Microsoft offers nearly a dozen basic software licensing programs, but fitting any of them to your company's needs takes some thoughtful research and well-developed negotiation skills. Use this guide to navigate the complex sea of software licensing to get the best licensing bang for your bucks.

IT Influencer Series

17 Steps to a Better Microsoft Deal

Doug Barney, Editor in Chief, *Redmond* magazine

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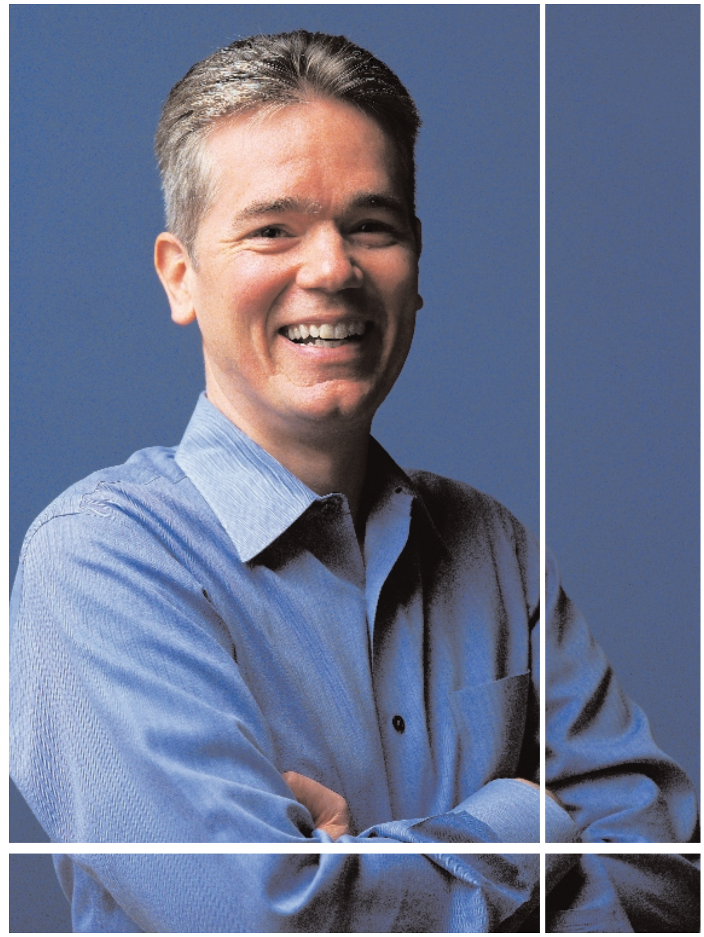

Patrick Collins, University of California, Office of the President

17 Steps to a Better Redmond Bargain

Microsoft offers dozens of ways to save on its software, so how can you avoid paying retail? Here are some negotiation secrets from those who have gone to battle and won.

By Doug Barney

In 2002, UCLA CIO Jim Davis reached his limit. The university was paying too much for software, he decided; there had to be a way to lower the tab.

Davis reached out to groups within UCLA that were buying Microsoft software in dribs and drabs, each gaining a modest discount, and got them to pool their purchases. The resulting savings were so enticing that the Office of the President for the entire 10-campus University of California (UC) system caught wind.

Enter Patrick Collins, Director, Information and Communication Services for the UC Office of the President. Collins, an IT pro and professional negotiator, took 80 separate contracts and moved them into one: The Microsoft Consolidated Campus Agreement.

Special thanks to Scott Braden (www.microsoft-secrets.com) who taught me almost everything I know about negotiating with Microsoft.

By centralizing buying, all UC schools earned far higher discounts—Collins estimates his collective savings on Microsoft software at more than $1 million per year. And that's black and white hard costs, not fuzzy soft dollars.

Similar to an Enterprise Subscription Agreement, the university's Campus Agreement is subscription-based, giving departments the right to upgrade to any new versions for two years, whereas the normal Microsoft Campus Agreement is a one-year deal. (See "Microsoft Licensing—the Short Version," on p. 4 for descriptions of subscription options.)

So far, University groups are quite happy. "As long as we're actively enrolled, we have ongoing access to new releases. We can upgrade whenever we are ready, versus whenever we can allocate the funds," says Joyce Tang, IT Manager for the Department of Human Genetics at the UCLA David Geffen School of Medicine. "It's easy to budget for the fiscal year and unless there's a great surge of new employees, the subscription cost is nearly the same."

When it comes to wheeling and dealing, Microsoft and its customers are at opposite ends of the spectrum: Redmond wants to bring in as much money as possible each and every quarter while customers want the best possible deal on software.

Meeting in the middle requires a little thing called negotiating. Negotiate poorly or fail to even try, and you may be stuck with software you don't need at a price higher than your rivals paid.

And if you think troubleshooting a routing table is complicated, try diving into Microsoft's many—and we mean many—licensing and sales plans. "I like Microsoft products. That's why I got my MCSE. But I hate its complicated licensing scheme. If Microsoft wants to increase sales, it should try to make it easy to license and use its products," says Brian Cady, systems administrator for Austin Mohawk and Company Inc. "I think Microsoft's licensing terms are too complex and give the overall impression of being purposefully confusing. To date I have not had dealings with any other vendor that had a more complex licensing scheme," adds Cady.

Other Tricks and Tips

Ever wonder where all those case studies and glowing reference accounts come from? Do you suppose Joe IT just decided to endorse Microsoft products out of the goodness of his heart? Not likely. Chances are Joe got a deep discount or a bunch of freebies in return for going public. Here are some ways you can save:

1. Be a beta tester or early adopter.
2. Ask for extras, including support, consulting and training.
3. Attitude is everything. Don't get too friendly. Your sales rep is not your buddy.
4. Don't ever say you need something.
5. Make sure all terms are in your contract. If it isn't in writing, it's not worth the paper it's not written on.
6. If your Microsoft rep tells you the business terms of your contract aren't negotiable, go directly to his general manager—because in most cases they are.
7. Beware of signing letters of intent. Sometimes the rep will ask for such a letter before bringing in higher-level execs to speak with you. Avoid signing, but if you must, look for catches beforehand.
8. Write a position paper defining technological and business objectives.
9. Don't let Microsoft think it is the only option, even if that's the case. Send out RFPs and use the results.
10. Never act impressed.
11. Many Microsoft apps require a SQL Server back end. But if you have enough SQL Server firepower already installed, don't be talked into a new license to support something like BizTalk. It may make sense to overbuild your SQL Server now, to save later.
12. Review past contracts. Did you get a good deal then? Don't repeat your mistakes.
13. By standardizing on software you can save on price and support.
14. Discover which devices don't need an EA CAL. These include dedicated devices for order entry and point of sale, as well as kiosks and consoles. Don't pay for CALs you don't need.
15. When making Select forecasts, estimate a little high. You'll get a deeper discount, and there are no repercussions if you don't buy all that software. If you buy more than you forecast, you'll still be stuck with the lower-volume discount.

— Doug Barney

It's just that complexity that compels many customers to turn to resellers or Microsoft reps for advice. This is a big mistake. With so much at stake, it pays to be an expert. Our special report walks through the critical issues, including:

1. Knowing what you own
2. Knowing what you need
3. Knowing what you can afford
4. Building a team
5. Knowing how Microsoft sales people operate
6. Choosing resellers carefully
7. Learning how to play hardball
8. Playing the Linux card
9. Mixing and matching for savings
10. Keeping your top execs on a tight leash
11. ROI, ROI, ROI
12. Knowing your rights
13. Learning from experts
14. Software Assurance dos and don'ts
15. When to renegotiate
16. Financing tips
17. Diligence after the sale

1. Know What You Own

You've all heard the audit horror stories. A disgruntled employee tells the software cops your company has gobs of pirated software. True or not, the software cops descend, and IT has to prove the software is legit. If it's not, the fines are hefty and the PR aftermath a disaster.

Based on this fear, many organizations overbuy. Don't fall for it. While you should always be prepared to defend an audit, don't ever be intimidated or bullied into buying software.

The key is to know exactly what you have. Part of this can be automated through asset management and license and usage tracking software, according to Scott Braden, author of *Microsoft License Secrets* and self-professed "Licensing Geek." Choose a good package and use it. You need to know what's installed, what versions exist, how many users use each package, and how often.

The asset management reports may reveal some pleasant surprises. If the economy has been unkind, you may have more software than you need. And if you discover unlicensed software, you can get in compliance before the software fuzz comes knocking.

Another key issue is knowing exactly

what versions of software are in use. This is the basis of your upgrade plan. It will also tell you what software is actually being used. Why upgrade packages that never get opened? Why upgrade a full suite when only one of the modules ever gets used?

Finally, good asset management systems will reveal serial numbers that are essential to hunting down and proving ownership.

Once you know what you own, create a bulletproof system of tracking licenses for all future purchases. You'll pat yourself on the back plenty of times later.

But you can't rely solely on asset management reports. You'll need to dig deeper to ensure that all programs are present and accounted for. If your company has multiple divisions and affiliates, try to coordinate efforts with partners in other groups. Remember, more volume always equals larger discounts.

This is the easy part. Trickier is determining what you own. Software is sold, licensed and delivered in many ways. Hunting down all these licenses is going to take some time. Hopefully there is some kind of paper trail, but even if one exists, chances are it's incomplete.

Look internally first. Are there records of licenses that came with pre-installed software on your PCs? If you've transferred software from an older PC to a new one, do you still have the paperwork? In addition to the OS, did you opt for some Office licenses when picking up the machines?

Server licenses could be tough to track down. If you have long-term relationships with a small number of resellers, you may be able to get most of the info with a simple phone call or e-mail.

Microsoft also tracks volume purchases, but these counts aren't always accurate or complete; don't wait until the next purchase cycle to make sure they're accurate. Redmond, too, often has a poor idea of what you own. The company will assume anything you can't prove you own is pirated. Get the Microsoft report, but look far beyond it, such as by finding and organizing all certificates, OEM paperwork, invoices and purchase orders.

All the software you can prove you own is part of your overall pool. Never let Microsoft define your pool for you; define your pool for them. Only buy upgrades for apps you actually use, and buy upgrades based on real usage.

Think all this won't save you two dimes? In early 2002, UCLA performed a survey and discovered roughly 25,000 copies of Office in use. At the time, UCLA spent $830,000 a year for mostly single-copy licenses. That led to Patrick Collins' Campus Agreement saving more than $1 million per year.

"The math is quite easy on this program. It's very easy to calculate the initial cost, compare the break-even point vs. traditional (over-the-counter educational discount) licensing. It makes the accounting, distribution and inventory much easier than any other discount programs we've used. Bottom line is, other than for some smaller groups, it is cheaper for most departments," says the UCLA School of Medicine's Tang.

The key is to know exactly what you have—what's installed, what versions exist, how many users use each package, and how often.

2. Know What You Need

Everyone's met at least one know-it-all sales guy who tells you exactly what you need. Maybe he's trying to show off that associates degree in office technology he earned in the 80s, or perhaps telling customers what they need is what he learned in a software sales seminar. Don't rely on sales for technical and strategic advice. It's your business, and your staff should have the IT chops.

Knowing what you need really means building a strategic IT plan, Braden argues. Are you planning on moving to Longhorn soon after it ships? If so, why? There's no sense planning to buy all new desktop operating systems if there's no strategic advantage. The key is defining what's strategic yourself, rather than letting a sales guy do it for you.

There are many reasons to upgrade. Perhaps new software truly is easier to use, or easy to manage and administer. Maybe it's more secure. Or possibly it has new features that give your organization a competitive advantage. Don't just guess at these. Nail the benefits down, with precise facts and figures, before adding them to the strategic software plan.

Here you need to look at anticipated benefits, and exactly what it will take to buy, install, use, administer, manage and support the software and underlying hardware and network.

The software costs are a major element. Not only do you need to buy the necessary licenses, you also need to figure out how these licenses fit into the overall picture and affect your discount levels.

Use the strategic plan to keep the sales discussion on track, and focused on just what you need—not what Microsoft wants to sell.

Don't forget that a strategic plan doesn't necessarily require Microsoft software. Databases, Web servers, identity management software—pretty much everything Microsoft builds, save Flight Simulator, is available in some fashion from someone else. Don't shy away from exploring the alternatives.

You don't need a sales rep giving input on your strategic plan, but that doesn't mean keeping it away from Microsoft entirely. Microsoft has smart, technical folks who may have some fine ideas about matching software with your strategy. Try to share it with someone at Microsoft who you trust, and someone with keen technical insight.

If you know exactly what you need, you'll always get a better deal. For instance, under Enterprise Agreements (EA), Microsoft sells large bundles of software. If you need just a portion it may be cheaper to buy only what you require under the Open or Select programs, according to analysts at Directions on Microsoft, a research and consulting firm based in Kirkland, Wash. (See "Microsoft Licensing—the Short Version" for details.)

3. What Can You Afford?

Based in part on your technology roadmap, work with in-house business leaders to build a reasonable budget, and allocate set dollars or a set percentage of the budget to key projects. If you can show the rep that you simply can't spend more than X dollars on Y project,

Microsoft Licensing—the Short Version

Shrink Wrap (also known as Full Package Product): Perhaps the most expensive way to buy software, this is best for one-off purchases. Even still, implement a system to collect paperwork and license codes proving ownership.

If you want an upgrade and are not a Software Assurance (SA) customer, the Full Package Product may be the only option.

OEM (software that comes with new PCs and laptops): These licenses generally only let you use the software on the originally purchased machine, and upgrade rights tend to be limited.

Open License Program: Open is a series of programs aimed mostly at smaller companies. Open has the most reseller support. Under the Open programs, software can be acquired from a variety of resellers without reducing discount levels.

Open Business Program: Can start with as few as one PC, with a software purchase of $200. Discounts are based on license volumes, and licenses are tracked by the customer.

Open Value: Deeper discounts but larger volumes are required. Product areas include applications, servers and systems. Points are given for each package purchased and contracts are based on three-year terms and payments can be spread out.

Open Volume: This point-based system requires a minimum purchase of $25,000 and offers two-year terms.

Open Value Company-Wide: Starting with as few as five PCs, this program asks customers to commit to buying a range of software for all clients, as well as upgrade rights. Read more at www.microsoft.com/licensing/programs/open/companywide.mspx.

The Enterprise Agreement (EA): Requires at least 250 PCs and/or laptops and must apply to your entire organization. EA is aimed at standardizing your organization on core Microsoft products. The EA bundle includes Office Professional, and a CAL that covers the Windows OS, Exchange, SharePoint Portal Server and SMS. EA includes Software Assurance, so the upgrades are covered for three years.

EA doesn't offer the same mix-and-match options as Select. Licensing expert Scott Braden suggests outlining for Microsoft how the EA bundle is more expensive than Select. Rather than switching to Select, this leverage could result in a custom EA configuration.

EAs are direct deals with Microsoft, but can be worked out with advice from a LAR.

EA prices are usually at least 35 percent less expensive than Select prices.

The Enterprise Subscription Agreement: This plan requires at least 250 Windows devices. Here software is leased, so at the end of the three-year term, the right to use the software expires. Because the licenses ultimately expire and must be renewed, subscription licenses tend to run 15 percent less than a standard EA.

The Select Program: Select is aimed at mid- to large-size organizations that don't have the narrow set of needs satisfied by EA bundles. Select, as the name indicates, allows you to choose the packages you need.

Select uses the same three product groupings as Open License and also uses a point system. But instead of points based upon purchases, they're based upon "projected" purchases. Discounts are tiered based on project purchases, and then adjusted based on a yearly review of actual purchases.

Under Select, discounts start at 1,500 points (20 percent) and go up to 35 percent for 75,000 points. It clearly pays to centralize purchasing.

Software Assurance (SA): This is by far the most controversial Microsoft licensing program ever and replaces the previous Upgrade Advantage Program. Under SA, customers essentially sign a three-year contract and pay a maintenance fee that gives the right to upgrade at no additional cost for that three-year period. According to Braden, the annual cost is 25 percent (for server software) or 29 percent (for desktop software) of the full retail license cost. The problem is that if you're not ready to upgrade and the contract period expires, you paid for something you didn't use. And if Microsoft fails to deliver an upgrade, you also paid for something you didn't use. Microsoft has been pushing its major customers towards SA, extolling all the extra benefits and bringing out elaborate fill-in-the-blanks ROI templates to prove its economic value. None of this has calmed down users who paid for upgraded software that never arrived.

In 2003 Microsoft added home use rights, new tools such as digital rights management for Word, and extra training and support to SA.

In analyzing SA, calculate how much value the new support benefits offer. How many support calls are made each month, what is your training budget, how much value will you get from employees installing software at home?

SA only comes with new purchases, which means in many cases IT ends up buying SA licenses for software they already own, paying twice just to get a three-year right to upgrade (and the associated benefits).

SA usually requires a benefits administrator to take care of all the SA extras.

—Doug Barney

the price just might come down.

Also, based on your priorities and ROI analysis, figure out just what you're willing to spend for each product.

4. There's No "I" in Team

You may be the smartest IT cookie in the jar, but negotiating complex software contracts is far different from adding users to Active Directory (AD). And with so much at stake, these contracts are far too important to trust to any one person.

Many skills are involved, requiring a close alliance between IT and key business units. Legal advice is critical to ferret through the complex contract terms, Braden advises. And given that it's inherently a financial deal, a numbers whiz is mandatory. Talk to your CFO's secretary and schedule as many meetings as necessary.

The CFO, or other ranking exec, may not lead the team, but he is possibly the most important member. As the person signing the checks, he needs to be involved in the

Tales from the Customer Trenches

I was involved heavily in the software acquisition process at my former employer, a Fortune 100 company. Our normal purchasing department had absolutely no experience dealing with software licenses, so the task had fallen to IT. Centralized purchases were made through our hardware department and through my organization, Desktop Management. I was the technical point of contact and dealt directly with the Technical Account Manager from Microsoft.

Microsoft was very good at using both the carrot and the stick. We had two separate divisions (commercial and government) that were merging, and the commercial division had already negotiated a decent Select agreement. But knowing the government division had not employed this agreement gave Microsoft a huge opportunity to leverage this to their advantage.

It began by really pushing us to use parts of our Select agreement that we hadn't utilized. We were a Notes/Domino shop for our messaging and collaboration tools, and Microsoft—spent a considerable amount of time pushing us to "re-examine" our decision not to use Exchange. We didn't [switch to Exchange], but it became apparent later that the cost of adding seats would have significantly increased if we had gone that route. It also initially offered what appeared to be significant discounts for becoming an "early adopter," which we avoided at that time, and I feel correctly so, due to Microsoft's history of significantly changing things down the road.

Later in the process, Microsoft began to pull out the stick. It started to question the accuracy of our license counts. Being a Select customer, the entire fee structure was based on quarterly usage reports, which were generated based on Microsoft-approved license metering software. All of their informal audits prior to negotiations had shown our counts to be well within the normal margin of error. After the first phase of negotiations, suddenly those counts came under scrutiny. This was all done under the guise of cost containment.

Then there was the issue of Visio. Both divisions had purchased site licenses from Visio Corp. prior to the Microsoft buy out. The commercial division under the Select agreement had been able to grandfather the Visio licenses. The government division wasn't so lucky. Microsoft tried to argue that the site license wasn't valid due to the government division's failure to transfer them to Microsoft.

Our negotiating team included management from central IT, with modest representation from purchasing and representation from legal. We also brought in an outside consultant from one of the major fulfillment houses that had worked with us on the previous Select agreement. This made all the difference in the world. Without that broad spectrum of specialists working together, we could have easily spent 30 percent to 40 percent more on our new contract than we needed to. The outside consultant was able to pull together past purchase information that allowed us to effectively neutralize the concerns over Visio. Legal was able to provide a convincing argument concerning the legality of attempting to charge a different rate schedule for the merging accounts vs. ones that had come from the original division. The IT representation was able to differentiate which portions of the agreement were useful and helped to divert some of the increases based on the fact that the technology would never be utilized. We did end up paying a little more for the new contract than we did on the old one, but without the team and good consistent documentation we would have been doomed.

I do not believe that Microsoft did anything that any other company hasn't done or tried to do. I do believe though, that the company is extremely skilled at it. Second, the lesson for me was quite clear—don't even think about talking to Microsoft or any major software vendor unless you have a firm grip on your current environment and are able to document both past and current practices. If you can't prove it, it doesn't exist. If you see something that doesn't seem right or consistent, call them on it, but research it first. Any reasonably competent company can get a fair deal from Microsoft if they do their homework.

—Michael A. Ferguson is Director of Technical Services for Frontier Futures Inc.

CENTENNIAL software

Discovery
Case Study

BENTALL MAKES GOOD CAPITAL FROM IT ASSETS WITH CENTENNIAL DISCOVERY® INVENTORY MANAGEMENT SOLUTION

Overview

Bentall Capital Limited Partnership is a fully integrated real estate services organization with industry-leading expertise in investment management, property services, development and merchant banking. With over 1,000 employees and offices in Seattle, Los Angeles, Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Ottawa, the company is responsible for management of $6 billion of real estate assets owned by major institutional investors in Canada and the United States.

The Need

With over 50 property management offices throughout the US and Canada and a head office in Vancouver, British Columbia, Bentall Capital's methods of assessing its IT inventory needs were manual and resource intensive. It has a wide range of IT systems - an inheritance from the company's rapid growth and take over of three separate businesses.

To monitor and keep up-to-date with its IT needs, Bentall Capital has IT support staff in each of its regional offices. Even with this support staff, the company had no realtime view of its IT infrastructure and inventory. For instance, when it audited its hardware and software, members of the IT team in each region had to visit all the separate offices, manually record the IT inventory and then send an Excel spreadsheet back to the Vancouver head office. By the time this information was centralized and consolidated, it was immediately out-of-date.

Bentall Capital's central IT function also wanted to charge each business unit for its technology needs. To do this the company would need an accurate inventory of PCs and the location of each PC. An accurate IT inventory would enable them to build a strategic view of their immediate and longterm IT requirements.

Licensing is a crucial issue for the company. The take over of three companies inside three years had exacerbated the situation. "We wanted to know the number of licenses we had, what was critical and what wasn't. This was no easy task as we didn't know how many PCs we had, where they were located and what was running on them," comments George Young, IT Project Manager, Bentall Capital.

The company wanted to upgrade many of its old Pentium 133 PCs. Therefore, it needed an effective inventory management solution to support its auditing requirements and to provide a strategic upgrade path for its IT infrastructure.

The Solution

In early 2002, Bentall Capital conducted a wide ranging, intensive evaluation of key inventory management products on the market. An initial list of 25 to 30 products was soon reduced to six or seven products.

Solutions ranged from high-end, fully featured suites to specialist inventory management systems. Following their evaluation, it quickly became apparent that the Centennial Discovery solution was the best option.

"Centennial Discovery stood head and shoulders above its rivals. Its intuitive, Windows-friendly environment was particularly impressive. Its interface and simple drag and drop functionality means that the tool is uncomplicated to use but is also extremely powerful. It was Centennial Discovery's web interface that really clinched it for us. As a geographically dispersed organization, it is imperative that we can have regional access to our central asset database. The web interface provides this access from anywhere in the world." comments George Young.

"We assessed some feature-rich and expensive solutions, but they couldn't touch Centennial Discovery for its combination of feature-rich and easy-to-use functionality," adds Young.

The Benefits

Centennial Discovery soon proved its worth to Bentall Capital after it was rolledout across the enterprise. The company estimated that it needed to attend to 500 computers and approximately seventy severs. Centennial Discovery soon proved that this figure was inaccurate. The initial inventory report concluded there were 700 machines that needed attention, scattered across 50 offices.

"The benefits of using an advanced inventory management solution like Centennial Discovery, soon became apparent. It saved the IT department weeks of work. We no longer have to tour our offices, manually assessing how many PCs need replacing. The Centennial Discovery database produced an immediate 'snapshot' breakdown in real-time, illustrating clearly the contents of our IT inventory, what software runs on each PC as well as its user and location. The ability to then transfer this into an Excel spreadsheet is a real bonus. It means we can include this inventory data in a variety of different analytical processes." states George Young.

The audit of the company's out-of-date Pentium 133 PCs showed that a fifth of its machines needed replacing. This was more than initially thought, but, in the longerterm, will save the company money. Centennial Discovery provides a calibrated, uniform approach to IT across Bentall Capital. The company's IT function now tracks all software and hardware. It now has information that indicates whether nonstandard software or PCs are used and if employees are using memory intensive applications. Conversely, redundant or little used items of software can also be tracked down. This ability led to the revelation that many programs are not used for four or five months at a time.

"From a corporate point of view, Centennial Discovery enables us to achieve a corporate IT standard that is uniform across the whole company. People are no longer able to risk the security of our infrastructure by running non-standard programs because Centennial Discovery immediately reports these instances to us. Considering Centennial Discovery as a platform that can take the whole IT strategy of the company forward, I would say that it's impact is huge," adds Young.

The complications presented by legal compliance have also been simplified greatly. Traditionally, many of the PCs weren't upgraded very often. With Bentall Capital's recent takeovers, this picture has grown more complex because of the number of different hardware and software platforms inherited. Centennial Discovery enables the company to make a great leap forward and develop a consolidated view of the investment needed to modernize its software applications. Again, the initial outlay is compensated by its ability to modernize in a single step. For the company's remote IT staff, Centennial Discovery's remote web-based interface means they now have access to a complete up-to-date breakdown of all applications run on a particular machine. This is invaluable and time-saving for all technical staff.

George and his team also like Centennial Discovery's Upgrade Costing Wizard so they can determine the cost of upgrading to the latest Microsoft platforms quickly and easily.

The Future

The next step for the company's adoption of Centennial Discovery will be closer integration with the company's helpdesk system. This will enable the help desk team to resolve technical issues by utilizing Centennial Discovery's advanced asset and inventory management features. The scalability of the Centennial Discovery solution means that this next step can be achieved with minimal disruption to existing systems.

network discovery & management

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planning, and should take a lead role in the actual, face-to-face negotiations. This person, or close staffer, should also be intimately involved in building the strategic IT plan. After all, you can't build a technology plan without first defining business objectives.

Braden also suggests choosing a project leader who has the time as well as the IT and business smarts to get the job done. This person will study up on all the relevant Microsoft licensing programs, work with other groups within the company to build as much potential volume as possible, and drive the relationship with the sales folks.

With all these folks, you'll have enough firepower to set even the most aggressive salesman back on his heels.

5. Know Thine Enemy

Microsoft salespeople and resellers aren't necessarily the enemy, but their interests are far different from yours. Think of them as a used car dealers, and you're looking for a sweet ride for your 17-year-old daughter. They want you to overlook the painted-over yellow cab and curiously low mileage, while you're looking for a reliable cost-effective daughter-mobility solution.

Understanding how used car lots operate is the first step in avoiding that lemon. The same is true for software sales. Prices and volume discounts aren't etched in stone. If you know what you're doing, everything is negotiable.

Braden believes that Microsoft reps don't always have a full understanding of sales programs. This is one key reason to not let them take the lead in any negotiations—and for you to be the expert.

"Salespeople directly employed by Microsoft seem to be oblivious to some of their own licensing rules," says Chris Johnston, an IT pro with engineering firm Loiederman Soltesz Associates Inc. "Frequently our reseller will be able to help us save money by exposing the best alternative for our enterprise, while the Microsoft approach seems to be more broad and less specific to the needs of our operation."

Microsoft reps and their bosses do, however, have gobs of power to cut deals. In fact, Braden advises against trying to land a bigger discount by moving up the chain of command. Others see value in moving up the chain, which tends to work best for large, key accounts.

Understand what your business means to the rep. If your account is large enough, huge commissions, bonuses, and the ability to meet a sales plan could be at stake. Use this as leverage.

Microsoft reps don't always have a full understanding of sales programs. This is one key reason not to let them take the lead in any negotiations.

6. Be Picky About Resellers

If your organization isn't mammoth enough to deal directly with Microsoft, picking a dealer is a critical decision. Not all resellers fully understand technology and Microsoft's various sales programs, or they may be looking out solely for their own interests, at the expense of yours. Similarly, resellers that are too close to Redmond can't be trusted to get you the best deal.

So how do you find a reseller that will work for you? Keep in mind that, like a real estate agent, resellers technically work for the seller, which is Microsoft. But there are degrees to which resellers lean in Microsoft's direction. In your first meeting, what did the reseller talk about? Was he particularly "sales-like"? Was he busy bragging about his Microsoft contacts, or did he ask questions to try to understand your requirements?

Another hint from licensing guru Braden: ask how did you come to know this reseller? Did Microsoft fall all over itself recommending them, or did an IT peer give a good recommendation?

Like getting a dealer cost report when buying a new Audi, it pays to know exactly what kind of discounts resellers get—after all, you want them to pass along as many of those points off as possible.

For Select, resellers get between 17.7 percent (the standard discount) and 21.7 percent (which includes a 4 percent bonus discount for the reseller meeting quota) off of the full retail price. This tells you exactly how much wiggle room the dealer has on price.

There are many forms of resellers, from the Best Buy down the street and OEMs such as Dell, HP and IBM, to more knowledgeable outfits dedicated to selling Microsoft. These include Software Advisors, which are resellers both large and small that have the right to sell Open licenses. Microsoft partners, such as the vaunted Gold and Platinum Partners, must be experts in Microsoft technologies and offer value added services such as consulting, training and support, and often have vertical market expertise.

Finally, Large Account Resellers (LARS not to be confused with VARs, though a LAR can be a VAR) comprise the largest Microsoft resellers and can sell Select agreements. They can also act as advisors in selling Enterprise Agreements and Enterprise Subscription Agreements.

While it's important to choose a good reseller, don't stop there. It's best to consider several, especially in the case of LARs, so you can play one off against the other, and use each for its specific strengths. For instance, if you're buying hardware and software together, you might consider a LAR such as Dell that can offer deep savings on PCs and servers, Braden suggests.

"Always get more than one bid and get more than one reseller involved in the bidding," says systems administrator Cady. "Ask a lot of questions and try to make the bids apples to apples. Be prepared to spend some time on the project and read up on it before you start. Buyer beware!"

Other negotiation vets agree. "Depending on the size of your organization, find yourself a good reseller with a strong relationship with Microsoft. If you have the size and ability to take this on yourself, expect to have at least one full-time license manager. Use the leverage of a reseller/retailer to find the best deals," says

A Little Advice for Redmond

Customers are never shy about asking Microsoft for new features and new deals. "We would like to see a site license for the operating systems. It's hard to track what OS came with what system. We pay for an OS we can't use when we buy a system then have to pay for a license for the system to put on a pro-level OS, then are forced to retire that license when we retire the PC. What a waste! This type of stuff is what makes Linux look good," argues Brian Cady, systems administrator for Austin Mohawk and Company Inc.

Perhaps the biggest request is to simplify. "Instead of the many different and complex programs targeted at different segments of the market I would like to see licensing, Software Assurance and Upgrade Advantage simply defined and volume price breaks used. I wonder how many people would go 'legal' instead of bootlegging or switch from the open source offerings to gain the compatibility and increased functionality of the Microsoft products if the price was right," Cady says.

Consistency was a major request. Chris Johnston, an IT pro with engineering firm Loiederman Soltesz Associates Inc., wants licensing to be consistent between product families, and for Microsoft to combine CALS to control costs.

Customers also want Microsoft to be flexible. "Our only problems are when we need a Microsoft product for a short term or limited use application and we are forced to buy multiyear contracts based on our licensing terms," Johnston says.

Overall, there's a sense of frustration that customers want Redmond to address. "We've all but given up dealing directly with Microsoft for anything beside product premiers and overview training on new products," Johnston says. He also feels trapped by Microsoft solutions: "Microsoft has a monopoly on our market. What we need has to come from them, which means it's ultimately subject to their licensing models. I'm not sure there is anything different that can be done to circumvent these mechanisms."

—Doug Barney

Loiederman Soltesz's Johnston.

Some truly value their dealers. "We have a rather close relationship with our reseller and they go out of their way to find us the best licensing model for our money. Left to our own devices, we might be forced to just follow the Microsoft party line and pay whatever fees Microsoft charges. I have found licensing terms located in inconsistent places throughout the Microsoft product line, making finding answers to licensing scenario questions difficult at best," Johnston says. "Our reseller was invaluable in getting us the best deal while staying on the legal side of Microsoft's complex licensing schemes."

7. Fear, Intimidation and Lots of Loathing

Suit up, smear some black paint under your eyes and get your game face on. It's time to go to war. Folks that buy a new or used car with a smile on their face and the checkbook out are sure to get suckered.

You want to walk into battle with an army fully loaded with ammo and attitude. If you can't muster that kind of attitude, find someone who can. Be tough. Remember, all a sales rep does all day is sell. He's an expert in wearing customers down.

Fast-talking sales people may be counting on your ignorance of licensing schemes and reseller discounts to extract higher prices, Cady says. "Small and medium businesses end up paying more because they don't have the resources in skilled staff or leverage from license volume to negotiate and get the best deals," he says.

Some feel pressured by sales to buy software they don't need. "I feel as though I had to 'buy' Office 2003, when I don't think there is a single new feature that makes this version significantly better than the previous version. The big change is under the hood to XML. That may be a benefit down the road, but they're making us pay for it now," says Johnston. To fight back, first set objectives, according to a negotiating methodology promoted by International Computer Negotiations Inc. in Winter Park, Fla. Set three levels of objectives with respect to the products and features you want: the nice to have, those worth compromising on, and non-negotiable deal-breakers. It also pays to determine the least amount of new software you can get away with, and what Redmond is pushing that you simply don't need.

Do some research before getting even close to negotiating. Start with the worst-case scenario by looking up full retail prices. After you stop laughing, talk to a reseller about its discounts. Braden suggests never basing your bid on what others pay, but on what makes economic sense for you to pay.

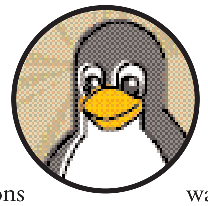
Be aware that your Redmond rep and his boss—the general manager in the district office—have quotas to fill, and fairly broad latitude in how to structure deals, Braden points out. After giving them a solid beating over discounts, look to all the extras they can throw in at their discretion, such as training, support and financing terms.

Timing your deal right can also save you big bucks. Quotas come due in the summer (June 30) and at year-end (Dec. 31). It pays to stretch out the negotiations and drive your hardest bargain as close to those dates as possible. Often the sales rep has already put your deal into his revenue projections, even though it isn't closed. His boss is expecting that money, Braden notes. Make him discount extra hard to get it.

On the other hand, you don't want to be rushed. If you're negotiating a deal and are unhappy with the terms, consider extending the deals you have until you talk your way into something better. And keep in mind that negotiating often involves modifying the contract, sometimes heavily. Don't be afraid to demand changes, or to rip up Redmond's contract and write your own.

Finally, simply saying "no" can be an effective strategy, so long as you have a viable alternative (Linux, an in-house developed solution, or simply continuing to use what you have).

8. Linux Leverage

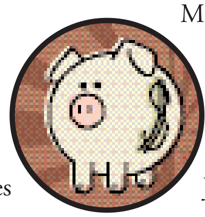


To say that Microsoft hates Linux is like saying President Bush has a mild disregard for Saddam Hussein. That's because for many applications Linux is a reasonable alternative to Windows. Here's where your strategic plan comes back in. Be sure to pepper your plan, at least the version you show Microsoft, with lots of references to Red Hat, Oracle, IBM, Apache and Novell.

Linux has fundamentally changed Microsoft's willingness to negotiate. Make Redmond fight to keep alternatives out of your shop.

Make sure your Linux threats aren't empty, either. Linux can be a solid alternative, and it's worth researching in what areas Linux might work better than Microsoft products.

9. Mix and Match for Savings



For simplicity, organizations often buy most licenses under one plan. Many reps like this because the accounting is easier and the prices generally higher.

For instance, in general, EA prices tend to run some 15 percent less than Select, according to Braden. But there are cases where Select is just as cheap or cheaper, so research every package you're interested in.

Braden also says it's possible to combine EA and Select. In those cases where Select is cheaper, one can buy at the Select price. Braden had a bank client save nearly a million dollars with such a strategy.

10. Execs on a Leash

Years ago there was an IT exec from a major defense contractor. His IT group devised a rigorous plan for its Mac and PC desktops. The plan was cost-effective and served the needs of tens of thousands of end users. The spreadsheets were locked down, business objectives fulfilled and the bottom line cared for. There was only one problem. Execs at the very top were somehow invited to a special meeting in Redmond, complete with hors d'oeuvres, cocktails, golf and face time with the richest Microsoft execs.

Maybe it was a coincidence, but suddenly the customer's top dogs demanded a wholesale move to Microsoft's latest, as-yet-unproven desktop OS, and the Macs that IT wanted to save had to go.

This is what happens when Microsoft sells over the head of IT. Don't waste your time running models and talking to business groups only to be overruled. Get ahead of that diabolical curve by informing top execs early about what you are doing, why it makes economic sense, and as mentioned previously, get the CFO and his minions closely involved. Make it their project.

If you're overruled, go back to basics and show how your research, plan and negotiating stance serves the organization far more than some casual Redmond cocktail-party blather.

Not everyone has suffered this indignity. "We have a pretty good relationship with our Microsoft reps. They know at what level the budget decisions for IT are made and that going above that can only be detrimental to their success," says Loiederman Soltesz's Johnston.

11. ROI, ROI, ROI

Focusing on return on investment (ROI) not only makes for sound planning, it offers terrific negotiating leverage. Let's say you're looking at an enterprise Instant Messaging (IM) system. Your Microsoft rep would love to sell Live Communications Server 2003 at more than $1,000 per server (with five CALS) and an extra $25 for each end user. But you've run your own numbers, and have a detailed ROI analysis that defines total costs, quantifiable benefits such as any increase in user productivity, and hard payback numbers.

Microsoft software prices are naturally

Linux has fundamentally changed Microsoft's willingness to negotiate. Make Redmond fight to keep alternatives out of your shop.

part of your model. If the rep's numbers are too high, your payback period will be too long and the ROI too small. Make the rep give a price that offers the type of payback your company requires.

Never blindly believe spreadsheets or ROI case studies. "What somebody else got doesn't tell you what you'll get," says Ian Campbell, president of Nucleus Research, a research firm focused exclusively on ROI and based in Wellesley, Mass. "Start off by asking, 'What is the ROI I need, and what is the price I need to get that ROI?'" Campbell says. Then you're "moving away from better deals to the right deal."

Be careful about the benefits you include in those ROI calculations, however. "I have never seen a project that resulted in a significant ROI. I'm not saying it doesn't exist, but usually, there is a huge transition that absorbs a lot of the expected benefits and long term, I have yet to see a reduction of staffing or increase in production that could be tied to it," says Michael Ferguson, Director of Technical Services for Frontier Futures Inc.

The key issue is that end users and IT don't always fully use new features. "I can still remember working with a user on setting up macros in Excel, only to find out later he was printing each sheet, manually performing calculations and then hand placing the answers back in the spreadsheet," Ferguson says. "Look at Word. I have yet to see a normal user do anything more complicated than create a mailing list. Where is the real ROI? Even though the product has significantly improved, is it really saving users any time?"

The only real savings Ferguson can point to come from upgrades that offer more stability and thus fewer help desk tickets.

Dueling Report Reviews

By Doug Barney

Microsoft License Secrets by Scott Braden, the self-declared "Licensing Geek."

Scott Braden, self-professed "Licensing Geek" and author of *Microsoft License Secrets*.

When Scott Braden told me his *Microsoft License Secrets* e-book sold for $1,995, I gulped. Gathering my composure, I calmly asked for a complimentary copy to help me write this article, and to write a book review. Scott was nice enough to oblige, and I was soon the recipient of a 91-page guide to getting a bargain from Redmond.

I've read a lot of expensive research reports, and for some reason the authors think it has to read like a dull term paper in order to be taken seriously. Fortunately the "Licensing Geek" isn't so misguided.

Despite complicated and serious content, the writing is lively, clear and quite simple to get through. Even more important, the book is meticulously organized, with topics clearly labeled. This is ideal for going back and focusing on issues important to your organization and negotiating plan.

As a long-time employee of a major reseller, Braden speaks with authority. And as an ex-employee, he is free to tell the secrets an active VAR or reseller would never dare disclose.

The book is also up to date, as the first edition came out in June 2004.

Braden considers his e-book customers to be partners. He is available by phone and e-mail to answer questions or offer tips.

While our special report is in-depth, it pales in comparison to Braden's level of detail. There's no fluff-only information you can use to strike a better bargain. Braden walks through the basics of each licensing program, but points to Web sites to fill in the rest of the details. Instead Braden talks about the nitty-gritty of saving dough such as harvesting existing licenses, getting kickbacks from class-action lawsuits, creative payment plans, maximizing discounts, and mixing and matching programs.

Braden even pitches his competition, offering a link for information about *Understanding Microsoft Licensing*, by Directions on Microsoft.

So what about that $1,995 cover price? If you spend $100,000 a year on Microsoft and Braden can save you even 2 percent-well, you can do the math.

Check out Braden at www.microsoft-secrets.com.

Understanding Microsoft Licensing by Directions on Microsoft.

Directions on Microsoft is a research and consulting firm that focuses squarely on—you guessed it—Microsoft. With a dozen or so analysts, and a main office a stone's throw from Redmond, the firm has true day-to-day contact. The $495 *Understanding Microsoft Licensing* was published in December 2003, so it's not 100 percent up to date. Fortunately, the company has an e-mail newsletter that walks through changes in Microsoft licensing. At 78 pages, *Understanding Microsoft Licensing* is more densely packed than Scott Braden's *Microsoft License Secrets,* and doesn't focus nearly as much on negotiating tactics. Instead, it's an exhaustive look at all Microsoft licensing programs.

Read this report carefully, and chances are you'll know far more than your local Microsoft rep.

Like Braden's book, the Directions piece is highly organized. You'll learn exactly what each program offers and requires. It would take weeks of Web research to equal what Directions has put together.

But Directions doesn't just describe Microsoft programs; it analyzes them as well, clearly defining the advantages and disadvantages of each. It also drills deep into financing options, itself a huge source of potential savings.

While not focused on negotiating tactics, there is lots of money-saving advice, such as timing purchases to coincide with migration plans and the expiration of current licenses.

The rather large appendix details licensing issues for all major Microsoft products.

If you have a large budget, it makes economic sense to buy both reports—they're perfect compliments. While *Understanding Microsoft Licensing* is eminently useful, if I could only buy one piece, I'd opt for the more expensive Braden book.

—Doug Barney is editor in chief of *Redmond* magazine.

12. Know Your Rights

Once you know what you own, figure out what it means: What right does each license offer? Understand exactly how software can be transferred from one machine to another, and build that into your plan. Why buy what you already own? Office, for instance, can be moved from machine to machine while Windows licenses purchased with new systems through OEMs generally can't.

Different licenses offer different rights. For instance, OEM software often has different upgrade rights from retail packages or volume-licensed software. OEM licenses also can't be used as credits for Software Assurance.

If you don't know what rights each license offers, you can't take advantage of them.

13. Rent an Expert

There are lots of resources to help negotiate, including Web sites and books (see "Dueling Report Reviews"). Cady also sought advice from peers. Unfortunately, "most of those I spoke with are at least as confused as I was," he says. Others are shy about peer-to-peer bull sessions. "Peers can be helpful; however, we are conservative about sharing our needs with our peers, as most are direct competitors!" says Johnston.

> Letting the rep control your ROI analysis is like letting the prisoners hold the keys to the jail. Your own analysis—not pressure and spreadsheets from Microsoft—should drive the decision.

Instead, it often pays (a lot) to get a hired gun. Braden, the licensing guru, says he helped save a hospital chain $923,000 in Microsoft software costs.

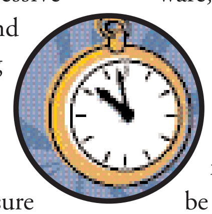
The 4,000-employee chain combined all its hospitals' buying under one umbrella, then crafted a money-saving mix of Select and Enterprise agreements.

Folks such as Braden can be hired to represent you during negotiations. Many large research and consulting firms can help negotiate with Microsoft as well.

14. To SA, or Not to SA

Microsoft wants all of its major customers to move to the Software Assurance program. Not only does this lock you into a long-term Microsoft solution, it guarantees Microsoft three years of revenue.

But deciding whether to go with SA is tricky business. Microsoft may pull out an ROI template, such as one built by Forrester Research and used by scads of eager SA-pushing Microsoft reps. This model focuses on the benefits of SA, and calculates payback from improved support, new product features you're expected to upgrade to, better training and so forth. By asking a series of questions and plugging in some numbers, there's a good chance the template will return an impressive ROI. It's a great mathematical and theoretical exercise, but letting the rep control your ROI analysis is like letting the prisoners hold the keys to the jail.



Your own analysis—not pressure and spreadsheets from Microsoft—should drive the decision.

Braden suggests analyzing precisely what you own: How old is the software and what is your upgrade plan? What plan are you currently on, the older Maintenance plan or have you already signed up for SA? Double-check to see how long Microsoft plans to support your applications, and research viable support options for other vendors. Software revenues have been declining during the tech downturn. There are fewer truly revolutionary software products coming out of Redmond, and therefore less incentive to upgrade. Think about this when considering SA.

Finally, go through the Microsoft-backed ROI models. But you, not your rep, should calculate the benefits of SA's extra features.

Some of the SA benefits, also available through other programs such as Campus Agreements, have value. UCLA's Tang points to the ability to install software on multiple machines for the same user—say a desktop and a laptop. "In terms of inventory or help desk operation, we know that the licenses are based on the number of employees on the payroll rather than machines," she says. That means she can often fulfill requests for new software without first checking inventory or filling out a purchase order. "That dramatically shortens help desk turnaround time."

But to realize all the benefits of SA, Microsoft must ship compelling upgrades—and IT has to successfully install them within the specified three-year window.

"We purchase product assurance as part of our licensing model, but do we rush an untested version to production because we've already 'paid' for the upgrade or do we keep using a previous incarnation, yet pay for support on the now current version? When we deploy a software package that isn't ready for prime time, our costs go up in resolving issues created by the 'updated' software," Johnston says.

15. When to Renegotiate?

These days, homeowners refinance as often as Madonna changes hair and religions. While you probably want to be more prudent with software deals, certain circumstances demand renegotiation. A major change in technology plans or recently purchased technology that isn't up to snuff are two examples. In short, anytime you think the deal isn't cutting it, renegotiate.

Business reality is perhaps the most defensible reason to cut a new deal. In the event of a major downsizing or divestiture, don't just cut headcount—trim the less emotionally taxing software bill. Show your Microsoft rep the layoff figures; translate them into useless licenses, and make Microsoft pay. It's only fair.

The opposite situation can work just as well. Perhaps your company acquires another, or is experiencing rapid growth. If your total licenses increase by 10 percent or more, you have a right under EA to negotiate a better discount, notes Braden.

Microsoft has formal contract provisions for upsizing in the event of an acquisition or merger. After all, if they can lock a larger organization into bigger contracts, what harm is a few discount points?

Downsizing is less clear. There is no real contractual out for a shrunken organization. That's why you need to play hardball and do what it takes to get out of unnecessary software licenses.

16. Financing Tips & Tricks

Getting a good price on software is important, but getting great financing helps, too. Because Microsoft is interested in reliable, annuity-style revenue, it wants to help you stretch out payments. Like car dealers and furniture stores, Microsoft will cut lots of deals, such as letting you go a full year, interest free, without making a payment, Braden explains.

You can also craft low-interest terms and multi-year payment plans. With all the possibilities, it's important to involve a real spreadsheet jockey who can analyze the time-value of money, and push for what makes most financial sense.

17. After the Sale: Due Diligence

Ever buy a new car, and forget to get the dealer-provided preventative maintenance, only to find your warranty is worth about as much as a share of Enron stock? The same is true for software: after the sale is just as important as before.

First, make sure you know who does what. The best way to assign responsibility is to pick a contract administrator to:

- Track all licenses
- Make and record payments
- Keep an up-to-date Microsoft and reseller contact list
- Maintain a list of internal team contacts
- Be aware of all customer rights and how to take advantage of them
- Track all dates, such as when licenses expire
- Ensure that all contracts from all parties are proper, with no mistakes

Track all expiration dates, upgrade notices, new deals, and what the vendor must do. Miss an expiration date and you may find yourself with reduced discounts and penalties.

Slow Down!

Saving money from Redmond isn't just about looking good in front of the CFO. Microsoft is one of many vendors. The money you save could be spent on newer technologies that could offer a real competitive advantage. Give yourself the financial freedom to explore these possibilities

Whatever you do, don't rush. "We should have started sooner and spent more time on the project. Did I say project? Yes I did. Purchasing Microsoft licensing is no small task," concludes Cady.

Doug Barney is editor in chief of Redmond *magazine.*


IBM xSeries 306
Microsoft Office
Sage Accounting
Dell Latitude D80
Internet Explorer
Microsoft Office
IBM xSeries 306
Sage Accounting
Dell Latitude D80