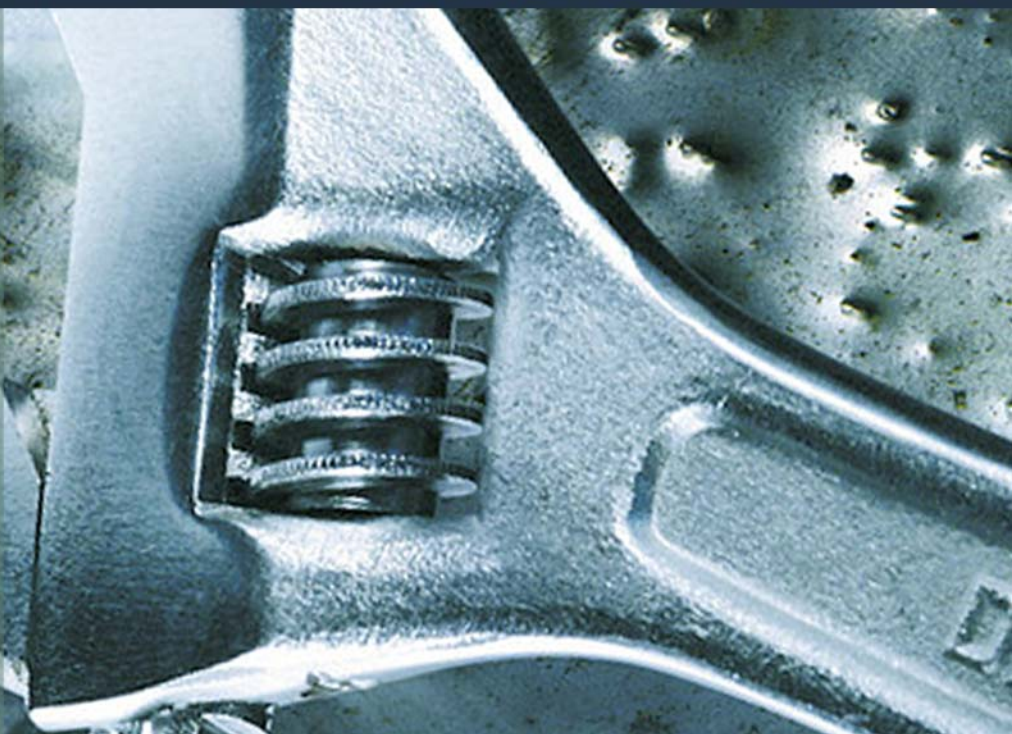


OPERATE & OPTIMIZE

Info-Tech Advisor Premium - Operate



About this research note:

Operate & Optimize notes provide recommendations for effective and efficient IT practices that help improve the performance or reduce the cost of technologies already deployed in the enterprise.

Key Considerations for Kicking Microsoft EA to the Curb

Publish Date: August 29, 2009

What are the pros and cons of renewing the Enterprise Agreement (EA) with Microsoft? Given that this decision represents a significant spend, careful consideration must be given to the arguments for and against the EA renewal.

INFO~TECH
research group

Passionate About Research.
Driven By Results.

www.infotech.com

© 1998-2009 Info-Tech Research Group



Executive Summary

This note provides essential guidance on the key considerations that an organization must pursue before kicking their Enterprise Agreement (EA) with Microsoft to the curb. The three main areas explored include:

- » Arguments for dropping the EA.
- » Arguments against dropping the EA.
- » Other licensing cost cutting options.

Given that the cost involved with an EA is significant, organizations need to carefully evaluate their options prior to renewal time so that they make the right decision that factor in long-term consequences.



Optimization Point

Given current budget pressures for many IT departments, many organizations are evaluating whether or not they should keep their Microsoft Enterprise Agreement (EA), which comes with mandatory Software Assurance (SA) coverage on all products. Microsoft estimates that penetration among midmarket customers with 250 to 1,000 computers is 12%, 40% among those with 1,000 to 5,000 and up to 70% among those with over 5,000 computers. This means a significant number of companies will have to make the EA renewal decision over the next couple of years.

At a time when some organizations are cutting back on training, travel, and even staff, those same organizations are still unsure if they should renew their Enterprise Agreements or other agreements with Software Assurance coverage. If the organization is renewing their agreement without any plans to upgrade to the most current version of software available, they could be investing in Microsoft's future before their own. When an organization opts for an agreement with SA, they are buying an investment for the rights to future upgrades. With uncertainty of what's to come and whether the organization will actually need the upgrades – buying SA in this economy is akin to buying shares of stock in the market – it is hard to predict if the investment will pay off one day.

EAs make sense for organizations committed to running the most current version of every Microsoft product that they use. While this may have made sense in the past, the versions available today meet most organizational needs. With time and budget constraints, the incentive to upgrade is just not there. Even for organizations that already own the upgrade rights, and considering the learning curve, switching costs, and often the need for a hardware upgrade at the same time (for compatibility reasons), upgrading can get prohibitively expensive to do every three to four years. If the organization is opting for a five to six year hardware refresh rate, it may make sense to have Microsoft licensing follow suit. At that upgrade frequency, a pay as you go philosophy is the new trend. Further, the organization could be locking itself into a three year agreement for a certain number of employees that may actually decrease over time. If employee count is shrinking, locking into a contract for the next three years based on today's employee count is cost prohibitive.



Key Considerations

Arguments for Dropping the EA

Organizations should consider the following arguments for letting their Enterprise Agreement lapse:

- » **An EA requires a set minimum of desktop coverage.** Buying a platform across the entire enterprise can lead to licensing more software than is needed. An EA requires a site license that covers Office, Windows upgrade, and a suite of Client Access Licenses (CALs) for all qualified desktops in the organizations. Every user in the organization may not require access to the same version of software, and as a result, the organization ends up overlicensing and overspending.
- » **An EA requires OS upgrade purchases.** Currently Vista comes in two versions: Business and Enterprise. The Business version comes standard on any OEM hardware purchase. Thus, if the organization has no need for the Enterprise version of Windows then there is no need to involve these licenses in volume purchasing whatsoever, let alone obtain SA coverage for them. This rule will likely apply to Windows 7 as well. If the organization is keeping the same hardware, then obtaining upgrades through SA coverage makes sense, but if the plan is to also upgrade hardware then the new OS will be included as OEM. However, an issue for many organizations will be driver support for desktop hardware and peripherals that are 5+ years old. The driver issues alone may require upgrades on the desktop and certainly will trigger upgrades of peripherals such as scanners, and other specialized input devices that are very old.
- » **An EA effectively charges the organization for every version released.** The large bulk of the cost associated with an EA is the upgrade rights. On an annual basis, SA coverage which is mandatory on all products in an EA, tacks on 29% to desktop licenses and 25% to server licenses. Paying for an EA entitles the organization to every version released, and if the organization doesn't have the time or resources to upgrade every three to four years, they could be paying for licenses that are never used. Organizations with a five to six year upgrade plan should not purchase an EA.
- » **An EA comes with more legal cost and involvement.** EAs require more documentation, such as a Master Business and Services Agreement, a volume agreement, and an enrollment for each affiliate.
- » **An EA factors in some other benefits that may not be used.** An EA comes with many benefits and throw-ins that SA coverage brings. However, if the organization currently does not make use of these benefits (or even know what they are) they likely won't need them later this year nor will anyone notice if they are no longer available.



- » **An EA does not come with extra support.** One of the biggest misnomers is that cancelling an EA means loss of support. This is not true – an EA is not tied to support and customers will still get access to patches and can purchase additional support from Microsoft or its partners.
- » **Upgrade rights earned live on past the agreement.** Many customers mistakenly believe that if they do not renew their EA, they will lose out on the upgrade rights they earned during the course of their agreement. This is not true, if a new version was released during the course of the agreement, the right to upgrade does not expire when the agreement expires. For example, if the organization is still running XP, Office 2003, Windows Server 2003, and Exchange 2003, and doesn't plan on upgrading to the most recent versions until later, it makes no sense to spend money today, for future versions, when the organization is not still on the most current products. If this sounds familiar, it may be an indication that an EA is not the right fit.

Case Study: EA Renewal Cost for a City Government

The IT Director at a City Government was recently faced with the EA renewal decision. His reseller gave him the following quote for renewal of 250 users, the costs being entirely Software Assurance (SA) only.

SA Only ANNUAL Renewal Costs:

250 MS Platform (Office Pro Plus, Windows OS, CORE CAL).....	\$36,250
250 Windows Desktop Optimization Pack.....	\$2,100
Other Desktop Licensing.....	\$2,176
Server Licensing.....	<u>\$10,792</u>
TOTAL ANNUAL SA COST.....	<u>\$51,318</u>

After taking a closer look, the IT Director realized that the organization was not even using the Desktop Optimization Pack, so they were paying an annual fee of \$2,100 for something that was not necessary. Furthermore, the organization was planning on upgrading to Windows Server 2008, Exchange 2007, and Office 2007 over the next two years, but had not yet taken advantage of their already earned upgrade rights. Given that they have the rights to upgrade to these version at any time even if they let their EA lapse, they decided that there was no need to keep the EA since they would be essentially be paying for the rights to future versions which they have no need for in the foreseeable future.

The organization was looking to cut a total of \$60,000 from their IT budget, and through letting EA lapse they were able to contribute over \$51,000 to this goal.



Arguments Against Dropping the EA

Before dropping the EA, an organization should consider the following arguments for keeping their EA:

- » **True-ups are better with an EA.** If the organization is expecting a large growth in the number of PCs over the next three years, an EA allows the organization to pay at the end of each year rather than at the time of acquisition. This eases license management and allows for greater flexibility. Also, Software Assurance coverage is charged for only a half of the year that the software is acquired in, whereas in a Select agreement the full year of coverage is charged regardless of acquisition date.
- » **The Microsoft Desktop Optimization Pack (MDOP) is only available to SA subscribers.** If the organization currently utilizes the MDOP, this is only available as a subscription license to SA customers.
- » **License management is easier with an EA.** License management can sometimes compensate for the overlicensing that often occurs in an EA. In other agreements, the organization must keep track of what licenses are tied to which machines. In an EA, the organization simply has to count the number of desktops.
- » **SA benefits will be lost.** If the organization utilizes any of their SA benefits such as user training or home use rights, these benefits will have to be given up or paid for.
- » **Some Microsoft services are tied to SA.** A good example is desktop virtualization, through Microsoft's Vista Enterprise Centralized Desktop (VECD). VECD is only available to customers paying SA on their operating system licenses.
- » **Restarting an EA can be cost prohibitive.** If the organization plans to restart an EA in the near future, this will entail purchasing licenses for all the devices covered by the EA – even if the organization already owns the licenses. An organization can try to get credit for some licenses, but this is not guaranteed, so letting EA lapse and later restarting it can add up to the same as starting an EA from scratch. The long-term implications are that letting an EA lapse this year means it does not make sense to start up another one until 2013+.



Other Licensing Cost Cutting Options

If the organization has determined that they should renew their EA, consider the following options in order to reduce overall costs:

- » **Look to reduce the number of qualified desktops.** Since an EA requires blanket coverage on all qualified desktops, an organization should evaluate whether there are desktops that are not qualified and can be taken out of the total desktop count. Examples of non-qualified desktops are line-of-business machines, order entry machines, single task stations that run non-Microsoft software, kiosks, employee owned PCs, Linux machines, and thin clients. If the organization is on the border of a discount level, then reducing their number of desktop count may push them to a lower level, so factor this into the decision on what to count.
- » **Leverage the current buyer's market.** Microsoft has been offering a number of discounts recently. Recent examples have been a free month of EA coverage when the organization renewed early, or discounts ranging from 15-35% on common server licenses when purchased through Select or EA agreements. For current promotions, go to the [Microsoft Incentives](#) Web site.
- » **Utilize the one time 1 year renewal option.** An organization can renew an EA for one year only once, however, if the future is uncertain, now may be the time to use this shorter renewal option.
- » **Partially renew the EA contract.** If an organization does not require SA coverage on all products, they can elect to renew a component of their EA for a subset of products, and combine remaining purchases with a [Select Agreement](#). Alternatively, they can renew the products they want SA coverage with via a Select Agreement and do it only for certain products or for some of their users.

If the organization decides that there is a business case for SA, many of Info-Tech's clients have been successful in negotiating deeper discounts in their renewal agreement but threatening to cancel. Start the negotiation process at least six months in advance and use the following leverage points:

- » Show knowledge of alternatives to the current licensing model without committing to SA. Knowing the organization's usage and upgrade plans is crucial.
- » Demonstrate the organization's ability to wait for an OS upgrade with a hardware refresh. Use of the Business version of the desktop OS that comes OEM eliminates the need to purchase Windows with SA.
- » Show a penchant for a free, open source platform.



Improvement & Optimization

Organizations making the EA renewal decisions should evaluate the pros and cons associated.

1. **Dropping the EA can decrease overall costs.** An EA often means overlicensing, since a set minimum of desktop coverage is required, including OS upgrade purchases and upgrade rights on all versions released. An EA also comes with more legal costs and factors in other benefits that often go unused. Further, letting an EA lapse does not mean the organization loses support, and their earned upgrade rights live on past the agreement.
2. **Dropping the EA does have some implications.** If the organization benefits from the flexibility of true-ups in an EA, values the ease of license management, has a requirement for services tied to SA, utilizes SA benefits, or wants to restart an EA in the near future, dropping the EA may not make sense.
3. **Maximize other cost cutting options if renewing.** Tactics such as reducing the qualified desktop count, leveraging the current buyer's market, utilizing the one year renewal option or doing a partial renewal can help keep costs down.

Bottom Line

What are the pros and cons of renewing the Enterprise Agreement (EA) with Microsoft? Given that this decision represents a significant spend, careful consideration must be given to the arguments for and against the EA renewal.

Info-Tech's products and services combine actionable insight and relevant advice with ready-to-use tools and templates that cover the full spectrum of IT concerns. Our practical approach is designed to have a clear and measurable positive impact on your organization's bottom line.

We serve over 21,000 clients at 8,000 organizations around the world. Since 1998, we have focused on making the work of IT professionals easier - and on helping them achieve greater personal and corporate success.

[More About Info-Tech](#)