Miro consulting

The world's software license management expert

CONTENTS

167 Main Street | Woodbridge, NJ 07095 | 732.738.8511

Negotiating A Microsoft Enterprise Agreement: Saving Cost and Time

Companies spend **30% More** (on average) than they have to on software licensing fees.

MIRO BLOG
Audit Trails
& Licensing

Read Miro's blog about software licensing, compliances and audits. Go to www.miroconsulting.com/blog and subscribe!

Businesses Will Pay Nearly $100 Billion on Software Maintenance Fees in 2007.

Companies don't have to accept the opening bid or the initial "discounted price" given to them when purchasing or renewing Enterprise Agreements with Microsoft. With proper planning, proactive management and intimate knowledge of software licensing, companies can save up to 30 percent –sometimes much more- on licensing fees.

There are several key points to consider when negotiating Microsoft Enterprise Agreements, and the smart software licenser can identify and capture big savings quickly if armed with the right information. In fact, larger, longer-term savings are available to customers who control the buying cycle and are proactive, not reactive, with their vendor management – even when the vendor is Microsoft. Key issues to consider during any license review process are:

1. While Microsoft may come to you with "unsolicited" offers that look attractive at first glance, remember that these offers are rarely, if ever, structured for your best cost/benefit and technology needs. Build your deals based on your own core requirements and plans – and not by haggling against Microsoft's opening offer.
2. Microsoft and their Enterprise Software Advisor (ESA) partners closely control access to price lists, deal options and information that might help customers better customize deals. Without expert assistance, you are at the mercy of these representatives when exploring and negotiating options.
3. While Microsoft positions Enterprise Agreements as "direct" deals with your company, in reality it is the reseller (or your ESA in many instances), who earns commission from the sale. It is important to require your ESA "partner" to earn his or her commission by supporting you in the negotiations and by offering other value-added services. However, ESAs are managed tightly by Microsoft and cannot aggressively support your negotiations.
4. A careful analysis by an expert familiar with Microsoft's policies will help you understand the company's pricing and your complete out-of-pocket costs for the licensing agreements, and will develop a plan that gives you the most benefit for the least cost. This expert can be an internal staffer but more frequently is an outsider whose sole business is understanding and maximizing enterprise software licensing.
5. Never assume that your Microsoft representative or ESA will accurately price your offer or even compute the totals correctly. While these errors will likely be caught during the contract review/final pricing process, fixing them will delay implementation and create extra work for all involved.
6. While Microsoft may offer you software support options at a reduced price, those costs may still be well above market value for comparable services from third party providers.

By keeping these six lessons in mind and working with an expert outside consultant – Miro Consulting – a Northeastern financial services company recently saved nearly one third of its anticipated Microsoft enterprise licensing costs.

ORACLE FREE GUIDE

"Working with Miro Consulting, PR Newswire saved an estimated 30 percent on Microsoft licensing fees. We will also see approximately 12 percent in ongoing savings versus previous purchase costs, which we intend to reinvest toward additional product innovations for our customers.

— Andy Murrell, manager, Global IT Procurement of PR Newswire

FORRESTER®

Forrester's Ray Wang noted that maintenance continues to be the most expensive cost component of enterprise software. *"At 22% of net price, customers pay the equivalent of 2 times their original license costs over a typical 10-year ownership cycle."*

Case Study: A Financial Services Company Saves Nearly 30% on Software Licensing Costs

The Challenge:

Analyze Microsoft's enterprise agreement renewal offer quickly and save money and headaches.

Microsoft offered a Northeastern United States-based financial services organization a range of options to renew and replace their existing enterprise agreement. The company was about to enter the third year of an agreement with the software giant and had significantly expanded its number of PC users since the agreement began. Microsoft offered to transition the company to a new agreement based on the company's current size and needs, thus avoiding the high "true-up" charges for additional users beyond the base enterprise count.

With Microsoft's best offer in hand, the company engaged a Miro Consulting advisor to evaluate the offer and make recommendations. Within one week, we had identified savings of $870,931 (28 percent) of Microsoft's $3,135,600 "best offer" quote for the agreements.

A large part of the savings opportunity required a simple change in PC management strategy, which would also result in added cost savings for the company. But since the timeframe was too tight to enact the change, the company's senior management elected to pass on that recommendation and conclude the new agreements using the remaining recommendations. The company successfully negotiated and completed the new agreements in less than one month.

An examination of the details of Microsoft's offer to this company as well as Miro Consulting's analysis and recommendations provides lessons to other companies who are negotiating with Microsoft for enterprise or select agreements.

Let's start by looking at Microsoft's offer. Commonly, enterprise software companies offer discounts, deals or varying levels of pricing for its agreements. Microsoft is no different. In this case, the company offered three choices – minimum, medium and maximum – all with a deadline date that may coincide with the company's fiscal quarter closing.

For the financial services company, Microsoft offered the following:

Support Level/Deadline	Dec-04	Dec-05	Dec-06	Total
Minimum	$1,175,147	$739,943	$739,943	$2,655,033
Medium	$1,297,940	$862,736	$862,736	$3,023,412
Maximum	$1,274,600	$930,500	$930,500	$3,135,600

Microsoft based the three pricing levels on alternate scenarios consisting of various assumptions about application purchases and usage. All three options were based on the same assumptions about corporate growth and the number of PC users over time. Each offer included a credit for part of the money already spent on the existing enterprise agreement, along with pricing breakouts, but little in the way of explanation or justification for the pricing. Further, the spreadsheets contained simple math errors as well as more subtle errors in assumptions.

Are you 100% "Bet your paycheck" sure that you're compliant?™

"We found your report to be quite invaluable. Thanks again for your assistance."

— *John Burnett, Huron Consulting Group*

73% of IT executives are not prepared for a software audit

After contacting several consulting and analyst firms seeking advice, the financial services company selected Miro Consulting to check the competitiveness of the Microsoft offers and get advice and information to improve upon Microsoft's offers. The company chose Miro for its philosophy, methodology, simple fee structure and 100-percent satisfaction guarantee.

Step One: Interview and Data Gathering

During two days of telephone and e-mail conversations, we reviewed the company's existing agreements and license ownership for the Microsoft products that were most-used in their environment (Windows, Windows Server, Office, SQL, etc). For each product, we wanted answers to these questions:

- How many do you own – outright – today?
- How many are covered by Software Assurance and when does that end?
- How many are installed and in use today?
- How many do you expect to install and use in the future – one, two and three years down the road? The answer to this question requires a good grasp of your company's technology roadmap and your overall growth patterns, including acquisitions/divestitures. For that reason senior executive sponsorship is critical to successful Microsoft negotiations.
- Which products that you don't currently use might you start using? This company was interested in Microsoft's Live Communication Server, which requires both Client Access License (CALS*) and Server licenses.
- Which products that you do currently use might you retire or stop using?

Because this particular company, with a staff of about 2,400, was organized into a single entity with centralized IT procurement and control, the data gathering phase was well organized and resulted in solid information. In fact, centralized IT procurement and asset management are critical success factors in negotiating with any vendor, but especially with Microsoft.

Step Two: Data Validation

Software licenses are notoriously difficult to track and manage. Most large companies must gather and review purchasing, invoicing and licensing history from multiple divisions, resellers and internal databases to establish an overall enterprise view of their current IT deployment. Fortunately, this company had already performed much of this work and was able to quickly supply copies of all relevant contracts, reseller purchase history reports and internal documents such as roadmaps, audit/discovery tool reports, usage forecasts and estimates.

Gathering, consolidating and reviewing this data is a critical validation step that enables a company to define any gaps between current license ownership and usage, and negotiate from a position of strength based on accurate information. Even if the data shows that your company has compliance issues, it's still better to know and make appropriate plans than to over purchase based on ignorance or fear.

In this case, a close review of the company's invoicing reports from their sole Microsoft reseller showed that a large number of licenses that were thought to be covered by software assurance were not covered. In the final outcome, this issue was not material, but under different circumstances could have resulted in significant cost impact.

CIO WEBINAR SERIES

"Definitely count us among your satisfied customers! Our licensing negotiations with Microsoft were long and painful (no surprise, I'm sure), but I feel that we were able to get the best possible deal from them. Thanks again for helping us out!"

— Craig Penner, Stream-Flo Industries Ltd

"I really appreciate your approach and I'd recommend it to anyone negotiating with Microsoft."

- GK, Boston (Fortune 50 Space & Defense Co.)

Step Three: Establish Negotiation Priorities

From the company's answers, Miro Consulting established a consensus regarding which Microsoft products were most critical to the customer as defined by current and estimated future spend rates, and importance to the IT and corporate roadmap. This consensus is important to establishing negotiation priorities.

During the interview the company discussed the importance of SQL Server in supporting key enterprise applications. A financial review, however, showed that the dollars spent on SQL Server were less than one percent of the total deal value proposed. Instead of haggling over SQL prices or terms, time was better spent working toward more high-value opportunities such as the Enterprise CALS and Office Software Assurance that made up the bulk of the cost of the proposed agreements.

It is important to note that "legal contract review" was not included in the priority list. Although there are many clauses within Microsoft's standard agreements that may raise concerns with legal departments, in practice it's both difficult and time consuming to effectively change many sections of the contracts. As a practical matter, most customers operating under time and personnel constraints are better served by focusing on getting the best deal for the software they need, instead of chasing legal terms. Because time is a critical constraint in every negotiation, it is important to focus your efforts on the highest total dollar value items and avoid non-critical distractions.

Step Four: Build the Agreement that Meets Your Needs

The objective of this step is to use the data gathered to answer the question: "Considering what we now own, and what we will need during the course of the next agreement, what is the most cost-effective way to meet those needs?"

Ideally, this question can be answered by reviewing each individual Microsoft product, comparing your current ownership to future plans, and adding the gap to a "to be acquired" list. After reviewing the major products in use (or planned to be used), you'll take the aggregate information and determine which licensing program (Enterprise, Select, Open) and price level are most appropriate for "first-pass" pricing.

This process often results in a dramatically lower total cost than the offer given by Microsoft – and this was the case for the Northeastern financial services company. We identified several key products that were included in both the existing enterprise agreement and in the renewal offers that the company simply did not need, and had no real plans to use during the three years of the proposed agreement.

In practice, the main pricing challenges for companies are:

- No access to complete Microsoft price lists – limited ability to compare the cost of various options and verify quotes.
- Limited expertise in Microsoft license agreement terms, options and structures.
- Few sources of reliable, independent information based on current Microsoft policies, prices and practices.

These challenges can be overcome by:

- Asking resellers for their independent assessments of your situation. Do not provide "leading information" such as Microsoft quotes or quotes from other resellers. When you give the reseller a blank slate, you can judge the rep's overall competence and, most important, their aggressiveness and creativity in helping you design the best deal.

- Seek out information and advice from an independent source that is familiar with both licensing structures as well as IT and organizational needs. One without the other will likely lead to operational ineffectiveness and increased licensing fees in the future.
- Designate a lead analyst and lead negotiator. Require the lead analyst to invest the time to become familiar with the available information on Microsoft licensing options, terms and programs, and also with the internal company data mentioned above.
- Engage a qualified independent advisor. Require a straightforward performance guarantee (instead of a complex percentage arrangement) so that you are not forced to follow any particular advice but are free to choose the options that best fit your company's goals and culture.

The outcome of step four should be a detailed "deal sheet" showing:

- each product on your "future" list.
- quantity of licenses, license and software assurance and software-assurance-only needed.
- individual pricing is based on Microsoft ERP and not discounted (In this instance, ERP stands for Estimated Retail Price, which is Microsoft's version of a List Price).
- payment dates (annual if enterprise agreement or at purchase if select agreement).

You'll also want to include estimated true-up payments if considering an enterprise agreement as well as the value of any credits or other special concessions you expect to receive. Following these steps will allow your company to build its own deal with Microsoft based on your particular situation, goals and market intelligence.

> "Microsoft has done an awful lot of testing on Vista and has never before had thousands of beta testers. But all that said, if you're a CIO of a midsize or large company, you'll wait a year," said Scott Rosenberg, founder and CEO of Miro Consulting, Woodbridge, N.J. "The savvier CIOs wait about a year until more bugs are discovered and fixed."
>
> *— Miro Consulting's CEO Scott Rosenberg is quoted in the July 2008 ComputerWorld article, "Microsoft's new 'Select Plus' a better software license for businesses".*

Step Five: Negotiate and Conclude Your Perfect Agreement

If you've successfully built a deal structure that meets your needs exactly and you've received good advice from your reseller or advisors, you should be able to implement the deal quickly. With this approach, you avoid haggling with Microsoft over price and eliminated other time-consuming tactics such as asking for legal term changes or customizing the deal structures (beyond the normal flexibility), unless time permits and if justified by potential benefits.

When negotiating with Microsoft, stick to these key themes:

- You're an excellent, loyal customer and will continue to be.
- The pricing and terms are standard (with any exceptions you choose to pursue).
- The general deal terms and exceptions have already been offered/approved by Microsoft for other customers (you'll get this information from your reseller/advisors).
- By completing the deal in this manner, you have more funds available to invest in new Microsoft products for your enterprise.
- Quick approval means the Microsoft representative can book this revenue and move on to other deals.

Because of the tight timeline involved with the Northeastern financial services company, the strategy was not to negotiate on price but to focus instead on getting the recommended structure. Since no price deviations were requested, the local office could easily get approval for the deal structure.

Negotiating and gaining approval for your offer need not be an ordeal. By taking advantage of existing Microsoft terms and pricing, you gain leverage with your representative and gain time and power to gain customized concessions.

Miro Consulting's cost containment strategies begin with a confidential, comprehensive licensing and compliance review. Each client receives a **customized plan to fit their business needs** in order to obtain the best price as well as terms and conditions. The company also offers ongoing software asset management programs that include a meticulous audit, analysis and implementation of strategy.

Conclusion:

The customer was pleased with the analysis and recommendations, as well as with our speed of providing the information (within two weeks) and moved quickly to implement the agreements with Microsoft.

Summary of recommended costs:

Year 1	Year 2	Year 3	Total
$529,842	$830,842	$903,842	$2,264,670

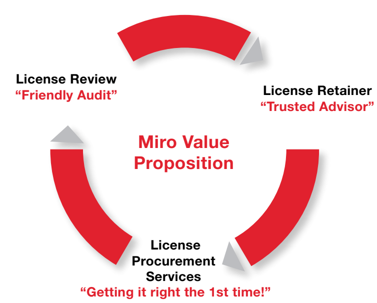
The company's counter offer included everything in Microsoft's original maximum offer, but for LESS than the price of the original minimum offer.

The lesson learned in this case study is that with the proper planning and lead time – we recommend six months if possible – significant cost savings can be had when negotiating new or renewal Enterprise Agreements with Microsoft.

About Miro Consulting

Since August 2000, New Jersey-based Miro Consulting, Inc. has provided advisory services to Oracle and Microsoft clients needing assistance in managing the fundamental changes in their software licensing assets. This highly successful consulting practice has helped 400+ clients throughout North America to optimize their total cost of ownership. Miro has overseen over $1 billion in Oracle and Microsoft transactions. Organizations including Heinz, Sony, Timex, J. Crew, Polo Ralph Lauren, Royal Caribbean, Canadian Pacific Railway and Reader's Digest call us their trusted advisor for software asset management.

Miro Value Wheel



Miro's 3-Step Microsoft Licensing Program

- Friendly audit
- Compliance "Report Card"
- Detailed plan for Microsoft licensing

Miro Consulting also provides consulting services for Oracle and all other Oracle solutions.

The Leadership

Scott D. Rosenberg, CEO and Founder

Scott Rosenberg is responsible for creating and driving the vision of Miro Consulting, which he founded in August 2000. With more than 20 years of engineering and operations experience, Mr. Rosenberg's leadership has fostered significant company growth. Today, Miro Consulting has over 400+ clients across North America and has overseen more than $1 billion in Oracle and Microsoft transactions.

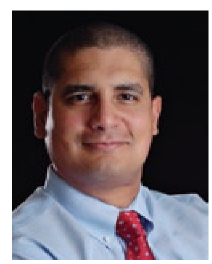
Prior to Miro Consulting, Mr. Rosenberg was a founding principal and driving force behind Cintra, a highly successful Oracle consulting company with over $20 million in revenues.

Frequently quoted by media outlets such as *CRN, eWeek* and *InformationWeek*, Mr. Rosenberg is considered an expert in Oracle licensing and software asset management as well as Microsoft licensing. He also regularly contributes articles to industry publications – such as Baseline, Bank Technology News and CXO magazine – and is a frequent speaker at industry and executive conferences including the Corporate Executive Board, Society of Information Management (SIM), SoundBoard and IAITAM. Mr. Rosenberg is an active member of the International Association of Information Technology Asset Managers (IAITAM) and is a Certified Software Asset Manager (CSAM). He was also honored as one of the finalists in the Ernst & Young's prestigious Entrepreneur of the Year® New Jersey program two years in a row.

Mr. Rosenberg earned an Industrial Engineering degree from the University of Pittsburgh.

Mr. Rosenberg currently resides in Leonia, N.J. He is a practicing martial artist (Tae Kwon Do), and is an avid follower of the principles of the late business guru and father of modern management, Peter F. Drucker.

Eliot Arlo Colon, President



One of the world's leading experts on Oracle software licensing, Eliot Arlo Colon is responsible for the ongoing development and delivery of Oracle cost containment services for Miro. With more than 15 years experience in the financial and technology markets, Mr. Colon has assisted scores of companies with the configuration, negotiation and management of Oracle software licensing contracts.

Mr. Colon is frequently quoted by the media in publications, such as *The Wall Street Journal, Computerworld* and *IT Week*, and is a frequent speaker at industry conferences including the Society of Information Management events. He is an active member of the International Association of Information Technology Asset Managers (IAITAM) and is a Certified Software Asset Manager (CSAM). He was also honored as one of the finalists in the Ernst & Young's prestigious Entrepreneur of the Year® New Jersey program.

Mr. Colon holds a degree in Business from Middlesex College and a degree in Finance from Rowan University (formerly Glassboro State College).

Mr. Colon currently resides in Brielle, N.J. An avid supporter of the MS Foundation, Mr. Colon participates in the local fundraising events as well as the annual coast-to-coast bike race fundraiser.

FOR MORE INFORMATION CONTACT:

Scott D. Rosenberg
Founder and CEO
Miro Consulting, Inc.

167 Main Street
Woodbridge, NJ 07095

Tel: 732.738.8511 ext. 1210
Fax: 732.738.8466
ScottR@miroconsulting.com

Awards & Honors

Additional Resources

CIO WEBINAR SERIES

READ MIRO'S BLOG

ORACLE FREE GUIDE

Disclaimer: This publication is designed to provide accurate and authoritative information regarding the subject matter. This is not legal advice. Before signing any contract, you should consult a competent attorney. This is not an accounting or tax advice, and you should consult a competent tax professional regarding any tax implications of the information in this publication. Some of the information in this publication is opinion. The authors have exercised due care and have attempted to verify the information in this publication. If you find an error, omission, or something that just isn't clear, please email: info@miroconsulting.com.