Microsoft

New commerce experience purchasing guidance

Frequently asked questions for field

Last updated 20 April 2021

Contents

New commerce experience

What is Microsoft's new commerce commitment to its customers?
The Microsoft new commerce experience creates a consistent and simplified purchase experience for customers, with greater flexibility in how and where they buy. It will deliver on the following customer promises:

- Faster time to value with solutions from Microsoft and its partners.
- Increased flexibility without comprising control.
- Optimized costs and increased price predictability.
- Built on a foundation of trust and security.

Do partners play a role in the new commerce experience?
Yes. Partners will continue to play a critical role in the customer's journey, regardless of the purchasing motion the customer decides to use to transact Microsoft offers. The commerce experience enables partners to participate through purchasing motions for larger enterprise customers as well as small and medium companies, and it expands partner participation with additional opportunities to drive customer success. Partners can reach more customers by building and growing broader and more sustainable business while reducing licensing complexity and costs.

How will Microsoft bring the new commerce experience to its customers?
Microsoft understands that customers have a choice in how and where they buy. We will bring the new commerce experience to our customers by:

1. Creating clarity around our primary purchasing motions, aligned to customers' needs and goals.
2. Creating opportunities for partners in every purchasing motion to help customers maximize the value from their technology investments.
3. Putting customer needs first, ensuring customers have the best purchasing experience and outcomes.

Customer choice

Why is Microsoft deploying these revised purchasing motions and have they always been in place?
We've always had distinct customer purchasing motions based on unique factors and different customer requirements aligned with enterprise (or large accounts), breadth (or small and medium sized accounts and small corporate accounts), and customers who choose to self-serve. While we provide guidance to align the Enterprise Agreement and the Cloud Solution Provider programs to the distinct customer needs and expectations fulfilled within each purchasing motion, it's important to note that ultimately customer needs and choice should determine the purchasing motion used. In many cases, partners and sellers co-sell together to drive customer success.

How does Microsoft define the three purchasing motions?
Microsoft's definition of each of the three purchasing motions is rooted in customer choice. Identifying customer needs and business requirements allows us to optimize their purchasing experience and we are committed to assisting customers with those needs.

- If a customer chooses to negotiate* and contract with Microsoft, we will engage to provide services and support, and create a bridge to partner services as customers require.
  *Price negotiation is only available in Direct EA markets
- If a customer wants to engage through a partner due to the services the partner can provide, we will refer them to qualified partners that can best fulfill their needs.
- If a customer wants to buy Microsoft or third-party offers through our marketplaces, we will assist the customer in finding the right solution and create a bridge to partner services the customer requires.

When is Microsoft moving towards these revised purchasing motions?
We are actively communicating the customer cloud purchasing guidance now. In calendar year 2022, new commerce-specific partner incentives and wholesale pricing changes that optimize economics in the breadth motion will take effect.

Is Microsoft forcing customers into these purchasing motions?
No. Customers of any size have a choice of who they engage to provide technology services. There are differences between the purchasing motions, and those differences are generally suited to distinct customer scenarios (with certain exceptions such as minimum EA requirements).

Should partners only focus on the breadth motion?
The breadth motion is optimized for customers who are small-to-mid-size organizations, and those typically do not require unique contractual requirements beyond price negotiation. The breadth space is where most Microsoft customers reside. They are serviced primarily by partners in the Cloud Solution Provider program, which is the best possible licensing construct due to its consistency and scale. When customers are engaged in the breadth purchasing motion, partners manage the end-to-end customer relationship from contracting, end-user support to service delivery, and continue to have full discretion over pricing.

And what about the self-service purchasing motion? Is there a role for partners here, too?
Yes. Although the self-service motion is designed for customers who prefer to make purchases online via the web portal or with assistance from a Microsoft seller, these customers may also require services from a

partner on specific workloads or other web advisory services and will be instructed on how to engage with a partner.

Will Microsoft train its field and partner sellers on following the same guidance?
Yes. We are landing this same guidance with Microsoft sales teams, and aligning internal policies (e.g., establishing minimum deal sizes before discounting and other concessions can be used), processes, and practices to reinforce the recommended guidance. This will also carry over into the enterprise motion and new commerce, in a policy-backed future state.

New commerce experience partner economics (from calendar year 2022)

How do the three purchasing motions (enterprise, breadth, and self-service) impact partner economics?
Today we are not making changes to the existing Enterprise Agreement and Cloud Solution Provider program's partner incentive structures. However, over time, Microsoft will implement changes in the Cloud Solution Provider program and the enterprise purchasing motion to achieve clarity and align how we reward and pay partners and Microsoft sellers.

In the future, we will align wholesale pricing and incentives to the way we will sell our Azure and seat-based online services in the new commerce experience. In new commerce, in the absence of an expressed customer preference, we want our partners and sellers to recognize the breadth motion for deals below 2,400 seat-based online service offers and for Azure deals below US$1 million annual consumption, and the enterprise motion for deals above. If concessions are needed to meet customer requirements, we will do that through the enterprise motion.

Is there a role for partners in the enterprise purchasing motion and if so, will partners earn compensation?
Yes, there is a role for partners in the enterprise purchasing motion. We know that partners make more possible and Microsoft is committed to ensuring we're supporting our shared customers' digital transformation. Partners play a key role in the enterprise purchasing motion today, and will continue to do so, especially as it relates to building solutions, consulting, and advising our customers on their technology needs as well as in the deployment and integration scenarios, and ongoing managed services. Partners are critical in the presale and post-sales activities, workshops, and proof of concept endeavors, and work with Microsoft to accelerate customers' digital transformation. As an example, for successfully driving Azure consumption among customers in the enterprise purchasing motion, partners may earn Partner Admin Link (PAL) incentives.

What will partner economics look like in the enterprise purchasing motion?
In the enterprise purchasing motion, qualified partners will have a larger opportunity to earn incentives for value-added services and activities that build intent to buy, use, or grow consumption of Microsoft cloud offers (such as assessments, workshops, proofs-of-concept, and other prioritized activities).

What do you expect the new economics to look like starting in calendar year 2022?
In setting the cloud purchasing guidance economics, we evaluated through a compete lens to ensure we are positioned either like, or better than, comparable competitor economics. During calendar year 2022, we intend to introduce the following:

- **Azure in new commerce.** On deals up to the $1 million/year consumption (annualized), Microsoft will pay to our partners up to 15% Partner Earned Credit (PEC) and the existing Microsoft partner incentive program rates, based on their monthly consumption. For deals above $1 million Azure consumed (annualized), the full 15% PEC will remain in place, but the partner incentive portion will not be paid on incremental consumption (above $1 million Azure consumed revenue).
- **Seat-based offers in new commerce.** For commercial seat-based online services in the new commerce experience, Microsoft will offer wholesale pricing and pay partners channel incentives up to the first 2,400 seats. On the incremental seats above 2,400 seats, partner purchase pricing will be at Microsoft ERP and incentives will not be paid on seats sold above 2,400.

When will Microsoft implement these changes to partner economics?
We are currently communicating the customer cloud purchasing guidance and roadmap to our Microsoft sales and partner-focused teams, and to partners, and we expect this effort to drive clarity. To give partners time to incorporate future changes into their planning and execution models, we intend to provide advance notice of the breadth economics we'll introduce in calendar year 2022. This includes wholesale pricing and how we'll pay incentives so that in calendar year 2022, at the earliest, new commerce-specific partner incentive and wholesale pricing changes that optimize economics for partners in the breadth motion will take effect.

Office Hours follow up

Can we see a competitive comparison between the new Microsoft purchasing guidance and what AWS is offering?
Although Microsoft does not disclose competitive information, please remember that in scenarios where a partner owns the transaction, Microsoft's partner economics are best in class.

Does our competition have size limits and growth limits similar in design to the new Microsoft purchasing guidance?
Microsoft isn't limiting growth nor are we limiting the ability for the partner to sell beyond the 2,400 seats/$1 million annualized ACR; rather, Microsoft is optimizing purchasing motions and partner economics to fulfill customer needs.

Will the "small EA" mentioned in the office hours call be available to customers with fewer than 2,400 users?
Small EA customers are customers currently on an EA that will need to transition to a different purchasing motion (breadth or self-service) based on their needs. We'll provide more details regarding this effort later in Q2 FY22.

Part of the changes that you discussed that will come in calendar year 2022 is the introduction of a "promo for small EAs." What is this and will it be available in all the purchasing motions?
In calendar year 2022 we'll launch a promotion offer for small EAs in the enterprise and breadth motion. We have nothing further to share at this time.

If a non-LSP partner decides to switch a customer to the enterprise motion, should Microsoft recommend additional resellers or any other purchasing motion?
Microsoft partners and sellers should always work with a primary focus on customer needs. If a non-LSP partner identifies their customer's needs would be better fulfilled by the Enterprise Agreement, they should connect to an LSP.

Does the new commerce experience recognize (and apply to) our industry clouds? And if so, will all industry cloud customers use the enterprise purchasing motion?
In principle, Microsoft's industry clouds are curated for customers of specific verticals employing the standard Microsoft offers plus additional industry-specific offers. As they become available, offers in the new commerce experience will be evaluated for applicability to the industry clouds.

Are CSP partners prevented from selling to enterprise customers?
Customers will continue to engage with a partner for their specific needs, whether or not the customer is an enterprise customer.

Acknowledging that we are putting the needs of the customer first, how is Microsoft addressing the "friction" between partners and Enterprise Sellers around choice of licensing construct for each new solution/workload?
The existing friction between EA/enterprise and CSP/breadth motions will be addressed by changes to our policies, partner economics, and customer segmentation. These changes will happen throughout the coming 12 months and further details will be communicated.

What is "wholesale pricing"?
Wholesale pricing is the difference between ERP and the CSP reseller net price.

What is the wholesale pricing rate? Does wholesale = 15% margin and PEC = up to 15%?
Wholesale pricing = Microsoft partner margins (difference between net and ERP). Wholesale pricing doesn't include partner incentives. It's a partner entry price, for example. SRP minus partner discount (15% for Azure, 20% for per seat.

Is wholesale pricing consistent with today and essentially only a name change?
Yes. This was called "margin," but Microsoft now uses "wholesale pricing" in our taxonomy.

If a partner sells a CSP deal for 10,000 seats, will only the first 2,400 seats have the 15% wholesale pricing while the remaining 7,600 will be at full price?
Yes. Although on the initial 2,400 seats, in addition to the 15% wholesale pricing a partner could qualify for incentives.

If a partner sells a 3,000-seat deal on CSP, they will pay wholesale pricing on the first 2,400 seats and then full price for the remaining 600 seats. Although this will occur under one transaction, can the partner earn incentives on all of it?
On a CSP deal where the customer has purchased 3,000 seats, only the first 2,400 seats will be eligible for wholesale pricing and incentives where partners meet eligibility requirements. The remaining 600 seats will be sold at full price and ineligible for incentives. Microsoft will track partner economics based on all transactions between the partner and the customer.

If a CSP deal for 4,000 seats is split in 2 transactions, will the partner earn full wholesale pricing and incentives on both transactions or will there be an impact to the partner's economics?
Microsoft will track partner economics based on all transactions between the partner and the customer.

Can we clarify the incentives, as we've heard two messages: Partners *will* or *will not* receive incentives for seats above 2,400?
For seats above 2.400 on CSP, partners will not receive incentives when the offer has been purchased through the new commerce experience.

If Azure: PEC > 1M$ remains, no incentives. Else: > 2400 users, neither "margin" on product NOR incentives. correct?
Correct.

From a partner perspective the breadth motion (MCA via CSP) is most of the time the more attractive motion with higher margins for the partner, for example, with the wholesale prices. In the enterprise motion the only partner incentive for Azure deals is 4% with PAL and the OSU M365 Incentive. What motivates a services partner to sell (only selling) M365 to enterprise customers via enterprise motion?
For enterprise customers incentives are in place to reward partners providing continued value and managed services to our end customers beyond the initial transaction.

Where a partner does not have a role in the sales transaction, we offer opportunities for collaborative sales, or co-selling, where partners can deliver differentiated value to customers through innovative products and services.

Do the "deals up to" rules apply to PEC for Indirect CSP too?
Yes. The 'deals up to' rules apply to all Cloud Solution Provider partners.

Partners get incentives to 2,400 user/seats or USD $1 million annualized ACR. For incremental increases above those thresholds, what incentives do partners get?
An example of what the partner economics could look like in CY 2022:

For license-based OLS: A customer purchases 2,500 seats of M365 from a same partner:

- partner earns margins and incentives for the portion up to 2,400 seats (partner cost is net price for 2,400 seats)
- partner does not earn margin nor incentives for the portion exceeding 2,400 seats (partner cost is ERP for 100 seats)

For Azure: A customer consumes $100k of Azure in a given month:

- partner earns PEC for $100k on Azure consumption (economics are optimized for annualized ACR up to $1M)
- partner earns incentives for $83k of Azure billed consumption
- partner does not earn incentives for $17k of Azure billed consumption

How are we holding Microsoft sellers accountable to this guidance? Doing what's best for the customer is priority #1, but the friction between CSPs and MS sellers (EAs) is real and happens daily.
There are ongoing efforts to continue to land and evangelize the purchasing guidance for sellers. When sellers don't follow the purchasing guidance, they are being coached by their managers.

What are the changes between the current purchasing guidance details versus the sales guidance information shared in November of 2020?
The key changes are:

- Naming: We've replaced the term "sales motion" with "purchasing motion" to use a more customer-friendly term.
- Guidance: Updated guidance is to align Enterprise Agreement and Cloud Solution Provider program not to the size of the organization, but to the distinct customer needs and expectations fulfilled within each purchasing motion. It's important to note that ultimately customer needs and choice should determine the agreement used.

For over 2,400 users or more than USD $1 million annualized ACR, will the deal move to the enterprise motion instead of breadth/CSP?
There are no limitations to a partner's ability to transact subscriptions with over 2,400 seats or $1 million ACR (annualized). However, partner economics will be impacted on the seats above 2,400 and on ACR (annualized) over $1 million.

What happens when a CSP customer exceeds $1 million ACR in indirect markets?
As with direct markets, partners will not earn incentives for the consumption occurring above the $1 million annualized threshold. However, the partner may earn Partner Earned Credit (PEC).

Regarding $1 million annualized ACR, does that mean trailing 12 months? Or will the deal be reviewed at the anniversary date? And what if the customer has variable usage that moves up and down across the threshold, how will Microsoft calculate breadth economics?
Azure consumption will be measured monthly based on the partner's billed ACR.

Do the thresholds of 2,400 seats and $1 million annualized ACR apply to the CSP customer tenant or to the CSP partner tenant?
Breadth economics will apply to transactions between a customer and a partner, not to transactions done through a partner tenant.

Does this mean thresholds for EA will be 2,400 users instead of 500 users?
There are no changes to the EA currently.

Is a CSP deal for 10,000 users no longer available to partners to transact?
There are no changes planned for CSP in legacy offers. In new commerce, partners can continue to transact deals of any size, however breadth economics are optimized for deals up to 2,400 seats and $1 million ACR annualized.

When will this be made public and go into effect for Partners? July 1 FY22?
Microsoft will disclose changes to breadth economics at least six months before policy comes into effect. Policy is not expected to be enforced until calendar year 2022, at the earliest.

What do you expect the new economics to look like starting in calendar year 2022?
In setting the cloud purchasing guidance economics, we evaluated through a compete lens to ensure we are positioned either like, or better than, comparable competitor economics. During calendar year 2022, we intend to introduce the following:

Azure in new commerce

- On deals up to the $1 million/year consumption (annualized), Microsoft will pay to our partners up to 15% Partner Earned Credit (PEC) and the existing Microsoft partner incentive program rates, based on their monthly consumption.
- For deals above $1 million Azure consumed (annualized), the full 15% PEC will remain in place, but the partner incentive portion will not be paid on incremental consumption (above $1 million Azure consumed revenue).

Seat-based offers in new commerce

- For commercial seat-based online services in the new commerce experience, Microsoft will offer wholesale pricing and pay partners channel incentives up to the first 2,400 seats.
- On the incremental seats above 2,400 seats, partner purchase pricing will be at Microsoft ERP and incentives will not be paid on seats sold above 2,400.

What's the impact for existing customers with subscriptions where seat counts or ACR exceeds the new thresholds (2,400 seats/$1 million annualized ACR)?
There's no impact to customers purchasing legacy offers in CSP. The optimized breadth economics will apply to new commerce offers only once the policy is implemented.

For reactive use only:

You mentioned economics related to 2,400 seats and $1 million per year (annualized) for Azure consumed revenue (ACR) but those numbers differ from previous statements. Can you explain the change?
We previously shared early designs with partners to obtain input. Based on partner feedback we have adjusted the figures.

What does "EA-like economics" mean?
"EA-like economics" represents incentives and investments that Microsoft provides partners when dealing with enterprise customers.

What does the phrase "EA-like incentives" mean?
Incentives will be made available to qualified partners providing managed services and performing select activities with end customers purchasing through the enterprise sales motion. No details are available for this incentive yet and is expected to be addressed in calendar year 2022.