Software Licensing Series:

Discover Hidden Financial Opportunity in Microsoft's Upcoming Releases

Provided by

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Many NET(net) Clients wonder how they can gain significantly better outcomes when negotiating with Microsoft. The purpose of this white paper is to help our Clients gain a new perspective of Microsoft's upcoming releases and how to evaluate and maximize the strategic and economic value that the releases bring to your organization, while considering Microsoft's current market position and the overall economy.

Today's Landscape

ECONOMY

In the midst of a worldwide recession, Microsoft customers are facing tough times. Cash is king, some companies are nearing debt limits, banks are failing and credit markets remain tight.

Short and long-term business and IT planning is more difficult, since timing determines many investment decisions. There are competing pressures to either act now – before the money is gone, or to save now since cash is king. IT budgets are full of question marks; how many projects can get funded? Plans change from day to day as the Chief Financial Officer continues to negotiate with lenders and investors.

In this climate, even "good" investment opportunities are being passed up, due to either risk aversion or a lack of funds to exploit them.

Headcounts remain extremely tight; what staff remains after layoffs are at maximum workload simply keeping essential services and projects running.

SUPPLIERS

The picture is equally bleak for suppliers, especially for software companies who offer and sell technology via discretionary capital investments for its customer base.

Many customers continue to be disappointed regarding their IT supplier relationships.
Some general themes include:

- Their solutions do not address our key business problems
- They strong-arm and oversell, then disappear
- They don't have real-world ability to measure and prove value or ROI in our business

Shelf ware is still rampant; both abandoned installations, and products which were paid in full but are only using a fraction of their capabilities.

The frequent view of customers is that while the technology itself may generally be pretty good, if it isn't business critical, it isn't getting funded now or anytime soon.

WALLSTREET

The impact of Wall Street on Microsoft's behavior must be understood if customers are to effectively optimize and negotiate deals in this climate.

Microsoft's investors have for many years been demanding predictable revenue, not tied to PC refresh cycles and new version releases such as Office 2010 or Windows 7. Microsoft's answer to this has been Software Assurance, especially as sold via Enterprise Agreements.

For its part, Microsoft still wants its stock to perform as a "growth stock" but the company is now so huge, and its market share so pervasive that growth is extremely challenging, especially in the core products in the U.S. and leading global markets.

This explains the company's high profile interest in media properties such as Yahoo. Microsoft CEO Steve Ballmer has stated that "the global online advertising business is projected to be 5X the global software business." So, Microsoft's top leadership will continue to invest more time and energy on the internet business than on developing new software.

COMPETITION!

It's a common misperception to think that Microsoft's market dominance is so complete that they have no competitors, but it's simply not true. Today Microsoft's competitors and alternatives are numerous, and gaining visibility and viability.

Google is perhaps the most frequently mentioned competitor. Their online office suite, their hosted email service, and their history of rapid innovations and low cost solutions are attracting more and larger enterprise clients. There are now more than a handful of Global 500 companies moving to Google; some of whom with more than 30,000 users leaving Office / Exchange for Google.

But Google is not the only alternative. Other SaaS (Software as a Service) players - including Microsoft themselves – are improving their offerings. IBM, Oracle, Computer Associates, and literally dozens of traditional and startup suppliers are adapting as well.

The Open Source community continues to gain market share as well. Larger and smaller enterprises have been quietly adopting Linux for servers, running application platforms, directories, and many business critical applications. Star Office has received consistently favorable reviews from editors and users alike.

And let's not forget: It's technology. There is always something "better faster cheaper "coming soon… there are always bright young minds hammering out code in garages all over the globe.

Microsoft

Microsoft's sales this year has suffered its first-ever year-over-year revenue decline. Net income in the fiscal year ending June 2009 was down 29%, and Microsoft posted the 2nd consecutive quarter of revenue declines, along with the first layoffs in the history of the company.

As a cultural shockwave within Microsoft, this can't be overstated. In recent months, NET(net) has noted a dramatically different sales climate and morale within Microsoft.

MICROSOFT'S RESPONSE

Microsoft as a company firmly believes that their technology is a driver of improvement in the business world. The company has also been stung by criticism by missing past release date targets and the continuing antitrust battles with the US and European authorities.

Microsoft has in response stated that the “pace of innovation will increase”. The company has made enormous investments to build data centers worldwide in support of its cloud computing offerings (branded by Microsoft as “Software plus Services”).

The 12 months following August 2009 will see new releases of Windows 7, the Office family, Servers including SharePoint, Windows, new services such as Office online, and BPOS. Simply, the next 12 months will see a refresh of most every product that Microsoft sells to businesses. Will businesses buy?

THE VALUE OF THE UPCOMING RELEASES

NET(net) Clients largely took a pass on Office 2007 and Vista, and this trend is reflected across much of the enterprise IT world.

NET(net) has talked with Clients in many Microsoft briefings regarding the upcoming releases, and consistently, IT leaders say that the upcoming releases largely deliver incremental (not transformational) value, along with a few nice features. Most Clients end up characterizing most of the new releases as:

- Nice to have
- Not a compelling business value
- Depending on timing, when and if we upgrade, we’ll likely go to the most recent version, but we are not accelerating upgrades based on these releases

Many Clients will end up skipping Vista, skipping Office 2007, and many of the other products. So despite claims to the contrary:

Microsoft is still on a 4-year effective delivery cycle for any meaningful value. Regardless of Microsoft’s ability to churn out new versions, the IT world’s ability to consume and deploy, much less gain ROI from them, is constrained to about every 4 years even in a favorable view.

RESULT:

- All of these factors have combined into a “perfect storm”
- This is an unprecedented time to negotiate with Microsoft.

MICROSOFT’S POSITIONING

We must emphasize; despite this historic tilt of the market in favor of the customer, the playing field is still far from level. Microsoft has invested enormous time and money in marketing, branding, positioning, sales training and as a result is excellent at demos, briefings, marketing and the executive pitch strategy.

When selling the promise of the future unreleased products fails to close the deal, the old staple of FUD (fear, uncertainty and doubt) has proven a potent tool. Compliance is a commonly veiled threat. There is the fear that peers will pass by, that a company that lags Microsoft adoption will somehow suffer. There is the natural bent of technologists - we like new stuff! Resumes need updating with the latest technology. IT managers each have their own favorite feature set that will make their job easier (regardless of the ROI or lack thereof for the company).

But customers also contribute to overpayments.

COMMON MISCONCEPTIONS

NET(net) hears these quite frequently:

- Microsoft does not negotiate
- We have no real alternatives
- Our deal is not big enough
- Our Large Account Reseller (LAR) works for us and will make sure we get the best deal

It's clear that Microsoft does negotiate; and it's also true that the company has built in best practices in negotiations to every step of their sales cycle. Sadly, most customers do not have the ability to consistently or effectively overcome the Microsoft advantage without professional assistance.

We've already discussed how there are now more legitimate alternatives to Microsoft products than ever before.

It's been NET(net)'s experience that, while Microsoft likes to tell customers that their deal is not big enough… in practice, the size of the company has little bearing on the size and nature of the final concessions secured.

NET(net) reminds customers to understand the money flow between Microsoft and the LAR.

Your LAR/reseller representative serves three masters: customer, his company, and Microsoft and hopefully in that order, but likely not. It's a sometimes tricky balancing act for a reseller rep, who competes to win business by offering or delivering more value than the competition, while ensuring profitable transactions for his employer, and also while satisfying Microsoft that he has fairly and aggressively represented Microsoft's products and goals.

LARs are contractually obligated to work in Microsoft's best interest, and are also contractually bound regarding information they can and can't disclose. In practice, few reseller reps are aware of these requirements, and most believe they are free to offer clients whatever information will gain a competitive advantage.

The real constraint is in the relationship between your LAR rep and the local Microsoft reps. If this is a "happy" relationship, a lot of business referrals—for licensing and also for lucrative consulting and implementation services—flow from Microsoft to the "preferred partner."

In that case, the "preferred partner" would be reluctant to offer clients information that would damage their relationship with Microsoft.

How well do you and your team understand Microsoft licensing, your options and alternatives and how they apply to your unique technology usage and needs?

Customer Challenges

As things stand today, few customers have developed business case(s) for Microsoft's future products. And how could they? Pre-release briefings are very vague. But Microsoft expects customers to commit to fixed, large-scale costs to pre-pay for these technologies.

So customers have little knowledge of what's expected to ship, no time to go find out, but, if their MS Agreement end date is inside of the next 24 months, they have important decisions to make as it relates to their contract with Microsoft.

CUSTOMER DISADVANTAGES

Even if customers have a fair look at upcoming releases, Microsoft and LARs control (access to) pricing and terms and only reluctantly disclose alternative licensing strategies that might save customers money. When they do provide this info, it's positioned as an "apples to apples" comparison…but customers should really be looking for oranges.

Even LARs are reluctant or incapable of including alternative options and models, since to do so would risk offending their Microsoft partners.

And if the licensing is not complicated enough, the knowledge gap is huge. Few IT or procurement managers are experts in Microsoft licensing, or have negotiated more than a couple of deals with Microsoft.

Microsoft and LARs, on the other hand, handle licensing deals all day, every day, by the thousands. They have developed sophisticated infrastructures for managing deals, exceptions, negotiations, options and terms. The suppliers have already seen almost every objection, every bluff, every gambit, every business situation imaginable, and have answers that protect their revenue.

CUSTOMER ADVANTAGES

But all is not negative. As the customer:

- You hold the checkbook
- You decide when to act
- You decide which products and services meet your needs

OBSTACLES TO SUCCESS

Still, we frequently see customers getting in their own way. Time is always short; Microsoft negotiations have firm deadlines. Staff workloads are high, decisions must be made regardless of whether all the bases are covered. We advise clients to start early! Schedule six months ahead of your expected deadline date for at least an evaluation of your technology roadmap, plans, and goals.

Use good project management (PM) practices; consider the size of your projected Microsoft spend and allocate PM resources as you would any other project of that value.

Best Practices

GETTING PAST "NO"

Too many customers confuse "negotiating" with "asking". They are not the same. When negotiating, you must understand your options and alternatives, so that instead of asking (and receiving "No" for an answer), you can frame the discussion as "if then else". Where "if Microsoft agrees to this set of terms and pricing, we'll buy, else we will execute this other plan."

MANAGING COMPLEXITY AND COMMUNICATING TO SENIOR EXECUTIVES IN SHORT TIME.

It's unrealistic to expect executives to become licensing experts. But Microsoft has demonstrated its ability to sell to executives on the basis of simple, bite-size, appealing chunks of information. Can you deliver your counter-message as effectively? Do you even have a counter-message?

Before engaging with Microsoft, get your executives' criteria, financial and business goals, and time constraints. Shape your coaching in terms of those limits.

MANAGE AHEAD, DON'T LOOK BACK

Microsoft is fond of saying "don't abandon your past investment" – and while this is sound advice, it has nothing to do with purchasing a new, future investment. Look beyond the obvious. Challenge conventional wisdom & logic.

THE PROCESS

NET(net) has developed a proprietary Optimization process based on the combined decades of experience of our subject matter experts, and including methodologies tested in the real world. The key mindsets are:

- Manage Ahead, Don't Look Back
- Flexibility
- Sustainability
- Dislodging the Past
- Manage Strategic, not Transactional
- Consider Holistic Relationship, and Portfolio
- Optimization before Entrenchment
- Look Beyond the Obvious
- Challenge Conventional Wisdom & Logic
- Focus on the facts
- Suspend Disbelief
- Think the Unthinkable
- Challenge Conventional Wisdom

OUTCOMES

Using these practices, NET(net) has been able to consistently obtain more than 33% savings for our Clients in Microsoft engagements.

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