



# Enterprises Reap Value from Software Assurance Services, Training and Flexible Payments

## Executive Summary

"I didn't know I got that with Software Assurance" is a common refrain of pleasant surprise by Microsoft Volume Licensing and Software Assurance customers.

It's a shock when corporate customers examine the Microsoft Software Assurance maintenance and upgrade plan for the first time. The surprise turns to glee when IT managers and company executives realize they're entitled to a plethora of benefits that will save their firms tens and even hundreds of thousands of dollars.

The Yankee Group recently profiled several organizations—among them a media and entertainment conglomerate, an Ivy League university and a law firm—to discover how each has lowered its total cost of ownership (TCO) and derived immediate return on investment (ROI) from its purchase of Software Assurance.

Software Assurance, originally considered rigid and expensive by prospective users when it was introduced in mid-2001, proved to be just the opposite. A June 2002 Yankee Group survey showed that 90% of organizations anticipated costs would increase under the new Licensing 6.0 and Software Assurance programs. The October 2004 Yankee Group/Sunbelt Software web-based poll of 1,000 IT administrators worldwide indicates a majority of companies (62%) that migrated to Licensing 6.0 and Software Assurance saw costs decline or remain the same (see Exhibit 1). Microsoft's Worldwide Licensing & Pricing (WWLP) executives spent the last 2 years revamping the upgrade and maintenance program to deliver more benefits, a better value, increased flexibility and improved features.

2005 will be a crucial year for businesses of all sizes across all vertical markets. Yankee Group research indicates that eight out of ten businesses will commence major network, hardware and software upgrades that will tax and strain IT budgets. The joint October 2004 Yankee Group/Sunbelt Software survey indicated that 43% will increase their spending in the next 12 to 18 months to fund network upgrades. But nearly two-thirds of the increases will be minimal to modest—ranging from 3% to 20%. Therefore, corporations will continue to keep close tabs on spending and scour their licensing agreements for discounts and values.

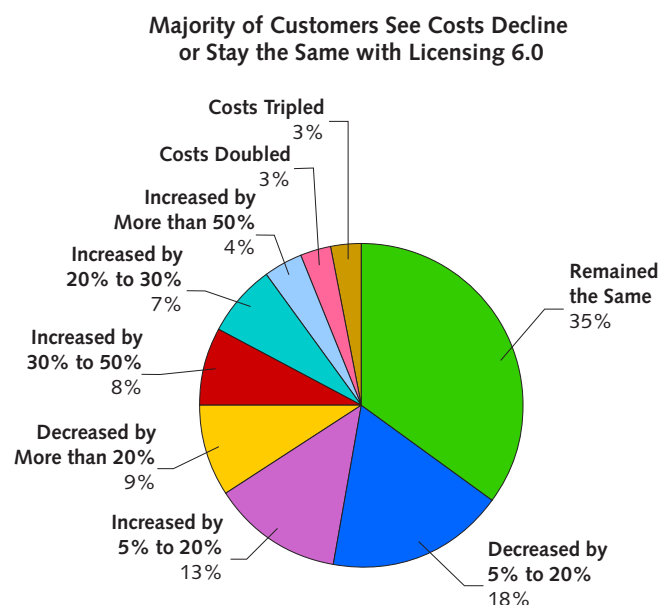
Individually and collectively, corporate customers are well advised to examine Software Assurance and determine which features and benefits will deliver the best savings and value to their organizations. Corporations also should strive to have their IT managers and network administrators review the Software Assurance agreements to ensure that the firm takes full advantage of the packaged benefits—which are worth a lot.

Based on survey data and anecdotal evidence obtained from conversations with individual users, the Yankee Group estimates Software Assurance incremental benefits are worth from \$8,000 to \$10,000 for smaller businesses with as few as 100 users. These benefits could be worth hundreds of thousands—and even millions—of dollars for very large enterprises with more than 100,000 end users.

### Exhibit 1

Users Rate Microsoft Licensing 6.0, Software Assurance a Bargain

Source: 2004 Yankee Group/Sunbelt Software Survey



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### I. Introduction

With so many organizations undertaking migrations this year, free training and online asset management are two popular Software Assurance items that deliver immediate savings and tangible value.

The latest Yankee Group research indicates that businesses reap significant savings and value from Software Assurance, including:

- The ability to reduce training costs by 50% or more in a single year, resulting in tens of thousands of dollars in savings
- The ability to maintain or decrease licensing capital expenditures with upgrades
- Access to online asset management that enables them to centrally track purchases and manage procurement
- The ability to spread out payments over the lifecycle of the licensing agreement
- Access to special, regional geographic promotional discounts that can reduce the cost of individual Microsoft software licensing components
- Free Home Use Program for desktop product enterprise customers
- The ability for corporate users to purchase software for home use at a 40% discount
- A free Cold Server backup license for disaster recovery that obviates the need to purchase new software licenses

Businesses that purchase the Licensing 6.0 Enterprise Agreement also receive Software Assurance as part of the agreement. Select and Open Licensing customers purchase Software Assurance separately. According to a November 2004 Yankee Group survey of 100 reseller partners, 50% to 60% of Microsoft customers have purchased Software Assurance or plan to renew or upgrade their current Microsoft Licensing Agreements to include Software Assurance. This is exclusive of the Microsoft Enterprise Agreement customers that automatically receive Software Assurance.

The revamped Software Assurance model also delivers a distinct “strengths, weaknesses, opportunities and threats” (SWOT) message. It is readily apparent to those resellers and customers that take the time to examine the terms and conditions (T&Cs) of Software Assurance and apply them to their individual business models.

Microsoft Volume License Select and Open customers, for whom Software Assurance is optional, are embracing the Microsoft upgrade and maintenance plan in record numbers. The about-face is due to several factors:

- **Cost savings:** For customers of all sizes that are on 2-, 3- and even 4-year upgrade cycles, Software Assurance delivers an average 20% to 30% savings. The value kicks in at the end of the 3-year term in years 4, 5 and 6 when one compares the cost of letting the license lapse and the requirement to repurchase all new software licenses.
- **Benefits:** During the past 12 months, Microsoft has added many benefits, including training vouchers, work-at-home options, corporate error reporting, extended hot-fix support and an employee purchase plan that provides significant software discounts. Most recently, Microsoft also added a free disaster recovery option in the form of a free Cold Server backup license. The latter option is especially beneficial for organizations using Exchange Server and SQL Server.
- **Microsoft rebate programs:** In a bid to assist cash-constrained customers, Microsoft initiated special product promotions beginning in November 2003. The promotions vary by product, region and timing. Not all promotions will be made available in all geographic regions. The regional promotions offer significant discounts averaging 20% to 30% on popular products with the purchase of Software Assurance. The first such promotion, featuring Office 2003, ran from November 2003 until April 30, 2004, and was a huge success. Microsoft followed that up with a variety of promotional offerings in summer 2004 that featured discounts on OneNote, Windows XP and Windows Server 2003.

- **Partner promotions and add-on incentives:** Individual Microsoft resellers, SMBs, large account resellers (LARs), training centers and OEM partners and authorized Microsoft training centers offer additional regional sales promotions and rebates of their own. These customer incentives on items such as Software Assurance training vouchers can yield incremental savings. These promotions average 20% to 30% above the discount customers already receive directly from Microsoft on their license purchases. The actual monetary value of these sales promotion and training incentives can range from hundreds to even thousands of dollars or euros. Actual cost savings will vary according to individual organizations and the T&Cs of their licensing deals.
- **The ability to keep pace with technology and remain competitive:** Microsoft value-added resellers (VARs) report that one of the biggest selling points of Software Assurance is its ability to assist customers with software asset management and get them on a regular upgrade cycle that helps the business to remain competitive.

Individually, each of these factors represents a business and technology advantage; collectively, they make a compelling argument for a majority of Microsoft customers to consider purchasing Software Assurance.

The Yankee Group profiled three businesses—Warner Music Group (WMG), Brown University and Hughes Hubbard & Reed (HH&R)—to discover specific values and savings that can be realized as a direct result of Software Assurance.

Like many of their peers, the IT managers were surprised and elated when they discovered the inherent value in Software Assurance. Best of all, they had to look no further than their respective licensing contracts to save money.

## II. Three Company Profiles of Software Assurance

### Warner Music Group

**B**ased in New York City, WMG is the world's largest privately held independent music company. WMG also includes Warner/Chappell Music, a leading music publisher that boasts a song catalog of more than 1 million copyrights worldwide.

WMG owns many record labels, including Atlantic, Elektra, Lava, Maverick, Nonesuch, Reprise, Rhino, Sire, Warner Brothers and Word, with an impressive roster of artists, such as Alanis Morissette, Madonna, Missy Elliott, Amy Grant, REM, Barenaked Ladies, Bjork, Cher and Chris Isaak. WMG is home to Warner Music International, which operates through 37 affiliates and numerous licensees in 70 companies worldwide. WMG has four main U.S. locations in addition to 70 international offices and 4,500 end users. The composition of WMG's IT environment is 100% Windows desktops, 70% Windows servers with Exchange Server used as the primary enterprise messaging mechanism for about 90% of the organization.

WMG will upgrade its network during the next 12 to 18 months. Like many organizations that need to upgrade their software and equipment, there won't be a lot of funds left to allocate for training and recertifying existing IT staff after the upgrades.

A Windows-centric network is why Andrew Baker, WMG's director of IT and security operations, said Microsoft's decision to add more benefits and value to Software Assurance struck the right chord for his organization.

*"Microsoft desktops, servers and office productivity applications represent 75% of our existing software infrastructure. That's not going to change,"* according to Baker.

Baker said he reviews all of his software, hardware and networking licensing contracts. He also tracks pricing and compares the T&Cs of various vendors' licenses to see which firms charge extra for certain items and which vendors include extra benefits as part of their licensing contracts.

*"It's amazing what you find. Many contracts will contain restrictions on weird or obscure issues and language that gives the vendor an 'out.' I know from experience how the protection varies, and I certainly pay attention when there's a big contract involved such as the one regarding our Microsoft infrastructure,"* said Baker.

By doing line-item comparisons among various vendors, Baker said he can ascertain which vendors deliver the most value, which fit into his deployment and upgrade timetable and which technologies make the most business sense for his organization.

*"There is no doubt in my mind that Microsoft is being very aggressive about software economics. Microsoft's Licensing 6.0 and Software Assurance provide us with tremendous value and offer some of the best deals in the software industry—bar none,"* said Baker.

When WMG upgraded its Microsoft licenses in spring 2004, it bought Software Assurance for its Select Agreements to complement its Enterprise Agreement (EA).

*"We bought Microsoft's Software Assurance because we wanted the benefit of upgrading without incurring a new fee, and we wanted to lock in the price,"* said Baker. *"It's proved extremely economical."*

## Microsoft Licensing and Software Assurance Keep WMG's Costs Down

*"Licensing in general is problematic and is a huge pain point. The terms and conditions of many of our vendors' licensing agreements are obscure and confusing, and many don't suit our business needs,"* said Baker.

Baker said corporate decision-makers that judge Microsoft solely by the cost of the Windows desktop and server OS and the Office productivity suite do their companies an injustice. In an assessment sure to surprise many, Baker said that Microsoft has held the line on product pricing and even caused his overall TCO to decline thanks to the embedded value in Software Assurance.

By contrast, almost all of WMG's other product license costs rose by an average of 10%. To cite two examples, Baker said WMG wanted to upgrade from one version of an internet security package to a new version for just one server, but was forced to purchase two upgrade licenses and pay an additional charge for the maintenance plan. Similarly, Baker noted, Apple Computer charges an incremental price for every point release of Mac OS X. *"That's what we would consider Service Pack 3 and Service Pack 4 in the Microsoft world, and we get that for free from Microsoft,"* Baker said.

He also applauds Microsoft for generally holding the line on the price of its products during the last 8 years. *"Windows XP retails for the same amount as NT 4.0 Workstation; Microsoft hasn't changed the price in over 7 years. And unfortunately, Microsoft doesn't get a lot of credit or recognition for that,"* he said.

Baker added that WMG gives Microsoft high marks for the flexibility of Licensing 6.0 and Software Assurance compared with many other vendors.

*"Five to 15% increases are common if the vendor increases the functionality, while 2% to 3% cost of living adjustments are the norm,"* Baker said. Even the hardware industry, which is notable for the decline of PC, laptop and peripheral pricing during the past 5 years, can have hidden costs.

*"The hardware vendors charge customers a huge premium for parts, including the memory chips. If a customer purchases generic hardware components like RAM or microprocessor chips, the hardware vendors won't support them,"* Baker added.

During the contract negotiations to upgrade WMG's Microsoft License and Software Assurance Agreements, Baker said he was impressed with Microsoft's flexibility and the ease with which he was able to obtain information from the Redmond, Wash., firm's web site.

Tracking down specific pricing and feature details on various hardware and software products has become so complex that it *"almost demands a licensing specialist for every vendor and every product the vendor sells,"* Baker observed. *"It's much easier to find information about licensing and product pricing on Microsoft's site compared to other vendors, which mainly provide only cursory information about licensing and costs unless or until you've spoken to a sales representative. I find out about major changes to Oracle's licensing deals when I read it in eWeek."*

What Baker found when he delved into the T&Cs of Software Assurance was that WMG could hold the line on its product licensing costs and save money on a variety of other, formerly "extra" items because they were included in the agreement. For WMG, Software Assurance provided savings in three key areas:

- Training vouchers
- Ability to spread out payments over the licensing lifecycle
- Ability to get new products and upgrades during the term of the 3-year licensing and Software Assurance contract

WMG's average cost to train one employee for one week ranges from \$2,100 to \$2,500, according to Baker.

*"I typically spend from \$30,000 to \$40,000 annually on training and re-certification for my IT staff. Thanks to Software Assurance, I've saved the bulk of that and can allocate those IT monies for other pressing purchases,"* Baker said.

Additionally, he said the online asset management function of Microsoft's Volume Licensing, which enables customers to log on to a central Microsoft database to track and manage all purchases, has eliminated a major headache.

*"Asset management and licensing are the two worst aspects of IT—particularly on the desktop side,"* said Baker. *"The ability to do compliance checking online is a huge boon for our procurement department. In the past, we didn't manage that well at all."*

The ability to track online purchases company-wide enables WMG to remain compliant with its licensing agreement and also to centralize procurement among its remote offices and track usage and version levels. The latter delivers maximum uptime by ensuring WMG stays abreast of updates and fixes for the various versions of its multiple Microsoft products.

Overall, Baker said, *"Microsoft offers more value with its Licensing 6.0 and Software Assurance than most other vendors. The benefits in Software Assurance are very valuable—they're essentially freebies that allow WMG to keep abreast of training and certification."*

In the last 2 years, Microsoft's decision to provide robust, comprehensive indemnification—coupled with delivering more business value in the core licensing and Software Assurance offerings—has given WMG *"confidence and assurance"* and enabled the entertainment giant to hold the line on its software costs.

*"Because of Software Assurance, WMG saves nearly \$100,000 annually on expenditures such as training, home usage rights and product discounts,"* Baker said. *"We are definitely receiving full value, and then some, for the money we spend on Microsoft Software Assurance."*

## Brown University Gives Software Assurance High Marks

Brown University, an Ivy League college in Providence, R.I., is proud of its unique curriculum and status as one of the top 20 universities in the United States. Founded in 1764, Brown University is the seventh oldest college in America and has a total student population of approximately 7,600. It's ranked number 13 in national universities according to *U.S. News & World Report's* poll of America's Best Colleges 2005. It's not surprising that Brown University would attract top-notch computer networking professionals and IT administrators.

Rick Smith, one of the university's departmental computer coordinators, takes his job very seriously. He takes pride in following the school's tradition of excellence by being technically savvy and open-minded, but extremely pragmatic and risk-averse in its choice of new software platforms, applications and licensing deals.

That's why Smith did his homework. He performed a thorough analysis, investigating all of the technological and business aspects of the Windows platform and Microsoft Volume Licensing and Software Assurance. *"As far as I'm concerned, I'm a computer garage. The users pull into it and I give them what they need to get the job done and keep the network running at peak performance,"* Smith said. *"I'm also tasked with paying strict attention to the budget. We don't have money for some necessities, let alone extras, which is why Microsoft Volume Licensing and Software Assurance have proven their value to us,"* he added.

Smith said he's been impressed with both the improved functionality in the products as well as the enhancements to Software Assurance. Microsoft's demonstrable ability to increase the performance and reliability of the Windows and Office platforms resulted in a lower TCO.

*“At the end of the day, that spells value,” Smith said. “That’s how Microsoft established itself as the number one software manufacturer, and it will ultimately help them maintain their position,” he added. “Microsoft paid attention to the changing market conditions and customer demand for greater value in the software and licensing contracts. The company adjusted its business model for the better.”*

Like WMG’s Baker, Smith appreciates the training vouchers, eLearning and asset management benefits that come with a Software Assurance contract. Although the number and dollar value of the training vouchers will vary according to an individual organization’s licensing and Software Assurance contracts, Smith believes “every little bit helps.”

*“I don’t care who you are or how profitable the business is, I don’t know of anyone who has an unlimited budget. Every extra feature I get with Software Assurance means that’s one less procurement dollar I have to try and find,” Smith said.*

## Microsoft’s 1-Year Product Warranty Makes the Grade

Along with the training vouchers and other items such as strong indemnification protection, Brown University will take full advantage of Microsoft’s decision to provide 1-year product warranties for its Volume License customers.

Microsoft began offering the stronger indemnification and 1-year product warranty protection back in March 2003. However, because the Redmond, Wash., software giant didn’t do a lot to market the new provisions, many customers were unaware of them and are pleasantly surprised. Product warranties of 90 days are far more typical than the 1-year extended protection Microsoft now offers.

*“The ability to get access to upgrades via Software Assurance, coupled with Microsoft’s 1-year product warranty, is a huge deal for Brown University,” said Smith. “I buy everything with maintenance and insurance to protect our investment and control our costs.”*

## Software Assurance Makes the Case for Hughes Hubbard & Reed

HH&R is a midsize law firm headquartered in lower Manhattan, directly across from where the World Trade Center formerly stood. Its physical proximity in the aftermath of the September 11 terrorist attacks substantially altered the company’s technology needs and priorities.

HH&R has 1,100 end users spread out in eight remote offices, including Washington, D.C., Los Angeles, London and Tokyo.

Like many businesses in New York City, HH&R experienced a revenue dip following September 11. At the same time, the company placed renewed emphasis on getting the most out of its core products (Microsoft’s Windows, Active Directory, Exchange, Office and SQL Server) and licensing agreements.

Steve Sommer, the CIO, is an 18-year HH&R veteran who also held a variety of IT jobs at the firm. Sommer and his IT staff, which includes Leanore Naphtali and Gerilynn Calato, find that there aren’t enough hours in the day to address day-to-day operations, plan the network upgrades and negotiate new licensing contracts.

*“I simply don’t have the bandwidth to keep up-to-date on the latest price/features/comparisons of hardware, software and applications,” Sommer said. “The new usability features we get with Microsoft Volume Licensing—such as online asset management—are a godsend for us.”*

Calato, who is tasked with managing the company’s forthcoming Active Directory upgrade, agreed. Directory services training and certification is a must for HH&R’s IT staff.

*“I didn’t know we were entitled to free training vouchers and free eLearning courses with our Software Assurance. These benefits will more than pay for our investment in Software Assurance, and it couldn’t have come at a better time,” she said.*

Sommer estimates the free training vouchers are worth approximately \$20,000 to his firm. *“That’s \$20,000 saved from my budget,”* he said. *“Additionally, my analysis indicates that WMG anticipates it will save up to 35% over the full 5- to 6-year term of my Microsoft Licensing Agreement by purchasing Software Assurance. Buying Software Assurance essentially guarantees that I renew for one price,”* said Sommer.

## Software Assurance Benefits

The benefits include:

- **Free home-use program for information worker products, such as Microsoft Office, Visio, FrontPage and Publisher:** A corporation that purchases volume licenses for Microsoft products for its work environment will now be legally compliant if its employees take the software home and install it on their personal desktops. There is a small charge for the cost of the media.
- **An employee purchase plan:** Corporate employees can now purchase software at hefty discounts of up to 40%.
- **Free TechNet web-based support:** Businesses that sign a Licensing 6.0 Open Value, Open (Server side), Select SAM or Enterprise Agreement will get access to the TechNet Online Concierge Chat which, depending on the T&Cs of the contract, allows a specified number of free, web-based technical support incidents. Customers should not confuse this with full-hour, 2-hour or unlimited technical support services with a Microsoft Premier support specialist. However, it does provide immediate technical support access and interaction, which is a big advantage.
- **Free training vouchers for the Microsoft Certified Partners for Learning Solutions (CPLS):** Customers will get vouchers worth \$300 to \$400 in training coupons to be redeemed for a variety of courses on Microsoft desktop and server applications. Server products are not presently included in this benefit but the vouchers can be redeemed for training courses on server applications.
- **Problem resolution support:** Microsoft will provide web-based customer support for Standard Server Edition products and telephone support for the higher priced Enterprise Edition products. Simply put, Enterprise Edition customers pay more and get more. Enterprise Edition corporations can call for live support during business hours and get free access to TechNet’s Concierge Chat service. Server customers also gain access to managed newsgroups and TechNet, plus regular CDs for technical support. TechNet subscriptions cost \$900.
- **Ability to pay as you go for hot fixes:** Microsoft currently has a 5-year support cycle. Corporations that want support or special hot fixes beyond this can purchase extended support for an additional 2 years with the purchase of a Software Assurance Agreement. To sweeten the deal, Microsoft will not charge for support until the business actually needs and uses the support. There is no liability attached—if you don’t use it, you don’t pay.
- **Disaster recovery support via free Cold Server backup license:** Customers with Software Assurance for Microsoft server software and related Client Access Licenses (CALs) are eligible for complimentary “cold backup” server licenses for the purpose of disaster recovery. A cold backup server is turned off except for periodical testing of disaster recovery procedures, patch management on the software and in the event of an actual disaster.

The secret weapon of the most successful and trusted resellers is preparing a cost chart that compares individual customer yearly expenditures associated with purchasing a software license *only* versus buying licenses plus Software Assurance (L+SA).

Belynda Talbott, a Microsoft senior licensing specialist at Amherst Technologies in Merrimack, N.H., said nearly three-quarters of her customers purchase Software Assurance when they realize the inherent value.

"I inform and educate every one of my corporate customer accounts about the financial and business impact of the Microsoft Licensing Agreements and which option will best serve their individual business needs," said Talbott. She accomplishes this by providing a 6-year cost analysis based on a customized spreadsheet calculation that reflects the company's current environment weighed against projected licensing only versus L+SA purchasing scenarios. "Then it's up to the customer to choose. But when they see in black and white that the license plus Software Assurance option can save them on average 20% to 30%, about 70% of my customers usually choose Software Assurance," Talbott said (see Exhibit 2).

## Exhibit 2

### Sample Software Assurance Cost Analysis

Source: Amherst Technologies and the Yankee Group, 2005

User Count	Office Pro 2003	Open Value (Lic. + SA 3-Year)	Open Business (Lic. Only)	Retail Upgrade
100	Initial Cost/User	\$822.14	\$450.00	\$319 OEM/\$329 upgrade
	Total Year 1	\$27,404.67	\$45,000.00	\$31,900.00*
	Rebate (OV Only)*	(\$19,000.00)	N/A	N/A
	Total Year 2	\$27,404.67		
	Total Year 3	\$27,404.67	\$45,000.00	\$32,900.00*
	Total Year 4	\$12,750.00		
	Total Year 5	\$12,750.00		
	Total Year 6	\$12,750.00	\$45,000.00	\$32,900.00*
	<b>Grand Total</b>	<b>\$101,464.00</b>	<b>\$135,000.00</b>	<b>\$97,700.00</b>
		Company owns license; deploy on any machine with current version	Company owns license; deploy on any machine with version owned	OEM license; license stays with machine; retail version upgrades only

\* Prices are approximate and may vary slightly according to individual corporate customer volume licenses and Software Assurance contracts.

## III. Recommendations

The Yankee Group strongly advises corporations to follow the advice of the IT managers, Baker, Smith and Sommer, profiled in this report:

- **Perform a thorough TCO and ROI analysis of all the components and services in Microsoft Licensing 6.0 and Software Assurance.** It is crucial that businesses adopt a proactive stance and review the T&Cs of each individual licensing contract with the appropriate business decision-makers and IT managers in the organization. It's important to involve those IT administrators that will actually utilize the Software Assurance benefits.
- **Carefully read the licensing and Software Assurance contracts.** Ask questions. You may be surprised at how much value and savings your firm can achieve with the purchase of Software Assurance.
- **Recognize that, when properly explained and utilized, Software Assurance can net most customers a savings of 20% to 30% on the cost of their renewal licenses,** compared with the cost of buying only the licenses, letting the agreement expire and purchasing new licenses. The value-added features, benefits and rebate promotions can yield savings ranging from \$10,000 for an Open Value customer with 100 users, to hundreds of thousands of dollars for EA customers with 10,000-plus end users.

## IV. Further Reading

### **Yankee Group Application Infrastructure & Software Platforms Reports**

*Linux, UNIX and Windows TCO Comparison, Part 2*, June 2004

*Linux, UNIX and Windows TCO Comparison, Part 1*, April 2004

*Enterprises Worldwide Finally Plan to Increase IT Spending on Long-Overdue Software Upgrades*, March 2004

*Microsoft Readies Longhorn But Tells Users Not to Hurry Up and Wait*, February 2004

### **Yankee Group Application Infrastructure & Software Platforms Research Notes**

*Security Flaws Shadow Windows Operating Systems*, February 2004

*Microsoft Revamps Software Assurance Licensing Plan*, December 2003

*Microsoft Launches New Security Initiatives*, November 2003

*Microsoft Offers Six-Figure Bounty for Capture of Outlaw Virus Writers*, November 2003

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