Discount-Licensing

Microsoft Office 2013 v Office 365

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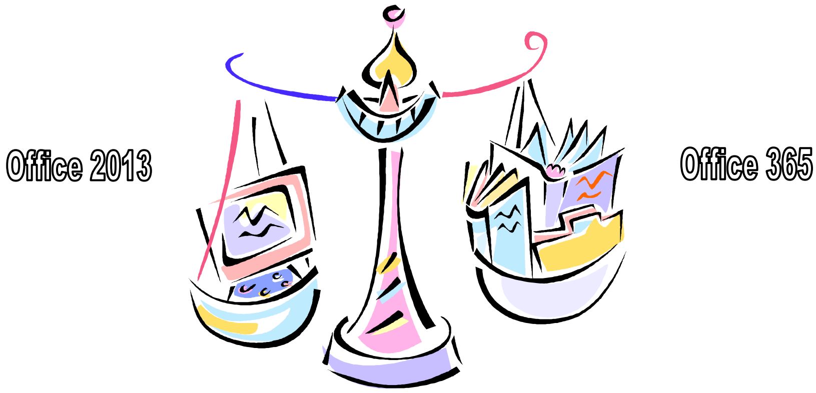
Discount-Licensing

Prologue

We have been subjected to an enormous amount of hype surrounding the cloud and moreover, Microsoft's cloud Office 365 alternative to its on-premise Office 2013 / 2016 product: 'Microsoft Touts Enterprise Cloud Use'. There's no doubt over the potential of the cloud but as such stories tend to originate from the software vendor and the emerging cloud providers, can we believe everything that we read? During 2013, we also started seeing reports that questioned the vendor's claims surrounding the speed and scale of the uptake of Microsoft's cloud Office 365: 'Analysts Question Microsoft Office 365 Adoption Rate'. Microsoft's made claims in the first half of 2013 that "*most businesses will turn to the cloud over the next two years*" [Source: Microsoft - 'The New Era of Hosted Services']. The reality that we currently find ourselves in would appear to have fallen far short of the vendor's original claims and predictions.

Whichever press clipping you favour, the objective of this document is to separate fact from fiction solely in terms of the functional and commercial differences between Microsoft's cloud subscription Office 365 options versus its on-premise perpetual Office 2013 or 2016 product. Part 1 of this document will dive straight into the commercial elements and have a stab at answering the question of what really is the cheapest option based on current market prices and the product migration lifecycle. Part 2 will then briefly review the functionality and benefits of the two Microsoft Office products. As well as comparing the conventional reseller model, this comparison will also consider the option of buying pre-owned perpetual Office 2013 through the secondary Microsoft Volume software licence market.



The criteria used in this document to review this area are based on market pricing and information sourced directly from Microsoft or one of its distributors – it is not founded on personal opinion or regurgitated from a 3rd party script. Whatever your perception on the contents of this review and the motivation behind writing it, the choice of which option is more 'suitable' to your business is ultimately going to be dependent on your own specific business' requirements. It is unlikely that we will ever be able to conclude that there is a "one-size-fits-all' solution in the world of software.

We will not go into the detail of the other Subscription Office application alternatives or Open Source freebee products. Admittedly, it would be interesting to know the demographics of where the cloud adopters are coming from - it would be logical to assume that the main migrators to Office 365 would be existing Subscription users as this would simply be a shift from one subscription product to another. It would be useful to know what proportion are migrating from an existing perpetual / on-premise volume Office licence agreement as this would give us a real indication as to the appetite towards its cloud Office alternative. We could not find reliable conclusive data to support the rate of the adoption or the migration paths and so to avoid adding to the cloudy hype, we'll park that for now.

In the interest of disclosure and transparency to the reader, please note that Discount-Licensing Ltd is the company notable for setting up and launching a secondary market for Microsoft volume software licences. Whilst such a company may have a vested interest in redressing the cloud hype in favour of perpetual on-premise Office 2013, it has a commercial duty to understand all emerging Office software products, whether that be a Cloud, Subscription or Open Source alternative.

Part 1: Commercial

On the commercial face of it, Microsoft's cloud Office 365 looks like an appealing alternative to on-premise / perpetual software. In essence, Office 365 allows a business to pay either a monthly or annual subscription / rental fee, which will be beneficial to a company that does not want to or cannot pay potentially larger upfront costs. However, given the way on-premise volume licence contracts are now paid for through 3rd party finance houses, the question of which product is more cost effective will largely depend on what the difference is between the overall cost of the cloud subscription versus the on-premise perpetual options over the lifecycle of that product within your company. For the purpose of evaluating this 'rental versus buying' argument, we'll review Microsoft's perpetual volume Office 2016 (new) / Office 2013 (pre-owned) Professional Plus product alongside its sister cloud Office 365 Professional Plus option.

What's the Cost?

Office 365 ProPlus (cloud) -- The contractual cost is advertised at £11.50 per month per user although the ProPlus product cannot be paid monthly. This equates to an annual commitment of £138 per user [*Source: Microsoft Office Directory*]. Over a 3 year software version lifecycle, a business would pay a total of £414 per user.

Office 2016 ProPlus (new Open perpetual) -- This option is for companies with up to 250 seats and costs approximately £420 per licence. [*Source: TechData*].

Office 2016 ProPlus (new Select/Enterprise perpetual) -- This option is for companies with over 250 seats. The price is dependent on the volume discounts but a 15% discount on Open licence prices is good starting point, which means a software licence will cost approximately £357 ea.

Office 2013 ProPlus (pre-owned perpetual) -- Again, the price is dependent on the volume but you can assume a starting point of 75% discount on Select/Enterprise and Open customers respectively, which means a pre-owned Office 2013 ProPlus would be approximately £99 per licence.

So, at first glance, if Microsoft launches a new software version every 3 years and your business has the capabilities as well as the necessity to migrate its company's devices every 3 years, then (omitting the IT migration costs) the Office 365 ProPlus looks very much on a par with the pricing of the on-premise perpetual Open Volume Office 2016 (new) ProPlus. The cloud Office 365 ProPlus is however still considerably more expensive than the perpetual Select/Enterprise as well as the pre-owned Office 2013 ProPlus.

Mapping The Cost Over Time

On the basis that Microsoft is supposed to launch a new Office product every 3 years, the table below maps out the effect on the monthly costs of the cloud Office 365 ProPlus versus new Office 2016 and pre-owned perpetual Office 2013 ProPlus based on a business' product migration lifecycle. Even if Microsoft did roll out a new version precisely every 36 months, one of the most important considerations when reviewing on-premise or the cloud is that businesses do not always have the resources nor the necessity to keep up with and migrate when a new version is released. As with Office 2010 (and to a lesser extent with Office 2013 / 2016), the lack of major changes to the UI (user interface) and absence of real improved features / benefits (compared to Office 2007) has forced some businesses to sweat their software assets to see what the next launch will bring (see: Microsoft Office 2013 Version Comparison).

Table 1: Software Licence Costs Dependent on Product Migration Lifecycles.

Cost based on migration lifecycle period		Cloud Subscription	On-Premise Perpetual		
		Office 365 ProPlus	Office 2016 ProPlus (Open)	Office 2016 ProPlus (Select / Enterprise)	Office 2013 ProPlus
Years	Months	Annual Contract	New	New	Pre-owned
0	1	£11.50	**£420.00**	**£357.00**	**£99.00**
3	36	**£414.00**	£11.67	£9.92	£2.75
4	48	£552.00	£8.75	£7.44	£2.06
5	60	£690.00	£7.00	£5.95	£1.65
6	72	£828.00	£5.83	£4.96	£1.38

(green)	Total cost over 3 year product migration lifecycle
(yellow)	Cost per month over 3 year product migration lifecycle

If we start to factor in delays in the software migration lifecycle to 4 years, even the Open Office 2013 ProPlus product outperforms the cloud Office 365 ProPlus product with a monthly spend of £8.75 per licence versus £11.50.

Purchasing Microsoft volume software licensing through the secondary markets also allows businesses to buy the version tailored to the customer's requirements. For instance, secondary markets can supply Office 2013, 2016 or even 2010 version if that is what the company has installed and needs, which further reduces the overall cost per licence far below the pre-owned prices shown in the above table. Unlike the rented Office 365, the perpetual Office 2013 / 2016 will also offer a residual value at the point of migration to the next preferred version, which should also be factored into the overall cost of the software.

Looking at the above basic costs in isolation will however not provide a true picture of the cost effectiveness for every organisation. We do need to consider the differing functionality and benefits between Microsoft's perpetual Office 2013 / 2016 and its cloud Office 365. Weighing up the varying functionality and costs between the cloud and on-premise products will then allow businesses to make an informed decision about what product is most suitable.

Part 2: Functionality

Whilst the two products appear to be the same in terms of UI, Office 2013 / 2016 and Office 365 do differ in terms of installation, functionality and benefits. Here are a few key features and benefits to debate over...

Cloud Office 365 v On-Premise Office 2013 / 2016

As we covered in the previous section, Office 365 is flexible in terms of offering lower upfront costs, which is distinct advantage to businesses that require a monthly or annual payment. In terms of cost, the on-premise Office 2013 / 2016 alternatives can also be financed on a monthly basis over 36 months. This would incur an APR rate of approximately 15-16%; however, the overall spend would still come in below the Office 365 option. Again, as mentioned in Part 1, renting your software does not offer a residual value at the point that a company wants to migrate.

One key benefit being plugged by Microsoft over on-premise is that Office 365 enables staff to access their Office applications on up to 5 devices. This is a real benefit for certain businesses that need to be mobile or for certain employees in certain departments that require flexibility with their workplace. However, whilst accessing your Office applications on up to 5 devices initially sounds like a potentially cost effective alternative to on-premise, how many businesses will realistically make use of this benefit as it is still standard practice for companies to operate with the majority of their staff working from a single desktop / laptop? Even with perpetual volume licensing, the Product Use Rights state that a single software licence holder is permitted to install another copy on a single portable device [Source: Microsoft PUR April 2014]. Some employees do work remotely but this does not normally require an additional Office software licence to be purchased whether you purchase the cloud or the on-premise Office product. In reality, other mobile devices such as mobiles / iPads are often only used by employees to check emails and browse the internet without the need for other application software and so this may be a benefit that is severely underutilised – not a bad idea for the average household consumer; however, possibly more of a marketing gimmick for the corporates.

Cloud Office 365 delivers the latest versions of Office applications, which is perfect for businesses that roll out the latest version as soon as it comes out, plus the management of patches / upgrades are outsourced. As previously touched on, a company may simply not have the resources to re-install software on every device throughout the entire business every 3 years. Cloud Office 365 does not offer downgrade rights as perpetual volume software does and some businesses will be happy with what they have installed. There's also the retraining element to consider as you have no choice but to install and retrain staff to use the most up to date version when renting the cloud option.

In terms of installation, cloud Office 365 runs locally on your PC. As both the cloud and on-premise Office products both run locally and there are virtually no differences in UI, sounds like the key difference between the two products is that Office 365 will ask the user to log in.

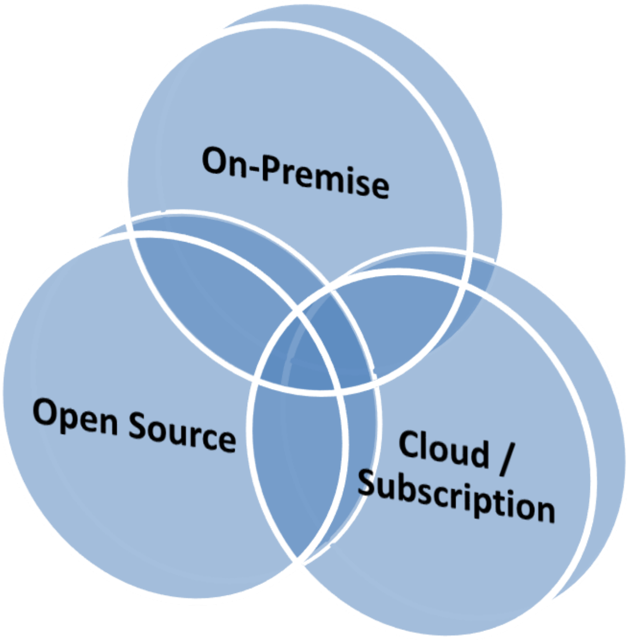
Users can stream Office to any Internet-connected PC and this will benefit small businesses or specific staff with larger organisations. However, this is technically not a brand new feature as working remotely is something that businesses with on-premise software have been doing for over a decade. The associated downtime & poor performance of cloud services will also continue earn headline news for vendors such as Microsoft ('Cloud Outage' / 'Outage Raises Questions About Public Cloud For Mission Critical Apps'). We have to acknowledge that on-premise is also not immune to outages / downtime but moving to the cloud essentially means that you are handing over control of your data and responsibility of the infrastructure to a 3rd party to be stored in an external environment (driver / network issues). There's also the perceived risk that the cloud brings to the table although this is not constrained solely to Office 365 - will European businesses be comfortable with the US government / NSA having access to their company's proprietary data? The reality is that Public clouds share resources between different customers, which create additional security vulnerabilities related to data protection. Your cloud provider will tell you that your data is yours but it will not be able to guarantee you that it won't be shared with the powers that be, no matter where your business is located.

Office 365 is quick and easy to sign up to. As with perpetual, signing up to Office 365 is easy but be careful to pay attention to the roll out plan before committing. The cloud provider may be quick to take your order and first payment but maybe not always so transparent in terms of the roll out challenges that may face your business when migrating to cloud. Prepare yourself for a complex and timely migration and the associated cost implications ["Survey: Moving to the cloud still ain't easy"]. Remember that once a business has committed itself to cloud Office 365, it must continue paying the subscription fee or lose access to the software.

Part 3: A Closing Thought

If we compare the actual monthly cost of cloud Office 365 ProPlus versus Office 2013 or 2016 ProPlus over a 3 year+ product migration lifecycle, purchasing a perpetual software licence is cheaper than the rented cloud option – the hype surrounding cloud as being the more cost effective option simply does not stack up and displaying monthly rental costs is potentially misleading to businesses. The lingering world crisis will have delayed migrations / true-ups but for whatever the reason, if your company's product migration lifecycle travels over 3 years, the increased cost of cloud Office 365 will grow at an exponential rate. However, the cloud Office 365 can still be more cost effective for small businesses relying on mobility or possibly larger organisations with certain staff that need a more flexible mobile working routine. It is important to know that businesses can have a combination of on-premise Office 2013 or 2016 versions alongside cloud Office 365 and that there's no necessity to jump straight into the deep end of the cloud for the sake of a minority of users.

The 'cloud' is certainly the buzz word in IT at the moment and clearly has great potential but equally, it would be ignorant to describe on-premise volume software as 'old' especially when both volume Office 2013 / 2016 and Office 365 products are digitally downloaded, are run locally and can be accessed remotely from any network in the world. What is clear is that whilst certain Microsoft products are tailor made for the cloud, some are not. IT departments need to be armed with the facts when considering a migration to the cloud if only to consider replacing the Exchange for a company's cloud-based email without also having to deploy the full Office suite as businesses can configure their systems to still run perpetual on-premise Office 2013 or 2016 alongside Office 365 for email. The vendor has a vested interest in moving businesses over to the cloud but rather than seeing a rapid cloud take-over of the world, we are experiencing a more natural re-balancing of the software industry whereby businesses adopt a part on-premise, part subscription, part-'other' Office solution to fit their business' needs.



There is no 'one-size-fits-all' solution in the world of software.