

## Determining the Value of Microsoft Software Assurance

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To help you decide whether to buy SA, Gartner analyzes all the components of this product offering and provides insight into the value proposition for each.

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## STRATEGIC PLANNING ASSUMPTION(S)

Through year-end 2008, 65 percent to 70 percent of customers will purchase SA on some server products (0.7 probability).

Through year-end 2008, only 50 percent of Microsoft Open and Select customers will purchase SA on Office or the Windows client OS (0.7 probability).

Through year-end 2007, at least 30 percent of Microsoft customers will not renew their EAs (0.8 probability).

## ANALYSIS

### 1.0 Overview

Microsoft's software maintenance offering, Software Assurance (SA), was announced on 10 May 2001 and offered for sale on 1 October of that year. Initially, it included only two components: the right to new versions of the software products that were released during the term of the agreement under which SA was purchased, and the right to spread payments for the licenses with SA over the term of the agreement, instead of having to pay all license fees "upfront." The value proposition of SA was enhanced by Microsoft in September 2003 with a package of value-added elements, and again in March 2006. See Figure 1 and Figure 2 for an overview of the volume licensing programs available from Microsoft under which SA can be purchased.

**Figure 1. Microsoft Open Licensing Volume-Licensing Programs**

	Value	Volume	Business
<b>Customer Profile</b>	Organizations wanting SA and the ability to spread payments	Organizations that can make a volume commitment	Organizations needing five or more licenses
<b>Minimum Order</b>	Five licenses or one server with SA	500-point minimum per pool	Five licenses
<b>Software License Offerings</b>	L&SA SA renewal	License L&SA SA renewal	License L&SA SA renewal
<b>Payment Options</b>	Spread or upfront	Upon order	Upon order
<b>Term</b>	3 years	2 years	2 years

Source: Microsoft

**Figure 2. Microsoft Select and Enterprise Agreement Volume-Licensing Models**

	Select	EA and EA Subscription
<b>Customer Profile</b>	Medium, large and multinational businesses with >250 PCs that can <b>forecast</b> purchases	Same-size organizations interested in standardizing platform with SA and centralized purchasing
<b>Price Levels</b>	A = 1,500 to 11,999 points B = 12,000 to 29,999 points C = 30,000 to 74,999 points D = 75,000+ points	A = 250 to 2,399 PCs B = 2,400 to 5,999 PCs C = 6,000 to 14,999 PCs D = 15,000+ PCs
<b>License Offerings</b>	License, L&SA SA renewal	L&SA (perpetual EA only) SA renewal (both)
<b>Payment Options</b>	Annualized payments for L&SA and SA only	Annualized payments
<b>Term</b>	3 years	3 years

Source: Microsoft

The benefits are aligned with each phase of the software life cycle to help with planning, deployment, usage, maintenance and transitioning software. This research looks at the total SA package, analyzes each benefit in the respective phase of the software life cycle it supports, and provides advice as to the value of each.

## 2.0 Planning Phase

### 2.1 New Version Rights (2001)

This is the cornerstone of software maintenance for all vendors and is the most sought-after entitlement within a software maintenance agreement. For their software maintenance dollar, customers expect to be given the right to upgrade their software to any new version that becomes available during the maintenance term. Whereas many software vendors currently require an organization to pay software maintenance to get "bug fixes," Microsoft provides them at no additional cost to licensees. It does, however, require maintenance fees for entitlement to new versions of products and, more recently, has announced that SA coverage is also required to get "free" entitlement to Release 2 (R2) of Windows Server 2003 (although it reversed its position on Virtual Server 2005 R2 and will provide it to all licensees of the initial release at no additional cost). Customers without SA would need to repurchase licenses to get access to R2 releases that are given to SA members only. These are out-of-band releases of the software (hence their R2 designation), and, while not quite designated as a new version, they contain content that is outside the scope of service packs. Gartner believes these to be precedent-setting events with the potential to eventually embrace service packs (see "Microsoft Software Assurance: When Will It Not Be a Choice Anymore?"). Because most other software vendors require maintenance coverage to obtain bug fixes, in the long term, these may also be at risk. Security patches will most likely remain free because of the damage that a bad "worm" or "virus" could do to unpatched systems and the negative publicity that Microsoft would encounter if it attempted to charge for them.

Except for the Windows client, if your licenses are not covered by SA as of the release date for a new version or release, your only option is to repurchase the licenses when you wish to move to

that new version or release. This decision must be made at the time of purchase, as SA cannot be added retrospectively and must be acquired at the same time as the license. For the Windows client an upgrade license is still available for purchase in volume licensing called the Windows Professional Upgrade. Alternatively, the Windows client original equipment manufacturer (OEM) license acquired with the purchase of new PCs can be enrolled in SA within 90 days of the PC purchase to obtain rights to new versions during the SA term.

Microsoft charges 29 percent of the cost of a new license on an annual basis for SA on products that run on the desktop, and 25 percent for server products. If the right to upgrade to a new version is the sole reason for acquiring SA, then, using a straight-line calculation, the break-even point for desktop products is 3.45 years (1.0 divided by .29). Similarly, the break-even point for server products is 4.0 years (1.0 divided by .25). This does not include net present value or "cost-of-money" calculations. Nor does it include price increases that non-SA customers would have to pay if Microsoft were to increase prices as new versions of products are released. These are the points at which you would have spent the same amount in SA as it would cost to acquire a new license. However, most of Microsoft's agreements are three years in length and their "time to market" for new versions appears to be elongating to three to four years for many of its products. Therefore, depending on contract start- and end-date timing, some organizations will have to commit to SA for two three-year terms to get at least one version upgrade, effectively spending between 1.74 and 1.5 times, respectively, the cost of a new license for SA coverage in the process.

Therefore, many Microsoft customers resort to contract timing as the deciding factor for when to purchase SA and/or an Enterprise Agreement (EA) on their products. For example, if a customer's contract had an expiration date of 31 December 2003, just after new versions of many of Microsoft's products had been released, then signing up for a new three-year SA cycle did not appear to be a prudent thing to do, because the probability of getting new versions during the three-year SA cycle was questionable. On the other hand, if the contract is set to expire on 30 June 2006, then renewing SA in Select or an EA until 30 June 2009 will most likely result in obtaining rights to new versions for most of the products that were released in 2003 plus the long-awaited Windows Vista operating system (OS). (See "Gartner Updates Microsoft Road Maps for 2006-2008," "Vista Slip, Enterprise Testing, Make 2007 Deployment Unlikely" and "Release Dates for Office 2007 Determine New Version Rights" for Gartner's latest projections of the road maps for seven of Microsoft's most popular products.)

## **2.2 Spread Payments (2001)**

Purchasing licenses with SA under an Open Value, Select or Enterprise Agreement affords the customer the right to spread the payments for the licenses with SA over the term of the agreement. Open Value and Enterprise Agreements require SA coverage and are three years in length, with the total contract cost divided into three equal annual payments. Select agreements are three years in length and licenses can be purchased with or without SA under them. However, if SA is chosen for a certain product license, the commitment is for the remaining duration of the Open Value or Select contract. For example, if a license is purchased in Year 1 of an Open Value or Select agreement, the cost of the license is added to three years worth of SA coverage and the sum is divided in three equal annual payments. Similarly, if it is purchased in Year 2, the license cost is added to two years of SA coverage and the sum is divided into two equal annual payments. Licenses with SA purchased in Year 3 come with one year's worth of SA added to the cost of the license, due upon invoice. The customer could choose to pay all at once instead of spreading payments, if it prefers. Microsoft indicates that these "financing options" are free of interest charges, while other non-Microsoft financing options available usually carry finance charges.

This benefit appears to be important to small and midsize customers who wish to finance their software over time and don't have the resources to purchase all licenses "upfront." It is also preferable to many large organizations that wish to keep their software licensing costs relatively flat from year to year and avoid the significant spikes in budget and cash flow required to repurchase licenses every three to five years.

### 3.0 Deployment Phase

#### 3.1 Desktop Deployment Planning Services (2006)

This service is available to Select with Software Assurance Membership (SAM) and EA perpetual and subscription (which both include SAM) customers and is a voucher for from one to 10 days of service to plan deployments of Microsoft Office and Microsoft Windows. (A SAM customer is one who has agreed to purchase SA on all products ordered within a particular product pool — systems, applications or servers.) It is awarded on a sliding scale calibrated to the total spending for SA on Microsoft Office. Training vouchers can be exchanged for an additional five days, so this can be extended to a maximum of 15 days (see Table 1).

**Table 1. Desktop Deployment Planning Services**

Select License SAM, Enterprise Agreement, Enterprise Agreement Subscription			
At \$60,000 in Microsoft Office Applications SA spending, you qualify for a one-day engagement.	At \$150,000 in Microsoft Office Applications SA spending, you qualify for a three-day engagement.	At \$600,000 in Microsoft Office Applications SA spending, you qualify for a five-day engagement.	At \$1.25 million in Microsoft Office Applications SA spending, you qualify for a 10-day engagement.

Source: Microsoft

It is offered by Microsoft Certified Partners and Microsoft Consulting Services to help assess and evaluate the business value of upgrading Office and more easily deploying it. One deliverable is a high-level, customized desktop deployment plan for your organization. If we assume an average cost of approximately \$250 per hour for this type of consulting service, Gartner estimates the value offered is between \$2,000 and \$20,000. Organizations with SA or EA coverage on Office should leverage this entitlement. Organizations purchasing SA that do not require this type of service should attempt to leverage its value toward other, more desirable, value-added components.

Many Microsoft EA agreements were being customized by clients who were requesting that some consulting services be included "free" in the contract or that inclusion of services of this type be assumed by Microsoft as pre-sales support or the cost of doing business. This is Microsoft's way of formalizing these contract negotiation concessions and standardizing the amount to be included on a sliding scale.

#### 3.2 Information Worker Solution Services (2006)

These are two workshops of one day and two days, respectively, on Information Work Value Discovery and Information Work Architecture Design offered by participating Microsoft Partners to address business decision makers' desire to increase productivity, and IT professionals' deployment, security and infrastructure needs. It is available only to Microsoft's Open Value customers willing to trade two training vouchers for the one-day workshop and four training vouchers for the two-day workshop. Although the exact cost of these workshops is unknown, using the rule of thumb that a training voucher roughly equals a \$500 value gives us a value of \$1,000 for the first workshop and \$2,000 for the second (total value \$3,000). However, Open

Value customers must decide whether the workshops are of more value to them than the training vouchers when deciding how to use them.

### **3.3 Windows Pre-installation Environment Tool (WindowsPE, 2003)**

This is a tool, currently based on Windows XP Professional and Windows Server 2003, that allows IT to deploy OS images to new or existing PCs without creating hardware-specific boot disks. Many Microsoft customers with whom we speak have indicated that they use this tool to manage their corporate PC images. Its use is an entitlement of having SA coverage — that is, rights to WindowsPE do not remain after SA coverage ends, even for PCs purchased while SA is in effect. Microsoft has indicated that it does not sell rights to it individually, and unless acquired along with some other type of service — such as a consulting service engagement with Microsoft — SA coverage is the only way for your organization to be able to use it in a properly licensed fashion. This is a significant sticking point for non-SA customers who currently use this tool or wish to do so in the future. For those who rely on it, it is a valuable SA benefit. The alternative is to engineer or re-engineer the deployment and update of desktop images to *not* rely on this tool.

Microsoft has indicated that this tool will be "built-in" to Windows Vista and Windows Server — code-named "Longhorn" — and, therefore, SA will not be required to use it with these two products.

*For Windows XP and Windows Server 2003, this is a "showstopper" for the SA value analysis. If you absolutely require use of the tool, then SA is mandatory and the decision on whether to purchase SA has been made for you. You will be out of license compliance if you use the tool without SA coverage.*

## **4.0 Use Phase**

### **4.1 Windows Vista Enterprise (2006)**

This is a premium business edition of the new Windows client OS that will be only available to Windows client SA customers. Features that will be included in the Enterprise product are full-volume encryption, named Windows BitLocker Drive Encryption, the Multilingual User Interface (MUI) language packs, enabling a single worldwide desktop image and end-user language-switching capability, Virtual PC Express, and Subsystem for UNIX-based Applications (SUA).

Windows BitLocker Drive Encryption enables protection of the PC and the hard drive if the PC or just the hard drive is stolen or lost and will rely on hardware support in the form of a Trusted Platform Module v.1.2 chip or Universal Serial Bus (USB) stick. This will be a new feature to the OS, but based on third-party independent software vendor offerings, we estimate its value to be \$75 to \$100 per PC. Those wishing to better secure their corporation's data assets on hard drives should compare the cost to acquire it separately from a third party against doing so within SA or an EA. Microsoft is also positioning BitLocker as a tool to make data unreadable during PC disposal without the time-consuming process of wiping data. BitLocker is probably one of the more valuable SA components for companies that will use it.

Since Windows 2000 shipped, Microsoft has made the MUI available at extra charge, often within EAs. MUI allows the Windows image to be multilingual. Windows Vista is "language-agnostic," and this is a significant change from Windows 2000 and Windows XP, where the default language in the image was English and any additional language a business needed had to replace English throughout the OS. Instead of creating and maintaining separate images as well as patching hot fixes for each language users may need with local language versions, Windows Vista Enterprise significantly reduces the number of images by allowing companies to create a single image that contains multiple languages that are then selectable by the user. Some clients have reported purchasing the MUI separately from their PC OEMs and report that it cost them

approximately \$10 to \$15 per PC, although Microsoft disputes that cost and claims that OEMs are not allowed to do this. Microsoft indicates that prior to Windows Vista, this required a 15 percent uplift on EA pricing. With the launch of Windows Vista, the MUI is a feature of Windows Vista Enterprise and becomes an entitlement of SA and will not be available for purchase in any other fashion (except Windows Vista Ultimate, which is a consumer, nonvolume licensed product). Microsoft has indicated that the MUI for Windows Vista will not be available through OEMs. *If your organization requires the language-switching feature of MUI, then the SA decision has been made for you and the analysis of whether or not to purchase SA on the Windows client becomes moot. If you require a single image for multiple languages, you need to estimate the cost of maintaining multiple images compared with paying for SA.*

Customers that are currently paying an uplift charge in their EAs for the MUI or those with SA on their Windows client OS licenses but acquiring the MUI in some other fashion should seek appropriate reduction in their current Microsoft spending when rights to Windows Vista Enterprise are secured.

Virtual PC Express (see below) is a feature of Windows Vista Enterprise. We would estimate the value of VPC Express to be between \$70 and \$100 per seat. An early release of Virtual PC Express was made available in March 2006 to run on Windows XP Professional.

SUA allows some Unix applications to be run on Windows. SUA is the next-generation of Microsoft's Portable Operating System Interface (Posix) subsystem that formerly shipped with Windows Services for Unix 3.5 or previous Posix subsystems that shipped with Windows 2000 and NT v.4.0. It eases the integration between Windows and Unix/Linux by creating a Unix environment directly on top of the Windows kernel. It also helps with the migration of Unix-based applications by re-compiling Unix-based applications on Windows. We estimate its cost to be between \$86 and \$110 dollars per seat.

Microsoft has created an exclusive, premium business edition that includes all of these features for SA customers and will allow none of them to be purchased separately once Vista ships. So any organization wanting any of these features will have to purchase SA. However, since the cost of SA on the Windows client is approximately \$40 per year (\$120 over a three year period), organizations that use any two of these four features on all of their PCs will likely receive more value than the cost of their Windows Client SA. See Figure 3 for the value comparison of the various components of Windows Vista Enterprise.

**Figure 3. Windows Vista Enterprise Value**

Component	Low Value	High Value	Notes	Average Value
Multilingual User Interface (MUI)	\$10	\$130	(1)	\$70
BitLocker Encryption Functionality	\$75	\$100	(2)	\$88
Virtual PC Express Functionality	\$70	\$100	(2)	\$85
Subsystem for UNIX-Based Applications	\$86	\$110	(3)	\$98
Total	\$241	\$440		\$341
Three-Year Cost of Windows SA	\$105	\$135		\$120

(1) \$130 is based on a 15% uplift of Level A New Enterprise Agreement Pricing times three years.

(2) Based on an average one-time cost for acquiring the same functionality via third-party software.

(3) Based on prior pricing for Services for Unix.

Source: Gartner (April 2006)

## 4.2 Windows Fundamentals for Legacy PCs (Code-Named "Eiger," 2006)

In May 2005 (see "Microsoft's Eiger Could Prolong the Useful Life of Older PCs"), Microsoft announced the intention to produce a trimmed version of Windows XP Service Pack 2 (SP2) for use on older PCs that are not powerful enough to run Windows XP. The main purpose of Windows Fundamentals for Legacy PCs (WinFLP) is to allow users running old PCs to be able to replace unsupported Windows NT Workstation v.4, Windows 95 and Windows 98 with a supported release of Windows XP (or, eventually, a version based on Windows Vista).

WinFLP will take approximately 580MB of disk space, and the recommended hardware configuration will start at a 233MHz Pentium II processor and 128MB of RAM. Because WinFLP will have the ability to run some applications locally — including Internet Explorer, media players, Instant-Messaging clients, Java Virtual Machines, terminal emulators and ICA or Remote Desktop Protocol clients, but not any random application (including MS Office) — we believe WinFLP is better described as a "lean client" than a "thin client."

Because, by definition, old PCs running an unsupported Windows OS were not covered by SA within 90 days of purchase, client OS SA cannot be purchased for them now. So users without SA would need to purchase a Windows Professional Upgrade and SA or enter into an EA to get this benefit — it would make more sense to buy a new PC. Users who currently have SA on a Windows client and are running an unsupported OS have gotten little value from their purchase. *WinFLP does not add value to Windows client SA; it unlocks the value of the Windows XP upgrade that these PCs cannot run.* However, it may provide value for customers that use WinFLP to delay the capital cost of acquiring replacement PCs and need to run a more secure OS.

## 4.3 Virtual PC Express (2006)

When Microsoft released the first release of Virtual PC in 2004, Microsoft gave volume license customers the right to run one additional copy of Windows on each PC. This license could run in a dual-boot, dual-disk or a PC virtualization scenario (with Microsoft's VPC or VMware). Beyond one additional license, full package product licenses must be acquired through retail or consumer channels, as full licenses are not available in any of Microsoft's volume-licensing programs.

Virtual PC Express is a trimmed down version of the full product. Whereas the full product enables the user to run multiple OSs at once, Virtual PC Express allows the running of a single guest OS, enabling use of the additional Windows license Microsoft has been including for volume-licensing customers purchasing SA or the Windows Professional Upgrade. The single virtual machine helps enterprise customers address their legacy application compatibility issues when moving to the new OS. If you need more than one additional virtualized OS for help desk or classroom training scenarios, then you will have to buy additional Virtual PC and Windows client OS retail/consumer licenses. Virtual PC Express is another feature that will be exclusively available as part of SA. It has been included in SA before Vista ships and will become part of Windows Vista Enterprise after.

As stated above, we estimate its value at between \$70 and \$100.

## 4.4 Training Vouchers (2003 — Revised 2006)

Training vouchers to participate in select courses from Microsoft Certified Partners for Learning Solutions have been included as a part of the SA value equation since September 2003 (see Table 2). However, the number of "course days" for EA customers with 15,000 qualified desktops or more was "capped" at 110 for Microsoft Office suites and 55 for the Windows OS client. Large customers who spent significantly more than the cap on Microsoft SA felt that their voucher face value did not scale appropriately and continued to request additional vouchers as a result.

Microsoft addressed this in its first-quarter 2006 changes, increasing the upper limits for awarding vouchers, thereby providing large customers with increased benefits. Customers affected include those with at least 30,000 Office or Windows licenses.

**Table 2. Certified Partners for Learning Solutions Training Voucher Entitlements**

Training Vouchers	Select License SAM, Enterprise Agreement, Enterprise Agreement Subscription	
<i>Increased for Office</i>	250 SA licenses = 20 days/enrollment	50,000 SA licenses = 250 days/enrollment
	2,400 SA licenses = 30 days/enrollment	100,000 SA licenses = 400 days/enrollment
<i>Available March 2006</i>	6,000 SA licenses = 50 days/enrollment	200,000 SA licenses = 600 days/enrollment
	15,000 SA licenses = 110 days/enrollment	400,000 SA licenses = 800 days/enrollment
	30,000 SA licenses = 160 days/enrollment	600,000 SA licenses = 1,400 days/enrollment
<i>Increased for Windows</i>	250 SA licenses = 10 days/enrollment	50,000 SA licenses = 125 days/enrollment
	2,400 SA licenses = 15 days/enrollment	100,000 SA licenses = 200 days/enrollment
<i>Available March 2006</i>	6,000 SA licenses = 25 days/enrollment	200,000 SA licenses = 300 days/enrollment
	15,000 SA licenses = 55 days/enrollment	400,000 SA licenses = 400 days/enrollment
	30,000 SA licenses = 80 days/enrollment	600,000 SA licenses = 700 days/enrollment

Source: Microsoft

Many Gartner clients have indicated that they like this SA entitlement and make use of it on a regular basis to keep their technical-support staff's skills up-to-date. As before, this SA entitlement has a measurable value that can be used to help build the business case for SA coverage. Customers should review their licensing spending with Microsoft to ensure that they are getting the number of training vouchers to which they are entitled. We estimate that the value of these vouchers is approximately \$500 each, so once you determine the number for which you are eligible, the total value of this benefit to your organization can be determined.

#### 4.5 E-Learning Suite of Products (2003)

Since September 2003, Microsoft has included access to its E-Learning courses in desktop and server software as a benefit of SA. These courses use simulations, demonstrations, animations, hands-on exercises and assessment to provide a learning experience for employees who need to upgrade their skills and knowledge. This benefit is of particular value to those organizations engaged in upgrading their software to more current versions who wish to have a mechanism available to all end users for upgrading their skills to take advantage of the new version software technology — for instance, when moving from Office 2000 to Office 2003. The E-Learning suite of products is currently on Microsoft's product list, so its actual cost to you in the SA value analysis can be obtained from your organization's Open or Select software reseller. Annual maintenance

charges for the E-Learning developer suite are listed at between \$49 and \$62 but, after discounting, could probably be obtained for between \$40 and \$50 each — but remember, it is of value to your organization only if you intend to take advantage of it as a result of your SA commitment. If you would *not* have purchased it independently of SA, then it would be more of a nice-to-have than an actual cost saving.

#### **4.6 Home Use Program (2003)**

The primary enticement to purchase SA for desktop products (other than rights to a new version) is free home-use rights for information worker products. Included are the Office suite and others, including Microsoft Office Access, Microsoft Office Excel, Microsoft Office FrontPage, Microsoft Office InfoPath, Microsoft Office, Microsoft Office OneNote, Microsoft Office PowerPoint, Microsoft Office Project Standard, Microsoft Office Publisher, Microsoft Office Visio and Microsoft Office Word. Once an organization enables this benefit, its employees are able to log onto a Microsoft Web site and order (for a nominal media kit fee — approximately \$20 when purchased in quantities of one) their own copies of the products for which SA was purchased on their primary office PCs. This benefit stays in place as long as the organization maintains SA on those products. However, if the organization decides to drop SA on the products in its Open or Select licensing programs or decides not to renew its Microsoft EA, then the employees must stop using the "home use" copies. However, Microsoft indicates that these "home use" rights are between the employee and Microsoft. They ask customers in good faith to request employees and ex-employees to stop using the software when SA coverage ends or when the employee leaves, but indicate that the company will not be held liable if they do not.

Although Microsoft points to increased productivity from employees as a reason to provide them with home copies, some organizations have questioned the wisdom in doing so. If organizations allow employees to purchase home use copies, will they also have liability for paying employees overtime or allowing them compensatory time when they use it for increased productivity? Should the organization pay the nominal media kit fee? What about internal help desk support? How much will it cost to support Microsoft software running on unmanaged home PCs?

Rather than improving productivity, some organizations see it as a valuable employee perk and feel that it is good for employee morale — and allow it for that reason. Others indicate that it is of dubious value to their organizations from an increased productivity standpoint. You must first determine if it is of significant value to your organization prior to attempting to place a monetary value on it. If it is of value, then pegging its value to the cost of "work-at-home" licenses for the products covered seems appropriate, because these are less expensive than full volume customer licenses. This cost can be obtained from the software reseller that administers your Open or Select agreements, but work-at-home licenses are approximately half the cost of full volume licenses. A good estimate would be \$120 for Office Standard and \$180 for Office Professional, but note that most EAs contain Office Professional. For users whose primary workstations are portable devices like laptops, the ability to install on a home PC would likely be an intangible or personal benefit, not an organizational one. Remember, the primary user of an originally licensed device can install another copy of the application product on a portable device without having to acquire SA — according to the installation and use rights for Microsoft desktop applications.

#### **4.7 Employee Purchase Program (2003)**

Microsoft also offers the Microsoft Employee Purchase Program to give your employees discounts off of retail pricing on Microsoft's productivity and consumer products. Again, Microsoft points to greater synergy for employees using the same software at home and at work and acknowledges that its consumer products offer the employee perk of fun and excitement. Employees can order discounted products directly through a secure, Microsoft-hosted e-

commerce site. It is difficult to arrive at a tangible value to the organization for this benefit for use in value-of-SA calculations, but it could be listed as an intangible benefit. This falls into the "nice-to-have" category but adds no significant value from a corporate "bottom-line" viewpoint.

## **4.8 Enterprise Source License Program (2003)**

Also with the September 2003 SA enhancements, Microsoft included the Enterprise Source Licensing Program, eligible to customers with 1,500 or more licensed desktops to allow access to Microsoft Windows source code for internal development and support. IT staff can make adjustments and improvements to systems and related applications, and implement improved debugging to help maintain security and protect against viruses and other computer hazards. Eligibility and areas of availability are subject to Microsoft terms and conditions. Some organizations may find this to be a valuable resource, but based on the lack of Gartner client inquiry concerning this feature, it does not appear to be a very popular topic, and few organizations will take advantage of this or choose to change Windows themselves.

## **5.0 Maintain Phase**

### **5.1 24x7 Problem Resolution Support (2006)**

This is a major enhancement to SA and the one with the potential to add the most value to the SA value equation. When first introduced in September 2003, Microsoft's technical-support component of SA included TechNet Plus and Online Concierge Chat for desktop and server products, Web-based support for Standard and Enterprise editions of server products with SA coverage, and unlimited business hour telephone support (eight hours per day, five days per week coverage) for Enterprise editions of server products with SA coverage. This led to confusion for customers as to when they could use an SA-entitled support call and when they were required to use one based on their separate Premier Support contract.

When this new enhancement is implemented, unlimited Web support will be available for all server products with SA coverage, and phone support will be available for all Microsoft-supported products eligible for SA coverage, including server products, the Windows client OS and Microsoft Office on a 24x7 basis for business-critical problem resolution. However, it will not be unlimited, but rather calibrated to the amount of SA spending with Microsoft — the more SA you buy, the more problem resolution calls or incidents you can report. Because most other software vendors include phone support in their maintenance offering, this puts Microsoft more in line with the "industry standard" for software maintenance and makes it a more attractive product offering. In addition, Premier Support customers can convert the incidents earned through SA into Premier Support incidents, thereby enjoying the problem resolution response times and escalation features of Premier Support for all problem incidents. However, SA support incidents are valid for the term of SA (up to three years), while Premier incidents are usually only valid for one year and then expire. In addition, because Premier and SA may not have begun at the same time, converting SA incidents to Premier Support may leave the organization less than a year to use them. If you want to convert SA incidents to Premier, ensure that you do not transfer more SA phone incidents to Premier than you expect to use during the year or that your Premier Support contract includes a clause to carry over all unused hours or incidents into future years. Once converted to Premier incidents, SA incidents cannot be converted back.

Beginning 15 September 2005, customers began accruing SA spending toward this benefit, as long as they activate the new 24x7 Problem Resolution Support benefit before 1 July 2006, even though it did not become available until 13 March 2006.

For every \$200,000 of SA spending for the Microsoft Office application and Windows client, you are entitled to one phone incident. For every \$20,000 of SA spending for servers and Client

Access Licenses (CALs), you are entitled to one phone incident. All Open Value, Select and EA customers who have at least one server license covered under SA will get one complementary incident. Unlimited Web support is included for all servers covered by SA. Premier Support customers will be able to transfer their SA incidents into their Premier Support contracts if they choose.

Based on discussions with clients, the cost of a Premier Support incident is currently \$833. Because these SA incidents are similar to those in Premier and can be upgraded to Premier incidents for Premier Support customers, we will use this figure in value calculations for SA.

## 5.2 TechNet Plus (2003)

For server licenses with SA, IT professionals can tap into TechNet Online Concierge Chat, and post messages in Managed Newsgroups for answers to technical questions from industry colleagues. Microsoft support professionals monitor the newsgroups to help ensure accuracy. IT professionals also have access to TechNet Plus Subscription content (one per enrollment), featuring resources such as the knowledge base, utilities, drivers and how-to articles to help them succeed. The TechNet Plus Subscription Media also includes access to beta release candidate software, evaluation copies of the latest applications and two phone incidents per year. Clients that had been paying for their subscriptions to TechNet Plus can save this cost by using this SA benefit and assign that value to the SA value equation. *The value of a TechNet license is approximately \$850.*

## 5.3 Cold Backup for Disaster Recovery (2004)

Since 1 June 2004, Microsoft customers with SA coverage for Microsoft server software and their related CALs have been eligible for complementary backup server licenses for the purpose of disaster recovery (DR), as long as the server on which the backup copy was installed was powered off.

Microsoft's position is as follows:

- No license fees for *high-availability (HA)* servers, because the failover server would be active only if the primary server failed (covered by license transfer, but only for HA, not DR).
- No charge for *cold backup DR servers*. In this instance, the server is not selected and the software is not installed until a disaster is declared and Microsoft indicates that it doesn't charge for uninstalled software (covered by license transfer).
- *Warm backup DR servers* could be covered by acquiring SA on the primary server licenses and their CALs, provided that the servers are powered off after loading and configuring the software (at an annual SA cost of 25 percent of the primary license cost for server licenses and their corresponding CALs).
- *Hot backup DR servers* would require full licensing.

This benefit has tangible, measurable value for those organizations that maintain a DR recovery site with "powered-off" servers. The cost of licensing these servers independently of SA can be calculated and designated as cost savings associated with SA. If the servers are not powered off, or if they are doing other work, such as synchronizing production data, mirroring data or backing up transactions, then they are not included under the definition of warm backup server. If this benefit can be used, the licensing cost avoided for these warm backup servers should be used in the value-of-SA analysis. *These costs, at your current volume discount level, can be obtained*

from your software reseller, but are equal to the cost of per-processor licenses for whatever licenses and their respective CALs you cover by SA and load onto these "powered-off" servers.

## 5.4 Corporate Error Reporting (2003)

In September 2003, Microsoft included the Corporate Error Reporting (CER) tool as a benefit of SA coverage. It enables IT administrators to manage error reports and error messages created by the Windows Error Reporting client in Windows XP and Windows Server 2003 and error-reporting clients included in other Microsoft programs. If error-reporting clients are configured to work with CER, then error reports are redirected to a secure CER shared directory instead of being sent to Microsoft. This allows the customers to control what error reporting information is sent to Microsoft and when it is sent. *This product is not sold independently of SA, so for organizations that take advantage of it, SA is required.*

## 6.0 Transition Phase

### 6.1 Extended Hotfix Support (2005)

Microsoft's commercial products are supported for at least 10 years. For five years (or until two years after a successor product ships, whichever is later), Microsoft will provide support and fix any security or nonsecurity bugs found in its products in a phase called "mainstream." Once the mainstream support phase is over, the extended support phase begins. The extended phase runs for another five years (or until two years after a second successor product ships, whichever is later). The main difference between mainstream and extended support phases is that during the extended support phase, only important and critical security bugs will be fixed for free. To get nonsecurity bugs fixed, the company must sign up for an Extended Hotfix Support Agreement (EHSA), pay a fee for the agreement (starting at \$50,000 for the first year, then increasing year after year) and pay for each fix requested (at least \$30,000, but one free fix is provided each year). EHSA must be purchased for a product within 90 days of end of the mainstream support phase.

This new SA benefit waives the annual program fee for the EHSA for all five years of the extended support phase for covered products. The requirement to sign up an EHSA within 90 days of a product's transition from mainstream support to extended support is waived and customers can sign up anytime during the term of their SA coverage, at the time they report their first incident. Although the annual program fee is waived, no free fixes are included with this benefit. Covered products include: Microsoft Office Professional, Microsoft Windows, Exchange Server, Operations Manager, SQL Server, System Management Server and Microsoft Windows Server. The annual program fee starts at approximately \$50,000, but escalates each year for Years 7, 8, 9 and 10 until it reaches approximately \$200,000 to \$250,000 dollars. Microsoft does not guarantee that custom support will be offered after the 10-year period for any product; however, if it is, then customers should expect the price for Year 1 of custom support to pick up where the extended support fee for Year 10 left off, but this is not a stated policy of Microsoft.

For organizations that have been "automatically" signing an EHSA and paying annual fees on older versions of Microsoft products, the cost savings for acquiring this through SA are measurable and should be included in a value-of-SA analysis. We have heard from relatively few customers who have purchased EHSA to date.

## 7.0 Sample Analysis Scenarios

Table 3 was created to enable customers to quantify and assign a monetary value to SA based on the individual requirements of their organizations. The spreadsheet has two unique features: 1) it allows the customer to include or exclude each of the components in the value analysis of

SA, and 2) if the component is to be included, then the customer can assign a percentage from 0 percent to 100 percent to each of the components, rather than assume that the value is derived by all.

**Table 3. Microsoft SA Value Estimator Worksheet**

SA Benefit	Qty.	Include in Calculation?	Estimated Market Value	Potential Value	Customer Usage	Customer Estimated Value
Planning Phase						
New Version Rights	6,000	Yes	\$300.00	\$1,800,000	100%	\$1,800,000
Spread Payments		No	Intangible	\$0		\$0
Deployment Phase						
Desktop Deployment Planning Services	5	Yes	\$2,000.00	\$10,000	100%	\$10,000
Information Worker Solution Services						
Information Work Value Discovery	1	No	\$1,000.00	\$0	0%	\$0
Information Work Architecture Design	1	No	\$2,000.00	\$0	0%	\$0
Windows Pre-installation Environment Tool	1	No	Unknown	\$0	0%	\$0
Use Phase						
Windows Vista for Enterprise Edition						
Multilingual User Interface	6,000	Yes	\$70.00	\$420,000	50%	\$210,000
Encryption	6,000	Yes	\$88.00	\$528,000	20%	\$105,600
Virtual PC Express	6,000	Yes	\$85.00	\$510,000	25%	\$127,500
Subsystem for UNIX-Based Applications	6,000	No	\$98.00	\$0	0%	\$0
Windows Fundamentals for Legacy PCs	6,000	No	Substitute for XP Upgrade	\$0	0%	\$0
Training Vouchers	75	Yes	\$500.00	\$37,500	100%	\$37,500
E-Learning Suite of Products — Desktops	6,000	Yes	\$50.00	\$300,000	50%	\$150,000
E-Learning Suite of Products — Servers	500	Yes	\$250.00	\$125,000	50%	\$62,500
Home Use Program	6,000	Yes	\$180.00	\$1,080,000	10%	\$108,000
Employee Purchase Program	6,000	No	Nice to Have	\$0	0%	\$0

SA Benefit	Qty.	Include in Calculation?	Estimated Market Value	Potential Value	Customer Usage	Customer Estimated Value
Enterprise Source Program	1	No	Unknown — Rarely Used	\$0	0%	\$0
Maintain Phase						
24x7 Business-Critical Support for Problem Resolution	60	Yes	\$833.00	\$49,980	100%	\$49,980
TechNet Plus	1	Yes	\$850.00	\$850	100%	\$850
Cold Backup for Disaster Recovery	500	Yes	\$400.00	\$200,000	10%	\$20,000
Corporate Error Reporting	1	No	Unknown	\$0	0%	\$0
Transition Phase						
Extended Hotfix Support	1	No	\$50,000.00	\$0	0%	\$0
Total Software Assurance Values				\$5,061,330		\$2,681,930.00

Source: Gartner (April 2006)

## 8.0 Key Findings

- New version rights continue to be the most appealing feature of SA.
- The addition of 24x7 problem resolution support makes SA more attractive than the previous technical-support offering, but the number of calls allowed is *not* unlimited.
- Several components are entitlements that are only available through SA coverage now; namely, free home use of Office, the Windows Pre-installation Environment tool (WindowsPE) for Windows XP Professional and Windows Server 2003, and CER. Windows Vista Enterprise, an SA-exclusive version of the Vista OS, will be added in the future and includes these features: the MUI, Virtual PC Express, Windows BitLocker Drive Encryption and Subsystem for UNIX-based Applications.
- The ability to spread payments for licenses purchased with SA is more attractive to small and midsize organizations from a financing standpoint, but large organizations like it for keeping budgets relatively flat from year to year and for managing cash flow.
- The "free home use" feature of SA is relatively popular as an employee perk, but significantly increased corporate productivity is questionable.

## 9.0 Recommendations

- Customers should not assume or expect that a new version of SA-covered products will be forthcoming during the contract term, because new versions are not guaranteed. The overall value of SA should be calculated with and without the upgrade right component for comparison purposes.
- For many customers, SA on the Windows client will still not be compelling unless they value the exclusive features of Windows Vista Enterprise, especially because Microsoft has not historically provided new versions during the term of many customers' SA agreements and customers that refresh their OS through hardware attrition do not use upgrade rights. Customers that want MUI, Windows BitLocker Drive Encryption, Virtual PC Express, Subsystem for UNIX-based Applications or WinFLP will be forced to buy SA to get any of those features. For some, that will represent a big increase in costs, depending on the features needed. For others, Windows client SA will provide significant value.
- When converting SA problem resolution incidents to Premier Support incidents, make sure to not transfer more phone incidents than you expect to use or that your Premier Support contract includes a clause to carry over all unused hours or incidents to future years.
- Customers should review this comprehensive list of SA entitlements and strive to assign a monetary value to those of importance to their organizations as they build the value proposition for SA.
- For entitlements that are more intangible in nature, where assigning a monetary value is difficult, customers should note the importance of each to their organization (or lack thereof) to be used as "tie-breakers" in the ultimate decision concerning SA coverage.
- Microsoft has "formalized" the addition of many elements that previously were negotiated add-ons. Examples include consulting services and training. Remember,

these have a finite value, and customers should give consideration to purchasing them independently of SA.

## **RECOMMENDED READING**

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"Microsoft Simplifies Its Licensing Models, but Cost Predictability Remains an Issue"

"Prices and Complexity Rise With Microsoft SQL Server 2005"

"How IBM, Microsoft and Oracle Address Disaster Recovery and High Availability Server Software Licensing"

"Microsoft Stance on Multicore Licensing Will Help Customers"

"Best Practices for Managing Microsoft Licenses"

"Gartner Updates Microsoft Road Maps for 2006-2008"

"Assess Microsoft's Latest Software Assurance Enhancements"

"Microsoft Updates Server Licensing to Enable Virtualization"

## **Acronym Key and Glossary Terms**

<b>CAL</b>	Client Access License
<b>CER</b>	Corporate Error Reporting
<b>DR</b>	disaster recovery
<b>EA</b>	Enterprise Agreement
<b>EHSA</b>	Extended Hotfix Support Agreement
<b>HA</b>	high availability
<b>L&amp;SA</b>	License and Software Assurance
<b>MUI</b>	Multilingual User Interface
<b>OEM</b>	original equipment manufacturer
<b>OS</b>	operating system
<b>R2</b>	Release 2
<b>SA</b>	Software Assurance
<b>SAM</b>	Software Assurance Membership
<b>SP2</b>	Service Pack 2
<b>SUA</b>	Subsystem for UNIX-based Applications
<b>USB</b>	Universal Serial Bus

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