



## Microsoft Simplifies Licensing Model for Business Apps

Thursday, July 13, 2006

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**Microsoft** unveiled sweeping changes to the licensing model for its Dynamics products specifically targeted at new business sales against rivals such as **SAP** Business One and **Oracle's** Special Edition.

Based on concurrent user licensing, the new model greatly simplifies the task for partners configuring products for customers and paves the way for additional modules, including Industry Builder Initiatives, four of which were unveiled this week at Microsoft's World Partner Conference in Boston.

In addition to product licensing, a revised Business Ready enhancement plan (maintenance and support) was also rolled out.

### What difference does the new licensing make?

Brand new customers won't necessarily notice the changes other than in the licensing options that will now be presented to them by partners. Prospective customers shouldn't be exposed to the internal configuration until the deal is close to completion, although partners often complained in the past that they had to re-jig pricing because of the rigidity of the price list.

What prospective customers will notice is the dramatic reduction in license fees—particularly for smaller companies or configurations—not requiring the complexities that the full suite can offer. The old pricing prevented this base-level configuration. The new licensing is concurrent user based, not pay to use; it's still a perpetual license.

The new structure consists of three levels across all Dynamics products:

- **Business Essentials (BE)**—For companies requiring business basics such as financials and supply chain. It doesn't include manufacturing and is not ideal for companies with more than three business units. **Cost:** Starts at Euro 1,500 per concurrent user.
- **Advanced Management (AM)**—For those companies needing more than business basics. AM includes the BE functionality plus modules such as manufacturing and customer relationship management (note: not Microsoft CRM, but the CRM functionality within each of the Dynamics products). Microsoft expects most companies to license at this level. **Cost:** Starts at Euro 2,650 per concurrent user.
- **Advanced Management Enterprise (AME)**—This category stretches functionality further and is added by module. It includes functionality covering field service, demand planning, capacity planning, and job costing, plus some advanced tools. But this level also includes the Industry Builder initiative (IBI), partner-based modules licensed and supported by Microsoft to address industry-specific application needs. According to Microsoft, this level can represent up to 15% of the total product price for larger installations. **Cost:** Each module is priced separately in addition to AM. And note that you can't license AME modules (including IBIs) from the BE level until you first move to the AM level.

Two notes, however: you can't mix and match between BE and AM; you're either one or the other. And the price given is the recommended price to the partner. It's not necessarily what you'll pay, not least because there are certain price breaks that alter the end price per module configuration. Ultimately, it's down to negotiation with the partner.

The license fee reduction will make Microsoft and its partners a more competitive option, increasing the chance of the deal getting to that close. The realignment also increases the functional value delivered (bang for your buck) and dramatically lowers the entry price point for clients. It will also assist for phased deployments.

Let's look at an example. Under the old pricing, a five-user financials and supply chain client in the UK would have paid around £12,100. Now that same value is delivered for a figure around £5,500. Not all configurations would be as drastically reduced, but it gives Microsoft partners a much more competitive position for smaller companies.

### Existing customers

The new licensing only becomes applicable to existing customers as of January 2007, although existing customers wishing to license additional products or to switch products between Dynamics brands would be well advised to discuss options with the relevant Dynamics partner. Moreover, even when it is available, it doesn't mean that you have to switch. If you've bought all the modules you want, then you can stay as you are.

Three scenarios when switching to Business Ready pricing might apply:

- Where you are wishing to move product line (for example, NAV to AX)
- Licensing additional modules
- Requesting to switch license from a modular base to Business Ready licensing

The new licensing lets customers moving products to carry the existing license credit with them, protecting the previous investment. In other words, if you're looking to move from NAV to AX or GP, you don't have to buy the license again. According to Microsoft, between 25 and 30 companies are making this transition per month. They didn't mention anyone going the other way.

When licensing new modules, Business Ready licensing will apply and is likely to be the most cost effective approach anyway.

As for existing customers wishing to switch their existing license to a Business Ready license, Microsoft is still working on transition plans. Details will become available early next calendar year.

### **Business Ready enhancement plan**

The realignment of the licensing also allows Microsoft to take a scalpel to its maintenance and support programs, answering criticism of inclusions and providing a perfect opportunity to set up for a time when the converged Dynamics product emerges.

Maintenance is now set at 16% of system list price for new customers globally. If you're an existing customer on 10% or anything in between, don't panic. The intent is to transition these customers in the next four years. You won't be getting a realignment invoice in the mail anytime soon.

Of course, the program includes product upgrades. But as mentioned earlier, it also assures 100% transition investment credit for any product line or edition transitions. This is a very important future-proofing inclusion.

Another neat inclusion is unlimited online training included in the enhancement plan from March 2007. This combats other providers, such as **QAD**, which provides very comprehensive e-learning within its support program. The new plan also ensures global consistency of, and application of, terms and conditions. Access to the Dynamics CustomerSource website is also included in the program.

For partners working with the Dynamics products, the licensing changes will be very welcome. Partners have long criticized Microsoft for its rigidity. Having spoken to a number of partners since the news, each considers this a critical competitive move. It also makes their job easier, reducing the number of SKUs to order and increasing order efficiency and accuracy.

For new and existing customers, it's also very positive, although not as far reaching as many would like. Role-based pricing has to be the next move, not least because of Microsoft's push of the people-ready business. But this is a good stepping stone for the next couple of years.

If you're considering a move or would like to discuss this or other enterprise-application-related topics, please contact me at [nmontgomery@amrresearch.com](mailto:nmontgomery@amrresearch.com).