USU



White Paper

Microsoft Audit Playbook

Tips and tools for Microsoft's "friendly" audits

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Introduction

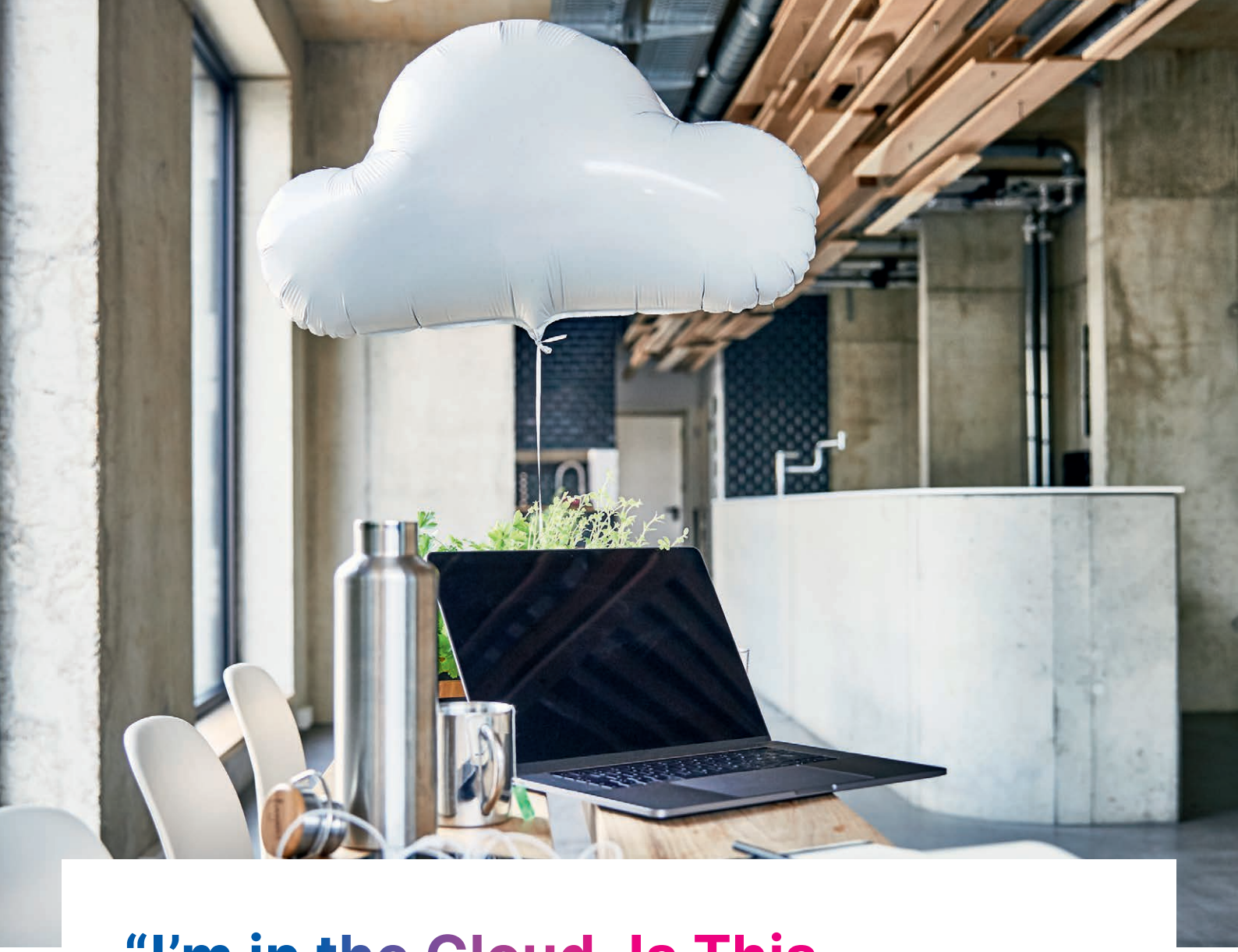
When Friendly is Frenemy

Microsoft's audit strategy is avoiding the software audit. Instead it prefers to request a "friendly" review with its customers to check license requirements and compliance.

A review (also called a "soft license audit") is more flexible and less rigorous, usually ending in a true-up or an offer on new cloud solutions. Microsoft also has "hard" audits with specific and stricter requirements, harder deadlines, stern auditors, and potential fines, but such audits are less frequent. The goals of both remain the same: to verify license compliance, collect licenses fees, and upsell on existing products.

You can even say no to the review, but that only increases your chance of a tougher audit, with its months of pain and almost inevitable unhappy ending. So, you agree. They check your MLS report, compare it to your current license usage, and offer to close gaps with a juicy deal on cloud subscriptions that lock you in for a few years.

So, no matter how informal it feels, it's crucial to treat the "friendly" review as an audit. This playbook will help you prepare for it. We'll show you the big hazards in your Microsoft landscape, both onpremises and in the cloud, and how to negotiate a better deal after the review. Your soft audit with Microsoft can be an opportunity to find cost savings, prepare your cloud migration strategy, and make your relationship with Microsoft a bit friendlier.



“I’m in the Cloud. Is This Playbook for Me?”

You might be thinking, “Wait there, SAM Smarty Pants! I’m in the cloud. I get my usage reports and pay my subscriptions, so bring on the review: I’m compliant and everything is fine.”

Is it really fine? If you’re in the cloud, you’re getting reviewed, not audited, but the result is the same: Microsoft wants to collect license fees, even if it risks selling you more than you need. In which case, you’re leaving money on the table. So, you should read on.

If you’re migrating to the cloud, then you have a foot in the cloud and on-premises, in which case there are some big potential compliance risks that could cost you in a review. So, this eBook is also for you.

Like an audit, Microsoft uses the review as a revenue generator. Not only for license fees, but also driving sales for cloud offerings like Office 365 and Azure, which means long-term revenue for Microsoft from cloud subscriptions and contract renewals. They will offer you a deal, and this eBook will show you how to decide if it’s good for you or if it’s a trap.

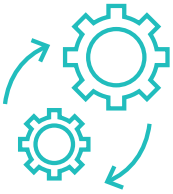
Power to the People, Processes & Technology!

To respond effectively to an audit or review, you need the three pillars of audit defense in your company to meet your obligations and gather the needed data.



People

Gather a team and delegate roles. You'll need people from IT, procurement, and the legal department. You'll need someone for project management, who will be the point of contact with Microsoft or the 3rd party auditor. Even if it's just a "friendly" review, call up this team.



Processes

With the team, develop process and policy documents for your company's audit defense, like who does what, who notifies whom, and the first steps. Our Audit Defense white paper includes details on establishing these policies.



Technology

Use your own discovery tools – and a Software Asset Management tool as well. If you want the whole story on your compliance position, then you'll need more detailed data than what Microsoft's scripts will give to you. Discovery tools cover the whole range and complexity of your environment.

Don't count on Microsoft to get your audit data correct for you. Inconsistencies will come up, even during a "friendly" review. You will need a more detailed set of data to compare their results and refute any errors that could cost your company dearly.

Why bother?

Being prepared may save you time and help you gain your auditors' trust. Providing concrete answers saves both parties a lot of time and effort. It's possible the auditor might take your word if you can explain how you manage user/device access (like active directory groups). They might look elsewhere, for someone else whose Microsoft estate isn't as well controlled.



Takeaway:

Start this process now: Get an MLS report from a Microsoft Partner while you're not being audited. Find out if there's any missing licenses or entitlements so you can hunt them down. Then, try out your people and processes with a practice audit to test your readiness.



What's Missing From Your MLS

The Microsoft License Statement is the basis of the audit or review. It's a record of all your license purchases. Microsoft will use it to compare your purchases to your usage.

And, guess what! It's not accurate! It's supposedly a record of all your license purchases, but critical information is often missing. For starters, it takes 60 days after a license purchase for it to appear on your MLS. Base licenses go missing during organizational changes, like a company name change, and ISV licenses aren't counted. Neither are Full Packaged Product and Original Equipment Manager licenses. Local grants, special offers, and promotions aren't in the MLS either.

In an audit, a 3rd party auditor won't look for your missing entitlements to help you save money. They will assume non-compliance and charge you the fees. Don't count on wiggle room from Microsoft during a review – you will need to prove the MLS is incorrect, and your word won't cut it.

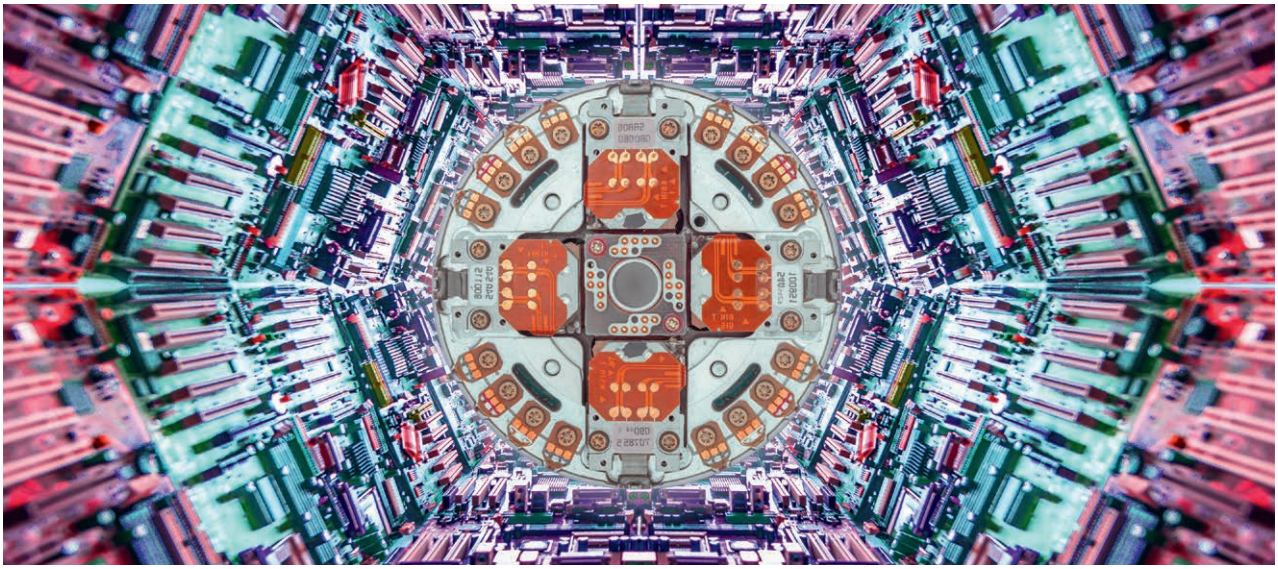
Takeaway:

Keep documentation for every purchase and special offer.

- ISV licenses are missing? That could happen for a few reasons, for example your phone system could have SQL that's licensed by a 3rd party. Keep those documents.
- Upgraded your licenses? Keep documents for the base licenses that were upgraded.
- Got a special deal or entitlement? Store those records too!

Become a documentation pack rat. Keep everything, and don't count on Microsoft to tell you that you should be paying less – even in a "friendly" review.

How to Survive Server-Land



Windows servers

We could've written another eBook about Microsoft Windows servers, but you're here to learn about audits, not to get a headache. Microsoft Windows server licensing can be complicated, but here's the short version:

You need licenses for servers (a server license) and you need client access licenses (CALs) for users and devices accessing the software used on those servers. Depending on the version and edition used, Windows Server licensing might come in different licensing models: Server + CAL, Processor + CAL or Core + CAL.

It's simple, but you can see where the simplicity can end as different license types and demands intersect with layers of servers and the applications installed atop of them.

Despite all the hype for the cloud, SQL and Windows Servers still are the big money makers, so Microsoft will look there first for non-compliance in a review. It's the perfect place to collect more license fees and upsell to the cloud: "Wow, on-premises is tough. Have you considered any of our wonderfully simple cloud platforms?"

Underlying technology: CALs



BI Application
(user license required)

SQL Server
(SQL license required)

Windows Server
(CAL required)

Don’t Get Screwed by Your SQLS

SQLs are your little database friends that sit on your servers, storing and retrieving troves of crucial data. They’re also a land mine that Microsoft customers often step on during an audit. The license rules can be difficult to understand, and virtualization creates all sorts of issues during an audit or “friendly” review. Let’s look at a few ways to avoid those SQL land mines.

Limit your editions

There are a dizzying variety of SQL editions, so you’re going to need to calculate your SQL needs accurately if you want to pay a fair price to Microsoft. You need to gather raw inventory data to deliver the correct edition of all your SQL servers.

That takes some IT detective work. An example:

Add-remove programs don’t contain the installed SQL edition. Proper discovery tools will get that done, though. When you find those editions, you can optimize them!



Takeaway:

If you’ve assembled your audit defense team, then align your SQL server calculation from the technology side with your purchased SQL servers from Procurement. The difference between the two will mean you either must buy more licenses to make up the shortfall, or there’s a surplus that you can use instead of buying new licenses.

Through hell and hybrid – server mobility

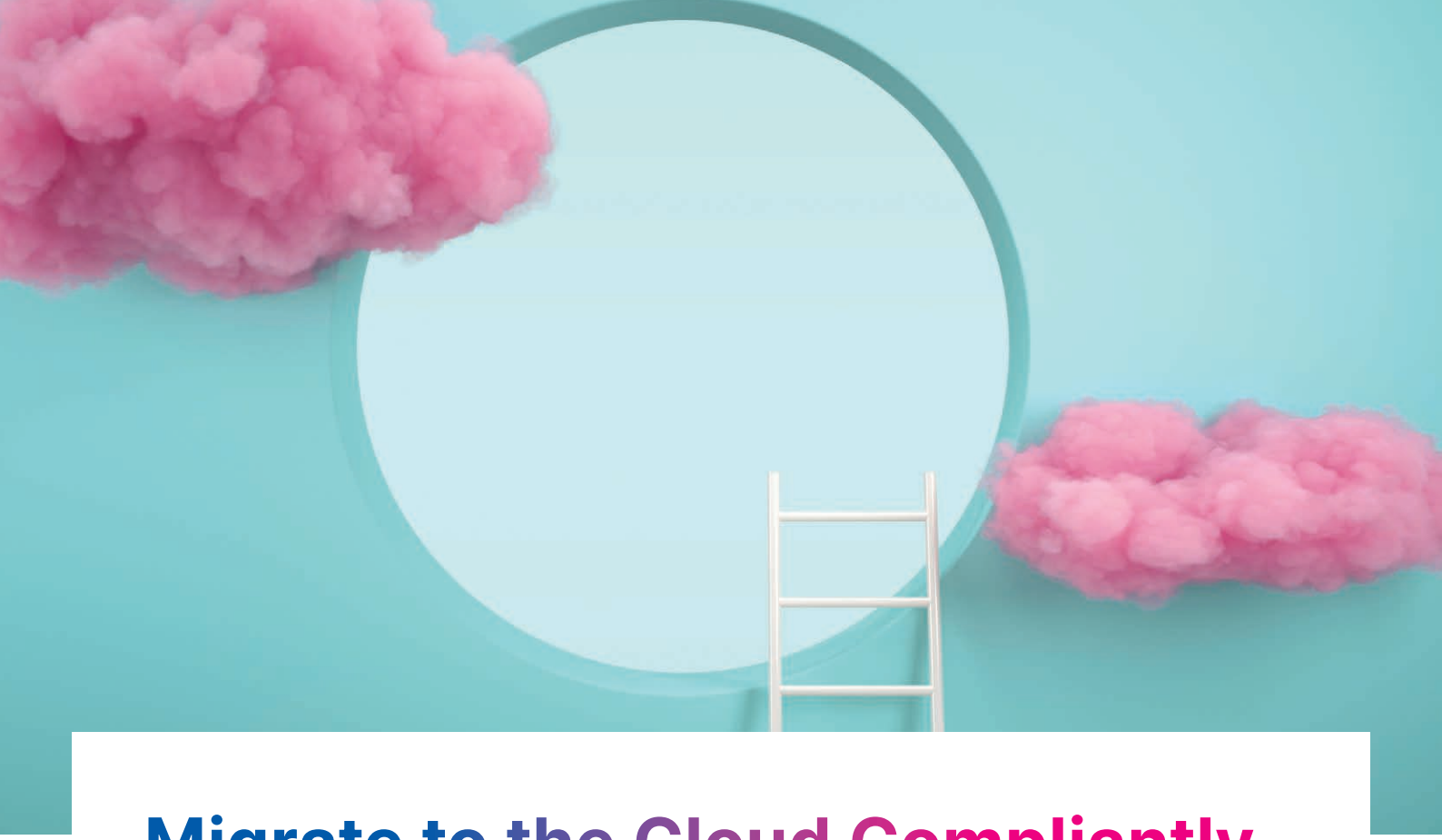
Let’s say you have two physical servers and some virtual SQL machines resting on one of those servers. Then the SQLs jump to the other server for load balancing. That new server must be licensed as well, before Microsoft looks at your usage in a “friendly” review and says, “Hey, you owe us for parking those VMs there!” Microsoft will tell you to license every server those SQL virtual machines could land on, because in an audit or review, its logic works on worst-case scenarios. Microsoft also favors solutions that allow it to collect more license fees (big surprise!). But you have some affordable options.



Takeaway:

Buy licenses with Software Assurance, so when an SQL virtual machine jumps onto another server, it brings the license along for the ride. It’s licensed no matter what server it sits on. Alternatively, you can license each host for maximum expected capacity, so it is always ready to accept all SQL VMs that might park there.

For very dense virtual environments, consider fully covering physical servers with SQL Enterprise + active Software Assurance licenses, which will grant unlimited virtualization rights.



Migrate to the Cloud Compliantly

If you thought Server-land and SQLs were a headache, adding cloud options to your IT estate will feel like a gaping head wound during a "friendly" review. As things bounce between on-premises and the cloud, the risk of non-compliance increases. As your company works more in the cloud, costs can rise without your knowledge. Yet, there's no place to hide. Hybrid is new norm. Here's how to handle it in your next review.

A pain in the Azure?

Microsoft's cloud platform is a useful tool for running virtual machines, applications, and test systems. Microsoft tempts you to move your stuff to Azure with helpful incentives. This is good, until you overstep those incentives.

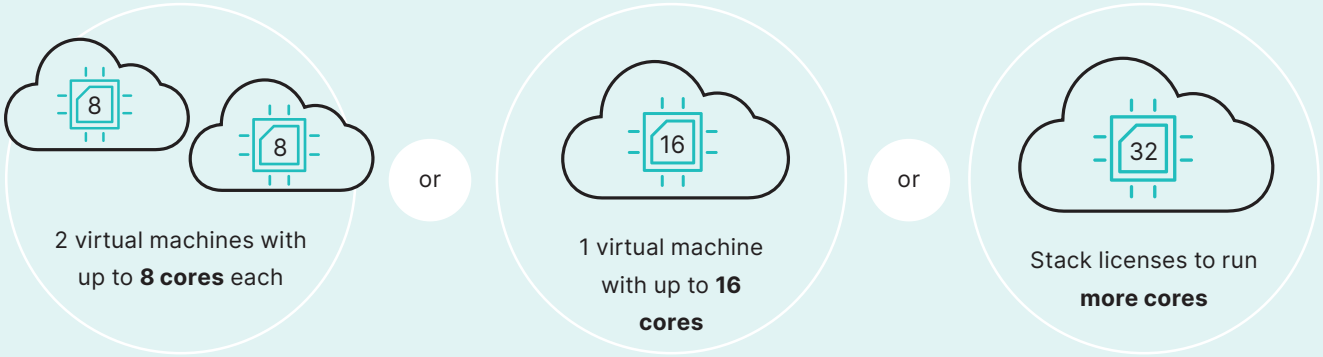
Hybrid Use Rights, which go under a few similar names, let your Windows Servers and SQL servers move into the Azure cloud with no additional licenses. So, you're saving a lot of money. But! There are conditions. Before we get into that, let's briefly go over Windows Server licensing basics for on-premises scenarios:

- A minimum of 16 core licenses is required for each physical server.
- A minimum of 8 core licenses is required for each physical processor.
- When all the physical cores in the server are licensed, the Standard Edition provides rights for up to two Operating System Environments (OSE).
- For each additional virtual machine, all the physical cores on the server must be licensed again, and you stack the licenses as needed.
- A Datacenter Edition includes rights to use unlimited number of OSEs on the licensed server.

Now take those servers into the cloud!

If you have Windows Server licenses with active Software Assurance, then you can profit from Azure Hybrid Benefit rights. You don't need to submit any forms to Microsoft partners stating your eligibility for those rights, just tick a box in Microsoft Azure admin console "Azure Hybrid Benefit" and boot up the new instance in seconds. Remember – here's one of those conditions – a set of 16 core Windows Server licenses with active Software Assurance allows two virtual machines (VM) with eight cores each or one VM with 16 cores in Azure Cloud or you can stack licenses to run more cores in Azure.

A 16-core license set with Software Assurance allows:



2 virtual machines with up to **8 cores** each

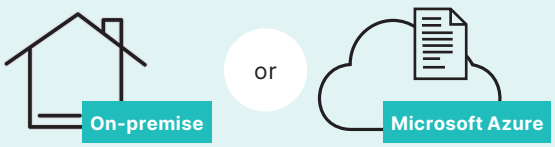
1 virtual machine with up to **16 cores**

Stack licenses to run **more cores**

Different versions, different rights

When migrating with Windows Servers, standard "Alternative Rights" apply, meaning that you either use it on-premises or in Azure cloud. If you have licenses for Datacenter with Software – you are granted "Additive Rights" for use in Azure, meaning you get to use it on-premises and in Azure cloud. Once again, with if you have 16 core Windows Server licenses with active Software Assurance, then you'd get up to two VMs in Azure cloud.

"Alternative Rights" Use



Windows Server 2019 **Standard** with Software Assurance

"Additive Rights" Use



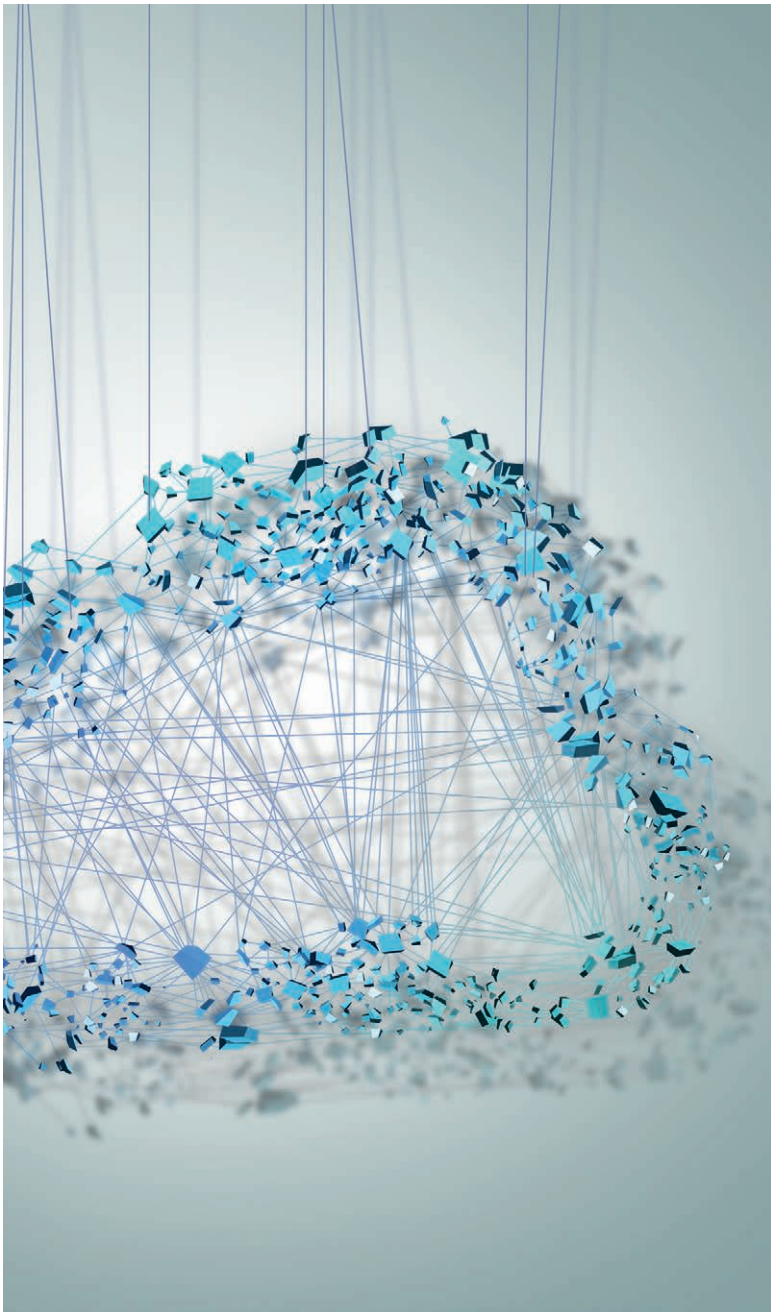
Windows Server 2019 **Datacenter** with Software Assurance

Note: There are no unlimited virtualization rights in the Cloud

FYI on SQLs

SQL Servers only get “Alternative Rights,” so they’re either on-premises or on the Azure platform. But you get a 180-day “Dual Use Window” while migrating workloads to Microsoft Azure when they can be in both environments.

If you’re allocating SQL Server Licenses for use with SQL Server virtual machines under the Azure Hybrid Benefit, you can also run passive failover instances on Microsoft Azure in anticipation of a failover event. But the number of licenses that would be required for those passive failover instances must not exceed the number of licenses required to run the corresponding SQL Server Virtual Machine under the Azure Hybrid Benefit.



Takeaway:

Azure is a great business tool, and you can get a lot of additional Windows Server VMs for free. Plus, it’s easy to start migrating to the cloud. But, with freedom comes responsibility. Hybrid Use Rights are only applicable for Windows Server and SQL Server.

You can activate Microsoft Azure Hybrid Benefit for as many instances as you are entitled to, just keep track and compare on-premises and in cloud usage against your entitlement. For that, you need processes and tools in place. Otherwise you’ll find out about uncounted Azure instances during a “friendly” review, which will require a true-up that won’t feel so friendly.

Who's out of Office 365

Not monitoring your Office 365 estate means you might be leaving money on the table with Microsoft. Pricey subscriptions with lots of features will be, almost inevitably, underused, and duplicate or redundant licenses will hide in your O365 estate.

How do you get some of that money back? Start with looking at actual usage. Those licenses you bought and allocated earlier might not be needed, so adjust or downgrade them to smaller, more affordable licenses. That could save thousands in an enterprise-sized organization, and it might impress your bosses too.

You might say it's pointless because your organization is locked in an Enterprise agreement for another year, an agreement that requires your organization to use a higher Office 365 edition than is needed. In that case, you can start preparing for the upcoming renewal negotiation far in advance. Analyze usage based on specific departments/business roles and applications used. Sometimes the cheapest way to license is not buying the whole bundle at a discounted rate but acquiring only single components for departments that perform limited tasks.

Next, look out for duplicates when employees move within your company and unused licenses when growth projections don't live up to their expectations. But don't stop there.



Takeaway:

Automate your processes. By automatically retiring and reassigning Joiner, Mover, and Leaver accounts, you cut down on unproductive costs and makes the SAM department's job easier. When Microsoft requests a review of your O365, you will have everything under your threshold and won't have to buy additional subscriptions. This is the part where we tell you that we have a great solution, USU Software Asset Management, which provides a complete overview of your most important SaaS vendors – including Office 365, so you can quickly optimize your environment and control costs.

Audits in the Cloud

While the cloud might be new territory for your Software Asset Management program, it has been thoroughly mapped by vendors. The "friendly" reviews fit into Microsoft's strategy. While pushing its cloud solutions, Microsoft uses the review as a less rigorous check on cloud licenses and to sell more subscriptions. The "friendly" reviews also keep customers in the Microsoft eco-system – who can say no to a friend?

Although audits won't be a big challenge in the cloud, controlling your cloud costs will be. A SAM program can avoid duplicate licensing and keep track of all your licensing and subscription entitlements, so you don't blow your IT budget on Office 365 subscriptions and Azure licenses. The challenge in hybrid environments will be to avoid buying license for on-premises and in the cloud. Know which licenses work where, and whether your existing on-premises licenses give you rights in the cloud or vice-versa. While the future might be in the cloud, the present is in hybrid environments.



Takeaway:

Embrace the cloud! Include it in your SAM strategy, and make sure your SAM tool can cover both on-premises and the cloud. This gives you the insight you need to make smarter strategic decisions about your Microsoft estate. It will reveal cost-saving opportunities and prepare you for your next round of negotiations, which leads to cost-effective purchasing. Keep the focus on your bottom line, not Microsoft's.

Negotiate Your Dream Deal

Setting the bill

Even a "friendly" review can end up costing your organization in new licenses and fees if you're not compliant, and of course, an audit could break the bank. And while Microsoft might offer you a seemingly sweet deal to make up for your license shortage, if you don't know your environment and your license demand, that deal could trap you into years of wasted licenses and unused capacity.

This is why SAM processes are so crucial for audit defense:

- If you document your entitlements, you can refute maudit inaccuracies.
- If you track your license purchases and usage, you can avoid non-compliance fees or additional licenses.
- If you forecast future needs with the detailed data and strategic business knowledge, you can buy only the licenses you'll use and only the capacity you'll need.

With these processes, you can confidently negotiate your dream deal with Microsoft.

Understanding Microsoft's Position

Microsoft isn't a charity. They're in it to win it. And winning in the Software Vendor Game requires getting customers into cloud solutions for the long term – doing so in a way that no one feels ripped off. That generous offer to cover your license shortfall seems friendly, but it's a savvy business move.

Products are increasingly bundled into a big plan, so Microsoft might offer a massive package with a great discount. You might buy it. But when it's time to renew, the discount will be gone, leaving you to pay full-price for services and entitlements you don't use. This is the game. It's how all software vendors play to stay profitable and competitive. So, as they say on the streets, "Hate the game, not the player."



Takeaway:

Work with your CIO and Procurement – who should also be on your audit defense dream team – to understand the company's IT strategy. Align your priorities, dispassionately evaluate your relationship with Microsoft, and negotiate accordingly.

Set out your position

If Microsoft offers you a juicy deal that doesn't meet your needs or align with your IT strategy, just say no. Don't let Microsoft set the terms of your IT future. Talk to them. Let them know about your IT strategy. Microsoft wants to close the deal, so they will work with you to get you to buy.

If you're using a SAM tool, you can simulate proposed contracts and their effects on your IT environment. You can also check other channels and get Licensing Solution Partners to compete against each other as well. If you must buy something from Microsoft, get something you need. Don't jump at every discount, because you'll end up paying for it in the long-run.

You and Microsoft are in business together, and an audit or a "friendly" review is an opportunity to re-balance your business relationship. Developing an effective audit defense, implementing processes like server monitoring, and documenting your entitlements keep you poised for the right opportunity. Microsoft values customer satisfaction, which is another reason why it isn't an aggressive auditor. If you're clear about your needs and communicate your strategy, you and Microsoft might find a solution that works for everyone.

Conclusion

Use SAM to Make Friends

Microsoft will increasingly rely on the “friendly” review to check its customers’ compliance, but as we’ve demonstrated in this playbook, the review is as friendly as an audit and chases the same goal: Increasing the license fees it collects from you.

The top 4 strategies you can do are:

01 | Document all your licenses and entitlements

02 | Track your on-premises and cloud installations

03 | Understand your entitlements

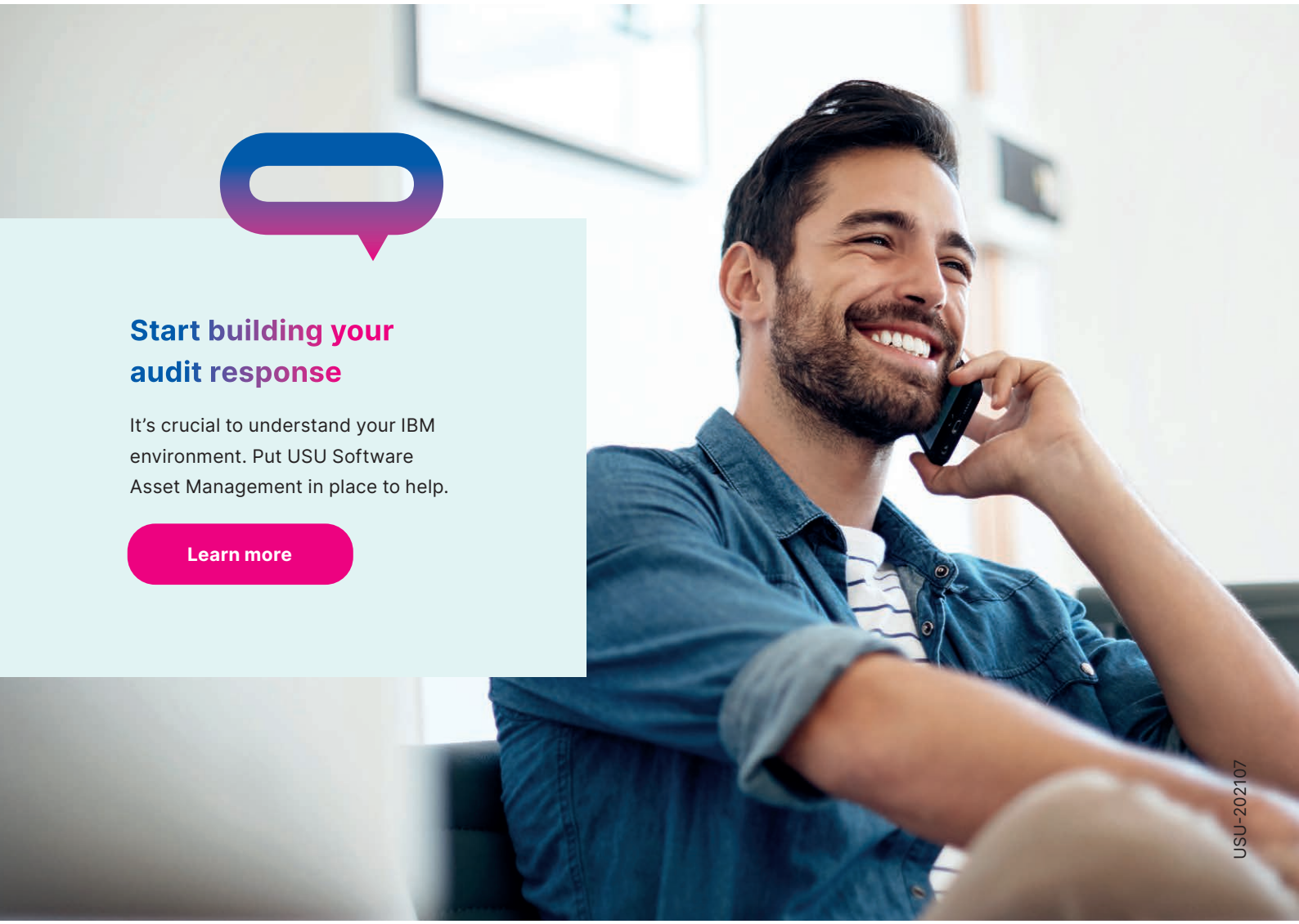
04 | Develop a cloud strategy

In a pinch, you might be able to do it all on your own using a spreadsheet, but it’s not recommended. Our USU Software Asset Management solution can help you bring multiple data streams together, like commercial (purchase information) and technical data (active directory and software inventory) to reveal your Effective License Position. It also builds product history to track license upgrades and produces compliance reports to show where you stand now.

With these insights, you can optimize your licensing estate. Having clear SAM processes and tools will make your business relationship with Microsoft fairer and perhaps far friendlier than any “friendly” review could on its own.

About USU

USU is a leading global provider of intelligent software and service solutions for IT service management. With our solutions, companies digitize and automate processes for planning, implementing and operating IT and business services. Both internal IT organizations and service providers operating in the external market increase their efficiency, reduce their costs and increase the satisfaction of their users and customers. With more than 40 years of experience and locations worldwide, we can help you successfully move into the future.



Start building your audit response

It's crucial to understand your IBM environment. Put USU Software Asset Management in place to help.

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