



"No Surprises" Technology Management for Small Businesses

To: Steve Ballmer, Microsoft Corporation
From: David Schrag
Cc: All Microsoft managers with responsibility for small business market
CC: The Microsoft small business partner community

RE: What's wrong with Microsoft licensing and pricing for small business

This memo is based on my nine-plus years experience as a small business IT consultant, working primarily with companies that own between 5 and 25 computers. I have no quarrel with the quality or value of Microsoft products aimed at this market. However, I must tell you that several aspects of Microsoft's various licensing and pricing programs are presenting significant obstacles for both your customers and your partners. My comments are informed primarily by my experience with Windows, Office, and Windows Server products; however, they may apply to other product lines as well.

There are two major types of obstacles that your licensing programs present:

- 1) Although the cost of your software relative to its benefits is low no matter how it is purchased (retail, OEM, or volume license), certain aspects of the licensing and pricing programs make customers *feel* that they are paying more than they "should."
- 2) The large number of options available for purchasing Microsoft products and the subtle but important differences between the rights granted across and within product lines cause great confusion in the marketplace and make choosing the "right" option a time-consuming and therefore expensive endeavor.

Here are a few specific problems. This list is not exhaustive but it is representative.

- Several years ago, Microsoft essentially eliminated upgrade pricing for all but retail products. Because most other software vendors continue to have upgrade pricing for small business product licenses, purchasing new versions of Microsoft products appears to be more expensive than it "should be." This creates an incentive for customers to hold onto old versions of products as long as they possibly can, even when new versions are more powerful and secure.
- Microsoft's answer to the upgrade question is Software Assurance. There are several flaws in the SA program:
 - Although SA offers several other benefits, product upgrade rights is clearly the most valuable. But there is no guarantee that Microsoft will actually release a new version during the term of SA. For example, customers who purchased a two-year SA contract when the 2003 versions of Office and Small Business Server were released did NOT receive a new product version unless they renewed their SA contract. Therefore, purchasing SA feels like gambling.
 - Software Assurance is of questionable value when it comes to the desktop operating system. It is impossible to buy a new PC that does not come with the latest OS. It is difficult and often inadvisable to upgrade the OS on a PC already in production. Therefore, the upgrade and transferability rights that SA provides for the desktop OS usually provide little or no benefit to the customer.
 - When SA for the desktop OS is bundled with other products, as is the case with the Small Business Desktop SKU, customers feel that they are paying extra for something they don't really need. Or, if the product marketing suggests that the bundled SKU provides additional value by including SA for the desktop OS at little or no extra cost, customers feel that they are being conned by clever advertising.

- A small business wishing to purchase Microsoft Office has several options for doing so. In increasing order of purchase price, those options are:

- OEM (assuming a concurrent computer system purchase)
- Open Business (without SA)
- Retail
- Open Business (with SA for two years)
- Open Value

Each of these products has a different set of rights, restrictions, and benefits. A conscientious partner wishing to provide a customer with options and recommendations must consider dozens of different factors and scenarios to determine which purchasing option is the best fit for the customer. Answering the question correctly requires the partner to make three-to-five year forecasts of the customer's growth and product use needs as well as Microsoft's product release timetable and pricing policies. It is impossible for the partner to do this effectively or efficiently.

- Because small businesses are particularly uncomfortable making predictions of what their business will look like in three to five years, they tend to choose options that carry the lowest short-term cost. Therefore, OEM software is very attractive. Small businesses either do not realize that OEM software has significant usage and transferability restrictions or they are willing to gamble that the restrictions will not pose a problem for them in the future. If it comes to pass that the OEM restrictions really do pose a problem, they are forced with the unpleasant choice of purchasing a brand new copy of Office or ignoring the product use rights and using the OEM software illegally. Unfortunately, many small businesses choose the latter option (unless, of course, they are working with an ethical MS partner who insists that they use only legal software).
- It is possible to add SA to an OEM license in order to avoid the problems laid out in the previous paragraph. However, this can only be done within 90 days of purchase. This policy feels punitive to the customer who does not understand the differences between OEM and volume license until after the deadline for adding SA.

I ask that you bring together the multiple Microsoft managers who have either an interest in or control over product licensing and pricing in the small business market. (Because of your organizational structure, those managers who have an interest and those who have control are not necessarily the same group.) These managers need to understand both the practical and emotional consequences of the current system. I am convinced that Microsoft could make some simple but significant changes that would lead to both greater satisfaction at the customer and partner level and greater profitability for Microsoft.

I suggest that small business licensing and pricing should, at a minimum, follow these principles:

- Customers should be rewarded for their past purchases of Microsoft products in the form of discounts on new versions – regardless of how they purchased the products in the past (OEM, retail, or volume license).
- Customers should be able to buy the software they need incrementally as their business grows, rather than make expensive bets on the future at the time of purchase.
- Customers should never feel forced into buying something they don't need or something they already own.
- Customers who pay in advance for a product upgrade should be guaranteed to receive that upgrade, regardless of when the upgrade is released.
- Partners should need little or no time to explain licensing and pricing options to their customers. They should be able to spend their time helping their customers use technology better.

Thank you for your consideration of this important matter. I am happy to share additional thoughts on this subject at any time.

