

## ***Customer & Competitive Analysis***

# ***ROM*** *(Read-Only Memo)*

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## ***Windows 3.0 Status***

### **Summary**

Windows 3.0 was announced and began shipping May 22. This link summarizes its current ship rate, the number of applications available for it, and how it has affected the sales of Macintosh. Some of the highlights are:

- Shipments of Windows 3.0 have been very strong. However, some of the figures mentioned in the press are misleading, since they include copies that are bundled with hardware as well as copies that Microsoft has given away for free.
- We believe that about 100,000 users are adopting Windows 3.0 as their primary operating environment each month.
- Several hundred software applications for Windows 3.0 are already available, and developers are shifting resources from other platforms (most notably OS/2) to Windows 3.0.
- Internal Apple sales information, as well as third party research, suggests that Macintosh sales have not yet been affected by Windows 3.0.

### **Windows 3.0 Adoption Rate**

We believe that about 300,000 copies of Windows 3.0 are being shipped monthly through retail and OEM channels. Of this 300,000, we think that about 100,000 users are adopting Windows 3.0 as their primary operating environment each month. This is about the same as the number of Macintosh systems sold each month.

We think the adoption rate is much lower than the shipment rate because many people receive a copy of Windows 3.0 bundled with their hardware and never use it. Furthermore, with all the publicity for Windows 3.0 and its inexpensive price, we think many people evaluate it but don't use it regularly, or install it simply to launch a single Windows application from the command line.

These are the estimates of the Competitive Analysis group. Estimates from third party research firms vary wildly on Windows 3.0 shipments, with most of them being higher than our estimates. See the "Methodology" section at this end of this report for a discussion of how we arrived at our conclusions.

## **Windows 3.0 Applications are Coming Quickly**

We believe that several hundred Windows 3.0 applications are now available. On July 18 Microsoft issued a press release listing 140 Windows 3.0-compatible applications which (Microsoft claimed) were available. Since Windows 3.0 had only been available for two months, that is a sizable number of programs. However, these programs are not all full-blown applications. The list includes utilities such as Adobe Type Library and Tempo for Windows. It also includes programming languages and tools.

In the meantime, many more Windows 3.0 applications have become available. Gartner Group estimates that over 1,000 Windows 3.0 applications are available, and IDC estimates 600. Competitive Analysis doubts that the numbers are that high.

However, some of the key DOS applications are still not available for Windows. WordPerfect claims that WordPerfect for Windows will ship in 1Q91. We expect Lotus 1-2-3 for Windows will ship in mid-1991.

## **What are Developers Doing?**

Developers are funneling more resources toward Windows development and less toward other platforms, especially OS/2. Aldus is a case in point. It has shifted some of its OS/2 development resources to Windows and Macintosh.

Similarly, WordPerfect has decided to step up development of its Windows word processor and will release it early next year, ahead of its OS/2 Presentation Manager counterpart. To do so, WordPerfect reassigned *all* 30 PM programmers to the Windows product, which already had 10 programmers.

DOS developers and Macintosh developers are also allocating more resources to Windows.

We believe the following chart is fairly representative of what developers committed to OS/2 (such as Aldus), DOS (such as Central Point), and Macintosh (such as Farallon) are doing. They are decreasing their commitment to those

environments (especially OS/2) in favor of Windows 3.0 development.<sup>1</sup>

Development Resources Devoted to Various Environments

	1989				1990			
	DOS	Win	OS/2	Mac	DOS	Win	OS/2	Mac
Aldus		40%	20%	40%		45%	10%	45%
Central Point	90%			10%	50%	40%		10%
Farallon		10%		90%		45%	5%	50%

### Has Windows 3.0 Affected Macintosh Sales?

We don't think that the sales of Macintosh have yet been affected. This is substantiated by internal Apple numbers and by third party research. For example, an IDC survey found

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<sup>1</sup>InfoWorld and PC Week interviewed Aldus, Central Point Software, and Farallon to gain these figures.

that only 11.3 percent of the Windows-buying corporations said they would reevaluate their commitment to the Macintosh. Both Gartner Group and IDC say that the release of Windows 3.0 hasn't changed their forecast of Macintosh sales. We believe that this illustrates two things: (1) Buying patterns don't change very quickly, and (2) Apple is selling Macintosh to its installed base.

We believe that another reason Windows 3.0 has not affected Macintosh sales is that Macintosh is still a much better computer. Diagnostic Research, Inc. performed a study which showed that Macintosh users were more satisfied than Windows 2 users. How does Macintosh compare with Windows 3? Apple has recently completed preliminary research that suggests that Windows 3.0 users are no more satisfied than Windows 2 users. Therefore, we believe that DRI's results hold true for Windows 3.0. We plan to have DRI redo the study with Windows 3.0

Apple should continue with the message we have been giving about Windows:

- Windows is built on top of DOS, and DOS has many limitations
- Windows 3.0 moves the competitive debate to Apple's turf
- The Macintosh system's differentiation goes far beyond its graphical user interface

### **Next Release of Windows**

Microsoft has stated that it will ship Windows 3.1 in the first half of 1991. We expect to see the following features in the next release:

- True Type outline-fonts
- Faster performance of the file system
- Better networking capability (for example, it will automatically reestablish network connections when it reboots).

### **Methodology**

This section explains how we arrived at our estimate that each month Microsoft is shipping 300,000 copies of Windows 3.0 through retail and OEM channels, and that 100,000 users are adopting Windows 3.0 as their primary operating environment.

### **Shipments of Windows 3.0 comprised of many components**

Windows 3.0 has been selling very well. It offers many advantages over DOS, and Microsoft has done an excellent job of promoting it. However, we believe that some of the sales numbers that have been reported in the press are misleading. Near the end of July Microsoft stated that it had shipped 800,000 copies of Windows 3.0 worldwide in its first two months of availability. It is important to realize that "shipments" of Windows 3.0 is made up of a variety of components:

- Retail sales
- OEM shipments
- Upgrades from previous versions of Windows
- Free giveaways from Microsoft

*Retail sales* refers to copies of Windows 3.0 that are actually purchased by customers. Since the price of Windows 3.0 at many retailers like Egghead is under \$100, this is a relatively inexpensive purchase.

*OEM shipments* refers to copies of Windows 3.0 that are bundled or sold with PCs. Some manufacturers, such as Zenith and GRiD, bundle Windows 3.0 with their high-end systems. Other manufacturers, such as Tandy and NCR, sell Windows 3.0 as an option. Obviously, when Windows 3.0 is bundled, it is unclear whether or not the customer has any desire to use Windows 3.0.

*Upgrading* from a previous version of Windows to Windows 3.0 costs \$50. To upgrade, you simply call Microsoft and tell them that you are a Windows user. Those who upgrade to Windows 3.0 should not be considered new Windows users, just as those Macintosh users who upgrade to the latest system software are not considered new Macintosh users.

*Giveaways.* Microsoft has also distributed many copies of Windows 3.0 for free. For example, the 6,000 people that attended the Windows 3.0 introduction all received free copies.<sup>2</sup>

### **Current and Future Shipments of Windows 3.0**

We believe that Microsoft is shipping about 300,000 copies of Windows 3.0 each month through retail and OEM channels, and we expect that ship rate to continue for the next few months.<sup>3</sup>

How have we determined that? Of the 800,000 copies that Microsoft shipped in the first two months, about 200,000 of them were upgrades and giveaways<sup>4</sup>. Therefore, Microsoft shipped 600,000 copies of Windows 3.0 through retail and OEMs in its first two months. That averages out to 300,000 copies a month.

Although not as impressive as Microsoft would want the industry to believe, that is a very substantial number. As a reference point, Lotus and WordPerfect each ship about 100,000 copies of 1-2-3 and WordPerfect each month. Therefore, Microsoft is shipping through retail and OEM about 50% more copies of Windows 3.0 each month than 1-2-3 and WordPerfect combined.

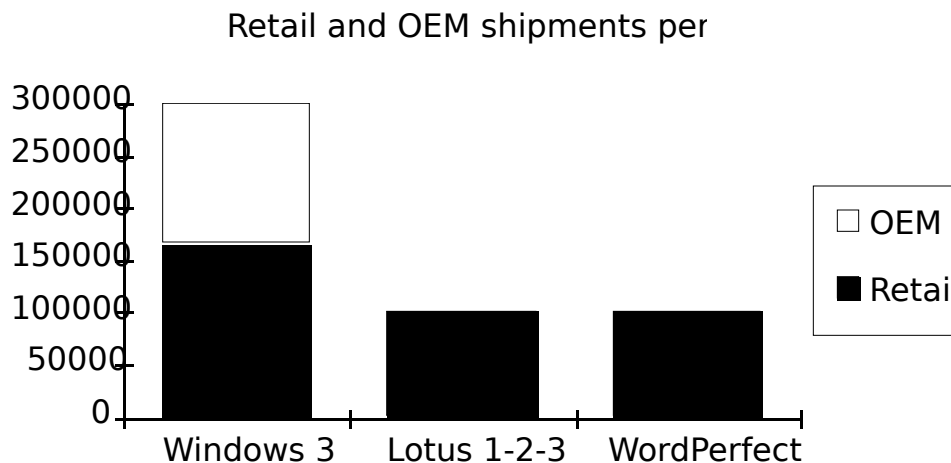
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<sup>2</sup>Our opinion is that the 800,000 copies is made up of all these four components. However, there is a lot of disagreement about that. One person at Microsoft's PR agency claimed that the 800,000 only included retail sales and upgrades, and didn't include OEM shipments. IDC and Dataquest agree with that point of view. Another person at the same PR agency said that the 800,000 included "everything." Gartner Group, and financial analyst Charlie Wolfe agree with that point of view, and we concur. From past experience with Microsoft's numbers, we believe that when Microsoft makes a statement to the press about shipment numbers, they include everything possible.

<sup>3</sup>Most research companies are predicting phenomenal shipments of Windows 3. For example, IDC estimates that Microsoft will ship about 600,000 copies of Windows monthly over the next year. We agree that Windows will be extremely successful, but are skeptical of IDC's estimates. The 300,000 figure that we believe is similar to Gartner Group's estimate.

<sup>4</sup>Dataquest estimates that 400,000 of the 800,000 copies are upgrades and giveaways. Ingram Micro D estimates that 200,000 are upgrades and giveaways. We are being conservative and using Micro D's 200,000 figure.

Gartner Group estimates that 55% of Windows 3.0 sales go through retail, and 45% go through the OEM channel. Using our (and Gartner Group's) estimates of 300,000 shipments a month, that means that, on average, Microsoft ships 165,000 copies of Windows 3.0 through retail and 135,000 copies through OEM channels each month.



### **How Many People are Actually Using Windows 3.0?**

Even though the sales of Windows 3.0 through the retail and OEM channels have been large, it is very difficult to know how many people are actually using Windows 3.0 to do their normal work.

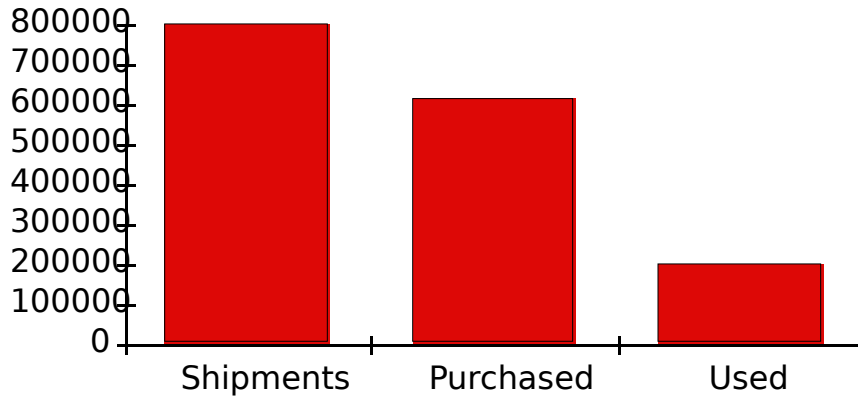
Virtually everyone who buys a Macintosh uses it. However, it is unlikely that every copy of Windows sold will be used. As Stuart Alsup says:

"In trying to understand the strategic importance of Windows (or any other system), it is meaningless if someone buys a Northgate or Zenith system (both of which are bundled with Windows 3.0) and never installs Windows. It is equally meaningless if a PC manager buys a copy of Windows 3.0 retail for everyone in the office, but never installs the system on some people's machines or only installs it as the way to launch a single Windows application from the command line...I estimate that about 100,000 new users are adopting Windows every month, which is almost exactly the same number as the number of new Macintosh computers that Apple is selling every month."

As the following chart illustrates, shipments do not equal purchases (because of Microsoft giveaways and because many users receive a copy of Windows bundled with their hardware), and purchases do not equal usage (because many copies of Windows 3.0 that have been purchased will not be used regularly). This is Competitive Analysis' estimate of the number of copies of Windows 3.0 that have been purchased and the number that are actively being used, out of the 800,000 copies that were shipped in the first two months.



### Breakdown of Windows shipments (first two



Our estimate of about 100,000 people actually adopting and using Windows 3.0 each month agrees with Alsop's estimate.