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## Soft-Aid E-Newsletter for End-User Businesses

**Helping Assess the Business Issues of Software Compliance, License Evaluation and Best Usage**

**April 2004**

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In this issue

- More on Microsoft Service Provider Licensing Agreements (SPLA) for Application Service Providers (ASPs)
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Dear David,

Welcome to the third issue of Soft-Aid's E- Newsletter designed to help end-user businesses address the business issues of software license compliance, evaluation, and best usage.

This issue focuses on rental licensing from Microsoft. Microsoft more aptly refers to this as their Service Provider Licensing Agreement Program (SPLA).

More on Microsoft Service Provider Licensing Agreements (SPLA) for Application Service Providers (ASPs)

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### **INTRODUCTION**

In the late 1990's, as remote application hosting became more prevalent and third-party data centers opened their doors at a rapid rate, software vendors like **Microsoft took notice of its affect on software licensing.**

## BY WAY OF BACKGROUND

Heretofore, applications were typically used by a defined set of in-house users. Hosted applications, on the other hand, are typically used by limitless remote anonymous users. An example would be a web site like yahoo.com that runs on a web server with traffic from unknown visitors throughout the world.

**Microsoft's standard licensing models up until then were based on the concept of "perpetual licensing."** In Microsoft's own words, "A perpetual license allows a customer to use the software product perpetually, subject to the terms of an End- User License Agreement. A non-perpetual license is one in which the customer pays for the right to use the license only for a specified period of time, after which time the customer would need to pay for a new license in order to continue to use the software product. A monthly subscription model is an example of a non- perpetual license, in which the customer pays each month for the right to use the software product." SPLA licensing is non-perpetual.

**Perpetual pricing no longer fit the managed services hosting market with their many unknown, varying, and changing users.** For example, it is nearly impossible to buy enough Client Access Licenses (CALs) for a Microsoft SQL Server application that is on the Internet. Likewise, the standard unlimited user option, a per-processor license, requires huge initial outlays of funds for usage that may be short-lived.

## MICROSOFT'S "SOLUTION"

So, now **Microsoft requires "Application Service Providers" to license software under their "Service Provider Licensing Program,"** which was introduced in August 2000 and revised in November 2001. Microsoft defines an "'Application Service Provider' or ASP as an individual or entity that provides, delivers, hosts and/or manages software applications and software application-based services from one or more centrally located facilities to customers through the Internet or a private network on a rental or subscription basis. Some examples of software services providers include Web hosters, application services providers, messaging and/or collaboration services providers, platform infrastructure providers, streaming media service providers and ISVs with hosted applications running on Microsoft technologies."

**There is one major caveat to the above requirement: if the customer of the ASP owns the requisite perpetual licenses (including CALs), then the ASP is released from having to purchase the licenses under the SPLA program.** But details matter: for instance, Microsoft requires the ASP to submit "Hosting License Verification" forms to prove this. And shared servers hosted for several ASP customers have special treatment. We cannot possibly delineate all of the permutations here, so please contact Soft-Aid for more information.

## WEB LINKS

The main web site for information on this program can be found at [www.microsoft.com/serviceproviders](http://www.microsoft.com/serviceproviders)

Service Provider Program Rights (SPUR) can be found at [www.microsoft.com/serviceproviders/licensing/understandingspla.asp](http://www.microsoft.com/serviceproviders/licensing/understandingspla.asp)

SPLA Program FAQ: [www.microsoft.com/serviceproviders/licensing/splafaq.asp](http://www.microsoft.com/serviceproviders/licensing/splafaq.asp)

Program document downloads for Microsoft Certified Partners (which is a base requirement under this program) can be found at

<http://members.microsoft.com/certpartner/licensing/programs/applicationservices/default.aspx>

**FURTHER DETAILS**

Products available to license via the Services Provider License Agreement (SPLA) are **priced on a monthly basis. The primary idea is that you pay a monthly fee based on subscriber or unlimited usage.** The correct terminology is Subscriber Access License (SAL), which is "required for each unique individual who is authorized to use the software in any given month," and like a per-user CAL, "allows that individual to access any number of servers from any number of devices." Or a Processor License (PL or CPU) allows "an unlimited number of end users to use the software running on a single CPU for each CPU license acquired." The Per CPU model is generally easier to monitor and count.

ASPs are required to submit their monthly usage figures via an on-line Microsoft tool called MOET. The reporting requirements are involved but not complex.

Microsoft claims that SPLA pricing is consistent with the perpetual pricing "for corporate users who license the software themselves and have it run by hosting firms." This is not always true. **Sometimes, SPLA pricing is more advantageous and other times, it is not.**

The correct answer is that it depends on the circumstances. The questions to consider include:

- Do you expect your ASP customer to be with you for more than 24 months (see below)?
- Do the same exact users (i.e. subscribers) from your customer log in every month or do they change?
- Does their number of subscribers fluctuate every month?
- Can the users be easily identified or are they "anonymous"?

**A good rule of thumb is that total monthly SPLA payments (for a consistent and defined set of subscribers) will surpass the cost of a perpetual license (including Software Assurance) in 24 to 32 months.**

**CONCLUSIONS**

**To make effective use of SPLA licensing requires due diligence and extensive planning. Decisions like whether to require a customer to provide their own licenses or fall under the SPLA licensing program should be made in advance of executing a hosting contract.** This crucial decision will impact your administrative hosting duties including billing: if you choose the SPLA program, you will have a variable expense that may not fit with standard pricing models.

**Finally, it is absolutely imperative that an ASP's Hosting contracts clearly delineate which party is responsible for purchasing the licenses, maintenance fees, and upgrades for operating systems, applications, databases, and the general category of "other software."** You will want to require your customer to provide proof of ownership in addition to completing and submitting Microsoft's Hosting Verification forms (see above).

Although this is the third E-Newsletter devoted to Microsoft program topics, we must emphasize that we are independent consultants. Microsoft licensing is of obvious concern to many of our clients, which explains this initial focus.

**For More Information**

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Soft-Aid specializes in the specific licensing requirements of data centers and would be happy to assist you with any of these matters.

For more information on Microsoft Service Provider Licensing, please contact us at info@aid.com or via our [on-line form submission tool](#). Our Soft-Aid licensing consultants would be happy to schedule a conference call with you to discuss licensing issues.

Please also take time to review our web site, www.aid.com

Please note: We are independent consultants and not formerly affiliated with any software vendor.

Past and Future Issues

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Next Soft-Aid E-Newsletter on Business Issues of Software License Compliance, Evaluation & Best Usage:

Streamlining software procurement and going-forward software asset management (SAM)

**To read past issues, go to <http://www.aid.com/enewsletters/>**

**We Welcome Your Input**

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Please send along your thoughts and comments on our e-newsletters.

We welcome your input.

Call us: 617-848-5800

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What Our Lawyers Made Us Say

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