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FROM: Julie *JW 6/8/84*

SUBJECT: COMMODORE PRODUCT MARKETING PLAN

The Product Marketing Plan for the Commodore versions of PFS:FILE and PFS:REPORT is attached. The following reviews the recommendation, basis for recommendation and the key issues for marketing products through the Commodore channels of distribution.

RECOMMENDATION: We recommend producing and marketing PFS:FILE and PFS:REPORT for the Commodore 64.

BASIS FOR RECOMMENDATION:

1. Mass merchandise channel and lower end computers represent an important growth area for our company.
2. The Commodore 64 represents a large and growing market for us. The total Commodore 64 installed base is approximately 1.1 million units, with units with disk drives equal to 750,000. Importantly, Commodore sales are expected to exceed 2.5 million by 1985.
3. The success of Multiplan in this market indicates the demand for productivity software and the willingness of Commodore 64 consumers to pay higher prices for software. Multiplan, priced from \$99.00-75.00, currently has a shipping rate of approximately 5,000 units/mo. This rate is equal to shelf movement of approximately 1/store/month which is considered strong in the mass merchandise channel.
4. PFS will fill the need for a database and serious productivity software in the Commodore market. Productivity software is just gaining strength in the Commodore market with databases and spreadsheets starting to gain sales momentum. PFS will enter this marketplace with minimal competition.

SUMMARY OF KEY ISSUES:

1. Profit: Improving the profit margin for the Commodore line is the major short term goal. The current projected Commodore margin is 16%, -2% versus our PFS line target of 18%. We believe that we can improve the margin by reducing the cost of goods sold. A \$1.00 reduction (from \$5.50 to \$4.50) would increase the pre-tax profit margin to 20%.
2. Distribution: The Commodore line requires opening up a new channel of distribution for us, the mass merchandise channel. The success of the project is dependant on our ability to penetrate this channel. Our distribution objective is 2,000 retail outlets by August, the start of ship for PFS:FILE. This objective is equal to approximately 25% of total outlets and appears to be attainable. Any changes positive or negative in distribution will substantially effect our volume.

PRODUCT MARKETING PLAN
COMMODORE VERSIONS OF PFS:FILE AND PFS:REPORT

I. PRODUCT DEFINITION

A. Hardware Market Size, Dynamics, Trends

Market Size: There are currently 750,000 + Commodore 64s in the marketplace with a disk drive.

This is equal to about 50% of the Commodore 64 installed base. This percentage is expected to increase slightly in the next few months as disk drive sales are currently exceeding Commodore 64 sales.

Dynamics: Commodore home market share is estimated at 50% +; there are no competitors at their price point and feature set (under \$700 for CPU, disk drive, and monitor). Commodore is expected to be their own competition when they introduce the Commodore Plus 4, a business-oriented low price computer (\$299 for CPU versus \$199 for the C64 CPU) in July, 1984.

Major Commodore dealers are cautious in their buying attitude toward the Commodore Plus 4. All stated that the Commodore 64 is not in jeopardy of being replaced by the Commodore Plus 4.

Shipment Trends: Commodore 64 is expected to ship in excess of 2.5 Million units during 1984. Disk drive sales are expected to remain strong for the Commodore 64.

Commodore 64 sales are expected to remain strong into mid-1985.

Commodore 64 software is expected to have a shelf-life of approximately 18-24 months (approximately 9-12 months longer than the estimated machine life).

B. PFS Market Share and Ranking Objective

Market Share: Distribution will drive total market share. We estimate a 10% market share where we are carried.

Ranking Objective: The goal for PFS:FILE is to be the number 1 selling productivity package in the mass merchandise channels.

C. Target Consumer: The target consumer for the Commodore is close to our current target consumer for the Apple and MS-DOS products.

Specifically, our target is:

Commodore 64	Current Base
Male, age 25-49	Male, age 25-49
House Hold Income > \$25,000	> \$30,000
Professional/ Managerial	Professional/Managerial
College Educated	College Educated
Married	Information Not Available

Exhibit I profiles the Commodore 64 owner per a Personal/Home Computer research study fielded in August 1983 by the Yankee Group.

- D. Positioning: PFS:FILE and PFS:REPORT will be positioned as powerful yet easy to use filing software that allow Commodore 64 users to be more productive.
- E. Description: PFS:FILE and PFS:REPORT are essentially the same as the Apple IIe versions.

There are two significant differences: 1) the products recognize only 40 columns and 2) both operate substantially slower due to the limitations of the Commodore 64 disk drive.

- F. Key Benefits: The Commodore version of PFS:FILE and PFS:REPORT have the same key consumer benefits as the Apple and IBM versions.

Specifically, these are:

- PFS:FILE and PFS:REPORT are a software team that gives your Commodore 64 personal computer the power to handle all filing needs, including mail lists, purchase orders, invoices, stocks, home inventory and budgets.

- PFS:FILE's powerful search capabilities enable users to find the information that they need quickly.

-PFS:REPORT, the companion product to PFS:FILE, allows the user to maximize the information stored in PFS files by summarizing data, creating tables, producing reports, performing calculations and instantly analyzing data.

-PFS:FILE and PFS:REPORT are easy to learn and use because all instructions are written in plain English, not computer jargon.

- G. Summary of Major Features: PFS:FILE and PFS:REPORT for the Commodore have the same major features as the Apple IIe versions.
- H. Integration with Other Products: PFS:FILE and PFS:REPORT will be integrated in the same manner as they currently are for the Apple II versions.
- I. Name: PFS:FILE; PFS:REPORT
- J. Price: PFS:FILE: \$79.99
PFS:REPORT: \$69.99
- K. Packaging: The sleeve for the Commodore versions will be altered slightly to accommodate the needs of the mass merchandise channel. See Exhibits II and III for details.

All packages will have to be individually shrink-wrapped for the mass merchandise channel.

Rackjobbers also require us to shipment products in bulk, referred to as "master packs" in their trade. Preferred quantities per master pack are 24, with subpacks of 6.

- L. Channels of Distribution: The Commodore versions require almost a completely different form of distribution than our current computer speciality stores. However, there is some overlap in software only stores, such as Software Centres International which we expect to carry the Commodore versions.

There are approximately 8,000-10,000 retail outlets that distribute Commodore software. Our initial distribution objective is 2,000 retail outlets.

The majority of Commodore volume moves through mass merchandise, department, and toy stores such as: K-Mart, Montgomery Wards, Sears, Payless, Toys 'R Us, and Target. We can expect our volume to follow the trends the entertainment companies experience as shown below:

Store Type	Main Stores	% Software Volume	
		Atari	Activision
Mass Merchandiser	K-Mart, Sears, Target, Montgomery Wards, Fred Meyers, Murphy's Mart Venture, Payless, etc.	56%	60%
Audio/Visual	Franklin Music, Tower Records	26%	15%
Computer Speciality	Software Centres, Software Emporium, etc.	10%	10%
Toy Outlets	Toys 'R Us, Child World, etc.	4%	5%
All Other		4%	10%

The following are the four main ways to maximize distribution in this market:

1) **Selling to Rackjobbers:** Rackjobbers control the majority of the mass merchandise and department stores--approximately 2,000-2,500 outlets. There are two major rackjobbers--Handleman's, and Liebermans--and two minor rackjobbers--United Records and SDS. Handleman's, the largest single rackjobber, controls approximately 30% of all stores which generate approximately 40% of the total volume.

We will actively pursue two rackjobbers initially, Handlemans and Lieberman's. This will give us approximately 1250 retail outlets.

2) **Selling Direct:** Companies such as Toys R' Us (100 + outlets) and Target (200 outlets) prefer to deal direct with manufacturers.

Only Target will carry PFS/Commodore products initially.

3) **Selling to our Current Distributors:** SKU, MicroD, and SoftSel all carry Commodore software. SKU, reported to service 2,000 outlets, is expected to do the majority of Commodore volume for us.

All of our current channels will be utilized.

4) **Selling to Regional Distributors:** There are approximately 35 major regional distributors that service Commodore software outlets. (HES, a major publisher of Commodore 64 software currently uses 75 regional distributors.)

We will not actively pursue this channel initially.

Distribution objectives are summarized below:

**COMMODORE 64 DISTRIBUTION
OBJECTIVES**

	<u>RETAIL OUTLETS</u>
HANDLEMAN'S	850
PICKWICK	400
TARGET	200
SOFTWAIRE CENTRES	100
OTHERS (MICRO D)	450

	2,000

M. Computers and Peripherals Supported:

Computers: Commodore 64
Peripherals: Commodore 1541 Disk Drive
Commodore standard printer
Commodore monitor

N. Update, Return and other Policies:

Update: Commodore versions will follow the standard update procedures.

Returns:

Consumer policy: Commodore versions will follow the standard return policy.

Rackjobber/Key Accounts: These policies will be formulated the week of June 17th.

Back-up: There will be no mention of back-up copy availability, however we will supply a back-up upon request for \$15.00. This back-up policy was chosen in order to minimize the cost of the Commodore product.

O. Other Issues:

Solutions: Solutions will not be developed at this time. However, we will develop an informative piece to be inserted in the PFS:FILE box that shows six of the most commonly used form designs and the reports that can be generated from these forms.

ii. COMPETITION

Software Market Overview: In general, the Commodore productivity software market is extremely unsophisticated in its products and its marketing of these products. Productivity software ranges in price from \$19.99 for single application packages such as a mail list generator to \$140.00 for a database program. Regardless of price, most of the products have manuals with xeroxed pages, low impact packaging, and an unprofessional appearance.

Further, until recently there has been little advertising dollars spent against productivity software for the Commodore. Commodore itself has just started advertising productivity software for the 64. These ads, however, cover as many as 15 different applications in one ad.

Another market difference is that, consumers are more price sensitive in this market than in the Apple and IBM markets. So, we can expect that some Commodore users will never spend \$79.99 for a software package, while others are looking for serious software in general for their Commodore and realize that they will have to spend money to get better software. This may result in PFS products competing with high end, more expensive software packages such as Home Accountant (\$79.99), Multiplan (\$99.00), and BankStreet Writer (\$69.99), as opposed to only competing with databases in the Commodore market.

The following details 3 potential competitors for PFS:FILE and PFS:REPORT. The first two, Superbase 64 and Delphi's Oracle, are currently being evaluated by Handleman's for distribution in lieu of PFS:FILE and PFS:REPORT.

Commodore software has not been reviewed as it is viewed as a minor contender by the rackjobbers.

- A. Superbase 64: In general, Superbase 64s features exceed those of PFS:FILE and PFS:REPORT combined. However, the product is very complicated and requires the user to even write special programs to perform the reporting functions.
1. Target Consumer: Business or professional user of the Commodore 64. User is also an advanced Commodore user.
 2. Positioning: Superbase is positioned as the complete information management control.
 3. Description: Superbase 64 is a filing system that allows the users to design their own forms, similar to PFS:FILE and retrieve information in multiple ways.
 4. Key Benefits: This product has many features that expand with the users needs.
 5. Summary of Major Features:
 - Unlimited files per disk
 - Free back-up copy included with product
 - Can merge files together
 - Can merge with word processors
 - Multiple sorts
 - Conditional sorts
 - Calculated fields
 - Automatic alphabetization of records
 - Prints reports

- Prints mailing labels
- 6. Integration with other products: Superbase can create a text file that can be read by other programs.
- 7. Price: \$99.00
- 8. Packaging: Three ring notebook housed in a cardboard sleeve.
- 9. Channels of distribution: Currently has limited distribution, found mostly in software only stores. Widely distributed in England.
- 10. Computers and peripherals: Commodore 64. Manual never specifies any peripherals.
- 11. Policies:
 - Update-- \$5.00
 - Back-up-- Supplied with product

B. Delphi's Oracle: In general, this product provides the user with a file handling system with limited report generating capabilities.

1. Target Consumer: Oracle is aimed at the business person or professional.
2. Positioning: Oracle is positioned as a database for Commodore users who want to perform business applications.
3. Description: Oracle is database software package that also includes a report generator.
4. Key Benefits: Oracle allows Commodore users to be more productive in managing their information.
5. Summary of Major Features:
 - Limited report generator included (information can be sorted in columns and totaled)
 - Information in files can be protected
 - Data is automatically sorted alphabetically or numerically
 - Multiple files/disk
 - Merge with word processor
 - Merge with external files
 - Free back-up
6. Integration with other products: Oracle allows the user to create ASCII text files that can be read by other database and merged with word processors.
7. Price: \$150.00
8. Packaging: Large cardboard package that house a spiral bound manual.
9. Channels of Distribution: Oracle is found mostly in software only stores.
10. Computers and Peripherals: Commodore 64
Commodore 1541 disk drive
Manual fails to specify any other peripherals.
11. Policies:
 - Back-up: Free
 - Update: none

C. Mirage Database Manager: Generally, Mirage Database Manager is a good file managing program designed for the beginning computer user.

1. Target Consumer: The business or professional Commodore user.
2. Positioning: Mirage is positioned as an information management tool for novice users.
3. Description: Mirage is database software that includes

some report generating capabilities.

4. Key Benefits: Mirage includes a tutorial is designed for the novice or first-time computer user.
5. Summary of Key Features:
 - Integrated with Mirage word processor
 - Does multiple sorts
 - Produces mailing labels
 - Can output reports from files
6. Integration with other products: Mirage database manager can produce form letters when used with Mirage Word Processor.
7. Price: \$99.99
8. Packaging: Three ring binder with minimal description of what the product does found on the package.
9. Channels of Distribution: Mirage is sold primarily in software only stores.
10. Computers and Peripherals Supported: Commodore 64
Commodore printers
Commodore 1541 disk drive
Commodore 2031 disk drive
11. Policies: Back-up: \$7.00
Update: free

III. FINANCIAL PLAN

- A. Unit Volume Forecast: PFS:FILE and PFS:REPORT volume will be driven by the following two factors: 1) Distribution penetration and 2) Number of features or in-ads obtained during the course of the year from Co-op monies. (For example, how many times PFS:FILE is advertised in a Target or K-Mart insert in the Sunday paper.)

The realistic volume forecast is based on the following assumptions:

- 1) We obtain our distribution objective of 2,000 outlets.
- 2) PFS:FILE and PFS:REPORT are featured in mass merchandise circulars 3 times per year.
- 3) PFS:FILE approximates the shelf movement of other high priced productivity packages such as: Multiplan (\$99.00) and Home Accountant (\$79.00).
- 4) PFS:REPORT sales are equal to 20% of PFS:FILE sales.

Units/Store/Mo.	12 MONTH VOLUME ESTIMATE		
	Pessimistic	Realistic	Optimistic FILE
	.6	1	1.4
FILE	14,400	24,000	33,600
REPORT	2,880	4,800	6,720

Exhibit IV projects fiscal year and volume by month. Exhibit V projects volume and revenue based on distribution.

- B. Summary of Marketing Expenses and Staffing:
Marketing Expenses: Working marketing expenses will be focused in two ways: 1) Introducing the product and 2) Co-op

advertising.

Twelve month marketing expenses break out as follows:

Advertising:	\$40,000
Co-op Advertising:	\$10,000
Introduction Plan:	\$35,000
(without advertising)	
Non-working/misc.:	\$15,000

Staffing: PFS:FILE and PFS:REPORT for the Commodore can be handled with our current staff.

After introduction, the following areas will need management attention from the File/Report product manager and possibly a marketing assistant:

- 1) Monitoring of shipments
- 2) Monitoring of competition
- 3) Managing co-op monies
- 4) Working with manufacturing to further reduce product costs
- 5) Profit responsibility
- 6) Business analysis

C. Estimate of Pay out of Marketing Expenses:

Pay out on Contribution Margin:

\$100,000
----- = 3,560 units = 1.5 months
\$28.10 (Contrib. Margin is weighted .80 FILE, .20 REPORT)

Pay out on a Profit basis:

\$100,000
----- = 17,920 units = 7.5 months
\$5.58 (Pre-tax profit is weighted .80 FILE, .20 REPORT)

D. Estimate of Cost of Goods Sold:

Controlling the cost of goods sold is one of the top priorities for delivering a high profit margin for the Commodore line of products. The breakdown below details the most likely cost breakdown with potential variances indicated by parentheses.

These costs assume:

- 1). One single-sided disk per product.
- 2). Reduction in the current Apple II FILE manual size.

Disk:	\$1.90 - (\$1.07 with cosmetically defective diskettes)
Sleeve:	.60
Box:	.33
Manual:	2.48 - (\$2.00 depending on manual size)
Insert:	.05
Shrinkwrap	.10
Labels	.03

	\$5.49

As indicated the product cost range is \$4.18 - 5.49.

E. Analysis of Gross Margin:

Assumptions:

1. Commodore 64 is weighted .80 FILE and .20 REPORT.
2. PFS Line price is weighted .55 Apple and .45 MS-DOS.

	PFS:FILE/REPORT Com 64	PFS Line Target	Dif
Retail Price	79.99	132.00	-\$54.00
Revenue after 55% Discount	35.10	60.72	-\$25.62
Cost of Goods Sold	5.49	6.50	-\$ 1.01
Gross Margin	37%	41%	- 4.0%

F. Profit Forecast:

Discussion: We expect the currently projected profit margin (16%) to 20% by reducing cost of goods sold to \$4.18. This could be accomplished by using cosmetically defective diskettes, reducing the size of the manual, and changing the quality of the paper stock.

Assumptions:

1. Average discount is 55%.
2. Line is equal to 80% FILE and 20% REPORT.
3. Cost of goods sold expense is \$4.38 as detailed above (See III D.)
4. R & D and G & A are set at the same percentages as our PFS target.
5. Sales Rep commission is 5%, versus the commission we currently pay (8%). This lowers the standard overall Marketing/Sales percentage by 3%, from 42% to 39%.

	PFS:FILE -----	PFS:REPORT -----	COM 64 LINE -----
Per Unit Revenue	\$36.00	\$31.50	\$35.10
Direct Costs	5.49 (15%)	5.49 (17%)	5.49 (16%)
Manuf. OH	1.50 (4%)	1.50 (5%)	1.50 (4%)
R & D	6.12 (17%)	5.36 (17%)	5.97 (17%)
Sales/Mkt	14.04 (39%)	12.29 (39%)	13.76 (39%)
G & A	2.88 (8%)	2.52 (8%)	2.80 (8%)
Pre-Tax Profit	5.97	4.34	5.58
Pre-Tax Profit Margin	17%	14%	16%

Revenue \$	864,000	151,200	1,015,200
Pre-Tax \$	143,280	20,832	164,112
Revenue is based volumes of:	FILE 24,000	REPORT 4,800	

*28,923 units
240/no.*

IV. DOWN SIDE RISKS

A. Financial:

The maximum exposure we should incur is \$58,800 of which \$3,500 could be salvageable.

This is broken down as follows:

10,000 units at \$4.38 (Returned shipments--2 months)	\$43,800
Advertising development costs	10,000
Advertising withdrawal penalties	5,000

	\$58,800
Boxes recycled (10,000 at \$.35)	3,500
PROJECTED MAXIMUM EXPOSURE	----- \$66,500

B. Company Image:

Porting our products to the Commodore machine should have no effect on the brand name or Company image.

V. INTRODUCTION PLAN (to follow)

VI. MANUFACTURING PLAN (to follow)

EXHIBIT I

COMMODORE OWNER PROFILE

Commodore owner profile

Male 56% read Compute
25-49 33% read Commodore
HHI = \$25,000 >
Professional/Managerial
College Educated
Married

-29.4% operate a business of some kind from their home

Primary perceived benefit from owning a computer		Actual usage of Commodore 64
-Learn how to program	24%	41%
-Educational	10%	23%
-Help run business	9%	5%
-Home management	4%	20%

Disk drive ownership

Currently own 60%
Planning to purchase 28%

Software purchase

-66% did not buy any software at the time they bought their computer

-76% purchased software 6-12 months after they purchased their computer

-41.6% of these people bought a business program

-Commodore users purchased an average of 11.1 programs after they bought their computer

-Home management average purchase 2.6 packages
-Business average purchase 2.9 packages

EXHIBIT II

PFS COMMODORE PACKAGE DESIGN OBJECTIVES

MASS MERCHANTISER BACKGROUND: Mass merchandisers, such as Target, Toys R Us and K-Mart, typically sell both the Commodore 64 hardware and Commodore 64 software.

Unlike the computer speciality stores, sales people in mass merchandisers typically have no influence on the sale of either the hardware or the software.

Therefore, sales are generated by by the way the product is advertised, the way the product is packaged and of course, word-of-mouth.

Software packages are typically displayed in four different ways:

- 1) In a locked display case--which means that the packages are often layed flat. The allows a front panel view of the package and sometimes a side view of the package. This type of display is found in K-marts and Sears.
- 2) On a peg board--which means that the front of the package can be seen. In this case the consumer can pick up the package and turn it around. This type of display is found in Targets and Music Lands.
- 3) In a plastic casing bin--this allows both the front and back of the package to be displayed at the same time. This type of display is found in Toys R Us.
- 4) In a Hallmark card type of display: This type of display shows the front of the package only, but in most cases allows the user to pick up the package and turn it around to read the back. This type of display is found in bookstores that carry software and video/stereo stores. This display is currently the least prevalent.

EXHIBIT III

PACKAGE OBJECTIVES: In order for our packages to be effective in this channel, our packages have to do the selling. With the abundance of software packages for the Commodore 64 our packages could easily be lost between the games and the educational software packages. For this reason, high shelf impact is the top priority for PFS:FILE and PFS:REPORT.

They immediately must communicate (on the front panel), what the product is, what the benefits are, and its requirements.

Further, the consumers must realize that PFS:FILE for the Commodore is the same PFS:FILE that they might have seen advertised or heard about from their friends who own IBMs or Apples. Therefore, the new packages must maintain the PFS heritage.

Other details:

-DESCRIPTION: The new packages need a one or two line description of what the product does on the front of the box. This sentence needs to have a sales tone. It should also be benefit oriented.

-PROMOTION: The redesign has to take into consideration that in-packed promotional offers will be flagged on the front panel.

-MACHINE: The machine, COMMODORE 64, must be stated boldly on the front of the box. Also, the words "Disk Drive Required" must be on the front of the box, although this does not have to be as prominent as the machine type.

EXHIBIT IV

COMMODORE 64 FILE AND REPORT FISCAL AND 12 MONTH VOLUME PROJECTIONS
(in 000's)

	FIS. YR' 84												
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Tot
FILE	5.0	0.5	1.0	3.0	3.0	0.5	1.5	1.5	2.0	2.0	2.0	2.0	24.0
REPORT	2.5	---	0.1	0.6	0.5	0.1	0.1	0.1	0.2	0.2	0.2	0.2	4.8

EXHIBIT V

PFS:FILE AND PFS:REPORT SHIPMENT AND REVENUE ESTIMATES
 BASED ON VARYING DISTRIBUTION

Assumes:

- 1) PFS:FILE moves 1 unit/store/month
- 2) PFS:REPORT is equal to 20% of FILE sales.

# of Retail Outlets	FILE		REPORT		TOTAL	
	Shpmnts	Revenue	Shpmnts	Revenue	Shpmnts	Revenue
2,000	24,000	\$ 864,000	4,800	\$151,200	28,800	\$1,015,200
3,000	36,000	1,296,000	7,200	226,800	43,200	1,522,800
4,000	48,000	1,728,000	9,600	302,400	57,600	2,030,400
5,000	60,000	2,160,000	12,000	378,000	72,000	2,538,000
6,000	72,000	2,592,000	14,400	453,600	86,400	3,045,600