



IAITAM ACE

May 7-9, 2024 The M Resort  Las Vegas, NV

Dean Bedwell

Directions on Microsoft

Microsoft Licensing and Your CXO



Finding your IAITAM Oasis

AGENDA

- Introduction –Who is Directions on Microsoft?
- Why does the CXO need to understand Microsoft Licensing?
- Licensing Basics 101
- License Models
- License Vehicles have Impact
- Specific Customer Impact Issues
- Questions



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WHO IS DIRECTIONS ON MICROSOFT?



- **Mission** - Help organizations maximize value from their **Microsoft** relationship.
- **Services** - Focused Information, Training, and Advisory solutions to address Microsoft pain points.
- **Clients** - Serving enterprise customers and partners worldwide since **1992**.
- **Expertise** - Institutional knowledge of Microsoft enterprise technologies and licensing agreements.



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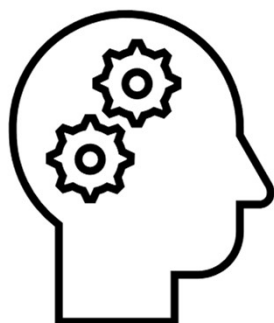
- Lead the Advisory Practice at Directions on Microsoft.
 - Lead a team of seven ex-Microsoft licensing personnel that help customers with Microsoft Licensing events
 - Supported by subject matter experts at Directions Analysts.
- The Directions Team have engaged 1,000s of customers over the past twenty plus years.
- Directions on Microsoft has customers - various size, various industries, various geographies.
- Previous Director of one of seven Microsoft Business Desks (Deal Manager) in the Americas.



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Why the CXO needs to understand Microsoft Licensing?



- Microsoft licensing challenges can increase business risk, impacting budgets, cash flow, and daily business activities.
- A high-level understanding of Microsoft licensing helps executives recognize situations that require their attention or outside expertise.
- Knowing the rules and options can help organizations optimize their spend and reduce exposure.



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INTENT OF THIS PRESENTATION

- Provide high-level overview of Microsoft licensing rules and models that will help executives:
 - Recognize and mitigate potential risks in licensing decisions
 - Map company objectives to different licensing options
 - Identify licensing options that could impact larger company
 - Dealing with Microsoft's license models is much like having to deal with multinational tax issues, where each country has its own tax structures, rules, and exception cases.



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LICENSING BASICS 101

- The use of Microsoft products and services are governed by licenses that provide legal rights to use a product or service, based on the following three attributes:
 - Durability of rights is a high-level attribute that separates traditional perpetual licenses from subscription licenses.
 - License types determine how rights are assigned and provide measurements for how customers are charged.
 - License models are frameworks where everything is brought together. Most IT organizations use the license model for a product or service to calculate purchases and create ongoing budgets both CAPEX and OPEX.



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OWN OR RENT?

- Own (Perpetual Licenses)
 - Provide the right to use a product indefinitely and are only available with some on-premises software, never with cloud services.
 - Perpetual licenses are typically purchased with an upfront payment and are tracked as an asset (CapEx) on the corporate balance sheet. Once paid for in full, the customer can, theoretically, use the **product in perpetuity**.
 - Compared to subscription licenses, perpetual licenses help organizations control spend in times of cash shortages or a downturn in business. However, using older software is less practical than it used to be: When Microsoft ends support for a product, it cuts off security updates, putting customers at risk from ransomware and other attacks that exploit older software.
 - Also, older software usually does not work properly with new versions of other Microsoft products (like Office applications) that customers also use.
 - Importantly, Microsoft is actively phasing out perpetual licenses and replacing them with subscriptions for all products and services. In fact, Microsoft started the process over two decades ago when it introduced Software Assurance (SA), which is an annual subscription that provides additional (often key) product use rights and benefits like the ability to upgrade to a newer version without needing to repurchase the product.



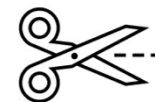
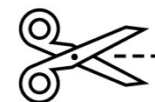
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OWN OR RENT?

- **Rent (Subscription Licenses)**

- Require an ongoing payment and only provide rights to use a product or service for as long as the subscription fee is paid.
- They are always used for cloud services and an increasing number of on-premises products.
- Subscription licenses are much like entering into a lease and generally represent an operating expense (OpEx), although purchasing agreements can result in subscriptions being tracked as assets.
- Many subscriptions require a minimum duration commitment, ranging from one month to many years, although some subscriptions have no set duration requirement, with charges ceasing to accumulate as soon as the customer ceases use of the service.



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LICENSE TYPES

- Microsoft has four main ways that product rights are assigned, and charges are calculated. These terms are used throughout Microsoft documentation and agreements, and it is therefore important to understand the differences because many products can be licensed using different combinations of license types, which impacts budgeting, deployment, and a customer's ability to respond to business changes.
 - **Per-User** licenses are priced per individual person and provide the right for that individual to access a product or service, typically from any device. For example, a Per-User license for e-mail allows an individual to access their account and e-mail from any device.
 - **Per-Device** licenses are charged by device (either a client or server) and provide the right for multiple users to access a product or service through that device. For example, Per-Device licenses are often used with service desks, call center computers, or warehouse terminals that are shared by multiple people across shifts.
 - **Capacity-based** licenses provide the right to use a product or service up to a specified resource limit. For example, a cloud-based server with a predefined number of processor cores and memory.
 - **Consumption-based** licenses provide the right to use a service with charges based on how much of the service is actually used, similar to how utilities charge for usage. For example, Azure storage charges monthly for the number of GBs of storage space consumed.



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LICENSE MODELS – Use Rights and Charges

- License models are where everything comes together.
- They are frameworks for each product and service that provide the terms and conditions governing use and determine how customers are charged.
- There is no one framework or consistent approach to Microsoft license models, they vary by product and service, with each having its own nuances, requirements, limitations, and charging metrics. This variation is one of the major reasons budgeting, purchasing, and compliance is so challenging.
- Most organizations tend to license Microsoft products that fall into four areas, which are discussed in the following sections:
 - Windows and Office (On-Premises and Cloud)
 - Azure Developer and IT Services (Cloud)
 - Business Applications (Cloud)
 - Servers (On-Premises and Cloud).



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WINDOWS OS and OFFICE (On-Premises and Cloud) LICENSE MODEL

- Windows and Office include components that almost **everyone** in the organization uses daily—Office solutions (like Outlook, Excel, Word, and Teams).
- Microsoft’s Office suite and Windows are available as perpetual licenses; however, most organizations are purchasing Windows and the Office applications through subscriptions called **Microsoft 365 suites**.
- The subscription suites include Windows and the core Office products, but also access to additional cloud-only components like Teams and OneDrive that are not available through perpetual licenses.
- Subscriptions come in two categories to accommodate knowledge workers (such as traditional office staff) and frontline workers (such as warehouse workers) who would typically not have their own dedicated PC.
- The suites can be augmented with a growing number of **add-ons** (licensed Per-User, Per-Device, and capacity-based).
- The biggest licensing challenges customers face in this area include:
 - Transitioning from legacy licenses.
 - Mixing suite levels.
 - New features increase budgets.
 - Remote users.



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AZURE DEVELOPER and IT SERVICES (Cloud)

- Azure developer and IT services are building blocks used by IT organizations to construct custom systems.
- Using Azure can often replace or augment a traditional datacenter. For example, Azure components can be used to create custom Web applications, deploy virtual machines, and build data lakes.
- Azure also provides specialized features like AI services that many customers are unable to deploy on their own because of cost or lack of skills.
- Azure provides hundreds of services, each licensed via a combination of consumption- and capacity-based charges, with a wide variety of units of measure.
- Most Azure services are available in multiple tiers and can be deployed globally but may then have different pricing.
- Core services can also be augmented with numerous add-ons that provide additional capabilities, such as high availability and customer-controlled encryption keys. As a result, large organizations often see monthly Azure bills with thousands or millions of line items from several thousand possible choice combinations.
- The major challenges in Azure developer and IT services licensing include the following:
 - Forecasting new solution cost.
 - Optimizing ongoing Azure spend.



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BUSINESS APPLICATIONS (Cloud)

- Microsoft provides several offerings that deliver traditional business functionality, like customer-relationship management (CRM), financial and HR components, and business intelligence and reporting. They include product groups like Dynamics 365 and Power BI and the new Microsoft Fabric data and analytics service that are available as cloud solutions and generally compete with solutions from Oracle, Salesforce, SAP, and Tableau.
- Dynamics 365 is sold à la carte and via several tiers of Per-User, Per-Device, and capacity-based subscription. There are also numerous add-ons that provide additional features and storage.
- Power BI is licensed via a capacity and Per-User model, depending on the platform and size selected.
- Fabric is licensed by a combination of capacity-based subscriptions and consumption-based data storage in an offering called OneLake.
- The major licensing challenges in this area include the following:
 - Everyone may need a Dynamics 365 license.
 - Easier with Power BI and Fabric.



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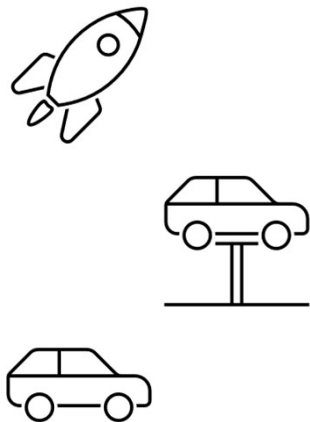
SERVER SOFTWARE (On-Premises and Cloud)

- Server software is installed on physical servers and VMs (on-premises or hosted in the cloud) that are accessed by multiple users and/or devices. They include traditional products such as Windows Server and SQL Server that are still critical to many organizations.
- Server software is licensed by capacity for a device (such as the number of cores in a server or VM) and sometimes it requires additional Per-User or Per-Device licenses for clients accessing that server, but not always.
- Customers can purchase all server software through subscriptions or perpetual licenses.
- When purchased as a perpetual license, most customers also purchase SA, an annual subscription that brings special rights as noted earlier, but also includes the option to use the server software licenses when migrating to Azure, to reduce software licensing costs in the cloud.
- The major challenges with server software licensing include the following:
 - Choosing the right license model.
 - Rules vary by location. Microsoft has different rules, depending on where the server software is deployed. For example, the cost is always higher, and features are more limited, when deploying Windows Server in Amazon or Google's cloud, but not when deploying in Microsoft's Azure cloud, which is more restrictive than on-premises use of the same product.
 - Lack of built-in compliance.



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LICENSE VEHICLES HAVE IMPACT



- Microsoft Enterprise Agreement
 - Commitment based multi-year agreement.
 - Focused on larger organizations.
 - Being phased out for smaller organizations.
 - Predictable costs.
 - Microsoft may have a push to go more direct.
- Microsoft Customer Agreement
 - Partner or direct with Microsoft.
 - Current focus of Microsoft.
 - Different Microsoft back-end – New Commerce Experience.
 - Different contract stack versus Microsoft Enterprise Agreement.
- Cloud Solutions Provider (CSP)
 - Partner Driven.
 - Direct and Indirect partner.
 - Microsoft is pushing this license vehicle on smaller customers.
 - Impact on various products.



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CUSTOMER IMPACT ISSUE – MICROSOFT CUSTOMER AGREEMENT

- Some products are not included.
- Different contract items versus the Microsoft Enterprise Agreement.
- Microsoft is pushing Azure and CoPilot through this agreement type.
- Customers may need months to review and understand the impact of this new license vehicle versus the Microsoft Enterprise Agreement.

License Type	Microsoft 365 Subscription Licenses Unavailable Through an MCA
From-SA	Microsoft 365 E3 and E5 From-SA (User SL) Windows 11 Enterprise E3 and E5 From-SA (User SL) Office 365 E1, E3, and E5 From-SA (User SL) Microsoft 365 Apps for enterprise From-SA (User SL)
Device	Windows 11 Enterprise (Per-Device) (SL) Windows VDA Per-Device (SL) Microsoft 365 Apps for enterprise (Device SL)
Step-up	Below are a few examples of the many Microsoft 365 step-up licenses available in an EA Microsoft 365 E5 Step-up from Microsoft 365 E3 (User SL) Microsoft 365 E3 Step-up from Office 365 E3 (User SL) Microsoft 365 E3 Step-up from Microsoft 365 F3 (User SL) Office 365 E5 Step-up from Office 365 E3 (User SL) Exchange Online Plan 2 Step-up from Exchange Online Plan 1 (User SL)
Other	Windows VDA E5 (User SL) VDA Add-on for M365 E3/E5 (User SL)

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CUSTOMER IMPACT ISSUE – COPILOT

- CoPilot not consistent
- It's very expensive (and expensive) yet offers unproven ROI
- It's not done (and likely never will be)
- It's plagued by unstable requirements, branding, licensing, and packaging
- It creates new regulatory compliance and security hurdles
- Remember: It's a marathon, not a sprint
- Pushing licensing to the Microsoft Customer Agreement

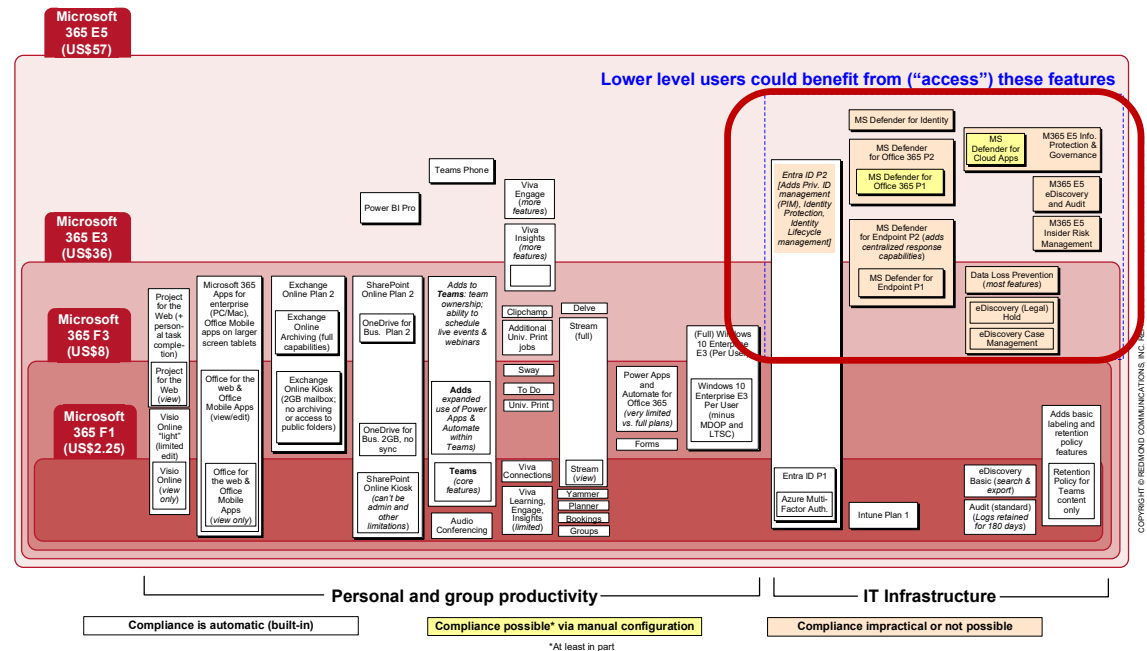


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CUSTOMER IMPACT ISSUE – MIXING MICROSOFT E5 COMPONENTS

- Mixing drives compliance and financial risk.
- This might obligate the entire tenant to a feature you did not intend to use.



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CUSTOMER IMPACT ISSUE – POWER PLATFORM AND DYNAMICS



- Let's say you have a remote autonomous workflow using Power Automate licensed by user sharing Dynamics 365 data electronically in an email.
- Licensing Impact
 - All users would need a Power Platform User based license
 - All users would need a Dynamics license
 - The remote autonomous BOT would require a copy of Microsoft 365 E3 for unattended use
- Ouch!!!



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SUMMARY

- All CXOs should understand Microsoft product licensing.
- All CXOs should understand Microsoft volume licensing offering.
- Not understanding may lead to misaligned business goals and technology licensing.
- Not understanding will lead to financial risk short and long term.



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