coordination between SDO organization and OS/2 Warp brand organizations, in order to execute brand objectives.
- Improve and leverage technical support skills world wide to ensure geographic coverage and availability of services offerings necessary for broad customer acceptance of and satisfaction with the OS/2 Warp brand.
- Develop and implement a global channel strategy and channel management plans and programs for technical services, including product support.
- Be successful with OS/2 Warp while maintaining API compatibility with Windows in order to support industry applications.
- Create and communicate a committed product plan internally, and a customer consumable product strategy externally.
- Improve installability and compatibility with industry hardware
- Position the OS/2 Warp Brand with other IBM Brands and programs where the OS/2 Warp product set can be an important part.
- Develop and implement a comprehensive customer registration database
- Develop an effective customer requirement-gathering process for short term requirements
- Develop a comprehensive marketing requirements forecasting system to capture long-term customer requirements, in all market segments
- Implement an accurate and comprehensive customer sat. measurement system
- Define, implement, and treasure brand functional objectives
- Obtain comprehensive competitive analysis of competitor products and practices, and a tactical plan to respond.
- Develop accurate and scheduled process and tools to measure share by industry and in each targeted market segment.

Market Analysis

Summary of Customer Needs/Need-Based Segmentation

The OS/2 Warp family Brand analysis, in conjunction with IDC and other market researchers, shows a natural division of the personal software market into five segments. The segments are: Consumer/Small Office (with two major subsegments), Small Businesses, Autonomous Departments, Bottoms Up, and Tops Down. The latter three segments importantly split into medium and large businesses (those with more than 100 employees). Appendix VI defines each segment in detail.

The chart that follows summarizes the key elements of our target market segmentation:

	Consumer/Small Office 1-9 People		Small Businesses 10-100 People	Medium/Large Companies >100 People		
	Consumer / Home	Small Office Home Office		Autonomous Department	Bottoms Up	Tops Down
Decision Maker	Individual	Owner	Owner/CEO	Functional Manager	Functional Executive	CIO
Mkt Size (%) 1995-1999 \$4.2B-\$5.8B Revenue	24%→31% (1.0B→1.8B)		17%→17% (0.7B→1.0B)	31%→22% (1.3B→1.3B)	19%→19% (0.8B→1.1B)	10%→10% (0.4B→0.6B)
IBM 1994 Participation Revenue	4% Share		2% Share	5% Share	9% Share	27% Share
OS/2 1994 Volume Share	7% Share		3% Share	6% Share	11% Share	42% Share
Primary Sales Channels	OEM Retail Phone Mail Internet & Other		Value Added Dealers Value Added Remarketers System/Network Integrators OEM			Direct Sales Consultants
System Sourcing						In House Integrator
Applications Needs	Personal Productivity		Business Productivity	Business Productivity	Connectivity Productivity	Internally Developed

In the Consumer segment, customers require more powerful and sophisticated games and edutainment, personal applications, and online services such as banking, “catalog” shopping, and video-on-demand. The winner in this segment will be the vendor that delivers to the consumer new levels of ease of use.

The Business segments require advanced client function, such as e-mail, video conferencing, and full-scale workgroup computing. In addition, they will require distributed computing solutions which include application servers and extremely high performance servers that support new informant types such as voice and video.

Growth of new types of computing such as advanced mobile computing, interactive TV, and embedded systems have the potential to fuel opportunity in all market segments.

Assessment of Segment Attractiveness (Financial Value, Strategic Value)

The worldwide system software industry represents an attractive market opportunity for IBM. The worldwide user-spending revenue opportunity for software in 1995 is \$46B, with expected revenues of \$69B in 1999.

The world wide client and server operating system market represents an attractive opportunity for the OS/2 Warp Brand, and we will use OS/2 Warp's momentum to expand out of our traditional niches into the broad marketplace. The total 1995 client operating system opportunity is 56.7M units and \$2.2B of vendor revenue, growing to 86.2M units and \$3.1B of vendor revenue by 1999. The total 1995 server operating system opportunity is 2.1M units and \$2.0B of vendor revenue, growing to 3.8M units and \$2.7B of vendor revenue by 1999. The vendor revenue opportunity for client and server operating systems, for 1995 and 1999, is shown, by target segment, in the chart that follows:

\$M	Consumer SOHO	Small Business	Autonomous Departments	Bottoms Up	Tops Down	Market Total
Client						
1995 \$M	823	310	633	327	150	2,243
1995 % share	10	5	10	17	41	13
1999 \$M	1,479	484	584	408	185	3,141
1999 % share	17	7	14	22	42	17
Server						
1995 \$M	177	432	733	396	218	1,956
1995 % share	2	2	4	8	23	6
1999 \$M	356	721	754	574	271	2,676
1999 % share	9	5	14	20	29	14

Client operating systems for consumer/SOHO and small businesses represented 51% of the 1995 vendor revenue opportunity and is estimated to grow to 62% by 1999. Success in the Consumer segment is critical to success in the other segments since the individual consumer increasingly effects the buy decision in all other segments.

For server operating systems, the greatest vendor revenue opportunity is expected in small business, autonomous departments, and bottoms up segment and the integration of networks across an enterprise with 78% of the 1995 vendor revenue opportunity. The winner in these segments will be the one who delivers integrated solutions that appear to the customer as “ready-to-go”.

Although large enterprises, or tops down, does not represent the largest nor fastest-growing segment it comprises 37% of the OS/2 Warp brand's current revenue. We will aggressively market client/server solutions to this segment.

Buyers in each of these target segments tend to purchase applications, not operating system. Most of these applications are produced by independent software vendors (ISVs). To determine which ISVs would make the best partners additional market analysts was conducted with IDC. Appendix XX describes this work, known as Protect Springboard.

As a result, a second level of market segmentation is required to produce revenue share growth. In addition to the consumer and small office/home office segments, buyers purchase applications in the following market segments:

- Cross industry, which includes: office, application development tools and technology, accounting, sales force automation, human resources, marketing/GIS, statistics/modeling and CAD/CAM.
- Vertical industries, which have been mapped to the 13 industries selected for implementation of IBM Industry Solution Units.

Solution Developer Operations (SDO) has been created to represent IBM to the ISV community. SDO's primary mission is to establish and maintain IBM's relationship with external solution providers. In addition, SDO has led the initial effort to identify those ISVs whose solutions would be most valuable on the OS/2

platform. Over time, PSP will lead the iterative process of analyzing the cross industry and vertical industry market segments, selecting segments and ISVs for investment and funding SDO's recruiting, technical support, and marketing programs for the OS/2 Warp Family Brand.

In addition to Project Springboard, a review of OS/2's adoption to date highlights several areas of success and areas for future focus by buyer and industry segment. IDC's Global IT Survey results show that the fastest adopters of OS/2 during 1992 and 1993 have been:

- Small companies in the business services, health and manufacturing industries, worldwide;
- Large companies in the insurance, utilities, finance, telecommunications and business services industries, worldwide.
- The industry segments which would benefit from future focus are,
- Business services: all sizes, worldwide
- Education: all sizes, worldwide
- Distribution: small companies, worldwide
- Finance: large companies, worldwide; small companies, Western Europe
- Manufacturing/Process: small companies, Western Europe
- Government: small companies, Japan and US, large companies, worldwide

Appendix 2 describes OS/2 adoption and areas for focus in more detail.

Emerging Markets

Additional opportunities are available in the marketplace that must be differentiated by other segmentation criteria. Here are two:

- Personal digital assistants (PDA) technology is projected to have a triple digit growth rate over the next 5 years, particularly in the consumer and SOHO segments (source: IDC).
- New markets in China, India, and Russia represent a significant opportunity for the OS/2 Warp Brand. For example, Dataquest estimates that Chinese software revenue amounted to \$250 million in 1993 with custom software accounting for 80% and packaged software supplying the other 20%. For 1994, the total had already leaped to \$765 million, with an even split between custom and packaged software, OS/2 Warp is being launched in China in April, 1995, with plans for Russia and India being driven by the OS/2 Warp brand organization.

Appendix 3 covers emerging geographic markets in detail.

Key Success Factors for Attractive Segments

Success is achieved only by matching customer requirements with the right product, marketing and support actions.

Consumer/SOHO

Initiative	Target	Status	Related Plan Section
OEM Preload	1) Implement three-tier OEM mktg & sales program to gain commitments from 12 of top 35 OEMs on large percentage of WW PC shipments 2) Work with IBM PC Co. to ensure OS/2 SW exploits their HW	<ul style="list-style-type: none"> • IBM PC Co. preloads OS/2 on all systems with 8MB or more of memory • Vobis&Escom in Germany preloads on most new models 	Distribution OEM Appendix
ISV applications for personal productivity & edutainment	1) Execute Project Springboard, designed to incent ISVs through shared risk/return and obtain commitments from 75 ISVs to ship 70 Intel and 50 PPC apps by 1Q96 2) Support Win95 API subset in OS/2	<ul style="list-style-type: none"> • An average of two new OS/2 apps a week has shipped in 1H95 • Win95 API subset support in plan 	ISV appendix
Compelling offerings, e.g. exploiting lug & play & HCI interfaces like pen, speech, & multimedia	Deliver OS/2 Warp Family FunPak 2Q95	In plan	Offering
Advertising coverage	Maximize OS/2 Warp brand awareness through: <ul style="list-style-type: none"> - Part. In IBM Brand advertising - Warp Challenge campaign 2Q-3Q95 - Advertising/merchandising w/OEMs, ISVs and resellers 		Brand Image OEM Appendix ISV Appendix
Public relations	Raise market segment awareness through <ul style="list-style-type: none"> - Vignettes for E'TV - Consumer Internet Connection video - Capitalize on Internet interest in print/broadcast media - Deliver press updates via Warp's Internet/CompuServe capability 		Brand Image
Service & Support	Develop an inexpensive, easy-to-obtain consumer-oriented support offering, delivered through retail channel		Support
Develop Retail Channel		1Q95 IBM sold 27% of OS/2 through channels	Distribution

Small Business, Autonomous Departments and Bottoms Up

Initiative	Target	Status	Related Plan Section
ISV applications for vertical/diagonal business apps, and middleware/groupware	1) Execute Project Springboard. WHAT IS SPECIFIC TARGET? 2) Support Win95 API subset in OS/2	• Win95 API subset support in plan	ISV Appendix
Strengthen our remarketer and integrator channels through the BESTeam program	1) Implement program to recruit 1300 VARs and Sis in 1995 2) Intensify BESTeam training & certification programs 3) Incent BESTeam to sell our integrated solutions (Eagle) 4) Fund headcount & provide incentives for MBAs to recruit broad range of small resellers 5) Make alternate (to IBM Direct) channels on equal in all activities. Measure.		Distribution Support
Compelling offerings, e.g. strong focus on client/server solutions, using groupware	Deliver OS/2 Warp Connect 5/95, Warp BizPak 2Q95, Warp Server and Eagle 4Q95	In plan	Offering
Robust, reliable platforms exploiting capable hardware	Deliver Falcon 3Q95 and Hawk 2H96	In plan	Offering
Advertising coverage	Implement full-year print advertising campaigns targeted at resellers, MIS and vertical industries		Brand Image ISV Appendix
Public relations	1) Develop positive relationships with network consultants 2) Build awareness of OS/2-based industry solutions 3) Develop OEM, ISV, product and success story announcements		Brand Image OEM Appendix ISV Appendix
Service & Support	Deliver offering through BESTeam for VARs, Sis		Support

Tops Down

Initiative	Target	Status	Related Plan Section
Compelling offerings, e.g. client/server complete solution delivery	Deliver Warp Server & Warp Server Enterprise Feature 4Q95	In plan	Offering
ISV development of industry-specific applications	1) Execute Project Springboard. WHAT IS SPECIFIC TARGET?		ISV Appendix
Public relations	1) Formulate an enterprise positioning and communication strategy against WinNT and NT BackOffice 2) Build awareness of OS/2-based industry solutions 3) Link tightly to IBM software brand image		Brand Image
Service & Support	Educate direct sales force on competitive impact of Microsoft		Support
Establish team to identify and resolve issues that inhibit the sale, install & support of OS/2 product	Opportunity Project Office	Implemented 1Q95 RESULTS?!	Offering

Emerging Geographic Markets

Initiative	Target	Status	Related Plan Section
Establish strong government relationships	Warp Launch 4/95	Done	Emerging Geographic Markets Appendix
Invest in joint ventures			Emerging Geographic Markets Appendix
Establish ISV support centers			Emerging Geographic Markets Appendix

Competitor Assessment

Appendix 4 provides detailed information on our key competitors, Microsoft and Novell.

While the OS/2 Warp family Brands entrenched competitors continue to be Microsoft and Novell, Microsoft presents the greatest competitive threat to the OS/2 Warp family and the IBM Corporation. Microsoft's objective is to leverage their dominant share of client operating systems and applications to grow demand for server and consumer products. Novell's strategy is to leverage their dominant share of file/print servers to grow demand for application servers,

Today, Microsoft dominates the OEM preload business. OEMs have been reluctant to preload IBM code because they fear Microsoft's reaction, and PSP has been slow in gaining commitment from the IBM PC Company to preload OS/2 Warp. Microsoft owns the greatest share of retail shelf space because of the large volume of Windows applications available in the marketplace. Windows 95, with a projected availability in August 1995, is positioned as the 32-bit follow-on to the Intel Windows platform.

Microsoft will continue to sustain their desktop client software business. Their main focus will shift to the corporate server and consumer markets. As they add new technologies and middleware to their offerings they are encroaching upon IBM's core server business.

In addition, Microsoft is aggressively pursuing the client/server market with the recent launch of the BackOffice suite of server products for Windows NT. Their strategy is to lock customers and ISVs into a Microsoft client/server platform through common interfaces on Windows 95 and Windows NT. They have also established a dedicated direct marketing team of over 3000, 40% for large accounts, where they assist (but do not compete with) third-party solution providers. This is augmented by a 500-person consulting services team who design and plan more complex client/server systems.

For IBM to be a leader in the server software business we must attain a sufficient presence in the client business and prevent Microsoft from implementing their client/server strategy. For IBM to become more competitive in the client business there must be IBM and ISV applications that compete effectively with Microsoft's applications.

Microsoft's consumer strategy is to establish itself as the leader in consumer software. They are building a brand name for their home line of products, developing completely new distribution channels, and establishing partnerships with application developers, banks, and credit card companies. Microsoft is purging three complementary efforts to open new markets: Interactive TV (ITV), Online Services, and Personal Communicators. Those provide consumers with information services, merchandise, and other content to fuel the emerging market for electronic commerce.

IBM must compete with Microsoft in the consumer market in order to effectively compete with Microsoft in the business segments. We must focus on building strength in the short term on PC-centric opportunities as we prepare for the coming shift to network-centric consumer services.

Novell is the market share leader for PC-based server operating systems. Their strategies are implemented largely through alliances and acquisitions. They have built market dominance through strengths in marketing and distribution, not necessarily from software development. They have established an industry-pervasive, highly-specialized reseller channel filled with an army of trained expert professionals.

While Novell's Netware product is the only server operating system currently available with an enterprise directory service, they are still viewed as a departmental systems provider rather than a provider of enterprise networking. Novel's customers are not migrating to Netware 4.x as rapidly as they had expected, and most customers are not yet embracing Novel's enterprise directory services. Migration to Netware 4.x is difficult. They are under pressure from IBM and Microsoft, both of which offer migration utilities from Netware to their server operating systems.

Internal Capabilities Assessment

Despite IBM being the largest software company in the world, 1995 was the first time all software was brought under one organization for both development and marketing. Technology sharing, development effectiveness, design focus, and marketing efforts are all enhanced by this verticalization as IBM Software Systems group. It is the first software-only division grouping in the history of IBM. Today OS/2 is one of four strategic operating systems within IBM (OS/2, OS/400, AIX and MVS).

One of the big focuses within IBM today is the more effective use of our own technologies, such as standardizing on system management technology that will allow one set of tools to manage an array of hardware and software products. Many of the reorganizations IBM has undergone in the last year have been focused on simplifying this cooperation through consolidation. For the OS/2 Warp Brand, we developing and integrate advanced software technologies. The RS/6000, AS/400, and S390 divisions will integrate selected technologies into their brand operating systems. These technologies include:

- Microkernel, which enables the same system software to run on multiple architectures with varying processor types and sizes
- Objects support at the basic system level (SOM), with OpenDoc for integration of multiple data types into a single compound document and with a complete set of object frameworks (Taligent Common Point)
- Distributed computing (DCE) and distributed objects (DSOM) integrated into our client/server products
- Open Systems Architecture, which will present a consistent set of APIs for allowing any client application to interact with any back end service, in addition, we will provide Windows 95 interfaces as the market requires
- Human Computer Interaction, that allows users to interact with the system in a more natural way. Everyone will become a user.

IBM has several reengineering initiatives in place, two of which affect the OS/2 Warp Brand. One is the Brand Management Reengineering initiative, which this plan represents, and the other is the Integrated Product Development (IPD) initiative. IPD reengineers software business processes, and the OS/2 Warp brand organization is taking part in the pilot. Both the Brand team and the IPD team will work together to

maximize the benefits of these efforts. In order for the OS/2 Warp Brand to be successful, we must define and agree to roles and responsibilities across divisions, geographies, and functions. The following is a list (it is not comprehensive) of key obstacles for our Brand Management System to address:

- Funding to pursue all our target market segments - obtaining and managing
- Definition of processes for managing and developing IBM cross-divisional integrated solutions (stacks, for example, Eagle)
- Definition of a corporate fulfillment strategy for stacks
- Definition of geography roles and responsibilities
- Synchronized roles and responsibilities between the OS/2 Warp Brand division, corporate, other divisions, and geographies
- Definition of the corporate strategy for other IBM divisions supporting and funding the competition (Microsoft and Novell)
- Definition of processes for interdivisional pricing and performance measures.

In addition, we must have an information system and initiatives in place that support the following information requirements:

- Comprehensive customer registration database
- Short-term customer requirements, across IBM Software brands
- Long-term customer requirements forecast, across IBM Software brands
- Comprehensive customer satisfaction measurements, across IBM Software brands
- Comprehensive competitive analysts of competitor products and practices
- Measurements of revenue and market share in each targeted market segment, by geography, by industry.

The following chart describes the strengths, weaknesses, and strategies for the OS/2 Warp brand

OS/2 Warp Brand Profile

<i>Strengths</i>	<i>Strategies</i>
Technology leadership against Win95 Enterprise and midrange presence Legacy and multi-platform experience Mature product Scaleable family of middleware On-ramp to Information Highway Leverage of IBM's core experiences Networking Available today	Redirect focus from strategic to user value Target products, mixed to high supply segments Move to non-traditional indirect channels Develop integrated product offerings (see Deutsche Bank white paper) Treat Microsoft as a global IBM competitor Capitalize on competitive strategies by Microsoft and Novell in market
<i>Weaknesses</i>	
Lack of OS/2 exploitive applications Lack of device drivers Not easy to install & does not run in 4MB Minimal market/mind share Developings of indirect channels Lack of focus on non-traditional growth markets Inability to easily integrate solutions Lack of solution providers (VARs, SIs, NIs) Technology aged wrt NT	

Brand Image

The OS/2 *Warp* family provides an operating system foundation that scales from home-based computers to powerful enterprise servers. With the introduction of OS/2 *Warp* in 1994, IBM brought a new level of awareness to OS/2. The OS/2 *Warp* name was a clear departure from previous releases, intended to retain the brand equity of OS/2 while igniting a sense of "newness" and "non-traditional IBM" excitement. Through advertising and media relations efforts, we have worked to provide greater recognition and a clear characterization of the qualities that differentiate OS/2 *Warp* from the competition. This branding strategy is intended to establish OS/2 *Warp* as a technology leader ("you can do all this at once"), that is fun to use ("I can't wait to surf the net"), and is accessible to everyone (even nuns in the abbey).

This approach will eliminate fragmented go-to-market communication and maximize the worldwide brand recognition for all OS/2 Warp Brand products, causing a halo effect. Other products, by association with the OS/2 *Warp* brand, are assumed to have many of the attributes (technology leadership, ease of use, robustness) without having to directly promote them. This allows the advertising for OS/2 *Warp* Server, as an example, to focus on the attributes of a network operating system that are most desired by the target audience. In addition, we are in the process of consolidating many of the separate marks used for certification under a single OS/2 *Warp* logo. This will simplify what goes on produce boxes, in advertising, etc., and it will allow greater recognition and leverage (more products covered) in the market.

The transition to this all encompassing brand will need to be managed carefully so sales of products like LAN Server 4.0, not yet under the branding umbrella, are not negatively impacted. Therefore, the strategy is to bring products into the fold as new releases are announced and generally available over the next year.

Brand's Role in Overall IBM Portfolio

IBM's ability to maintain client and server operating systems share in all target segments requires a concerted IBM cross-divisional effort. We must drive requirements definitions and execution of cross-divisional integrated solutions necessary to compete with Microsoft and Novell. This work is currently underway. In addition, we must ensure that the OS/2 Warp Brand is a compelling piece of the overall IBM Software Brand.

We will position the OS/2 Warp Brand as a family of offerings, and deliver ready-to-go solutions through acquisition and integration of key applications and middleware as stacks to the OS/2 platform. We will provide electronic commerce leadership by leveraging IBM's global network, Prodigy, and access to industry networks and services. We will stimulate ISV development of OS/2 applications through delivery of development tools and shared risk/return initiatives such as Springboard. Marketing, advertising, and media relations initiatives will generate interest and gain mind share. We will exploit technologies on IBM 615, PowerPC, and RISC midrange systems, and offer solutions on Intel and other attractive hardware architectures.

Performance Goals

Summary of the overall brand historical and projected performance (e.g., market share, revenue, gross margin, NEBT, customer sat, other key metrics)

See Performance Goals section of this Brand Plan document.

1995, Marketing & Sales Objectives

Financials (\$M)						Financials (\$M)					
	1Q	2Q	3Q	4Q	FY		1Q	2Q	3Q	4Q	FY
PSP Revenue	79	103	123	177	472	U.S.	32	38	36	51	157
OS/2 Revenue	34	48	49	83	212	EMEA	20	32	35	78	165
DOS Revenue	14	19	20	29	82	AP	19	25	33	36	113
LS Revenue	14	19	19	22	84	Canada	3	2	2	4	11
Other*	17	19	25	33	94	LA	5	6	7	8	26
* SmartSuite, LAN Distance, etc.						TOTAL	79	103	113	177	472
						OS/2 Volumes (K)					
						U.S.	306	476	658	824	2244
						EMEA	260	505	480	1135	2400
						AP	150	200	270	280	900
						Canada	27	41	43	58	169
						LA	29	38	35	58	160
						TOTAL	772	1,260	1,406	2,375	5,093
Customer Service Satisfaction											
	1Q	2Q	3Q	4Q	FY						
% Satisfied	80	85	90	90							

Customer Product Satisfaction						Market Presence	
	1Q	2Q	3Q	4Q	FY		
OS/2 Products - 70% Weighting						Broad Awareness Indicators - Conducted by corporate - Surveys commence 2Q95 - Include 17 countries - Sequenced by geography - WW FY95 results in 1Q96	
LAN Server - 30% Weighting							
Windows 95 Windows NT Novell Netware							
Overall BOC PSP/BOC Gap Gap Target						Press Penetration - Ongoing informal analysis of press coverage	
	4	4	4	4	4		

Offering

Vision and Value

The offering objective for the OS/2 Warp Brand is to establish this operating platform as a pervasive foundation for the IBM Software business, and consequently to be a significant contributor to IBM.

We plan to do this by.

- Delivering a suite of client and server enabling platforms tailored to the needs of each of the five major market segments within the software industry.
- Placing particular focus on the high growth segments of Consumer and Small business while we preserve and increase our competitive position within the Large/Medium business Tops Down segments.
- Delivering solutions both on the Intel and the PowerPC Platforms.

The IBM OS/2 Warp Brand value will be in our ability to deliver a single, high quality, IBM Technology-based, operating platform which is both scaleable and portable, that enables highly integrated customer solutions, tailored to each industry segment. This strategy maximizes IBM cross-divisional opportunities across the market segments.

While the OS/2 Warp family of products have a strong presence in large companies, this segment represents only a small fraction of the opportunity and growth in this market. Dramatic increases in personal operating systems share can only be derived from an aggressive pursuit of the home consumer and small businesses segments. Over and above the volume opportunity these segments represent, winning in the home is winning the individual. These same individuals drive purchasing decisions in all other segments. Similar increases in network operating systems share require a focus on small businesses, departmental and functional units, and in the integration of networks across an enterprise.

Situation Recap

Current Policies and Practices (Current Offerings)

IBM currently has very good, in many instances industry leading, products tailored for OS/2 Warp on the Intel Platform. Our exposure is that these are all branded and marketed as separate products that are optimized to deliver superior function on multiple platforms (OS/2 Warp being only one of them). Because the IBM software products do not capture the industry awareness of our competitors, and because only our large accounts have the technical capability to integrate the separate products into a solution, IBM has very little presence outside of the large accounts. The OS/2 Warp Brand currently has both formal and informal channels to assist in the prioritization of our development plans. The formal processes include market research studies, processes where customers can feed requirements to IBM, and advisory councils made up of both customers and resellers. Informal processes include feedback from IBM Sales Reps, direct interaction between Brand Marketing and Development with customers and through the service and support channels. Our focus, in the past, has been primarily from the Tops Down Market Segment so most of our informal feedback channels gather requirements from this customer set. As a Brand, we have been placed in a position of trying to react to competitive initiatives from Microsoft and Novell and have not been successful in establishing a leadership position in the market. The clear message that comes from this research is that:

- While our large accounts want the ability to pick and choose, our product sales are hindered by the number of part numbers that IBM has in the marketplace. Smaller customers want integrated, shrink wrap products that solve their business needs. Our customers perceive OS/2 to be hard because they must put the parts together.
- The IBM names (DB2/2, CICS, Netview, etc.) have equity in the tops down market, they carry no equity in the high growth markets.
- Industry may be heading towards CDROMs with license key technology, but they are not ready for it yet. Compaq appears to be the only company that has been able to implement this technology successfully
- We must reduce the time, out of the field, for training on IBM products. Lack of knowledgeable IBM people is a problem.
- A single point of service and support is critical
- We must keep our contracts short and make it easy to do business with IBM.

Competitive Policies and Practices

While the competitors to the OS/2 Warp Brand continue to be Microsoft and Novell, Microsoft presents the greatest competitive threat to both the OS/2 Warp Brand and the IBM Corporation.

Microsoft's vision is straightforward, Information at Your Fingertips, and its purpose pervasive, Windows everywhere. Microsoft has been successful in delivering and marketing very good, graphically pleasing, applications on the Windows Platform. With the advent of NTAS and Back Office, they are now making significant inroads into the Server marketplace. With the delivery of Windows95, Microsoft is making a major effort to dominate and control increasing content in the Consumer/SOHO market segments.

The chart below represents the view of where we are today relative to Microsoft products.

Microsoft Today	Client/Server Requirements	IBM Today
MS Office ISV Applications Integrated Solution: Windows NT Server NT SNA Server NT SQL Server NT Exchange Server NT SMS Server NT Transaction Server	Applications	Workgroup (5/95) ISV Applications Cross Division Products LAN Server CM/2 Server DB2/2 Server CICS Server NV/2 Server Mail Server DCE Security Server DCE Directory Server
Windows NT Server Windows 95 Windows NT	Server	LAN Server
	Client	OS/2 Warp OS/2 Warp Connect (5/95)

Microsoft is a formidable competitor. For the OS/2 Warp Brand, and the IBM Corporation, to be successful, from an offerings perspective, we will need to focus our efforts on three key areas:

- While we have been successful in delivering a very good, in many instances award winning, products, we have not been successful in driving highly-integrated products that are very pleasing and exciting, from the perspective of what is shown on the “glass.”
- Microsoft has delivered, both internally developed and externally developed, a wide range of applications that exploit the features of their operating environments. We have not been successful in delivering similar OS/2 exploiting applications, in quantity, either from IBM internal development or from our ISVs.
- Different parts of IBM, in order to optimize their revenue, have delivered products, and marketing support, to Microsoft, and in some instances Novell that tend to cause our customers to question the IBM commitment to OS/2.

Novell

Today, Novell is the industry market share leader for PC based network operating systems. Novell's goal is to accelerate their market growth by capitalizing on trends toward business downsizing and re-engineering. Novell's business strategies are implemented largely through alliances and acquisitions. They have built market dominance through strengths in marketing and distribution, not necessarily from software development, Novell has established an industry pervasive, highly specialized reseller channel filled with an army of trained expert professionals. This has bolstered Novell's mind share in network operating systems and has had the negative effect on IBM's LAN Server products as Windows mind share has had on OS/2. The result is IBM is still viewed as a niche player in network operating systems.

Novell is exposed because they are attempting to move to a common code base with NetWare 4.1. Their customers are currently using NetWare 2.x & 3.x and are faced with a significant migration to move to NetWare 4.1. This opens an opportunity for both IBM and Microsoft to capture market share by moving these customers to LAN Server or NTAS. Novell, with their purchase of Word Perfect, has recognized the need to extend beyond simple File/Print sharing to Application Servers. You can expect them to extend the Word Perfect Office environment to create integrated solutions.

Other Market Forces

In addition, there is a wide range of emerging technologies and market forces outside of Microsoft and Novell that must be considered as we implement our offering strategy:

- Downsizing from centralized host centric networks to Local Area Networks
- Mobile computing and telecommuting
- Wireless access technology
- High bandwidth home connectivity
- Explosion of the Interact and other online services
- Personal communicators
- Interactive TV
- Virtual reality.

Key Actions by the Brand in the Prior 12 Months

In 1994, PSP, PSM and other supporting organizations generated a great deal of mind share and demand momentum for PSP products and offerings. We launched major world wide products and offerings including:

- **OS/2 Warp and BonusPak**
- **OS/2 Warp Connect (5/95)**

- **LAN Server 4.0 Entry and Advanced**
- **LAN Distance**
- **DCE**
- **In addition, IBM released new OS/2 versions of the following products: Netview for OS/2, DB2/2, ADSM, Communications Manager, CICS, TCP/IP, Workgroup (5/95), DCAF.**

Intended Positioning

Environment and Competitive Analysis

Detailed data on Microsoft and Novell as our competitors can be found in the Overview section of this brand plan. We expect a major launch of Windows 95 in 3Q/95 and a continued push of Windows NT, NT AS and Back Office. Microsoft also has major initiatives in Systems Management and Object Technology. In addition, Microsoft has a major initiative underway to expand their leadership position in the Consumer Market segment. Microsoft strategic direction is to control emerging high-volume markets and own pervasive mind share across the information technology industry. If unchallenged, Microsoft has the potential to systematically erode all three of IBM's core businesses - hardware, software and services.

Market Research Plan

From an offerings perspective, we need to continue to invest in market research to monitor the

- Acceptance and perception of the function that we are providing to the market segments
- Assessment of the OS/2 Warp brand offerings vs. major competitor
- Market opportunities that add to demand for the OS/2 Warp brand such as
- Emerging geographies
- New applications
- New products that need embedded computing technologies
- New technologies that can provide a competitive advantage if exploited
- Market-share information and trend analysis
- Trade press activity and prevailing "issues of the day"
- Survey results and customer feedback
- Consultant reports and activities of the "influencers"
- Evaluate product plans to assess competitiveness in their target markets
- Better understand industry application requirements to better prioritize industry vertical solution paks.

We need to upgrade our contracts, and information delivery tools, to allow wide electronic dissemination of this information through electronic delivery channels.

Market Segment Priorities

Our market segment priorities are to dramatically grow our market share in the high potential market segments of Consumer/SOHO, Small business and Autonomous Departments while preserving, and increasing, our share in the Tops Down and Bottoms Up segments.

The following table shows the opportunity, and committed plans, for the Market Segments for the Warp Brand. However, our objective is to significantly exceed, at minimum by 150%, the committed plan in the high growth segments of Consumer, Small Business and Autonomous Departments.

\$M	Consumer SOHO	Small Businesses	Autonomous Departments	Bottoms Up	Tops Down	Market Total
1994 Opp	800	614	1,268	631	328	3,642
1994 Actual	32	13	64	59	97	265
PSP Share	4%	2%	5%	9%	30%	7%
1995 Opp	1,000	741	1,365	724	369	4,199
1995 Plan	89	22	93	87	112	402
Share Target	9%	3%	7%	12%	30%	10%
1999 Opp	1,835	1,204	1,338	983	465	5,817
1999 Plan	287	66	187	207	155	901
Share Target	16%	5%	14%	21%	34%	15%

As it relates to our offerings, we should measure ourselves using the following metrics:

Customer satisfaction through the use of CUPRIMDO measurements.

Product competitiveness through the use of media reviews and customer focus groups as well as CUPRIMDO measurements

Product quality (code, documentation, serviceability) through the use of data from our service organization and CUPRIMDO measurements

Time to market, with committed content, through the use of plan vs. actuals reviews

Cost of development using benchmarking of best of competition

Cost of service and support using benchmarking of best of competition

Development Priorities

The following is a prioritized list of the general marketing development priorities for the OS/2 Warp Client and Server products:

- In order to be successful in the Consumer/SOHO, Small Business and Autonomous Department market segments, we must deliver products in 1995 that:
 - Deliver highly integrated competitive offerings and "SolutionPaks" targeted to these key market segments.
 - Focus on ease of installation administration, support and ease of use to ensure a positive user experience with our products
 - Integrate our Warp products better with existing customer environments by directly supporting the NetWare client and Windows95 when it is available
- For all market segments we must continue to address our key competitive functional exposures.
- Design and develop key components that exploit our leading edge technologies, such as object-oriented, human centered and distributed computing, to build portable, scaleable operating systems that exploit both the Intel and PowerPC platforms
- Deliver high quality code, and documentation, that sets the standard in each market selected in order to minimize our service costs and promote the view of IBM as a quality software provider

These marketing development priorities yield the following development funding priorities:

- In order to maintain our revenue stream we need to continue to fund development on current Intel base products by delivering client and integrated server products, as well industry segment targeted "SolutionPaks" until such a time as a portable, intercept, product can be delivered.
- In order to be in a position to sufficiently fund our future development, it is critical that we get to a single development platform that delivers a single, portable, operating environment across both the Intel and Power PC platforms. To do this we must:
 - Deliver a competitive Power PC Server product by 1H96
 - Ensure that we have a credible OS/2 Desktop presence on the PowerPC using the Falcon code base by 4Q95
 - Intercept the Intel code base to deliver a common product across both Intel and Power PC in 1997
- In order to intercept the A.S400 Power PC offerings we must support the AS400 requirements by providing support for Harmony and Osprey

Strategic Alliances

To be successful we will need to develop strategic alliances with both hardware and software companies. It is critical that we are successful in working with the PC Company and the PC Server group to highlight preloading of the OS/2 Warp Family of products. In addition, we should develop alliances with other major PC hardware vendors to preload the OS/2 Warp Family. Similarly, because networking is a key component of our future marketplace we must continue to drive alliances with Advantis and other telecommunications companies to allow integration of our products across a wide area network.

We must work with the other IBM software development divisions to deliver highly competitive networking and application software offerings that exploit the power of the OS/2 Warp Brand. In addition, we must work with key software vendors to deliver critical applications on the OS/2 Warp platform. Project Springboard is a key initiative to drive these OS/2 Warp exploiting applications. We currently have key alliances with Taligent and OpenDoc for our object technology and with OSF for our DCE technology. In addition, at the corporate level we continue to get involved in alliances with various start up companies driving new technologies. We need to be involved in these opportunities to drive exploitation of the OS/2 Warp family of products.

There are three aspects to licensing depending on which way you define it.

The first aspect is terms and conditions for licensing the product to users. For the OS/2 Warp Brand to effectively compete in the marketplace requires new and additional licensing alternatives:

1. The OS/2 Warp Brand will participate in world wide terms and conditions across the entire set of IBM Software Products including the new Software Initiatives and the Software Advantage program.
2. The OS/2 Warp Brand will be offered with both individual and enterprise license agreements which allows for use-based and server-connection pricing.
3. The OS/2 Warp Brand will be offered with common service and support across the products.
4. OS/2 Warp Brand offerings will be priced competitively,

The second aspect of licensing concerns the code required to implement license management. The OS/2 Brand offerings will include the corporate standard IFOR/Is. In addition, there will be some panels shipped with the offerings to encourage and easily implement user registration.

The third aspect of licensing is the strategy for licensing components or products to other manufacturers for use in their products. We will license in this sense as the opportunity arises, but we do not have a focus in this area. For example, OS/2 is licensed to NEC who modifies it for use on their own machines which are not Intel compatible. It is important to point out that the microkernel is not a part of the OS/2 Warp Brand and, therefore, is not a part of this licensing strategy.

Key Offering Specifications and Geographic Differences

The OS/2 Warp brand is a world wide brand that is targeted to all market segments:

- All OS/2 Warp products must be simultaneously available world wide.
- We must deliver products that are targeted for world wide markets. We should have consistent translation and DBCS enablement plans among all components of a particular product. These translation plans should be implemented with a three tiered strategy (Class 1 geographies for all products, Class 2 geographies for all major products, Class 3 geographies for major end user products)
- We must have a consistent fix strategy across all geographies. MRI must be properly separated such that the vast majority of fixes can be delivered outside the US, including DBCS countries, without a significant development impact.
- We must have the ability for geographies to further tailor "SolutionPaks" to their specific geographic requirements. For example, the Family FunPak and BizPak will need to be tailored to individual country differences.
- The OS/2 Warp products must have the necessary quality of code, and documentation, to minimize the service and support contacts. Sufficient tools must be provided with the OS/2 Warp products to easily enable PD/PSI either electronically or over the telephone world wide. The OS/2 Warp products must be enabled for electronic delivery, and installation, of service and support world wide.

The following are the major product releases within the OS/2 Warp Brand: **(Note: Current product plans are open)**

OS/2 Warp version 3 Connect (5/95) - Extends the capabilities of the base OS/2 Warp operating system by adding features for users who require network (LAN and remote) connections. Targeted at small companies, departmental workgroups, and autonomous departments. The peer to peer capabilities of OS/2 Warp Connect let two or more users share files and printers. For larger networks and servers, OS/2 Warp Connect provides full client capabilities with the most current requesters for IBM LAN Server and Novell NetWare built in.

OS/2 Warp Refresh - The OS/2 Warp Refresh adds OpenDoc and DAX to OS/2 Warp.

OS/2 Warp Server Entry - OS/2 Warp Server Entry integrates OS/2 Warp Connect with LAN Server Entry, LAN Distance Connection Server (4 port) remote access, ADSM Tape Backup, Karat for workgroups systems management, PSP/2 Print support, and NetDoor for load balancing.

OS/2 Warp Server Advanced - OS/2 Warp Server Advanced upgrades OS/2 Warp entry by adding LAN Server Advanced, LAN Distance Connection Server (16 port) remote access, LAN Server Ultimedia multimedia serving.

Talon - Talon extends the functions provided in Warp Server to provide an integrated product that includes the IBM Workgroup Server for mail, calendar, fax server support, IBM Communications Server for host access and the IBM Database Server for database.

Eagle - Eagle provides a common inflation function to extend Warp to optionally include: the IBM Workgroup Server for mail, calendar, fax server support: IBM Communications Server for host access: the IBM Database Server for database, -he IBM Internet Server to maintain a WWW home page, the IBM Network Management Server to allow centralized management of network resources: and the IBM Transaction Server to allow transaction processing.

LAN Server Enterprise - LAN Server Enterprise extern the OS/2 Warp Server function to add DCE, Directory and Security services.

Merlin - Merlin will extend the OS/2 Warp Client functions on Intel to be more competitive with Windows 95. It includes both 615 and plug and play support.

Falcon 1 - Falcon 1 provides enhanced OS/2 Warp, and BonusPak, function on the PowerPC.

Falcon 1.1 - Falcon 1.1 adds OpenDoc and DAX to Falcon 1.

Falcon 2 - Falcon 2 provides an OS/2 Warp intercept client product for both PowerPC and Intel.

Hawk 1 - Hawk 1 provides OS/2 Warp Server function on the PowerPC along with OpenDoc, DAX, and Eagle functions.

Hawk 2 - Hawk 2 extends Hawk 1 to provide an OS/2 Warp Server intercept product for both PowerPC and Intel Hawk 2 includes integrated security and directory functions along with Mustang and Osprey support.

In addition, the following "SolutionPaks" are planned:

OS/2 Warp Family FunPak - The Consumer version of OS/2 Warp will add games and consumer packages that addresses the consumer marketplace. The games will be leading edge games such as Sim City, Doom II, and Galactic Civilizations. Other consumer products such as Comptons, WinTV, and OS/2 Warp Trap Door, Midi DIVE will also be included.

OS/2 Warp BizPak - The Small Business version of OS/2 Warp will extend the base OS/2 Warp product to include WorkGroup (mail, calendar, fax server), Telephony, Ultralite (database) and Voice Type (dictation support).

Offering and Introduction/Withdrawal Plan and Schedule

OS/2 WARP Product Introduction Plans (Plan is Open)

Market Segment	2Q95	3Q95	4Q95	1H96	2H96	1H97
Consumer/SOHO		Warp Family FunPak	Warp Refresh		Merlin	Falcon 2
Small Business	Warp Connect	Warp BizPak	Warp Refresh Warp Server Entry Talon		Merlin	Falcon 2 Hawk 2
Autonomous	Warp Connect	Warp BizPak	Warp Refresh Warp Server Entry Talon		Merlin	Falcon 2 Hawk 2
Bottoms Up	Warp Connect	Warp BizPak	Warp Refresh Warp Server Entry Talon Falcon 1	Hawk 1	Merlin	Falcon 2 Hawk 2
Tops Down	Warp Connect		Warp Refresh Warp Server Eagle Warp Server Enterprise Feature Falcon 1	Hawk 1	Merlin	Falcon 2 Hawk 2

Warp Product Withdrawal Plans

We should plan to withdraw product from marketing with the announcement and availability of the replacement product. However, as a part of withdrawing the prior products from active marketing, we must provide transition plans for our large customers to continue to be able to obtain these products.

Brand Development Funding

1995 - \$422M
1996 - \$382M
1997 - \$332M
1998 - \$279M
1999 - \$221M

Keys to Successful Execution

Item	Brand Responsibility	Key Dependencies Within IBM
<ul style="list-style-type: none"> • Cross Divisional and Industry cooperation and support for delivery of solution packages and integrated servers. 		
<ul style="list-style-type: none"> • Successful execution of the requirements process <ul style="list-style-type: none"> - Tailored to the market segments - Accounts for geographic differences - Drives requirements into plan 		
<ul style="list-style-type: none"> • Successful execution of the development process that delivers on development commitments to schedule, cost & function 		
<ul style="list-style-type: none"> • OEM support for preloads <ul style="list-style-type: none"> - Ability to deliver on consumer buying schedule - Make, and fulfill, long term commitments for function and schedule - Provide special features and device support 		
<ul style="list-style-type: none"> • IBM HW Preload as the lead with option <ul style="list-style-type: none"> - PC Company, Server Group, PowerPC - Ability to deliver on consumer buying schedule - Make, and fulfill, long term commitments for function and schedule - Provide special features and device support 		
<ul style="list-style-type: none"> • Drive applications that exploit Warp platform <ul style="list-style-type: none"> - Drive springboard - Provide necessary development tools and support 		
<ul style="list-style-type: none"> • Drive products that can be efficiently supported worldwide <ul style="list-style-type: none"> - High quality code and documentation - Availability of support tools - Tailored for efficient, electronic, support - Clean separation of country specific components 		

Information required to manage the Brand

The following information is required to successfully manage the OS/2 Warp brand:

In order to understand where our products are being accepted, we need online information that will tell us where we are delivering our products and into what market and industry segments. This information needs to be reported dynamically and validated monthly.

In order to measure how we are doing relative to our key metrics and to better target marketing and development programs, we need the on-line integration of our service, registration, and sales databases that show us what our customers have installed, by location, and what, if any, problems that they are having. These data must be on-line and integrated such that as a part of delivering service to our customers we are automatically capturing registration information. This database should be enabled such that at some future time it could be used to validate customer license information.

In order to measure and report our success towards one of our key metrics, we need on line gathering and reporting of customer satisfaction information relative to our products both from the services database as well as CUPRIMDO measurement information.

In order to validate the quality of our offerings and spot potential weaknesses, we need information that shows the performance of the OS/2 Warp Brand relative to its competition both from a sales volumes perspective as well as a CUPRIMDO competitive analysis perspective.

In order to better develop plan proposals, we need widespread, on line access with appropriate query tools for Market Research Information, Competitive analysts (feature/function) information as well as business trends and volumes analysis.

Because we can't anticipate the requirements for reporting and analysis, there needs to be on-line tools that allow the brand management team to process this data to answer "what if" questions. We need a predictive modeling tool that allows us to develop "what if" analysis of the market research information.

Terms

Vision and Value

The key software pricing principles for the stack of software components should include worldwide consistency with simplicity and administration in the terms and conditions. The brand management plan must include the implementation of standardized pricing in each of the five IBM-designated geographies worldwide. This standardization across the geographies will allow the brand management and its partners to address the multinational customer in a much improved manner. Delivering products at competitive prices, earning a fair and reasonable profit, and gaining market share should be the goals of the brand plan. Offering a worldwide pricing and promotional strategy that reflects the value of the software while delivering new and increased function within the product offering will become the real challenge for the OS/2 Warp brand.

The OS/2 Warp brand pricing structure and provisional strategy is structured to increase market share through improved product and price competitiveness. The strategy is focused on high growth market segments: 4 MB operating system opportunity and client/server initiation. This highly competitive environment which already has a strong brand awareness in the consumer's view forces very competitive price actions in the retail and OEM channels typically requiring preload prices below the competition in order to win share. This aggressive approach in reducing prices has produced minimal success in the past. The OS/2 Warp brand reacts quickly to Microsoft's and Novell's price and promotional actions and will match or beat the competition on street prices.

In order for this strategy to be effective, the OS/2 Warp brand management must require a seamless, consistent flow of financial data (see Appendixes TC1&TC2) from the initial investment decision, through announcement checkpoint (see Appendixes TC3-TC6) and throughout the product life ensuring effective worldwide promotional and channel strategies. This will require tight linkage among the financial, development and marketing teams (see Appendix TC5).

The measurement objective must be to provide the OS/2 Warp brand manager with the necessary information (see Appendixes TC7-TC9) to effectively make the right investment decision while ensuring IBM's overall profitability and delivering exciting competitive products at competitive prices.

Situation Recap

The OS/2 Warp brand as a stack of software components faces the challenge of announcing new pricing plans that emphasize "value" and "simplicity". As users downside to client/server environments and operating systems migrate to connected systems, the competition is driving the integration of function at lower price points. The effects of the market transition are evident in Microsoft's pricing decisions:

- MS Windows95 integration of function at lower price points
- MS NT 3.5 Server is driving integrated and application server function into server market
- MS NT 3.5 is driving dramatic price decreases in traditional File and Print market
- MS BackOffice suites/bundling into the Server and Middleware market creating significant price decrease.

The OS/2 Warp brand as the software stack must be able to achieve price granularity with multiple prices for the same product and multiple versions of the product with granular function. The OS/2 Warp brand currently has several channel pricing strategies. The distribution price is a 47%-52% discount off the list price. In the OEM business in order to capture the channel we typically discount on average 70% or more, depending on product, to allow a high enough margin for OEM to preload the product. Distributor prices are currently set to allow dealers an uplift of 10%-30% to reach a competitive street price. In the direct sales (typically accommodation for PC Co.), National Education, and state/government prices are usually discounted 30% off list.

All product prices in general are priced for a single license (full pack price) or a right to copy license (additional license price). As we price to achieve market share, the OS/2 Warp brand is very aware of our competitors, Microsoft and Novell, and will react quickly to discount or match the competition price in order to compete in the retail or large accounts. The pricing process allows for the OS/2 Warp brand to compete in all marketing segments and channels while carefully maintaining channel balance and ensuring that the product price is fenced properly when special bid terms could impact channel price.

The current pricing structure for the enterprise customers in the US uses the VALU methodology for terms and conditions. The VALU methodology is volume based and involves five discount categories. This program is complicated, confusing for the sales force, and lacks worldwide consistency. The VALU terms and conditions lack sales commitment (e.g. the price is discounted on forecast versus commits) if the dealer committed 10,000 volumes versus the 100,000 forecasted, the program lacked administration to revise the price in the second year.

Intended Positioning

The pricing strategy for software group is migrating away from the standard "list price" towards a "suggested retail price" (SRP). SRP which will replace VALU as the "Advantage" program and will be implemented in order to eliminate consumer confusion over "list versus street price comparisons". Today, list prices tend to be set artificially high, and are sometime unfairly compared to competitors street prices causing confusion to the end user and small workgroup customers. The Advantage program reduces the five discount categories to one. It is based on revenue for the total software solution (e.g., revenue on OS/2 Warp/CM2/LAN Server) and it also offers higher discount for the customer that commits upfront. The SRP methodology includes new and upgrade prices, additional licenses, and shrinkwrap. The program is structured to be revenue neutral to IBM and price neutral to the customer. It not only provides simplicity in terms and conditions for the direct sales force but also changes the customer's perception that IBM is publishing a price closer to the competitive "street" price.

The trend in "client/server" pricing, as more bundling erodes client prices in the market, is to move toward "connection based pricing." Here, as more and more function is added to clients for little or no price, the market is recouping price with connection or user based fees at the server. The client strategy should price for share growth while maintaining competitive price position. In order to enhance the client share growth we need to create innovative pricing strategies such as: pricing media indifferently (e.g., CD's versus diskettes); offering attractive upgrade pricing schemes; pricing additional licenses at less than the media cost savings and continue to reposition the prices in our follow-on products. The server pricing strategy should price for profitability on servers and exploit the application server opportunity. Servers are being positioned to compete in the application server opportunity as well as file and print. The continued price pressure in 1995 is forcing server prices down (e.g., NetWare prices down 25%). The OS/2 Warp brand needs to differentiate servers on price and function to compete with NT, given the increased integration of function on servers (e.g., Warp server bundling function and Hawk servers integrated in distributed computing).

The bundling strategy creates additional customer value by increasing functionality for the same price. Prices tend to remain flat or lower as more function is bundled, causing increased pressure on gross profit margins. Consequently, the ability to finance future development will depend upon our ability to leverage new and existing technology through various package/price solutions that optimize revenue. Typical product life cycles are 1-30 months, which only reinforces the fact that product delivery cycles must be shorten and development investments must be recouped quickly. The OS/2 Warp brand must optimize revenue by leveraging already sunk costs into sellable units that appeal to the consumer as a valuable product (e.g. WARP Connect). The challenge in the short term for the development and marketing teams is to recognize and package these existing options as a product with functions that the consumers are willing to pay for.

Warranty

IBM's OS/2 Warp service and support offerings allow IBM users to benefit from their software investment. These offerings, individually targeted to each of IBM's market segments, provide customers with the support that fits specific business and personal computing needs.

The Personal Systems Support Single License User Service (PSSP) options allow the consumer and SOHO customer to easily and inexpensively obtain service. Utilizing IBM's Support Line, the customer can select the single solution option at \$45 per problem, the 900 number at \$2.00 per minute, or an annual, unlimited solutions, contract for \$179. Medium and large enterprises can select from three additional Support Line offers. The Support Line, Per Incident, is available for \$190 per incident. IBM's standard annual contract provides a wide array of services, including unlimited calls for selected products, and costs \$4,495. Finally, IBM's Premium Service provides unlimited support for all of the OS/2 platform products, and includes a number of additional services, for \$29,995. These product support offers are backed up by a number of IBM Software Services provided by other organizations throughout IBM.

These prices are competitive to Microsoft or Novell for the large enterprise customers, future prices should differentiate between consumer segmentation such as: Enterprise, Connected and Standalone customers. This customer differentiation will demand a price structure by product and customer versus the level of warranty provided today.

Special Bids & OEM

In the past special bids or our OEM business was priced in the US and each geography unit varied with GAP percentage uplifts. With the "Advantage" program we are looking to set global discounts and gain consistency across each of the geographies, thus leveraging IBM's global solution strengths. The difficulty still remains in tracking the "wins" on the special bids. This data is non-existent today and is critical for the pricing community to determine the competitiveness of our prices, terms and conditions. Special bids should be for very large customers/accounts and to win significant volume bids. The OS/2 Warp brand must focus on maintaining channel price integrity in addition to recouping royalty costs, service and all other variable cost plus some level of profit.

The OS/2 Warp brand must shift strategies with the OEM channel. The prior approach of aggressively reducing the operating system prices to gain market share has produced minimal success. In the OEM channel there are three targeted markets: large multinational corporations, mid-size geography specific OEM's and new emerging markets. The core pricing approach here should be to differentiate the pricing strategy in each of the targeted markets. We aggressively price for strategic emerging markets (e.g., China) versus aggressively pricing with the use of Market Development Commitment Discounts (MDC) for large multinational corporations. In the mid-size geography specific OEM price grids could be based on the size of the OEM volume commitment. Through the use of market development credits, the OS/2 Warp brand can financially incent the OEM's to preload IBM software solutions while averaging higher price points in the OEM channel and once we establish a presence in the market gradually reduce the MDC's overtime.

Promotions

Promotions have become a necessary tool in the desktop industry and the type of promotion and its execution varies widely depending on the situation and desired effect. Today the OS/2 Warp brand promotional strategy is geography specific. Ideally, however, there should be additional worldwide coordination of promotional activity to ensure consistency and minimize conflicting promotional activity.

Promotions may take several different forms. The most common are:

- End User debates
 - provide the end user with a net lower cost
- Targeted Direct Mail
 - direct mail campaigns that are narrowly targeted tend to be successful and cost effective
- Channel Incentive
 - These programs generate channel demand but in many cases also require an end user incentive to compliment and "pull" the product
- Target Market Specific
 - A promotion that is well designed and targeted specifically to a target market.

A successful promotion or campaign should:

- Support the Brand Strategy
- Be targeted to a specific market
- Have a specific objective
 - i.e. generate demand during seasonally slow periods; capitalize on the height of the buying season; or discouraging the effect of a competitor's new announcement (e.g., Windows95).
- Utilize the channels and vehicles ideal for the target market
- Be well planned and coordinated with other campaigns and functions (such as advertising)
 - Promotions that do not consider channel harmony run the risk of simply moving the customers point of purchase from one channel to another and may not create any incremental business needed.
- Be developed 3-6 months prior to execution to prepare the channels for the campaigns.
 - This year the marketing team in the US published "OS/2 Warp Window of Opportunity" for the promotions in the first half of 1995 and the dealer feedback was very positive because it gave them a vehicle to plan their promotional activity throughout the 1st half of 1995.
- Have measurable results.

In the US, the 1995 major promotional activities are as follows (detailed listing can be found in Appendix D4):

- Window of Opportunity Campaign
 - The campaign consists of awareness activities such as newsletters and direct mail, in-store training and demonstrations, and promotions designed to promote the availability of applications and drive incremental volumes as follows.
 - ✓ Get Warped & Save \$15. Buy Warp and get \$15 towards the purchase of any application.
 - ✓ Get Warped & Really Save \$30. Buy Warp and get \$30 towards the purchase of any OS/2 application.
 - ✓ Get Warped & Get Wired. Buy Warp and get 3 month subscription to Wired Magazine.
 - ✓ Get Simply Warped. Buy Warp and get a CA Simply application.
- Internet Campaign
 - Consists of promotions designed to promote the Internet features of OS/2 Warp. Examples include:
 - ✓ Aptiva Internet Promotion. Buy a OS/2 Warp preloaded Aptiva and get 30 days access to the Internet free.
 - ✓ Warp Internet Promotion. Buy OS/2 Warp and get 30 days access to the Internet free.
 - ✓ Warp Yellow Pages Bundle. Buy OS/2 Warp and get the Internet Yellow Pages.
 - ✓ Internet Scavenger Hunt. Designed to create awareness and promote the use of the Warp Internet features.

Keys to Successful Execution

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
1. Delivering customer value packs which enhance brand usefulness while delivering additional financial returns		
2. Process improvements in delegation of authority <ul style="list-style-type: none"> - WW promotional/marketing activities - Pricing delegations Geo HQ vs. M&D 		
3. Geography commitments on ROI at investment checkpoint		
4. Consistent WW Strategy & Plans <ul style="list-style-type: none"> - Packaging - Channel Decisions - Product Roll Out - Funding - Pricing T&C's - Promotional Activity 		
5. Measurements on the effectiveness <ul style="list-style-type: none"> - Pricing Actions - Promotional Announcements - Channel Harmony - Market Segmentation 		

Information Required to Manage the Brand

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
Accessibility to WW Pricing Database		
Accessibility to WW Competitive Information		
Information from Direct Sales Force on Special Bid Wins		
Planning & Pricing Tools for Investment Decision Making		
Promotional Activities Information		

Distribution

Vision and Value

To develop a worldwide, integrated, wide reaching, cost effective channel network capable of effectively distributing OS/2 Warp brand products to their target markets.

To accomplish this we must:

- Establish strong channels serving the high growth markets (consumer/SOHO/Small Business)
 - Grow the preload channel (OEM & PCCO) significantly by ensuring two of the top domestic OEMs in every country shipping OS/2 on at least 30% of their volume
 - Secure adequate funding to establish a high level of brand presence in the retail channel.
 - Increase coverage of the retail channel
 - Develop bottom-up market incentives to our resellers to create demand for preloads in our traditional channels
 - Continue the development of the solution oriented (VAR) channels serving our small/medium business customers by recruiting 3,500 qualified BESTeam members by 1996.
 - Continue to expand the use of IBM Direct as a demand generation and fulfillment channel by driving 10% of business through the direct marketing channel.
 - Expand to new consumer channels such as electronic distribution
- Maintain efficient channels serving our large corporate customers
 - Create tight linkages with Industry Business Units to ensure that OS/2 Brand products are incorporated in Industry solutions (see appendix D5)
 - Establish a measurement system that incents the field to sell strategic IBM brands
 - Educate the field on the Microsoft threat
 - Recruit larger VARs such as EDS and Arthur Andersen into the BESTeam program.
 - Establish a requirements feedback mechanism from Corporate Sales to the lab

Dependencies include:

- Execution of a strong demand generation plan which includes heavy ISV recruitment
- Execution of consumer oriented advertising plans and PR strategy
- Development of consumer-ready offerings.
- Development of channel-ready offerings, particularly ready for preload – easy to preload, with a fast working process for device drivers and bug fixes to be developed.
- Availability of timely information required to prepare the channels for launches of products or strategies (90 to 120 days)
- Development of Solution-oriented paks, particularly for small and medium businesses.
- Establishment of standard worldwide pricing, terms and conditions.

Situation Recap

Today, the channels are managed differently in the various geographies and countries based on local practices and market conditions. Generally, there are 5 major channel categories – Corporate Sales, direct marketing, Resellers. OEM (preload), and Emerging Channels.

Corporate Sales

Corporate sales consists of national sales forces of desktop software specialists whose mission is to create demand for IBM desktop software products in our large corporate customers. Fulfillment, however, is done primarily through our reseller and preload channels. The corporate sales organization is compensated with a base salary and commission based on desktop software sales. The desktop software specialists work closely with the Client Teams, who are members of the Industry Units, to develop solutions for our large customers. The desktop software specialists are supported by a Swat Team, whose mission is to assist the specialists close large desktop software opportunities.

Direct Marketing

Our direct marketing organization is responsible for creating demand and fulfilling that demand (along with resellers) through telemarketing, telesales and telecoverage techniques. Direct Marketing is a combination of the functions currently available to us via IBM Direct and PSM 800# along with the links available to the IMI centers in the US.

Resellers

Our reseller channel is responsible for fulfilling demand from our consumer, small, medium and large business customers. The reseller channel can be further segmented as follows:

- Consumer Oriented - Retail
 - Mass Merchants
 - Superstores
 - Software Retailers
 - Membership Clubs
 - Hyper-Markets
- Corporate Resellers
- Distributors
- Solution-oriented (Value-Added Remarketers)

The retailers, corporate resellers and distributors are covered by national sales forces that focus on the -major resellers. There are thousands of retailers who are currently supplied IBM product through distributors. For VARs we have a program called *BESTeam*, designed to create a large pool of highly technical resources for our customers to utilize as they build solutions using our products. The IBM BESTeam program is in place to recruit, develop, support and educate value added resellers. The BESTeam program enables the reseller channel to market, sell and technically support IBM desktop and workstation software products, including the OS/2 Warp brand.

Resellers are incented to move IBM products in a number of ways:

- A properly priced product to the channel will deliver profit to the reseller.
- Incentive Programs
- In the US, there is a soft-dollar program called PRI/ME (Performance Rebate Incentive Marketing Emphasis)
 - ✓ Resellers earn PRI dollars based on sales. There are no restrictions on the use of PRI dollars.
 - ✓ Resellers earn ME funds based on purchases from IBM. ME funds must be used to promote the IBM product that delivered the credit.

OEM preload

Each geography and some countries have their own OEM sales team, coordinated by the PSP Worldwide OEM Sales and Support organization, The PSP OEM team is also responsible for Sales/SE coverage for all North American (NA) PC Manufacturers (PCMs). The OEM key concepts are listed below.

- Target customer is top 25 PCMs based on WW PC shipment volume.
- Key products are OS/2 Warp preload, PC DOS preload and MicroKernel based operating systems in the future.
- OEM pricing for preload is unique to OEM channel.
- Channel has worldwide OEM contract capability.
- Unique support elements are required by channel.
- Product distribution must be WW in national languages.
- Some tailoring of marketing deliverables is required.
- Microsoft and Novell are the dominant competitors.

The PCM primarily preloads software based on end-user demand from his hardware channel model, though some, such as Vobis, have made OS/2 Warp a strategic decision. PCMs do not drive the marketing of software products in their channels, they sell solutions that are primarily a hardware system with the desired operating system. LAN software products tend to be added in reseller channels (VARs, Integrators.) PCM is looking to price the hardware/software solution to make gross profit on both elements. Pricing is for total system solution, therefore, PCM is always looking for ways to improve the software gross profit.

OEM channel revenue is primarily from the royalty payment flow for Intellectual Property (IP). Many shipments of PC systems do, however, include documentation and media (disk/CD) which also can come from IBM as the supplier. The E/R objective for the long term must be less than 10% for the OEM channel to be deemed to be a success. The OEM model calls for few contracts with big PCMs that generate very large volume and revenue streams.

The OEM approach in EMEA is different to the US approach, but is based on the experience gained over the past few years. This approach has closed over 80 OEMs in Europe including leading vendors such as Vobis and Escom, as well as smaller local OEMs.

An overview of the EMEA OEM strategy is:

- Market share and CAs are the prime measure of success for the OEM sales force, and the revenue plan reflects this. Revenue is a second priority until a sustainable market share has been gained.
- Selecting the marketplace drivers in each individual country, and doing whatever it needs to close them.
- Taking the rest of the market (upgrades, related software) into account in calculating E/R and not setting a narrow E/R objective of 5% for OEM
- Spending advertising and marketing money with channel partners such as OEMs, and providing a budget to support this
- OEM as demand generation channel as well as fulfillment channel
- Broad availability through OEM also drives additional sales

Emerging Channels

- The Internet and Commercial On-line Services
 - There are over 20 million individuals worldwide who use the networks. Users are experienced, computer-literate customers who historically have had little or no contact with IBM. Yet they are decision makers and influencers of software purchases both at home and in their business environments. IBM will provide network users access to product information, ordering capability, electronic license service and electronic product support. In a study conducted in 1994, 40% use on-line services for software information and 9% used an online service for their last software purchase: clearly an influential channel. IBM's objectives are to establish brand recognition within this market segment to raise awareness of the IBM product line and to sell software through this channel. As IBM's coverage grows and improves, we would allow other product suppliers, such as selected software vendors, to buy access to these customers through the IBM offering.

Competitive Policies and Practices

Competitors are successfully using external channels. Our competitors often operate with a single channel management function which delivers a clear, consistent and simple message. Their message incorporates the importance of low-cost distribution and external channel partners within their sales organization. This leads to an acceptance of such channels as complementary to their direct sales force.

The product positioning and marketing functions of our competitors are often centrally coordinated. Innovative channel relationships and alliances are closely linked to their business operations. Many vendors capitalize on successful products by leveraging other, perhaps weaker products into their channel thereby gaining additional -shelf space- for a wider range of offerings. Microsoft, in particular, has successfully utilized this strategy.

As a result of the pursuit of lower cost distribution channels, the number of software products expected to be sold by mail/catalog, mass merchants and superstores is expected to exceed 50%. Today, that number is less than 20%.

Microsoft

Microsoft defines large accounts as those organizations, or divisions of organization, that have an installed base of 2,500 or more personal computers. The company has 1,300 volume purchase agreements with these types of customer worldwide.

Microsoft is working aggressively to expand its base of VARs and systems integrators in order to effect an increase in sales to small and medium-sized end users. Microsoft has trained over 11,000 Microsoft Certified Professionals (12/94).

In FY'95, Microsoft will be pursuing several marketing efforts aimed at individual end users. These include:

- New allocation of \$100 million worldwide for advertising and other broad awareness communications. This allocation is above and beyond promotional costs that existed in FY'94 and will continue in FY'95.
- Continued use of direct mail. Microsoft currently mails at least once a year to all of its more than 10 million registered users worldwide. These mailings are estimated to cost \$10-20 million in the U.S. alone. This figure does not include demand generation campaigns to prospects who are not already Microsoft registered users.
- Moderate spending on soft dollars for retail. Microsoft does not view soft dollar spending as a key priority, allowing competitors to outspend them in soft dollars as a percentage of revenue, by a factor of 3-4 points.

The OEM Division at Microsoft focuses primarily on selling DOS and Windows to PC hardware manufacturers. This leaves two other "OEM-type" sales to the field force: application software pre-installs

done by hardware manufacturers and OS application pre-installs done by retail organizations such as CompUSA.

The primary focus of the Microsoft regional sales teams is distribution channels. The emphasis is 40% large accounts, 40% small and medium accounts, and 20% working directly with end users. The regional offices have a high level of seminar activity for customers and prospects.

Below is a summary comparison of IBM and Microsoft U.S. Channel operations.

	IBM	Microsoft
U.S. Channel & Corporate Sales Force	300	1300
U.S. SG&A	TBD	37.7
U.S. 1995 Advertising	TBD	\$220M
U.S. 1994 Marketing Programs	TBD	\$80M
U.S. 1994 Soft \$ Programs	TBD	\$12M

Intended Positioning

Channel types

OS/2 Warp is a brand that has value across the spectrum, from our largest corporate customers to the home user. The channels used to distribute the brand's products, therefore, must be diverse to meet the needs of the various target markets.

Consumer/SOHO Market Channels

This market segment is the largest and fastest growing segment and, therefore, success in this segment is critical to the OS/2 Warp brand and the IBM desktop strategy as a whole.

The OEM Preload, retail channel, and direct marketing channels are the primary channels to reach the consumer and SOHO markets. These channels are highly competitive. Market leading competitors such as Microsoft dominate shelf space by planning ahead, disclosing plans early in the cycle, and securing space months before it is needed. OEMs typically resist commitment to the OS/2 Warp brand until they clearly understand how IBM will create market demand, and because they fear retaliation from Microsoft.

For a description of the current OEM strategy see Appendix D4. For a description of the current retail initiatives see Appendix D7.

To succeed in this segment we must:

- Grow the OEM preload and PCCO preload channel significantly
 - Target the top PC manufacturers (PCM's) within each country with competitive OEM pricing (See Appendix D4 for additional information)
 - The EMEA OEM objective for 1995 is one million licenses. The objectives by June 1995 are
 - ✓ Achieve significant volumes through Escom and Vobis across Europe
 - ✓ Close two other strategic accounts shipping OS/2 on 100% of one range or > 50K CAs
 - ✓ Close three other strategic accounts - 100% of 1 range or > 50K CA
 - ✓ Ensure two of the top domestic OEMs in every country shipping OS/2 on 30% of their volume
 - ✓ Distributors shipping another 20K per month
 - Build a closer linkage to the IBM PC Company.
 - ✓ 100% preload commitment
 - ✓ Joint marketing
 - ✓ Updated price agreement to reflect the fact that we're part of the same company
 - Develop bottom-up market incentives to our resellers to create demands for preloads in our traditional channels.
 - ✓ We must enhance our existing incentive programs to drive demand for OS/2 Warp brand preloaded machines.
- Increase funding significantly to establish a high level of brand presence, especially in the retail channel
 - Today, there is no funding to directly support and develop the retail channel. Funding is required for advertising, merchandising, in-store promotions, incentives, etc. The current model assumes distributors develop the retail channel by passing ME funds to them. This funding is not enough to compete with Microsoft. If the distributor does pass on ME funds, a typical retailer that sells 100,000 units of Warp per year would get \$195,000 in ME funds, which would only cover monthly ads in their circular, with no funding for any other merchandising. To effectively develop and support the retail channel for the OS/2 Warp brand additional funding is required.
- Increase coverage of the retail channel
 - Coverage of the mass merchants, such as K-Mart and Wal-Mart, needs to be established through the use of manufacturer reps. Coverage expansion has already begun by establishing a contractual

relationship with Good Times, a manufacture's rep firm who represents Nobody Beats the Wiz! and Wal-Mart.

- Expand to new consumer channels such as electronic distribution without creating channel conflict.
 - This represents the beginning of the formal channel extension of IBM Direct into the next medium: electronic. In includes the current CD showcase activities with locking and unlocking software via key as well as network ordering and downloading of software.
 - Current projects include:
 - ✓ CD Showcase (try and buy)
 - ✓ IBM US Offering Information on Internet
 - ✓ IBM PC IBM Direct Catalog on Worldwide Web
 - ✓ US Software CompuServe pilot of IBM software shopping area
 - ✓ VSAT/Hughes project to provide the capability to distribute software via satellite to IBM customers directly and to kiosks in retail establishments.
- Continue to expand the use of IBM Direct as a demand generation and fulfillment channel
 - There is a dedicated team of telesales professionals in place to sell OS/2 and related products.
 - Outbound telemarketing is underway, altering with program to leverage our direct marketing capabilities into our other channels of distribution.
 - The national analytic database is being developed by consolidating 35 lists of IBM customers of our OS/2 Warp brand products, There are programs planned throughout the year to clean and add names to the database, including a common registration card system

Small/Medium Business

The retail, direct marketing, preload and solution oriented channels are the primary channels to reach the small and medium business customer.

To be successful in this market we must:

- Execute the plan for the Consumer/SOHO marketplace (See above)
- Continue the development of the solution oriented channels (VARs, etc.).
 - Continue to grow the IBM BESTeam program to serve the solution oriented, or value added channels
 - Continue to develop certification programs as part of the BESTeam program. The scheduling of the education required to build world-class certification programs is proving a challenge. however, certification programs exist or are planned for the following specialties:

Product Pillar	Software Specialty	IBM Certification
Operating System	OS/2 Family	OS/2 Engineer (available)
Application Development	Application Development	Application Development Engineer (3Q95)
Database Management	DB/2 Family	Database Engineer (4Q95)
WorkGroup	Work Management (FlowMark)	WorkGroup Engineer (1Q96)
	Workgroup Speech Recognition (VoiceType)	
Network Communications	Network Communications	LAN Server Engineer (Available)
	LAN Systems	Networking Engineer (4Q95)
Systems Management	Systems Management	Systems Management Engineer (1Q96)
Transaction Processing	CICS	Transaction Processing Engineer (4Q95)
	MQ Series	

- Continue the execution and refinement of the lead passing process where BESTeam members get leads from various sources such as campaigns, advertising, business shows, etc.
- Continue to enhance the existing BESTeam support program which utilizes existing product support functions in addition to 20 dedicated professionals exclusively responsible for supporting BESTeam members.
- Continue the aggressive worldwide BESTeam requirement. To date, the recruitment effort has focused on building the total number of BESTeam members. More focused recruitment is beginning targeting key resellers in key industries, The table below illustrates the aggressive growth planned for this important program:

Geography	BESTeam	
	Members Today	Goal by 1996
US	1300	2,500 – 3,000
EMEA	70	400 – 500
Canada	30	100 – 150
Latin America		
AP		

Large business

Demand is created in the large enterprise primarily by our direct sales force and the fulfillment channels are primarily the corporate resellers, distributors, and solution oriented channels.

To be successful in this market we must:

- Establish a measurement system that incents the field to sell strategic, but less profitable, products (such as OS/2 Warp)
 - The current measurement system focuses almost exclusively on Profit and Customer Satisfaction. Products like OS/2 Warp get little focus when the client team can only make profit objectives by working with the product groups that sell big ticket items - big engines, big services deals, etc.
- Educate the field on the Microsoft threat.
 - NT is everywhere and many client reps are not aware of the threat posed by Microsoft. Stephenson's initiative to capture all information available on NT and store that into a central repository is a good first step towards engaging Microsoft in large accounts. We also need to continue to educate our field force on what Microsoft is doing. More importantly, we need to educate them on the IBM Win Strategy.
 - The Microsoft Competitive Institute is a good first step toward achieving this goal and has begun execution in Europe.
- Create tight linkages with Industry Business Units to ensure that OS/2 Brand products are incorporated in Industry solutions (see appendix D5)
 - Ensure that there are strong marketing programs supported by effective channels of demand creation and fulfillment to sell software developed by the ISVs.
 - Work with the ISVs to develop effective sales programs to sell strategic IBM software to their customers.
 - Help the ISVs underhand and combat the Microsoft threat to IBM.
 - Assist the ISVs identify independent solution developers (ISVs) who can be used to fill the ISVs solution portfolio.
- Recruit larger VARs, like Arthur Andersen, EDS, etc., into the BESTeam.
- Establish a requirements feedback mechanism from our Corporate Sales to the lab

Key Dependencies

- Improve the speed to the channels with product plans, demand generation plans, and product in order to secure visible presence in the retail channel.
 - In order to successfully launch a product or promotion, the reseller channels need *at least* a 90 day notice to prepare the advertising, in-store materials, catalogs, etc. The minimum information required is as follows:
 - ✓ Business issues the product solves
 - ✓ Customer value/benefit statement (key selling points)
 - ✓ Key features & functions
 - ✓ Target customer clearly identified
 - ✓ Packaging/design objectives
 - ✓ Product positioning, pricing (with part numbers), and rollout data
 - ✓ Advertising and Media Relations Plans
 - ✓ Merchandising budget and allocations
 - ✓ Support and education plans
 - ✓ Competitive information
 - OS/2 Warp needs to be OEM channel ready - easy to preload, with a fast working process for device drives and bug fixes to be developed.
 - Execute a strong demand generation plan which includes heavy ISV recruitment
 - Exertion of consumer oriented advertising plans and PR strategy
 - Development of consumer-ready product offerings.
 - Development of Solution-oriented paks, particularly for small and medium businesses
 - Establishment of standard worldwide pricing and terms and conditions.

Channel Mix Model

The channel mix is directly related to the overall brand financial strategy and the brand products' target markets. With primarily a market share strategy targeting high growth segments, emphasis is on utilizing far reaching channels, such as OEM preloads, Retail and direct marketing. The table below illustrates the shift towards high growth fulfillment channels for OS/2 Warp.

Channel	1994 % of Revenue	1995 % of Revenue	1994 % of Volumes	1995 % of Volumes
Distributors	53	35	53	15
Retail	N/A	N/A	N/A	N/A
Corporate Resellers	Incl. above	26	Incl. above	11
Solution Oriented (VARs)	Incl. above	4	Incl. above	5
Total Resellers (above list)	53	65	53	31
IBM Direct	6	6	6	3
Corporate Sales (field)	26	4	20	4
Electronic Commerce	N/A	N/A	N/A	N/A
Preload	16	24	22	62

Today, we are unable to measure revenue and volumes for the retail channel since they source their products from distributors. To effectively manage the shift to high growth markets, there must be a method established to measure revenue and volumes for the 2nd tier resellers, especially the retail channel. Other vendors purchase this information from Distributors.

Each product will be distributed utilizing channels that best meet the needs of its target markets. Appendix D3 illustrates the *primary* channels of distribution for the OS/2 Warp brand family of products.

The table below outlines current and projected costs by channel (\$M):

Channel	1995 SG&A	1996 SG&A	1995 NEBT	1994 NEBT
Corporate Sales (Field)	54	50	-24	-11
IBM Direct	62	55	-22	-11
Solution Oriented	45	39	-15	-1
Dealer	44	38	-22	-5
Distributor	39	34	-17	0
OEM Preload	12	12	0	14
IBM Preload	17	16	12	23

There are a number of factors contributing to lower costs:

- Less expensive media (CD and Additional License)
- Service costs are coming down
- A lower E/R is driven primarily by revenue growth while maintaining expenses flat

Keys to Successful Execution

Item	Brand Responsibility	Key Dependencies Within IBM
1. Clear understanding of Roles & Responsibilities		
2. Clear definition of the "Brand"		
3. Consistent worldwide implementation		
4. Cross-functional, consistent financial measurement systems in place		
5. Successful execution of OEM and PCCO preload strategy.		
6. Increased funding to develop and grow high-growth channels.		
7. Implementation of consumer oriented advertising and PR plans.		
8. Heavy ISV recruitment focused on applications serving the target markets		
9. Improved speed to channels with product plans, demand generation plans and products		
10. Ability to measure revenue & volumes achieved from 2nd tier resellers		
11. A measurement system that incents the field to sell strategic products, regardless of profitability		
12. Increased coverage of the retail channel		
13. Development bottom-up market incentives to our resellers to create demand for preloads in our traditional channels.		
14. Expansion to new consumer channels such as electronic distribution without creating channel conflict.		
15. Successful execution of BESTeam strategy.		
16. Recruitment of larger VARs, like Arthur Andersen, EDS, etc., into the BESTeam.		
17. Education of the field on the Microsoft threat and our strategy.		
18. Establishment of a requirements feedback mechanism from our Corporate Sales to the lab.		
19. Establishment of a corporate-wide process to ensure channel harmony		

Information Required to Manage the Brand

Item	Brand Responsibility	Key Dependencies Within IBM
1. Monthly brand sales volume and revenue results by channel & geography & country		
2. Monthly competitive sales volume and revenue results by channel & geography & country		
3. Quarterly channel costs by geography and country		
4. Weekly channel inventory levels by product by channel by geography & country		
5. Promotion results		
6. Product registration/demographic information.		

Service and Support Plan

Vision and Value

The cornerstone of OS/2 brand support should be a cohesive "software publishers" service strategy. This world-wide strategy should promote the sale of OS/2 Warp brand products by:

- assisting our customers with the purchase, installation, and use of our products
- identifying and resolving defects in OS/2 Warp brand products
- helping customers with the transition to future products
- providing assistance to developers of OS/2 applications, providers of solutions that include OS/2 WARP brand products, and resellers of the brand's products
- feeding other OS/2 Warp brand processes with information

The strategy should endeavor to minimize support costs by:

- making it easy for our customers to answer their own questions
- enabling and encouraging third parties to provide high quality support services
- recovering the cost support wherever feasible

The service and support strategy must be linked with product development, the requirements gathering process, channel and business partner plans, the IBM services brand business model, and product marketing. Services may be delivered on a cost, cost-recovery, or for-profit basis. A services brand manager, either within the brand or at a software category level, should be in place to ensure these linkages as well as consistency across all software brands. The service and support strategy must maintain the highest possible worldwide customer satisfaction with OS/2 Warp Family Brand solutions through world class customer support and by delivering competitive and compelling service offerings.

IBM must continue to be more responsive, reduce cost, target specific market segments, and expand delivery through alternate service providers. As demands increase for services which enable customers to exploit IBM and vendor technologies, additional channels must be deployed to expand the merchandising and delivery of services. Current industry data indicates customers prefer to acquire services from the vendor or channel which provided the software product. IBM will meet marketplace demands by leveraging the skills and low-cost delivery capabilities of our channel partnerships. This emphasis does not preclude IBM from developing and deploying other appropriate service and sales channels and will, in addition, allow IBM to optimize current delivery mechanisms. IBM will continue to develop and deliver IBM unique services which are closely tied to IBM leading edge technology – services where IBM can leverage its exclusive tools, methodologies, and intellectual capital to create unique market demand and opportunity,

Situation Recap

IBM segments customer into four segments, large enterprises (further sub-divided into CIO and workgroup/department directed), medium enterprises, small office and home office (SOHO), and consumer/home.

Within corporate and large enterprises the CIO continues to be the single most important decision maker. IBM's direct marketing teams are most successful in supporting and influencing the CIO. CIO's in the large and medium enterprises acquired 17% of systems software. However, within business organizations, decision makers other than the CIO, such as workgroup or departmental decision makers, combined to acquire the remaining 83% of systems software. IBM marketing teams are not traditionally involved in marketing to workgroups and departments and have little influence over the selection of service and support options made from these groups.

Many of these workgroup and departmental customers acquire software through solution channels such as VARs, solution integrators, network integrators, consultants, dealers, and other software vendors. IBM has not taken advantage of this marketing dynamic and has not proactively integrated its services strategy and offerings into the solutions provided by our channel business partners. In 1994, 92% of all IBM software in the PS environment were purchased through channels. Additionally, 90% of all PS hardware were purchased through channels.

Studies indicate software customers require a wide profitable array of services including technical remote voice and help desk support installation and integration services, and LAN systems and multi-vendor connectivity support. Further studies have indicated the need for turn-key services as well as customer service tailored to a multi-vendor environment. These customer requirements demand that we change our scope of service and support offerings. Increasing pressures on such issues as fee versus free support, on-site demands,

hours of operation and support availability, and the push to increasingly technical and electronic support necessitate the inclusion of alternate channels for merchandising and service delivery.

A move such as this will not only support our customers better, but falls in line with the shift that the industry is now experiencing. Many of IBM's software competitors have opted to limit the support they offer to their end-users in favor of "service partner delivery". These service partners are provided free access to technical journals and electronic support, education and training, and are often given service lead referrals. Some software competitors provide additional marketing, technical, and consulting expertise to their service partners. Those software competitors who are still offering direct customer software support often limit that support to the largest and most profitable of customers.

IBM Business Partners are ready for this shift as well. Many alternate channel parsers are looking to align more closely with their customers and form greater strategic relationships with their suppliers such as IBM. In addition, many are focusing on their core competencies of software support and service, IBM must take advantage of the facts that: many business partners are successfully targeting larger end users on a department and corporate level, these partners continue to invest in their infrastructure to be able to better deliver better services to their customers; large, sophisticated business partners are more capable of partnering with enterprises at a strategic level; enterprises are increasingly engaging multiple sources to acquire service and support; many large and small busmen partners have the capabilities, expertise, and credibility to offer much pre and post sale product support to a wide range of customers.

IBM's challenge is to offer each of our partners the customer programs they (and their customers) require, to continue to invest resources to provide the necessary channel support, and to provide a quality control mechanism to ensure customer satisfaction,

In addition to non-IBM outside channels, it should be noted that the PC Company offers OS/2 support through their HelpWare service and support package. At present, preinstalled OS/2 on PC Company products is supported for the three year product warranty. Work is underway between PSP and the PC Company to reconcile the differences between the support strategies (PSP offers a 60 day getting started period, after which a fee support offer must be purchased) of the two organizations,

Currently, in the United States, defect, installation, and usage support (referred to as product support) are provided by PSP's Service and Support organization. Worldwide geographies provide various levels of support and services based on geographic and country practices, capabilities and skills. Additional fee based service offerings (software services) related to the OS/2 operating environment have been developed by many groups including Personal Software Products, Availability Services, the Personal Systems Competency Center, the PC Company and individual US Marketing & Service geographies. These services include a vast array of offers including on-site support, migration services, education, help desk integration and other customer targeted services. The marketing and sales of both product support and software services are sometimes coordinated among the groups and sometimes pursued independently.

Product support terms, conditions, and practices align with industry and competitive standards. That is, support programs are based on a tiered structure which matches the market segments into which our products are delivered. Support package pricing is similarly tiered. Service and support practices are reviewed regularly to maintain competitive characteristics.

Intended Positioning

An overall services brand manager should be established to provide the linkage required to implement this strategy. This brand manager, residing within the brand or within a services brand management function apart from the brand, would be responsible to: ensure a services position in all components of the brand plan, provide a consistent, consolidated, and optimized global service strategy, including delivery and execution, drive channel development and market segmentation; and work with geographies to jointly assess resource requirements. The brand manager would be responsible for addressing the issues associated with service today. Channel views would be rationalized with product, platform, customer, and geographic positions. A worldwide business model and associated processes for service would be developed. Global issues of pricing, terms and conditions, skills, coverage, measurements, and sales plan incentives would be addressed. Fragmented service delivery organizations would be rationalized. Finally, the brand manager would be responsible for the ultimate customer satisfaction with product support and service offerings.

Consistent with the vision stated above OS/2 Warp service and support should be world-class customer support that delivers competitive and compelling service offerings by:

Assisting Our Customers with the Purchase, Installation, and use of our products

Technical support should systematically move the customer through the stages of OS/2 Warp brand product purchase, installation and usage, education and complex solution development, defect support, and eventually the migration to brand product upgrades. For this discussion *customers* are defined along the segment lines described earlier in the brand plan. Pre-sale support is defined as providing to customers the information they need to make an informed purchasing decision. Pre-sale information includes minimum hardware system configuration requirements, software prerequisites, etc... Installation and usage support is that support required for customers to successfully install brand products and execute the basic functions that are part of the product. Education and complex solutions support is technical support that enables the customer to develop business solutions with OS/2 Warp brand products. An example of a complex solutions service might be the design of a vendor information database for a customer – or providing education to the customer so they are enabled to design this complex solution. Defect support is the timely resolution defects in OS/2 Warp brand products. Migration services are those that enable the customer to smoothly move from one level or version of brand product to the next.

To maximize coverage across all brand segments and minimize costs the import strategy must engage multiple support delivery channels. The possible delivery channels are:

1. Retail/OEM – The retail outlet where the customer purchased a shrink-wrapped copy of a brand product or the OEM which preloaded the product on a personal computer
2. BESTeam – members of the Business Enterprise Solutions Team program
3. Electronic – bulletin boards, fax services, intelligent voice response units, or other automated sources of information delivery
4. Socrates – The front-end to the current voice support delivery structure
5. IBM Fee – fee service offerings sold and delivered by IBM organizations.
6. Blue Suit – The IBM Personal Systems Marketing Specialists

The following table outlines the preferred, secondary, and tertiary support channel for each segment:

	Consumer/SOHO	Small Business	Auton. Dept.	Bottoms Up	Tops Down
Pre-sale					
Primary	Retail/OEM	BESTeam	BESTeam	BESTeam	Blue Suit
Secondary	Electronic	Retail/OEM	Blue Suit	Blue Suit	BESTeam
Tertiary	Socrates	Socrates	Socrates	Socrates	Socrates
Install & Usage					
Primary	Electronic	Electronic	Electronic	Electronic	IBM Fee
Secondary	Retail/OEM	BESTeam	BESTeam	BESTeam	Electronic
Tertiary	IBM Fee	IBM Fee	IBM Fee	IBM Fee	
Educ. & Complex Solutions					
Primary	Retail	BESTeam	BESTeam	BESTeam	IBM Fee
Secondary		IBM Fee	IBM Fee	IBM Fee	BESTeam
Tertiary		Retail/OEM	Retail/OEM	Retail/OEM	
Migration					
Primary	Retail	BESTeam	BESTeam	IBM Fee	IBM Fee
Secondary		IBM Fee	IBM Fee	BESTeam	BESTeam
Tertiary		Retail/OEM	Retail/OEM		

Table 1. Preferred support delivery mechanism by segment

Identifying and resolving defects in OS/2 Warp brand products

The service and support strategy must include product service life (currency) and defect resolution policies that are consisted across the brand. Today currency and defect policies vary by product or development lab. There is no industry standard for such policies. Microsoft, in general, provides defect support for their current products and products one level back.

Helping customers with the transition to future products

As new OS/2 Warp Brand products near general availability (golden master) transition services should be made available to our customers (via the delivery mechanisms outlined in table 1). These services will be created by the services brand or sub-brand team in conjunction with the product development team. The services may take the form of books/documentation, education and training, or on-site migration services. The services will be channel-ready such that they may be delivered by either the IBM Fee structure, the BESTeam program, or retailer depending on the market segment to which they apply.

Providing assistance to developers and solution providers

As mentioned other places in this brand plan development of solutions that run on or incorporate OS/2 brand products is key to the success of the brand. Consequently, we will have to provide technical support to those solution providers. Software developers and solution providers have a significant requirement for in-depth technical support. Given the nature of their business they need detailed knowledge of the workings of our products and the integration of our products with those of other vendees.

The software reseller, including the IBM PS sales force, primarily has a need for product information and configuration assistance. Product information might include prices, SKU numbers, etc. Configuration

information includes hardware and software prerequisites for running a product or mix of products, Support needs may also include product demonstrations for proof of concept to customers.

Feeding other OS/2 Warp brand Processes

The concept of linkage cannot be emphasized strongly enough. Service and support should be integral to the development process. As the first point of contact for customers having difficulty with the installation or use of our products the service and support structure acquires a wealth of information that can be invaluable to the improvement and development of future products. Requirements gathered during service and support should be communicated to product development and incorporated into OS/2 Warp brand products. Conversely, product development should build in features that enhance the service and support process and the gathering of customer and product defect information, Microsoft corporation has recently begun demonstrating such "support enabled" products. These features enable the customer to pass screen snapshots and diagnostic information over the Microsoft Network to support representatives who are assisting the customer. With dual-use modems the customer can contact Microsoft support and alternate during the call between this diagnostic information transfer and voice support.

Customer information collected during service and support activities should also flow to product marketing. This information – customer names, addresses, product profiles, etc. – can be of significant value in follow-up marketing campaigns. Service and support data could be stored in a common data base with information collected by the product registration and other customer contact processes.

Keys to Successful Execution

- *Agreement on the role of support services in the OS/2 brand (i.e. as a cost of doing business, source of profit, etc...)*
- *Agreement on roles and responsibilities for support services (who develops, who markets, who delivers...)*
- *Linkage – Support must appear consistent and seamless across all constituencies and segments, including geographies.*
- *Service Model – Successful implementation requires a collaborative services model which provides for the mapping of services by customer life cycle and service provider. Channels which are selected to deliver services on behalf of IBM must be approved and certified.*
- *Consistent global service quality and support, including a global fix and currency strategy*
- *Closed loop process to account for and utilize all incoming service data*
- *Aggressive Consumer and Small Business Offer*

Service and Support Organization Goals

Increase OS/2 Warp family Brand revenue contribution as well as customer satisfaction:

- Establish and implement a global, market segment based, services strategy
- Improve global customer service and support coverage by leveraging/optimizing use of IBM and partner skills
- Influence overall systems management architecture and RAS on future products
- Improve overall tools and serviceability of Brand software
- Accelerate technology and tools exploitation
- Broaden global portfolio of service offerings to better meet customer requirements
- Target customers who have invested in OS/2 Warp products, but not in OS/2 Warp service offerings, in order to market additional service products
- Upgrade current OS/2 Warp Family service customers to enhanced service coverage (e.g., premium versus standard, annual contracts versus per incident support)
- Provide OS/2 Warp service offerings which serve as a differentiator for first time OS/2 Warp purchasers.
- Increase global revenue for Technical Connection CD ROM by 20% to \$1.3M
- Achieve 85% penetration of support services in applicable enterprise accounts
- Double the percentage of standard and premium contracts from current 33% to 66%
- Increase Demand recognition for service and support offerings
- Increase worldwide focus on service offerings, especially in emerging markets, like China
- Improve multivendor support to our customers
- Win the Software Support Professional Association (SSPA) Software Technical Assistance Recognition for third consecutive year.

Fulfillment

Vision and Value

Determine and execute the best method available to bring each new offering to the selected distribution channel for that product.

Customers value readily identifiable (Brand Recognition) packages that are economic and available from their local supplier upon demand.

Situation Recap

The fulfillment process is a dynamic environment that is “hands-on” managed with the bulk of the focus occurring during product rollout/launch cycles. “Maintenance level” focus is a matter of matching orders from OEMS and AAS to the fulfillment & supply management processes owned by IBM Boulder.

All fulfillment plans have been determined to be competitively verified (quotes annually) for “pieces” as well as product cost reductions (e.g. diskette compression algorithms). Legal & IP Law review all product packaging to meet corporate, and contractual requirements.

The worldwide roll-out/launch cycles force the fulfillment process to be highly dependent on a manageable “fulfillment window” between “Golden Master Date” and the “General Availability Date”, which varies by country. The fulfillment time window between GM and GA should be between 30 and 60 days.

Key Actions by the Brand in the prior 12 months:

The items listed below are some of the actions taken by the Brand in the last 12 months to improve the overall package, package design, and decision processes used in fulfillment:

- New diskette compression techniques to reduce the number of diskettes required and/or to increase the amount of media real estate available on which to deliver product.
- Combining publications to decrease paper content in the box. (e.g. weight, volume)
- Common components across product packages ensuring Brand consistency
- Softcopy documentation for increased end-user productivity and reduced box components (e.g. weight, volume)

Intended Positioning

The fulfillment process incorporates the items listed below and manages them against the general Availability Date. Meeting the GM date is crucial to the fulfillment process. Improvements to the items listed below are dependent on the amount time available between GM and GA. Any changes that force changes in the product design, packaging design, packaging layout, will certainly impact these critical areas of the fulfillment process:

- Manufacturing Requirements
Outputs: (e.g. Manufacturing specs)
Key linkages: (e.g. Manufacturing requirements used to estimate unit cost targets)
- Unit cost targets
- Target inventory levels
- Supply/demand strategy
- Sourcing requirements
- Preferred suppliers
- Fulfillment standards
- Fulfillment expense targets.

The fulfillment process works very well today on a cost basis. The GM to GA window again is the primary influence driving the ability to influence cost savings. There are always small incremental improvements that can be made within the on-going focus areas of the fulfillment process:

- Combining publications to decrease paper content in the box. (e.g. weight, volume)
- Common components across product packages ensuring Brand consistency
- Softcopy documentation for increased end-user productivity and reduced box components. (e.g. weight, volume)

Any improvements made along these lines are the direct result of managing the interlock between the development cycle and the fulfillment cycle.

Keys to successful Execution

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
Brand Recognizable Package		<ul style="list-style-type: none"> - Design - Approvals <ul style="list-style-type: none"> - CHQ - PSP Executives - Communications
On-time delivery of each component		<ul style="list-style-type: none"> - Maintain Schedule <ul style="list-style-type: none"> - Meeting GM date - GM to GA Window
Distribution Interlock		<ul style="list-style-type: none"> - Plan Stability - Update Order Entry Systems <ul style="list-style-type: none"> - GEMS - AAS - DRM - Supply Management (Bethesda) - Order Entry - Channel Forecast - On-time manufacture
On-time shipments		<ul style="list-style-type: none"> - Manufacturing Planning/Availability
Reaction time to market dynamics		<ul style="list-style-type: none"> - Development Cycle - Code Quality.

Information Required to Manage the Brand

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
Channel Sellthrough Inventory		Channel feedback (Geography to Division)
Promotions		Geography Marketing updates to Brand Management
<ul style="list-style-type: none"> - Products involved - Duration of Promotion - Relationship to collateral materials - Relationship to IBM infrastructure - Distribution Channel - Target Markets - Tracking Mechanisms - Budget/Funding Status 		
Manufacturing Inventory		Ad Hoc Status
Product Plans		<ul style="list-style-type: none"> - Plan Closure Process - Development/Fulfillment Interlock - Defined Cross-Divisional Interlock Process

Performance Goals

Vision and Value

The OS/2 Warp brand's business objective is to gain market share from two entrenched competitors, Microsoft and Novell. The first priority is to grow share of product accepts, while the second priority is to attain the 1995 fall plan revenue and NEBT commitment. These priorities will achieve 1 point market share per year from 1995 to 1999.

Key challenges to gain end user mind share and increase OS/2 share penetration include the following:

1. Increase preload commitments with PCCO, PPS and OEMs
2. Increase OS/2 applications through Project Springboard
3. Maintain leadership through product positioning
4. Continue to increase customer satisfaction
5. Improve on technical support through level 1/2 service and fee offerings

6. Focus on consumer /small office segments (22% growth rate),

Meeting these challenges, while maintaining a balanced business plan, is the essence of OS/2 Warp brand plan. The primary performance objective will for the brand will the implementation of a measurement system which supports global brand measures on a timely basis while inter-linking planning, actuals, forecasting and portfolio management automatically.

Situation Recap

The OS/2 Warp brand has been continually challenged by Microsoft in operating systems, and Novell in LAN systems, IBM had made the decision to dedicate substantial marketing and development resources in 1993/1994 to gain significant momentum and market share, and establish IBM personal products as the clear choice for client/server and enterprise downsizing/upsizing. The 1994/1995 marketing and development expense is greater than the current revenues would support, but the investment in OS/2 is crucial to winning the desktop, denying Microsoft entry into server market and driving volumes of mission critical IBM applications.

Microsoft's success has been a result of dominance in operating systems, and successfully capitalizing on that market share position with applications and by providing customer-valued end user solutions, Novell's success has been a result of dominance in LAN systems, with a focus on small LAN-connected PC workgroups in the distribution channels.

The actions we are taking to drive revenues up from \$321 M in 1994 to \$472M in 1995 (47% growth) include gaining M&S commitments for 6M OS/2 Warp customer accepts and 100K LAN server customer accepts, commitments from 12 of the top 30 OEM's to preload OS/2 at significant volumes, delivering advance technologies for the Power PC by 9/95 and 615 hardware by 1Q-2Q/95 . All these actions are required to increase revenue share 1%.

Intended Positioning

Projecting our financial plan from 1994 to 1999, the OS/2 brand strategy is outlooking 24% CGR versus industry of 14% CGR, thus gaining 6 points in market share from 1994-1999. This revenue growth will provide the OS/2 brand with continued revenue share gain each year against both Microsoft and Novell. Along with increased market share, we will continue to strive for a competitive best-of-breed financial model to meet cost/expense/nebt E/R targets while maintaining our customer satisfaction goals.

The cost plan for the strategic horizon shows significant improvement due to product write-offs taken at year-end 1994 to move the OS/2 brand product line to a cash basis methodology. Gross profit shows continued improvements out through 1999 due to the reduction in capitalized software assets. Our contractual relationship with Microsoft royalty's expires March 1997 and our current development activities are being carefully structured to minimize further royalty arrangement with third party vendors. Worldwide service is strategically planned to reduce from 19% E/R in 1994 to 5% E/R in 1999, moving towards less labor intensive service (e.g., electronic mail) and improving the installability and serviceability. In addition, manufacturing and distribution costs show a modest improvement out through 1999, as we increase the percentage of preload product, migrate from diskettes to CD-ROM's, and enter into the arena of electronic distribution.

As we strive to be best-of-breed in development expense verses our leading competitors, Microsoft and Novell, we are planning to significantly reduce development expenses by 36% from 1994-1999 as we implement infrastructure reductions and continue to drive for increased productivity and efficiency improvements in the development process in order to achieve an overall competitive E/R objective of 18% (netting out CHQ allocations) by 1999.

The SG&A plan for 1995 shows an increase of 9% (due to direct charging methodology changes YTY from 1994. A reduction from 1995-1999 achieves an overall E/R of 32% which meets our competitive objective. Driving forces in SG&A reductions include increased efficiencies in the software marketing organization and increased volumes in the preload channel.

The direct sales force will concentrate on traditional markets. The M&S organization indirect sales force will target markets through dealers, VARs, VADs. OS/2 Warp brand marketing will focus on direct mail and advertising campaigns aimed at small business and consumers via 1,000 direct and retailers. The OS/2 Warp brand will continue with a major emphasis on shifting fulfillment to preload (IBM and OEM).

Customer Satisfaction

Today our data inputs come from our customer satisfaction product surveys (offering surveys) that are being conducted in Japan, five European countries and the US. We will also be obtaining additional data from PC Company platform surveys. Data on our competitors comes from surveys conducted with the same rigor and independence as our offering surveys. All surveys are performed by third-party marketing research companies.

Our objective is to maintain customer satisfaction ratings, based on last year's results. Since we are best-of-breed, our objective is to maintain our current best-of-breed over our competition, which was +4 last year in 1994 and +5 in 1993. This overall customer satisfaction rating (CUPRIMDSO) provides corporate the ability to measure and determine the division's overall customer satisfaction.

In order to obtain greater leverage, we have collected the following outputs for the OS/2 brand from our existing customers and our competitor's customers to maintain customer satisfaction:

- Improve service and support responsiveness to customers
 - Smart 800# front-end for all workstation hardware (PSSF)
 - Free support for first 60-90 days
 - Fast path for offerings (advanced customer)
- Make the installation process easier and less complex
 - Levels of Integration (LOI)
 - Time to install
 - Config.sys complexity
 - Device Driver Support
- Make OS/2 applications more readily available
 - Project Springboard
- Preload OS/2 everywhere
 - Worldwide Technical Sales
- Reduce cross product complexity
 - LOI
- Provide additional self-help capabilities
 - Service enhancements (PSSF)
 - On-line documentation – task/context specific help
- Promote our Internet Connectivity and provide additional rich functionality
 - Go after specific market segments with specific product Paks (Connect Pak, Biz Pak, BackOffice Pak, Game Pak)
- Improve 4MB/8MB performance
 - Boot time
 - Multimedia performance
 - Windows applications speed and load times
- Standardize terms and conditions and ordering for large accounts and platform-wide products.

OS/2 Warp brand has several ways of gathering customer feedback in order to anticipate problem with announcing new products releases and versions OS/2 team in Boca offers service trailer surveys, bulletin board and electronic means of input over the internet Boca technical interface group, Developer Connection, and survey beta customers. LAN Systems group lists three special programs it uses to gather feedback:

- Lab Rangers Program - invite customers to participate in teleconferences, visits to IBM, surveys (fax, e-mail)
- CATeams - a partnership program where customers and IBM work together as a team from the design phase to the ship phase of the product. The customers receive beta code and have a direct link to the developers for input and feedback.
- Customer Readiness Program - customers are provided beta code and are given access to IBM forums on Internet, CompuServe, IBM BBS, IBM Link to provide feedback.

The OS/2 Warp brand survey process (see Appendix PO) has been the key to success in obtaining numerous industry awards for OS/2 2.1 and OS/2 Warp. By following this customer satisfaction process the team has the ability to remove defects and produce the right customer requirements before the product hits the market place within the software vertical of OS/2.

Measurements

IBM corporate headquarters is in the process of re-engineering their corporate financial systems to establish an IBM project management system. The objective is to provide senior management with reviews of project investments and periodic reviews of projects status versus original commitments (see Appendix P1 in next draft). The guiding principles towards the re-engineering efforts of these financial systems are:

- Incorporate systematic worldwide financial process
- Provide sufficient project granularity to evaluate the investment decision
- Link the period planning, forecasting and measurement process
- Enhance the product investment analysis evaluation process
- Ensure management accountability

The software group measurement process currently involves measurements and forecast inputs from the site and divisions on a monthly basis. The software group reports to corporate headquarters on a quarterly basis (see Appendix P2 & P2A) unless issues or exposures need immediate highlighting. This process involves varying degrees of automation within the lower sectors of the software group.

SWS has a fully automated financial system called PMI (Portfolio Management Investment) which NS and PSP are scheduled to migrate to by 2Q 1995. PMI will allow the sites and divisions to implement a portfolio management process encompassing worldwide product income and expense models, and facilitate the gathering and analysis of division wide financial data (see Appendixes P3-P6).

The basic product model has the following components, worldwide revenue (see Appendix P7), volumes, elements of cost (see Appendix P8) and expense (see Appendix P9 & P10), gross profit margins, cash flow and return on assets. The application allows the user to enter or update data, and to retrieve the data aggregated in a number of optional ways, including by family, product model, segment, site, platform, channel geography detail and operating system (see Appendixes P11-P13).

The key to the success of the project management system will be line management commitment and buy-in (corporate, division, sites – M&D/M&S). Corporate must help to enforce a discipline across the geographies to plan and measure to the level of granularity required in order to achieve a worldwide financial model by product. The next challenge that lies ahead will be in measuring the effectiveness of channel and market segmentation pricing actions and promotional announcements.

Keys to Successful Execution

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
1. Significantly increase OEM preload		
2. Stimulate ISV development of OS/2 applications		
3. Deliver Advance Technology		
4. Increase mind share through advertising and media campaigns		
5. Emerging markets/channels (China /PDA)		
6. Take advantage of competition failures (Chicago - WIN95)		
7. Standardize customer satisfaction survey across OS/2 stock		
8. Assist the WT countries w/ tools to gather the data		

Information Required to Manage the Brand

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
Financial Measurements -I&E by Prod/Geo/Channel/Mkt Segment/OEM -Vol/Rev/Cost/Dev/SG&A -Elemental Detail		
Product Schedule/Plan vs Actual		
Competitive/Competitor Data		
Marketing and Sales Data		
Customer Satisfaction Database		

Brand Image

Vision and Value

The OS/2 Warp family represents the best choice for computing no matter where you are, in the office, at home, or on the road.

Users of OS/2 Warp have a good experience with their computing: they get more done and they are often passionate about their computing. The OS/2 Warp brand is synonymous with rich, but easy to use, software technology. It has a reputation of being a stable, and reliable software environment that is packaged with an assortment of applications and capabilities that make it a great value.

Computing professionals see OS/2 Warp as the platform that enables a broad set of client, server, and application capabilities for both their departments and the enterprise. Only OS/2 Warp clients and servers offer business computing customers the features, function, and long-term value that will enable their users and businesses to achieve new levels of productivity.

Without a strong Brand Image in the marketplace for OS/2 Warp, the value of the technology that is imbedded in the OS/2 Warp product line is not considered for purchase. The market is keenly concerned with the viability of the platforms they select. Much of this viability is perception. As a result, these perceptions must be fed with a well coordinated stream of communications that drive awareness, consideration, trial, and purchase.

Summary of Communications Vehicles

	US Budget	WW Budget	% of Total
Public Relations	\$ 8 million	\$ 15 million	
Advertising	\$ 25	\$ 63	
Direct Marketing	& \$ 12	\$ 50	
Merchandising			
Business Shows & Events	\$ 13	\$ 24	
Electronic Marketing	\$ 1	\$ 1	
Education	\$ 4	\$ 6	

Situation Recap

Current Policies and Practices, and Key Actions in the Last 12 Months

OS/2 Warp brand and image work has been focused on creating a buzz around OS/2 Warp as the new, totally cool way to run your computer. The addition of the "Warp" name to the brand has played a significant role in securing this positioning. In addition, the application capabilities that have been bundled into the OS/2 Warp "Entry" product in the form of the BonusPak of applications, and Internet access features, has facilitated the excitement by delivering a tremendous amount of function, for a very reasonable price.

Having recognized that the leading barrier to entry in the business computing environment has been the reluctance of its user population to consider OS/2 (due to poor reputation relative to general user needs, lack

of awareness, lack of availability on PC systems, or lack of native software applications), the OS/2 Warp communications objectives identified the consumer/user as a key target. Mass media communications were used to influence this audience, in addition to the targeted audiences of PC and MIS influencers and decision makers. In addition, programs to influence and incent ISVs, OEMs, and the reseller channel were developed.

In advertising, tens of millions of dollars were invested in a world wide television and print campaign to execute the "create a buzz" initiative. In trade show events, new venues such as the Consumer Electronics Show were utilized to bring an aura of mass appeal around the product. Mailings were targeted at a wide variety of PC users - from gamers, to mobile users, to Windows users. In Europe, a user-focused campaign recruited PC owners of all kinds to enter a contest that ultimately was focused on changing this mass market's perceptions of IBM as being irrelevant to their "personal" computing.

Advertising effectiveness ratings were very high, in comparison to prior IBM ads, and especially when compared to competitive ads. Results in Europe included greatly increased sales rates, and an explosion in "Team OS/2" user group membership. Overall brand awareness measured in January '95 showed OS/2 Warp exceeding Apple System 7, and nearly to the levels of Windows and Windows '95 awareness. ISV and OEM programs have been slower to catch on, and a redoubling of efforts and focus is required here.

There were considerable challenges experienced in this launch timeframe. First, the cost of creating the television advertising was nearly twice what it should have been. This and other advertising creation, approval, and execution issues were experienced as a result of our new relationship with Ogilvy & Mather Worldwide, and a new worldwide advertising process defined by corporate. In addition, the naming process broke down completely, in that use of "Warp" in the name was emphatically turned down by legal and corporate, only to be reinstituted after direction from Mr. Gerstner, with 10 days before launch. This resulted in considerable collateral and packaging scrap, and an image in the advertising that was not consistent with logo and package design.

Competitive Policies and Practices

Direct comparisons to Microsoft Offerings (e.g., in shoot-out events, advertising) have tended to work in OS/2 Warp's favor. The most difficult barrier to overcome has been the absence of broader industry support - namely from ISV's in the form of native applications, and from OEM's in the form of preloaded systems.

The single greatest challenge has been competing against the perception of inevitability of Microsoft's Windows 95. Microsoft's market influence is broad, and quite visible to the market. Microsoft marketing activities have included:

- ISV support: Ensuring they have the tools to develop for Windows 95
- ISV threats: Removing their ability to use the Windows compatibility mark unless their applications are, in fact, Windows 95 applications
- ISV futures requiring their applications to also run Windows NT, or else they are not able to use the Windows 95 compatibility mark
- OEM preparation for preloading: Developing terms and conditions to incent exclusivity.
- Channel support: In preparing resellers and integrators for customer migration from Windows 3.1
- Press support: Priding a stream of information that reflected the product's and the company's vision, resulting in broad anticipation and defacto acceptance.
- Market Conditioning: Prelaunch advertising projecting a characterization of the benefits that Windows:95 will bring to users

Microsoft's broad release of the Windows 95 beta has exposed some problems and issues with the product, but it will also accelerate the evaluation cycle for corporate buyers. However, if this beta version is a true indication of the final product, we can anticipate a slower rate of adoption by the Windows 3.1 marketplace, due to its system requirements and lack of stability.

The other clear point of confusion in the Microsoft operating system offering line-up, is the broad assortment. Bob, DOS, Windows 3.1, Windows 95 and Windows NT will all be current offerings this summer. IBM can assert that Microsoft's business strategy is fragmented. And that it's overall operating system offering is discontinuous, and should not be compelling for ISVs.

As a result, there are opportunities for IBM to capitalize on these potential weaknesses in Microsoft's market entry with Windows. Key messages include:

- OS/2 Warp performs better in less memory
- OS/2 Warp is "3rd generation" proven
- OS/2 Warp offers a consistent interface and common application programming interface (API) through its entire line.

Intended Positioning

“Warp is today’s reliable operating system choice for businesses and consumers alike – for laptops, desktops, and LAN and application servers. It benefits from nearly a decade of development and testing of OS/2. It is an architected operating environment, designed to exploit the 32-bit microprocessors of today and tomorrow. Businesses can count on OS/2 Warp, and consumers can enjoy a productive and robust computing environment. People who know about computing, know that OS/2 is an operating system with a future.”

Although the challenge for marketing OS/2 Warp are significant, target audiences who have not considered OS/2 or OS/2 Warp previously, once exposed to the features and benefits of the offerings, their consideration rating climbs significantly (see worldwide PEAC testing, January 1995). This demonstrates the need to see the product in action, and the need to drive trial. The OS/2 Warp Challenge is the key plan for executing this strategy. In addition, the “Check it out” campaigns in EMEA and the US are geographic specific implementations recognizing the same need.

Additional buyer preference studies (see Intelliquest FutureDemand, January 1995), indicate significant polarity on consideration. More than half of business buyers don't consider OS/2 at all, while of the remaining 45%, consideration is relatively strong. Communications strategies focus on converting this 45% into sales, and reducing the remaining 55% who currently don't consider OS/2 Warp. The Intelliquest FutureDemand study is published each quarter, and provides a key measurement of communications progress.

Remote LAN access has been identified in recent OS/2 Warp Conner focus groups, as a feature that is highly desirable, but difficult to get implemented in a way that satisfies both the user and the MIS administrator. This capability will be exploited in a new advertising campaign now in testing.

IBM brand image is critical to the success of OS/2 Warp, Microsoft Windows’ brand image is well regarded, and Microsoft is synonymous with software. IBM has low awareness as a software provider. As IBM invests in its overall brand image, it is important that OS/2 Warp, and software in general receive an adequate portion of this investment. The “nuns” and anticipated “nuns 2” TV brand ads are important to realizing this need.

Communications Challenges

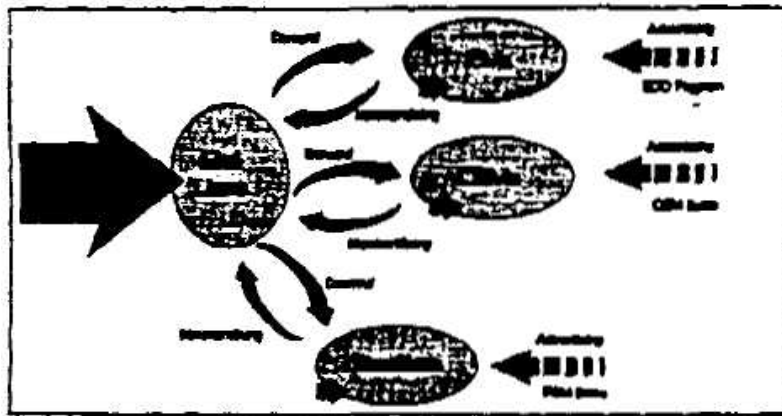
OS/2 Warp’s individual product offerings may be too segmented. With offerings for both consumers and business, with variations and “Paks”, it is unrealistic to think that the division can properly support each in a substantial enough fashion to deliver clear, differentiated messages into the market. For example, we compete with Windows’95 single product with four OS/2 Warp products. We will be competing with Windows NT with two OS/2 Warp Server offerings. While these offerings allow for differentiation and competitive advantage, they put requirements on the marketing communications function that is already lacking proper resources.

OS/2 Warp is a brand for operating systems, There is a temptation to extend the OS/2 Warp brand beyond operating systems, into application servers and middleware products and bundles. IBM’s Back Office competitive offerings, (also referred to as Eagle), should be branded at a higher level, preferably at an “IBM” level, so as not to confuse the market with the OS/2 operating system brand, even if the offerings are in “stacks”. This premise is in name development and will be tested.

The objective of positioning OS/2 Warp as a platform for everyone, at home, for games, and for professionals, has shifted many attitudes of OS/2 Warp towards consumers. This positioning will be adjusted with the launch of the rest of the OS/2 Warp family members, namely OS/2 Warp Connect and OS/2 Warp Server.

System Software “Food Chain”

Ultimately, the success of our communications effort will be reflected by how effectively we “bootstrap” our efforts amongst the key constituents. Specifically, end-users, ISVs, OEMs, and the Channel, must all develop a sense that OS/2 Warp is a viable, and lasting platform. Our communications efforts are multifaceted and intend to propagate such momentum.



We apologize for the low image quality. The original was not available.

System software marketing is clearly a “chicken and egg” challenge. Targeted advertising, PR, and other programs towards end-users (& buyers), ISVs, OEMs. and Resellers start a chain of Demand that is further facilitated by the actions taken by these incented parties. An ISV wants to sense demand from the market before making a longterm commitment, and the user wants to see commitment from ISVs to the OS/2 Warp platform. By coordinating our programs as described in the diagram above, these key constituents will merchandise their offerings to our customers and contribute to the chain reaction of demand that is required to build the OS/2 Warp “food chain.”

Public Relations

(Sager to insert)

Advertising Strategy '95

Recognizing that IBM cannot afford to provide the same level of promotion in each country in the world, a methodology was devised to tier countries into groups and allocate resources appropriate to the opportunities. The basis for methodology was a weighting of PC server opportunity and IBM installed base.

Advertising campaigns are segmented into tiers as well. The IBM Brand campaign (both TV, and Leadership in print), capabilities, and then product ads, together form a messaging strategy.

<u>Message Content</u>	<u>Campaign</u>	<u>Ownership</u>
Overall IBM Image IBM Vision on Issues	Brand/TV Leadership	Executed by IBM Corporate
Value/Sets of Offerings Specific Solutions	Capabilities Product	Executed by Product Divisions

The types of campaigns are allocated to countries based upon the opportunity tiers:

<u>Country Tiers</u>	<u>Advertising Placements</u>
Tier 1	All Capabilities Ads All Product Ads
Tier 2	All Capabilities Ads
Tier 3	1 ad/each Capabilities campaign
Tier 4 – Emerging	Fund add'l Leadership and Brand ads Capabilities/Product ads not funded

Capabilities Campaigns

Capabilities ads will support the whole OS/2 Warp family and demonstrate an increasing relevance for business computing. In the spring of '95, we will use a capability campaign to introduce Connect into the OS/2 Warp family. By the end of the year, the emphasis will be on the OS/2 Warp Server offerings, and Eagle- stack bundles

OS/2 Warp Product Campaign

Our only product campaign for the year will be dedicated to fighting the Windows'95 launch. This campaign will come under the umbrella of the “Warp Challenge”.

The Warp Challenge

The communications strategy for competing with the introduction of Windows'95 is called The Warp Challenge. This program will tie together all of our programs into a consolidated effort to establish OS/2 Warp as a viable, and better, alternative to Windows'95.

The main thread of The Challenge will be a series of events around the world that will invite Microsoft to compete head to head with OS/2 Warp. The objective of these events is to ultimately cause Microsoft to make a move - either to participate, and recognize that OS/2 Warp is indeed a competitor to Windows'95, or to decline, and provide us the opportunity to promote their no-show. Other events and activities around the world, in the channels, and within IBM, can be made a part of this promotion. The PR opportunities are tremendous and far reaching.

The Warp Challenge will be a mechanism for driving consideration, which is a key objective of Brand Image. By leveraging the market awareness of Windows'95, these "Challenge" events will demonstrate the key differences of OS/2 Warp, showing its robustness, stability, and performance.

Direct Marketing & Merchandising

Our Direct activities support two key areas, and will expand this year to include worldwide, through the line campaigns designed by Ogilvy & Mather.

First, our Direct function supports the ISV marketing organization with cooperative mailings to the OS/2 installed base with individual ISVs. In addition we have helped merchandise ISV offerings in a variety of publication catalogs, and books.

The second key area that is just now ready to implement, is in customer registration and post-sale customer contact. A worldwide, cross-division IBM software effort has been launched to move registration rates from 8% to 60% in 18 months. In addition, a post-registration mailer has been developed to help drive usage and reaffirm a buyer's decision. It communicates key features, usage tips, new applications coming from IBM and ISVs, and preload news from IBM and OEMs. The first of these mailings is May '95, and is expected to be updated each quarter.

In support of ISV merchandising, OS/2 Warp compatibility program is utilized, and has just been refreshed with new "OS/2 Warp" compatibility marks.

While this Direct Marketing & Merchandising function has been focused primarily on US requirements, its mission has expanded and it is being reorganized to drive consistency and creative and program efficiency, worldwide.

Business Shows & Events

(Joyce Mangham to insert plan summary, and attach plan details)

Electronic Marketing

IBM PSP is an innovator in the use of Electronic Marketing. This year we were the first software division to create a Home Page site, and the first IBM division to participate in commercial sponsorships.

Electronic Marketing supports the entire sales and post-sales cycle. It is particularly important for OS/2 Warp to have a presence in cyberspace due to its "cool" positioning, and Internet access features. This has been promoted in advertising, including IBM brand advertising with the "nuns". With presence on CompuServe, Prodigy, America On-line, the Internet, and others, OS/2 Warp Electronic Marketing drives awareness, consideration (with product detail, and Q&A bulletin boards), trial (with downloadable demos), and support (with "how-to" and defect elements). We also take product registration electronically through the Internet.

Although the infrastructure is in place, this emerging part of our marketing communications function is grossly underfunded.

Education

Product education is a key requirement in developing the industry infrastructure - both internally in IBM and with business partners. OS/2 has a professional certification program for IBMers, resellers, and consultants. This program is being expanded beyond PSP products to include all IBM "desktop" software. It has also been implemented worldwide.

Product launches are supported with additional product education that includes training the trainers, and educating the field force and customers. A combination of tools are used including classroom and video. In 1995, CD-ROM interactive education is being explored.

Keys to Successful Execution

Item	Brand Responsibility	Dependency
Worldwide advertising executions	Marcomm	Geog./O&M
Worldwide Warp Challenge	Marcomm	Funding/Geog./O&M
IBM Software Brand Tracking Study	Advertising	CHQ/Research
IBM Software interdivision coord.	Each div.	JMT/JWT
- Joint advertising platforms		
- Business show messages		
- Information fulfillment/collateral		
Consistent message deployment	Marcomm/PR	Geog./Labs
Professional Certification .Programs	Marcomm/Education	Other SW
Divisions/CHQ (mark)		
Product Certification Programs & Coop Operations	Not Defined/Advertising	Solution Developer
Share of Voice (spending benchmark) Analysis	Advertising	CHQ/O&M

Information Required to Manage the Brand

Item	Brand Responsibility	Dependency
Brand image and preference	Marcomm	CHQ/Rsch
Response rates from advertising	Direct	PSM/Geog.
Effectiveness of business shows	Marcomm	
Feature priorities	Brand mgt.	
Price sensitivity	Brand mgt.	
Competitive program.. and spending	Brand mgt/OEM	
Global direct marketing plans/results	Geog.	
Program effectiveness	Marcomm	
- Electronic/Internet marketing		
- Independent Vendor League		
- Professional Certification		
- Product Certification		
- - Event sponsorships		
Media relations Effectiveness	PR	
Consultant relations Effectiveness	PR	

(NOTE: Specific objectives still under development)

Information Systems

Vision and Value

The Information System for the OS/2 Global Brand Manager (CBM) should result in his/her easily getting the information required to make day to day decisions in an up-to-date consistent, and reputable manner. The actual reports or results will be defined based on the needs defined in the other sections of the brand plan and the requirements for overall management of the brand itself,

The information will be delivered in a short, concise, easy to understand format and the data will be up-to-date and consistent. The exact format and content will be defined as this plan is executed but it is easy to envision a one page report which contains the key variables presented in tabular form measured against goals and showing trends. This kind of format will make it easy to understand and act on the information.

Situation Recap

The ability to collect data that is consistent and up-to-date to develop relevant information for the IBM varies across the geographies from reasonable to dismal. Data collected today must be checked by hand for accuracy and inconsistencies and then massaged into a common format for use by an EIS. In addition, it takes a long time to collect data from necessary sources and get it together to develop any information,

The OS/2 Warp Family Brand organization has a new application called Topgun which gathers and reports revenue and volume data for OS/2 Warp Family products. Topgun development and its underlying data problems exemplified the above problems and is probably typical of the situation IS faces as it develops the information systems required for the GBM.

The software group has an effort underway to consistently gather financial data across the three divisions. It is likely that this effort can be tapped to gather in some of the information necessary to manage the brand.

Intended Positioning

In order for the IBM to be effective, it is imperative that he/she have the information required to manage the OS/2 Warp family Brand in a timely and efficient manner. The information and the underlying information systems must be first class for this plan to succeed. It is particularly critical in the OS/2 marketplace to have timely data as the marketplace changes quickly.

An information warehouse will be required to manage the data inputs and information development required for the IBM. An information warehouse will not only make data gathering easier but will also allow for development of additional information as it becomes required.

Keys to Successful Execution

1. Definition of the information requirements for the IBM,
Responsible for input of the information requirements - BM team.
Responsible for development of information and reports - IS.
2. Consistent data definitions so that the data means the same over all the data sources.
Responsible for data definition - appropriate technical persons.
3. Location of data sources required to support the information requirements.
Responsible for identification of the data sources - BM team.
Responsible for analysis and defining potential changes - IS.
4. Agreement by all parties (data sources) that required data will be delivered in a timely and consistent manner.
Responsible for definition of the consistent formats, etc. – IS
Responsible for the agreement – GBM.
5. Sufficient resources to develop the underlying systems to support the data gathering and information delivery.
Responsible for plan and sizing – IS.
Responsible for allocation of the resource - GBM.
Responsible for execution – IS.
6. Agreement by non-OS/2 data sources that the required data that they control can be used by the GBM.
This agreement may or may not include agreement to common data formats.
Responsible for definition of the formats, etc. – IS
Responsible for the agreement – GBM.

Obstacles

1. Current data is mixed in format, timeliness, and availability. For example, for Topgun, we found that some volume data does not exist and is calculated using revenue and average cost, For example, revenue comes in monthly, volumes come in daily from the US, monthly from non-US.
Plan: The relevant technical personnel familiar with the concepts and definitions must agree on both meaning and semantics.
2. The current management system does not lend itself to the kind of agreements mentioned in part IV. Some of the geographies may not yet collect and have no plan to collect the data needed for the information required by the CIBM.
Plan: This obstacle must be overcome by the GBM. It may mean reorganization or tight practical agreements in place.
3. Cross divisional links to data not currently available in OS/2 Warp family Brand organization (or the related geographies) do not exist or are very difficult to establish and maintain.
Plan: Use team 2 to develop such links. The GBM may have to forge appropriate agreements.

4. Any current systems that exist are out of date, slow, and difficult to use.
Plan: Replace systems as resources allow.
5. "Everyone" is looking for the information in one form or another. For example, Mr. Gerstner and Mr. York have requirements and are developing financial systems that may be in conflict with the systems that the SW business are developing. This situation causes confusion and extra cost.
Plan: This situation must be managed by the IBM,
6. Many geographies are just coming on-line with usable systems. For example, EMEA is just now deploying a system called UPOS which monitors delivery. This situation causes the data to be inaccurate, untimely, and/or incomplete.
Plan: This situation will get better over time. The activities in 1 above will help.
7. Choosing the correct tool suite must be done carefully. The system must have enough capability to handle the requirements, must be easy to use, and must be cost effective. This situation is made worse by the fact that there will be different users and therefore different requirements - for example, analyst vs. executive, graphical vs. table presentation, user defined actions vs. predefined. The system must perform well or it will not be used.
Plan: Appropriate tools will be recommended as part of the IS plan supporting the brand plan. Assuming sufficient resources, correct and usable tools are available or can be built.

Appendix 1. Market Segment Details

Consumer

- Description: Home user
- Example: Edutainment, personal use
- Applications: Productivity, edutainment
- Traits: Most likely segment to buy a computer for the first time, attracted to what new technology can provide: ease of use is paramount
- Purchase: Primary channels are OEM preload, retail, phone, mail, and Internet in the future.

Small Office, Home Office

- Description: Businesses with 1-9 employees
- Example: Home secretarial or resume services
- Applications: Productivity
- Traits: Need solutions which do not require technical support, integration simplicity is key
- Purchase: Primary channels are OEM preload, retail, phone, mail and Internet in the future.

Small Businesses

- Description: Businesses with 10-49 employees
- Example: Small family-owned lumber yard, retail business
- Applications: Vertical business applications, productivity
- Traits: frequently require integrated industry applications with productivity tools (e.g., lumber yard package, plus word processing), supported by small, industry-niched VARs.
- Purchase: Primarily vertical ISVs, VADs, VARs, systems integrators and OEM preload.

Autonomous Departments

- Description: Workgroup, department or functional area within a medium or large business
- Example: Engineering group purchases a network of UNIX workstations instead of consolidating on IS host
- Applications: Departmental business applications (e.g. personnel), productivity
- Traits: Desire integrated 'thought free' solutions, typically employ systems integrator for solution installation
- Purchase: Primarily Vertical ISVs, VADs, VARs, systems integrators, and OEM preload.

Bottoms-Up

- Description: Evolution of the autonomous departments. Occurs when an autonomous workgroup needs to connect with other autonomous workgroups for the next application

- Example: An engineering group on a UNIX network needs to access the cost accounting data from a second autonomous workgroup which is using PC clients on a PC server
- Applications: Connectivity, productivity
- Traits: Technical requirements are similar to the tops-down segment, however the buying habits and relationships are tied to the autonomous segment, due to complexity of integration between disparate systems, often require network or systems integrator
- Purchase: Primarily VADs, VARs, system/network integrators, and OEM preload.

Tops-Down

- Description: MIS/CIO makes decisions to be deployed from top of the organization down
- Example: Centralized operations of all enterprise host and distributed systems
- Applications: Internally developed enterprise applications, personal productivity
- Traits: MIS/CIO seeks products and services which allow for the creation of an integrated network in a multi-vendor environment. Investment protection is of major importance
- Purchase: Primary channels are direct vendor sales force, consultants, and in-house integrators.

Appendix 2. OS/2 Adoption by Industry Within Geography and Company Size

A review of OS/2's adoption to date highlights several areas of success and areas for future focus.

Areas of Success:

- Small companies in the business services, health and manufacturing industries, worldwide.
- Large companies in the insurance, utilities, finance, telecommunications and business services industries worldwide.

Areas for Future Focus:

- Business services (i.e., accountants, consultants and lawyer) is not one of the industries that has been selected by IBM for implementation of an industry solution unit.

Recommendation: Focus on the information technology consultants subsegment, since they are key influencers in small businesses technology buying decisions.

- Small companies in the government, education and finance industries show a significant level of medium/low use of OS/2; with some effort, these could become heavy users of OS/2.
- Large companies in the communications, education and finance industries show a significant level of medium/low use of OS/2; with some effort, these could become heavy users of OS/2.

Recommendation – Education: Focus on the intersection of the consumer market and:

- K-12: Selling into the home OS/2-based courseware used in classroom;
- Higher: Selling through the enterprise (Alumni Services department, Ex-students Associations) to selected groups of consumers (alumni, ex-students).

Recommendation – Distribution: Focus on recruiting existing AS/400- or RS/6000-based ISVs to use OS/2 as their client platform, focus on those vendors' consultants, systems integrators and value-added remarketers to increase sales in this industry, at all business sizes.

Recommendation – Finance: Focus on recruiting existing AS/4100- or RS/6000-based ISVs to use OS/2 as their client platform; focus on porting DOS-based ISVs to OS/2 for their client and server platforms, focus on those vendors consultants, systems integrators and value-added remarketers to increase sales in this industry in large companies, worldwide, and in small companies in Western Europe.

Recommendation – Manufacturing/Process: Focus on recruiting existing AS/400- and RS/6000-based ISVs to use OS/2 as their client platform, focus on porting DOS-based ISVs etc OS/2 for their client and server platforms, focus on those vendor's consultants, systems integrators and value-added remarketers to increase sales in this industry in small companies in Western Europe.

Recommendation – Government: Small companies in Western Europe have been fast adopters of OS/2, focus on the reasons for this and determine if they can be exported to other geographies, determine if

there is a connection between the fast rate of adoption by small companies in Western Europe in government and the fast rate of adoption by small companies in Western Europe in the education industry, export any programs that translate well into other geographies.

In addition, the significant levels of OS/2 adoption by finance, health, insurance, utilities and business services, worldwide, make these industries strong candidates for industry-specific advertising and media campaigns.

Appendix 3. Emerging Geographic Markets

Emerging geographic markets, like China, represent a significant opportunity for companies who can enter the market early and influence country standards. The software market in China can be divided into six segments which are already being reached by some of our competition:

- Small LANs with 3-10 users: Microsoft Windows NT is the competition due to price performance and remote access capability
- AS/400 Install base: LANs with DOS/Windows, FOXPRO databases
- Multitasking users: Customized solutions are installed at the Ministry of Railways, Bank of China and the Securities and Exchange.
- Mass market: Small memories (2-4MB), pirated software, few national language applications, Chinese shell for DOS/Windows
- ISVs: Product houses, systems integrators, turnkey solution providers, and vendors who provide service, training and consulting
- OEM: undetermined

The Market

The Chinese GNP is increasing at a rate of 9 percent. Inflation is at 16 percent, expected to surpass 25 percent. Labor costs are low and capital investment is high. Laws have recently been enacted to enforce intellectual property protection. Generally, information technology is not widely used in Chinese business. The customer profile includes users at government and state-owned enterprises, foreign joint-venture firms, small private businesses, universities and an emerging consumer market. Chinese language support is an important factor for any software targeted at this market. The telecommunications infrastructure is rapidly being developed and people are open to new technologies.

Opportunity

Dataquest estimates that Chinese software revenue amounted to \$250 million in 1993 with custom software accounting for 80 percent and packaged software for 20 percent. For 1994, the total had grown to \$765 million, with an even split between custom and packaged software.

IBM Platform Assessment

In 1993, IBM had 80 percent of the mainframe market in China and a strong AS/400 presence, especially in the financial sector, but penetration of the workstation market is small. We are involved in a PC joint venture with Great Wall and PSP delivered LAN Server 4.0 in 1993 with traditional Chinese language support 60 days after the US general availability date, but there is very low visibility for OS/2 or IBM software in China.

OS/2 Status

The Chinese version of OS/2 2.1 was announced in September 1994 with strong support from the Ministry of Electronics Industry. We have had some initial success in large accounts, including National Grain, Bank of China, Ministry of Railways, Sinopec and the Shanghai Security Exchange. Several OS/2 books and magazines have been published in Chinese. Two national distributors account for 20 outlets. ISVs have shown interest but express concern with the product's stability and with IBM technical support for developers. Penetration is limited by lack of applications and the OS/2 requirement for more than 4MB of memory. OS/2 Warp is planned for release in March 1995.

Competition - Microsoft

Microsoft has established a competitive presence in China which accounted for \$4 million in revenue in 1993 (1994 figures unavailable). In 1994, the company had 13 employees in China, and plans to have 22 in 1995. Microsoft's strategy in China is to capture 35 percent of the market for Windows-capable PCs in 1995, accounting for 250K units. Microsoft is working with the Ministry of Electronics Industry to develop joint projects and to locals Windows 95. Its ultimate goal is to establish Microsoft Windows as the Chinese market

standard. Already, it has launched programs to attract major ISVs for Windows 95 and has focused on large accounts in key industries. Microsoft has invested in public relations, marketing programs, advertising and staffing and it has expanded support to more than 10,000 developers through seminars, certification programs, publications and on-line bulletin boards.

Microsoft enjoys the established popularity of its English version of Windows with a Chinese shell. The company already has an established market infrastructure in China with a dealer base of as many as 300 outlets, more than 100 ongoing seminars, distribution of Microsoft Magazine, and an on-line bulletin board, and it has successfully introduced the Microsoft Certification Program. Microsoft has been successful in getting the Ministry of Electronics Industry to sign an MOU to create a new standard Chinese PC operating system by developing a Chinese version of Windows 95.

However, Microsoft has some weaknesses: inadequate Hanzified products, poor relations with the Ministry of Electronics Industry (doesn't this conflict with the statement above that they are working together on joint projects?), and limited presence in large accounts.

OS/2 Warp Family Strategy

- **Develop Customer Relationships** – The strategy in China involves maintaining strong relationships with key government ministries, investments in joint ventures to develop industry solutions, establishment of a China Partner Support Center for ISVs, development of a comprehensive university program incorporating IBM software and investments in Chinese-Unique consumer products.
- **Leverage the Market environment** – IBM plans to establish a Software Laboratory in China to leverage low labor costs. The lab could be used as an engine to grow IBM software skills, to port industry solutions for the country and to ensure protection of intellectual property.
- **Focus on Technology** – IBM will accelerate Simplified Chinese implementation for all products and exploit the rapid expansion of telecommunications infrastructure by investing in unique networking products and investigating electronic software distribution. Plans also include the aggressive introduction and exploitation of object technology with partners.
- **Platform Investments** – IBM will make significant investments to increase its presence in workstations, OS/2 and software through aggressive marketing campaigns, OS/2 and other software seminars, DB2 family applications contests and construction of a technical support structure with university partners.

OS/2 Warp Family Investments

The OS/2 Warp Family organization plans to establish a dual product strategy. For software developers and power users, we will move OS/2 2.1 users to OS/2 Warp. For consumers, we are planning plans an OS/2 Warp with a Chinese shell and Chinese solution pack (word processing, table/form application). John W. Thompson will fund this for \$1M. All future products will contain Unicode support, the Chinese shell function will be incorporated into the Workplace Shell strategy and OS/2 will be manufactured locally to shorten lead times and be more cost competitive.

OS/2 Warp Brand Objectives for China

We plan to build relationships with government, ISVs, key accounts, universities and user groups. We will participate in local business and trade shows, translate books and magazines, advertise and “appear in the press.” further, the goals are to support channel infrastructure and penetrate OEMs, build and port applications, and establish an OS/2 Warp Brand China Project Office.

Appendix 4. Competitor Assessment

Microsoft

Microsoft's vision is straightforward, Information at Your Fingertips, and its purpose is pervasive, Windows everywhere. Microsoft's product branding strategy promotes the Windows moniker on all Microsoft offerings delivering a perception of product line unity, integration and scalability.

The following chart describes the strengths, weaknesses, and strategies for Microsoft:

Microsoft Profile

Strengths	Strategies
PC OS & application software market share Marketing, ability to sell a vision Merchandising Financial strength Product popularity with end-users (mind share) Product popularity with press, labs, consultants Preload	Control emerging high-volume markets Own mind share Focus on core end-user value Expand application coverage Penetrate large accounts Deep discounting to win at all costs Broadly establish MS standards in the industry Build Microsoft Virtual Companies Consultants – AA, EDS Fulfillment, services and support partners Industry partners Leverage OS with applications and apps w/OS Expand networking penetration with OEM preload and Windows 95 upgrades Extremely aggressive bundling and pricing Attack Notes and WordPerfect Groupware Embellish Exchange with added function Server end integration
Weaknesses	
Coping w/declining margins and rapid growth Experience with system legacy management Alienates ISVs and other industry partners Chronic product delivery delays	

Organization

Microsoft aligns its sales and marketing organization by three types of customers units: the End User customer unit, the Organization customer unit, and the OEM customer unit. The End User customer unit targets individual buying decisions for PCs used at work and home. The Organization customer unit targets solution providers, channel resellers, software developers and small to large accounts. The OEM customer unit has agreements with virtually all of the major PC manufacturers and has a near-monopoly on preloaded systems. Microsoft has recently enhanced its large account focus by adding a sales and marketing group dedicated to Fortune 500 customers. In December the initial staffing for this new group was estimated at 40 with plans for growth to more than 1,000.

An assessment of Microsoft's progress on its major strategic fronts is represented in the following chart.

Microsoft Strategic Markets	Progress Assessment (6/94 – 1/95)
Entrenched Positions: Operating Systems UI Model Applications & Application Suites Application Development Tools	Maintained: Increase in preload and market share Windows 95 delivery slipped Microsoft has 85% of the suite market (\$1.4B) Good acceptance – visual basic; limited – OLE
Enterprise: NT Server BackOffice Windows Open Services Architecture	Making Inroads: Enterprise sales force of 1,200 75K Servers, 500K Clients High acceptance and mind share Windows compatibility logo program
Workgroup Computing: Industry specific APIs & Distributed Framework Windows for Workgroup BackOffice and NT Server	Making Inroads: Strong industry alliances (e.g. retail, finance) Shipment delays impacting mind share
Home PC Users: Microsoft Home-Games, multi-media and applications	Tremendous Progress: Revenue: '93 – \$150M, '94 – \$250M and '95 – \$500M Producing a title per week
On-Line Services: Microsoft Network	Progressing: Big splash announcement in 1994 Targeting 4Q95 delivery
Non-PC User: PDAs Interactive TV	Stalled: Canceled WINPAD effort Slowed due to lack of market readiness
Office Equipment: Microsoft At Work	Stalled: Dissolved Group Declared effort unsuccessful

Offerings

From a product positioning perspective, Microsoft is using its desktop leverage to promote Windows NT servers and sell middleware by bundling it with Windows clients and servers. Clients for both Windows 95 and NT require Windows NT software on associated servers. These servers in turn are scalable to midrange and mainframe-class RISC multiprocessor configurations. This positions Microsoft favorably to compete against IBM's entire line of client/server software and hardware offerings. Recent examples, including a public announcement by Pennzoil to replace its S/390 data center with NT Servers by June 1997, demonstrate the aggressiveness with which Microsoft is pursuing this market.

The Windows client and server base Microsoft is pursuing positions to tightly integrate their middleware offerings by bundling Windows NT BackOffice with their clients and servers. NT BackOffice will be available shortly, and competes directly with IBM strategic middleware products. Currently, NT BackOffice includes NT Server, SQL Server for NT, SNA Server for NT, and Systems Management Server for NT. Later this year, NT BackOffice will be upgraded with Exchange Server for NT and Transaction Processing for NT. Microsoft's strategy is to get ISVs to write to Office and BackOffice and not just to the operating system API. If Microsoft is successful, they will win the operating system by default.

Add into the equation Microsoft extensive line of business application suites, and Microsoft has positioned itself to effectively provide end-to-end, integrated solutions to the enterprise. In doing so, Microsoft is attempting to rebrand the complex concept of client/server computing to a Windows NT Office/BackOffice definition which delivers business solutions through their business application suites, connects desktops through NT BackOffice and facilitates the necessary custom application development through their Visual Basic tool set.

The charts that follow summarize the current positioning and trending Microsoft's products:

Microsoft Windows 3.1	
Strengths	Weaknesses
Market Share (60M+) & Mind Share	Technology
Indirect Channels	Unstable
Applications	DOS Heritage
Focused on end-users	No mission-critical applications
Microsoft Windows 95	
Strengths	Weaknesses
Momentum	Delays in availability
Integrated networking	Alienation of ISVs and Channels
ISV Support for Applications	Migration path
Windows 3.1 Market Share	Windows 95 logo requirements
	Introduced new API set
Microsoft Windows NT Client	
Strengths	Weaknesses
Ease of installation	Market Share
Integration	Unproven in enterprise applications
NT Server affiliation	Proprietary direction
Bundled 32-bit Netware client	
Remote Access	

Distribution

The distribution strategy employed by Microsoft has earned the company unparalleled presence in the personal software industry. This strategy has been two fold. Microsoft mastered an effective push strategy by implementing aggressive EM preload agreements which have enabled Microsoft to saturate the market with over 60M Windows licenses. This significant operating systems base has afforded Microsoft the opportunity to implement an equally effective pull strategy through the courting of independent software vendors to write compelling applications for the Microsoft platform.

Investments

Today, Microsoft is expanding its market dominance through acquisition (as evidenced by the impending purchase of Intuit) and through alliance relationships with leaders in vertical industry segments (such as financial services), mass distribution channel .such as Van Star), consulting and service channels (such as Andersen Consulting and EDS).

In addition to these alliance relationships, or virtual Microsoft companies, Microsoft has invested in its own fortune 500 sales and marketing organization; laid the foundation for the Microsoft Network for on-line services: and increased in-house development efforts on edutainment (Microsoft Home) and human centered computing (BOB) applications.

Future Plans

All of this combined, it becomes apparent Microsoft's strategic direction is to control emerging high-volume markets and own pervasive mind share across the information technology industry.

In summary, if unchallenged, Microsoft has the potential to systematically erode all three of IBM's core businesses - hardware, software and services. The OS/2 Warp Family marketing strategies for the personal software market must leverage our current strengths and proactively deny or minimize Microsoft penetration into emerging growth markets.

Summary of Competitor Positions in Attractive Market Segments

All Segments: Consideration

According to a January 1995 IntelliQuest report, awareness of OS/2 Warp was at 74%, compared to Win95 at 75%. However, purchase consideration of OS/2 Warp was at 45% while Win95 was at 89%. It's clear that Microsoft owns the mind share for operating systems and consumer applications. Novell currently owns the popular mind share for networking. To gain market share, it is essential for IBM to build critical mass in mind share. (*What is our target?*)

All Segments: OEM Preloads

In 1994, approximately 3.6 million PC units shipped monthly. Estimates for 1995 put the monthly figure at 4.2 million units. Ninety percent are preloaded with IBM or MS-DOS and 70 percent with Windows. OEMs

are reluctant to preload OS/2 Warp for fear of losing their Microsoft “preferred” status. Furthermore, OEMs require Microsoft support (e.g., device drivers) to exploit new hardware, leading them to put support concerns before costs of doing business. And, although the IBM PC Co. is now preloading OS/2 Warp, there is a concern that they will move away from OS/2 Warp and begin preloading Win95 once it becomes available. (*Data on Vobis and Escom?*)

Consumer/SOHO: Horizontal Application Developer Support

Windows volumes drive developers to write applications for Windows first. OS/2 applications are written with the resources left over after Windows applications support is allocated.

Microsoft recently has added a logo program which requires developed who want to write for Windows 95 to ensure their applications will also run on Windows NT. This program will add significantly to ISV development time and cost factors, greatly impacting the smaller ISVs. (*Is there a Brand Image focus to exploit this weakness?*)

Small Business, Autonomous Departments: Diagonal Application Developer Support

The first step in the two-stage decision process for system software in these segments is with the application developer. Unlike the “personal” productivity applications of the desktop, applications here must involve a team or work group. These applications, deemed groupware, are built on the client/server models and unlike one-size-fits-all horizontal personal productivity, is timed to the skills and to the processes of the group. This required customization is accomplished via ISVs writing vertical applications using traditional methods, or is more likely accomplished in a value-add customization of pre-existing componentware and/or general-purpose applications – resulting in a “diagonal” application. These critical applications for the segment require both process-centric (Visual Basic) and data-centric (OLE) tools and an abundance of the components (VBXs and OCXs).

Small Business, Autonomous Departments, Bottoms Up: Reseller Channel Development

Networked business solutions are usually sold, installed and supported by experts. Novell has spawned an entire cottage industry, whose revenue is five times its own, to provide sales, support and education for Netware NOS customers. With more than 40,000 trained Certified Novell engineers (CNEs) worldwide and more than 11,000 resellers, Novell has built its business on effective use of this channel.

New reseller businesses are coming on board and many are looking for ways to maximize their opportunity. Just as Artisoft thrived in recruitment expansion, Microsoft and IBM are vying to recruit these resellers into their folds. It is unlikely a large portion of these resellers will become experts on several manufacturers’ products, putting us squarely against Microsoft once again. Microsoft recognizes the opportunity and is working aggressively to enlist “Microsoft Solution Providers.” To date, more than 5,000 resellers have joined the Microsoft fold and with more than 500 education centers in North America for reseller and customer training, getting trained on Microsoft products is within reach of most resellers.

Small Business, Autonomous Departments: Integrated Solutions

IBM has many industry leading technologies, however, these were built to meet the needs of the piece-parts Tops Down segment other customers buy solutions. Rather than integrated solution today IBM's products and technologies provide a solution infrastructure which optimizes standalone products, in many instances supporting Windows ahead of OS/2. Trying to explain to customers how IBM products fit together in a cohesive system is very cumbersome. There is a critical requirement for our products to be integrated into true end-user solutions to increase the value of IBM offerings in the eyes of our customers.

Novell

Today, Novell is the industry market share leader for PC based network operating systems. Novell's goal is to accelerate their market growth by capitalizing on trends toward business downsizing and re-engineering. Novell's business strategies are implemented largely through alliances and acquisitions. They have built market dominance through strengths in marketing and distribution, not necessarily from software development. Novell has established an industry pervasive, highly specialized reseller channel filled with an army of trained expert professionals. This has bolstered Novell's mind share in network operating systems and has had the same negative effect on IBM's LAN Server products as Windows mind share has had on OS/2. The result is IBM is still viewed as a niche player in network operating systems.

While, Novell's Netware product is the only network operating system currently available with an enterprise directory service, (which allows Netware users to access Novell resources regardless of where they reside on the network) Novell is still viewed as a departmental systems provider rather than a provider of enterprise

wide networking. Novell is positioning itself to dispel this perception and become a full system competitor to Microsoft.

In competition with Microsoft, Novell has the ability to immediately leverage its strong reseller distribution channel. Where Novell falls short is the breadth of its applications portfolio in relation to Microsoft. Today the Netware application base is predominately vertical and cross industry applications. To strengthen its application mix for the enterprise, Novell requires complimentary productivity applications. Novell has already taken action on this requirement by acquiring WordPerfect and entering into agreements with several other independent software vendors, including Borland.

Parallel to these efforts, Novell has also made decisions which have left its Netware install base vulnerable to competitive threat. In 1994, Novell announced it had discontinued Netware 2.x and halted further development for Netware 3.x, which together represent the majority of its install base. Novell's strategy was to generate movement by these customers to Netware 4. However, Novell's customers are not migrating to Netware 4.x as rapidly as Novell had expected, and most customers are not yet embracing Netware's enterprise directory services due to lack of desired features. Migration to Netware 4.x from earlier Netware versions is difficult. Both IBM and Microsoft offer migration utilities from Netware to their respective network operating systems. Microsoft has a determined and aggressive strategy for capturing this market lead from Novell, including a recently announced "Netware emulation" feature on future Windows releases.

In summary, our marketing strategies for the network operating systems market must increase awareness of the product strengths of IBM's award winning LAN Server 4.0 product, establish a strong reseller channel presence through BESTeam certification, and proactively pre-empt Microsoft's efforts to capture the Novell install base.

Appendix D1. Key Actions within Last 12 Months

Key Actions in the Last 12 Months

- A worldwide Channel Marketing and Management organization, under the direction of Ian Bonner, was created to develop and execute worldwide channel strategies and programs.
- OS/2 Warp was successfully launched in November of 1994.
- Successfully executed a number of channel programs and promotions.
 - Get Warped and Save
 - Get Warped and Wired
 - Get Warped Demo Weeks
 - Get Warped Sweepstakes
 - Ger Warped Newsletter
 - Get Warped Poster Series
 - OS/2 Warp Reseller Education
- Successfully announced the preloading of OS/2 Warp on IBM PC Company machines.
- Rolled out Campaign '95, an effort unleashing over 200 "temp reps" to help merchandise, train, support and sell IBM's software products in our reseller locations.
- OS/2 Warp volumes were 125% of the plan for 1Q95 in the US, reflecting a 40% growth year-to-year.
- LAN Server volumes were 265% of plan and 76% year-to-year growth for 1Q95 in the US.
- Announced Software Advantage.
- Signed major US OEM agreements including Hewlett Packard. Dell and Toshiba..
- Closed exclusive OEM agreements with Osborne and Vobis.

Appendix D2. Channel Summary

Channel	Target Market	Strategy
Distributors	Retail, Corporate Resellers, VARs	Fulfillment
Retail	Consumer/SOHO	Fulfillment
Corporate Resellers	Large Business – Tops Down	Fulfillment
	Large Business – Bottoms Up	Fulfillment
	Large Business – Autonomous Wrkgroup	Fulfillment
Solution Oriented (VARs)	Small/Medium Business	Demand Gen/Fulfillment
IBM Direct	Consumer/SOHO	Demand Gen/Fulfillment
	Small/Medium Business	Demand Gen/Fulfillment
	Large Business – Bottoms Up	Demand Gen/Fulfillment
	Large Business – Autonomous Wrkgroup	Demand Gen/Fulfillment
Corporate Sales (Field)	Large Business – Tops Down	Demand Gen
Electronic Commerce	Consumer/SOHO	Demand Gen/Fulfillment
	Small/Medium Business	Demand Gen/Fulfillment
Preload	Consumer/SOHO	Fulfillment
	Small/Medium Business	Fulfillment
	Large Business – Bottoms Up	Fulfillment
	Large Business – Autonomous Wrkgroup	Fulfillment

Appendix D3. Channels of Distribution for OS/2 Brand Products

Product	Primary Target Market	Demand Generation	Fulfillment Channel
OS/2 Warp	Consumer/SOHO	Direct Marketing	Direct Marketing
	Small/Medium Business	Advertising	Retail
	Large Business – Bottoms Up		Preload
OS/2 Warp Connect	Large Business – Autonomous Wrkgroup	Corporate Sales	Direct Marketing
	Small/Medium Business	Distributors	Distributors
	Large Business – Tops Down	Direct Marketing	Corporate Resellers
	Large Business – Bottoms Up	Advertising	Solution Oriented
	Large Business – Autonomous Wrkgroup		Retail
OS/2 Warp Small Business Pack	Small/Medium Business	Direct Marketing	Preload
	Large Business – Autonomous Wrkgroup	Advertising	Direct Marketing
OS/2 Warp Consumer Falcon	Consumer/SOHO		Distributors
	Large Business – Tops Down	Advertising	Corporate Resellers
	Large Business – Bottoms Up	Corporate Sales	Solution Oriented
	Large Business – Autonomous Wrkgroup	Direct Marketing	Retail
OS/2 Warp Server Entry Eagle	Small/Medium Business	Advertising	Direct Marketing
	Large Business – Autonomous Wrkgroup	Advertising	Distributors
OS/2 Warp Server Eagle	Large Business – Tops Down	Corporate Sales	Corporate Resellers
	Large Business – Bottoms Up	Direct Marketing	Solution Oriented
OS/2 Warp Server Enterprise Feature	Large Business – Tops Down		Direct Marketing
OS/2 Warp Hawk	Large Business – Tops Down		Distributors
	Large Business – Bottoms Up	Corporate Sales	Corporate Resellers
	Large Business – Autonomous Wrkgroup	Direct Marketing	Solution Oriented
			Preload

Appendix D4. 1995 Planned Channel Program Summary

North American Programs

PROGRAMS	CHANNEL	TIMEFRAME
No Limits Sales Program	Resellers	Jan-Dec
OS/2 Warp Room	All	Jan-Dec
Enhanced Prime Program	Resellers	Jan-Dec
Merchandising Kits	Resellers	Feb-Dec
Campaign '95	Resellers	Feb-Dec
Golden Disk Program	Distributors	Jan-Dec
Warp Preload CD	Preload	Jun-Dec
Preload Incentive Program	Preload	Jun-Dec
Multi-pak offering	Distributors	Jan-Dec
OS/2 2.1 Direct Mail	IBM Direct	Jan-Dec
Warp Connect Direct Mail	IBM Direct	Jun-Dec
OS/2 Warp Telemarketing	IBM Direct	Jun-Dec
CD Showcase – Warp Challenge	IBM Direct	Jul-Dec
CompuServe Distribution	Electronic	Jan-Dec

North American Campaign/Promotions

CAMPAIGN	PROMOTION	CHANNEL	TIMEFRAME
OS/2 Warp	Warp 2 Software Adv Upgrade Promo	Corporate Sales	Dec
OS/2 Warp Connect	Warp Migration Services Offering	Corporate Sales	May-Jul
	Warp Connect Special Bids	Corporate Sales	Jan-Apr
	Warp Connect Upgrade Promo	Corporate Sales	May-Jul
LAN Server	LAN Server & Connect Pak Promo	Corporate Sales	Jul-Oct
	LAN Server Migration Services Offering	Corporate Sales	Aug-Nov
Solution Oriented	Higher Education Program	Corporate Sales	May-Dec
	SmartSuite Software Advantage Parity Promo	Corporate Sales	Dec
OS/2 Warp Window of Opportunity	Get Warped and Save \$15	Retail/Dealer	Jan-Mar
	Get Warped & Wired	Retail/Dealer	Mar-May
	Get Simply Warped	Retail/Dealer	Jul-Sep
	Get Warped FunPak	Retail/Dealer	Oct-Dec
	Get Warped Weeks/Demo Days	Retail/Dealer	Feb-Jul
	Get Warped Awareness Campaign	Retail/Dealer	Feb-Dec
Inventory Reduction	Retail "Preload CD Program"	Retail/Dealer	Jun-Dec
	"Check It Out" Promotional Rebate	Retail/Dealer	Jun-Aug
Internet Campaign	Internet Access/Promotion	Retail/Dealer	Jul-Aug
	Internet Yellow Pages	Retail/Dealer	Jul-Aug
	Internet Scavenger Hunt	Retail/Dealer	Sep-Dec
	DOS IAK Bundle	Retail/Dealer	Jul-Aug
SmartSuite Campaign	Warp SmartSuite Bundle	Retail/Dealer	Jan-Mar
	SmartSuite Pricing Action	Retail/Dealer	Feb-Jun
SPA Codie Award	Retail Campaign	Retail/Dealer	Jul-Dec
Warp Connect	Connect & 3COM Promotion	Retail/Dealer	Jun-Jul
SDO	Application Retail Space Program	Retail/Dealer	Jul-Dec
PC Company Preload	Aptiva/Warp Bundle	Preload	Apr-May
	Aptiva Internet Access Promotion	Preload	Jun-Jul
	Aptiva FunPak Bundle	Preload	Oct-Dec
	Extend Pak Offering	Preload	Jul-Sep
	Server Preload CD	Preload	Jul-Sep
	Lotus SmartSuite CD	Preload	Jul-Dec
	Radio City Promo	Preload	Oct-Dec
OEM Preload	Corp Advertising	Preload	Jun-Dec
Stockholder Mailing	Stockholder Promotion	IBM Direct	Mar-Apr
Higher Education	Educational Discounting	IBM Direct	Jun-Dec
	Distributor on-campus programs	IBM Direct	Jun-Dec

Appendix D5. OEM

The OS/2 Warp OEM strategy is based on some fundamental assumptions as listed below:

- Target customer is top 25 PC manufacturers (PCM's) based on worldwide PC shipment volumes. PCM target is Intel based today but includes Power PC (PPC) in the future. We also have targeted the non-PC hardware 16 bit/32 bit market (i.e., Games, Intelligent Copier/FAX, Word Processors, Medical Equipment, ATM's, Telephone Equipment, Set Top Boxes, etc.) for embedded operating systems.
- Key product offering is OS/2 Warp pre-load golden master capability shipped with PCM's new PC systems. With OS/2 Warp we also offer PC DOS preload product to replace MS DOS. OS/2 Warp will include Micro kernel (MK) in the future. Products are sold with and without IBM Service. Sale of OS/2 Warp extensions are a secondary product offering and includes LS, DB, CM, etc. These products are sold as package product including additional licenses (AL's).
- OEM pricing for pre-load is unique to the OEM channel and must be competitive with Microsoft and Novell, our two key competitors. Package product pricing for OEM channel must conform to total channel pricing model to be conducive to channel harmony.
- OEM contract must be worldwide in nature and embody that meet or beat competition and convey the concept of "easy to do business with."
- OEM support unique elements must be created and delivered in a timely basis, i.e.: service education and support, technical education and support, PCM hardware compatibility test kit, OEM Adaptation Kit (OAK) to support source code conversion, Device Driver Kit (DDK) support, Beta Code early release, etc.
- Product distribution must be worldwide in all National Languages (NL's) and include Golden Master (GM), Documentation, Media (Disk/CD) and Retail Package Products.
- OEM channel marketing deliverables are common to other channels. However, PCM utilization of many of the deliverables requires PCM to tailor for his hardware channel model (i.e., VARs, Corporate Resellers, Distributors, Retail Stores, Catalog - Direct Response, etc.).
- Competitive environment is dominated by Microsoft for operating system that are pre-loaded and Novell for LAN systems. Aggressive actions are required to unseat the incumbent.

Worldwide Top 10 PC Intel Vendors by Unit Shipments, 1994 (000)

1993 Rank	1994 Rank	Vendor	1994 (Σ) Units	% Share
3	1	Compaq	4,830	10.0
1	2	IBM	4,227	8.7
2	3	Apple	4,125	8.5
7	4	Packard Bell	2,285	4.7
4	5	NEC	1,706	3.5
5	6	AST	1,285	2.6
6	7	Dell	1,233	2.5
8	8	Toshiba	1,231	2.5
9	9	HP	1,221	2.5
14	10	Acer	1,190	2.5
		Others	25,167	51.9
		Total	48,500	100.0

Worldwide Server Shipments (Intel)

	1992	1993	1994
Compaq	152,267	301,750	404
IBM	165,267	291,278	250
Dell	76,125	90,135	65
Hewlett-Packard	28,298	38,652	196
AST	NA	NA	67,000
Apple	NA	NA	63,000
Digital	NA	NA	61,000
Acer	NA	NA	60,000

Source: Dataquest, Inc.
NA = Not Available Yet

These top two vendors do not ship PC server systems with any software preloaded. Both companies introduced a set of CD-ROM's (Compaq SmartStart and IBM ServerGuide) that they ship with their server systems.

During 1994, we successfully entered into agreements with both Compaq and IBM to include OS/2 Warp and LAN Server on the CD-ROMs which the two companies ship with nearly 100% of their server systems. The Compaq SmartStart CD-ROM also includes IBM TCP/IP for OS/2 Warp. These CD-ROM's include IBM software as well as software from other vendors. The customer, or reseller (VAR, system integrator, etc.) can then select the software to be licensed and loaded on the PC server. Sales were relatively low as software selection off of the CD-ROMs was done by customers resellers. Therefore, during 1994 this channel was a demand fulfillment channel, but not a demand generation channel. IBM also had "distribution agreements" in

place with Dell, H-P, NEC and AST. But again, these companies only fulfilled orders when placed by customers.

3/95 OEM Contract Status

IBM has signed more than 250 "distribution agreements" with OEM's worldwide. These OEM distribution agreements allowed the PC manufacturers to preload our operating systems, or ship our software with their PC's. Most chose to ship our software only when they received large orders from corporations. Not until the 4Q94, with the availability of OS/2 Warp, were we able to get a name-brand PC manufacturers to preload OS/2 Warp on a large percentage of the PCs they manufacture.

NA	110
EMEA	75
AP	70
LA	5
	<hr/>
	260

Listed below are the key PCM contracts by geography:

NA	EMEA	AP
COMPAQ	VOBIS	NEC
DELL	ESCOM	TOSHIBA
AST	ICL	ACER
TOSHIBA	Z-BULL	OSBORNE
HP	OLIVETTI	HITACHI
AT&T/GIS	AT&T	MITSUBISHI
UNISYS	NCR	MATSUSHITA
COMPUADD	OSICOM	WEARNES
DTK	WATFORD ELEC	MITAC
DFI	PEACOCK	SONY
EVEREX	ELONEX	OKI
FUTURE TECH	ACORN	SHARP
SUPERCOM	BANKHOF	ALR
INTERBOLD	ACM	GOLDSTAR

Strategy Statement

Since more than 70% of all PC's sold worldwide are produced by 25 PC manufacturers, our goals are to:

1. Far exceed our business plan sales volume objectives in order to increase the worldwide market share of IBM PC operating systems by focusing our sales and support resources on the world's largest vendors.
2. Establish a strong market share for IBM PC operating systems in select geographic markets (US, Germany, Japan, Australia, Canada, China, Mexico, etc.) because of their PC sales volume share or growth potential by focusing our sales and support resources on the leading vendors in select countries.

Since more than 80% of all PC's servers sold worldwide are produced by six PC manufacturers, our goals are to:

1. Far exceed our business plan sales volume objectives in order to increase the worldwide market share of IBM network operating systems by focusing our resources on the world's six leading PC server vendors.
2. Establish a strong market share for IBM network operating systems and IBM server applications in select geographic markets (US, Germany, Japan, Australia, China, Mexico, etc.) because of their PC sales volume size or growth potential.

To reach these objectives, we are implementing a **Three Tier OEM Marketing and Sales Strategy**:

Tier 1: The IBM OEM groups worldwide will invest the large majority of their resources (people, money, equipment) to close OEM preload agreements with a named set of 35 OEM's. The goal is to have 12 of these 35 OEM's publicly committed to preloading a large percentage of their PC's with IBM OS/2 Warp (and potentially IBM PC DOS) by year end 1995. We currently have preload contracts signed with four (Vobis, Escom, Osborne and Future Tech), and negotiations are underway with the remainder.

For server software, the primary focus will be to drive sales through the six leading vendors worldwide. Compaq and IBM dominate the worldwide server market by selling about 70% of all server PC's. Both of these companies now ship IBM software on CD-ROM's packaged with their systems.

The next largest vendor, Hewlett-Packard, plans to introduce a similar server CD-ROM set for software distribution during 1995. We plan to increase the amount of IBM software on the CD-ROM's of these three

companies, and drive demand so customers select IBM software to install rather than competitive software (Novell NetWare, SCO UNIX, Microsoft NT Server, etc.)

For the other three leading server vendors (Dell, AST and NEC), they preload server software upon customer demand. Our strategy is to drive up demand by putting incentives into the VAR/SI channel. We also plan to work with Acer as it is emerging as a significant server vendor.

Tier 1 accounts will receive:

- Dedicated Account Manager
- Assigned Executive Focus
- Special Bid, Aggressive Prices
- Very flexible Contract Terms and Conditions
- Excellent Technical, Marketing and Administrative Support.

The Tier 1 Accounts for the Americas (North America & Latin America) are:

- Packard Bell
- Compaq
- Reveal Computer Products
- Gateway 2000
- AST Research
- Dell Computer
- Hewlett-Packard (notebooks and servers)
- DEC
- AT&T GIS
- Unisys
- Toshiba America (notebooks)
- Acer (America, Mexico)
- Itautec (Brazil)
- Zenith Data Systems (America)
- Future Tech (Central, South America).

The Tier 1 Accounts for the **Europe/Middle East/Africa** are:

- Vobis
- Escom
- Olivetti
- ICL
- Hewlett-Packard (desktop PC's)
- Siemens-Nixdorf
- Group Bull (ZDS).

The Tier 1 Accounts for the **Asia/Pacific-South** are:

- Acer International
- IPC
- TriGem/Sambo
- Osborne
- Goldstar
- FIC
- Creative Labs
- Legend (PRC).

The Tier 1 Accounts for the Japan are:

- NEC
- Fujitsu
- Toshiba
- Matsushita
- Hitachi.

Tier 1 tactical implementation.

- Completion of comprehensive OEM account plans by OEM sales representatives for each named Tier 1 account (1Q95).

Tier 2: The IBM OEM groups worldwide will also invest resources (people, money, equipment) to close OEM preload agreements with the next 100 largest OEMs to preload OS/2 Warp and/or PC DOS.

Tier 2 accounts will receive:

- Account Manager for Many Accounts
- Occasional executive Support
- Aggressive Prices
- Limited flexibility on Contract Terms and Conditions
- Competitive Marketing, Technical and Administrative Support.

Tier 2 tactical implementation:

- Prioritize Tier 2 accounts Complete comprehensive OEM account plans, as with Tier 1 accounts, for top Tier 2 OEMs (1Q95). Attend to others on ad-hoc as needed basis.

Tier 3: With most of our limited resources focused on the larger Tier 1 and Tier 2 OEM opportunity, the worldwide IBM PSP OEM groups cannot afford to provide one-on-one coverage to the thousands of remaining small OEMs. To reach these OEMs in the most cost effective manner, we plan to implement a one-day worldwide seminar tour to market to reach more than 2000 small OEMs in a one-on-many environment. In addition, we intend to implement telesales and OEM advertising to reach small OEMs in large countries worldwide.

Tier 3 accounts will receive:

- 36 city worldwide seminars series
 - 17 Americas, 10 Asia/Pacific, 9 Europe
 - 50 to 100 OEMs invited per City
 - Special Price Incentives for Signing Immediately
 - Fixed, Simple Contract
- Telesales/Agents
 - Toll Number (Each Major Geography)
 - One Sales Rep Per Major Geography
 - Advertising for OEM Sales
 - Aggressive Prices.

Tier 3 tactical implementation

Pilot seminar to test invitation process, agenda, deliverables and effectiveness of session. Fine nine seminar and execution process. Rollout worldwide. Publish full year listing of seminar dates (1Q95). Planned seminar locations are:

Americas

- Sao Paolo
- Mexico City
- Toronto
- Montreal
- San Jose
- Los Angeles
- Boston
- Chicago
- Miami
- Atlanta
- Austin/San Antonio
- Houston
- Dallas
- Phoenix
- Washington DC
- New York
- Minneapolis

Asia Pacific

- Tokyo
- Osaka
- Sydney
- Melbourne
- Taipei
- Singapore
- Seoul
- Hong Kong
- Malaysian or Indonesian City
- Beijing

EMEA

- London
- Paris
- Milano
- Frankfurt
- Berlin
- 3rd German City
- Stockholm
- Copenhagen
- Moscow

Another primary coverage plan for the Tier 3 PCM's is our announced MultiPak products. PC-DOS and OS/2 Warp MultiPaks were announced in April, 1995, in North American and are being rolled out in the non-USA geographies during 2Q 1995. These Multipaks are attractively priced and allow small OEMs and resellers (VARs, SIs, Assemblers) to preinstall up to five Computer System Units with each Pack. Affixed to the outside of the MultiPak is a break-the-seal OEM Distribution Agreement that the OEM must read before opening the package.

IBM USA Authorized Distributors, like Merisel, TechData, Gates/A, and MicroAge, acquire the Multipaks directly from IBM and then resell to OEMs and resellers. Remarketers that configure their own systems for resale to end users can purchase the IBM MultiPak for preloading of both DOS and OS/2. In Process: Multiples marketing through the US Association of Hebrew Hospitals

Geographic Split – 1995 OEM Plan

<u>REVENUE (MIL \$)</u>	<u>1994 A</u>	<u>1995 P</u>
NA	6.1	15.7
EMEA	7.1	4.5
AP	4.2	18.0
WW	17.4	38.2
<u>VOLUMES (K)</u>		
<u>DOS</u>		
NA	141	1000
EMEA	176	251
AP	64	222
WW	381	1473
<u>OS/2</u>		
NA	55	216
EMEA	437	251
AP	50	367
WW	542	844

PC Shipments Worldwide (Million Units)

<u>GEO UNIT</u>	<u>1,994</u>	<u>1,995</u>	<u>% DELTA</u>
NA	18.7	21.2	+13%
EMEA	11.4	12.8	+12%
AP	7.8	9.5	+22%
ROW	7.3	8.4	+15%
WW	45.2	51.9	+15%
2/95 IDC REVISED	48.5	56.7	+17%

EMEA OEM PARTNERS

There are over 80 OEMs preloading OS/2 Warp in Europe today. The list (correct at May 1st 1995) is as follows:

ABC (Germany)
 ACM (Denmark)
 Actebis (Germany)
 ACTIS (France)
 Adams Technology (UK)
 Aerre Informatica (Italy)
 Ahead Computer (Spain)
 AT&T (Germany and UK)
 Avnet (Norway and Sweden)
 AZ Informatica (Italy)
 Aztec (UK)
 Banzhaf Data (Denmark)
 Blue Choice (Sweden)
 Bluechip (Germany)
 BMx Computers (Belgium)
 Brother (UK)
 Centerprise (UK)
 Compusys (UK)
 Computer House (Italy)
 Comtech (Germany)
 Config VI (Luxemburg)
 CTX (UK)
 Dan (UK)
 Dansk Erhvervs Data (Denmark)
 Data Pool (Italy)
 DataNord (Denmark)
 Datavarahuset (Norway and Denmark)
 Diamond Computer (Belgium)
 Diamont (Italy)
 DP Hardware A/S (Norway)
 EDB Kontorforsyningen (Denmark)
 Eida NexGen (Sweden)
 Electrowide (UK)
 Escom (pan-Europe)
 ESPAS (France)
 Essegi Informatica (Italy)
 Eurosyst (Belgium)
 Fujitsu (Spain)
 GEBH A/S (Norway)
 Granville technology (UK)
 HCR Service (Italy)

Hi Tech Data (Denmark)
 Hugh Symons (UK)
 ICL Retail (UK)
 ICL Server (UK)
 Industridata Vest (Norway)
 Interlan (Belgium)
 Internet (Sweden)
 Jepssen (Italy)
 J. Jakobsen Tekniske (Norway)
 Lap Power (Sweden)
 Lavprisbutikken (Denmark)
 Macrosistemas (Spain)
 Master Informatica (Italy)
 Micromedia (Belgium)
 Microsys (Italy)
 Micro 1 (France)
 Mind (Italy)
 Mit (Belgium)
 Osborne (UK)
 Overseas Computers (Netherlands)
 PC Specialist (Germany)
 PC Univers (France)
 PCS (Germany)
 Peacock ((Germany)
 Phonic Computers (Italy)
 Ramtec (Belgium)
 RDI PC (France)
 Scandic (Sweden)
 SEQUENCE (France)
 Shift V.O.P. (Netherlands)
 SHL (Germany)
 Siemens Nixdorf (Germany)
 Sirex Europe BV (Netherlands)
 SPC (Sweden)
 Svenska Pc Fabriken (Sweden)
 Tech Service (Norway)
 Telemark Computers (Norway)
 Test Napoli (Italy)
 Test Video System (Italy)
 Tewi (Germany)
 Tiny (UK)
 Toshiba (pan-Europe)
 Valley Business Systems (UK)
 Vobis (pan-Europe)
 Wortmann (Germany)

Appendix D6. Industry Sales Support

NOTE: On Dec. 20, 1994, an initial plan was published to establish a working relationship between IBM North America Software and the Industry Solution Units (ISUs). This document is an update to that plan showing our objectives, our team, and our status to date. Questions, comments, suggestions and updates should be directed to Barry Neagle, Manager of Industry Sales Support, at TL 224-3665 or RHQVM09-BNEAGLE.

Objectives

IBMNA Software must have strong linkages with the Industry Solution Units so that in 1995 we can accomplish the following major sales objectives:

- Ensure that there are strong marketing program supported by effective channels of demand creation and fulfillment to **sell software developed by the ISUs**. Examples of this software include the Nature of Science from Eduquest and CATIA from the Manufacturing ISU.
- Work with the ISUs to develop effective sales programs to **sell strategic IBM software** to their customers. The emphasis in 1995 will be on Workstation software (Intel and RISC platforms).

- Help the ISUs understand **and combat the Microsoft threat** to IBM.
- Assist the ISUs **identify independent solution developers (ISVs)** who can be used to fill the ISUs solution portfolio. Target firms have best-of-breed industry solutions and which can exploit IBM's strategic software platforms and provide an opportunity for the sale of technical support and value-add services. Where it is needed, sign the ISV to a contract that gives IBM rights to sell their software as part of an IBM offering.

Start-up Activities

The Industry Sales Support function within IBM NA Software was a two person team in 1994, Tom Nilson developed an Elder Care solution built on IBM desktop software for the Health Industry, and Steve Reid handled all other requests, In 1995, we increased the size of the team, put a plan in place, and are dramatically increasing our reach and results. Thus far we have accomplished the following start-up activities.

1. Made initial contact with the ISUs to identify areas where we can assist them. This includes industry segment managers within IBMNA General Business (GB).
2. Prioritized the ISUs with whom we should work, based on their willingness to partner with us and their 1995 software plan..
3. Recruited and assigned IBM NA SW staffing to the ISUs.
4. Developed a general work plan for the ISUs and begun to develop joint plans with each target ISU.

Attached are the details of each of these items.

Industry Contacts

The Industry Sales Support team works primarily with the marketing and sales team for each targeted ISU, Our primary goal is to help design and implement sales programs to increase sales of desktop software to their industry customers.

The ISU VP of Solutions is another important constituency. They are responsible for bringing to market responsive solutions that include as much IBM software as possible. By agreement with the product divisions, they will work with the ISU VP of Solutions to "fill the wagon" with attractive IBM solutions. IBMNA Software will work with the ISU Sales and Marketing teams on industry-specific programs that "unload the wagon."

Priorities

We have prioritized the ISUs based on the business opportunity in their industry, and their perceived willingness to include a focus on IBM software.

Industry	Microsoft Target?	1995 US Rev Plan*	1995 US SW Plan*	ISU App SW Plan	IBMNA Priority
Distribution	Yes	\$4519M	\$524M	\$37	A
Education – High End		511	101		A
Education – K-12		291	113	81	A
Finance & Securities	Yes	3609	498	15	A
Government		2294	471		C
Health	Yes	1457	346		B
Insurance	Yes	1821	385		A
Manufacturing	Yes	3058	568	71	A
Process	Yes (Pharm.)	1114	215	7	B
Petroleum	Yes	475	79		B
Tele & Media		2399	403		A
Transportation		671	86		C
Travel		444	71		C
Utilities		705	157		C
Cross- Industry	Yes (Acc't'g)	<u>656</u>	<u>134</u>	<u> </u>	C
Totals		\$23,221	\$4,031	\$225	

*Source is IBM NA finance and Planning, FF Revenue Plan March 20, 1995.

General Work Plan – January Planning Session items

What	Who	When	Status
Confirm assignments and workplan with team	Barry	Jan 11-12	done
Draft Intro letter from Ralph Martino to ISUs	Barry	Jan 19	deferred
Define “Desktop” SW, i.e. that which we want to grow by 33%	Bob	Jan 30	done
Determine what M+D calls “strategic” SW	Nate	Jan 30	done
Strawman Roles and Resp definition between the divisions and IBMNA SW, to Gude	Barry	Jan 31	done
Define Cust Sat and how it is measured	Creighton	Feb 7	
Complete all ISU contacts	All	Feb 14	done
Learn and communicate how the ISUs are measured, from GM through reps	Marsha	Feb 14	done
Develop directory of Services resources	Nate	Feb 14	done
Create a central repository of published SW marketing plans to share with ISUs	Doug	Feb 15	done
Compile a directory of industry software for use by field, client reps and product specialists	All	April 30	
Develop documented plan for all "A" & "B" industries	All	August 30	

Sales Assist Activities – Examples

Listed below are examples of the types of things we can do with the ISU teams

Market Preparation

- Assist the ISU in determining what market intelligence is needed to help target desktop software opportunities. Arrange for market research to be done.
- Planning sessions to determine how an ISU can combat the Microsoft threat
- Planning channel coverage for industry specific needs,
- Identify key ISVs who can help fill out an industry’s solution portfolio, and negotiate a contract with the ISV for IBM participation.
- Assist in the development of industry specific demonstrations.

Sales Campaigns

- Direct mail campaigns aimed at specific industry groups
- Telesales and telemarketing campaigns.
- Participation of ISUs (including their ISVs) in technology business shows
- Participation of Product Divisions in industry business shows
- Roadshows highlighting the use of IBM desktop software in industry solutions,

Communications

- Work with the ISU communications team on industry-specific PR and advertising needed,
- Develop application briefs for use by our field force and by the press.

Direct Field Assistance

- Training of ISU reps on desktop software products
- Getting references for the Leopard OS/2-LAN and Client/Server reference databases
- Listings of key industry software (both IBM and ISV) for use by software specialists and client teams.
- Serve as linkage between the Client teams and the software resources in IBMNA software and our Product Division partners.
- Conduct desktop software win/loss reviews.
- Coordinate software resources to respond to key client software opportunities

Current Activities – “A” Priority Industries

These are the major activities currently underway or recently completed.

Distribution Industry Activities

- December, 1994 – Analyzed the VALU and LEAP participation to date of the top 100 Accounts in the ISU.

- Feb 1995 – Ran initial planning sessions with the Retail Solution team to begin to develop a strategy to counter Microsoft.
- January 1995 – Participated in Storeplace/2 January kick-off
- In Process: Series of lunchtime conference calls to provide ISU reps education on IBM SW.
- In Process: Help role out Storeplace representatives in the field organization. Began Jan 20.

Education Industry Activities – Higher Education

- 3Q 1994 – OS/2 WARP campus promotion
- 4Q 1994 – Participate in Higher Education's Customer Advisory Council, explaining WARP and our on-campus activities,
- 1Q 1995 – Seven focus groups on campus to investigate reaction to WARP and future product requirements, Goal is an “academic” version of WARP,
- In Process: Investigate special student pricing
- In Process: Open new IBM channels to college bookstores and campus retailers.
- In Process: Solicit and evaluate a proposal from Market Source, Inc. to outsource campus coverage for desktop software.
- In Process: Development of an integrated OS/2 WARP marketing plan to include a sales coverage model and various sales programs.
- In Process: 18,000 item survey to college students as a follow on to the OS/2 2.1 promotion done in 1994.

Education Industry Activity – Eduquest K-12

- 1Q 1995 – March Planning session
- In Process: K-12 review of specific proposal made by IBMNA Software.

Finance Industry Activities

- 2Q 1994 – BankSouth OS/2 Loss review
- 3Q 1994 – Build linkages between retail hanging units and Greg Corgis software product specialists.
- 3Q 1994 – Response to Microsoft “Windows on Wall Street” initiative. “Easy Street” proposal.
- 4Q 1994 – Assist with the publishing of the Industry Software Strategy
- 1Q 1995 – Participate in Retail Delivery (RDS) segment focused community.

Insurance Industry Activities

- Jan 13, 1995 – Participated in OS/2 planning session
- February 1995 – Completed analysis of Insurance Account VALU and LEAP participation.
- 1Q 1995 – Evaluation of “Chicago Study” data for insurance industry trends.
- In Process: Complete a package on IBM's commitment to OS/2 as a field deliverable

Manufacturing Activities

- In Process: CIM on campus education series
- In Process: Get the CATIA product into the existing software customer reference databases.
- In Process: Coordinate WARP support at Manufacturing Business Shows

Telecommunications and Media Industry Activities

- 4Q 1995 – Desktop software planning session.
- Investigate RBOCs as OS/2 WARP resellers

Current Activities – “B” Priority Industries

Health Industry Activities

- 3Q-4Q 1994 – Prototype an eldercare segment solution using IBM software
- 1Q 1995 – Participate in IHMMS conference as speaker on Eldercare solution
- In Process: Campaign to “Warp the VHA”
- In Process: Transfer Longterm Care project to a BESTeam VAR by May, 1995
- In Process: Area 7 Pilot IBM Workgroup campaign aimed at Longterm Care facilities; featuring BESTeam VAR and Longterm Care Facility prototype.

Process Industry Activities

- In Process: Assess the NT presence in Pharmaceuticals and develop a market plan.

Petroleum Industry Activities

- 2Q 1994 – Shell Oil PR plan
- 4Q 94 – Desktop software planning session
- 1Q 95 – Publish a desktop software strategy document.
- 1Q 95 – IBM NA SW response and recommendations for Petroleum strategy

Current Actives – “C” Priority Industries

Cross Industry Activities

- 2Q 1994 – Developed a prototype model of IBM office software in a CPA audit practice environment.
- 2Q 1994 – Put together a 30-city CPA industry roadshow
- 3Q 1994 – Coordinate Ralph Martino's talk to the Big-6 CPA firm CIOs

Travel Industry Activities

- In Process – Microsoft assessment and plan development.

Current Activities - Enablers and Management Systems

- 4Q94 – Add 2 people to the Industry Sales Support team. Reassign the duties of 2 others to bring additional resources to the team.
- 4Q94 – Publish first ISU integrated sales support plan.
- 1Q95 – Resolve coverage responsibilities among product divisions, SVMP, and NA SW Industry Sales Support teams.
- 1Q95 – Initiate process to collect OS/2 share by industry.
- 1Q95 – Identify and communicate OS/2 software specialists who are specialized by industry.
- In Process: VALU incentives for ISU VPs of Marketing.
- In Process: Help build the Microsoft Competitive Institute
- In Process: Assist the VP Field Sales with an assessment of NT penetration in Large Accounts.

Appendix D7. Retail Initiatives

U.S.

The retail initiatives in the U.S. were designed to take advantage of the Window of Opportunity prior to Microsoft's introduction of Windows '95. The major thrusts of the effort are:

- Establish far reaching coverage of the retail channel through the use of temp reps and manufacturer reps
 - Campaign '95
 - ✓ A team of 200 temporary representatives responsible for conducting in-store training, detailing and in-store demonstrations.
 - Focus coverage of mass merchants
 - ✓ Establishing contractual relationships with manufacturer reps who represent mass-merchants such as K-Mart and Wal-Mart.
- Developing in-store events around the OS/2 Warp brand
 - Warp Weeks and Demo Days
 - ✓ A week-long event consisting of in-store rep training, demonstrations and merchandising. The Warp Weeks are a well planned campaign of in-store training of sales reps during the week, leading to consumer Warp Demo Days on the weekends. The Warp Demo Days consist of in-store merchandise and point-of-sale material, Warp demonstrations, a Sweepstakes, giveaways and more. The Warp Demo Days are supported by co-op advertising primarily in circulars and sometimes on TV. In the case of Best Buy, the Warp Weeks and Demo Days are being conducted jointly with the Aptiva Brand, where demonstrations are conducted on Aptivas in conjunction with Aptiva/Warp promotions.
- Establishing campaigns designed to highlight the availability of applications for OS/2 Warp and to yield incremental volumes
 - Windows of Opportunity Campaign
 - ✓ During the 1st half of 1995, a series of awareness programs and promotions were conducted to take advantage of the Window of Opportunity. These programs and promotions were designed to build

- awareness through newsletters and mailings, and yield incremental volumes through attractive promotions, such as Get Warped and Save \$15, which was tied to the purchase of an application.
- Internet Campaign
- ✓ During the 2nd half of 1995 a series of promotions will be executed highlighting the Internet features of OS/2 Warp, including free access time to the Internet and an Internet Scavenger Hunt.
- Application Bundles
- ✓ Application bundles with products such as Lotus SmartSuite, CA Simply series and SDO established products have been and will continue to be promoted.

EMEA

EMEA is implementing a retail initiative in 2 phases

Phase 1 is based around an OS/2 brand, and includes

- A Magalogue (combination of magazine and catalogue)
- Point of sale material for retail outlets
- An Internet campaign

Phase 1 is being implemented during 2Q95 and 3Q95

Phase 2 extends this to an IBM software brand, including OS/2 titles as well as DOS and Windows titles. The aim is to extend IBM's brand equity and exploit its unequaled operational resources by creating a range of consumer software with a marketing-driven and commercially viable presence in the optimum number of retail outlets.

The intention is to achieve this through

- Building a coherent portfolio of exclusive customer software titles designed to run on OS/2,
- DOS and Windows a Exploiting this portfolio with the style of a consumer publisher and the resources of the
- world's greatest IT company
- Building an attractive and viable consumer brand for IBM software
- Developing relationships with existing retailers and expanding into new consumer outlets
- Communicating consistently with potential consumers to driver business into retail stores and focus attention on IBM's retail offer

Titles include

- Home office
- Reference titles
- Edutainment
- Accessories/utilities
- Desktop environment

Phase 2 is in 4Q95. Distribution will be via distributors, however the concept will be sold direct to key retailers.

Appendix D8. EMEA Premier League

The major EMEA initiative in the large business marker segment is the IBM Software Premier League. The branding here is IBM software (divided into the seven software brands) rather than just the OS/2 brand.

Premier League is a program of regular mailings and briefings which is exclusively reserved for managers and specialists are the 6,000 largest computer departments in Europe.

The person nominated by each company as their Workstation Operating Systems expert will receive monthly mailings of strategy white papers, beta software, and performance and comparison papers. The initial mailings will be on the following themes

- Workstation Strategy
- Workgroup computing
- Enterprise/connectivity
- End-user education
- Applications

There will also be seminars, on a country basis, on the following themes

- OS/2 Warp family strategy
- Next generation of OS/2 Warp

Implementation of Premier League is 2Q95-4Q95 across Europe

Appendix. Current Offerings

OS/2 Warp Version 3 with BonusPak

OS/2 Warp is the entry level member of the OS/2 Warp family and the foundation upon which all other products within the family are based. OS/2 Warp was announced in November of 1994 and in February of 1995 we delivered the version that included integrated Windows support. OS/2 Warp has started our penetration into Consumer and Small Business markets. One of the key features of OS/2 Warp has been its BonusPak that includes Internet Access, multimedia support, and end user productivity tools.

OS/2 Warp Version 3 Connect

OS/2 Warp Connect extends the capabilities of the base OS/2 Warp by adding features for users who require LAN connections. One of the key features of OS/2 Warp Connect is its Peer Networking capabilities. This product is targeted to Small Business and all segments of Medium and Large Business. This product will be announced in April/May 1995.

OS/2 for SMP

OS/2 for SMP provides symmetrical multiprocessing support for up to 16-way SMP machines. Built on OS/2 2.X code base, OS/2 for SMP provides individual symmetric dispatch of Windows and DOS applications to an available processor. This product is targeted at technical workstation users and application servers, primarily, in medium and large companies.

LAN Server 4.0 (Entry & Advanced)

LAN Server 4.0 provides file and print sharing capabilities for LAN connected workstations. The LAN Server capabilities are provided on OS/2, AS/400, MVS, and AIX platforms. Released in October, 1994, LAN Server 4.0 and an Object Oriented graphical user interface for administration. LAN Server 4.0 Entry is targeted to Small Business and Medium/Large Autonomous departments, LAN Server 4.0 Advanced is targeted to Medium/Large Bottoms Up and Tops Down Markets.

LAN Distance 1.11

LAN Distance 1.11 provides remote LAN access support allowing remote/traveling users to dial into their LAN and operate as if they were LAN connected. Introduced in May, 1994, LAN Distance is targeted to the Medium/Large market segments.

LAN Server Ultimedia

LAN Server Ultimedia provides file sharing for multimedia files. Introduced in 1994, LAN Server Ultimedia is targeted to specialized applications within the Small and Medium/Large market segments.

DCE for OS/2

DCE for OS/2 provides DCE Security and Directory services on OS/2 and is targeted to Medium/Large Tops Down and Bottoms Up market segments.

TCP/IP for OS/2

TCP/IP for OS/2 provides TCP.TP network connectivity for OS/2 and is targeted for Medium/Large Tops Down and Bottoms Up market segments

Other Products

There are a number of other products such as Communications Manager, Database Manager, ADSM, Netview, NetDoor, Workgroup that provide other network bases solutions on the OS/2 Warp platform. Most of these products are targeted to the Medium/Large Tops Down and Bottoms Up market segments. Each of these products is competitive for its specific function. However, to gain the brand exposure that is needed to be successful, they will need to be packaged and integrated within the OS/2 Warp Brand.

Appendix. ISV Recruiting Programs

One of the highest priorities of the Solution Developer Operations unit has been to accelerate the availability of third party OS/2 applications. OS/2 has approximately 2,000 native tools, middleware and productivity applications available today. However it has not been considered a market force by software developers, press or consultants because it lacks a broad base of competitive native applications from the leading non-Microsoft developers such as WordPerfect, Lotus, Adobe, Oracle, etc.

Today a combination of factors has created new opportunities and a more compelling business case for native OS/2 applications. Developers realize they must move to 32-bit applications to differentiate their products and to remain competitive.

Our overall strategy to enhance availability of OS/2 applications includes strengthening our standard developer support programs, and providing migration tools and porting assistance to Windows developers. We are also investing in their OS/2 applications through shared risk/shared return contracts, and developing a set of distribution options to help them market their OS/2 applications,

Recruiting Programs for OS/2

IBM's existing OS/2 ISV support programs provide a base level of support, but were not designed to aggressively recruit or to overcome many of the development obstacles facing ISVs. Therefore, a program was created to focus on specific targeted developers and key applications by segment. Known as "Project Springboard", this will be described later. This new program is built on the existing Developer Assistance Program and the Developer Connection for OS/2.

The existing IBM Worldwide Developer Assistance Program (DAP) provides products, tools and services for OS/2, PC DOS, Multimedia and LAN systems for both Intel and PowerPC platforms.

DAP services include a variety of technical, business and marketing support services such as:

- o Technical support through IBM OS/2 forums on CompuServe
- o The opportunity to participate in early code programs
- o Access to DAPTOOLS via CompuServe and the Internet
- o Access to customized application porting workshops and LAN system workshops
- o Technical Conferences, business shows, etc,

Extensions to the basic Developer Assistance Program are provided under the Commercial Services and Premier Services programs. Both offer additional services to companies developing OS/2 based products for commercial release. Additional services include on-line technical support, access to an on-line database of development tools, discounts on software. and in the case of Premier Services program, assignment of an IBM technical advocate.

The Developer Connection for OS/2 is a subscription based service providing a quarterly CD-ROM containing development tools, early release software, a technical reference library, and sample applications.

While these programs provide a basic level of encouragement and support to developers, they are not enough to overcome the very real financial, technical, and marketing problems.

Providing a Compelling Business Argument

To help developers make the transition from 16-bit Windows to 32-bit OS/2, IBM is providing a migration tool developed for PSP by One-up Corporation. The tool, called SMART, can automatically migrate up to 70% of their Windows application to a 32-bit OS/2 environment, significantly reducing developer cost and making the transition to the 32-bit environment relatively easy. The tool is being distributed through the IBM Developer Connection for OS/2 as well as technical publications such as Dr. Dobbs Journal and through mailings to users of Borland's development tools.

Project Springboard, a targeted one-on-one ISV recruiting program, was created to accelerate recruitment of key ISVs, companies such as Lotus, Corel, Compute Associates, etc., to develop and invest in native, exploitive OS/2 applications. Our objective is to have OS/2 applications that are better than or functionally equivalent to Windows95 applications available concurrent with the Windows versions.

Through participation in this program the selected ISVs receive special assistance in porting their applications to OS/2, enhanced technical support, specific marketing assistance and in most cases investment from IBM through a shared risk contract.

The Springboard targeted applications fall into 3 categories:

- o Small office/home office and consumer segment
- o Horizontal application segment – including productivity applications, tools and middleware
- o Industry-specific application segment

Specific applications were selected based on their success/visibility as market leaders as well as selected new innovators not yet market leaders. Exploitation of object technology and OS/2 advanced capabilities are priorities for new development.

Shared Risk/Shared Return Methodology

Experience has taught us that developers must share the risk or they will not be committed to the OS/2 application. There are four basic parameters to the risk model we are using with ISVs today:

1. Shared development costs between IBM and the ISV
2. Matching demand generation marketing investments
3. Recovery to IBM in various forms
 - Royalty payments
 - Prepaid internal licenses
 - Prepaid external licenses for use by IBM as bundles/ValuePak's or other promotional offerings
4. Incentives to the ISV to deliver leading applications that differentiates the ISV product and OS/2 in the market.

The IBM development investment is typically skilled OS/2 resources to assist in the application migration, as well as additional technical support. A range of "Go-to-Market" options are a viable to offer varying degrees of assistance in market access. Offerings competitive with IBM products will be treated carefully and will not receive direct marketing assistance.

This shared risk approach provides incentive to both IBM and the ISV to not only announce the application, but to make it successful in the market, ensuring that enhancements and future releases continue to be developed. This commitment to marketing activities is the fundamental difference from previous OS/2 recruiting programs.

Accelerating Results and Visibility

We are taking a number of actions to accelerate closure and announcement of new applications. In addition to streamlining our contracts and processes, we are expanding the number of negotiating teams, we are engaging the USM&S Channel Business units to assist with the Industry Solution developers, and the international Personal Systems Marketing Units to assist with geographic developers. Everyone in the organization understands that this is a top priority and weekly reviews are held to reinforce the priority.

The IBM communications team is working closely with the ISVs to get the maximum amount of press exposure for new OS/2 applications. OS/2 developer press releases contain IBM executive quotes and IBM executives provide support at vendor press conferences.

To increase the visibility of OS/2 WARP applications in the retail channel, we have designed a certification process with the National Software Testing Lab to test existing Windows applications under WARP (WIN-OS/2). Certified programs would be able to affix a very visible sticker to the front of their software package proclaiming that their application was certified to run with WARP. While this does not contribute to native applications on OS/2, it increases visibility and helps the ISV to realize revenue while working to port his Windows application to OS/2.

Keys to Successful Execution

<u>Item</u>	<u>Brand Responsibility</u>	<u>Key Dependencies Within IBM</u>
1. Increase OS/2 Preloads	Schleicher/ Lautenbach	PC-CO & PPC
2. Increase mindshare through advertising and media campaigns	Lautenbach	CHQ Funding
3. Take advantage of competition failures (Chicago – WIN95)	Reiswig	
4. Deliver advanced functionality when it will have the greatest impact	Schleicher	

Information Required to Manage the Brand

Item	Brand Responsibility	Key Dependencies Within IBM
Product Schedule/Plan vs. Actual	Schleicher	
Competitive/Competitor Data	Reiswig	
Marketing and Sales Data	Lautenbach	

SDO Roles and Responsibilities

J. J. Gant Vice President, Solution Developer Operations

D. L. Harrington Director, Plans & Business Development

1. Strategy and Plans
 - Define consistent, cross platform
 - SDO objectives
 - SDO strategy and messages
 - market segments and priorities
 - key Solution Developer selection
 - Make investment decisions
 - Solution Developers
 - Programs
2. Platform Advocacy
 - Interlock M&D-SDO plans
 - Technology priorities
 - Required solutions on platform
 - Solution Developer emphasis in marketing plans
 - Primary SDO interface to development
 - Functional requirements
 - Packaging/delivery requirements
 - Technical support plan requirements
 - Drive product/platform plans into SDO
 - Create Solution Developer focused product disclosure
 - Communicate technology and product plans to SDO
 - Evangelize key technologies
 - Ensure product representation at key events

H. L. Hunger Director, Relationship Management

1. Relationship Management
 - Manage Solution Developer - IBM commitments
 - Marketing
 - Business
 - Relationship responsibility for one on few and one on many accounts
2. Programs
 - Develop and deliver programs for Solution Developers
 - Go to market
 - Events

A. M. Rieth Director, Technical Support

1. Technical Advocacy & Support
 - Develop and deliver technical support plans for
 - One on one
 - One on few
 - One on many
2. Technology Deployment
 - Train SDO on new technologies
 - Develop and execute technical programs to drive acceptance of key technologies by the Solution Developers
3. Operations and Tools
 - Coordinate early code programs and equipment loans

D.S. Troy Director, Strategic Developer Relationships

1. Relationship Management
 - Manage Solution Developer - IBM commitments
 - Marketing
 - Business

- Relationship responsibility for one on one accounts

Appendix. Service and Support Organization, Offerings, and Segmentation

The Service and Support organization, led by director Martha Gimbut, is outlined below:

- **Personal Operating Systems Service and Support:** Provides personal operating systems service and support, OEM and BBS support. Manages customer satisfaction survey process. This group is led by Patti Gibbs.
- **LAN Service and Support:** Provides LAN systems service and support, in addition to support for LOTUS Smart Suite. This group is led by Steve Oltmanns.
- **Service & Support Strategy, Planning and Operations:** Responsible for marketing the Personal Systems Support Family (PSS) fee-based offerings. Also provides overall marketing and business planning functions to the service and support organization, including measurements management. This group is led by Pat McCarty.
- **Customer Support:** Provides assistant on special bids, customer satisfaction and critical situation management. Additional responsibilities include SWAT Team, focal point coordination with development and international assistance.

The Service and Support organization is responsible for the delivery of Personal Systems Support Family (PSSP) - Support Line. This family of services was announced in 1994, with plans to aggressively market and advertise these offerings throughout 1995. The family is comprised of two primary offerings:

- **Personal Systems Support Line:** Fee based support provided electronically or via telephone 24 hours per day, 7 days per week.
- **Technical Connection CD-ROM:** Contains seven information databases which support the installation of PSP products. These databases include technical bulletins, corrective service data, reference and diagnostic data, product information and device drivers.

Service and Supports goal is to establish service based offerings which are valued by customers because of their superior support of the customers specific service requirements. The service characteristics and requirements of our target market segments are:

Large Enterprises

- Characteristics
 - More than 1,000 employees and PCs/licenses, multiple sites
 - Technical support staffs, help desk available
 - In-house or purchased applications
 - 66% of OS/2 sales prior to OS/2 Warp
- Support required
 - Mission Critical
 - Application
 - Personal productivity
 - Distributed/client
 - Database
 - Systems integration
- Assumptions
 - Two thirds of this opportunity has annual PSP contracts
 - Most contracts are single incident, marketing required to upgrade them
 - Demand generation essential (ads/trade shows/direct mail/calls)
 - 400 accounts still need annual PSSF contracts
 - IBM Sales & Service Marketing needs ongoing education

Medium-sized Enterprises with 50-999 Employees

- Characteristics
 - Single site or few locations

- LANs installed
- Support Required
 - Application packages
 - Operating systems, Networks
- Assumptions
 - Contract price too high for most customers
 - Midrange represents largest revenue opportunity
 - Some services offered by alternate channels
 - Granular IBM offer essential for 1995
 - Need to leverage BESTeam

Small Businesses with Fewer Than 50 Employees

- Characteristics
 - Simple connectivity/LAN requirements
 - Off the shelf or VAR applications
- Assumptions
 - Technical support from solution provider, retail or ISV
 - Offer must be similar to midrange in price and feature
 - Dependency on alternative sales and service delivery channels

Home/Consumer

- Characteristics
 - Non-business
 - Single PC with some applications
 - May have dial-up capability, rarely LANs
 - Very price sensitive
- Assumptions
 - Single License User meets competitive requirements (MS at \$195)
 - 95% do not have "customer number"
 - Mass marketing required