# The Ultimate Guide to Microsoft Negotiations

## *6 Essential Steps for Customers*

This white paper outlines what's most important to Microsoft in today's market, the playbook Microsoft uses to approach every negotiation, and how to maximize the value of your Microsoft investment.

UpperEdge

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# Microsoft's State in the Market

Microsoft is always evolving with the market around it and adjusting its playbook accordingly. For example, **Microsoft raised their prices** for the first time in 10 years in 2022. These price increases affected the Microsoft 365 and Office 365 suite of products because of the increased value they have provided in the last decade.

Additionally, Microsoft has expressed the intention to embrace AI by making a multi-billion-dollar investment in OpenAI and ChatGPT, leading to the introduction of **Teams Premium and the AI-enhanced Viva Sales**. Microsoft has also announced Microsoft 365 Copilot, Dynamics 365 Copilot, GitHub Copilot, and Windows Copilot as part of their AI portfolio of products. AI is the future of the market, and Microsoft is jumping at the opportunity to enhance its products with the latest tech.

**Microsoft is already entrenched in companies that have been using its solutions for the past several years. This makes it far too complicated, if not impossible, to even consider moving away from Microsoft.**

In addition to these products, Microsoft continues to drive cloud adoption, namely of its robust Microsoft 365 E5 bundle. We expect this to continue as more products are added to the Microsoft line-up, and even anticipate the introduction of new bundles or add-ons that will bring customers closer to needing all of the features found in Microsoft 365 E5. We could even see a world where Microsoft decides to roll out another more expansive and robust offering (Microsoft 365 E7), perhaps with the added AI functionality included.

When it comes to many of the core Microsoft products (Office, Windows, etc.), there are still a limited set of viable alternatives in the market. Google is certainly releasing products that rival Microsoft's capabilities, but Microsoft is already entrenched in companies that have been using its solutions for the past several years. This makes it far too complicated, if not impossible, to even consider moving away from Microsoft.

There are areas where Microsoft needs to fight for customers and market share, including competing against AWS and GCP for their Azure offering and several vendors for Dynamics 365. But, their overall portfolio of products are deeply integrated into customers environment, making it difficult for competitors to compete against that portfolio as a whole.

# Microsoft's Playbook

It's obvious that Microsoft is operating from a playbook – anyone who has negotiated with them before can attest to this. It's a playbook that works well for them, and so long as it continues to work, Microsoft will continue to implement it. A great example of this playbook at work is the borderline monopoly Microsoft has in the market.

With the lack of viable alternatives tied to their core solutions and the numerous integrations Microsoft often has, moving your entire company off Microsoft's products would be a change management nightmare that could cause productivity to drop. Productivity improvement is one of the core reasons companies are so heavily reliant on Microsoft's products in the first place.

> **It's critical for Microsoft customers to have their own playbook in place to bring to the negotiation table. With the right amount of time and resources, your company will be able to overcome Microsoft's playbook.**

Microsoft is aware of this and knows they hold all the cards when it comes time to discuss a customer's renewal. During one renewal, a Microsoft sales rep told an IT executive that there was nothing else they could do to meet their requirements and that he could always try and see what the 'other' Microsoft might offer him if he was not satisfied (yes, this actually happened). Microsoft understands its place in the market and will leverage that at the negotiation table.

Microsoft's main goal is to drive revenue and accelerate growth while keeping a close eye on expenses. They plan to do that through product volume ramp ups, portfolio expansions, and price increases. That's why it's critical for Microsoft customers to have their own playbook in place to bring to the negotiation table. With the right amount of time and resources, your company will be able to overcome Microsoft's playbook.

# 6 Steps to Acing Your Microsoft Negotiations

## 1 Make Developing a Strategic Timeline Your First Priority

The most important step in developing a holistic Microsoft negotiation strategy is mapping out a strategic timeline. You need to level the playing field and **take back control to ensure your Microsoft EA negotiation process** benefits your organization as much as it does Microsoft. Having a strategic timeline allows you to protect your financial performance and IT infrastructure, build a strategic relationship with Microsoft, optimize your Software Assurance (SA) benefits, and maintain license compliance.

Customers often do not allocate enough time to properly plan, evaluate, and negotiate with Microsoft to achieve a competitive deal. Renewal negotiations should be on your radar at least 6 months before you are set to negotiate. To ensure you own the renewal process with Microsoft, you will need to follow, at the very least, a 6-month timeline, though a full year would be even better.

# 6 Month Renewal Timeline

### 6 Months Out

Start to finalize your internal Microsoft IT roadmap, including current product usage, license entitlements and SA benefits, and potential go-forward product and solution needs including Azure, LinkedIn, etc.

### 5 Months Out

Conduct any necessary product and solution workshops with Microsoft and/or your reseller. This could be tied to products and features that are not being utilized and products that may be of interest to be added to your Microsoft portfolio.

### 4 Months Out

Meet with Microsoft and your reseller to determine your best renewal options based on your understood go-forward requirements. Discuss your expected go-forward engagement process with Microsoft and communicate your optimal renewal options to them.

### 3.5 Months Out

Receive pricing based on your optimal renewal options.

### 3 Months Out

Conduct a top-to-top meeting with Microsoft to clarify your requirements and commercial requirements. Request detailed proposals (pricing, commercial terms, flexibility, protections, etc.)

### 2 Months Out

Review updated proposal responses. Conduct additional top-to-top meeting(s) with Microsoft to confirm your expectations.

### 1 Month Out

Finalize commercial terms and review the renewal documents.

## 2 Conduct an Exhaustive Audit of Product Utilization

Once you have your timeline in place, it's time to gather a line-item understanding of your company's entitlements with your actual levels of utilization. Ideally, you will be able to conduct a granular assessment of usage at the feature level.

Conducting a detailed and granular audit of your product utilization or Azure consumption will provide you with a critical dataset to have when discussing actual value received vs. fees paid with Microsoft, especially if you can put a dollar value on any under-utilization. Far too many companies fail to effectively pull this level of detail together and end up losing significant leverage with Microsoft.

Remind Microsoft of the heavy sales pitch they made to push you to adopt the Microsoft 365 E3 or E5 cloud bundle in your last renewal. Show Microsoft that you never used all the features of the Office 365 or the EMS component of the bundle or any of the other key components. This is **a very powerful message during your negotiation**, especially if Microsoft is looking to add more new products to your portfolio or move you to a more robust plan while also significantly uplifting the fees associated with the products you have already adopted.

# 3 Evaluate Which Products Microsoft Places Value On

Microsoft's go-forward strategy is centered around building and selling best-in-class platforms and products that align with the needs and requirements of organizations embarking on their digital transformations. This is made clear through their consistent communication to the analyst and investor communities about their aggressive product adoption goals.

Microsoft's share price and revenue is impacted by their ability to sell more products and solutions to both new and existing customers, increasing their annual run rate and successfully executing their 'land and expand' playbook. Companies that are either evaluating new products or who have more robust plans for products already in use have an attractive story that can influence concessions from Microsoft.

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This is especially true when the products under consideration have competitive alternatives and represent strategic products directly tied to Microsoft's go-forward strategy and ambitions. More specifically, a company considering the adoption of one of Microsoft's key cloud offerings, like the Microsoft 365 cloud bundle, one of the Power Platform products, one of the Dynamics 365 products or Azure, has a significant amount of leverage.

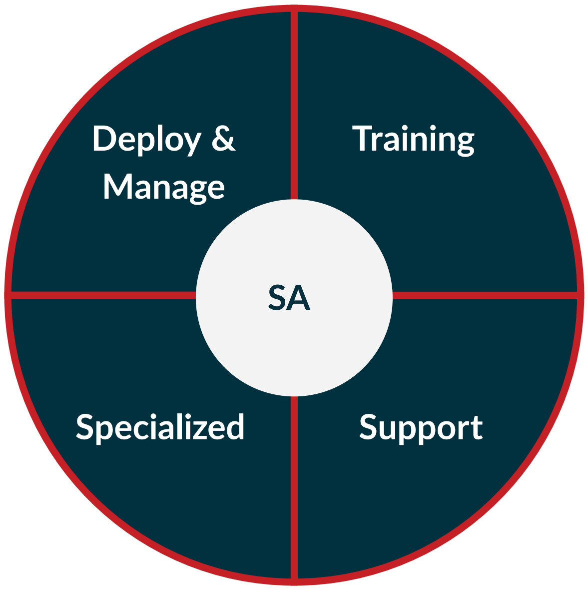
Customers should also look to leverage their LinkedIn relationship as well. Is the renewal date lined up with the EA renewal? Is LinkedIn Recruiting or Learning being considered for adoption? If this leverage is used correctly, you can achieve a best-in-class deal with Microsoft.

For Microsoft Unified Support customers, it is important to assess the value received to date based on usage and assess if it makes sense to continue with Microsoft's support offering or look to alternatives. This is an area that Microsoft will be very interested in maintaining as part of a renewal.

Unified Support terms are usually one year and not lined up with the EA renewal. To increase your leverage, it would be best to line up the renewal dates and include going to an alternative provider as part of a holistic renewal discussion.

# 4 Assess Your Software Assurance Benefits

If you're renewing non-subscription cloud products licensed under Microsoft's enterprise agreement, you're effectively renewing and paying for SA since you already own the underlying license as well as the most recently released version. Since SA is often lumped into your non-subscription products, it's typically overlooked when renewing. But it's important to assess whether you have realized the full value of SA and whether you will realize the full value moving forward. SA benefits are organized into four major categories:

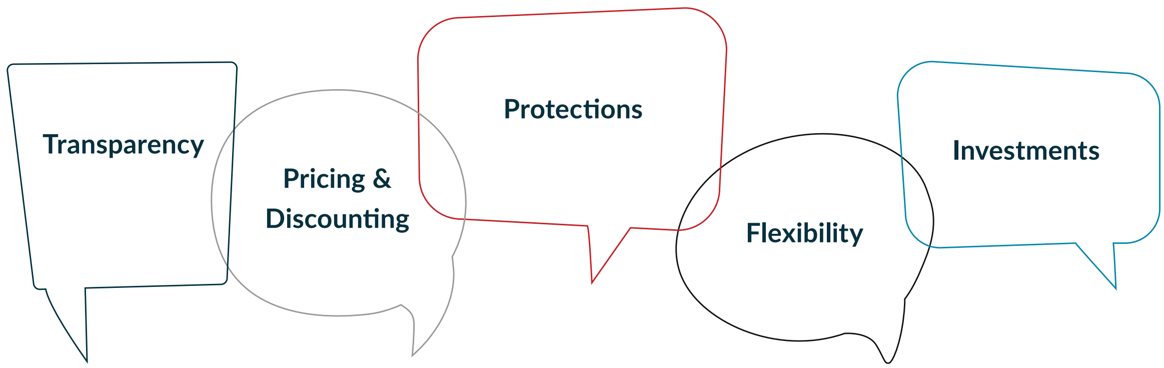



Very few companies receive the **full benefit of Software Assurance** and some don't even know the full scope of benefits that are included. You don't get to pick and choose the SA benefits you will be using and only pay for those benefits. Instead, it's all or nothing.

However, if positioned correctly, there's an opportunity to present to Microsoft the limited value previously received along with the value you expect to receive from SA in the future. By doing this, you achieve valuable concessions in other areas of your negotiation that can offset your concern for the overall lack of value, including achieving additional Microsoft discounting beyond the standard volume discount.

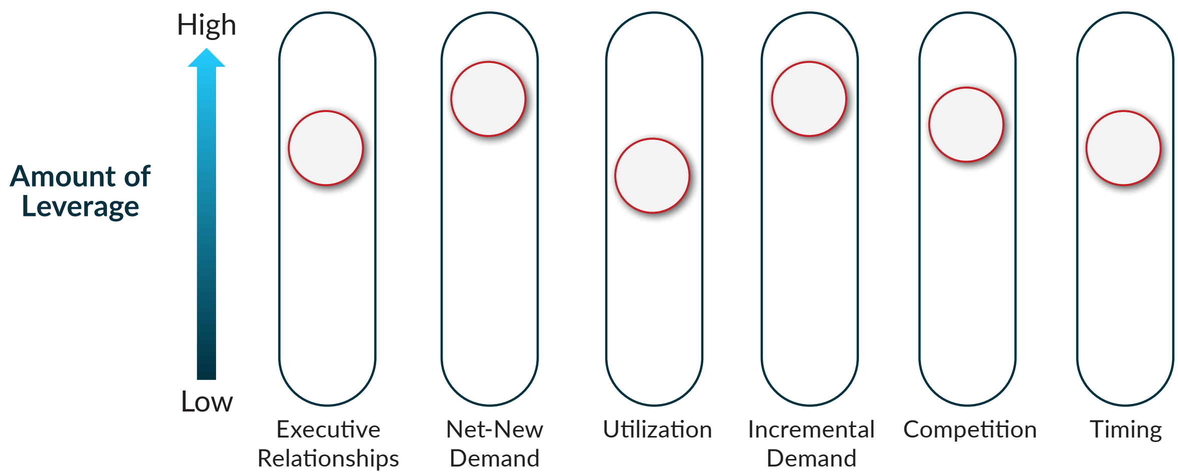
# 5 Conduct a Commercial Assessment

To develop an effective and informed negotiation strategy, you need to know where you currently stand with Microsoft so that you can adjust your strategy accordingly. Understand how you're being treated and where you have both really good and really bad leverage. Address any gaps in the following terms before entering your negotiation:




- **Transparency:** If you don't know what additional discounting you're getting above volume, it usually means you're not getting much or any at all. As you move forward, you need visibility into those discount structures and future pricing metrics.
- **Pricing & Discounting:** Understand whether your pricing and discounting is competitive. Most pricing and discounting we see is not as good as it can be, and you need to look at your deal holistically to understand whether your deal is competitive or not.
- **Protections:** In term, most organizations see their spend go up more than they expected as they move through the term. This is because the discounting they achieve at the negotiation table does not apply to future pricing tables or products within the step-ups. You need to ensure the discounting you receive at the beginning of the term applies to everything in term with proper protections in place come renewal.
- **Flexibility:** Do you know what products you can reduce and to what level? There are no blanket provisions associated with product reduction, so you need to negotiate flexibility terms into your deal to reduce products that are not bringing added value.
- **Investments:** You need to ensure Microsoft is investing their money into helping you roll out and migrate products to unlock the value of these products. They have the money to do so, but it's up to you as the customer to ensure those dollars are spent helping you.

# 6 Determine Where Your Leverage Lies




It's less about how to create leverage and more about understanding where you already have leverage (and to what degree). Here are some of the common levers customers have:

- **Executive Relationships:** Evaluate the executive relationships you have in place. Where do they reside within your enterprise and within Microsoft? If they're strong, call on them at the appropriate times. If they're not strong or nonexistent, prioritize establishing them through renewal discussions.
- **Net-New Demand:** New demand is always impactful. If you're considering new products now and down the road, you have leverage you can use. Microsoft wants to expand portfolios and close more deals that involve their cloud bundles, like Microsoft 365 E5.
- **Utilization:** Gather granular utilization information to be able to communicate both value promised and actual value received. Negotiate terms that will allow you to decrease volumes in term and at renewal.
- **Incremental Demand:** It's always good to show growth to date, but Microsoft is more interested in go-forward growth, both immediate and downstream. Even if you aren't going to grow by another 2,000 users for two more years, you should still show them that this growth is real and coming. What you communicate today will have an impact.  Perhaps Microsoft can put an agreement in place for phased growth.

- **Competition:** For competition to be used as leverage, it must be realistic and can't just be an empty threat of ripping out and walking away. However, it can be powerful if there's a viable alternative and enough time to make a switch now or in 3 years. For example, if you have an evolving relationship with Microsoft, already use certain Microsoft products, and are considering replacing Microsoft's products with a competitor, you should mention that.

  Bear in mind – Microsoft is a huge company, and most of their competitors are not nearly as established as they are. If you're going to use this card, you have to use it right.

- **Timing:** As stated previously, you need to allow yourself enough time to take ownership over your negotiation. You should begin preparing for your renewal at least 6 months in advance.

- **Commercial Benchmarks:** You need to come to the negotiation table knowing how your agreement should have been, and, more importantly, what it should be, moving forward. Obtaining relevant and recent benchmarks that are similar to your situation, company size, and demand is critical to getting a clear picture of what you should aim for in negotiations.

Each of these levers carries a different amount of weight, but it's your job as you prepare to understand what that weight is.

Most of these levers are no different between vendors, but Microsoft is a different beast as they're a massive vendor that is often much bigger than its customers. Also, when it comes to Microsoft products, you are most likely heavily relying on their solutions, and Microsoft knows that.

That's why you need to know which levers will affect change and gain internal alignment on those levers prior to heading into a negotiation. You need to look inward at where you stand first and then have a consistent, rigorous process in place to get to where you want to be at your next renewal.

## Unbiased Support for Your Microsoft Negotiations

With over 17 years or experience advising on Microsoft negotiations, UpperEdge is well versed on Microsoft's business practices and sales tactics. Unlike most Microsoft consultants and advisors, UpperEdge does not have any business relationship with Microsoft which eliminates any potential conflict of interest. We are 100% focused on the success of our clients and completely unbiased in the way we engage. **Learn how we can help you develop a strategic negotiation plan** to ensure long-term value in your Microsoft deal.

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## About the Author

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Adam is considered a thought leader in cloud subscription agreement negotiations and has over 18 years of experience negotiating software, system implementation, cloud computing and data center agreements that ensure optimal deal constructs and significant savings.

**About UpperEdge**

UpperEdge is a leading IT sourcing and commercial advisory firm that maximizes the value companies receive from their key IT suppler relationships. We empower clients with market intelligence and help them develop and execute fact-based sourcing, negotiation, and transformation program execution strategies.

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