

# Microsoft's academic licensing programmes

Interim report with recommendations  
for improving value for money

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

January 2007

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

# Contents

1.	Summary and recommendations	1
2.	Introduction and background	7
3.	Review methodology	8
4.	Subscription licensing models	9
5.	Perpetual licensing models	12
6.	Overall value for money	14
7.	Next steps	17

# Summary and recommendations 1

- 1.1 Becta announced in January 2006 that it intended to conduct a review of Microsoft's academic licensing programmes, focusing on the range, scope and cost of the licensing programmes available, and the extent to which these not only met the needs of schools and colleges, but also represented value for money.
- 1.2 In announcing the review, Becta indicated that it would pay particular attention to Microsoft's subscription licensing models and the risks associated with non-perpetual licences. The review therefore examined the total costs of exiting subscription licence agreements and the corresponding risks of 'lock-in'.
- 1.3 The review comprised desk-based research, an electronic survey of some 400 educational institutions, site visits to 10 educational institutions, and stakeholder consultations. PricewaterhouseCoopers LLP were appointed to provide advice to us and to undertake key aspects of this review including providing the evidence base we used to support this external report.
- 1.4 This interim report sets out the initial findings of Becta's review, which concluded that Microsoft's licensing arrangements in the education sector are characterised by:
  - Significant potential for institutions to find themselves 'locked in' to Microsoft's subscription licensing arrangements
  - Very significant complexity leading to a lack of understanding at institution level that has resulted in widespread use of inappropriate licensing strategies.
- 1.5 Becta found that the range of subscription licensing models available to the academic sector was more restrictive than those available generally, and that it was very difficult for educational institutions to identify crucial information on the costs of exiting their Microsoft agreement by converting from a subscription payment to a perpetual licence (the buy-out cost).
- 1.6 Becta further identified that these buy-out costs were significant, that most educational institutions were unaware of the scale of such costs at the time of entering into the agreement, and that very few institutions felt the exit costs were easily affordable.
- 1.7 Notwithstanding important differences in relation to subscription licensing already referred to, for the most part Microsoft's academic licensing programmes mirror the structure of those applicable in the commercial sector, with much of the attendant complexity. There is an urgent need for Microsoft to design an educationally focused licensing regime which comprehensively addresses the issues identified in this report, and which education customers can understand.
- 1.8 Becta considers that the key features of such a licensing programme would be ones which facilitated four key choices for users:
  - The choice to select the software to be licensed (no mandatory exclusion or inclusion of particular products in a licensing programme)
  - The choice to determine the extent of their ICT estate that should be covered by a licence (no mandatory requirement to license the entire ICT estate)
  - The choice to determine the nature of the licence (perpetual or subscription)
  - The choice to select the pricing mechanism (based on numbers of staff, students or computers).
- 1.9 Many of these core choices exist to a greater or lesser extent in one or more of Microsoft's existing academic licensing programmes. A key feature of the new arrangement we propose, however, would be an acceptance that the exercise of one choice, for example on the nature of the licence as between perpetual and subscription, should not affect the ability to exercise other key choices, for example the extent of the estate that is licensed, or the range of software available under the licensing option.
- 1.10 While recognising that such new licensing models could take up to 12 months to develop, the review has identified a number of interim recommendations which we believe Microsoft should urgently progress during the course of their more strategic review. Our interim recommendations will therefore address:
  - Subscription agreements
  - Perpetual agreements
  - Overall value for money
  - Advice to educational institutions.

## Subscription agreements

1.11 The review has identified four key issues to address in relation to Microsoft's subscription licensing agreements:

- Clarity of pricing
- Supplier lock-in
- Basis of pricing
- Scope of licence.

### Clarity of pricing

1.12 Becta was seriously concerned that data from the review indicated that over 70% of the educational institutions responding to the survey using Microsoft's subscription agreements did not realise the level of the buy-out costs before entering into their subscription agreements. Research between May 2006 and August 2006 in respect of publicly available information in relation to the scale of buy-out charges confirmed the availability of information on buy-out costs applicable to most sectors. However there was no indication as to the level of buy-out costs for the education sector in any of the publicly available Microsoft literature that the review examined.

1.13 One possible approach would be for all Microsoft's documentation for subscription licence orders, quotations or renewals to explain the scale of the exit charges and to include information on the buy-out process.

### Recommendation 1

Microsoft (and, where appropriate, its resellers) should be very clear about the nature and scale of any buy-out costs in the information it made available in relation to its academic subscription licensing models.

### Supplier lock-in

1.14 In respect of avoiding potential lock-in, Becta found that academic customers were at a disadvantage in comparison with other Microsoft customers. Specifically, academic customers have no access to a version of a Microsoft subscription agreement that automatically grants a right to use the software in perpetuity. The lack of such an automatic right increases the potential for lock-in.

1.15 For education customers to acquire rights to use in perpetuity, they need to make an additional significant buy-out payment. On the impact of the buy-out costs the review indicates that whilst such charges are a common feature of subscription agreements in this industry:

*'this creates an incentive to enter into and renew subscription agreements on an indefinite basis.'*

1.16 Evidence from the e-survey indicated that very few respondents (under 5%) considered that the costs of exiting from their Microsoft subscription agreements were 'easily affordable'. Evidence also suggested that the overwhelming reason that educational institutions choose one-year subscription licensing models was actually cost, notwithstanding that it also indicated they did not really understand a significant element of the cost (the buy-out element), and that for many institutions this is now an impediment to exiting the agreement.

1.17 Educational institutions are therefore likely to find that they have accrued significant liabilities if they need to effectively exit a Microsoft subscription licensing agreement. For a 'typical' secondary school using Microsoft's School Agreement subscription licensing under the arrangements pertaining at the time of our review, the buyout payment due to Microsoft on exiting School Agreement for a typical 'basket' of desktop products alone, would be likely to be broadly equivalent to a new teacher's salary for a year – a not inconsiderable sum for very many schools.

1.18 Buy-out costs should, we believe, reduce for each year an educational institution has been using the subscription model, to the point where after (say) three years of subscription payments, educational institutions acquire the right to use the licensed software in perpetuity.

### Recommendation 2

To ensure that educational institutions are not locked in to Microsoft subscription licensing agreements, a significant reduction in the scale of the buy-out costs associated with academic subscription licensing agreements should be urgently introduced.

Additionally buy-out costs ought to reduce year on year to reflect the length of time that customers have been using a subscription agreement.

### **Basis of pricing**

- 1.19 Microsoft operates different approaches to subscription licensing between its academic licensing programmes and its commercial licensing programmes. Within academic licences, differences also exist between the schools sector and the further education (FE) sector.
- 1.20 Schools subscription pricing is on the basis of eligible PCs, where licensing for Microsoft products is based on the number of computers in the school estate irrespective of whether the Microsoft product is installed, required or used on all of these computers. The FE pricing model, in contrast, is based on academic, academic-related, clerical and technical staff numbers.
- 1.21 Becta's view is that educational institutions should have the freedom to decide to license software on the basis of the model that best meets their needs – the number of computers, full-time-equivalent (FTE) staff or indeed pupils. Becta notes that there is no fundamental difference in how perpetual licences are acquired across the sectors, and sees no justification for requiring a distinction at the subscription licensing level.

### **Recommendation 3**

Schools that wish to do so should have access to a subscription licensing model based on FTE staffing. Ideally, all educational institutions should have the option to license on the basis of the number of staff, computers or students.

### **Scope of licence**

- 1.22 Microsoft's subscription licensing agreements are all or nothing: in other words, if a school wants to cover any of its ICT estate using a subscription agreement, it must cover all its 'eligible PCs'. Microsoft has set the definition of an eligible PC as any computer with a specification of a PII processor or higher (the PII was launched in 1997). The eligible PC definition also includes Apple Macintosh

computers (G3 or higher). This approach results in over-licensing, double licensing and other anomalies.

- 1.23 One such anomaly occurs because schools tend to retain computer systems longer than is typical in other market areas. This leads to a position whereby the total number of computers on which they must pay a subscription-based licence fee increases year on year. The 'elderly' nature of their ICT estate means that older PCs may not even be capable of running the new software. Under these arrangements, therefore, costs increase while the scope for using the new products across the entire estate decreases.
- 1.24 A further anomaly arises in that a school which uses a mix of Microsoft-based and Apple computers can find itself paying Microsoft a licence fee for software which cannot run on its Apple machines.
- 1.25 Finally, licensing in the school sector exposes schools with subscription agreements to 'Microsoft inflation', whereby every additional PC acquired by the school results in an increased subscription payment and higher buy-out charges. This does not apply to the FE pricing model as it is based on the number of staff and not on the number of computers.
- 1.26 In the short term, Microsoft should review the basis on which it calculates its educational subscription charges (the eligible PC) so that, under those agreements, it no longer charges institutions licensing upgrade rights fees for computer systems manufactured as far back as 1997. Such systems are clearly quite incapable of running current versions of Microsoft software or the versions of software for which they have acquired upgrade rights (such as Vista).

### **Recommendation 4**

Microsoft should 'rebase' the eligible PC definition in line with the specification necessary to run the most recent version of the relevant operating system. When educational institutions wish to license on the basis of computer numbers, they should have the freedom to select which computers they license.

## Perpetual agreements

- 1.27 The review indicated significant use of Microsoft's Academic Open licensing and Academic Full-Packaged Product (FPP) licensing – particularly by the primary sector. Such schools were consequently under-utilising the Select licensing model.
- 1.28 This will result in higher costs than would be the case if the schools had purchased products under Select. The higher thresholds associated with eligibility for Select as opposed to the School Agreement is likely to be a key factor driving these inefficiencies. Becta believes that the higher eligibility threshold for Select encourages some schools to adopt subscription licensing inappropriately.
- 1.29 Becta's view is that all schools and colleges that wish to use Microsoft licensing should have access to the most cost-effective pricing. One approach would be for Microsoft to align the minimum threshold criteria for Select with those for the School Agreement. Failing that, Microsoft could align Open and FPP pricing more closely with that of Select.

### Recommendation 5

Microsoft should urgently introduce effective arrangements to give all educational institutions in the UK, regardless of their size, easy access to the pricing for Academic Select licensing. We anticipate that this will go beyond a need to give better advice to the sector and require structural changes to their licensing programmes to ensure wider access.

In the absence of steps to make the Select model more easily available, we believe Microsoft should move to align academic FPP and Open pricing much more closely with Select pricing.

## Overall value for money

- 1.30 The overall assessment of e-survey responses in relation to value for money confirmed that:
- '...while colleges are satisfied, schools on balance are not.'*

- 1.31 On the basis of the available evidence, Becta has identified a number of developments which we believe would improve the value for money of Microsoft's academic licensing programmes. The key issues are:

- Upgrade cycles
- Recognising customer commitment
- Bundling within subscription agreements
- Promoting alternatives.

### Upgrade cycles

- 1.32 Becta found that Microsoft's software assurance arrangements include no contractual commitments to supply upgrades. This has been illustrated by the considerable delays associated with the release of new operating-system products (Vista), which has had a detrimental impact on the value for money received by schools and colleges as, in order to become entitled to the version upgrade they will have had to remain in the agreement longer than they might originally have anticipated.
- 1.33 A considerable risk therefore rests with the educational institutions that have invested in such programmes. Microsoft should reflect upon the fact that existing customers of their academic licensing programmes have not had access to anticipated upgrades, and should put in place arrangements to provide compensatory value.

### Recommendation 6

Microsoft should improve choice and value for money of its academic subscription and software assurance agreements so that, when there are significant delays in the normal product release cycle, this is reflected in adjustments to the programme via reduced payments or increased value, such as a payment holiday.

A similar approach should apply where technical requirements for new releases mean that customers cannot deploy the product effectively on a significant proportion of their existing infrastructure.



### Recognising customer commitment

- 1.34 Educational institutions (particularly primary schools) use a range of Microsoft licensing models to meet their needs. However, from a discounting perspective, each licensing programme acts discretely and does not take account of the whole customer spend on Microsoft products. For example where a school spending considerable sums on its subscription licence payments needs to purchase additional products under (say) Select, it receives no recognition of its overall spend with Microsoft. Thus the pricing applied to the additional Select purchase remains the same, regardless of the school's previous spend.

#### Recommendation 7

Microsoft should introduce arrangements which recognise the totality of an institution's spend across the various licensing programmes. Microsoft should also give educational institutions access to a comprehensive online tool which will indicate, in respect of a specific licensing requirement, the most cost-effective way to purchase licences, taking account of all aspects of the costs (including any buy-out).

### Bundling within subscription agreements

- 1.35 Where institutions purchasing under a subscription model choose a standard 'platform' (Office Professional, Windows XP upgrade and core client access licences), they are eligible for a discount for the 'platform' products compared to the individual product pricing.
- 1.36 There is potentially an element of over-provision in this approach when the same bundle is defined for an FE college and for a primary school. Microsoft should offer a range of bundles to enable institutions to select that which best meets their needs. This approach would offer improved choice and value for money.

#### Recommendation 8

Becta recommends that Microsoft improve choice and value for money in subscription licensing by making available versions of the platform bundle tailored to the needs of particular sectors or categories of users.

### Promoting alternatives

- 1.37 Recognising competition and choice as key attributes of improving value for money, Becta asked PwC to explore issues related to educational licensing with a range of organisations including Apple, Sun and the open-source community (OSC). Key issues emerging from those discussions were these:
- There was a lack of knowledge and understanding at institution level in relation to software licensing issues, which tend not to represent a high-priority issue for many headteachers.
  - There were perceptions that Government can (albeit unwittingly) be seen to endorse dominant products by the use of particular default file formats, for example, or through its choice of web browser for its public communications. The OSC in particular was concerned that the effect of this was that 'there appears to be little or no incentive for schools or authorities to change existing practice'.

- 1.38 In relation to the views of the OSC, the review indicated:

*'The community recognises that schools are slow to embrace change per se and that to make the necessary step change in thinking and approach will be more involved than simply lowering the costs of software licences. There is a need, indeed a requirement, for a paradigm shift in thinking and approach that is not happening, but which needs to be encouraged from the highest levels.'*

*One challenge is for senior staff to understand open source and the benefits that can be achieved by adopting open-source products. This implies a need for further effective and targeted training and also information on the total cost of ownership of software products over the lifetime of those products.'*

*The OSC would like to see Becta and government organisations be proactively promoting choice by adopting open-source standards and developing minimum standards for all education software.'*

- 1.39 As part of its consultation on this interim report, Becta will discuss with key stakeholders the practical steps it could take to facilitate wider competition and choice in relation to software licensing in schools.
- 1.45 We also intend to discuss our final recommendations with the Office of Government Commerce and the Office of Fair Trading.
- 1.46 We anticipate publication of our final report by BETT 2008.

## Advice to schools

- 1.40 Becta's advice to institutions that are not currently using a Microsoft subscription licensing agreement is that they should consider carefully whether, in the absence of the changes Becta is recommending, they should enter into such agreements.
- 1.41 If possible, institutions which are considering the purchase of additional Microsoft perpetual licences, and which do not have easy access to Select pricing, should await the outcome of Becta's final report on Microsoft's academic licensing programmes before making a final decision on the purchase of additional licences.

## Next steps

- 1.42 Following publication of this interim report on Microsoft's academic licensing, Becta intends to hold further consultations on the key recommendations. These arrangements will build on discussions held during the review, and will involve the establishment of a consultative panel of key users.
- 1.43 We plan to hold further discussions with relevant industry stakeholders, including companies and organisations that offer competing products including free-to-use products. A key focus of those discussions will be to identify any further steps to facilitate greater choice for schools and colleges that Becta should consider.
- 1.44 In our final report, for each of our recommendations we shall set out details of the progress that has been made in addressing the identified concerns. We shall also give an overall assessment of whether, in our judgement, issues of potential lock-in have been adequately addressed, and the extent to which value for money has improved.



# Introduction and background

2

- 2.1 Becta is the Government's lead partner in the strategic development and delivery of ICT for the schools and the learning and skills sectors. Becta provides strategic leadership in the innovative and effective use of ICT to enable the transformation of learning, teaching and educational organisations for the benefit of every learner.
- 2.2 One of Becta's strategic objectives is to develop a national digital infrastructure and resources strategy leading to greater national coherence, improved reliability and affordability that is sustainable in the longer term. As part of that work, Becta has a responsibility to act in the interests of schools and colleges to ensure best value for money in the procurement of quality ICT products and services.
- 2.3 Becta has for some time been engaged in discussions and negotiations with Microsoft concerning its academic licensing programmes in the UK. These discussions began in 2003 at the request of the then Secretary of State, and resulted in Becta signing an agreement, a Memorandum of Understanding (MoU), with Microsoft in relation to the prices of its products to the schools sector.
- 2.4 The three-year MoU, which came into force in January 2004, did not require schools to change their purchasing procedures, but established significant savings to schools in the UK through lower 'factory gate pricing'. The MoU did not restrict the freedom of schools to choose alternative solutions.
- 2.5 In 2005 Becta established a software licensing framework agreement covering products from a wide range of suppliers, which provided a cost-effective mechanism for procuring non-curriculum software and related value-added services.
- 2.6 While these arrangements brought significant savings to the schools sector, Becta recognised the need to continue discussions with Microsoft relating to a wide range of issues concerning the structure and impact of Microsoft's academic licensing programmes. Consequently Becta announced in January 2006 that it was to conduct a number of reviews encompassing:
  - Microsoft's academic licensing programmes
  - The educational advantages of adopting Vista and Office 2007
  - Home-school access.
- 2.7 This interim report focuses on Microsoft's academic licensing programmes and, as indicated in January 2006, seeks to:
  - Review the range, scope and cost of academic licensing models available, covering the degree to which they meet the needs of UK schools and colleges and represent value for money
  - Pay particular attention to Microsoft's subscription licensing models and the risks associated with non-perpetual licences.
- 2.8 The review examined the total costs of exiting subscription licence agreements and the corresponding risks of lock-in.
- 2.9 In November 2006 the Secretary of State, the Rt Hon Alan Johnson, wrote to Microsoft indicating the importance which he attaches to the establishment of successor arrangements in respect of the existing MoU.
- 2.10 Commenting specifically on the issue of Becta's reviews, the Secretary of State wrote that he was aware that the reviews had identified a number of important issues 'which would need to be resolved', and encouraged Microsoft to engage positively with Becta.
- 2.11 The remainder of this interim report sets out the key issues identified to date in relation to Microsoft's academic licensing programmes, the progress made and the issues outstanding. Following publication of this report, Becta will engage in further dialogue with Microsoft and consult with relevant stakeholders including schools and colleges, the educational ICT industry, the Office of Government Commerce and the Office of Fair Trading.
- 2.12 It should be noted that this report does not suggest that educational institutions should select Microsoft products in preference to products from other suppliers or those available free of charge such as open-source products. Rather it is intended to ensure that, when institutions choose Microsoft products, the licensing options available to them provide the best possible value for money and do not result in supplier lock-in.
- 2.13 Becta anticipates that the issues identified in this report will help to inform licensing strategies across the education sector.

# Review methodology

- 3.1 To ensure appropriate rigour, depth and breadth to its review, Becta initiated a range of work streams including:
- A desk-based licence review
  - An e-survey
  - Consultation with stakeholders
  - School and college visits.
- 3.2 PricewaterhouseCoopers LLP (PwC) were appointed to provide advice to us and to undertake key aspects of this review including providing the evidence base we used to support this external report.

## Licence review work stream

- 3.3 PwC conducted a desk-based study of the features of Microsoft's educational licensing programmes, including an assessment of publicly available information on its commercial and contractual terms. It compared the licensing arrangements for the education sector with those available in other sectors.

## E-survey work stream

- 3.4 PwC carried out an e-survey to gather input from some 400 educational institutions in England, including primary, secondary and special schools plus FE colleges. In relation to the e-survey, Becta received assurances that it was a statistically significant exercise which demonstrated confidence that it represented the target population as a whole.

## Stakeholder consultation work stream

- 3.5 PwC conducted a number of meetings with stakeholders to get their perspective on relevant issues. Face-to-face and/or telephone interviews were held with bodies such as the regional broadband consortia (RBCs), the Office of Government Commerce (OGC) and a number of local authorities, international contacts and the open-source community. As part of the stakeholder consultation Becta held discussions with the Office of Fair Trading. The intention is that stakeholder consultation will continue between the publication of this interim report and the preparation of the final report.

## School and college visits

- 3.6 PwC visited ten educational institutions in England. Information gathered during these visits was mostly qualitative. Where possible, the visits involved interviews with the headteacher or college principal, bursar, ICT co-ordinator, students, pupils and parents.
- 3.7 The remainder of this report sets out our initial analysis and recommendations on:
- Subscription licensing models
  - Perpetual licensing models
  - Overall value for money.

# Subscription licensing models

- 4.1 In January 2006, when Becta announced a review of Microsoft's academic licensing programme, we made clear that subscription licensing was a key area of interest. Subscription licensing can take many forms, and it is becoming more prevalent as a model of software supply in many areas of the ICT marketplace.

## Background to subscription licensing

- 4.2 Historically, software has been to be purchased on the basis of a 'perpetual' licence paid for via a single up-front payment. Subscription licensing programmes on the other hand are essentially software rental agreements – you retain the right to use the software while you continuing making the subscription payments. The position once you stop paying will depend on the exact nature of the subscription agreement. In the case of Microsoft's academic subscription agreements, you have three choices at the end of your subscription period:
- You can renew the agreement for a further period
  - You can make a lump-sum payment to convert your subscription licences to perpetual licences (the buy-out)
  - If you choose not to renew or buy out, you must remove the software from your computers.
- 4.3 The key issues that Becta identified in its review of Microsoft's subscription licensing models were:
- Clarity of pricing
  - Supplier lock-in
  - Basis of pricing
  - Scope of licence.

## Clarity of pricing

- 4.4 Becta takes the view that, where schools and colleges are choosing between complex licensing models, it is essential that full and accurate information be available to them. We were therefore concerned to find that there was a poor level of understanding of buy-out costs. This is also reflected in the absence of information of actual buy-out costs in publicly available Microsoft literature on academic licensing programmes.

- 4.5 Becta was seriously concerned to note that over 70% of the respondents to the e-survey indicated that they were not aware of the scale of the buy-out charges when they entered into their Microsoft subscription agreement.

### Recommendation 1

Microsoft (and, where appropriate, its resellers) should be very clear about the nature and scale of any buy-out costs in the information it makes available in relation to its academic subscription licensing models.

## Supplier lock-in

- 4.6 We sought advice as to how Microsoft's licensing programmes in the education sector compared with those applicable elsewhere, including those available to the private sector. Evidence from that comparison suggested:
- 'In general, there is nothing in the legal terms and conditions that differ significantly between the various Microsoft licensing programmes we have reviewed or that is clearly outside of industry norms.'*
- 4.7 There were important differences, however, in the nature of the subscription agreement choices available to Microsoft's commercial and government customers, compared to those available to its education customers. Evidence from the review indicated:
- 'Choice is also limited by the fact that all the available models [to education customers] are either a perpetual model or a subscription model, in contrast to the greater degree of choice afforded to the private sector, where Enterprise and Open agreements have both subscription and perpetual versions – which gives a customer more opportunity to choose a licensing structure that suits its needs.'*
- Obviously more choice may lead to further confusion, so there are good reasons to attempt to simplify the options available rather than make them more complex – especially if the main existing inflexibilities can be addressed within the simplified structure.'*
- 4.8 Commercial customers therefore have a special version of the subscription licensing available to them which automatically confers the right to

use the software in perpetuity after three annual payments. At that time commercial customers can, if they wish, simply stop making payments and walk away from the agreement – having acquired the rights to a perpetual licence to the most up-to-date version of the relevant software.

- 4.9 Customers who have acquired a perpetual licence may, of course, decide to continue subscribing to the software rental agreement, possibly to preserve their rights to acquire future new releases, but usually at a lower rate. In essence, under the approach available to the commercial sector, the customer is firmly in charge at the end of the initial three-year period.
- 4.10 This is in contrast to the options available to education subscription customers on a ‘pure’ subscription agreement such as the Campus or School Agreement, where at the end of the subscription agreement if they wish to acquire the right to use the software in perpetuity, they will have to make a considerable ‘buy-out’ payment – which could be around three times their annual payment.
- 4.11 Even if commercial customers select a licensing approach that will require a buy-out, they face a buy-out multiple in the region of only 1.5 or 1.75 times their annual subscription. In cash terms, of course, the commercial customer will be likely to face a higher charge, owing to the higher level of the annual payments, but for the education customer to find a sum equivalent to three times its annual licence payment will be no easy task. For many schools, depending on the products licensed, it could be likely to be broadly equivalent to a new teacher’s salary for a year – a not inconsiderable sum.
- 4.12 Even more serious was the finding that under 5% of survey respondents described the exit costs as ‘easily affordable’, and a further 55% indicated either that the payment was unaffordable or that they could afford it only with difficulty.
- 4.13 Evidence from the reviews indicated:  
*‘The e-survey findings suggest that buy-out costs are considered to be prohibitive by a large*

*number of institutions, although it should be noted that the majority did not know whether buy-out costs could be accommodated within the IT budget.’*

- 4.14 Evidence also indicated:

*‘There are no discounts for longer-term agreements or repeated renewals, which creates an incentive for renewing subscription agreements indefinitely. Further, buy-out costs in the education sector appear to be significantly higher than those available in the private sector (under the Enterprise agreement, at least).’*

## **Recommendation 2**

To ensure that educational institutions are not locked in to Microsoft subscription licensing agreements, a significant reduction in the scale of the buyout costs associated with academic subscription licensing agreements should be urgently introduced. Additionally buy-out costs ought to reduce year on year to reflect the length of time that customers have been using a subscription agreement.

## **Basis of pricing**

- 4.15 We identified earlier that there are important differences in the nature of the licensing models available to the education sector compared to those on offer in the wider marketplace.
- 4.16 Within the academic sector, however, the pricing mechanism used to determine the cost of a subscription agreement varies significantly between FE and schools. This was the only area of licensing where we found that a significant difference occurred. In the schools sector, licence costs are based on the number of computers above a minimum specification.
- Microsoft has set the definition of an eligible PC as any computer with a specification of a PII processor or higher (the PII was launched in 1997). The eligible PC definition also includes Apple Macintosh computers (G3 or higher).
- 4.17 Because schools pricing is on the basis of eligible PCs, licensing in that sector exposes schools to ‘Microsoft inflation’, whereby every

additional PC acquired by the school results in an increased subscription payment and adds to the buy-out hurdle. The FE pricing model, in contrast, is based on academic, academic-related, clerical and technical staff numbers.

- 4.18 Overall, the review identified higher levels of satisfaction in relation to the further education sector as opposed to the schools sector. We believe that the basis of the subscription licensing model available in each sector is a likely contributory factor here.
- 4.19 We consider that educational institutions should have the freedom to decide to license software on the basis which best meets their needs – whether on the number of computers, FTE staff or indeed pupils. We note that there is no fundamental difference in how perpetual licences are acquired across the sectors, and we see no reason for requiring a distinction for subscription licensing.

### Recommendation 3

**Schools that wish to do so should have access to a subscription licensing model based on FTE staffing. Ideally, all educational institutions should have the option to license on the basis of the number of staff, computers or students.**

## Scope of licence

- 4.20 In all its subscription models (education and elsewhere), Microsoft requires that if a customer wants a subscription-based licence, they must licence the entire estate above a minimum technical specification. That minimum specification is as has previously been indicated known as the eligible PC.
- 4.21 The review confirms that the 'all or nothing' nature of the subscription licensing model has a number of drawbacks. The evidence base confirms that subscription models license products across an institution, which means that schools cannot avoid paying for licences for software that they do not need to deploy in certain curriculum areas or for certain devices (especially under the School Agreement). This can (and, according to the evidence base, does) result in over-licensing and double licensing with no ability to address the issue within the terms of the agreement itself.

- 4.22 Examining the argument that potential over-licensing or double licensing is reflected in the pricing approach to subscription licensing, the evidence base confirmed:

*'School Agreement FAQs available on the Microsoft website state that pricing for individual products is set based on typical use rates, for example FrontPage is assumed as being used at a lower rate than Office, so the per PC or per FTE price is discounted accordingly. We have not been able to find any further detail on this matter.'*

- 4.23 Evidence suggests that the School Agreement pricing model will yield higher total pricing than the Campus model, so that schools are at an overall cost disadvantage. This is driven by the fact that, although the unit costs of the products in each sector are broadly comparable, the number of computers in a typical school would be significantly higher than the numbers of FTE staff.
- 4.24 Becta takes the view that, where the licensing metric is PC based, it should be for educational institutions themselves to determine the extent of their ICT estate to be covered by a subscription licence.
- 4.25 Pending the introduction of the necessary flexibility, Microsoft should urgently review the definition of the 'eligible PC', which is at the core of the pricing metric for educational subscription agreements. Becta considers that a specification based on the technology of 1997 is not an appropriate base from which to start assessing licensing costs today.

### Recommendation 4

**Microsoft should 'rebase' the eligible PC definition in line with the specification necessary to run the most recent version of the relevant operating system. When educational institutions wish to license on the basis of computer numbers, they should have the freedom to select which computers they license.**



# Perpetual licensing models

5

5.1 For academic institutions Microsoft has four main perpetual licensing models, which are summarised below:

Licensing programme	Scope/purpose	Main licensing features
FPP (full-packaged or off-the-shelf products)	Off-the-shelf products for <i>ad hoc</i> purchases.  Products available under FPP: Office products, non-Office applications, Windows XP and some server products.	Discount available for eligible education institutions and students. Product may be installed on three home devices if the purchaser is a student or teacher.
Student and teacher	Office product for home use.  Products available: Office Standard only.	As above. Discount also extends to parents of students. Product may be installed on three home devices.
Open	Basic volume pricing model, with low entry level (5+ licences and 2+ desktops).  Wide range of products available.	Offers volume pricing, with a simple agreement and additional purchases in the two-year contract period attracting the same volume rates as the original purchase.
Select	Deeper volume discounts.  Threshold: 250 PCs and 1,500 points per pool, so primarily for larger institutions.	Three-year enrolment, with pricing based on a three-year forecast. Volume pricing available where 1,500 points per pool are reached.  Accommodates aggregated buying.

The "points per pool" approach refers to the fact that Microsoft categorise products as belonging to one of three product pools. To qualify for the maximum discount users must meet a minimum number of points in each of the three pools.

5.2 Evidence in relation to the differences between Microsoft's education licensing programmes and those it makes available to other sectors indicated:

*'There are some important education-specific features available – in particular discounted pricing across the board for eligible education customers, some simplified volume licensing options and subscription models that appear to be particularly appropriate for institutions (especially FE colleges) that have both a high level of licensing requirements across the entire institution and also wish to ensure that their software inventory is kept up to date on a short upgrade cycle.'*

5.3 The results of the e-survey suggest that there is a significant level of reliance on FPP purchases particularly in the primary school sector. FPP is the most expensive way for an educational institution to purchase Microsoft software. Typically a product costing £145 under FPP purchasing could be purchased for less than £50 under the Select licensing programme.

5.4 However evidence identified access to Select as itself a significant problem:

*'Select: forecasting and minimum commitment – The three-year contract term and forecasting requirements, in conjunction with the 1,500 points-per-pool threshold, means that careful forecasting is required, especially if licensing requirements are not comfortably above the entry level.'*

5.5 On forecasting in Select, the evidence indicated:

*'The programme is aimed at schools that are able to plan ahead with some degree of certainty or will purchase a quantity of licences that puts them well above the minimum threshold. Schools that downsize their software needs during the term or make other errors in the original estimate (even if this affects one pool only by a small margin) can lose the benefit of the programme and be liable to pay based on Open pricing instead for all ongoing purchases.'*

5.6 Becta takes the view that the barriers to the effective use of Select are an impediment to maximising value for money:

- The thresholds for access to the lowest pricing (250 computers) are likely to be an impediment to many schools' achieving value for money.
- In a context where (for a variety of reasons), Microsoft itself is unable to accurately forecast product releases for three years, it is not very reasonable to expect educational institutions to be able to forecast demand for Microsoft products three years ahead.

### **Recommendation 5**

Microsoft should urgently introduce effective arrangements to give all educational institutions in the UK, regardless of their size, easy access to the pricing for Academic Select licensing. We anticipate that this will go beyond a need to give better advice to the sector and require structural changes to their licensing programmes to ensure wider access.

In the absence of steps to make Select more easily available, we believe Microsoft should move to align Academic FPP and Open pricing much more closely to that which is available under Select.



# Overall value for money

6

## The views of schools and colleges

- 6.1 Analysing the extent to which educational institutions responding to the e-survey considered that they received value for money from their expenditure on Microsoft software, confirmed that across all institutions there was a small (but not statistically significant) balance towards those that said the licences did not represent value for money compared to those that said that they did. However, levels of satisfaction were lowest for secondary schools where 24% said the licences were value for money. Levels of satisfaction were highest for special schools at 67% and for Further Education colleges at 46%.
- 6.2 Institutions responding to the e-survey and indicating that the licences did not offer value for money pointed towards double licensing as one contributing factor. They also referred to the lack of cumulative discounting between licensing models, and to what they perceived to be still considerable costs despite the discounts received by schools compared to commercial prices.
- 6.3 In the case study visits, all but one of the Microsoft-using respondents believed that their licensing agreement offered value for money. However, approximately half of them believed that the agreements were still too expensive.
- 6.4 On the basis of the evidence available to us, Becta has identified a number of developments which we believe would improve the value for money of Microsoft's academic licensing programmes. The key issues are:
- Upgrade cycles
  - Recognising customer commitment
  - Bundling within subscription agreements.

### Upgrade cycles

- 6.5 Microsoft's subscription or software assurance agreements include no contractual commitments to issue upgrades. This risk has been well illustrated by the considerable delays associated with the release of new operating-system products (Vista), which has had a

detrimental impact on the value for money received by schools and colleges. A considerable risk therefore rests with institutions that have invested in such programmes.

### Recommendation 6

Microsoft should improve choice and value for money in its academic subscription and software assurance agreements so that, when there are significant delays in the normal product release cycle, this is reflected in adjustments to the programme via reduced payments or increased value, such as a payment holiday.

A similar approach should apply where technical requirements for new releases mean that customers cannot deploy the product effectively on a significant proportion on their existing infrastructure.

### Recognising customer commitment

- 6.6 Educational institutions (particularly primary schools) use a range of Microsoft licensing models to meet their needs. However, from a discounting perspective each licensing programme acts independently and does not take account of the whole customer spend on Microsoft products. For example, where a school spending considerable sums its subscription licence payments needs to purchase additional products under (say) Select, it receives no recognition of its overall spend with Microsoft. Thus the pricing applied to the additional Select purchase remains the same, regardless of the school's previous spend.

### Recommendation 7

Microsoft should introduce arrangements which recognise the totality of an institution's spend across the various licensing programmes. Microsoft should also give educational institutions access to a comprehensive online tool which will indicate, in respect of a specific licensing requirement, the most cost-effective way to purchase such licences, taking account of all aspects of the costs (including any buy-out).

### **Bundling within subscription agreements**

- 6.7 Where institutions purchasing under a subscription model choose a standard 'platform' (Office Professional, Windows XP upgrade and Core CALs), they are eligible for a discount for the 'platform' products compared to the individual product pricing.
- 6.8 There is potentially an element of over-provision in this approach when the same bundle is defined for an FE college and for a primary school. Microsoft should offer a range of bundles to enable institutions to select that which best meets their needs. This approach would offer improved choice and value for money.

### **The Office component**

- 6.9 We believe Microsoft could improve choice and value for money in subscription licensing by making available a version of the platform bundle which included only Office Standard as opposed to the more comprehensive Office Professional or Office Enterprise 2007 products. Many primary schools, for example, will make little use of Microsoft Access, which is an integral element of the more comprehensive suites.
- 6.10 With the recent release of Office 2007, Microsoft has added further products (such as Groove OneNote and InfoPath) into the platform bundle and increased the price. While some schools will undoubtedly make use of these additional products, many may not. Including products not necessarily required by schools in the discounted 'platform' bundle is diluting value for money.

### **Client access licences**

- 6.11 The inclusion of core CALs in school bundles introduces the possibility of inefficiencies for many schools. A significant element of the core CAL cost derives from CALs for Microsoft Systems Management Server and Microsoft SharePoint Portal Server – products that the e-survey indicates are used in relatively few schools.

### **Recommendation 8**

**Becta recommends that Microsoft improve choice and value for money in subscription licensing by making available versions of the platform bundle tailored to the needs of particular sectors or categories of users.**

### **Promoting alternatives**

- 6.12 Recognising competition and choice as key attributes of improving value for money, the review explored issues related to educational licensing with a range of organisations including Apple, Sun and the open-source community (OSC). Key issues emerging from those discussions were these:
- There was a lack of knowledge and understanding at institution level in relation to software licensing issues, which tend not to represent a high-priority issue for many headteachers.
  - There were perceptions that Government can (albeit unwittingly) be seen to endorse dominant products by using particular default file formats, for example, or through its choice of web browser for its public communications. The OSC in particular was concerned that the effect of this was that 'there appears to be little or no incentive for schools or authorities to change existing practice'.
- 6.13 In relation to the views of the OSC, consultations indicated:
- 'The community recognises that schools are slow to embrace change per se and that to make the necessary step change in thinking and approach will be more involved than simply lowering the costs of software licences. There is a need, indeed a requirement, for a paradigm shift in thinking and approach that is not happening, but that needs to be encouraged from the highest levels.'*
- One challenge is for senior staff to understand open source and the benefits that can be achieved by adopting open-source products. This implies a need for further effective and targeted training and also information on the total cost of ownership of software products over the lifetime of those products.

The OSC would like to see Becta and government organisations to be proactively promoting choice by adopting open-source standards and developing minimum standards for all education software.'

- 6.14 As part of its consultation on this interim report, Becta will discuss with key stakeholders the practical steps it could take to facilitate wider competition and choice in relation to software licensing in schools.

### **Advice to schools**

- 6.15 We made clear at the start of this interim report that we are not suggesting that institutions should choose Microsoft products in preference to products from other suppliers or those available free of charge such as open-source products.
- 6.16 The intention of this report is to ensure that, when institutions choose Microsoft products, the licensing options available to them provide the best possible value for money and do not result in supplier lock-in.
- 6.17 If an educational institution has reviewed its options and decided to purchase Microsoft products, we provide interim advice in relation to subscription agreements and perpetual licences. Our final report will contain our conclusive recommendations on all the issues outlined in this interim report.

#### **Subscription agreements**

- 6.18 Becta's advice to institutions that are not currently using a Microsoft subscription licensing agreement is that they should consider carefully whether, in the absence of the changes Becta is recommending, they should enter into such agreements.

#### **Perpetual licences**

- 6.19 If possible, institutions which are considering the purchase of additional Microsoft perpetual licences, and which do not have easy access to Select pricing, should await the outcome of Becta's final report on Microsoft's academic licensing programmes before making a final decision on the purchase of additional licences.

# Next steps

- 7.1 Following publication of this interim report on Microsoft's academic licensing, Becta intends to hold further consultations on the key recommendations. These arrangements will build on discussions held during the review, and will involve the establishment of a consultative panel of key users.
- 7.2 We plan to hold further discussions with relevant industry stakeholders, including companies and organisations that offer competing products including free-to-use products. A key focus of those discussions will be to identify any further steps to facilitate greater choice for schools and colleges that Becta should consider.
- 7.3 In our final report, for each of our recommendations we shall set out details of the progress that has been made in addressing the concerns identified. We shall also give an overall assessment of whether, in our judgement, issues of potential lock-in have been adequately addressed, and the extent to which value for money has improved.
- 7.4 We also intend to discuss our final recommendations and overall assessment with the Office of Government Commerce and the Office of Fair Trading.
- 7.5 We anticipate publication of our final report by BETT 2008.



Millburn Hill Road  
Science Park  
Coventry CV4 7JJ

**Tel: 024 7641 6994**

**Fax: 024 7641 1418**

**Email: [becta@becta.org.uk](mailto:becta@becta.org.uk)**

**URL: <http://www.becta.org.uk>**

© Copyright Becta 2007

You may reproduce this material free of charge in any format or medium without specific permission, provided you are not reproducing it for profit, or for material or financial gain.

You must reproduce the material accurately and not use it in a misleading context. If you are republishing the material or issuing it to others, you must acknowledge its source, copyright status and date of publication.

While great care has been taken to ensure that the information in this publication is accurate at the time of publication, we accept no responsibility for any errors or omissions. Where a specific product is referred to in this publication, no recommendation or endorsement of that product by Becta is intended, nor should it be inferred.

01/DD06-07/118/RF/25