



Real experts.
Real data.
Real savings.

SmartSpend™ Bulletin

Remote Hosting and Access Will Cost More for Many Microsoft 365 and Windows Customers – Analyze Your Situation ASAP



Microsoft is making remote access more difficult and more costly for many enterprise Microsoft 365 and Windows users. In a bid to boost Azure revenues, the vendor has issued (and subsequently clarified) changes to terms of service that limit how a customer can remotely host and access M365 and Windows using rival cloud providers like AWS, Alibaba and Google. These changes have the potential to materially increase enterprise license counts and spend.

One risk of hypergrowth for any company (and enterprise software vendors in particular) is that the growth rate inevitably slows down. So is the case with Microsoft and its Azure business. A few years ago Azure's growth rate was 80+ percent. In 2021, growth held steady at around 50 percent quarter over quarter.

It's impossible for Microsoft to sustain the higher range of these growth rates forever. As more enterprises move workloads to Azure, there are simply fewer fish in the revenue pond to be caught. But that doesn't mean Microsoft isn't trying.

In October 2019, Microsoft announced its most aggressive Azure revenue tactics to date with changes to terms of service for Microsoft 365 and Windows. In both cases, the changes zero in on remote access. They aim to make remote access for these offerings more expensive for customers that choose to access M365 and Windows via virtual desktop/remote access solutions from rival cloud providers like AWS, Alibaba and Google. By requiring customers to purchase additional licenses or move to Microsoft's own virtual desktop/remote access solutions, affected customers can expect to pay substantially more and/or encounter significant disruption.

Until recently, spotty enforcement and inconsistent interpretation have kept these changes off many customers' radars. But that too is changing. Recent clarifications from Microsoft and more strict enforcement mean customers need to understand how these changes could impact their Microsoft estate and spend at their next renewal.

For Microsoft 365 and Windows customers who are not currently using Azure for remote access, **it's important to develop license scenarios and cost models to gain visibility** into the hard and soft costs of switching cloud providers.

CHANGES TO MICROSOFT 365 LICENSING TERMS

Under new terms of service, corporate customers are no longer able to remotely access Microsoft 365 applications while using big rival cloud providers such as AWS, Alibaba and Google. Instead, customers must either purchase a Microsoft 365 license through rival providers (which may raise licensing costs), or switch to Microsoft's Azure service (or one of the smaller cloud providers Microsoft endorses).

Customers making net new Microsoft 365 purchases will need to determine if they want to access applications remotely through a rival cloud provider or utilize Azure-based remote access, which could also lead to higher Microsoft spend and internal disruption. Enterprises that bought Microsoft 365 licenses before Oct. 1, 2019 will be subjected to the new rules at renewal time. If they currently access Microsoft 365 applications remotely through a rival cloud provider, they should expect to pay more.

CHANGES TO WINDOWS LICENSING TERMS

Microsoft has applied similar changes to Windows licensing terms as it relates to remote access and virtualization – although these changes are a bit more complex than what we see with M365. Below is an overview of the three ways to license and access a remote virtual machine running Windows desktop software, and how these changes affect each scenario:

- **Windows Virtualization rights:** Windows Virtualization Rights allow for a licensed device or user to access virtual Windows desktops either remotely and/or locally, depending on how the device or user is licensed. Customers may choose to use a third party to host their Windows client virtual machines for remote access by their end users. Microsoft requires the third party to be an Authorized Outsourcer and the hosted environment must be on servers dedicated to the customer. An Authorized Outsourcer is restricted from being a Listed Provider and may not use a Listed Provider as a datacenter provider. Currently, Microsoft names Google, AWS and Alibaba as Listed Providers.

If a customer is using a third party to host the Windows client virtual machine, the Windows operating system must be licensed with Software Assurance, the user must have an M365 E3/E5 subscription, and the customer must purchase a VDA license for users. Additionally, the third-party must be an Authorized Outsourcer using dedicated hardware.

- **Windows 10 Multitenant Hosting rights:** Customers also have the option to host their Windows client virtual machines for remote access on Microsoft Azure or a third-party shared server under Windows 10 Multitenant Hosting rights. When using a third-party shared server, the third-party hoster must be a Qualified Multitenant Hosting Partner (QMTH). The licensing discussed in the section above is still relevant with one exception – device licenses are not applicable, and each license must be on a Per User basis. This means that the user must have an M365 E3/E5 license and a VDA Per User license in order to remotely access a Windows client virtual machine. In this scenario, however, the outsourcer is permitted to use shared hardware.

- **Windows Virtual Desktop (WVD) in Azure:** Why remotely access Windows through a rival cloud provider when you can use Microsoft's WVD technology through Azure? This is Microsoft's line of thinking and the preferred option its sales organization is pushing. WVD is a desktop and app virtualization service running in Azure and provides licensed users with access to Windows 7 and Windows 10 virtual machines. In addition to the eligible per user license, customers only pay the base compute and storage costs in Azure. Customers can license users for WVD rights with Windows Enterprise E3/E5 subscription licenses, Windows VDA E3/E5 subscription licenses, or Microsoft 365 suite license on a per user basis.

HOW TO MITIGATE HIGHER COSTS

As these changes become more universally enforced, NPI anticipates significant pushback from affected enterprise customers as they face large spikes in license counts and costs during EA renewals. There is also speculation Microsoft's behavior could be deemed anti-competitive, which would expose Microsoft to government and industry scrutiny. It's possible Microsoft will eventually modify or rescind these changes as a result, but – for now – it is within Microsoft's rights to enforce. And that means it's in customers' best interests to prepare for cost mitigation.

For Microsoft 365 and Windows customers who are not currently using Azure for remote access, it's important to develop license scenarios and cost models to gain visibility into the hard and soft costs of switching cloud providers. Another factor to consider is the possibility of Microsoft pulling established discounts for customers that use non-Azure services. With full visibility into cost and operational impacts, customers can approach new Azure investments with more leverage as well as seek offsetting concessions from rival cloud providers.

The most important cost mitigation tool at customers' disposal is optimizing purchases and EA renewals. This includes choosing best-fit license and subscription options, re-harvesting unused and underutilized licenses to accommodate areas of growth, and validating pricing and discounts are equal to or better than best in market. These tactics are some of the only ways customer can effectively negate or minimize material cost increases.

ABOUT NPI

NPI is an IT procurement advisory and intelligence company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license optimization advice and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. NPI also offers software license audit and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.



NPI Headquarters

3340 Peachtree Road NE

Suite 1280

Atlanta GA 30326

T 404-591-7500

F 404-591-7501

E info@npifinancial.com