Executive Licensing Series

Understanding The Microsoft® True Up Is Key To Cost Containment and Ensuring Compliance

This document is the “Explore” report for the Licensing Toolkit. For more in depth information on planning your strategy, consult the associated Planning Guide. The execution focused ROI Scout™ will provide you with guidance on executing your plan. The optimization focused ROI Optimize™ will help you follow through once execution has been completed.
Understanding The Microsoft True Up Is Key To Cost Containment and Ensuring Compliance

Key insights that need to be part of your arsenal before embarking on your next annual true up process
by James Tyler

WHY READ THIS REPORT

Microsoft ranks in the top 3 of every CIO’s budget and is continues to be a target for cost containment initiatives. Yet for all practical purposes, most organizations continually fail to make meaningful optimizations in the cost of their Microsoft licensing. This is largely a factor of mismanaging four key elements: The contracts governing the agreement, the price at which software is procured, what gets procured and when does it get procured.

While the first two elements are largely, with some exceptions items to be tackled at the agreement renewal stage, the latter two are items that need to be addressed at every annual true up.

This report aims to help organizations contain the cost of their software acquisitions by providing a detailed understanding of the requirements of the annual true up, a behind the scenes look at the inner workings of the true up process and the key items to look out for at the next true up.

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The information in this report is focused on customers with a current Microsoft Enterprise Agreement. Licensing options will differ materially under other licensing programs such as Open or MPSA. All prices quoted in this document are based on Microsoft Open License Estimated Retail Price list and are indicative prices only. EA pricing will vary substantially.

Related Content on www.planxme.com

Licensing Flash : Microsoft® Makes Significant T&C Changes to Enterprise Agreement
December 30, 2014

Licensing Guide—Maintaining True Up Compliance and Preventing Cost Over-runs
Planned : August 10, 2015
True Up Details and Requirements Under the Enterprise Agreement

One of the benefits of the Enterprise Agreement is that it provides organizations with the ability to deploy licenses as and when needed and account for them at one point in time known as the anniversary. While this greatly simplifies the license procurement process, mismanaging it can lead to significant cost over-runs.

According to the Microsoft Enterprise Agreement True-up guide:

> Once a year, customers are asked to align their Enterprise Agreement (EA) with the total number of licenses that they have added in the previous 12 months. This is the true-up process: an inventory of all the qualified devices, users, and processors added over the course of the year. [...] Because you need to place only one order per year, your Enterprise Agreement can also streamline the procurement process and reduce the time spent managing your Microsoft licenses.

Although the As we’ve mentioned numerous times, starting the process early is key to keeping costs under control. For organizations without mature SAM processes in place, this becomes even more critical as the process of collecting inventory, analyzing it and rationalizing it against entitlements can take a significant amount of time. For reasons discussed later in this report, the True Up deadline is one that an organization will not want to miss. The Microsoft Enterprise Enrollment states that:

> The true-up order must be received by Microsoft between 60 and 30 days prior to the Enrollment anniversary date.

Since the True Up is essentially a report in change of quantities, it’s important to note that the annual True Up reporting requirements apply only for products that the organization is already entitled to under their current agreement. The True Up guide states:

> It is important to note that the annual true-up applies only to products that you have already licensed under your current Enterprise Agreement. New products and online services that are not under your current Enterprise Agreement must be purchased in the month they are first used.

What needs to get reported is the tricky part in the process and due to changes in wording the December 2014 Enterprise Enrollment, we strongly recommend that you read our detailed analysis on the subject available on www.planxme.com. The Enterprise Agreement states that for Enterprise Products (the core set of products in the EA like Windows, Office and the CAL suites) the organization must report the delta between the current count and the count as of the last True Up:

> Calculate the difference between the last reported true-up count and the current count of Qualified Devices and/or Users.

For Additional Products, essentially anything that isn't an Enterprise Wide commitment, recent changes to the verbiage in the Enterprise Agreement has put organizations on the hook to report the highest count at any point in time—even if it isn’t currently in use:

> Submit the order for the difference between those used/installed and the last reported count. This includes licenses for which the Product was used or installed at any time since the last true-up, even if the licenses are not in active use at the time of your true-up.
We expect this change to the requirements for Additional Products to have a significant impact on organizations from both a cost and compliance perspective. For more details on the changes and how to contain their potential to drive incremental costs or put your organization out of compliance, please read the associated Licensing Flash and Licensing Guide available on our website.

How True Up Pricing Is Calculated and How To Reduce Costs

When an organization signs or renews an enterprise agreement, the total cost of the agreement, which is comprised of the cost of the License (L) and Software Assurance (SA) for each item is spread over the lifetime of the agreement—three years. As an example, when signing a new enterprise agreement, you can expect to receive a quote for Windows Server Datacenter that looks something like this:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$2,000</td>
</tr>
<tr>
<td>Year 2</td>
<td>$2,000</td>
</tr>
<tr>
<td>Year 3</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

True Ups however, operate differently. To simplify the management of the agreement, whenever a True Up item is ordered, the price will include the cost of the License and Software Assurance until the expiry of the EA and is paid as a single up front payment with no recurring charges for the duration of the agreement. Since SA is calculated on an annual, not daily basis, SA is calculated based on the year of the agreement, not the date the product was actually ordered. For example, we can expect the True Up schedule for the same Windows Server Datacenter license to look something like this:

<table>
<thead>
<tr>
<th>TUP Yr</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yr 1</td>
<td>$5,400</td>
</tr>
<tr>
<td>Yr 2</td>
<td>$4,500</td>
</tr>
<tr>
<td>Yr 3</td>
<td>$3,800</td>
</tr>
</tbody>
</table>

Year 2 would be cheaper than Year 1 as its only factoring in roughly 2 years of remaining Software Assurance. These True Up prices are fixed and locked for each product that is part of the Enterprise Agreement at the time of signing or renewing the agreement.

It stands to reason then that purchasing a product under a Year 2 True Up would be cheaper than purchasing it under a Year 1 True Up. Why then don’t all organizations just order everything under Year 3 True Up? Because according to the Enterprise Agreement, a True Up must be reported on an annual basis and the respective True Up price will be used accordingly. Delaying the purchase of a product already in production puts the organization at a significant risk of non-compliance, the cost of which far outweighs any potential cost savings.

That said, organizations do need to be prudent as to when they purchase their software, ensuring they remain compliant but not overpaying. This includes:

Not buying licenses before they are needed. This may seem obvious, but it is an area that we routinely see being overlooked; especially in the realm of solution implementation. Licenses for new products are required to be Trued Up when they go into production, or at the anniversary of the agreement for licenses already existing within the Enterprise Agreement. When an implemented project or solution is scheduled to go into production in 18 months, delaying the purchase of the licenses until they needed (i.e. when the solution moves into production) can save the organization a significant amount of money.
Managing Project Schedules. While delaying go-live dates for business critical solutions is never advisable, there are times when pushing out a go-live date by a few weeks can save an organization a significant amount of money and improve its cashflow. Let's take the example of an organization who plans to roll out a new data warehouse based on SQL Server 2014. The Enterprise Agreement anniversary is on March 30th and the currently scheduled go-live date for the data warehouse is March 20th. By delaying the rollout into production by 12 days, the organization becomes eligible for the subsequent year’s true up pricing, and, if SQL Server 2014 is already part of their Enterprise Agreement, can defer the payment till the next anniversary.

Having said that, and like almost everything else in life, there are exceptions to every rule. There are times when breaking these true up rules as part of a well structured negotiation can actually save the company a large amount of money and derive additional benefits. Our associated Licensing Guide goes into the details of such scenarios while our Licensing ROI Scout™ provides additional guidance on how to structure the negotiations.

How A True Up Can Trigger A Licensing Compliance Audit

Correct and timely reporting of annual True Up numbers is a contractual obligation under the Enterprise Agreement. As THE major source of revenue for it’s enterprise business, Microsoft takes true up compliance very seriously. With the recent surge in LCC Audit and SAM activities across the region, a clear link seems to be forming between True Up and compliance related activities. These include:

Zero Usage True Ups: As stated earlier, reporting an annual True Up is a contractual obligation. This holds true even in cases where there has been no change to the quantities of products deployed since the last anniversary. In this situation, an organization is required to submit what’s known as a zero usage order indicating that it has not deployed an additional software since it’s last annual true up. We are now seeing a direct correlation between license compliance activity and zero-usage reporting, especially in the enterprise space. And while reporting a zero-usage is a perfectly legitimate activity, we strongly advise that the organization is very clear on its current software usage and entitlement prior to submitting the report.

Missed True Up Deadlines: Like all other businesses, Microsoft operates on a timeline of fiscal quarters and accountability. To do that, they rely on the timeliness of events like True Ups as defined in their software contracts. It therefore goes without saying that missing or delaying an annual true up raises quite a few alarm bells wherever it is that LCC Audits and SAM activities get decided. If starting early is key to a smooth true up, missing a deadline is an absolute no-no. If for some reason an organization does need to delay the reporting of its annual true up, this should be done in conjunction, with the buy in of and documented in writing by the respective Microsoft account teams.
A Final Note – When Not To Buy Software Assurance

Software Assurance is an important part of any Volume Licensing agreement and a topic worthy of a number of reports in and of itself. Without getting into the pros and cons or when to and when not to buy Software Assurance, previous engagements have shown that there are a few, very specific cases that pertain to the True Up cycle when Software Assurance should not be purchased. And since all Enterprise Agreement licenses must be covered with Software Assurance, these licenses would need to be procured outside of the Enterprise Agreement.

Software Assurance should be looked at very carefully when a True Up is being reported as part of an LCC Audit or SAM activity. This holds true especially in cases where the products being purchased as part of a settlement are of limited or only very short term use to the organization.

An example we’ve seen in recent engagements is where an organization with device based CAL Suite licenses are being asked to procure a number of User Based CAL Suite licenses to cover for the use of BlackBerry or mobile phone devices connecting to Exchange Servers. Since these licenses are a compliance stop gap and in all likelihood will only be used until the expiry of the Enterprise Agreement, at which point the organization is likely to renew on a user based CAL suite profile or pursue an Office 365 based model rendering these licenses useless.

The annual True Up is a major milestone in every Enterprise Agreement. Managed carefully its an event that can help organizations contain costs while ensuring compliance. Unfortunately however, the interests of Microsoft and Microsoft resellers do not always align with that of the customer organization. Additionally, as noted in our frequent engagements across the GCC, resellers do not fully understand the terms of the agreements they are selling or administering. For those reasons, we strongly recommend consulting with an experienced third-party before turning over any True-Up information.
About PLAN{X}

Reducing cost and ensuring compliance. At PLAN{X} that’s what we’re all about. As ex-Microsoft “Blue-Badge” employees, not only are we an authority on software vendors and their licensing practices, we also know the region, negotiation styles, rules, culture, priorities and programs first hand.

Through our engagements, we bring our knowledge, insight and experience and support to help level the playing field in your software negotiations, delivering measurable results every step of the way. We ensure your success by providing:

- Licensing advisory & Optimization
- Asset Management Process Audit & Consulting
- Audit and SAM Defense
- Contract Negotiation Support
- Software Asset Management As A Service
- Organizational Training & Development

For More Information

To find out how PLAN{X} can help you ensure organizational compliance, deliver savings on software contracts and maximize utilization of existing software assets, please visit us at www.planxme.com. Or reach us by visiting www.planxme.com/contact-us.

PLAN{X} Focuses on Supporting Executives Reduce Cost and Manage Compliance