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SmartSpend™ Bulletin

Anatomy of an AWS Enterprise Agreement



How Amazon Web Services does business with its largest customers has changed over time. Today, most enterprise customers engage with AWS under a Private Pricing Addendum (PPA), or Private Pricing Term Agreement. In this bulletin, we discuss the different components of a PPA and the different levers enterprises can use to maximize savings.

Amazon first introduced on-demand computing services with the launch of Simple Queue Services in late 2004. Eighteen months later, a newly formed Amazon Web Services (AWS) introduced Amazon S3 cloud storage which was quickly followed by EC2 compute. Today, EC2 and S3 remain the two largest services of the 200 solutions that AWS provides, and AWS has redefined the future of computing. With over 30% market share and a long roster of mega-enterprise customers, AWS remains the dominant leader in cloud infrastructure.

How AWS does business with its largest customers has changed over time. In the early years of development, AWS relied on custom agreements to attract enterprise customers. By 2012, custom agreements gave way to a standardized Enterprise Discount Program (EDP). The EDP offered a broad platform-wide discount in exchange for committing to (and in many cases) prepaying a specific annual volume of revenue. The standard EDP Agreement continued for another six years until AWS began rebranding it as a Private Pricing Addendum (PPA), or Private Pricing Term Agreement.

AWS PRIVATE PRICING AGREEMENT FUNDAMENTALS

Almost all commercial offers from AWS are now presented as a PPA. And almost all PPAs include two standard building blocks:

1. Platform Discount (EDP)
2. Credits and Incentives

PPAs with larger enterprise customers may also include special pricing or discounts on specific AWS services as well as Marketplace suppliers.

In general, AWS agreements are very programmatic in how discounts and credits are calculated. Enterprise customers have very little room to negotiate but knowing the variables and levers might save a customer up to 10% annually.

COMMON COMPONENTS IN AN AWS PPA

CROSS-SERVICE DISCOUNT

The broad platform-wide discount (aka EDP) that applies to almost all AWS services is closely tied to annual revenue commitment. The smallest annual commit may start around \$2,000,000 per year and the highest discounts are reserved for customers committing to more than \$250 million annually.

In addition to annual revenue commitment, there are three other factors that 'influence' the discount AWS offers. These influencing factors include cooperation in co-branding (publicity), industry or target enterprise, and more recently, term length.

CREDITS AND INCENTIVES

AWS incentivizes customers to migrate to their platform with credits. The credits are designed to offset the cost of cloud migration including both the professional services costs of designing and planning the migration as well as the cost of running duplicate platforms during the physical migration. Training Credits may also be offered to the customer to help their teams learn how to use more AWS services.

AWS has a well published credit program called the Migration Acceleration Program (MAP). A 2018 update to that program is commonly referred to as MAP 2.0. However, savvy enterprise customers typically negotiate credits and incentives into the PPA for two reasons. First, the milestones to earn credits in the PPA are typically easier to track and satisfy than the terms of an executed MAP agreement. Second, the formal MAP agreement limits the credit to 25% of the incremental AWS annual revenue generated by the migrated workload (there are some exceptions where the credit is higher, but these are few and far between). Negotiated credits can exceed the 25% threshold established in the MAP Agreement.

LESS COMMON PPA COMPONENTS RESERVED FOR LARGE ENTERPRISE CUSTOMERS

The less frequent components of AWS's PPA are reserved for very large customers with sizable sub-commitments. These include:

SPECIAL PRICING OR DISCOUNTS

Large enterprise customers may receive special pricing or discounts on specific AWS services in exchange for volume sub-commitments. For example, a customer with aggregate S3 storage of 15PB or more that is agreeable to growing that storage over the term of their agreement may receive special pricing per GB that is far better than applying the platform discount to published S3 pricing. The same is true for other services such as Data Transfer (Egress) to the Internet. It is likely that AWS delivers service-specific pricing and discounts on almost any service where a customer is willing to commit to significant volumes and associated shortfall penalties. Keep in mind that these discounts are often offered and controlled by the individual AWS account/product managers – it's important to understand the specific motivators that will drive higher discounts based on how your unique requirements align with AWS's goals.

MARKETPLACE

Enterprise customers willing to commit to very large purchases of certain AWS Marketplace suppliers may also receive special pricing, discounts, or terms as a part of that purchase.

ENGINEERING YOUR AWS ENTERPRISE AGREEMENT FOR SAVINGS

In order to maximize the potential savings associated with an AWS purchase, enterprise customers need an inventory of their own environment. What is their forecasted spend? What is the value of the applications or workloads targeted for AWS migration? What will it cost to execute the migration in terms of financial and timing? The more an enterprise customer knows about themselves, the better they can negotiate their PPA to maximize savings.

Do you have a large AWS purchase or renewal approaching?
NPI can help you define a strategy for optimal discounts and cost.



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.

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