Software Licensing Series:

5 Ways to Manage Microsoft Costs in a Down Economy

Provided by

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More than ever, there are things to consider when managing your Microsoft investments in a down economy.

- Do you renew your annuity model and take the heat from finance for the significant costs?
- Do you cancel the agreement and take the heat from the Business for stifling innovation?

Read on, to learn more about what you can do in this situation.

1 Control Software Deployment

Many Microsoft customers are covered by Enterprise Agreements, which conveniently allow customers to install many products without upfront cost, until the annual true-up anniversary. Some clients report actions in the organization that seem to indicate that there is a belief that they have ‘free software’, so deployments run amuck. Once the true-up date comes, it is often too late to ‘uninstall’ software because some dependencies have been formed – even though the business value might not fully support the cost. This can result in large unplanned expenses. Many clients report ‘runaway’ costs for Microsoft compliance licensing at the annual true-up time of the Enterprise Agreement and this is not only a very common condition, it is also a careful design by Microsoft to encourage the rapid growth and acceptance of its software. Many clients report true-up obligations for licensing and software assurance that are 40% or more of their annual payment obligations. These are generally unplanned, unbudgeted costs and often times throw clients into panic. One thing you can to do control these situations is to start with controlling your installation codes. This will help you avoid unexpected Enterprise Agreement true-up costs. A well managed environment should restrict access to installation codes and only allow new products to be installed upon proper financial and management authorization. In one study, more than 5,000 users deployed Visio Pro between anniversary dates of the agreement and the client faced a true-up obligation of over $1.6M. It was later determined that over 90% of the users didn’t really “need” the software, it was just deployed liberally because of the poor decisions of just two team members. The above strategy in this case could have prevented fees of $1.44M.

2 Delay License Purchases

Delay license purchases, and projects that will require or trigger license purchases. Many organizations are currently delaying desktop hardware refresh projects. You should also assess your infrastructure policies to control installations of upgrades, and closely examine all ongoing projects to be aware of license purchase requirements.

For example, many enterprises routinely build new servers with the latest version of Microsoft Windows 2008 OS. But this seemingly minor change (bringing a new server into production with Windows 2008) can cause large expenses under Microsoft’s licensing rules, since all CALs now have to be upgraded as well. In an organization of 5,000 users, this Windows 2008 CAL upgrade couldresult in $125,000 of unplanned costs.

Ask your technical staff: Do we really need to upgrade? What’s the business case? What alternatives products have been considered? What are the costs / risks of doing nothing? Many times, the technical or project management staff do not fully understand the licensing rules involved and so are unable to make the justifiable choices.

3 Control Software Versions

Microsoft routinely promotes the most advanced versions of its software, and works hard to find capabilities that it deems as ‘required’ to be able to up-sell the technology. Clients have control over this process and can choose “regular” instead of “deluxe” versions of the software where appropriate. As an example, Office Standard Edition contains the tools most knowledge workers routinely use, but Microsoft most commonly sells Office Professional, which costs more but adds in tools that are rarely used. Significant cost differences between the versions in conjunction with extremely low use of the incremental features can increase costs significantly if not managed properly. Select Level A pricing of Office Standard if $301 as compared to Office Pro at $390. This is a difference of $89 or 29.6%.

As another example, Windows SharePoint Services (WSS) is a free component of Windows Server and delivers much of the same functionality as Microsoft Office SharePoint Server (MOSS). But MOSS costs more, and requires users to have SharePoint CALs. There is no additional cost for WSS and users only need the Windows CALs they already have to use the software. In one case, a client had considered deploying MOSS at a cost of $363,000 and all of the functions they required were available in WSS.

Clients that claim greater control over their software versions and actively manage Microsoft’s attempts to deploy its “Integrated Innovation Strategy” are much less likely to be faced with large, unplanned costs at significantly higher rates.

4 Consider “Pay as You Go”

Build a business case for the “pay as you go” strategy. Ask your Microsoft LAR account team: “If we had no money to spend, and won’t buy anything new from Microsoft, what does our on-going cost look like? What would be the impact if you abandoned future payments on your Software Assurance (SA) subscriptions? Exactly which license rights and quantities would you be giving up? You would retain ownership of the perpetual licenses you’ve already paid for, so get a report of your current ownership of perpetual licenses and quantities. If your EA is ending this year, that means you probably own perpetual rights to Office 2007, Windows Vista, and CALs for Windows 2008, SharePoint 2007, Exchange 2007, and SCCM 2007. Most companies have not yet deployed many of these newer products, and will likely take several years before completing their deployment and being ready for the next upgrade. So why pre-pay for upgrades that you will have no use for?

Knowledge is power in this context; you can be sure that your Microsoft sales team will not voluntarily suggest these ideas. A NET(net) client with about 5,200 desktops recently performed this analysis, and identified a three-year cost savings of $2.8 million dollars. Even factoring in the longer term cost of “re-buying” future upgrades, the 6 year savings was over $3 million dollars.

5 Evaluate Alternatives

Seek out alternative and competitive solutions. It's a common mistake to assume that Microsoft has few competitors. In every product category, including Office and Windows desktop, Microsoft today has more competitors, and more viable, enterprise-grade alternatives, than ever before.

For example, NET(net) recently worked with a manufacturing company who had identified that most users simply did not need the full functionality of Office Pro. From there the next step was to consider that maybe "Office" wasn't needed, and that one of the competing solutions such as StarOffice, Google Apps, or Lotus/IBM's Symphony suite may be a suitable, dramatically lower cost alternative.

In this company's case, a decision to move 40,000 of their 68,000 users from Office Pro to Lotus Symphony would net a cost reduction of over $3.3 million annually.

Besides the viable free or open-source alternatives to every Microsoft product, many categories also have strong commercial competitors. Enterprise email, for example, could be hosted on a variety of low-cost or open-source platforms, with end users continuing to use the same email clients they are familiar with. But Microsoft Exchange also has a strong competitor in Lotus Notes, which continues to maintain a very large installed base and regular upgrades. In addition, Notes includes many of the collaboration features that Microsoft sells separately under SharePoint. If you've been dismissing these players as "not ready for the enterprise" then it's time you think again and do some serious assessment.w

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