The Microsoft enterprise renewal primer

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Everything you need to know about optimising a Microsoft enterprise renewal agreement.

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A Microsoft Enterprise License Agreement provides a valuable option for any business looking to normalise its software spend over the next three - five years.

Here's what you need to know to maximise your next agreement:

How do you optimise an Enterprise Agreement renewal?

A well-negotiated Microsoft Enterprise Agreement allows your business to buy new cloud services and software under the same agreement - and potentially save money while doing so. According to Microsoft, the agreement will realise savings of between 15% and 45%, but this will depend on the specific products your business uses.

Importantly, any additional licenses deployed will be automatically covered by the agreement – you simply 'true up' at the end of each interim year.

How do you prepare a future licensing strategy?

It is important to realise that an effective Enterprise Agreement is not a one-size-fits-all licence - or even a one-off negotiation. The rates agreed will have a direct impact on your next contract – so you must be fully prepared for your current negotiations because they will affect future pricing too.

To ensure you are entering negotiations fully prepared:

- Plan ahead. You need to allow time to assess your needs and negotiate your Enterprise Agreement with Microsoft.
- How many licenses and installs do you currently have in place?
- Which features and functions do you actually use?
- How many installations do you estimate will be in place at the end of the agreement?
- How will interim mergers and acquisitions affect your license count?
- Audit your virtualized environments carefully to ensure you are purchasing the correct licenses for your infrastructure.
- Are you making any divestments during the agreement period?
- Where your technology roadmap, and underlying licensing requirements, are likely to take you in the next 3-5 years.
- Define what "good value" looks like. It may be that your Enterprise Agreement costs more than expected – but if it delivers better value for money, the increase is a smart investment.

This analysis will form the basis of your negotiating position. It is vital that you are as accurate as possible with your estimates to ensure you get the price possible.

Pay special attention to functions used today, and will be required into the future. This gives you buying power today, for things that you need two to three years into the future. You have limited negotiating power if you decide to add new features mid-agreement.

Understanding your bill of materials gives you leverage during negotiations because you know exactly what you need – and are less likely to be offered upgrades you don't need and won't use.

Telling Microsoft what you don't need allows you to redefine the parameters of your agreement. And this is where you will realise the greatest savings on your next contract.

Who should be involved in the purchasing process?

To ensure the agreement purchase process is as smooth as possible, your preparation work should include input from the:

- CTO, CPO and CIO
- Head of Purchasing
- The IT Director
- Software Asset Manager (SAM)
- An internal project sponsor; a senior decision-maker who has authority over the project

Preparing an accurate bill of materials - and negotiating a best-fit agreement for your organization - is a complex process that will require input from multiple stakeholders. It may be that seeking third party assistance can help to avoid some of the pitfalls that affect many negotiations.

Beware these pitfalls

An Enterprise Agreement should make licensing easier to calculate and manage, but there are potential pitfalls which could increase costs – now and into your next renewal too.

Failing to plan ahead

Negotiating an Enterprise Agreement takes significant time and effort to get right. Failing to prepare properly will not only increase the cost of your current Agreement, it will also affect future negotiations too. Microsoft operates a 'waterfall' system where the discounts applied to future contracts decrease incrementally with each renewal. Maximising early discounts is crucial to reducing costs over the long term.

The waterfall is accompanied by a targeted discount model, with certain products and services attracting more significant volume discounts. Therefore, understanding each component of your current and future software strategy within the BoM will serve as leverage for its own micro-negotiation.

Beginning discussions earlier can help to avoid discount erosions. An effective negotiation can take several months to complete. Start the process too late and there is little time (or incentive on Microsoft's part) to find a suitable compromise.

Break the timeline down like this:

The whole planning exercise is 9-18 months (the larger the business, the longer the timeline).

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The lookback

- Understand current contract, concessions, amendments and discounts
- Understand how you are using tech today
- Be mindful that you might have Shadow tech - Power Apps/Power BI

2

The forward look

- Understand what new tech is needed: a) budgeted investment, b) desirable technology and c) potential competing technology (i.e. you might be renewing comparable tech with a different vendor in the future.

  However, if Microsoft presents comparable technology at the right price, you should be open to purchasing it.

3

Optimising the BoM

- Define the fallback position: The minimum amount of tech you will need.
- Define the desired BoM - what is the preferred/ideal tech spec you want?

4

Negotiate for success

- Now you know what you want, time to go and get it.
- Define a multi-stage negotiation strategy with key KPIs to measure how happy you are with your new pricing.

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Important: Ensure that you benchmark your outcome against the current market rate for comparable deals other businesses have achieved at renewal. Talk to us about how you can do this.

Price fluctuations

Contracts negotiated every 3+ years will undergo significant change before they expire. Monthly licensing changes and/or price increases could be above budget for an as-is renewal. This is especially true when considering discount erosion i.e. a 15% price increase with a 10% discount could be way above a forecasted renewal rate even when adjusted for inflation.

External negotiation support

External support will be invaluable as typically a specialist will have negotiated 100 contracts since your last renewal. However, you must still own the negotiation; leveraging the partner's experience to empower your position or to rebalance the negotiation.

Expecting a discount

Size and brand reputation have very little bearing on the discounts offered. Microsoft has a predefined list of software they consider strategically important - any applications and services that are not on this list will not be discounted. Microsoft used to offer flat discounts that spread across the entire scope of an agreement; typically discounts are now only available on specific products - everything else is charged at full price.

To lower your costs your business will need to assess your software usage and vary licensing to ensure you don't pay for anything that will not be used. This will require a detailed analysis not only of the applications installed, but also the features and functionality that are put to use.

Your Microsoft Enterprise License Agreement purchasing checklist

You need:

- An exit discount review inclusive of growth since last renewal
- An appraisal of which licensing features you actually use
- A clear 3+ year software strategy and deployment schedule
- Budget approval for new investment areas
- A pre-negotiation expectation of 'modernised' pricing
- Current and future Azure investment plan
- Multiple BoM options to accommodate any potential budget restrictions
- A plan to maximise investment and manage consumption over the course of the contract (because extras do cost, even with an agreement in place).

Why work with Livingstone?

Livingstone is an independent provider of software and cloud asset management and optimization services. We work with organizations across the world to deliver remarkable client outcomes including:

$3bn
savings delivered

8m
mega vendor seats negotiated

3.9m
assets under management

We help clients to avoid unnecessary cost and risk, whilst driving value from their investments throughout their lifecycle.

Contact Livingstone today to learn how we can help drive positive outcomes in your Microsoft volume license purchasing negotiations.

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Ready to learn more about how Livingstone can help you negotiate the best the Microsoft enterprise license renewal?

Contact us today...

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