

Software Licensing Series:

Microsoft Large Account Resellers(LARs): Selecting, Optimizing, and Managing

Provided by
NET(net), Inc.
+ 1 (616) 546-3100
www.netnetweb.com

Many NET(net) clients prefer to buy direct from the manufacturer. Companies like Dell have proven that this is a successful model, and clients enjoy dealing direct. However, Microsoft has chosen a hybrid approach, where clients deal with both Microsoft and a reseller most of the time.



What is a LAR?

There are different types of resellers in the Microsoft's world. There are Original Equipment Manufacturers (OEMs); these companies build PCs and pre-install Windows and/or Office via Microsoft's complex OEM licensing terms. Examples include Dell, HP, IBM, Gateway, and your local "white-box" PC manufacturers.

Partners are Microsoft-authorized companies that have to meet specific requirements for training and expertise in Microsoft products. Their business models tend to focus on service or solutions, with the ability to generate supplemental complementary income by reselling licenses. These are VARs and consulting/service firms who may also sell software licenses.

Microsoft Software Advisors are simply companies that are eligible to resell Open licenses. This program is open to almost any reseller company, creating a plethora of sources for Open licenses. Large Account Resellers (LARs) are authorized to sell Select Agreements, and Enterprise Software Advisors (ESAs) are authorized to act as advisors (agents) for Enterprise Agreements and Enterprise Subscription Agreements. Most LARs are also ESAs. There are relatively few LAR/ESAs authorized by Microsoft.

A note on terminology: In common usage, "LAR" and "ESA" are interchangeable terms. In this white paper we use the term "LAR" to include LARs and ESAs. Here's a quote from Microsoft's site that sums it up:



Large Account Resellers are independent companies approved by Microsoft through which clients buy your licenses and obtain value-added services. Large Account Resellers (LARs) can exercise discretion regarding distribution, invoicing, final pricing and collections. Clients order all licenses from the Large Account Reseller clients designate on your Select Master Agreement. There is no limit to the number of Large Account Resellers clients can work with if clients acquire at least 750 units per Enrollment Agreement during the term of the Agreement."

Clients can change their Large Account Reseller(s) at any time during the course of their Select or Enterprise Agreements. Simply fill out and sign a form known as "Change of Channel Partner", which the new LAR will be delighted to provide.

How Do They Get Paid?

Question: Are all LARs the same, or can clients gain significant benefits by choosing the right one? Yes—it does matter which LARs and individual account reps and teams you choose, more so than the actual company itself.

NET(net) recommends that clients should maintain active relationships with at least two LARs. Dell and HP, in addition to being Microsoft resellers, also happen to be hardware OEMs, so they'll offer great savings on



hardware, if clients also buy Microsoft licenses from them. This could be worthwhile for clients, if the hardware deal is attractive. Most of the other LARs are also hardware resellers and service providers. They also would be delighted to offer clients a deal involving great prices or terms on services, hardware, accessories, etc., in addition to Microsoft agreements.

The OEMs and the resellers have different cost structures. Dell, for example, is known for offering Microsoft licenses near cost when bundled with a PC or server purchasing agreement. Obviously, they make enough profit on hardware (and accessories) to compensate for any shortcomings on the profitability of selling the Microsoft licenses.

The resellers don't have as much cost flexibility as the OEMs, so they have to build creative deals. For example, clients may see a Microsoft quote that is at or near reseller cost, along with a guarantee of favorable pricing on all the other software that the client agrees to buy (Adobe, CA, Symantec, Novell, etc.). The resellers will also emphasize their quality of service and expertise in licensing as competitive differentiators over OEMs. Or clients may see a "comparable" price, bundled with free services such as asset management engagements, implementation help, or other consulting services.

The point is to be aware of the many "non-price" ways in which clients can claim value by getting the resellers to compete with one another, regardless of the terms Microsoft is offering.

Reseller Costs for Microsoft Licensing

Microsoft's product pricing teams establish the prices for a given item. Microsoft refers to these prices as Estimated Retail Price ("ERP"). The price lists are published monthly via an online tool that LARs are authorized to access. For Select Agreements, the LAR gets a significant discount from that ERP, so anytime Microsoft shows clients an ERP, there is a discount procedure clients must go through to know the LAR's cost – minus other incentives.

Just like in many industries (automobiles, insurance, stocks, groceries), LARs receive "back-end money", also known as rebates. These rebates are typically performance-based, where, for example, if a LAR meets its Microsoft sales quota for the quarter, they get a check back from Microsoft for a percentage of the licensing revenue sold.

NET(net) knows the specific discounts and rebates the LARs get and can help you understand this potential premium, so you can make good decisions about whether or not the services warrant the cost. If so, great; if not, you may be positioned to negotiate more favorable pricing from the LAR to ensure your cost to value equation is balanced. NET(net) offers G2 On Demand services, where it reveals these and other Microsoft Licensing Secrets. To find out more, contact us online at www.netnetweb.com, by email at info@netnetweb.com or by phone at 866-2-NET-net.

Clients should expect to see LARs quoting Select Agreement prices at or near their cost.

Enterprise Agreements and ESAs have a different cost structure. When clients buy an EA or ESA, the PO and check go directly to Microsoft, not the LAR.



With an EA, the LAR (acting in the role of ESA) receives a commission on the sale. The commission is variable based on many factors, such as size of the client's enterprise and product mix. Microsoft prohibits ESAs from "kicking back" their commission to clients in any way. However, clients can negotiate "credits" on other products or services... so that ESA's have found ways to get around the "kickback" issue.

NET(net) knows the specific commissions and credits the ESAs get and can help you understand this potential premium, so you can make good decisions about whether or not the services warrant the cost. If so, great; if not, you may be positioned to negotiate more favorable value from the ESA to ensure your cost to value equation is balanced. NET(net) offers G2 On Demand services, where it reveals these and other Microsoft Licensing Secrets. To find out more, contact us online at www.netnetweb.com, by email at info@netnetweb.com or by phone at 866-2-NET-net.

Key Real-World Differentiators for LARS

Don't get caught in the trap of thinking that all LARs are low-value, commodity transaction distributors, with little differentiation from competitors. When properly selected and managed, your reseller can become your ally in dealing with Microsoft (subject to constraints), and can help clients conclude the deal gracefully and transition into operations smoothly—or not.

Your LAR/reseller rep serves three masters: clients, 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 info that would damage their relationship with Microsoft. Ask your Microsoft rep for recommendations of local reseller reps. From that list, clients know who may have conflicting interests. On the other hand, the reseller reps who are not favorites of Microsoft aren't necessarily your best choice. Clients still need to screen them for expertise, responsiveness, and all the usual business criteria clients ask any potential supplier to pass. Let's break these up for analysis. First, to win your business, the rep must demonstrate and deliver winning value. Some of the ways (s)he can do that:

- Attitude is the most important value a reseller rep can share with clients. In the delicate 3-way balancing of competing interests, is your rep more inclined to serve Microsoft, or the client? How do clients determine this? A difficult question, but here are some ideas:
 - How did you find your reseller rep? Was (s)he introduced by Microsoft, or did (s)he contact you independently? If Microsoft "refers" clients to a rep, that's an indication that the rep / LAR has a history of



helping Microsoft sell successfully. A strong client advocate who opposes Microsoft in favor of the client's interests will not receive many referrals from the local Microsoft sales office.

- What advice does your rep give? Ask questions based on these recommendations and see what answers and reactions you get back. Ask the same questions of more than one LAR and compare the answers.
- How willing is your LAR rep to help clients negotiate aggressively with Microsoft? Does (s)he claim it's impossible? Or does (s)he offer ideas and alternatives that clearly contradict Microsoft's recommendations?
- Experience of your account team is almost as important as attitude. The resellers close thousands of deals every year. The experienced reps have seen and heard about nearly every imaginable circumstance, and have reviewed hundreds or thousands of contracts. Ask your reps how long they've been at this, and check their references.
- Relationship, trust, knowledge of clients and your business can make a good long-term supplier a strong asset.
- Licensing management systems, including online tracking, reporting, and the expertise and support to help clients. Many LARs now offer some degree of asset management assistance; if you have the need these can be valuable tools.
- Offering a better total package of price, which could include the lowest price for Microsoft products, plus the lowest prices for other suppliers (hardware and software), plus some value-added services that are useful to clients, such as enhanced software management tools, consulting, implementation services, etc.
- Analyzing and demystifying reports. A reseller who is financially stable, has robust, easy-to-use reporting systems, and can quickly and cleanly provide clients with license usage and reports is very valuable in supporting clients' software license management and compliance efforts.
- Analyze and reconcile your data. Making sense of all the various sources of licensing proof is a very steep challenge unless clients work with Microsoft licensing every day. A good reseller will provide clients with useful, accurate summary reports.
- Teach and explain. Via newsletters, web casts, white papers, and one-to-one meetings and conference calls, resellers should be able to help clients understand any question clients come across, as well as giving clients a solid understanding of the various licensing options—customized for your specifics, of course! Don't accept boilerplate PowerPoints.
- Answer questions correctly. Microsoft's programs are so confusing, full of exceptions and contradictions, and ever-changing that even the experts can disagree on the correct answer to an obscure (but financially important) question or strategy.

In fact, NET(net) commonly sees Microsoft reps stating that a particular deal structure is impossible, but in fact, it's listed on the standard price list! This is why clients should independently deal with multiple resellers during your information-gathering phase, so clients can compare answers and advice.

- Negotiate. Your reseller rep may not be comfortable (or effective) sitting at the table with clients across from Microsoft, but he or she can be very effective at offering clients advice from the background, reviewing offers, proposing alternatives, and helping build strategy.
- Get good prices. Microsoft licenses, but also the others as well—CA, IBM/Lotus, Veritas, Symantec, Adobe, Novell, Network Associates (McAfee), BEA, etc. Seek out a bundled agreement that improves your total cost.



- Minority Owned Business Benefits. There is a variety of federal, state, and local government incentive programs that reward companies for doing business with companies that meet certain ownership criteria. Many large corporations also have their internal programs. These often go by names like HUB (Historically Underutilized Business), or M/WBE (Minority/Woman-Owned Business). Several of the LARs qualify under these programs.
- Competence and accessibility of your reseller's inside licensing support staff: Your rep probably relies on the team at headquarters who deal full-time with Microsoft's terms, conditions, contracts, prices, and changes. These people have access to resources for answering questions and explaining options, and if clients establish a good relationship, can offer clients very useful knowledge.

One of the key values of a LAR is knowledge of hundreds or thousands of past deals, and the current deals being signed daily, all over the country or the world. The inside licensing teams are the people involved in these deals. Establish a good relationship with them, and listen to their advice.

Pitfalls in LAR Management

Microsoft requires every LAR to meet certain quality measurements—things such as percentage of invoice line items that are in error and timeliness of reporting transactions. Every LAR receives a “LAR Report Card” from Microsoft. Ask to review copies from the last three or four quarters. Here are some things clients can avoid:

- Placing Microsoft's or their own priorities ahead of yours. Of course, clients have to watch for this with any supplier. Ask your LAR sales rep: “do you get paid differently if we buy an EA instead of Select?”
- Sharing confidential information with Microsoft or other suppliers. Clients should require a nondisclosure agreement signed that specifically discloses the LAR's conflicting interests and prohibits the disclosure of your confidential information. Remember, your reseller also has a contract with Microsoft, which also has a confidentiality clause.
- Recommending the wrong Microsoft program or product in response to your needs. The licensing options are many and confusing, and it's easy to pick the wrong one. That's why clients need an experienced rep working with clients.
- Quoting or recommending the wrong part number for your contract and needs, which could lead to compliance penalties, or at least to the un-planned effort and expense of reversing and reordering. Note: don't ignore this risk. NET(net) discovers such errors every single time we review a client's reports.
- Reporting incorrectly to Microsoft. Once an order has a mistake, the effort to fix the mistake can become enormous and time-consuming. Clients must diligently review the final license confirmations via their Microsoft Volume Licensing Services (MVLS) website to confirm orders have been processed correctly.
- Not reporting licenses sold at all. While rare, this does happen, either by accident or mistake, and occasionally because the reseller is in financial difficulty.



- Wrong contract or enrollment number assigned to your order. So your license purchases are credited to another division or worse yet to another company.
- Wrong quantity, especially for Software Assurance coverage (was that 1 year times three, or 3 years times three, or 3 years paid all at once?).
- Not reporting your purchases to Microsoft in a timely fashion. Your reseller's reporting to Microsoft should be daily and automated.
- Filling out the contracts incorrectly. It happens every June 30 and December 31. Everyone rushes to complete the contracts before the deadline, but somewhere there's a mistake—a form left blank, a signature missed, or (heaven forbid!) someone innocently used “white-out” to correct a mistake. Since the documents are not perfect, Microsoft rejects them, and your deadline has just passed and clients have no contract. This simple clerical mistake could cost clients a lot of money.
- Microsoft has “operational excellence” awards for resellers – ask your reseller about their performance.
- Failing to update price changes. Microsoft updates their master price list every month. The reseller has 60 days notice of impending changes. Find out how your LAR can guarantee you are notified at least 30 days in advance.