NPI

Real experts.
Real data.
Real savings.

SmartSpend™ Bulletin

How to Negotiate and Spend Smarter with Amazon Web Services (AWS)

Given AWS's history of pricing and sourcing transparency, is it possible to achieve material savings on enterprise-scale AWS purchases? Contrary to popular opinion, the answer is yes. But only if you know which best practices and levers to apply throughout the lifetime of your AWS agreement.

Amazon Web Services (AWS) is known for many things, but flexibility during enterprise contract and price negotiations is not one of them. As the frontrunner in the IaaS market, AWS maintains a high degree of leverage over its customers and competitors – especially as it expands its offerings to include new High Memory instances capable of running large in-memory databases like SAP HANA.

But AWS's position as market leader is only one aspect of the leverage equation. AWS's reputation for pricing transparency has caused many customers to doubt their ability to negotiate effectively with the vendor and affect cost savings over the lifetime of their AWS investment.

When AWS entered the market in 2006, it changed virtually everything about how businesses consumed infrastructure – including the sourcing aspect. Having spent decades buying infrastructure from their legacy IT vendors, enterprises were used to complex and intensely iterative contract negotiations. AWS sought to change that by bringing transparency and simplicity to the buying process with clear, easy-to-understand pricing and provisioning.

Fast forward to today. Over the last decade, two dynamics are reshaping AWS sourcing and cost management. The first is competitive pressure. While AWS still holds the title of market leader, AWS's revenue growth rate is now the lowest of the top five IaaS suppliers.[2] Competitors like Microsoft are benefiting from an extensive footprint within the enterprise sector and the experience that comes from servicing complex business, financial and technical requirements. This is causing AWS to demonstrate more flexibility at the negotiation table as well as to make changes to its enterprise pricing/discount and support programs. – including the introduction of Savings Plans, which represents a significant change to the vendor's compute pricing model.

The second dynamic in play is enterprises' complacency when it comes to cost management over the lifetime of their AWS agreement. Many believe AWS isn't willing to offer meaningful concessions on pricing and terms. Others fail to read the fine print on discounts, SLAs and billing. The result is more companies are paying too much for AWS's offerings and encountering cost surprises post-purchase.

The good news is most enterprise customers can achieve meaningful reductions in their AWS spend – but only if they apply certain AWS sourcing and cost management best practices.

Cost management complacency and shifting market dynamics have made it easier to overspend over the lifetime of an AWS agreement. Interestingly, it's also made it easier to save – but only for those companies that know which levers to work.

8 WAYS TO REDUCE COSTS OVER THE LIFETIME OF YOUR AWS AGREEMENT

1. Know what your workload will look like before you put it in the cloud so you can choose the best pricing option. What are your CPU requirements? Storage requirements? Reserved Instance, On Demand or Spot Instance Pricing? Savings Plans? How do you know which options are best for your environment? The answer: model it out. If you haven't modeled the configuration and the workload, you can't choose the best pricing option, anticipate cost fluctuations and confirm feasibility.

2. Know where AWS is exhibiting flexibility in pricing and contract negotiations. It's true that AWS is mostly transparent about its pricing and discounts. However, AWS is beginning to show some flexibility in discounts as well as the willingness to offer these discounts without a prepaid commitment. So, how do you know what's the "best deal" for your specific purchase characteristics? This is where outside sourcing intel is critical. By consulting with third parties that have visibility into AWS street-level pricing and contractual terms across the broad market, you can acquire much-needed leverage at the negotiation table.

3. Consider AWS's Private Pricing Term Sheet, but know its limitations. AWS now offers enterprise discounts to its large-spend clients via a Private Pricing Term Sheet. Formerly known as its Enterprise Discount Program (or EDP), AWS's Private Pricing Term Sheet is essentially a prepay program with discount rebates. This program is highly customized with committed annual spend being the key variable. Other variables include commitment term, growth potential and strategic relevance (for example, certain highly-visible brand names may get special incremental discounts for participating in AWS's publicity programs or analyst calls). A large spend commitment over a long period of time will result in the largest discounts – and these discounts should be heavily and expertly negotiated as they represent the biggest opportunity for savings during the AWS sourcing transaction. However, it's important for customers to understand any limitations surrounding application of discounts as AWS's pricing continues to evolve.

4. Consolidate accounts to better track spend, utilization and – most importantly – to receive higher volume discounts. Customers can use the consolidated billing feature to consolidate payment for multiple AWS accounts. Aside from receiving a single bill, customers can also easily track each account's charges and utilization. More importantly, consolidating accounts allows the customer to combine usage from all accounts within its organization, which in turn can qualify the customer for higher volume pricing discounts.

5. Use tags and use them consistently. Consistent use of tags allow for an even more granular ability to monitor spend and track by more relevant and meaningful areas such as by application and/or functional area. Transparency in spend will allow business owners to quickly modify behaviors that drive up AWS costs.

6. **Understand the limits of your AWS SLA.** The only downtime that qualifies is "regional," which means that more than one availability zone used by you in the same region is down. If you don't use more than one availability zone, you have no SLA. Also, outages that "result from failures of individual instances or volumes not attributable to Region Unavailability" are specifically excluded.

7. **Read the fine print on how fee credits are triggered and calculated.** If your AWS service falls below preset uptime targets, you're entitled to receive a fee credit. But how these fees are triggered and calculated can be tricky. For example, S3 uptime is determined by sampling the error rate for 5-minute intervals and taking the average over the entire month. That average is subtracted from 100%. That means your service can be down for a long period of time (0.1% of a month is about 44 minutes) and not trigger a fee credit as long as the error rate is minimal for the rest of the month. Remember, fee credits are against the bill for the entire service (EC2, EBS, etc.), not just the bill for the affected resources. One-time charges, including any up-front payments made for Reserved Instances, are excluded.

8. **Understand how AWS Enterprise Support is priced and resourced.** AWS's published pricing for Enterprise Support is a waterfall-tiered pricing model for the first $1M in account charges and a flat 3% for all spend above $1M. However, savvy enterprise clients can negotiate a custom Enterprise Support Agreement.

Before your next big AWS purchase or renewal, consider including NPI on the buying team to be sure you're optimizing all aspects of the deal.

ABOUT NPI

NPI is an IT procurement advisory and intelligence company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license optimization advice and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. NPI also offers software license audit and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.

NPI Headquarters
3340 Peachtree Road NE
Suite 1280
Atlanta GA 30326

T 404-591-7500
F 404-591-7501
E info@npifinancial.com

[1] RightScale *State of the Cloud Survey*, 2018
[2] Gartner