



July 03, 2008

## Microsoft Simplifies Its Volume Licensing

Most Companies With Select Agreements Will Benefit By Upgrading To Select Plus

by **Duncan Jones**

with Christine Ferrusi Ross, Christopher Voce, and Antonin Shanahan

### EXECUTIVE SUMMARY

Microsoft announced Select Plus on July 1, 2008 — a significant improvement to its volume licensing program. Available to customers starting in October 2008, Select Plus enables customers to execute purchases at the business-unit level yet still get the volume discount earned by the enterprise as a whole, and all without having to submit any forecasts of future demand. Select Plus combines a more customer-friendly agreement structure and new pricing rules with consolidated license tracking that gives Microsoft both affiliate- and group-level views of license purchases. The new program is generally good news for Microsoft customers, but important pricing changes mean that some companies may end up paying more for their software. Enterprises that have Select agreements should seriously consider upgrading to Select Plus, provided that they can manipulate transaction timing to get the best possible license price and the most value from Software Assurance.

### SELECT PLUS DELIVERS ENTERPRISEWIDE LICENSE MANAGEMENT

Microsoft has spent the past two years talking with its larger customers about its volume licensing and designing a new program to address the most common complaints. The result is Select Plus, which was announced on July 1, 2008. The program simplifies the legal agreement structure and makes it easier for global customers to manage their overall license needs (see Figure 1). Select Plus is backed by a new consolidated license management infrastructure that streamlines Microsoft's internal processes — the vendor previously had separate tools for each volume program. Sourcing and vendor managers should familiarize themselves with the key features of Select Plus that include:

- **A single agreement with no expiration date.** Current Select contracts apply to a specific set of enrolled affiliates, not the whole enterprise. They last for a fixed term of three years, after which the entire agreement needs to be recreated almost from scratch.

**Forrester's take:** This feature will certainly reduce the level of legal and commercial activity. Enterprises with autonomous divisions may have dozens of agreements to cover the various affiliate/product pool combinations, leading to almost continuous renewal activity. The triennial renewal did, however, provide an opportunity to renegotiate key terms, so sourcing managers must now get it right the first time.

- **Price tiers based on historic actual purchases.** Microsoft's pricing has four tiers, A to D, that were previously based on forecast demand for the upcoming three years, with upward adjustments if



#### Headquarters

Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA  
Tel: +1 617.613.6000 • Fax: +1 617.613.5000 • [www.forrester.com](http://www.forrester.com)

actual purchases fell short. Qualification for lower-priced tiers is now based on the previous year's actual volume.<sup>1</sup> Customers will also move up a tier as soon as a transaction puts them over the threshold in the current year (see Figure 2). To ease transition, companies can move from Select to Select Plus at their current price level, irrespective of year-to-date volume.

**Forrester's take:** This is a significant enhancement for enterprises that are unable to coordinate groupwide forecasts; they could not, under Select, enjoy the full benefit of their combined volume. The downside is that transaction timing is now crucial because Microsoft will price small initial purchases at the lowest level, and there will be no retroactive rebate if the customer subsequently achieves a better tier. Timing is irrelevant under a Select agreement provided that the customer reaches the required target— one-third of the total per year — by the anniversary date.<sup>2</sup> Select Plus agreements will be more expensive than Select for purchasing managers who can't pull forward and aggregate demand to achieve the correct tier with their first purchase order (PO). However, those managers who can consolidate demand may be able to achieve a better tier under Select Plus than they could under Select (See Figure 3).

- **Automatic application of corporate discount to affiliate purchases.** Microsoft's new infrastructure will allow each business unit to have its own customer account but also link to the enterprise's group record for price tier qualification.

**Forrester's take:** This feature gives enterprises far more flexibility in how business units buy Microsoft products. Previously, enabling a site to deal directly with a reseller would complicate the legal structure and license management process. Companies are now free to choose how many separate customer accounts they want to have.

- **Downward readjustment limited to one level.** Customers who fail to requalify for their current level will be moved down merely to the tier below, even if their purchases in the previous year did not justify that rating. For example, a company on level C pricing with volume in one year that only entitled it to level A the following year would nonetheless only be downgraded to level B.

**Forrester's take:** This is a generous concession that shows customer-friendliness and is important to Microsoft's licensing strategy team. Forrester clients often complain that other vendors' reps price each transaction discretely, totally ignoring previous business, however large.

- **Three years of separate, noncoterminous Software Assurance (SA), for each purchase.** Customers that currently have SA with their Select agreement pay for complete years with each new purchase, even if there are only a few months left until the next agreement anniversary. Now they have to pay for a full three years, but at least they will get SA for the whole term. The individual SA contracts will be made coterminous with the agreement anniversary when they are first up for renewal.

**Forrester’s take:** However much Microsoft touts the value of all of the various elements of SA, customers regard most of its value as coming from the rights to upgrade to future product versions.<sup>3</sup> Those rights accrue when Microsoft releases its new version, not when the customer actually upgrades. The vendor claims that the new rule ensures that customers get the full value of the SA they buy, but they could have achieved that more fairly by enabling coterminous SA with monthly pricing as part of the initial purchase.

Vendor managers face a complex decision when considering whether or not to subscribe to SA.<sup>4</sup> They have to involve relevant IT colleagues to identify the company’s likely upgrade strategy, predict when Microsoft will release future software versions, and therefore put a value on the upgrade rights. Then they have to value all of the other SA benefits and the penalties for not subscribing to SA, to decide if it makes business sense.<sup>5</sup> Under Select Plus, buyers must make this assessment each time they raise a PO.

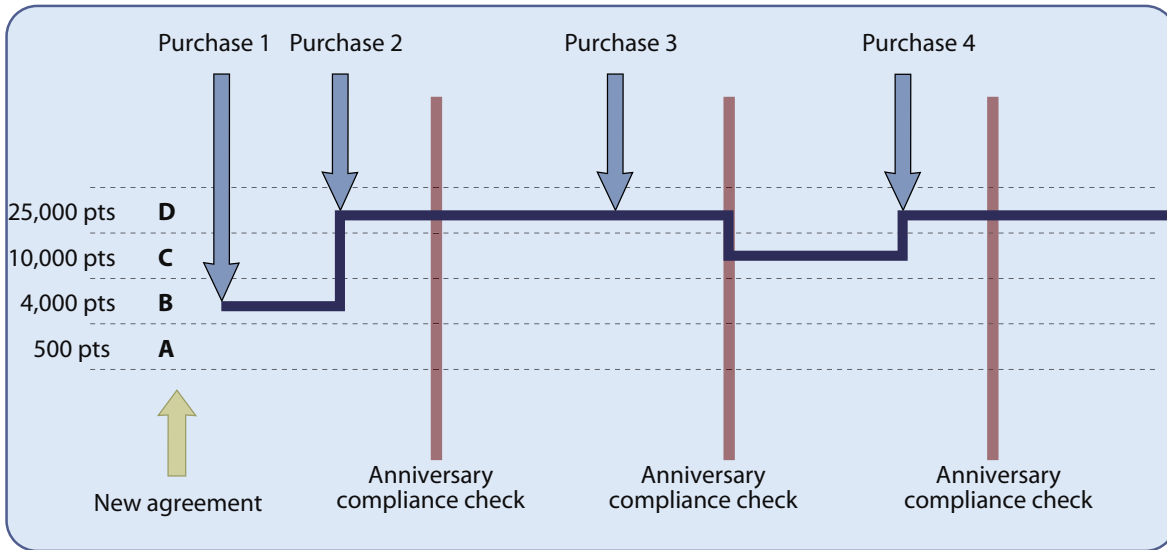
**Figure 1** Comparison Of Select Plus With Current Alternatives

	<b>Select Plus</b>	<b>Select</b>
Legal structure	Single master agreement, no expiration date	Three-year master agreement with separate affiliate enrollments
Placing orders	Any business unit with its own account number can order	By enrollment
Software Assurance	By PO	By enrollment
Software Assurance term	Three years	To end of agreement, including complete year for year of purchase
Price level qualification	Best of: a) Cumulative year-to-date actual purchases b) Previous year’s total purchases c) Level below previous year’s price level	Three-year forecast, reassessed downward if actual purchases are less than one-third of the total
Reassessment	No worse than one level per year	No limit, can be reassessed from D to A
License management	Customers can see licenses by business unit and consolidated under lead account	By enrollment, so licenses purchased under different agreements aren’t visible

46328

Source: Forrester Research, Inc.

**Figure 2** Select Plus Price Tier Is Based On Historic Actual Volumes



<b>Purchase 1</b>	5,000 points activates the price level to B for server pool.
<b>Purchase 2</b>	23,000 points qualifies for level D; first anniversary compliance checking (ACC) is confirmed for price level.
<b>Purchase 3</b>	25 points is not enough to maintain the current price level. After second ACC, price is decreased one level.
<b>Purchase 4</b>	28,000 points qualifies at level D; third ACC confirms price level.

Source: Microsoft

46328

Source: Forrester Research, Inc.

**Figure 3** Aggregating Demand To Achieve The Best Tier Possible Can Deliver Significant Savings

	Purchase quantities (points)		License price (\$)			PO value (thousands \$)		
	Business unit demand	Aggregated purchase	Select (old-style), level B	Select Plus, no aggregation	Select Plus, aggregated PO	Select (old-style)	Select Plus, no aggregation	Select Plus, aggregated PO
<b>Year 1</b>								
Q1	1,000	—	220	240	—	\$220	\$240	\$0
Q2	2,000	—	220	240	—	\$440	\$480	\$0
Q3	1,800	10,200	220	220	200	\$396	\$396	\$2,040
Q4	2,000	—	220	220	200	\$440	\$440	\$0
<b>Year 2</b>								
Q1	3,400	—	220	220	200	\$748	\$748	\$0
Q2	800	800	220	220	200	\$176	\$176	\$160
Q3	1,500	1,500	220	220	200	\$330	\$330	\$300
Q4	2,000	7,700	220	220	200	\$440	\$440	\$1,540
<b>Year 3</b>								
Q1	3,000	—	220	220	200	\$660	\$660	\$0
Q2	1,000	—	220	220	200	\$220	\$220	\$0
Q3	2,000	300	220	220	200	\$440	\$440	\$60
Q4	1,000	1,000	220	220	200	\$220	\$220	\$200
<b>Total</b>	21,500	21,500	—	—	—	\$4,730	\$4,790	\$4,300

Note: The purchase quantities have been invented by Forrester to illustrate the impact of aggregation. The prices approximate to typical Microsoft select prices, dividing the product's price by its point rating.

46328

Source: Forrester Research, Inc.

## RECOMMENDATIONS

### TAKE ADVANTAGE OF SELECT PLUS' PRICING RULES TO GET CHEAPER SOFTWARE

The simpler legal structure and streamlined procurement process make Select Plus a good choice for enterprises that want to receive the full economies of their scale yet retain flexibility for individual business unit buying decisions. Savvy software buyers can get an even better deal by increasing the size of their first PO and timing it carefully to maximize the value of SA. Software sourcing managers should ask to upgrade to Select Plus if they can:

- **Aggregate demand from the enterprise to form a single large PO.** Software buyers who have not inherited a favorable tier from a legacy agreement — for example, because they are making their first significant purchases in a particular product pool — should consider delaying purchases early in the assessment year until they are ready to place a sizeable PO. Buyers should also try to pull forward future demand to make that PO large enough to reach the best possible level.

To illustrate, the difference between levels averages approximately \$20 per point. The difference between levels A and B for the first 4,000 points could be worth \$80,000. A company could save a further \$200,000 if it could place a single PO for 10,000 points at level C, rather than make several small transactions at Level B. Such savings could easily justify the negative impact on cash flow of buying earlier than absolutely necessary.

- **Time major purchases to be within three years of the next release and include SA.** The company will be entitled to that new version whenever it chooses to upgrade, provided that it comes out in time. The cost of SA over this period will be 13% less than the price to rebuy the licenses if SA had not been in force. Conversely, SA is not cost-effective if the next release is more than three years away, because it will cost between five and six years of SA payments to qualify for that version. Buyers should remember to leave at least six months leeway between Microsoft's pre-announced dates and when they actually expect the release to occur.
- **Retain advantageous clauses in their current agreement and secure some new ones.** Many IT sourcing managers used the significant commitment represented by their Select agreement to win valuable contract changes, such as amelioration of the audit clause. Sourcing managers should not allow Microsoft to retract these concessions by insisting on a vanilla Select Plus contract. Moreover, the contract's permanent nature means that this may be buyer's last chance to get significant alterations to the legal terms.

#### WHAT IT MEANS

#### MICROSOFT'S BUYER-FRIENDLY LEAD WILL FORCE OTHER VENDORS TO FOLLOW SUIT

Microsoft's cumulative pricing represents a welcome change from the industry standard practice of treating each PO as a separate transaction. IT purchasing managers hate reps' short memories and their refusal to look at past business when considering discounts and concessions for the current sale. Microsoft is prepared to reward customers that show a commitment to its technology by a series of purchases, without demanding a single mega-PO. Other software vendors, even those that don't compete directly against Microsoft, will need to mirror this trend if they are not to appear outdated and out of touch with customers.

## ENDNOTES

- <sup>1</sup> Select pricing tiers are based on purchase points, which are based on product licenses and a points-per-product conversion factor. For example, a buyer earns 1 point for an Exchange CAL, 2 points for an Office license, and 15 points for Exchange Server. Thresholds have been reduced by a third because they now reflect annual, not triennial, assessment. The new points tiers are A: 500; B: 4,000; C: 10,000; and D: 25,000.
- <sup>2</sup> The assessment year for Select Plus is based on the agreement's anniversary. This never changes, because the Select Plus agreement does not expire. Each Select agreement may have a different anniversary, and buyers can move this date by leaving an interval after one has expired before they sign a new one.
- <sup>3</sup> The economics of buying SA (at 29% of the licensing fee for desktops) for the subsequent three years without any guarantee that a customer will recoup its investment, make holding off and buying new licenses until actually needed an attractive option. Lengthening release schedules, uncertain product road maps, and the complexity, cost, and time associated with installing a new release make the value of this program even more uncertain. See the June 13, 2007, "[Economics And Alternatives To Microsoft's Software Assurance](#)" report.
- <sup>4</sup> Microsoft's software maintenance agreement is among the industry's most expensive — 25% for server products and 29% for desktop products. In terms of upgrade rights — the major element — this is only cost-justified by a three-to-four-year upgrade cycle, but Microsoft has undermined Software Assurance's value proposition by missing delivery dates for new versions. See the June 20, 2008 "[Successfully Negotiating Microsoft Licensing Agreements](#)" report.
- <sup>5</sup> A good example of the decision's complexity is the services and concessions related to desktop virtualization that Microsoft ties to SA. Microsoft continues to push customers toward SA for its Windows licenses by offering exclusive SA-only offerings like Vista Enterprise and Microsoft's Desktop Optimization Pack (MDOP). Desktop virtualization will also begin to shift the economics back in favor of SA. For many aspects of desktop virtualization, it's difficult and impractical to license the solution without it; in other cases, it could merely be more expensive. See the June 5, 2008 "[Thinking About Desktop Virtualization? Rethink Your Windows Licensing Strategy](#)" report.