TRENDS REPORT

Microsoft's Licensing Is Changing — Are You Ready?

What You Need To Know To Plan For The Transition From Enterprise Agreement To MCA-E

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Summary

If your organization buys Microsoft products under an Enterprise Agreement (EA), there's a transition in your future. Microsoft's recent announcement that it will no longer offer the EA to a small number of EA holders is the first step in a far-reaching, potentially multiyear, revamp of the firm's pricing and contracting structure that will affect you directly. Read this report to understand what's changing and how you can prepare.

Microsoft Is Beginning To Phase Out The Enterprise Agreement

Microsoft announced major changes to its enterprise licensing model in a November 2024 blog post. Since January 1, 2025, it has been discontinuing renewals for select EAs in direct markets, shifting these customers to the new Microsoft Customer Agreement for Enterprises (MCA-E). Microsoft has not provided a clear list of affected customers, only stating that the change will affect a "small percentage" of cloud-based EA holders. Microsoft has offered little guidance on the renewal paths open to these affected customers:

> "In January 2025, we will begin notifying affected customers that renewing the EA is no longer possible. For enterprise customers, the Microsoft Customer Agreement for Enterprise (MCA-E, the digital evolution of the traditional EA), will provide the optimal, streamlined solution." (Nicole Dezen, chief partner officer and corporate VP of global partner solutions, Microsoft)

This move is part of a broader effort by Microsoft to simplify its contracts and align licensing with a cloud-based subscription model. While the EA framework remains intact for now, Microsoft's long-term goal is to retire legacy agreements altogether. The company has positioned MCA-E as a "modernized" alternative, although its announcement lacks specifics on eligibility criteria and transition timelines beyond the initial wave. EA customers, particularly those in cloud-only environments, should prepare for potential disruptions in their renewal process.

- **Cloud-only EA customers in direct markets are the first to be affected.** Microsoft is initially targeting cloud-based EA customers in "direct markets" — regions where the company sells licenses directly rather than through partners. Customers in indirect markets, where transactions are facilitated by resellers, are not part of this phase. Hybrid EA customers, who use a mix of cloud and on-premises software, appear to be unaffected for now. However, Microsoft's long-term strategy suggests that even these agreements will eventually be phased out, albeit over a few years.
- **The MCA-E offers benefits, but also potential costs and risk.** Microsoft promotes the MCA-E as a streamlined, modern alternative to EA, emphasizing ease of contract management and improved billing flexibility. One of the clearest benefits is the transition from EA's lengthy, paper-based contract stack to a digital-first contract model. Microsoft claims that MCA-E will reduce contract execution time, cutting the renewal process from 30 days to just a few days. MCA-E also introduces flexible billing structures, allowing organizations to divide billing across

different cost centers, an option unavailable under EA. The new model also places fewer restrictions on tenant management (with some caveats), making it easier for customers to scale operations without complex administrative overhead. Microsoft argues that these changes align licensing models more closely with cloud consumption trends. However, the contract standardization that the MCA-E introduces also reduces flexibility and customizability and affects costs, contract terms, and discount structures.

- **Several questions remain unanswered.** The shift to the MCA-E model may not be smooth; Microsoft has been ambiguous about several key questions. A lack of detailed selection criteria and clear explanations for specific transition mechanisms has left organizations uncertain about whether, and how, they will be affected in 2025. Companies with multicountry operations or complex licensing structures should pay close attention, as it appears that Microsoft is still determining how to handle these cases. While some customers will not be forced to transition immediately, all EA holders should begin planning for the eventual shift.
- **Most customers who renew in 2025 will still sign an EA.** Despite Microsoft’s push toward MCA-E, most customers renewing their EA in 2025 will likely do so into a new EA. While Microsoft has directed some resellers not to provide EA renewal quotes for smaller customers, it’s not yet enforcing this widely among large enterprises. While EA contracts specifically state that Microsoft cannot unreasonably deny a 36-month renewal if the customer submits the necessary forms on time, Microsoft does reserve the right to introduce program changes that may require signing new agreements at renewal. This creates uncertainty, although high-value customers with substantial licensing commitments remain unaffected for now. Unless Microsoft strictly enforces its “new agreements” clause, most organizations should still be able to renew their EA — again, for now.

The MCA-E Provides Flexibility But Removes Key Benefits Of The EA

Think of the MCA-E as Microsoft’s cloud solution provider (CSP) license; instead of a CSP, you sign the contract directly with Microsoft. MCA-E offers a direct purchasing relationship with Microsoft for large enterprises, whereas CSP routes purchases through a partner that manages billing and support. With these new contract types, Microsoft also eliminates the involvement of licensing solution providers (LSPs), giving customers direct control over their contracts. The MCA-E:

- **Is a digital upgrade to the aging EA.** Microsoft positions MCA-E as a flexible, digital-first contract, eliminating the fixed three-year EA term in favor of ongoing, subscription-based agreements. This removes the need for periodic and structured renewals, making it easier for customers to adjust licensing as their needs evolve. These changes are meant to streamline enterprise licensing, reducing bureaucratic delays and contract complexity. Although the MCA-E is intended to modernize and standardize Microsoft's licensing, organizations must prepare to lose some flexibility and gain additional administrative burdens.
- **Removes the EA's cost predictability and transparency.** The MCA-E eliminates structured EA discounts, replacing them with individually negotiated pricing. EA customers benefited from programmatic volume-based discount tiers (Levels A, B, C, and D); these are gone in the MCA-E, making all prices subject to direct negotiation with Microsoft and rendering pricing structures and benchmarks opaque. The MCA-E also removes the need for an annual "true-up" process, which was a core part of the EA and allowed customers to adjust licensing quantities in a predictable, cost-effective manner. Through these mechanisms, the EA provided stable pricing with contractual price locks, whereas MCA-E introduces variable monthly pricing, increasing cost uncertainty. There is a silver lining: Companies signing up for the MCA-E can choose commitments of a month, a year, or three years; within these tenure, they can enjoy negotiated pricing on additional seats for certain products (such as Microsoft 365 SKUs).
- **Eliminates perpetual licensing, shifting spending from capex to opex.** EA customers could purchase perpetual software licenses with Software Assurance (SA), allowing them to maintain ownership while renewing SA at a reduced cost. The MCA-E replaces this model with a fully subscription-based structure, requiring customers to relicense software at full price when contracts expire. This shift forces organizations into an opex model, removing the capex benefits of EA's perpetual licensing.
- **Makes migration from on-premises to cloud more expensive.** The end of EA discount tiers and the promotional "From SA" discounts will increase many organizations' licensing costs. Previously, customers transitioning from on-premises software to cloud services could take advantage of From SA discounts from Microsoft, reducing migration expenses. Microsoft has ended this program, forcing customers to repurchase licenses at full price when moving to cloud-based services. Additionally, MCA-E pricing is based on dynamic monthly price lists, exposing customers to potential cost increases. Unlike EA, which locked in pricing for three years, MCA-E requires continuous renegotiation (subject to commitment

tenures), making budgeting more difficult. Although Microsoft may offer transition incentives, these are not guaranteed for future renewals, leaving long-term pricing uncertain.

- **Shifts negotiation power further in Microsoft's favor.** The transition from EA to MCA-E comes at a time of widespread price increases and product unbundling across Microsoft's portfolio. Microsoft has announced a 5% price increase on all annual subscriptions with monthly billing plans, effective April 1, 2025, and is engaging in soft price hikes by unbundling products, as seen with the removal of Teams from Microsoft 365 plans, forcing enterprises to buy Teams separately at an additional $3 per user per month. Price increases on products like Power BI and Teams Phone are also set to take effect on April 1. Under EA, structured discount tiers and multiyear price locks provided some insulation against cost volatility, but MCA-E eliminates these protections, exposing customers to frequent price adjustments based on Microsoft's evolving pricing strategy. With the shift to MCA-E, customers will have less room to push back on pricing terms, reducing negotiation leverage and making them more vulnerable to Microsoft's ongoing monetization strategies across cloud and enterprise products.

Have A Plan To Minimize Your Disruptions

Regardless of whether an organization is affected in the first wave of EA discontinuations, it's clear that Microsoft is working to retire the EA model. Customers should prepare for the likelihood that Microsoft will phase out all EA renewals over the next few years. Businesses that fail to anticipate these changes risk higher prices and diminished negotiating power, increasing their frustration. Seeking expert advice is understandable — so here's what you can do now. As this is evolving, take a proactive approach to understanding Microsoft's long-term licensing roadmap and ensuring that IT and procurement teams align with future licensing strategies. Consider how these changes affect your overall cloud strategy and start acting now. Forrester recommends that you:

- **Ascertain whether you will be affected.** The first step for EA customers is to determine if they fall into the affected category. Microsoft has stated that it will initially discontinue only a "small percentage" of cloud-based EAs in direct markets — but it has not published eligibility criteria, leaving many customers uncertain about their renewal prospects. Organizations currently on hybrid EA agreements, which include both cloud and on-premises products, may not be affected immediately, but this could change. Review current contracts and engage with Microsoft or its LSP to clarify your renewal status. Even if a business is not targeted in the first phase, Microsoft plans to retire the legacy EA in the long term. Proactively monitor your licensing agreements and prepare for future transitions rather than waiting for an unexpected email from Microsoft.

- **Prepare your organization for a new procurement and consumption model.** Microsoft promotes MCA-E as a more streamlined licensing model, but its increased invoicing flexibility — allowing customers to split billing across departments and cost centers — can introduce new procurement complexities or require new behaviors and approaches. This added complexity can also make budgeting and cost forecasting more difficult, particularly for firms with significant license expenditures or fragmented buying centers. To mitigate risks, begin aligning your software purchasing and budget planning with Microsoft's evolving licensing structure. At the same time, adapt governance practices to continuously monitor and optimize your cloud usage to ensure that decentralized license management doesn't lead to inefficiencies or cost overruns.

- **Anticipate and prepare for the operational changes ahead.** Moving from EA to MCA-E is not just a contractual shift; it often requires significant changes to licensing structures, financial commitments, and administrative processes. Azure customers migrating from EA to MCA-E must realign their billing and cost management processes to match MCA-E's framework, as EA billing mechanisms do not directly transfer over. While Azure tenants themselves typically do not need to be moved, the migration process can still introduce complexity, requiring careful planning to ensure seamless continuity in procurement, billing, and compliance workflows. Proactively assess the potential impacts and develop a structured migration strategy to minimize disruptions as you transition to MCA-E.

- **Consider your options and alternatives.** Firms that find MCA-E financially or operationally disadvantageous should explore alternative licensing models before committing to a transition. For some customers, renewing an EA for as long as possible — if still allowed — may be the best short-term strategy, as it provides pricing stability and programmatic discounts. For others, a better alternative may be to transition to a CSP model, which allows for more flexible billing and licensing; these customers can work with Microsoft partners to negotiate better pricing. Another consideration is a hybrid licensing strategy, where organizations maintain some EA agreements (where possible) while adopting MCA-E or CSP for new workloads. Conduct a comparative analysis of your licensing options, factoring in the total cost of ownership, contractual flexibility, and long-term strategic goals.

- **Engage early with Microsoft.** Become familiar with key price increases scheduled across Microsoft's products, model how different tenure commitments in the MCA-E play into your cost and discount models, and engage with Microsoft early to negotiate the best possible pricing and contract terms. Microsoft has historically been open to providing incentives for customers migrating from EA to MCA-E, but these are not officially acknowledged and must be actively negotiated. While this shift to MCA-E places greater emphasis on a direct relationship with Microsoft, partners will remain valuable for providing strategic guidance and value-added services. Follow Forrester's best practices for renewing your Microsoft agreements to bring a structured approach to negotiating an EA renewal and transitioning into the MCA-E.

Supplemental Material

Companies We Interviewed For This Report

We would like to thank the individuals from the following companies who generously gave their time during the research for this report.

Microsoft

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