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Changes to Microsoft Licensing Terms Target the Cloud and Customers' Wallets



Microsoft is shaking up licensing terms once again. Beginning October 1, 2019, customers that deploy Microsoft's software on dedicated hosts at certain cloud providers (including AWS, Google and others) will pay more. It's a bold move that underscores Microsoft's commitment to growing its Azure business – even at the risk of alienating some enterprise customers.

Since being embroiled in an anti-trust lawsuit two decades ago, Microsoft has positioned itself as an ally of customer choice. The cloud (particularly IaaS) has tested and, to some degree, emphasized this position. If a customer wanted to run Microsoft's software using another vendor's cloud infrastructure, they could do so without penalty – despite the availability of Microsoft Azure.

That's changing. In what has been touted as one of the vendor's boldest competitive moves to date, Microsoft announced a significant change to its licensing terms. Beginning October 1, 2019, customers that deploy Microsoft's software on dedicated hosts at certain cloud providers will pay more. Here is an excerpt from [Microsoft's announcement](#):

Currently, our outsourcing terms give on-premises customers the option to deploy Microsoft software on hardware leased from and managed by traditional outsourcers. The emergence of dedicated hosted cloud services has blurred the line between traditional outsourcing and cloud services and has led to the use of on-premises licenses on cloud services. Dedicated hosted cloud services by major public cloud providers typically offer global elastic scale, on-demand provisioning and a pay-as-you-go model, similar to multitenant cloud services.

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As a result, we're updating the outsourcing terms for Microsoft on-premises licenses to clarify the distinction between on-premises/traditional outsourcing and cloud services and create more consistent licensing terms across multitenant and dedicated hosted cloud services. Beginning October 1, 2019, on-premises licenses purchased without Software Assurance and mobility rights cannot be deployed with dedicated hosted cloud services offered by the following public cloud providers: Microsoft, Alibaba, Amazon (including VMware Cloud on AWS), and Google. They will be referred to as "Listed Providers."

These changes don't apply to other providers and there will be no change to the Services Provider License Agreement (SPLA) program or to the License Mobility for Software Assurance benefit, other than to expand this benefit to cover dedicated hosted cloud services.

These changes are broad-sweeping and have sparked customer concerns about Microsoft's willingness to play nice in today's enterprise IT ecosystem. They also emphasize Microsoft's laser focus on gaining market share from Azure's top two rivals – AWS and Google, both of whom have [sounded the alarm](#) on Microsoft's behavior.

Google Cloud President Rob Enslin tweeted: "Shelf-ware. Complex pricing. And now vendor lock-in...Microsoft is taking its greatest hits from the '90s to the cloud." Amazon CTO Werner Vogels called the move a bait-and-switch, saying it's "hard to trust a co. who raises prices, eliminates benefits, + restricts freedom of choice."

A DIRECT ATTACK ON BRING YOUR OWN LICENSE

Microsoft's changes target its stance on BYOL (bring your own license) rules. Historically, customers have been free to use on-premises licenses (including Windows Server, SQL Server and other enterprise software) on dedicated servers hosted by or rented from cloud providers without any real cost penalty.

The new licensing terms from Microsoft eliminate this freedom. Now, on-premises licenses purchased without Software Assurance and mobility rights can't be deployed with dedicated hosted cloud services offered by the following public cloud providers: Microsoft (more on this in the next section), Alibaba, Amazon (AWS) and Google.

According to Microsoft's FAQ, the changes affect only net new licenses purchased on or after October 1, 2019. However, if a customer wants to upgrade to a new product version released after October 1, 2019, or purchase a new license after that date, they have to follow the updated outsourcing terms.

Beginning October 1, 2019, customers can license Microsoft products on dedicated hosted cloud services from the Listed Providers using these options:

- Microsoft licenses with License Mobility through Software Assurance can now be used on dedicated hosted cloud services with any Listed Provider who is also an Authorized Mobility Partner.
- Microsoft licenses with Software Assurance can be used with the updated Azure Hybrid Benefit, including on the newly launched Azure Dedicated Host.

- Microsoft software is available to customers through Listed Providers that participate in the Services Provider License Agreement (SPLA) program and through Microsoft Azure offerings where the licenses are included in the cost of cloud services.

A FEW WORDS ABOUT WHO IS (AND ISN'T) NAMED A LISTED PROVIDER

It's interesting to point out who is and isn't named a Listed Provider. First, **Microsoft has included itself in the list** alongside its top competitors (AWS, Google and Alibaba). However, as [this article](#) points out, Microsoft is giving some Azure customers flexibility. Examples include:

- **Windows Enterprise** will no longer be permitted other than with Windows VDA (Virtual Desktop Access) E3 or E5. As a concession, affected customers “will have until October 1, 2020, to move their existing Windows Enterprise workloads off Listed Providers’ dedicated hosted cloud services.”
- **Windows Server** is not permitted with or without Software Assurance, except on Azure via Azure Hybrid Benefit. You can still license Windows Server from the cloud provider via SPLA, but you cannot bring your own license.
- **SQL Server** will require Software Assurance with License Mobility, or on Azure via Azure Hybrid Benefit, or subscription via SPLA.
- **Unlimited virtualization** for SQL Server via Enterprise per-core licensing, and Windows Server via Windows Server Datacenter, will no longer be available other than via Azure Hybrid Benefit.

(Additionally, it's worth noting that Microsoft announced these licensing changes alongside the debut of Azure Dedicated Host – a new single-tenant cloud option that enables customers to host one or more Azure VMs on physical servers that are dedicated to their organization.)

Not included as one of Microsoft's Listed Providers is Oracle. Microsoft and Oracle have recently partnered to increase interoperability between their respective clouds.

NEXT STEPS FOR MICROSOFT ENTERPRISE CUSTOMERS

While the changes set forth by Microsoft are bold and broad in scope, they are also in line with other changes the vendor has made over the last several years relative to Software Assurance and License Mobility. Microsoft wants every customer to purchase SA on licenses – especially if those licenses are being deployed in the cloud where the lines between dedicated hosted services and multi-tenant have become blurred, and particularly when competition to Azure is involved.

One thing is certain – Microsoft's changes will have a varying impact on customers' spend. Understanding the impact these changes will have on your Microsoft estate will require a deep analysis of your current license inventory (specifically which licenses include software assurance) and how those licenses are being deployed (on-premise, collocated, AWS, Azure?).

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Visibility into these licensing specifics has historically been and continues to be incredibly difficult for customers to achieve. Even prior to these changes, many Microsoft customers were (and still are) improperly licensed.

ABOUT NPI

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